Research Report

11 Jan 2022

**Equitas Small Finance Bank Limited (EQUITASB IN)**

Play on Diversified and Secured Lending

 Investment Focus

***Initiate with OUTPERFORM***

Rating

Current Price Target Price

OUTPERFORM

Rs57.40 Rs76.00

Market cap

Daily traded value (3mth) Shares in issue

Free float (%)

1 yr high - low

Rs65.89bn / US$0.89bn

US$0.07mn 1,148mn

19%

Rs69.85-Rs39.25

Note: Current Price Rs57.40 is the close price on 10 Jan 2022

Price Return

Nifty100

175

150

125

100

75

Source: Company data, HTI Estimates

Volume

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (Rs mn) | Mar-21A | Mar-22E | Mar-23E | Mar-24E |
| NII | 17,980 | 20,233 | 24,253 | 29,285 |
| PPoP | 8,866 | 8,402 | 11,167 | 14,271 |
| PBT | 4,116 | 3,343 | 6,349 | 9,159 |
| PAT | 3,842 | 2,500 | 4,749 | 6,851 |
| ROAE (%) | 12.5 | 7.1 | 12.2 | 15.3 |
| RoAA (%) | 1.7 | 1.0 | 1.5 | 1.8 |
| Diluted EPS (Rs) | 3.4 | 2.2 | 4.1 | 6.0 |
| ABV (Rs) | 27.5 | 27.6 | 31.6 | 38.1 |
| P/ABV (x) | 2.1 | 2.1 | 1.8 | 1.5 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Jan-21 | May-21 | Sep-21 | | |
| *Source: Factset* |  | |  |  |
| Absolute | 1mth  -5.8% | | 3mth  -11.3% | 12mth 43.9% |
| Absolute USD | -4.0% | | -10.4% | 42.5% |
| Relative to Nifty100 | -6.4% | | -11.1% | 2.5% |

**Equitas Small Finance Bank (EQUITASB) is one of the most diversified SFB with a presence across micro-credit, small business loans (SBL), housing, MSME, vehicle finance, and corporate segment. Further, the share of secured loans at 81.4% as on Sep-21, too, remains on the higher side vs. SFB peers (except AUBANK). On the liability side, as well, EQUITASB is relatively well placed (vs. peers incl. mid-tier banks) with a healthy CASA ratio of ~45% and retail deposits of ~66% as on Sept-21. While cost ratios are elevated, we believe with major investments already completed, meaningful operating leverage can be expected from here-on. Further, despite serving the informal segment, EQUITASB has maintained a relatively better asset quality performance vs peers.**

**Over FY21-24E, we expect EQUITASB to deliver (1) ~22% AUM CAGR, (2) Avg. NIMs of 8.4%, (3) improving efficiencies with C-AA/C-I trending lower,**

1. **improvement in asset quality with GNPAs of 3.1% in FY24E, and (5) RoAAs of 1.8% (vs. 1.2% during FY18-21). We believe with a diversified portfolio, superior and improving liability profile along with better control asset quality and conservative management, EQUITASB is relatively better placed. Further, the board approved reverse merger removes an overhang from the stock, even as final regulatory approvals are awaited. We initiate coverage on EQUITASB with an Outperform rating and TP of Rs76 (2.1xDec-23E ABV of Rs36).**

**Most diversified/secured AUM mix:** Amongst SFBs, EQUITASB has one of the most diversified/secured AUMs, as it began its diversification journey way back in FY11 to move away from the unsecured micro-credit business. Further, mgmt. intends to increase the product offering for liability customers, which should further enable the bank to diversify the portfolio. However, SBL (45.3% of total AUM, as on Sep-21) is expected to remain the largest contributor for the bank.

**Asset Quality deteriorated; but manageable:** Even as EQUITASB has a focus on the informal segment, the higher share of secured loans, conservative underwriting practices, and focus on collections has led to a relatively better asset quality performance. This was vindicated with relatively better asset quality performance vs. peers with NNPAs at 2.5% as on Sept-21.

**Liability profile better vs peers:** As on Sept-21, EQUITASB had one of the superior liability franchises, with CASA at ~45%+ and retail deposits at 66%. Tie-up with fintech (incl. NEO) along with its own digital initiatives (SELFE) has led to a significant rise in customer acquisition (1.25mn in 1HFY22 vs 0.48mn in FY21). The higher SA rates too provide a fillip to the CASA, we believe.

**Reverse merger on cards:** The board of EQUITASB and EQUITAS (the holdco) has approved the reverse merger thus removing the regulatory overhang. Further, the bank’s board has approved a fund raise upto Rs10bn to meet the MPS norms of 75%. The final approval from regulators is still awaited and the entire process is expected to be completed in 2HFY23.

**Valuation & recommendation:** We value the bank using the RI method to arrive at a TP of Rs76 (2.1x Dec-23E ABV). **Risks to our rating:** (i) Higher than expected stress, (ii) slower than expected loan and deposits growth (iii) lower than expected oplev, and (iv) hurdles in the reverse merger.

|  |  |
| --- | --- |
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# Focus Charts

|  |  |
| --- | --- |
| **Figure 1: Diversified AUM (%) vs. peers**  5.7% 1.0% 2.6% 5.5% | **Figure 2: CASA deposits (%) vs. peers** |
|  |  |
|  |  |
| 5.2% 6.3%  4.4% 18.1%  6.2%  6.2%  37.8% 65.1% 68.3%  24.6%  37.6% 34.9% 16.0% 8.2%  9.8% 7.7%  4.0%  AUBANK EQUITASB UJJIVANS SURYODAY  SBL Vehicle MSE MSME SME Housing MFI | UJJIVANS 22.5%  DCBB 25.4%  CUBK 29.0% YES 29.3%  AUBANK 30.3% SIB 30.8% RBK 35.3% KVB 35.4%  FB 36.2% IIB 42.1%  AXSB 44.5% BANDHAN 44.6% EQUITASB 45.3% ICICIBC 46.1% HDFCB 46.8%  KMB 60.6% |
|  |  |
| Source: Company data, HTI Research; Note- data as on Sept’21 | Source: Company data, HTI Research; Note- data as on Sept’21 |

Agri NBFC BB REG FIG Others CASA (%)

**Figure 3: Retail deposits (%) vs peers Figure 4: Stressed assets (NNPAs + restructured) vs peers**

84% 84% 88%

94%

71%

64% 64% 65% 66%

52% 55%

41% 42%

14.2

12.2

11.3

9.1 9.4 9.4

7.9

3.8

4.4 5.1

5.8 6.1

1.6 1.9 2.1 2.3

Retail deposit (%)

SURYODAY

Source: Company data, HTI Research; Note- data as on Sept’21; EQUITASB:- Retail deposits % we have arrived by taking the share of Retail TD and the share SA balances below Rs 10mn.

Stress assets (%)

IIB

RBK

UJJIVANS

YES

AUBANK

SIB

KVB

EQUITASB

AXSB

BANDHAN

DCBB

FB

KMB

AXSB

HDFCB

ICICIBC

FB

IIB

AUBANK

RBK

KVB

SIB

YES

CUBK

DCBB

UJJIVANS

EQUITASB

BANDHAN

Source: Company data, HTI Research; Note- data as on Sept’21

**Figure 5: C/I (%) vs peers Figure 6: C-AA (%) vs peers**

69.2

70.4

82.1

84.0

5.8

6.9

7.5

C/I ratio (%) C-AA ratio (%)

HDFCB

37.0

ICICIBC

39.9

CUBK

40.5

IIB

42.2

Kotak

46.5

AXSB

49.3

RBK

54.2

SURYODAY

54.2

FB

55.0

KVB

55.7

DCBB

58.4

AUBANK

58.6

EQUITASB

YES

SIB

UJJIVANS

BANDHAN

1.8

CUBK

2.0

HDFCB

2.1

FB

2.1

ICICIBC

2.1

AXSB

2.2

YES

2.3

DCBB

2.4

IIB

2.5

KMB

2.7

RBK

3.1

AUBANK

4.2

SURYODAY

EQUITASB

UJJIVANS

Source: Company data, HTI Research; Note- data as on Sept’21 Source: Company data, HTI Research; Note- data as on Sept’21

**Figure 7: RoAA (%) vs peers Figure 8: RoAA/PABV FY24E**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ROAA (%) | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| AXSB | 0.7 | 0.0 | 0.6 | 0.2 | 0.7 | 1.2 | 1.4 | 1.5 |
| BANDHAN | 4.4 | 3.6 | 3.9 | 4.1 | 2.2 | -0.8 | 2.6 | 3.3 |
| CUBK | 1.5 | 1.6 | 1.6 | 1.0 | 1.2 | 1.3 | 1.5 | 1.5 |
| DCBB | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 | 0.8 | 1.1 | 1.1 |
| FB | 0.8 | 0.7 | 0.8 | 0.9 | 0.8 | 0.9 | 1.1 | 1.2 |
| HDFCB | 1.9 | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.1 | 2.1 |
| ICICIBC | 1.3 | 0.8 | 0.4 | 0.8 | 1.4 | 1.6 | 1.9 | 1.9 |
| IIB | 1.8 | 1.8 | 1.3 | 1.5 | 0.8 | 1.4 | 1.8 | 1.8 |
| KMB | 1.7 | 1.7 | 1.7 | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 |
| RBK | 1.0 | 1.1 | 1.2 | 0.6 | 0.5 | 0.2 | 1.2 | 1.3 |
| YES | 1.8 | 1.6 | 0.6 | -7.1 | -1.3 | 0.2 | 0.5 | 0.7 |
| AUBANK | 10.2 | 2.0 | 1.5 | 2.0 | 2.2 | 1.8 | 2.1 | 2.3 |
| EQUITASB | 1.3 | 0.3 | 1.4 | 1.4 | 1.7 | 1.0 | 1.5 | 1.8 |
| UJJIVANS | 0.0 | 0.1 | 1.7 | 2.2 | 0.0 | -1.5 | 1.3 | 1.8 |
| SURYODAY | 1.2 | 0.6 | 3.0 | 2.5 | 0.2 | NA | NA | NA |

3.5



BANDHAN

HDFCB KMB

AUBANK

IIB

ICICIBC

UJJIVANS

EQUITAS

CUBK

FB AXSB

DCBB

SBIN

3.0

2.5

ROAA (%) FY24E

2.0

1.5

1.0

0.5

0.0 1.0 2.0 3.0 4.0 5.0

P/ABV (x) FY24E

Source: Company data, HTI Research; Note- RBK, YES RoAA % denotes consensus number Source: Company data, HTI Estimates

**AUM mix (%) FY13/FY17 and 1HFY22**

4.8

20.2

29.6

4.6

24.6

22.5

75.2

45.3

45.7

18.1

# EQUITASB – one of the most diversified AUM mix

EQUITASB, over a period, has focused towards serving the under/un-served in the rural and semi-urban regions. The Bank has further focused towards diversifying its portfolio by moving away from the unsecured MFI segment, while it focusing on serving the under/un- served borrowers. Over the period the bank has added almost 9+ segments, thus reducing the share of unsecured loans on a continues basis. The bank has diversified into secured segments like small business finance, MSE, VF (used and new CV), and corporate loans. Within the small business loans, the bank offers home loans, MSE loans, and agri. loans.

FY13

FY17

1HFY22

Since the transition into the bank in FY17, EQUITASB’s micro-credit portfolio has grown at a mere 3% CAGR over FY17-21 to form 18.1% of AUM vs 45.7% in FY17, while the non-micro

Micro-credit SBL VF

MSE Corp Others

Source: Company Data, HTI Research

**Segment wise CAGR (FY17-FY21)**

|  |  |
| --- | --- |
| Particulars CAGR (FY17-FY21) | |
| Micro credit | 3.0% |
| Small Business loans | 54.0%+ |
| Vehicle finance | 25.0%+ |
| MSE | 6.6% |

Source: Company Data, HTI Research

credit portfolio (81.9% of AUM) has grown at 44% CAGR during the same period. The robust growth in non-micro credit portfolio was led by small business loans (+54% CAGR; to form

~44.5% of AUM) and vehicle finance loans (+25% CAGR; to form ~25.3% of AUM). On a small base, MSE grew at a significantly higher CAGR to form 6.6% of AUM. The Bank has maintained its cautious stance and kept the corporate book at a mere 4.4% of AUMs.

On a regular basis, the management has reiterated its stance of focusing on secured loans, maintaining the share of the unsecured book in the range of 12-15% (over medium to longer run). While the other comparable SFB peer are too looking for diversifying their book away from the unsecured / microcredit portfolio, EQUITASB stands to benefit given early mover advantage.

EQUITASB, currently, focuses on the informal segment and it intends to continue with the similar strategy post the conversion into a universal bank. However, the share of the informal segment is expected to dip to 70-80% post the conversion.

**Figure 9: EQUITASB: Product-wise details**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Segment (As on Sept-21) | Year of  commencement | AUM (Rs bn) | % of total AUM | No of Acs | Avg ticket size  (Rs lacs) | Yield (%) | GNPAs (%) | Restructured book (%) | PCR (%) |
| Micro Credit | 2007 | 34.4 | 18.1 | 18,40,325 | 0.2 | 22.0 | 6.8 | 10.3 | 52.7 |
| Small Business Loans (Incl. HF) | 2011 | 86.0 | 45.3 | 2,39,190 | 3.6 | 18.0 | 3.7 | 4.5 | 39.8 |
| Vehicle Finance | 2012 | 46.7 | 24.6 | 1,47,400 | 3.2 | 18.0 | 4.6 | 13.3 | 47.8 |
| MSE Finance | 2017 | 11.7 | 6.2 | 2,234 | 52.4 | 11.0 | 4.8 | 4.5 | 24.8 |
| NBFC | 2017 | 9.1 | 4.8 | 45 | 2,019.0 | 11.0 | 0.5 | NA | 25.0 |

Source: Company Data, HTI Research; Note- data as on Sept’21 and for Yield (%) data as on FY20

Micro-credit SBL VF MSE Corp Others

|  |
| --- |
| **Figure 10: EQUITASB: Share of Micro-credit reducing, where-as the share of SBL and VF rising** |
| 100% 2-.1 6.5 4.0 5.3 4.4 4.8  90% 20.2 3.1 3.9 4.4 6.6 6.2  32.2 29.3 25.5 29.6  80% 4.6 28.2 25.2 24.5 25.3 24.6  70%  7.3 17.2 19.1  60% 22.5  50%  33.6 39.1 40.9  40% 75.2 44.5 45.3  30% 60.5 53.5 55.4  20% 45.7  28.4 26.2 23.5 18.1 18.1  10%  0%  FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 1HFY22 |
|  |
| Source: Company Data, HTI Research |

|  |
| --- |
| **Figure 11: EQUITASB: Lower share of Micro-credit portfolio vs peers like UJJIVANS and SURYODAY**  5.7% 1.0% 2.6% 5.5% |
| 5.2% 6.3%  4.4% 18.1%  6.2%  6.2%  37.8% 65.1% 68.3%  24.6%  37.6% 34.9% 16.0% 8.2%  9.8% 7.7%  4.0%  AUBANK EQUITASB UJJIVANS SURYODAY |
| SBL Vehicle MSE MSME SME Housing MFI Agri NBFC BB REG FIG Others  Source: Company Data, HTI Research |

# Higher share of secured loans: early mover advantage

Post the Micro-credit event in 2010, the bank (in its earlier avatar of an MFI), started focusing on diversifying its portfolio with a focus towards secured loans. From an only MFI portfolio (unsecured loans) in FY10, the bank now has significantly diversified its portfolio and has a higher share of secured loans (~81%+ as on Sept-21). Given the earlier mover-advantage towards secured loans, we believe EQUITASB is better placed vs. comparable SFB peers, esp. towards reducing the volatility (asset quality and earnings) from the micro-credit portfolio.

