

### Issue Detail

Type	100% Book Built Issue
Issue Size (Rs. Cr)	517.60
Offer Price	Rs.32 to Rs. 33 per share
Employee Discount	NIL
Min App Size	450 Shares
Issue Open	Tuesday, October 20, 2020
Issue Close	Thursday, October 22, 2020
Shares Offer	156,848,484
Face Value	Rs. 10

Lead Mgrs JM Financial Ltd,  
Edelweiss Financial Services Ltd,  
IIFL Securities Ltd

Listing	BSE & NSE
Registrar	KFin Technologies Private Ltd
Market Cap (Post Issue)(Cr)	Rs. 3756.22

Market cap., Issue size, shares offer are as per Upper price band

### No. of shares ( Post & Pre Issue)

No. of Shares (Pre Issue)	1,053,401,602
Offer for Sale	72,000,000
Fresh Issue made*	84,848,484
No. of Shares (Post Issue)	1,138,250,086

\* No. of shares as per Upper price band

### Bid allocation pattern

QIB	50%	78,424,242
Non-Institutional	15%	23,527,273
Retail	35%	54,896,969
Employee	-	303,030
EHL S/H	-	15,454,545

### Management Team:

- ☐ **Mr. Arun Ramanathan**
  - Designation: Part time Chairman and Independent Director
- ☐ **Mr. Vasudevan Pathangi Narasimhan**
  - Designation: MD and CEO

### Company Overview

- ☐ Equitas Small Finance Bank Ltd., is the largest SFB in India in terms of number of banking outlets, and the second largest SFB in India in terms of assets under management and total deposits in Fiscal 2019.
- ☐ Company offer a range of banking products and services to customers with a focus on serving the financially unserved and underserved customer segments in India. Company have also been providing vehicle finance and MSE finance through the Erstwhile NBFC that received its asset finance license in 2012, primarily to economically disadvantaged households.
- ☐ Company's asset products are suited to a range of customers with varying profiles. These include provision of small business loans comprising LAPs, housing loans, and agriculture loans to micro-entrepreneurs, microfinance to JLGs predominantly comprising women, used and new commercial vehicle loans to drivers and micro-entrepreneurs typically engaged in logistics, MSE loans to proprietorships, and corporate loans. On the liability side, company's target customers comprise mass and mass-affluent individuals to whom they offer current accounts, salary accounts, savings accounts, and a variety of deposit accounts. In addition, they also provide non-credit offerings comprising ATM-cum-debit cards, third party insurance, mutual fund products, and issuance of FASTags.
- ☐ As of March 31, 2019, Bank had the largest network of banking outlets among all SFBs in India. As of June 30, 2020, Bank's distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India. Bank also distribute products through digital channels, and leverage technology to identify opportunities to better serve their target customer segment.
- ☐ As of March 31, 2018, 2019, 2020 and June 30, 2020, bank Gross Advances (including IBPC issued) per employee was Rs. 5.88 million, Rs. 8.01 million, Rs. 9.54 million, and Rs, 9.83 million, respectively, and deposits per employee was Rs. 4.15 million, Rs, 6.17 million, Rs. 6.70 million and Rs. 7.44 million.

### Competitive Strengths

- ☐ Customer centric organization with a deep understanding of the unserved and underserved customer segments
- ☐ Among the largest SFBs in India with a well-diversified asset portfolio
- ☐ Strong retail liability portfolio with a strategic distribution network
- ☐ Customized credit assessment procedures for effective credit risk management
- ☐ Technology as an enabler to drive operating procedures
- ☐ Professional management, experienced leadership and trained employee base

### Strategies

- ☐ Leveraging on their existing network for deepening penetration and driving operational efficiency
- ☐ Strengthen liability franchise and focus on increasing their retail base to further improve cost of funds
- ☐ Leverage data for analytics to drive operational efficiency
- ☐ Continue to focus on digital products and technology to grow operations
- ☐ Continue to diversify product offerings and leverage cross-selling opportunities
- ☐ Increasingly focus on non-interest income sources

### Objectives of the Issue

- ☐ **Objects of the Fresh Issue**
  - Bank proposes to utilize the Net Proceeds from the Offer towards augmenting their Bank's Tier I capital base to meet their Bank's future capital requirements.
- ☐ **Offer for Sale**
  - The Promoter Selling Shareholder shall be entitled to the proceeds from the Offer for Sale. Bank will not receive any proceeds from the Offer for Sale.