EQUITASB’s shares of secured loans has gradually increased to 81.4% as on Sept-21

On peer basis, Bank has the best secured loans share (except AUBANK)

**Figure 12: EQUITASB: Higher share of secured loans Figure 13: EQUITASB: Secured loans vs peers**

18.6 18.6

33.7

28.0

24.3

46.8

81.4 81.4

66.3

72.0

75.8

53.2

18.6

68.0

74.6

100

81.4

32.0

25.4

FY17 FY18 FY19 FY20 FY21 1HFY22

Secured loans (%) Non secured loans (%)

AUBANK EQUITASB UJJIVANS SURYODAY

Secured loans (%) Non secured loans (%)

Source: Company data, HTI Research; Source: Company Data, HTI Research; Note- data as on Sept’21

# Micro Credit: Reducing share of the portfolio

|  |  |
| --- | --- |
| **Table on MFI product** | |
| Particulars Q2FY22 | |
| No of live Acs | 18,40,325 |
| ATS at Disbursals (lacs) | 0.3 |
| ATS at Portfolio (lacs) | 0.2 |
| GNPA | 6.8% |
| PCR | 52.7% |
| Source: Company Data, HTI Research | |

Under the micro-credit business, EQUITASB provides joint group loans (JGL) to women borrowers for use in small business or other income-generating activities. The ticket sizes in the segment are in the range of Rs 5,000-Rs 35,000 depending on their loan cycle with an avg. of Rs 16,000 as on Sept-21. Further, these loans are upto the tenure of 2-years and offered at an interest rates in the range of 23-24% p.a. The micro-credit loans are offered to a group of 7-30 women borrowers and are built on the peer-guarantee model with group meetings at regular intervals (every 28days).

Micro-credit disbursals have grown at 5.6% CAGR (FY13-FY21) while

from FY17-21, disbursals have grown at 10.2%, which is lower vs. the overall disbursals growth for the bank

Micro-credit AUM grown at CAGR of 16.6% (FY13-FY21) while from FY17- FY21, it grew at CAGR of 3.1%

|  |
| --- |
| **Figure 14: Micro-credit disbursals improves in H1FY22** |
| 35.0 200  155.0  30.0 150  25.0  100  20.0 73.4  31.0 41.5  49.0 50  15.0  6.4 -  10.0 (14.2) (37.0)  (44.1)  5.0 (50)  11.5 15.1 21.3 31.7 27.2 17.2 29.8 31.7 17.7 13.31  0.0 (100)  FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 1HFY22 |
| Disbursal (Rs bn) Growth YoY (RHS, %)  Source: Company Data, HTI Research |

Post the AP crises, EQUITASB (and e-NBFC) had gradually shifted away from the unsecured micro- credit business towards more secured business. With this, the micro-credit disbursals have grown at a mere 5.6% CAGR vs. overall disbursals CAGR of 22.3% over FY13-21, where-as between FY17- 21, the micro-disbursals have de-grown at 10.2% CAGR vs. overall disbursals CAGR of 9.6%. Consequently, the micro-credit AUM has grown at a slower rate of 16.6% CAGR vs. overall AUM CAGR of 39.7% during FY13-21, where-as between FY17-21 it was further slower at 3.1% CAGR vs. 30% for the overall Bank. The share of the micro-credit portfolio has dipped from 76.5% in FY13 to 45.7% as on Mar-17 and further to 18.1% as on Mar-21. The share of micro-credit AUM has remained stable at 18.1% as on Sept-21. As on Sept-21, the bank has 2.22mn borrowers and avg. ticket size of ~Rs 16,000.

## Mgmt. intends to maintain the share of micro-credit portfolio in the range of 12-15% (over medium to longer run). We expect Micro-credit AUMs to grow at 12.4% CAGR over FY21- 24E.

**Figure 15: Micro-credit: AUM growth to be slower vs overall book**

50.0

36.0

17.8

15.0

15.0

7.5

(12.9)

(10.5)

(21.1)

22.6

28.6

30.7

32.4

34.8

36.2

40.0

46.0

45.0

40.0

35.0

30.0

25.0

20.0

15.0

10.0

5.0

0.0

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

AUM (Rs bn) Growth (RHS, %)

40.0

30.0

20.0

10.0

- (10.0)

(20.0)

(30.0)

Source: Company Data, HTI Estimates

**Figure 16: Micro-credit share declining Figure 17: Micro-credit share of AUM**

72.5

65.1

68.3

18.1

45.7%

28.4%

26.2%

23.5%

18.1%

16.4%

15.4%

14.2%

12.7

8.9

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

IIB

Micro credit % of total AUM

MFI % of AUM

BANDHAN

EQUITASB

RBK

UJJIVANS

SURYODAY

Source: Company data, HTI Estimates Source: Company Data, HTI Research; Note- data as on Sept’21

# Small business loans (SBL): The focus segment

EQUITASB ventured into SBL predominately to move away from the unsecured loans towards secured loans. These loans were offered to the then existing vintage and qualified micro- credit customers (20% of the borrowers were then eligible for higher ticket size secured loans) for working capital or capital investment requirements for existing businesses and are secured by way of property. EQUITASB provides asset-backed financing primarily focused on self-employed individuals operating small enterprises, in urban and semi-urban locations. These small business loans are offered to individuals in the low-income groups engaged in business activities that do not maintain formal records for credit evaluation. The Bank started the SBL loans with the ticket size of sub Rs 0.2mn and has gradually increased to Rs 2.5mn. Currently, the bank provides these loans with ticket sizes ranging between Rs 50,000 and Rs 2.5mn.

|  |  |
| --- | --- |
| **SBL : At a glance** | |
| Particulars Q2FY22 | |
| No of live Acs | 2,39,190 |
| ATS at Disbursals (lacs) | 5.6 |
| ATS at Portfolio (lacs) | 3.6 |
| GNPA | 3.7% |
| PCR | 39.8% |
| Source: Company Data, HTI Research | |

SBL portfolio is one of the fastest growing for the bank with disbursals growth of ~70.7% CAGR (FY13-FY21) vs overall disbursals growth of

~22.3%

SBL AUM grew at CAGR of ~80.7% (FY13-FY21) vs overall AUM growth of ~36.2%

90% of SBL book is NTB customers while excl. gold loans it stands at 75% NTB

|  |
| --- |
| **Figure 18: SBL AUM: Faster growth vs the overall AUM** |
| 180.0 100.0  160.0 89.5 90.0  140.0 80.0  71.4 70.0  120.0  60.0  100.0  37.2 50.0  80.0  40.0  60.0 24.4 27.0  28.0 30.0  40.0 22.0 25.0 20.0  20.0 10.0  14.1 26.7 45.8 62.8 79.7 97.3 121.6 155.6  - -  FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E |
| AUM (Rs bn) Growth (RHS, %)  Source: Company Data, HTI Estimates |

Bank largely sources this product through loan mela, word to mouth, MFI meetings, feet on street etc.

Over FY13-21, the SBL has been the key growth driver for the bank with disbursals growth of

~70.7% vs. overall Bank disbursals CAGR of ~22.3%. Similarly, AUMs grew ~80.7% CAGR during the same period, vs. overall AUM growth of ~36.2%. With this the share of SBL portfolio inched up to ~44.5% in FY21 from 22.5% in FY17 and a mere 4.6% in FY13.

As on Sept-21, SBL division has 2.39L live borrowers and portfolio size of ~Rs 86bn to form

~45.3% of total AUMs. The avg. ticket size on disbursals stood at Rs 5.6Lacs and at portfolio level stood at Rs 3.6Lacs. ~35% of small business loans were of ticket sizes of up to Rs 5Lacs and ~33% of these loans are above Rs 1Lacs.

## SBL is expected to be one of the fastest growing segment for the bank. Accordingly, we have factored ~25% CAGR in SBL AUM over FY21-24E to form ~48% of total AUM.



**Figure 19: SBL share rising in overall rising Figure 20: SBL share in AUM vs. peers**

45.3

37.8

4.0

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

22.5

33.6

39.1

40.9

44.5

45.9

46.9

47.9

% of total AUM

EQUITASB AUBANK SURYODAY SBL % AUM

EQUITASB started home loan business in FY11 in western India while currently expanding in southern India as-well

Since FY13-FY21, disbursals have grown at CAGR of ~37% vs overall Bank disbursals CAGR of ~22.3%

AUM grown at CAGR of ~48.7% (FY17-FY21) vs overall AUM growth of ~30.1%

The Bank has tied up with HDFC Ltd to offer prime HL.

Source: Company data, HTI Estimates; Note- SBL (incl. HF) Source: Company Data, HTI Research; Note- data as on Sept’21

# Home loans

EQUITASB started offering home loans from FY11 in western Indian states i.e. Gujarat and Maharashtra. The primary targets self-employed individuals with limited access to loans from banks and larger housing finance companies. The Bank provides loans for the purchase of a plot or a house, construction of a house, and home improvement/ restoration/ extension.

Some of the bank’s affordable housing finance products are cross-sell products offered to existing customers with a satisfactory track record. Customers in the home loans segment typically run small enterprises and/ or are employed in the informal segment, or are involved in informal trade or commercial activity where income is not completely documented and requires field-based credit assessment.

With traction in business momentum, the bank is expanding its reach in the southern India states as well i.e. Tamil Nadu and Karnataka.

Over FY13-21, the housing segment has seen disbursals growth of ~37% vs. overall Bank disbursals CAGR of ~22.3%. AUMs grew ~48.7% CAGR during FY17-21, vs. overall AUM growth of ~30.1%. With this, the share of the housing segment inched up to ~5.3% in FY21 from 3.1% in FY17. As on Sept-21, the share of the housing portfolio further inched up to ~Rs 11.8bn to form ~6.2% of total AUMs.



HL Disbusal (Rs bn) Growth YoY (%) HL AUM (Rs bn) Growth YoY (%)

|  |  |
| --- | --- |
| **Figure 21: EQUITASB: HL disbursals** | **Figure 22: EQUITASB: HL AUM growth remains healthy** |
| 6.0 170  158.6  5.0 150  130  4.0  110  3.0 84.8 97.2  90  2.0  70  1.0 55.2 50  0.5 1.2 1.7 36.3 3.1 4.9 2.9  - 30  FY17 FY18 FY19 FY20 FY21 H1FY22 | 14.0 70  12.0 64.3 65  60.4  10.0 60  58.7  8.0 55  6.0 50  4.0 45  2.0 39.3 40  2.0 37.8 2.7 3.8 6.0 9.6 11.8  - 35  FY17 FY18 FY19 FY20 FY21 H1FY22 |
|  |  |
| Source: Company data, HTI Research | Source: Company data, HTI Research |

|  |
| --- |
| **Figure 23: HL share gradually rising in overall AUM** |
| 6.2%  5.3%  3.9%  3.4% 3.2%  3.1%  FY17 FY18 FY19 FY20 FY21 H1FY22  % of total AUM |
| Source: Company Data, HTI Research |

# Vehicle Finance:

EQUITASB, to diversify away from the unsecured micro-credit portfolio, started offering vehicle financing (along with SBL) loans in FY11. Initially, the bank started financing of old vehicles in FY11 and added financing of new vehicles in FY17, and further started offering used passenger car financing from FY20. The bank offer VF loans to customers who are mostly first-time borrower purchasing used CV having experience in logistics and small fleet operations. Further, these borrowers have limited access to bank loans and have (or don’t have) limited credit history.

|  |  |
| --- | --- |
| **VF : At a glance** | |
| Particulars Q2FY22 | |
| No of live Acs | 1,47,400 |
| ATS at Disbursals (lacs) | 4.2 |
| ATS at Portfolio (lacs) | 3.2 |
| GNPA | 4.6% |
| PCR | 47.8% |
| Ss ource: Company Data, HTI Research | |

Since FY13-FY21, Disbursals have grown at CAGR of ~26.4% vs overall Bank disbursals CAGR of ~22.3%. while form FY17-FY21, it grown at CAGR of 6.2% vs overall CAGR of

~9.6%

VF AUM has grown at CAGR of 40% (FY13-FY21) and 25% CAGR between FY17-FY21.

Bank VF mix: 60% Used CV, 35% New CV and 5% Used PV

Bank intends to have an equal share of used and new CVs

EQUITASB’s VF disbursals have grown at 26.4% CAGR over FY13-21 vs. the overall bank disbursals CAGR of 22.3%. However, over FY17-21, VF disbursals have grown at a slower CAGR of 6.2% vs overall bank at 9.6% CAGR. The VF portfolio has grown at 40% CAGR during FY13-21 and 25% CAGR between FY17-21 vs. overall bank CAGR of 36.2% in FY13-21 and 30.1% between FY17-21 respectively. The share of the VF portfolio increased to 29.6% in FY17 from 20.2% in FY13. However, with sower disbursals growth from FY17 onwards, the share has dipped to ~25.3% as on Mar-21 and further to 24.6% as on Sept-21.

As on Sept-21, the bank VF portfolio stood at Rs46.7bn spread across 1.47L borrowers with avg. ticket size of Rs 3.2Lacs and disbursals ticket size of Rs 4.2Lacs. Amongst the VF portfolio, 34% of the book has ticket size of sub Rs 5 lacs, 39% has ticket size in the range of Rs5-10lacs and 27% has ticket size above Rs 10lacs. Further, the bank charges interest rates in the range of 21.0-23.0% p.a. for used CVs and 13.5-15.0% p.a. under the new CV category. As on Sept- 21, ~60% of the VF portfolio is towards used CV, 35% towards new CV, and the remaining 5% towards the used PVs. VF has NPAs of 2.96% as on Sept-21 and the bank carries a PCR of 47.84%.

## We expect VF AUMs to grow at 21.0% CAGR over FY21-24E to form 24.7% of total AUMs

|  |
| --- |
| **Figure 24: VF disbursals: Sharp bounce in 1HFY22** |
| Source: Company Data, HTI Research |

|  |
| --- |
| **Figure 25: VF AUM growth moderated post FY19** |
| 90.0 31.9 35  80.0 27.4 30  70.0  25.0 25  60.0 20.6 20.5  50.0 20.0 20  18.0  40.0 15  30.0  10  20.0  10.0 5  18.6 22.4 29.5 37.6 45.3 53.5 64.1 80.2  0.0 0  FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E |
| VF AUM (Rs bn) Growth YoY (%)  Source: Company Data, HTI Estimates |

**Figure 26: VF share in overall AUM remains largely stable**

29.6%

28.2%

25.2% 24.5% 25.3% 25.2% 24.7% 24.7%

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E VF % of AUM

Source: Company Data, HTI Estimates

**Figure 27: VF % of AUM peers**

45.0%

42.0%

40.0%

37.6%

28.8%

25.3%

27.6% 26.9%

24.5% 24.6%

23.9%

21.8

% 22.2%

6.5%

8.0%

6.9%

6.6%

7.0%

5.0%4.0%

8.5% 8.7%

12.4%

10.7%

8.8%

8.7%

9.0%

8.3%

10.0%

8.4%

7.7%

40.0%

35.0%

30.0%

25.0%

20.0%

15.0%

10.0%

5.0%

0.0%

AUBANK

AXSB

DCBB

EQUITASB

FB

HDFCB

ICICIBC

IIB

KMB

SURYODAY

FY20 FY21 H1FY22

Source: Company Data, HTI Research

# MSE loans

Earlier, the bank classified MSE finance as part of the SBL segment. The bank subsequently differentiated these offerings based on the profile of the customer. EQUITASB provides MSE finance to enterprises engaged in business activities that maintain formal records for credit evaluation, primarily in urban and semi-urban areas.

|  |  |
| --- | --- |
| **MSE : At a glance** | |
| Particulars Q2FY22 | |
| No of live Acs | 2,234 |
| ATS at Disbursals (lacs) | 56.8 |
| ATS at Portfolio (lacs) | 52.4 |
| GNPA | 4.8% |
| PCR | 24.8% |
| Source: Company Data, HTI Research | |

The borrower in the MSE loan segment generally undertakes manufacturing and trading activities, where the bank offers working capital loans in the form of (a) fund-based facilities including cash credit limits, overdraft limits; and (b) non-fund based facilities like bank guarantees and letters of credit. The Bank also offers term loans for specific business purposes.