### View & Valuation

The promoters holding in ESFB will reduce to 82% post listing. However, to fulfill regulatory norms, it shall have to further reduce to 40% by September 2021. This shall remain an overhang on the prices. Equitas SFB is well-capitalised with a capital adequacy ratio of 21.6% and CET-1 (Common Equity Tier-1) stands around 20.6%. At higher price band, the issue is available at 1.3x PBV FY20 earnings which seems to be fairly priced in. Given current market scenario of uncertainty related to waiver of interest in Banking Industry and especially SFB and MFIs industry, we prefer to avoid participating in the issue.

### BUSINESS OVERVIEW

Equitas Small Finance Bank Ltd., is the largest SFB in India in terms of number of banking outlets, and the second largest SFB in India in terms of assets under management and total deposits in Fiscal 2019. Bank have been able to successfully diversify its loan portfolio and significantly reduce its dependence on their microfinance business as compared to other microfinance companies that have converted to SFBs. Bank offer a range of banking products and services to customers with a focus on serving the financially unserved and underserved customer segments in India. Bank strength lies in promoting financial inclusion within these segments, with its group beginning operations in 2007 as an NBFC providing microfinance loans through EMFL. Bank have been providing housing finance since 2011 through EHFL. They have also been providing vehicle finance and MSE finance through the Erstwhile NBFC that received its asset finance license in 2012, primarily to economically disadvantaged households. While their business model has transitioned over the years, the provision of sustainable credit to unserved and underserved segments has remained their core focus.

Bank's focus customer segments include individuals with limited access to formal financing channels on account of their informal, variable and cash-based income profile. Bank offer a range of financial products and services that address the specific requirements of these customer segments by taking into account their income profile, nature of business and type of security available. Bank's asset products are suited to a range of customers with varying profiles. These include provision of small business loans comprising LAPs, housing loans, and agriculture loans to micro-entrepreneurs, microfinance to JLGs predominantly comprising women, used and new commercial vehicle loans to drivers and micro-entrepreneurs typically engaged in logistics, MSE loans to proprietorships, and corporate loans. On the liability side, Bank's target customers comprise mass and mass-affluent individuals to whom they offer current accounts, salary accounts, savings accounts, and a variety of deposit accounts. In addition, they also provide non-credit offerings comprising ATM-cum-debit cards, third party insurance, mutual fund products, and issuance of FASTags.

Bank has witnessed significant growth in their business, and in Fiscal 2019 had a market share of 16% in terms of assets under management in India. Bank's Gross Advances (including IBPC issued) have grown from Rs. 79,370.55 million as of March 31, 2018 to Rs. 117,028.49 million as of March 31, 2019 and was Rs. 153,669.37 million as of March 31, 2020, and Rs. 155,729.14 million as of June 30, 2020. Of Bank's Gross Advances (including IBPC issued), secured advances constituted 66.33% as of March 31, 2018, 70.72% as of March 31, 2019, and increased to 75.39% as of March 31, 2020 and further increased to 75.75% as of June 30, 2020.

In Fiscal 2019, Bank recorded the fourth lowest yields indicating their diversification away from microfinance. Bank has also witnessed the second fastest growth in deposits from Fiscal 2018 to Fiscal 2019. Banks deposits have grown at a CAGR of 38.75% from Rs.56,039.73 million as of March 31, 2018 to Rs.107,884.05 million as of March 31, 2020. As of March 31, 2019 Banks CASA ratio was the second highest among SFBs in India, and their retail deposits to total deposits ratio was the third highest among SFBs in India. As of June 30, 2020, Bank's CASA ratio and retail deposits to total deposits ratio was 19.97% and 37.13%, respectively. Further, Bank's certificate of deposits programme has been rated CRISIL A1+ by CRISIL Limited and their long-term borrowings and non-convertible debentures/ subordinated debt have both been rated CRISIL A+/ Stable. Bank's believe that widespread and stable retail deposit base enables them to access low cost funding, as reflected in their cost of funds (calculated as interest expense divided by average interest-bearing liabilities), which was 8.36%, 8.13%, 7.97% and 7.63% (annualized)/ 1.91% (unannualized) as of March 31, 2018, 2019, 2020 and June 30, 2020, respectively.