On a smaller base, the MSE loans have grown at a much faster rate vs. the overall AUM to form ~6.6% of total AUM as on Mar-21. Further, in 1HFY22, the MSE portfolio, has remained flat (from Mar-21 levels), leading to a dip in its share to 6.2%. **We expect this segment to grow at 28.5% CAGR over FY21-24E to form 7.7% of total AUMs.**

**Figure 28: MSE AUM: Faster growth on a smaller base**

5.0



0.1

1.8

6.7

1

0.0

FY18 FY19 FY20 FY21 FY22E

AUM (Rs bn)

Source: Company Data, HTI Estimates

**Figure 29: MSE share in overall AUM gradually rising**

7.4%

7.7%

7.0%

6.6%

4.4%

1.5%

0.1%

FY18 FY19 FY20 FY21 FY22E FY23E FY24E MSE % of AUM

Source: Company Data, HTI Estimates

# NBFCs / Corporate finance

|  |  |
| --- | --- |
| **NBFC: AT a Glance** | |
| Particulars Q2FY22 | |
| No of live Acs | 45 |
| ATS at Disbursals (lacs) | 7,267 |
| ATS at Portfolio (lacs) | 2,019 |
| GNPA | 0.5% |
| PCR | 25.0% |
| Source: Company Data; HTI Research | |

EQUITASB started financing to NBFC in FY17 and offers term loans to the NBFCs. These NBFCs are engaged in various sectors like micro-credit, vehicle finance and housing segments and further on lend to their retail customers. As on Sept-21, the bank has 45 live a/cs with avg. disbursal ticket size of Rs 726.7mn and avg. portfolio ticket size of Rs 201.9mn. The NBFC exposure is predominantly towards micro-credit (36%), followed by AFCs (24%) and HFCs at 23%. The Bank has NPAs of a mere 84bps in the NBFC portfolio as on Sept-21.

|  |
| --- |
| **Figure 30: EQUITASB: NBFC AUM** |
| 18.0 82.5 79.4 90  16.0 80  14.0 70  12.0 60  50  10.0  40  8.0  25.0 30.0 30  6.0 20  20.0  4.0 10  0  2.0 0  2.5 4.6 8.2 7.8 -4.3 9.4 11.7 15.3  0.0 -10  FY18 FY19 FY20 FY21 FY22E FY23E FY24E |
| NBFC AUM (Rs bn) Growth YoY (%)  Source: Company Data, HTI Estimates |

**Figure 31: EQUITASB: NBFC disbursals Figure 32: NBFC share in overall AUM remains steady**

7.0

6.0

5.0

4.0

3.0

2.0

1.0

0.0

135.7

FY18 FY19 FY20 FY21 H1FY22

NBFC Disbursal (Rs bn) Growth YoY (%)

160.0

140.0

104.7

41.7

-21.4

2.1

0.0

3.0

4.4

4.8

6.1

120.0

100.0

80.0

60.0

40.0

20.0

0.0

-20.0

-40.0

5.3%

4.4%

4.4%

4.5%

4.7%

3.9%

3.1%

FY18 FY19 FY20 FY21 FY22E FY23E FY24E

NBFC % of total AUM

Source: Company data, HTI Research Source: Company data, HTI Estimates

# Others loans

**Figure 33: EQUITASB: Other segments AUM Figure 34: Other segments % of AUM**

6.0

5.0

283.3

350

300

6.5%

250

4.0 200

150

4.0%

3.0

100

2.0

1.0

0.0

1.3

5.1

4.7

-8.7

2.2

-52.3

2.3

0.5

2.4

5.0

2.6

10.0

2.9

50

10.0

2.1%

0

1.5%

1.3%

-50

1.1%

1.0%

0.9%

-100

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

Other AUM (Rs bn) Growth YoY (%)

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

% of Total AUM

Source: Company data, HTI Estimates Source: Company data, HTI Estimates

# Overall AUM and growth

Post the conversion into a universal bank, the bank intends to continue its focus on informal segment; however, the share of informal segment is expected to dip to 70- 80%

Over FY21-24E, we have factored loan CAGR of 22.0% driven by SBL segment (+25% CAGR) to form 47.9% of the total AUM. We expect slower CAGR in micro-credit segment during the same period. Given the uncertain environment, under our scenario analysis, we have tried to analyze the impact of lower growth on core and net earnings, return ratios and thus multiple (x) and target price.

**Figure 35: EQUITASB AUM: factoring 22% CAGR led by SBL segment**

Further Bank will be adding new products like PL and CC to offer some cross sell products and improve its retention ratio

We have factored 22% loan CAGR (over FY21-24E) led by SBL segment. Micro-credit is expected to grow at a slower pace

350.0

300.0

250.0

200.0

150.0

100.0

50.0

0.0

5.6

62.6

26.8

79.4

47.5

117.0

31.3

153.7

16.7

179.3

18.3

22.3

25.3

50.0

45.0

40.0

35.0

30.0

25.0

20.0

15.0

10.0

5.0

0.0

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

212.0

259.3

324.9

AUM (Rs bn) Growth YoY (%)

Source: Company Data, HTI Estimates

**Figure 36: EQUITASB: AUM CAGR vs peers**

2,100.0

2,000.0

28.9%

1,297.0

21.9%

19.7%

1

16.7%

1 %

807.4

13.0%

521.8

412.9

324.9

255.9

6.7%

4.9

35.0%

1,800.0

1,500.0

1,200.0

900.0

600.0

300.0

30.0%

25.0%

20.0%

15.0%

10.0%

5.0%

- 0.0%

AUBANK

BANDHAN

CUBK

DCBB

EQUITASB

FB

UJJIVANS

Source: Company Data, HTI Estimates

FY24E (Rs bn) CAGR FY21-24 (%)

# Geographic Diversification as well.

Along with the product diversification, the bank has also diversified its portfolio across geographies, even as the share south India remains on a higher side, esp. TN.

**Figure 37: State wise AUM**

TN Mah KN Raj MP Guj Punjab Delhi Haryana Telangana Chattisgarh AP Others

|  |
| --- |
|  |
| 3.0 3.4 3.0 3.5 2.7 4.0 4.0 4.0  4.0 3.6 4.0 3.6 2.8 4.0 3.0 4.0 3.0  4.0 4.6 4.0 4.4 3.0 4.0 4.0 3.0 4.0  9.0 10.1 9.2 4.0 10.0  10.0 10.2 11.0 11.0 10.0  11.0  12.0 12.9 13.0 13.3 13.0 13.0 13.0 13.0  58.0 55.9 55.0 54.3 61.9 54.0 54.0 54.0 56.0  Q1FY20 Q2FY20 Q3FY20 Q4FY20 Q1FY21 Q2FY21 Q3FY21 Q4FY21 Q1FY22 |
|  |
| Source: Company Data, HTI Research; Note- data (%) as on Q1FY22 |

To comply with MPS, the plans to do a QIP upto Rs10bn; we have not factored the fund raise in our estimates

# Capital Adequacy remains healthy

In Oct-20, EQUITASB raised Rs 5.18bn via IPO, of which OFS was of Rs 2.8bn (at Rs 33/share). With this fund raised its CRAR stood at ~22.2% with Tier I of ~21% as on Sept-21. This is even after share de-growth in profitability and book growth. Superior CRAR makes EQUITASB better placed to make additional provisions in adverse asset quality scenarios and capture the huge lending opportunity. While the CRAR remains healthy it remains almost in the similar range of other SFBs.

To comply with the regulations of minimum public shareholding of 25%, the board of EQUITASB has approved QIP of upto Rs 10bn, which we haven’t factored in our estimates.

**Figure 38: EQUITASB: CRAR vs. peers**

25.0

20.0

20.0

17.5

20.4

19.4

21.8

20.8

22.0

20.5

22.2

21.0

22.2

20.7

15.0

19.2

18.2

19.3

15.3

20.0

18.7

18.1

17.1

17.4

16.7

18.8

16.8

15.7

16.3

15.5

17.6

10.0

15.0

14.1

12.8

11.5

5.0

-

AXSB

BANDHAN

CUBK

DCBB

FB

HDFCB

ICICIBC

IIB

KMB

KVB

SIB

RBK

YES

AUBANK

EQUITASB

UJJIVANS

CRAR (%) Tier I (%)

Source: Company Data, HTI Research; Note- data as on Sept’21

# Liability profile: Improving rapidly

Prior to converting into an SFB, EQUITASB (NBFC-MFI) predominantly raised money through bank loans or debt markets (debt issuances). However, post the conversion into the bank, EQUITASB focused on replacing these borrowings with bulk deposits.

During FY17-19, the deposits grew ~117% CAGR (on a smaller base) led by CASA growth of 162% CAGR. While the CASA ratio improved to 29% in FY18, it moderated to 25% in FY19 with slower growth in CASA deposits. Further in FY20, the bank reported de-growth in CASA led by a 28% drop in CA deposits and a mere 3.7% growth in SA deposits. With this, the overall CASA ratio dipped to ~20.5% as on FY20.

As per the management, the bank witnessed slower growth due to lower rates offered on SA deposits and non-maintenance charges in SA a/cs. To address these issues the bank raised its SA rates to 7.0% from 5.5% for deposits higher than Rs 0.1mn and also waved off all non- maintenance charges.

After these actions, the bank has reported a strong deposits growth. In FY21, the bank’s deposits grew ~52% led by a 2.5x rise in CASA deposits (esp. SA +2.7x) and TD growth of ~26%. With this, the CASA ratio improved to ~34% as on Mar-21.

The strong momentum continued in 1HFY22 as well, as the bank reported healthy deposits growth of ~40.3% led by SA growth of 171% and CA growth of ~25.7%. EQUITASB’s CASA ratio now stands at ~45.3% which is relatively better vs comparable SFB peers and some of the mid-tier PVT Banks.

After the YES Bank (YES IN) event in Mar-20, several small and mid-sized private sector banks (especially RBK and IIB) were impacted as they reported a significant outflow of deposits in 4QFY20. Despite high shares of wholesale deposits, EQUITASB reported growth in deposits during 4QFY20, which we believe to be creditable. This was even as the wholesale TDs dipped

~8.7% QoQ in 4QFY20.



|  |  |
| --- | --- |
| **Figure 39: EQUITASB: Deposit growth remains**  **healthy** | **Figure 40: EQUITASB: CASA share increasing** |
| 200 25  180  160 20  191.7  140  120 15  100  80 10  60  60.7 51.9  40 50  40.3  20  19 56 90 108 19.8164 181  0 0  FY17 FY18 FY19 FY20 FY21 H1FY22 | 90 45.3 50.  80 45.  70 40.  34.2 35.  60 29.2  30.  50 25.3  25.  40 17.2 20.  30 20.5  15.  20 10.  10 5.0  3 16 23 22 56 82  0 0.0  FY17 FY18 FY19 FY20 FY21 H1FY22 |
|  |  |
| Deposits Rs bn Growth YoY (%)  Source: Company data, HTI Research | CASA (Rs bn) % of deposit  Source: Company Data, HTI Research |

|  |
| --- |
| **Figure 41: EQUITASB: Deposit CAGR vs peers (FY17-FY21)** |
| BANDHAN 35.4%  CUBK 10.3%  DCBB 11.4%  FB 15.3%  KVB 4.2%  SIB 5.8%  RBK 20.6%  YES 3.3%  AUBANK 65.6%  EQUITAS 70.9%  UJJIVANS 182.4%  SURYODAY 248.4% |
| Deposits CAGR (FY17-FY21)  Source: Company Data, HTI Research; Note- data as on Sept’21 |

**Figure 42: CASA % vs. peers: EQUITASB CASA share higher vs. SFBs and mid PVT Banks**

30.8%

35.3%

35.4%

36.2%

42.1%

44.5%

44.6%

45.3%

46.1%

46.8%

60.6%

Source: Company Data, HTI Research; Note- data as on Sept’21

UJJIVANS

22.5%

DCBB

25.4%

CUBK

29.0%

YES

29.3%

AUBANK

30.3%

SIB

RBK

KVB

FB

IIB

AXSB

ICICIBC

HDFCB

KMB

**Figure 43: CASA CAGR vs. peers (FY17-FY21)**

Source: Company Data, HTI Research; Note AUBANK CAGR is only for 3 years

-4.8%

YES

KVB

9.6%

DCBB

9.7%

SIB

11.8%

CASA (%)

CASA CAGR (FY17-FY21)

FB

16.3%

CUBK

16.5%

RBK

32.2%

49.1%

BANDHAN

AUBANK

57.1%

BANDHAN

EQUITASB

EQUITASB

102.9%

SURYODAY

306.6%

UJJIVANS

437.2%

**Figure 44: EQUITASB Deposits QoQ growth**

200 25

23.0

13.7

13.8

9.8

9.3

9.5

4.3

5.8

4.7

3.3

1.4

2.8

70

79

91

90

108

105

100

118

129

159

171

164

181

Post YES event, the Bank continued its deposits growth momentum

180

160 20

140

120 15

100

80 10

60

40 5

20

- 0

2QFY19

3QFY19

4QFY19

1QFY20

2QFY20

3QFY20

4QFY20

1QFY21

2QFY21

3QFY21

4QFY21

1QFY22

2QFY22

Deposits (Rs bn) Growth % (QoQ)

Source: Company Data, HTI Research

**Figure 45: State wise Deposit share for TN, MH declined vs. 1QFY20**

4.0

9.0

4.0

9.0

4.0

9.0

3.0

4.0

2.1

3.0

3.2

3.1

6.0

3.3

5.0

6.9

7.2

3.0

5.0

4.1 5.0 5.0

7.0

5.0 6.1

3.6 4.6

6.0 6.1

29.0

20.0

9.0

10.0

31.0

18.4

8.2

9.6

8.0

5.0

7.8

3.2

6.5

3.3

6.0 6.0 5.0 5.0

23..00 2.0 5.0 5.0

7.0 6.8 6.4

30.1

17.6

7.7

7.2

27.0

17.0

8.0

9.0

28.3

16.8

7.3

8.4

7.0 6.0

7.0 11.0

4.0 4.0

6.0 6.0

7.0

7.0 7.0

28.0

19.0

24.0

21.0

9.0

6.0 7.0

26.0

17.0

25.0

17.0

Q1FY20 Q2FY20 Q3FY20 Q4FY20 Q1FY21 Q2FY21 Q3FY21 Q4FY21 Q1FY22

TN Mah Delhi Punjab Haryana MP Chandigarh Raj KN Gujarat Chattisgarh UP Others

Source: Company Data, HTI Research; Note- data as on Q1FY22

Further within the CASA mix, the share of high ticket CASA deposits (Rs 1bn+) has seen a dip from 27% in Mar-21 to 16% as on 1HFY22. Even in the TD deposits, the share of higher ticket TDs (above Rs 100mn) has dipped to ~24% from 35% in Mar-21 and 59% in FY19.

**Figure 46: SA Deposit ac value slabs (%) Figure 47: TD value slabs (%)**

47

17

17

12

18

16

20

20 20

25

22

16

27

21

16

16

19

18

18

18

16

18

16

14

16

17

16

28

27

29

25

26

26

24

24

26 29

28

35

41

25 27 28 26 27 26 26 27

25 26

22

21

22

14 14 13 13 13 13 13 13

9 8

6 5 5

44

37

42

35

30

24

63

62

59

54 54 53

8

9

10

10

8

8

11

12

12

10

16

68

18

16

55

61

45

48

53

47

19

22

25

34 34

37

<1 lakhs 1 L to < 10L 10L to < 1 cr 1cr to < 10cr 10Cr + < 1 cr 1cr to < 10cr 10cr +

2QFY19

3QFY19

4QFY19

1QFY20

2QFY20

3QFY20

4QFY20

1QFY21

2QFY21

3QFY21

4QFY21

1QFY22

2QFY22

2QFY19

3QFY19

4QFY19

1QFY20

2QFY20

3QFY20

4QFY20

1QFY21

2QFY21

3QFY21

4QFY21

1QFY22

2QFY22

Source: Company data, HTI Research; Note- data as on Sept’21 Source: Company data, HTI Research; Note- data as on Sept’21

However, some of the improvement in CASA ratio is partially attributable to slower growth in TD (+5.9% YoY in 1HFY22). EQUITASB with a focus in building granularity has significantly reduced the share of bulk TD since 2QFY19 - from 59% in 2QFY19 to a17% as on 1HFY22.



|  |
| --- |
| **Figure 48: EQUITASB: Rising share of Retail deposits** |
| 140.0 75.0  66.1  120.0 65.0  56.0  100.0 48.3 55.0  42.6  80.0 37.1 45.0  60.0 31.4 35.0  26.7  40.0 18.6 21.8 25.0  15.1 13.9  20.0 11.8 15.0  21.3 27.3 33.6 25.1 39.4 48.2 56.9 67.1 77.0 87.4 101.4 119.6  0.0 5.0  3QFY19 4QFY19 1QFY20 2QFY20 3QFY20 4QFY20 1QFY21 2QFY21 3QFY21 4QFY21 1QFY22 2QFY22 |
| Retail Deposits (Rs bn) % of total deposits  Source: Company Data, HTI Research; Retail deposits % we have arrived by taking the share of Retail TD and the share SA balances below Rs 10mn. |

**Figure 49: Retail deposits share remains in line with other SFB and mid private Banks**

94%

84%

84%

88%

71%

64%

64%

65%

66%

52%

55%

41%

42%

Retail deposit (%)

IIB

RBK

UJJIVANS

YES

AUBANK

SIB

KVB

EQUITASB

AXSB

BANDHAN

DCBB

SURYODAY

FB

Source: Company Data, HTI Research; Note- data as on Sept’21; EQUITASB:- Retail deposits % we have arrived by taking the share of Retail TD and the share SA balances below Rs 10mn.

Further, the bank has partnered/tied up with fin-techs and neo-partners, which has led to a sharp increase in customer sourcing. With this the customer acquisition has significantly ramped up, the Bank has acquired 1.25mn customers in 1HFY22 vs 0.48mn in FY21.

**Figure 50: EQUITASB : Customer acquisition per quarter**

Customer acq. (000)

118

136 141

48 59 68 56

58

70

62

82

41 35 40

34

50

538

712

Q1FY18

Q2FY18

Q3FY18

Q4FY18

Q1FY19

Q2FY19

Q3FY19

Q4FY19

Q1FY20

Q2FY20

Q3FY20

Q4FY20

Q1FY21

Q2FY21

Q3FY21

Q4FY21

Q1FY22

Q2FY22

Source: Company Data, HTI Research

**Figure 51: Type of SA a/c’s offered with partners**

|  |  |
| --- | --- |
| Types of SA a/cs Benefits offered | |
| Wings Savings Account | This account is specifically targeted at affluent customers, with multiple privileges including savings, protection and lifestyle privileges. The savings variant is accompanied by the VISA Signature Debit Card with features such as unlimited withdrawals at non-Bank ATMs, home insurance, personal accident and air accident insurance. |
| Value Plus Savings Account | This account is suited for mass and mass-affluent customers, with flexibility in terms of transactions and banking options including family banking at differential interest rates. Benefits include up to four free cash withdrawals per month at other bank ATMs in metro locations and up to six free cash withdrawals per month at other bank ATMs in non-metro locations, and free RuPay Debit Card issued in the first year of opening the account. |
| Regular Savings Account | Customers in metro and urban areas; semi-urban areas; and rural areas, are required to maintain an average monthly balance of ₹10,000, ₹5,000 and ₹2,500, respectively. Customers may also maintain fixed deposits or use platinum/ signature debit cards linked to the account. |
| My Savings Account | This account is typically suited to meet the requirements of microfinance customers with no average monthly balance requirements. It includes a RuPay classic debit card at a nominal annual fee of ₹100. |
| Basic and Small Savings Account | This is aimed at furthering financial inclusion and comprises all the basic banking facilities. It includes a free RuPay/ VISA classic debit card with personal accident insurance. No average monthly balance is required to be maintained and also no charges for the same. |
| EDGE | The product is offered with the help of select AMC's and added privileges include complementary access to the ‘Equitas Online Wealth Management System’. Customers can avail the EDGE facility through any of the distribution channels. Bank is also tied up with an AMC's to share their KYC platform on the Bank website. Bank also promote the EDGE account as a relationship account through which bank assist customers with other savings products and guide them on available investment opportunities, including systematic investment plans of mutual funds with insurance cover. |
| NRE Rupee Savings Account | Non-resident external (NRE) rupee savings and deposit accounts are held by non-resident Indians for investing their foreign earnings in Indian Rupees. Bank offer competitive interest rates on these accounts, and as interest earned on these accounts is not taxable in India, the interest income passes through to the non-resident Indian. Bank offer two types of accounts, regular NRE deposit accounts and elite NRE deposit accounts. Both accounts offer multiple payment solutions through platforms including VISA, Mastercard and RuPay; access to technology channels and even foreign exchange services (in alliance with an AD1 Bank) for conversion of foreign currency  into Indian rupees. |
| NRO Rupee Savings Account | Non-resident ordinary (NRO) rupee savings accounts are held by non-resident Indians for managing any income generated in India, including rent and dividends. |
| ELITE | This is a savings account for mass-affluent customers under the brand ‘ELITE’, specifically to cater to families with higher savings requirements. This product is available to select clients through all banking channels including Banking Outlets, card solutions, customer service, and internet and mobile banking. Bank have collaborated with payment companies to provide a specialized ‘World Debit Card’ variant for customers under this segment, with privileges including access to airport lounges and golf clubs, and discounts at various merchant establishments. This product also has additional features including higher interest rates of up to 7.5% on savings accounts, product and pricing benefits, and certain complementary services such as a wealth management system, dedicated relationship managers, and priority processing. Bank also offer a loyalty reward program as part of this product. Customers eligible for this product are required to maintain either, (i) combined family total relationship value of ₹2.5 million with minimum savings average monthly balance of ₹100,000 or (ii) a combined family savings average monthly balance of ₹500,000. Customers are also  offered certain waivers on locker fees. |
| Government – (TASC) Savings Account | Bank have launched this for institutional customers, comprising government entities and TASC. This is primarily aimed at meeting the requirements of central and state governments and governmental organizations, religious trusts, charitable trusts, NGOs, hospitals, educational institutes, commercial associations, social associations, charitable societies, Section 8 Companies, co-operative/ housing societies, commercial/ charitable/ social clubs. |
| Selfe Savings Account | Bank have launched the ‘Selfe Savings Account’, a digital bank account that can be opened with a web based interactive video form on registration using credentials such as the Aadhaar number, PAN and other basic details. Customers can set up a mobile banking PIN and start using their account immediately. Account holders are also eligible to operate a virtual debit card and also address querries through their chat bot Aidy. |

Source: Company Data, HTI Research

With the faster growth in deposits, its share in the total assets stands at 70.3% as on Sept-21 vs. 57% in FY19 and in total borrowings (Deposits + borrowings) at 85.3% as on Sept-21 vs. 69.4% in FY19

**Figure 52: EQUITASB: Share of Deposit in total assets Figure 53: EQUITASB: Share of Borrowing in Total Assets**

51.7%

38.9%

25.2%

26.6%

16.9%

12.2%

66.3%

57.1%

55.9%

42.1%

20.8%

70.3%

FY17 FY18 FY19 FY20 FY21 H1FY22

% deposits of total assets

FY17 FY18 FY19 FY20 FY21 H1FY22

% borrowing of total assets

Source: Company data, HTI Research Source: Company data, HTI Research

**Rate differential:** As a chosen strategy, EQUITASB offers higher SA deposits rates in the range of ~5.50-7.0% (above Rs0.1mn). While the rates offered are higher vs. the PVT universal banks (large and mid-tier), expect RBK they are lower vs. comparable SFBs peers like AUBANK, UJJIVANS, and SURYODAY. Even on TD rates, EQUITASB offers higher rates vs. the PVT universal banks (large and mid), expect RBK and DCBB. Where-as it is similar or lower to the comparable SFB peers.

**Figure 54: SA rates offered vs peers**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Bank | Upto Rs 0.1mn | Rs 0.1mn - Rs 1mn | Rs 1mn - Rs 5mn | Rs 5mn - Rs 50mn | Rs 50mn - Rs 100mn | Rs 100mn - Rs 1bn | Rs 1bn - Rs 2bn | Rs 2bn+ |
| AUBANK | 3.5% | 5.0% | 6.0% | 7.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| AXSB | 3.0% | 3.0% | 3.0% | 3.5% | Repo + (-0.65%);  Floor rate of 3.50% applicable | Repo + (-0.65%);  Floor rate of 3.50% applicable | Repo + (0.50%) | Repo + (-0.50%) |
| BANDHAN | 3.0% | 5.0% | 6.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| CUBK | 3.0% | 3.5% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| DCBB | 2.8% | 5.0% | 5%-6% | 6.5% | 5.5% | 5.5-5.0% | 5.0% | 5.0% |
| EQUITAS SFB | 3.5% | 6.0% | 7.0% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% |
| FB | Repo + (-1.5%) | Repo + (-1.5%) | Repo + (-1.5%) | Repo + (-1.5%) | Repo + (-1.5%) | Repo + (-1.5%) | Repo + (-1.5%) | Repo + (-1.5%) |
| HDFCB | 3.0% | 3.0% | 3.0% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| ICICIBC | 3.0% | 3.0% | 3.0% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| IIB | 4.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| KMB | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| RBK | 4.3% | 5.8% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| UJJIVANS | 4.0% | 7.0% | 6%-7% | 6%-7% | 6%-7% | 6.8% | 6.8% | 6.8% |
| SURYODAY | 4.0% | 6.3% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |

Source: Company Data, HTI Research

**Figure 55: TD rates offered vs peers**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Bank | 7d -14d | 15d - 29d | 30d - 45d | 46d - 60d | 61d - 90d | 91d -120d | 121d - 185d | 6m 1d - 9m | 9m 1d - 1yr | 1yr 1d - 2yr | 2yr 1d - 3yr | 3yr 1d - 5yr |
| AUBANK | 3.5% | 3.5% | 3.5% | 4.0% | 4.0% | 4.4% | 4.4% | 4.9% | 4.9% | 5.8% | 6.0% | 5.8% |
| AXSB | 2.5% | 2.5% | 3.0% | 3.0% | 3.0% | 3.5% | 3.5% | 4.4% | 5.10-5.25% | 5.4% | 5.4% | 5.8% |
| BANDHAN | 3.0% | 3.0% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 4.5% | 4.5% | 5.5% | 5.5% | 5.3% |
| CUBK | 3.0% | 3.0% | 3.0% | 3.3% | 3.3% | 3.5% | 3.5% | 3.8% | 4.8% | 5.0% | 5.3% | 5.0% |
| DCBB | 4.4% | 4.4% | 4.4% | 4.4% | 4.4% | 5.1% | 5.5% | 5.5% | 5.5% | 5.30-5.5% | 6.0% | 6.0% |
| EQUITASB | 3.5% | 3.5% | 3.5% | 4.0% | 4.0% | 4.4% | 4.4% | 4.9% | 4.9% | 5.85%-5.75% | 6.0% | 5.8% |
| FB | 2.5% | 2.5% | 2.8% | 3.0% | 3.0% | 3.8% | 3.8% | 4.0% | 4.4% | 5-5.25% | 5.4% | 5.4% |
| HDFCB | 2.5% | 2.5% | 3.0% | 3.0% | 3.0% | 3.5% | 3.5% | 4.4% | 4.4% | 4.9% | 5.2% | 5.3% |
| ICICIBC | 2.5% | 2.5% | 2.8% | 2.8% | 3.0% | 3.0% | 3.0% | 3.5% | 3.7% | 4-4.30% | 4.4% | 4.7% |
| IIB | 2.5% | 2.8% | 3.0% | 3.3% | 3.4% | 3.8% | 4.3% | 4.6% | 4.75%-5.50% | 6.0% | 6.0% | 5.5% |
| KMB | 2.5% | 2.5% | 2.8% | 2.8% | 2.8% | 3.0% | 3.2% | 4.3% | 4.4% | 4.9% | 5.2% | 5.3% |
| RBK | 3.3% | 3.8% | 3.8% | 4.0% | 4.0% | 4.5% | 4.5% | 5.0% | 5.3% | 6.0% | 6.0% | 6.3% |
| UJJIVANS | 2.9% | 3.5% | 3.5% | 3.5% | 3.5% | 4.3% | 4.3% | 4.8% | 4.8% | 6.0% | 6.5% | 6.3% |
| SURYODAY | 3.3% | 3.3% | 3.3% | 4.3% | 4.3% | 4.3% | 4.3% | 5.3% | 5.8% | 6.5% | 6.3% | 6.5% |

Source: Company Data, HTI Research

EQUITASB is gradually improving its granularity with Top 20 deposits reducing to 21.9% as of Mar’21 from 57.0% as of Mar’17. While the concentration remains on the higher side vs. the large PVT Banks, EQUITASB is relatively better placed vs the SFB peers like UJJIVANS and SURYODAY. Further, the share of high ticket size CASA and TD have dipped to 16% and 24% respectively as on Sept-21 from 20% and 47% respectively in FY20.

**Figure 56: EQUITASB: Share of Top 20 depositors**

57.0%

37.1%

32.7%

32.0%

21.9%

FY17 FY18 FY19 FY20 FY21

Top 20 depositors (%)

Source: Company Data, HTI Research

**Figure 57: Top 20 depositor’s vs peers over the period**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Top 20 depositors (%) FY17 FY18 FY19 FY20 FY21 | | | | | |
| AXSB | 11.6 | 11.4 | 11.8 | 9.2 | 7.9 |
| BANDHAN | 20.9 | 18.8 | 13.1 | 15.7 | 18.8 |
| CUBK | 9.8 | 7.6 | 9.1 | 9.2 | 10.6 |
| DCBB | 13.8 | 14.9 | 12.0 | 9.3 | 7.0 |
| FB | 5.0 | 4.3 | 3.9 | 6.0 | 4.8 |
| HDFCB | 5.5 | 6.3 | 6.1 | 4.0 | 4.1 |
| ICICIBC | 7.0 | 6.2 | 5.7 | 4.9 | 5.4 |
| IIB | 25.0 | 23.8 | 24.3 | 22.8 | 21.7 |
| KMB | 9.7 | 13.4 | 12.2 | 9.9 | 9.8 |
| RBK | 21.4 | 19.3 | 18.4 | 18.8 | 15.3 |
| YES | 11.1 | 12.2 | 10.8 | 13.3 | 18.3 |
| AUBANK | NA | 40.9 | 25.0 | 23.4 | 16.4 |
| EQUITASB | 57.0 | 37.1 | 32.7 | 32.0 | 21.9 |
| UJJIVANS | 98.3 | 73.6 | 41.8 | 29.0 | 29.3 |
| SURYODAY | 68.7 | 59.2 | 44.7 | 38.8 | 24.7 |

Source: Company Data, HTI Research

# Asset Quality: Relatively better placed

Post the AP crises, EQUITASB gradually shifted its focus towards diversifying its loan mix, especially towards the secured segments, even as it continued to focus towards the relatively bottom of the pyramid borrowers with no or limited access to the formal banking. We believe the focus towards secured and diversification has enabled the bank to have a relatively superior asset quality vs the comparable SFB peers and even some of the mid-tier PVT banks.