Based on their experience, Bank has apply different credit assessment procedures for their product segments, which is guided by their risk management framework, and supervised by their Risk Management Committee. Bank believe that their risk management framework together with their experience of dealing with unserved and underserved customer segments has helped them contain its NPA levels, and improve their credit ratings, which has allowed them to access capital from banks and financial institutions at competitive rates.

As of March 31, 2019, Bank had the largest network of banking outlets among all SFBs in India. As of June 30, 2020, their distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India. They also distribute products through digital channels, and leverage technology to identify opportunities to better serve their target customer segment. To this end, they have introduced facial recognition features for transaction authentication in their mobile banking application. They have over the years also invested in building a large and trained employee base, and as of March 31, 2019, had the third largest number of employees among SFBs in India. As their products comprise small ticket loans and retail deposits, their operations require a large number of employees in the field to generate volumes for this business. As a result, they train their employees to undertake assessment and appraisal of customer creditworthiness with limited documented income. As of March 31, 2019, they were third among SFBs in India in terms of advances made per employee and fourth in terms of deposits collected per employee. As of March 31, 2018, 2019, 2020 and June 30, 2020, Bank Gross Advances (including IBPC issued) per employee was Rs.5.88 million, Rs. 8.01 million, Rs. 9.54 million, and Rs. 9.83 million, respectively, and deposits per employee was Rs. 4.15 million, Rs. 6.17 million, Rs. 6.70 million and Rs. 7.44 million.

### BUSINESS OVERVIEW

The table below sets forth certain performance metrics of their Bank for the periods and as of the dates indicated:

Metric	As of and for the year ended March 31,			As of and for the Three Months ended June 30,	
	2018	2019	2020	2019	2020
(Rs. million, except percentages)					
Total Disbursements	58,087.04	85,783.11	99,110.73	20,083.98	5,642.46
Retail Deposits	6,426.29	16,362.50	38,112.87	22,473.65	43,771.18
CASA(1)	16,378.39	22,742.66	22,082.13	22,369.74	23,540.09
CASA Ratio(2)	29.23%	25.25%	20.47%	24.49%	19.97%
Net profit for the period / year	318.31	2,105.66	2,436.35	570.60	576.71
Net Interest Income(3)	8,605.41	11,517.34	14,953.06	3,371.63	4,042.79
Net Interest Margin(4)	9.02%	8.55%	9.11%	8.88%* [2.22%]	8.63%*[2.16%]
Cost to Income Ratio(5)	79.97%	70.30%	66.38%	69.83%	67.27%
Debt Equity Ratio	5.28	5.76	5.80	5.96	6.18
CRAR	29.60%	22.45%	23.61%	22.03%	22.02%
Common Equity Tier 1 Capital Ratio	27.07%	20.93%	22.44%	20.65%	21.04%
Net worth(6)	20,304.72	22,410.38	27,308.69	22,980.99	27,885.40
GNPA Ratio(7)	2.68%	2.53%	2.72%	2.73%	2.68%
Net NPA to net Advance (%)	1.46%	1.44%	1.66%	1.56%	1.48%
Provision coverage ratio(8)	47.07%	43.38%	45.22%	44.00%	48.79%
Return on Assets	0.30%	1.43%	1.38%	1.43%* [0.36%]	1.12%* [0.28%]
Net Profit as a Percentage of Average Shareholders' Equity	1.57%	9.85%	9.84%	10.00%* [2.50%]	8.32%*[2.08%]

\*annualized, and figures in square brackets represent unannualized figures

Notes: The below are certain non-GAAP financial measures, and reconciliation of these non-GAAP measures to the GAAP measures appearing in our Restated Financial Information is included in "Selected Statistical Information" on page 220.

1. Current Account and Saving Account (CASA) is the sum of demand deposit and savings bank deposits.
2. CASA ratio is the ratio of CASA to total deposits.
3. Net Interest Income is difference of interest earned and interest expended.
4. Net Interest Margin is the difference of interest earned and interest expended divided by the average interest-earning assets calculated on the basis of quarterly average.
5. Cost to income ratio is calculated as a ratio of operating expenses divided by total operating income (total operating is net of net interest income and noninterest income).
6. Net Worth represent sum of capital and reserve excluding capital reserve.
7. GNPA Ratio is calculated by dividing Gross NPA by Gross Advances (including IBPC issued).
8. Provision held as a percentage of Gross Advances.