EQUITASB’s GNPAs and NNPAs have been consistently below 4% and 2% respectively over the last few years, despite the sporadic spike during the 9MFY18 (due to demonetization impact). We believe this performance to be commendable given the bank’s focus on borrowers with no or limited access to formal banking. Thus indicating the conservative under-writing approach of the bank. However, in 1HFY21 GNPAs have spiked to 4.8% and NNPAs to 2.5% (which is relatively better vs some of the peers), predominantly impacted by the 2nd wave of Covid-19.

**Figure 58: EQUITASB: Quarterly Asset quality performance**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Asset quality Q1FY18 Q2FY18 Q3FY18 Q4FY18 Q1FY19 Q2FY19 Q3FY19 Q4FY19 Q1FY20 Q2FY20 Q3FY20 Q4FY20 Q1FY21 Q2FY21 Q3FY21 Q4FY21 Q1FY22 Q2FY22 | | | | | | | | | | | | | | | | | | |
| GNPA (Rs bn) | 3.0 | 3.7 | 3.6 | 2.1 | 2.4 | 3.2 | 3.4 | 3.0 | 3.3 | 3.8 | 4.2 | 4.2 | 4.2 | 4.0 | 3.9 | 6.4 | 8.2 | 8.8 |
| NNPA (Rs bn) | 1.6 | 2.0 | 1.2 | 1.1 | 1.3 | 1.9 | 1.9 | 1.7 | 1.9 | 2.1 | 2.4 | 2.3 | 2.1 | 2.0 | 1.3 | 2.7 | 4.0 | 4.4 |
| GNPA (%) | 4.9 | 5.8 | 5.0 | 2.7 | 2.8 | 3.4 | 3.1 | 2.5 | 2.8 | 2.9 | 2.9 | 2.7 | 2.7 | 2.5 | 2.3 | 3.6 | 4.6 | 4.8 |
| NNPA (%) | 2.4 | 2.8 | 1.6 | 1.4 | 1.5 | 2.0 | 1.8 | 1.4 | 1.6 | 1.6 | 1.7 | 1.7 | 1.4 | 1.0 | 0.7 | 1.5 | 2.3 | 2.5 |
| PCR (%) | 45.3 | 46.3 | 67.0 | 47.4 | 46.9 | 41.1 | 44.2 | 43.6 | 44.0 | 43.8 | 43.5 | 45.2 | 48.8 | 50.2 | 66.2 | 58.6 | 51.2 | 50.1 |

Source: Company Data, HTI Research

**Figure 59: EQUITASB: Asset quality performance**

9.0



4.8

3.6

2.8

3.6

2.6

2.7

2.5

1.8

1.7

1.6

1.5

1.5

3.0 1.9

4.2

6.4

8.8

2.3

2.7

4.4

1.0

1.3

2.1

2.1

6.0

8.0

7.0

6.0

5.0

4.0

3.0

2.0

1.0

5.0

4.0

3.0

2.0

1.0

0.0

FY17 FY18 FY19 FY20 FY21 H1FY22 GNPA (Rs bn) NNPA (Rs bn) GNPA (%) NNPA (%)

0.0

Source: Company Data, HTI Research

**Figure 60: GNPA % remain better than other SFBs (except AUBANK) and some of the mid PVT banks**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Bank | FY17 | FY18 | FY19 | FY20 | FY21 | H1FY22 |
| CUBK | 2.8 | 3.0 | 3.0 | 4.1 | 5.1 | 5.6 |
| DCBB | 1.6 | 1.8 | 1.8 | 2.5 | 4.1 | 4.7 |
| FB | 2.3 | 3.0 | 2.9 | 2.8 | 3.4 | 3.2 |
| KVB | 3.6 | 6.6 | 8.8 | 8.7 | 7.9 | 7.4 |
| YES | 1.5 | 1.3 | 3.2 | 16.8 | 15.4 | 15.0 |
| RBK | 1.2 | 1.4 | 1.4 | 3.6 | 4.3 | 5.4 |
| AUBANK | 1.6 | 2.0 | 2.0 | 1.7 | 4.3 | 3.2 |
| EQUITASB | 3.6 | 2.8 | 2.6 | 2.7 | 3.6 | 4.8 |
| UJJIVANS | 0.3 | 3.8 | 0.9 | 1.0 | 7.1 | 11.8 |
| SURYODAY | 6.2 | 3.5 | 1.8 | 2.8 | 9.4 | 10.2 |

Source: Company Data, HTI Research

|  |  |  |  |
| --- | --- | --- | --- |
| **Figure 61: Asset Quality vs peers As on Sept-21** | | | |
| Banks GNPA % NNPA % PCR (%) | | | |
| AXSB | 3.5% | 1.1% | 70.2% |
| BANDHAN | 10.8% | 3.0% | 74.1% |
| CUBK | 5.6% | 3.5% | 38.9% |
| DCBB | 4.7% | 2.6% | 45.0% |
| FB | 3.2% | 1.1% | 66.2% |
| HDFCB | 1.4% | 0.4% | 70.9% |
| ICICIBC | 4.8% | 1.0% | 80.3% |
| IIB | 2.8% | 0.8% | 71.6% |
| KMB | 3.2% | 1.1% | 67.5% |
| KVB | 7.4% | 3.0% | 61.3% |
| SIB | 6.7% | 3.9% | 43.8% |
| RBK | 5.4% | 2.1% | 61.7% |
| YES | 15.0% | 5.6% | 66.6% |
| AUBANK | 3.2% | 1.7% | 48.6% |
| EQUITASB | 4.8% | 2.5% | 50.1% |
| UJJIVANS | 11.8% | 3.3% | 60.0% |
| Source: Company Data, HTI Research | | | |

**Figure 62: Provision % decline in H1FY22 Figure 63: PCR at 50.1% in H1FY22**

1.58

2.43

1.04

1.09

2.85

1.55

49.2%

38.1%

37.0%

45.2%

58.6%

50.1%

FY17 FY18 FY19 FY20 FY21 H1FY22

Provision of Avg. AUM (%)

FY17 FY18 FY19 FY20 FY21 H1FY22 PCR (%)

Source: Company data, HTI Research Source: Company Data, HTI Research

**Figure 64: X bucket Collection efficiency: Improves across segment MoM basis**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| X bucket CE | Feb-19 | Dec-19 | Feb-20 | Dec-20 | Mar-21 | Apr-21 | May-21 | Jun-21 | Sep-21 |
| Small Busines Loans | 99.4 | 99.3 | 99.4 | 99.1 | 99.6 | 97.8 | 84.1 | 96.2 | 99.6 |
| Vehicle Finance | 96.5 | 95.1 | 96.5 | 95.7 | 98.9 | 86.9 | 78.6 | 91.6 | 92.3 |
| Micro Finance | 98.5 | 98.4 | 98.5 | 98.3 | 98.7 | 96.0 | 68.9 | 74.0 | 97.4 |

Source: Company Data, HTI Research

# Segment wise GNPAs:

**Micro-credit:** Micro-credit GNPAs were contained sub 1% for most of period (except for demon impact and covid-19). The better performance in asset quality is predominantly due to relatively small ticket sizes (Rs 0.19 lacs). However, due 2nd wave of covid-19, the GNPAs have increased to 6.81% (which is similar to the peak of demon period). As per the mgmt., attendance at center meetings have improved and overall collection efficiencies have improved substantially. X bucket efficiencies improved to 97.6%, but were still below the pre- covid level of 99%. **Restructured book in the micro-credit book stood at Rs 3.5bn i.e. 10.3% of micro-credit AUMs.**

**Vehicle Finance:** EQUITASB has consistently reported higher stress in the segment with GNPAs ~3.5%+, given the higher share of used CV. However, on a relatively basis, the asset quality is better vs the comparable peers (in the used CV segment). As on Sept-21, GNPAs stood at 4.6% with a PCR of 47.8% and restructured book at ~13.3%. The collection efficiency in the VF portfolio has improved to 92.3% from 89.3% in 1Q. However, remains lower vs. 113.8% in 4Q and 108.4% in 3QFY21. As per the mgmt., with improving activities and freight loans, the collection efficiency in the VF segment is expected to improve thus leading to a dip in GNPAs.

**SBL:** In the SBL segment, EQUITASB has reported stress in the range of 2.5% to 3.7%, which optically looks higher given the focus towards the bottom of the pyramid borrowers. However, the focus on secured nature of the book provides a lot of comfort and is also reflective of lower LGDs. EQUITASB has maintained PCR at ~40%, as on Sept-21 in the SBL book. EQUITASB has restructured book of Rs 3.8bn i.e. 4.45% as on Sept-21.

FY17 FY18 FY19 FY20 FY21 H1FY22

|  |
| --- |
| **Figure 65: Segment wise NPA (%): H1FY22 NPA across segment inch up** |
| 6.8  5.6  5.0  4.6 4.8 4.6  4.0 4.0  3.7 3.8 3.6  3.3 3.4 3.3  2.9 2.8  2.4 2.6 2.7 2.4 2.7 2.5 2.7  1.8  1.2 1.2  0.7 0.9 0.7 0.5  SBL (incl HF) % Micro Finance (%) Vehicle Finance (%) MSE Finance (%) NBFC (%) Total GNPA (%) |
|  |
| Source: Company Data, HTI Research |

**Restructured book:** EQUITASB’s total restructured book stood at Rs 18.2bn (OTR-1: Rs 4.2bn and OTR: 2 at Rs 14bn) predominantly led VF (Rs 6.2bn), SBL segment (Rs 3.8bn) and Micro- segment (Rs 3.5bn). Of the OTR-1, the bank has already reported slippages of Rs 0.77bn (18% of R1), thus the overall std. restructured book stands at Rs ~17.4bn i.e. 9.8% of AUMs as on Sept-21. With a shorter tenure (upto 3 months) of moratorium in OTR 2.0, the collection

/relapse from the book will be keenly watched.

**Figure 66: Restructured book vs peers as on Sept-21**

250

200

11.2

12.0

200

150

100

50

13

13

11

10.0

8.0

9.8

8.0

6.8

5.9

3.7

4.1

2.6

3.1

3.4

1.7

3.6

3.6

0.9

1.3

0.5

6.0

83

4.0

2.0

17

0 0.0

KMB

AXSB

54

ICICIBC

97

HDFCB

FB

36

KVB

16

AUBANK

YES

62

IIB

79

RBK

21

SIB

23

CUBK

22

DCBB

18

UJJIVANS

EQUITASB

BANDHAN

Restructured book (Rs bn) (% of loan book)

Source: Company Data, HTI Research; Note- data as on Sept’21

With higher share of secured portfolio, conservative under-writing approach, improving collection efficiency (and macros), we expect asset quality to improve here-on. We have factored in slippages of 4.3% CAGR over FY21-24E and expect GNPAs of 3.1% by FY24E. Given the uncertain environment, under our scenario analysis, we have tried to analyze the impact of deterioration in asset quality and its impact on net earnings, return ratios and thus multiple (x) and target price.

**Figure 67: EQUITASB: Asset quality to gradually improve**

12.0



3.6

3.6

3.8

2.8

3.1

2.6

2.7

2.3

1.8

1.7

2.0

1.6

1.5

1.5

1.4

2.1 1.0 2.1 1.3 3.0 1.9 4.2 2.3 6.4 2.7 8.9 4.9 9.7 5.1 10.2 4.5

10.0

8.0

6.0

4.0

2.0

4.2

4.5

4.0

3.5

3.0

2.5

2.0

1.5

1.0

0.5

0.0

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

GNPA (Rs bn) NNPA (Rs bn) GNPA (%) NNPA (%)

0.0

Source: Company Data, HTI Estimates

# Provisions

EQUITASB’s LLPs have been in the range of 100-260bps since FY17 as the bank has maintained relatively lower PCR (40-58%), partially due to the secured nature of the portfolio. As on Sept-21, the bank has PCR of ~50% and carries restructured provisions of Rs 1.96bn i.e. 14% of the restructured book (higher vs. regulatory requirement). The bank doesn’t carry any additional provisions as on Sept-21. **We have factored LLPs CAGR of 3.4% over FY21- 24E, which is on a conservative basis and provides an upside cushion to earnings. Improvement in LLPs along with oplev are the key parameters for driving RoAAs here on.**

|  |
| --- |
| **Figure 68: EQUITASB: Provision Rs bn and % of Avg. AUMs.** |
| 8.0 3.5%  3.0% 3.0%  7.0 2.7% 2.6% 3.0%  2.6%  6.0 2.4%  2.4% 2.5%  5.0 1.9%  2.0%  4.0  1.5%  3.0  1.0%  2.0  1.0 0.5%  1.5 1.9 2.2 3.5 5.0 5.9 6.4 7.4  0.0 0.0%  FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E |
| Provision (Rs bn) % of Advances  Source: Company Data, HTI Estimates |

**Figure 69: Provision % vs peers over the period**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Provision (%) | FY17 | FY18 | FY19 | FY20 | FY21 | H1FY22 |
| AXSB | 3.2 | 3.5 | 2.4 | 3.2 | 2.8 | 1.6 |
| BANDHAN | 0.5 | 1.3 | 1.9 | 2.1 | 4.7 | 18.7 |
| CUBK | 1.3 | 1.5 | 1.0 | 2.2 | 2.2 | 1.7 |
| DCBB | 0.7 | 0.7 | 0.6 | 1.0 | 1.7 | 1.8 |
| FB | 0.8 | 1.0 | 0.8 | 1.0 | 1.2 | 1.2 |
| HDFCB | 0.6 | 0.8 | 0.9 | 1.2 | 1.4 | 1.5 |
| ICICIBC | 3.3 | 3.3 | 3.4 | 2.2 | 2.2 | 1.5 |
| IIB | 1.0 | 0.8 | 1.7 | 2.2 | 3.7 | 3.2 |
| KMB | 0.6 | 0.6 | 0.5 | 1.0 | 1.3 | 1.0 |
| RBK | 0.8 | 0.9 | 1.2 | 3.3 | 4.1 | 7.3 |
| YES | 0.4 | 0.4 | 0.6 | 19.1 | 5.8 | 1.2 |
| AUBANK | 1.5 | 1.0 | 0.6 | 1.0 | 2.0 | 1.1 |
| EQUITASB | 1.7 | 2.2 | 0.9 | 1.1 | 2.8 | 3.2 |
| UJJIVANS | 0.1 | 4.2 | 0.4 | 1.2 | 5.5 | 13.5 |
| SURYODAY | 2.8 | 3.5 | 2.8 | 3.8 | 3.8 | 9.9 |

Source: Company Data, HTI Research

# NIMs: gradual decline to continue

|  |  |
| --- | --- |
| **Figure 70: Segmental yields** | |
| Segment (As on FY20) Yield (%) | |
| Micro Credit | 22.0 |
| Small Business Loans (Incl. HF) | 18.0 |
| Vehicle Finance | 18.0 |
| MSE Finance | 11.0 |
| NBFC | 11.0 |
| Source: Company Data, HTI Research | |

Even before converting into SFB, EQUITAS had focused on diversifying the loan mix and shifting away from a micro-credit loan portfolio, despite it being one of the high-yielding segments for the co. The share of high-yielding micro-credit loans dipped to 18.1% as on 1HFY22 vs. 60.5% in FY14. With this, the co. reported a continued dip in yields over the period. The yield difference between the unsecured micro-credit loans and the secured business is in the range of 4-10%.

EQUITASB expect that yields and COF to trend lower.

Yields dip will be led by segments like used PV, affordable housing; while CoF would also trend lower

Bank had reduced its SA rates by 10bps

Post conversion into a bank, EQUITASB has seen a sustained decline in its CoF as it began to replace its high-cost borrowings with relatively low-cost deposits (incl. bulk deposits) and refinance. This was despite the higher rates offered by the bank on SA and Term deposits. Further, to shore up the share of CASA deposits (after some disappointment in the initial years), the bank has raised its SA deposit rate to 7.0% from 5.5%. EQUITASB’s SA and TD rates are higher vs. the comparable SFB peers and the mid-tier Banks.

Since 1QFY20, Bank’s CoF has fallen by over led by 150bps drop in the cost of TD’s, even as the cost of SA remains sticky. With the sustained rise in granular and low-cost deposits, we expect CoF to drift lower. Further, EQUITASB has levers to reduce CoF by reducing rates on its deposits, given its relatively higher rate offering, esp. on SA deposits.

The bank carries excess with Liquidity Coverage Ratio (LCR) as on Sept-21 at 154%. The bank intends to revert to ‘adequate surplus liquidity’ of ~130%. This along with a drop in SA rates (if any), can provide support to NIMs. With continued improvement in low-cost deposits and stabilizing share of micro-credit book, we expect NIMs of avg. 8.6% over FY21-24E.

**Figure 71: Cost of SA, TD and CoF saw a contraction sequentially**

8.6 8.6



8.2 8.3

8.4

8.0

8.2

7.8

8.1

7.6

7.9

7.6

7.4

7.3

7.1

7.4 7.3 7.2

6.9 6.8



6.2 6.2

6.0 6.0

5.9

6.4 6.5 6.5 6.4 6.4

Q1FY20 Q2FY20 Q3FY20 Q4FY20 Q1FY21 Q2FY21 Q3FY21 Q4FY21 Q1FY22 Q2FY22

Cost of SA (%) Cost of TD (%) Cost of funds (%)

Source: Company Data, HTI Research

**Figure 72: Yields and NIM to dip**

20.0



10.0

18.0

16.0

9.5

14.0

12.0

9.0

10.0

8.0

6.0

4.0

8.5

8.0

2.0

FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E

Yield on advances (%) Cost of deposits (%) NIMs (RHS, %)

7.5

Source: Company Data, HTI Estimates

**Figure 73: EQUITASB: NIM (%) vs peers**

9.1

8.1 8.1

7.6

6.0

4.0

4.1 4.0

4.1

4.5

3.4

3.4

3.7

4.1

3.2

2.5

2.2

Source: Company Data, HTI Research; Note- data as on Sept’21

AXSB

BANDHAN

CUBK

DCBB

FB

HDFCB

ICICIBC

IIB

KMB

KVB

SIB

RBK

YES

AUBANK

EQUITASB

UJJIVANS

SURYODAY

**Figure 74: EQUITASB: Yields (%) vs peers**

19.3

17.8

16.0

13.8

12.4

11.7

10.7

11.3

9.5

7.8

8.1 8.2 8.4

8.2

8.6 8.8

8.0

Source: Company Data, HTI Research; Note- data as on Sept’21

AXSB

BANDHAN

CUBK

DCBB

FB

HDFCB

ICICIBC

IIB

KMB

KVB

SIB

RBK

YES

AUBANK

EQUITASB

UJJIVANS

SURYODAY

**Figure 75: EQUITASB: CoF (%) vs peers**

6.8

7.1

6.2

6.1

6.3

5.3

5.4

4.8

4.9

4.8

5.0

4.3

4.3

3.7

3.6 3.7

3.2

Source: Company Data, HTI Research; Note- data as on Sept’21

AXSB

BANDHAN

CUBK

DCBB

FB

HDFCB

ICICIBC

IIB

KMB

KVB

SIB

RBK

YES

AUBANK

EQUITASB

UJJIVANS

SURYODAY

With major investments completed, oplev is expected to play out, here- on.

The Bank expects no major branch expansion in next 2 years

# Operating leverage: One of the key for RoAA improvement

Post the conversion into an SFB, EQUITASB, too reported a sharp rise in its operating expenses (a similar trend seen across SFBs). Akin to other SFBs, these expenses were largely towards, expansion of bank branches, employee addition, technology investments, and adding newer products. We believe with major investments already incurred by the bank and adaptation of technology/ digital along with improving productivity in existing branches and employee network will drive operating leverage for EQUITAS. Management also stated about slower branch addition from here on expect to add about 375 branches more and also highlighted the cost to income to be below 60% in next 2years but the endeavor is to be below 50% for long term.

While we expect the operating leverage to play at EQUITAS, its focus on granular secured loans and continued investments towards expansion is expected to keep C-I and C-AA higher vs mid-tier peers. With total opex growth of 20.1% CAGR over FY21-24E, we expect C-AA to drop to 6.1% and the C-I ratio to 61.8% by FY24E. Operating leverage is one of the key vectors, for improvement in return ratios here-on.

|  |
| --- |
| **Figure 76: C-I/C-AA ratio : Gradual improvement expected** |
| 85.0 7.8 8.0  80.0  7.5  75.0  6.9  70.0 6.7 7.0  6.5  65.0 6.4 6.4 6.5  60.0 6.0 6.1  6.0  55.0  66.4 80.0 70.3 66.4 60.0 66.7 63.7 61.8  50.0 5.5  FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E |
| Cost to income (%) Cost to avg. asset (%)  Source: Company Data, HTI Estimates |

**Figure 77: C-I ratio (%) vs peers**



37.0

39.9

40.5

42.2

46.5

49.3

54.2

54.2

55.0

55.7

58.4

58.6

69.2

70.4

82.1

84.0

Source: Company Data, HTI Research; Note- data as on Sept’21

HDFCB

ICICIBC

CUBK

IIB

Kotak

AXSB

RBK

SURYODAY

FB

KVB

DCBB

AUBANK

EQUITASB

YES

SIB

UJJIVANS

**Figure 78: C-AA ratio (%) vs peers**

3.1

4.2

5.8

6.9

7.5

Source: Company Data, HTI Research; Note- data as on Sept’21

BANDHAN

1.8

CUBK

2.0

HDFCB

2.1

FB

2.1

ICICIBC

2.1

AXSB

2.2

YES

2.3

DCBB

2.4

IIB

2.5

KMB

2.7

RBK

AUBANK

SURYODAY

EQUITASB

UJJIVANS

**Figure 79: EQUITASB: Loan/Deposit per branch (Rs mn)**

**Figure 80: EQUITASB: Loan/Deposit per employee (Rs mn)**

10.29.9

7.9

8.3

6.2

6.5

5.7

4.3

4.2

1.4

195.7 190.4

161.0

135.9

126.3

105.6

86.7

71.3

63.0

24.0

FY17 FY18 FY19 FY20 FY21

Loans per branch Deposit per branch

FY17 FY18 FY19 FY20 FY21

Loans per employee Deposit per employee

Source: Company data, HTI Research Source: Company Data, HTI Research

**Figure 81: Loans per branch vs peer**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Loans per branch (Rs mn) | FY17 | FY18 | FY19 | FY20 | FY21 | H1FY22 |
| AXSB | 1129.1 | 1187.3 | 1221.7 | 1262.0 | 1337.4 | 1328.7 |
| BANDHAN | 200.5 | 317.4 | 335.7 | 654.5 | 711.5 | 637.7 |
| CUBK | 433.3 | 464.2 | 502.7 | 484.7 | 515.1 | 541.5 |
| DCBB | 603.7 | 639.5 | 707.7 | 754.3 | 737.5 | 754.2 |
| FB | 585.8 | 734.5 | 880.4 | 968.1 | 1036.8 | 1056.6 |
| HDFCB | 1176.2 | 1375.3 | 1605.7 | 1834.8 | 2020.0 | 2108.4 |
| ICICIBC | 957.2 | 1052.8 | 1203.6 | 1212.0 | 1393.3 | 1449.6 |
| IIB | 942.3 | 1035.4 | 1119.5 | 1082.1 | 1055.1 | 1095.8 |
| KMB | 994.0 | 1222.8 | 1371.3 | 1373.4 | 1394.6 | 1448.6 |
| RBK | 1232.2 | 1519.5 | 1676.2 | 1503.1 | 1366.5 | 1258.6 |
| YES | 1322.6 | 1850.3 | 2156.2 | 1510.5 | 1559.7 | 1612.3 |
| AUBANK | 217.6 | 353.1 | 559.3 | 511.2 | 465.2 | 468.7 |
| EQUITASB | 71.3 | 86.7 | 135.9 | 161.0 | 195.7 | 207.2 |
| UJJIVANS | 128.3 | 158.1 | 201.4 | 244.2 | 252.1 | 234.6 |
| SURYODAY | 36.6 | 65.1 | 70.1 | 74.0 | 71.6 | 75.1 |

Source: Company Data, HTI Research

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Figure 82: Deposit per branch vs peer** | | | | | | |
| Deposits per branch (Rs mn) | FY17 | FY18 | FY19 | FY20 | FY21 | H1FY22 |
| AXSB | 1254.2 | 1225.0 | 1354.3 | 1413.7 | 1519.3 | 1573.6 |
| BANDHAN | 276.5 | 361.8 | 366.1 | 560.7 | 679.8 | 701.2 |
| CUBK | 547.6 | 547.5 | 591.5 | 583.3 | 634.4 | 659.8 |
| DCBB | 736.2 | 754.9 | 853.9 | 903.9 | 843.9 | 892.4 |
| FB | 780.1 | 894.5 | 1077.9 | 1205.8 | 1357.3 | 1352.2 |
| HDFCB | 1365.1 | 1647.7 | 1809.0 | 2118.7 | 2380.6 | 2473.3 |
| ICICIBC | 1010.4 | 1152.6 | 1339.6 | 1448.1 | 1770.8 | 1852.3 |
| IIB | 1054.8 | 1083.1 | 1170.4 | 1057.2 | 1271.5 | 1367.1 |
| KMB | 1149.9 | 1387.9 | 1505.9 | 1642.6 | 1746.3 | 1798.5 |
| RBK | 1447.2 | 1656.7 | 1802.3 | 1497.7 | 1704.5 | 1698.6 |
| YES | 1428.7 | 1824.9 | 2032.2 | 928.3 | 1522.9 | 1648.1 |
| AUBANK | 0.0 | 210.2 | 476.0 | 495.5 | 483.6 | 481.3 |
| EQUITASB | 24.0 | 63.0 | 105.6 | 126.3 | 190.4 | 210.2 |
| UJJIVANS | 4.5 | 81.3 | 140.8 | 187.5 | 228.4 | 245.0 |
| SURYODAY | 1.0 | 31.1 | 41.7 | 59.7 | 58.6 | 55.9 |
| Source: Company Data, HTI Research | | | | | | |

**Figure 83: Loan per employee vs peer**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Loans per employee (Rs mn) | FY17 | FY18 | FY19 | FY20 | FY21 | H1FY22 |
| AXSB | 65.9 | 73.8 | 79.9 | 77.1 | 78.5 | 71.9 |
| BANDHAN | 7.0 | 10.6 | 12.0 | 16.8 | 16.5 | 14.1 |
| CUBK | 50.8 | 52.4 | 59.2 | 59.1 | 61.9 | 67.1 |
| DCBB | 31.8 | 35.1 | 38.4 | 37.0 | 40.4 | 39.2 |
| FB | 63.3 | 79.3 | 90.1 | 97.8 | 104.7 | 106.7 |
| HDFCB | 65.8 | 74.8 | 83.6 | 85.0 | 94.3 | 92.7 |
| ICICIBC | 56.0 | 61.9 | 67.6 | 66.3 | 74.3 | 77.5 |
| IIB | 44.7 | 57.3 | 67.2 | 67.4 | 71.7 | 71.3 |
| KMB | 41.4 | 47.5 | 49.3 | 43.9 | 43.2 | 45.4 |
| RBK | 60.1 | 76.0 | 92.9 | 80.3 | 75.0 | 66.5 |
| YES | 65.7 | 111.6 | 114.3 | 80.0 | 74.9 | 75.7 |
| AUBANK | 7.7 | 11.9 | 18.1 | 15.8 | 15.4 | 16.2 |
| EQUITASB | 4.3 | 5.7 | 7.9 | 8.3 | 10.2 | 10.2 |
| UJJIVANS | 5.8 | 6.5 | 7.2 | 7.9 | 8.7 | 8.3 |
| SURYODAY | 3.8 | 5.4 | 6.8 | 7.5 | 7.8 | 8.3 |

Source: Company Data, HTI Research

**Figure 84: Deposit per employee vs peers**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Deposits per employee (Rs mn) | FY17 | FY18 | FY19 | FY20 | FY21 | H1FY22 |
| AXSB | 73.2 | 76.1 | 88.5 | 86.3 | 89.1 | 85.1 |
| BANDHAN | 9.6 | 12.0 | 13.1 | 14.4 | 15.8 | 15.5 |
| CUBK | 64.2 | 61.8 | 69.7 | 71.1 | 76.2 | 81.8 |
| DCBB | 38.7 | 41.5 | 46.4 | 44.4 | 46.2 | 46.4 |
| FB | 84.2 | 96.6 | 110.4 | 121.9 | 137.1 | 136.6 |
| HDFCB | 76.3 | 89.7 | 94.1 | 98.1 | 111.2 | 108.7 |
| ICICIBC | 59.2 | 67.8 | 75.3 | 79.2 | 94.4 | 99.0 |
| IIB | 50.0 | 60.0 | 70.3 | 65.9 | 86.4 | 88.9 |
| KMB | 47.8 | 54.0 | 54.1 | 52.5 | 54.1 | 56.4 |
| RBK | 70.6 | 82.8 | 99.9 | 80.1 | 93.6 | 89.8 |
| YES | 71.0 | 110.1 | 107.7 | 49.2 | 73.2 | 77.3 |
| AUBANK | 0.0 | 7.1 | 15.4 | 15.3 | 16.0 | 16.7 |
| EQUITASB | 1.4 | 4.2 | 6.2 | 6.5 | 9.9 | 10.4 |
| UJJIVANS | 0.2 | 3.4 | 5.0 | 6.0 | 7.9 | 8.7 |
| SURYODAY | 0.1 | 2.6 | 4.1 | 6.1 | 6.3 | 6.2 |

Source: Company Data, HTI Research

# Return ratios: Set to improve

EQUITASB had seen a moderation in its return ratios post converting into an SFB given continued investing into technology and network expansion (branch and employees) and a focus to shift towards secured loans (vs. high yielding micro-credit loans), even as LLPs moderated (albeit were higher in FY18).

While we expect a decline in NIMs (as the proportion of lower-yielding non-MFI segment increases), a steady improvement in operating leverage (i.e. slower growth operating cost) is expected to aid gradual improvement in core operating profits. Further with moderation in credit cost, we expect EQUITASB to improve RoAAs to 1.8% and RoAEs to 15.3% over FY21- 24E.