### Comparison with Listed Industry Peers

Name of the company	Consolidated / Standalone	Total Income (Rs. in million) for the Fiscal 2020	Face Value per Equity Share (Rs.)	P/E (based on basic EPS)	P/E (based on diluted EPS)	EPS (Basic) (Rs.)	EPS (Diluted)	RoNW (%)	NAV (Rs.)
Equitas Small Finance Bank Limited	Standalone	29,277.95	10	-	-	2.39	2.39	8.92	25.92
<b>Listed Peers</b>									
AU Small Finance Bank Limited	Standalone	49,919.76	10	32.24	32.91	22.78	22.32	15.45	143.6
Ujjivan Small Finance Bank Limited	Standalone	30,258.14	10	15.02	15.09	2.19	2.18	11.71	17.29
DCB Bank Limited	Standalone	39,277.25	10	7.48	7.59	10.9	10.74	10.84	100.44
City Union Bank Limited	Standalone	48,485.49	1	22.3	22.54	6.48	6.41	9.36	69.03
Bandhan Bank Limited	Standalone	124,346.91	10	16.29	16.31	18.78	18.76	20.64	90.98
Shriram City Union Finance Limited	Consolidated	62,392.99	10	5.89	5.89	154.95	154.92	13.92	1112.8
Shriram Transport Finance Limited	Consolidated	165,826.30	10	5.91	5.91	110.73	110.73	13.87	798.42
Cholamandalam Investment & Finance Limited	Consolidated	87,126.30	2	19.49	19.52	13.39	13.37	12.85	100.05
Mahindra & Mahindra Financial Services Limited	Consolidated	119,964.56	2	7.51	7.53	17.48	17.44	8.89	196.51
Sundaram Finance Limited	Consolidated	47,225.27	10	18.72	18.72	71.85	71.85	12.7	604.24
CreditAccess Grameen Limited	Consolidated	17,054.80	10	32.26	32.54	23.2	23	12.43	186.43
Spandana Sphoorty Financial Limited	Consolidated	14,695.06	10	10.41	10.5	56.21	55.74	13.38	408.29

As per RHP

### INDUSTRY OVERVIEW

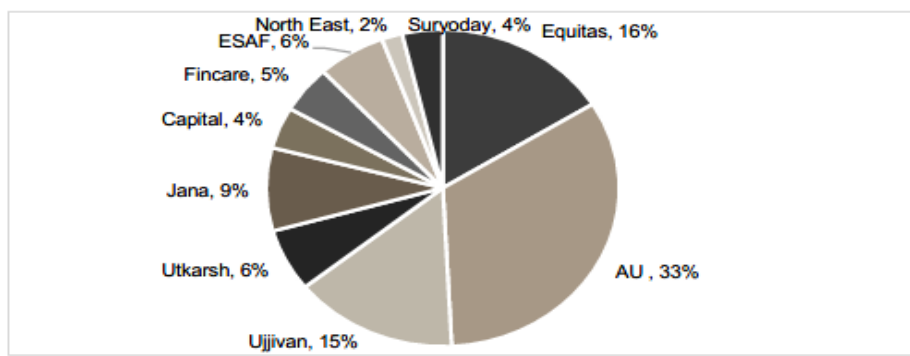
In order to promote financial inclusion, the Indian banking industry has seen several changes in recent years. NBFCs such as, Bandhan and IDFC, received permission to set up universal banks. Further, a few microfinance companies, local area banks and NBFCs have received permission to set up SFBs. SFBs are allowed to take deposits, which provide them an edge of having lower cost of funds in comparison with NBFCs. MFIs turned into SFBs are now diversifying their advances mix, and focusing on other retail and corporate lending business.

#### Growth drivers

- *Sizeable market opportunity and credit at affordable rates*
- *Customized products aided by technology and availability of information*
- *Availability of funds at cheaper rates*

#### Industry growth and outlook for SFBs

Top 3 Players account for 64% of the market as of FY2019 (based on AUM)



#### Competitive Scenario

In the past few years, the NBFCs have lost their share in LAP owing to efforts to contain asset quality deterioration and yield pressure. With liquidity crisis, non-banks (NBFCs and HFCs) have grown at a rate of 12% in Fiscal 2019 against a CAGR of 19% to 20% till Fiscal 2018. Growth of non-banks is expected to slow down to 9% to 11% till Fiscal 2022 and they are expected to lose market share. SFBs are focusing on low ticket size loans in this segment which is seeing faster growth as compared to high ticket size loans in this segment. This will further augment the share of SFBs in the segment.

High-risk perception and high cost of delivering services has restrained ability of the financiers to lend to the MSME segment, however with increasing usage and technology and wider availability of information, the addressable market of MSME is expected to expand at a CAGR of 10% over the next three years. This will be driven by financiers' focus on widening customer reach, improving documentation and other operational processes and building long-term relationships with MSME customers. Within the MSME lending market, the share of unsecured MSME lending is expected to grow faster than the secured MSME on account of higher interest income.

Private banks, SFBs and NBFCs are expected to benefit from better data availability and credit assessment process. The segment has traditionally been dominated by public sector banks due to the large presence and the higher addressable customer base. However, their share has been on a constant decline over the last few years. With better data availability and credit assessment processes, private banks, SFBs, and non-banks have turned more aggressive towards lending to this segment. Currently, the banks dominate working capital loans, whereas the non-banks have managed to capture a share of asset backed term loans over the past few years. However, the share of long term loans is decreasing compared to working capital loans on account of lower capital expenditure, given the lower capacity utilization levels in the country. In the unsecured segment, banks have witnessed a growth of approximately 24% while non-banks have seen a growth of 27% which has allowed non-banks to marginally increase their share in the overall MSME financing.

**Financials Snap Shot**

Income Statement						Key Ratios					
Rs in Crores											
Y/E March	FY18	FY19	FY20	Q1FY20	Q1FY21	Y/E March	FY18	FY19	FY20	Q1FY20	Q1FY21
Interest Inc.	1,531.69	2,111.93	2,645.44	603.39	721.31	EPS	0.32	2.09	2.31	0.57	0.55
Interest Exp.	671.15	960.20	1,150.14	266.22	317.03	Book Value Per share	20.32	22.41	26.05	22.98	26.60
<b>NII</b>	<b>860.54</b>	<b>1,151.73</b>	<b>1,495.31</b>	<b>337.16</b>	<b>404.28</b>	<b>Valuation(x)</b>					
Other Income	241.22	282.90	282.35	59.16	29.66	P/E ( Upper Band )	104.29	15.77	14.27	58.18	60.28
<b>Total Income</b>	<b>1,101.76</b>	<b>1,434.63</b>	<b>1,777.66</b>	<b>396.33</b>	<b>433.94</b>	P/E ( Lower Band )	101.13	15.29	13.84	56.41	58.45
Ope Exp.	881.11	1,008.49	1,180.08	276.76	291.92	Price / Book Value	1.62	1.47	1.27	1.44	1.24
<b>Pre-provision profit</b>	<b>220.64</b>	<b>426.15</b>	<b>597.58</b>	<b>119.57</b>	<b>142.02</b>	Provision	47.07%	43.38%	45.22%	44.00%	48.79%
Provisions and contingencies	188.81	215.58	353.94	62.51	84.35	GNPA	2.68%	2.53%	2.72%	2.73%	2.68%
<b>PBT</b>	<b>31.83</b>	<b>210.57</b>	<b>243.64</b>	<b>57.06</b>	<b>57.67</b>	NPA	1.46%	1.44%	1.66%	1.56%	1.48%
Tax	-	-	-	-	-	RoNW	1.57%	9.40%	8.92%	2.48%	2.07%
<b>Net Profit</b>	<b>31.83</b>	<b>210.57</b>	<b>243.64</b>	<b>57.06</b>	<b>57.67</b>	ROAE (%)	0.30%	1.43%	1.38%	1.43%	1.12%
						Debt to Equity Ratio	5.28	5.76	5.80	5.96	6.18