## We have factored LLPs CAGR of 3.4% over FY21-24E, which is on a conservative basis and provides an upside cushion to earnings. Improvement in LLPs along with oplev are the key parameters for driving RoAAs here on.



|  |
| --- |
| **Figure 85: EQUITASB: Net earnings to grow faster vs B/s growth** |
| 8.0 600  561.5  7.0 500  6.0 400  5.0 300  4.0 200  3.0 89.9 100  57.7 44.3  2.0 -37.7 -69.4 15.7 0  -34.9  1.0 -100  1.0 0.3 2.1 2.4 3.8 2.5 4.7 6.9  0.0 -200  FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E |
| PAT (Rs bn) Growth YoY (%)  Source: Company Data, HTI Estimates |

|  |
| --- |
| **Figure 86: EQUITASB: Return ratios to improve** |
| 18.0 1.8 2.0  1.7  16.0 1.8  1.5  14.0 1.4 1.4 15.3 1.6  1.3 1.4  12.0  12.5 12.2 1.2  10.0 1.0  1.0  8.0 9.8 9.7  0.8  6.0 7.1 0.6  6.2  4.0 0.3 0.4  2.0 0.2  0.0 1.6 0.0  FY17 FY18 FY19 FY20 FY21 FY22E FY23E FY24E  ROAE (%) ROAA (RHS, %) |
| Source: Company Data, HTI Estimates |

**Figure 87: RoAA (%) vs peers**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ROAA (%) | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| AXSB | 0.7 | 0.0 | 0.6 | 0.2 | 0.7 | 1.2 | 1.4 | 1.5 |
| BANDHAN | 4.4 | 3.6 | 3.9 | 4.1 | 2.2 | -0.8 | 2.6 | 3.3 |
| CUBK | 1.5 | 1.6 | 1.6 | 1.0 | 1.2 | 1.3 | 1.5 | 1.5 |
| DCBB | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 | 0.8 | 1.1 | 1.1 |
| FB | 0.8 | 0.7 | 0.8 | 0.9 | 0.8 | 0.9 | 1.1 | 1.2 |
| HDFCB | 1.9 | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.1 | 2.1 |
| ICICIBC | 1.3 | 0.8 | 0.4 | 0.8 | 1.4 | 1.6 | 1.9 | 1.9 |
| IIB | 1.8 | 1.8 | 1.3 | 1.5 | 0.8 | 1.4 | 1.8 | 1.8 |
| KMB | 1.7 | 1.7 | 1.7 | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 |
| RBK | 1.0 | 1.1 | 1.2 | 0.6 | 0.5 | 0.2 | 1.2 | 1.3 |
| YES | 1.8 | 1.6 | 0.6 | -7.1 | -1.3 | 0.2 | 0.5 | 0.7 |
| AUBANK | 10.2 | 2.0 | 1.5 | 2.0 | 2.2 | 1.8 | 2.1 | 2.3 |
| EQUITASB | 1.3 | 0.3 | 1.4 | 1.4 | 1.7 | 1.0 | 1.5 | 1.8 |
| UJJIVANS | 0.0 | 0.1 | 1.7 | 2.2 | 0.0 | -1.5 | 1.3 | 1.8 |
| SURYODAY | 1.2 | 0.6 | 3.0 | 2.5 | 0.2 | NA | NA | NA |

Source: Company Data, HTI Estimates; Note- RBK, Yes RoAA % denotes consensus number

**Figure 88: ROAE (%) vs peers**

Source: Company Data, HTI Estimates; Note- RBK, Yes RoAE % denotes consensus number

# Risks:

* + Slower than expected Business (AUM + Deposits) growth poses a risk to our estimates and multiples.
  + Slowing momentum in retail and low-cost deposits
  + While we are expecting operating leverage to playout, slower than expected improvement in oplev led by higher opex growth and slower income growth pose a risk to return ratios and thus multiples.
  + Sporadic lockdowns may impact growth and asset quality
  + Delay from the regulators (RBI and SEBI) for the proposed reverse-merger might pose a risk for the bank and the holdco.

# Reverse merger Status:

* + - Boards of EQUITASB and its holdco (EQUITAS) have approved the scheme of amalgamation which will lead to the exit of the promoters i.e. the holdco. from the bank
    - The boards of both the co’s has approved share swap ratio is 226 shares of the EQUITASB for 100 shares held in the holdco for the proposed merger based on current promoter holding of 81.55%+.
    - SEBI has relaxed the three year 20% promoter lock-in requirement for the holdco which reduces the timeline for the merger.
    - To adhere to the MPS, the bank intends to do a QIP, upto Rs 10bn, to bring down the promoter shareholding to 75%. We haven’t factored the fund raise in our estimates.
    - Post the QIP, board of both the companies, will re-visit the share swap ratio given the change in price and promoter holding.
    - The bank will re-file the scheme of amalgamation with SEBI, exchanges and RBI. From the day of refiling the scheme, the mgmt. expects to receive all regulatory approvals in 6-9months’ time-frame. Thus the entire merger process is expected to complete by 2HFY23.
    - We currently have not factored the reverse merger in our estimates.

**Figure 89: EQUITAS (holding company): Trades at a discount**

47% 46%

43%

42%

34% 34%

33%

32%

28%

29%

30%

25%

25%

26% 26%

Source: Company Data, HTI Estimates

Nov-20

Dec-20

Jan-21

Feb-21

Mar-21

Apr-21

May-21

Jun-21

Jul-21

Aug-21

Sep-21

Oct-21

Nov-21

Dec-21

Jan-22

# Scenario analysis

We have attempted to evaluate the downside risk to our estimates, given the uncertainty about the asset quality and subsequently its implications for growth.

**Figure 90: Scenario construct**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (%) Scenario 1 Scenario 2 Scenario 3  FY23E FY24E FY23E FY24E FY23E FY24E | | | | | | |
| Slippages | 100 bps | 50 bps | 150 bps | 100 bps | 200 bps | 150 bps |
| Loan Growth | -200 bps | -100 bps | -300 bps | -200 bps | -500 bps | -300 bps |

Source: Company Data, HTI Estimates

We have increased slippages (from the base case assumption) up to 200bps in FY23E and 150bps for FY24E and reduced AUM growth (from the base case assumption) by 500/300bps for FY23E/24E. Under the extreme case (scenario 3):

* + - GNPAs rise by ~45.3/42.4% in FY23/24E,
    - Provisions rise by ~22.2/40.7% (LLPs increase by 18/43bps),
    - Net earnings dip by 32.0/53.6%,
    - Adj. BV’s dip by 13.4/18.5% for FY23E/24E and RoAE’s drop by 374/763bps and
    - The assigned target price dips by 33.7% and offers a negative return (-11.7%) from the current levels.

**Figure 91: Scenario Analysis results**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Base Case Scenario 1 Scenario 2 Scenario 3  Particulars  FY23E FY24E FY23E FY24E FY23E FY24E FY23E FY24E | | | | | | | | |
| Slippages (Rs mn) | 8,836 | 8,762 | 11,092 | 10,011 | 12,204 | 11,295 | 13,244 | 12,438 |
| Slippages (%) | 3.8 | 3.0 | 4.8 | 3.5 | 5.3 | 4.0 | 5.8 | 4.5 |
| GNPA (Rs mn) | 9,725 | 10,221 | 11,980 | 11,808 | 13,092 | 13,259 | 14,133 | 14,558 |
| GNPA (%) | 3.8 | 3.1 | 4.7 | 3.7 | 5.2 | 4.3 | 5.7 | 4.8 |
| AUM growth (YoY, %) | 22.3 | 25.3 | 20.3 | 24.3 | 19.3 | 23.3 | 17.3 | 22.3 |
| NII (Rs mn) | 24,253 | 29,285 | 23,927 | 28,360 | 23,763 | 27,803 | 23,437 | 26,889 |
| PPOP (Rs mn) | 11,167 | 14,271 | 10,782 | 13,180 | 10,590 | 12,522 | 10,205 | 11,444 |
| Provisions (Rs mn) | 4,818 | 5,112 | 5,366 | 6,026 | 5,637 | 6,636 | 5,887 | 7,190 |
| Provisions (%) | 2.0 | 1.8 | 2.3 | 2.1 | 2.4 | 2.4 | 2.6 | 2.6 |
| PAT (Rs mn) | 4,749 | 6,851 | 4,051 | 5,351 | 3,705 | 4,403 | 3,230 | 3,182 |
| ABV Rs | 31.6 | 38.1 | 29.5 | 35.3 | 28.5 | 33.3 | 27.4 | 31.0 |
| RoAA (%) | 1.5 | 1.8 | 1.3 | 1.4 | 1.2 | 1.2 | 1.1 | 0.9 |
| RoAE (%) | 12.2 | 15.3 | 10.5 | 12.4 | 9.7 | 10.4 | 8.5 | 7.7 |
| Assigned multiple (x) | 2.1 | | 1.9 | | 1.8 | | 1.7 | |
| TP (Rs) | 76.4 | | 65.1 | | 58.5 | | 50.7 | |

Source: Company Data, HTI Estimates

**Figure 92: Scenario result outcome**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Scenario 1 Scenario 2 Scenario 3  Change in (vs. base case)  FY23E FY24E FY23E FY24E FY23E FY24E | | | | | | |
| Slippages (Rs mn) | 25.5% | 14.3% | 38.1% | 28.9% | 49.9% | 42.0% |
| Slippages (%) | 100 bps | 50 bps | 150 bps | 100 bps | 200 bps | 150 bps |
| GNPA (Rs mn) | 23.2% | 15.5% | 34.6% | 29.7% | 45.3% | 42.4% |
| GNPA (%) | 95 bps | 58 bps | 143 bps | 111 bps | 193 bps | 164 bps |
| AUM growth (YoY, %) | -200 bps | -100 bps | -300 bps | -200 bps | -500 bps | -299 bps |
| NII (Rs mn) | -1.3% | -3.2% | -2.0% | -5.1% | -3.4% | -8.2% |
| PPOP (Rs mn) | -3.4% | -7.6% | -5.2% | -12.3% | -8.6% | -19.8% |
| Provisions (Rs mn) | 11.4% | 17.9% | 17.0% | 29.8% | 22.2% | 40.7% |
| Provisions (%) | 25 bps | 36 bps | 38 bps | 60 bps | 51 bps | 85 bps |
| PAT (Rs mn) | -14.7% | -21.9% | -22.0% | -35.7% | -32.0% | -53.6% |
| ABV Rs | -6.6% | -7.3% | -9.9% | -12.5% | -13.4% | -18.5% |
| RoAA (%) | -22 bps | -39 bps | -34 bps | -64 bps | -49 bps | -96 bps |
| RoAE (%) | -170 bps | -296 bps | -255 bps | -495 bps | -374 bps | -763 bps |
| TP (Rs) | -14.9% | | -23.5% | | -33.7% | |
| Upside | 13.4% | | 1.9% | | -11.7% | |

Source: Company Data, HTI Estimates

|  |  |
| --- | --- |
| **Figure 93: Key assumption** | |
| **Parameter** | **Value** |
| Risk-Free Rate | 6.3% |
| Market Risk Premium | 4.3% |
| Beta | 1.6 |
| Required Rate of Return  for Equity Shareholders | 13.1% |
| S4ource: Company Data, HTI Estimates | |

# Valuation & recommendation:

We value the bank using the residual income method. We expect the bank to deliver RoAE of ~16.5%+ over the next 10 years and subsequently assume the RoAE to moderate towards the cost of equity in the long run. We hence arrive at a target price of Rs76 for EQUITASB via an implied multiple of 2.1x on its Dec-23E ABV assuming a cost of equity of 13.05%. Our target multiple of 2.1x is higher vs historical avg. of 1.9x (small history of 13months).

**Figure 94: EQUITASB ROE normalization in long run Figure 95: EQUITASB valuation summary**

|  |  |  |
| --- | --- | --- |
| **Parameter** |  | **Value** |
| Dec-23E Networth (Rs mn) | (A) | 46,410 |
| Addition to Book Value using RI Method (Rs mn) | (B) | 41,121 |
| Market Value of Equity (Rs mn) | (C = A + B) | 87,531 |
| Number of Shares Today (mn) | (D) | 1,145 |
| Target Price (Rs) | (E = C / D) | 76 |
| Dec-23E ABV (Rs) | (F) | 36 |
| **Implied Price/ ABV Multiple (x)** | **(E / F)** | **2.1** |

17.0%

16.0%

15.0%

14.0%

13.0%

12.0%

FY23E

FY25E

FY27E

FY29E

FY31E

FY33E

FY34E

FY36E

FY38E

FY40E

FY42E

FY44E

FY46E

FY47E

FY49E

FY51E

FY53E

FY55E

Estimated RoE Cost of Equiy

Source: Company data, HTI Estimates Source: Company data, HTI Estimates

|  |
| --- |
| **Figure 96: EQUITASB Price to Adjusted book value (P/ABV) Band chart** |
| 2.60  +2SD  2.40  2.20 +1SD  2.00  Avg  1.80  1.60 -1SD  1.40  -2SD  1.20  1.00  Nov-20 Jan-21 Mar-21 May-21 Jul-21 Sep-21 Nov-21 Jan-22 |
| Source: Company Data, HTI Estimates |

**Figure 97: EQUITASB Price movement and P/ABV Band chart**

100.0

85.0

70.0

55.0

40.0

3.0x

2.5x

2.0x

1.5x

25.0

Nov-20

Jan-21

Mar-21

May-21

Jul-21

Sep-21

Nov-21

Jan-22

Source: Company Data, HTI Estimates

**Figure 98: P/ABV vs ROA scatter chart for key banks Figure 99: P/ABV vs ROAE scatter chart for key banks**

3.5 25.0

BANDHAN

HDFCB KMB

AUBANK

ICICIBC

UJJIVANS

FB

IIB

EQUITAS

CUBK

AXSB

DCBB

SBIN

BANDHAN

AUBANK

HDFCB

UJJIVANS

SBIN IIBEQUITAS

ICICIBC

KMB

AXSB

FB

CUBK

DCB

3.0

2.5

ROAA (%) FY24E

23.0

21.0

ROAE (%) FY24E

19.0

2.0

1.5

1.0

17.0

15.0

13.0

11.0

0.5

0.0 1.0 2.0 3.0 4.0 5.0

P/ABV (x) FY24E

9.0

0.2 0.7 1.2 1.7 2.2 2.7 3.2 3.7 4.2 4.7

P/ABV (x) FY24E

Source: Company data, HTI Estimates Source: Company data, HTI Estimates

**Figure 100: Bank Comps Valuation summary**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Company Name** | **Market Cap (Rs Bn)** | **Target Price (Rs)** | **Rating** | **P/ABV** | | **P/E** | **ROE** | **EPS CAGR (FY21-24)** |
| **FY22E FY23E FY24E** | | **FY22E FY23E FY24E** | **FY22E FY23E FY24E** |
| HDFCB | 8,594 | 1,992 | OUTPERFORM | 3.7x 3.2x 2.7x | | 22.8x 18.9x 15.9x | 16.7% 17.3% 17.5% | 18% |
| ICICIBC | 5,606 | 851 | OUTPERFORM | 3.0x 2.5x 2.1x | | 21.2x 16.2x 13.6x | 13.7% 15.3% 15.6% | 26% |
| KMB | 3,861 | 2,193 | NEUTRAL | 4.3x 3.6x 3.1x | | 35.3x 28.6x 23.1x | 12.6% 13.2% 13.8% | 19% |
| AXSB | 2,276 | 902 | OUTPERFORM | 2.0x 1.7x 1.5x | | 17.0x 12.8x 10.3x | 11.7% 13.6% 14.6% | 45% |
| IIB | 712 | 1,283 | OUTPERFORM | 1.5x 1.4x 1.2x | | 13.1x 9.7x 8.0x | 11.9% 14.5% 15.4% | 46% |
| BANDHAN | 441 | 386 | OUTPERFORM | 3.2x 2.5x 1.9x | | -45.7x 12.6x 8.2x | -5.7% 19.4% 24.0% | 33% |
| FB | 201 | 119 | OUTPERFORM | 1.2x 1.0x | 0.9x  1.4x | 11.0x 7.7x 6.4x | 10.4% 13.1% 14.0% | 24%  22% |
| CUBK | 108 | 227 | OUTPERFORM | 2.0x 1.6x | 14.4x 11.7x 10.1x | 12.1% 13.2% 13.5% |
| DCBB | 26 | 146 | OUTPERFORM | 0.8x 0.7x 0.6x | | 7.7x 5.2x 4.5x | 8.7% 11.6% 12.2% | 21% |
| AUBANK | 385 | 1,268 | NEUTRAL | 5.7x 4.9x 4.1x | | 38.1x 27.2x 19.9x | 15.0% 18.0% 20.6% | 24% |
| EQUITASB | 66 | 76 | OUTPERFORM | 2.1x 1.8x 1.5x | | 26.3x 13.8x 9.6x | 7.1% 12.2% 15.3% | 21% |
| UJJIVANS | 37 | 27 | OUTPERFORM | 1.5x 1.3x 1.1x | | -11.6x 10.9x 6.5x | -11.0% 11.7% 16.9% | 307% |
| SBIN | 4,494 | 608 | OUTPERFORM | 1.3x 1.1x 0.9x | | 7.9x 6.4x 5.4x | 13.8% 14.9% 15.6% | 38% |
| BOB | 477 | 130 | OUTPERFORM | 0.7x 0.6x 0.6x | | 7.5x 5.4x 4.1x | 8.5% 10.7% 12.8% | 142% |