Balance Sheet						Cash Flow Statement					
Rs in Crores						Rs in Crores					
Y/E March	FY18	FY19	FY20	Q1FY20	Q1FY21	Y/E March	FY18	FY19	FY20	Q1FY20	Q1FY21
Share Capital	1,005.94	1,005.94	1,053.40	1,005.94	1,053.40	Profit / (Loss) before tax	48.514	323.74	350.94	88.75	73.68
Reserves	1,037.81	1,248.38	1,690.75	1,305.44	1,748.42	<b>Adjustments for:</b>					
<b>Net Worth (A)</b>	<b>2,043.75</b>	<b>2,254.32</b>	<b>2,744.15</b>	<b>2,311.38</b>	<b>2,801.82</b>	Depreciation and amortization on fixed assets	87.505	91.78	96.45	23.04	19.45
<b>LIABILITIES</b>						Depreciation on investments	-4.659	-	-	0.51	0.16
Deposits	5,603.97	9,006.74	10,788.41	9,133.42	11,787.13	Amortization on Held to Maturity securities	5.066	5.16	6.00	1.29	2.17
Borrowings	5,177.21	3,973.03	5,134.87	4,644.84	5,525.53	Provision for standard assets	5.367	9.89	15.13	2.53	0.70
Provisions	476.22	528.61	647.12	575.16	777.66	General Provision under COVID -19 Regulatory package	-	-	99.63	-	45.00
<b>Liabilities</b>	<b>11,257.40</b>	<b>13,508.37</b>	<b>16,570.40</b>	<b>14,353.42</b>	<b>18,090.32</b>	Bad debts written off	190.23	60.77	71.50	8.90	8.17
<b>TOTAL LIABILITIES (A+B)</b>	<b>13,301.15</b>	<b>15,762.69</b>	<b>19,314.55</b>	<b>16,664.80</b>	<b>20,892.14</b>	Provision for Non performing assets	-20.497	28.26	60.42	18.80	14.59
<b>ASSETS</b>						Other Provision and Contingencies	1.692	3.49	-0.05	0.08	-0.27
Cash and Balances	1,211	1,260.62	2,536.84	1,798.12	1,925.57	Loss on sale of fixed assets	0.151	0.11	0.26	0.06	0.00
Investments	3,857	2,344.45	2,342.51	2,270.26	3,478.58	Interest expenses on borrowings	438.00	459.19	436.17	98.06	121.62
Advances	7,706.03	11,593.57	13,747.24	12,023.30	14,388.62	Interest expenses on bank bal. not considered as cash and cash eq.	7.094	2.03	-0.55	-0.11	-0.11
Fixed Assets	280.88	237.34	212.77	226.73	197.66	<b>Operating profit before working capital changes</b>	<b>758.46</b>	<b>984.41</b>	<b>1135.91</b>	<b>241.91</b>	<b>285.13</b>
Other Assets	246.23	326.72	475.19	346.39	901.71	<b>Adjustments for (increase) / decrease in operating assets:</b>					
<b>TOTAL ASSETS</b>	<b>13,301.15</b>	<b>15,762.69</b>	<b>19,314.55</b>	<b>16,664.80</b>	<b>20,892.14</b>	(Increase)/Decrease in investments	-1,966.75	1507.23	-4.06	72.40	-1138.39
						(Increase)/Decrease in advances	-2,173.92	-3976.57	-2284.16	-457.44	-664.13
						Increase/(Decrease) in deposits	3,682.68	3402.76	1781.67	126.68	998.72
						(Increase)/Decrease in other assets	22.617	-52.27	-123.06	-16.31	-417.49
						Increase/(Decrease) in other liabilities and provisions	-82.876	81.90	67.38	34.28	64.79
						<b>Cash generated from operations</b>	<b>240.21</b>	<b>1947.47</b>	<b>573.69</b>	<b>1.51</b>	<b>-871.37</b>
						Income Tax Paid	-29.696	-144.10	-134.08	-34.94	-25.01
						<b>Net cash from operating activities (A)</b>	<b>210.51</b>	<b>1803.37</b>	<b>439.61</b>	<b>-33.43</b>	<b>-896.38</b>
						<b>Net cash from / (used in) investing activities (B)</b>	<b>-11.297</b>	<b>-10.68</b>	<b>-71.73</b>	<b>-12.50</b>	<b>-4.26</b>
						<b>Net cash from / (used in) financing activities (C)</b>	<b>-28.376</b>	<b>-1706.25</b>	<b>908.28</b>	<b>583.43</b>	<b>289.36</b>
						<b>Net Increase / (Decrease) in cash and cash equivalents (A+B+C)</b>	<b>170.84</b>	<b>86.43</b>	<b>1276.16</b>	<b>537.51</b>	<b>-611.28</b>
						Cash and cash equivalents at the beginning of the Year	998.05	1168.89	1255.32	1255.32	2531.49
						<b>Cash and cash equivalents at the end of the Year</b>	<b>1,168.89</b>	<b>1255.32</b>	<b>2531.49</b>	<b>1792.83</b>	<b>1920.21</b>

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