Source: Company data, HTI Estimates

\*prices as of 10 Jan 2022

**Figure 101: Financial and valuation comps with peers**

|  |  |  |  |
| --- | --- | --- | --- |
| **Amount in Rs Mn** | **Ujjivan SFB** | **Equitas SFB** | **Suryoday SFB** |
| AUM (Sept'21) | 1,45,140 | 1,89,780 | 44,700 |
| AUM CAGR (FY17-21) | 24.1% | 30.1% | 44.5% |
| Advances (on-book) (Sept'21) | 1,34,867 | 1,78,371 | 42,035 |
| Advances (on-book) CAGR (FY17-21) | 0.0% | 31.1% | 48.5% |
| Deposits (Sept''20) | 1,40,895 | 1,80,940 | 31,290 |
| Deposit CAGR (FY17-21) | 0.0% | 70.9% | 248.5% |
| CD Ratio (Sept'21) | 95.7% | 98.6% | 134.3% |
| Disbursement (FY21/H1FY22) | 83,920 (FY21) | 74,620 (FY21) | 22,170 (FY21) |
| 44,320 (H1FY22) | 44,100 (H1FY22) | 14,290 (H1FY22) |
| Promoter Holding (Sept'21) | 83.3% | 81.6% | 28.0% |
|  |  |  |  |
| AUM Mix (Sept'21) | MFI - Group Loans: 53.9% | MFI: 18.1% | Inclusive Finance (MFI): 68.3% |
| MFI - Individual: 11.2% | Small Business Loans: 34.9% | CV: 7.7% |
| MSE: 9.8% | Agri: 4.2% | Affordable Housing: 8.2% |
| Affordable Housing: 16.0% | Housing Finance: 6.2% | Secured Business Loan: 4.0% |
| FIG: 5.2% | Vehicle Finance: 24.6% | FIG: 6.3% |
| Others (Rural, etc): 3.9% | MSE: 6.2% | Others: 5.5% |
|  | Corporate: 4.8% |  |
|  | Others: 1.0% |  |
| Geographic concentration (Advances) | Top 5 states: 62% | Top 5 states: 86% | Top 5 states: 86.4% |
| Top 3 states: 43% | Top 3 states: 79% | Top 3 states: 70.2% |
| Deposit Mix (Sept'21) | CASA: 22.5% | CASA: 45.3% | CASA: 18.5% |
| Retail TD: 30.5% | Retail TD: 37.4% | Retail TD: 71.6% |
| Bulk TD: 45.6% | Bulk TD: 17.3% | Bulk TD: 9.9% |
| Branch Count (Sept'21) | 575 | 861 | 556 |
| ATM Count (Sept'21) | 491 | 335 | 25 |
|  |  |  |  |
| Yield on Advances (FY21/H1FY22) | 15.8% (FY21) | 17.4% (FY21) | 17.8% (FY21) |
| 17.5% (H1FY22) | 17.5% (H1FY22) | 19.5% (H1FY22) |
| Cost of Funds (FY21/H1FY22) | 6.9% (FY21) | 7.3% (FY21) | 8.0% (FY21) |
| 6.5% (H1FY22) | 6.8% (H1FY22) | 7.3% (H1FY22) |
| NIM (FY21/H1FY22) | 10.3% (FY21) | 8.4% (FY21) | 7.1% (FY21) |
| 8.0% (H1FY22) | 8.6% (H1FY22) | 9.2% (H1FY22) |
| OpEx (FY21/H1FY22) | 6.3% (FY21) | 7.8% (FY21) | 8.7% (FY21) |
| 6.7% (H1FY22) | 6.6% (H1FY22) | 5.7% (H1FY22) |
| Cost to Income ratio (FY21/H1FY22) | 60.3% (FY21) | 60.0% (FY21) | 64.4% (FY21) |
| 74.0% (H1FY22) | 70.1% (H1FY22) | 58.3% (H1FY22) |
| LLP (FY21/H1FY22) | 5.6% (FY21) | 2.2% (FY21) | (FY21) |
| 13.6% (H1FY22) | 3.3% (H1FY22) | 10.4% (H1FY22) |
| RoAA (FY21/H1FY22) | 0.0% (FY21) | 1.7% (FY21) | 0.2% (FY21) |
| (5.2%) (H1FY22) | 0.4% (H1FY22) | (1.5%) (H1FY22) |
| RoAE (FY21/H1FY22) | 0.3% (FY21) | 12.7% (FY21) | 1.0% (FY21) |
| (35.6%) (H1FY22) | 3.1% (H1FY22) | (6.4%) (H1FY22) |
|  |  |  |  |
| Tier1 (%) (Sept'21) | 20.7% | 21.0% | 41.80% |
| CAR (%) (Sept'21) | 22.2% | 22.2% | 45.90% |
| GNPA% (reported) (Sept'21) | 11.8% | 4.82% | 10.20% |
| NNPA% (reported) (Sept'21) | 3.3% | 2.46% | 4.50% |
| Collection Eff (Sept'21) | 95.4% | 99.7% | 108.3% |
| *(Not incl arrears/billed during month)* |
|  |  |  |  |
| Current P/ABV (trailing, on FY21 ABV) | 1.4 | 2.1 | 1.1 |
| Current P/E (trailing, on FY21 EPS) | 440.4 | 17.2 | 114.4 |

Source: Company data, HTI Research; Note- ratio (%) are annualized basis

**Figure 102: Management Profile**

|  |  |  |
| --- | --- | --- |
| Management Name Designation | | |
| Arun Ramanathan | Part-time Chairman & Non- Executive Independent Director | He holds a bachelor’s degree in science and a MBA from University of Madras, a master’s degree in nuclear physics from Andhra University, and a master’s of philosophy degree in economics and politics of development from University of Cambridge. Further, he is an associate member of theICWAI. He was a member of the IAS and held several postings in the GOI at the level of Secretary in various ministries. He has served as a director on the boards of several companies including SBI, IDBI Bank Limited, ICICI Bank Limited, India Infrastructure Finance Company Limited, IDFC Limited, ONGC, Shipping Corporation of India Limited, ONGC Videsh Limited, Titan Industries Limited, etc. He was a member of the Life Insurance Corporation of India and has also served as chairman of the audit committees of ONGC and Shipping Corporation of India Limited. He has also served on the Indian advisory council of Daimler (India) Commercial Vehicles Private Limited between 2010 and 2016. He is a serving member on the investment committee of the Tamil Nadu Infrastructure Fund Management Corporation Limited and has been included in the panel of outside experts of Oil and Natural Gas Corporation Limited in the  finance/commercial category. |
| Vasudevan Pathangi Narasimhan | MD and CEO | He holds a bachelor’s degree in science (physics) from University of Madras and a qualified company secretary from the Institute of Company Secretaries of India. He has extensive experience in the financial services sector and had served as the executive vice president and head of consumer banking group in Development Credit Bank Limited. He has also worked for about two decades in Cholamandalam Investment and Finance Company Limited where he joined as a management trainee and resigned as the vice president and head of vehicle finance. He was also the chairman of the managing committee of the South India Hire Purchase Association for Fiscal 2006. He was also the Managing Director of EHL. |
| Arun Kumar Verma | Non-Executive Independent Director | He has studied commerce from Sambalpur University and law from Utkal University. He is a fellow member of the ICAI. He has also served as the chairman of the Bhubaneswar branch of Eastern India Regional Council of the ICAI and was felicitated for his efforts in the war against corruption by Transparency  International India – Orissa Chapter in 2007. He has been a partner at M/s Venkataraman & Verma, since March 1, 1982. |
| Narayanaswamy Balakrishnan | Non-Executive Independent Director | He holds a bachelor of engineering degree in electronics and communication engineering from the University of Madras and a doctorate of philosophy from the Indian Institute of Science. He is an honorary doctorate from Punjab Technical University. He was a professor at the Indian Institute of Science and is an honorary professor at the Supercomputer Education and Research Centre at Indian Institute of Science and also at Jawaharlal Nehru Centre for Advanced Scientific Research. He has been awarded the Padma Shri in science and engineering category. He is a fellow at The World Academy of Sciences, National Academy of Sciences, Indian Academy of Sciences and the Indian National Science Academy. He also served in the past as a member of the governing council of Centre for Development of Advanced Computing and as a director on the board of Bharat Electronics Limited, Industrial Finance Corporation of India  Limited, Bharat Sanchar Nigam Limited and CDOT-Alcatel Lucent Research Centre Private Limited. |
| Navin Avinashchander Puri | Non-Executive Independent Director | He holds a master’s degree in business administration from Texas Christian University. He is an associate member of the Institute of Chartered Accountants of India. He has previously worked as a part of the senior management team at HDFC Bank Limited. |
| Sridhar Ganesh | Non-Executive Independent Director | He holds a post graduate diploma in management from Indian Institute of Management, Calcutta. He was previously the director of human resources of the Murugappa Group. Prior to that he has worked at Cadbury India Limited and at Cadbury Schweppes Plc, based in the United Kingdom. |
| Narasimhan Srinivasan | Non-Executive Independent Director | He holds a bachelor and a master of arts degree in economics from University of Madras and from Madurai Kamaraj University respectively . He is a certified associate of Indian Institute of Bankers. He has served as the chief general manager at NABARD and also served as a director on the board of Belstar Microfinance Private Ltd.. Sahayaog Microfinance Limited, RGVN (Northeast) Microfinance Ltd. and Micro Credit Ratings International Ltd. He has authored  the ‘Microfinance India – State of the Sector Report’ (2008-2011) and has co-authored the State of India’s Livelihood Report (2015-2017) published by SAGE. |
| Tabassum Abdulla Inamdar | Non-Executive Independent Director | She is an associate member of the Institute of Chartered Accountants of India. She has experience across firms like Goldman Sachs (India) Securities Private Limited, UBS Securities India Private Limited, Kotak Securities Limited and Jardine Fleming India Broking Limited. She has authored a report titled ‘VimoSEWA  – A capability assessment of the company’s aspiration to build a scalable, sustainable micro-insurer’ published by VimoSEWA Cooperative Limited |
| Vinod Kumar Sharma | Non-Executive Independent Director | He holds a bachelor’s and master's degree in science from Sagar University. Prior to joining our Bank, he has served as the executive director of the RBI and has chaired the working group on interest rate futures and the working group on common clearing for commodity exchanges. He represented the RBI at the meetings of the markets committee of the Bank for International Settlements from 2005-2012. He was previously on the boards of Allahabad Bank and PNB,  and was a nominee director of RBI on the board of EXIM Bank. He has also authored several essays published by the Bank for International Settlements. |
| Ramesh Rangan | Non-Executive Independent Director | He holds degree of Bachelor of Science, Certified Associate of Indian Institute of Bankers, and Management diploma and professional degree in leadership from Duke University & Harvard university. He last served as Managing Director of the State Bank of Patiala, on deputation from State Bank of India including overseeing the merger of the Bank with State Bank of India, as a part of Banking Consolidation. He has experience of 7 years in the Mid Corporate Group (MCG) created by SBI in various capacities as Dy General Manager and General Manager in SBI in Bhubaneswar & Chennai. He also Managed the merger of State Bank of Saurashtra (SBS) into SBI. He is also a board member of Sumedha Fiscal Services Limited and Omkara Assets Reconstruction Private Limited |
| Geeta Dutta Goel | Additional Director | She is a finance professional and Country Director for Michael & Susan Dell Foundation in India at present. She manages the strategy and implementation of the foundation's work in India in two key areas of Education and Family Economic Stability. She was selected as the Chairperson of India's Impact Investors Council (2017-2019), and has been on several taskforces on Responsible Finance with the World Bank's Consultative Group to Alleviate Poverty. she holds a bachelor's degree in economics from Lady Shri Ram College for Women, University of Delhi and a post graduate diploma in management from the IIM Ahmedabad. Prior to joining the foundation, she worked for 12 years with PricewaterhouseCoopers in their Financial Advisory Practice, advising clients on mergers, acquisitions and joint ventures, besides valuations and private equity. she has served on several Boards as a nominee of the Foundation - Ujjivan Financial Services, Janalakshmi Financial Services, Micro Housing Finance Corporation, Swadhaar FinServe, Arohan Financial Services, Sonata Finance etc. |
| Samir Kumar Barua | Non-Executive Independent Director | He was earlier Director of IIMA and Professor at IIMA and his academic and professional pursuit span several disciplines and functional areas in management. He holds M. Tech. (IIT Kanpur) in Industrial Engineering and Operations Research and Ph.D. in Management (IIM Ahmedabad). He has been a consultant to many public and private organisations, in the manufacturing, Banking, energy and financial sectors. He has prepared policy papers for the finance minister; Ministry of Finance, GOI; RBI; SEBI in the areas of banking and capital markets. He has been a member of the Technical Committee on Government Securities of RBI; Risk Management Group for Equities constituted by SEBI; Steering Committee and the Curriculum Committee on Certification for trading in Financial Markets of NSE; Governing Board of Bombay Stock Exchange; Derivatives Market Council of BSE; Index Committee of BSE; Governing Board of Foundation for Research on Portfolio Management of ICFAI; Technical Advisory Committee on Monetary Policy of RBI |

Source: Company Data, HTI Research

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| **Figure 103: Financial Summary** |
| **BALANCE SHEET (Rs mn) FY19 FY20 FY21 FY22E FY23E FY24E** |
| **SOURCES OF FUNDS** |
| Share Capital 10,059 10,534 11,393 11,452 11,452 11,452 |
| Reserves and Surplus 12,484 16,907 22,571 25,071 29,820 36,671 |
| Networth 22,543 27,441 33,963 36,523 41,272 48,123 |
| **Deposits 90,067 1,07,884 1,63,920 2,05,319 2,60,003 3,27,955** |
| Borrowings 39,730 51,349 41,653 25,442 28,518 32,487 |
| Other Liabilities and Provisions 5,286 6,472 7,616 8,135 8,541 8,968 |
| **Total 1,57,627 1,93,146 2,47,152 2,75,419 3,38,335 4,17,534** |
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| **APPLICATION OF FUNDS** |
| **Advances 1,15,950 1,37,472 1,68,479 1,99,258 2,43,652 3,05,320** |
| Investments 23,445 23,425 37,052 40,037 50,701 63,951 |
| Fixed Assets 2,373 2,128 1,851 1,665 1,749 1,836 |
| Cash and Cash Equivalents 12,606 25,368 33,787 27,278 33,976 37,344 |
| Other Assets 3,253 4,752 5,984 7,180 8,257 9,083 |
| **Total 1,57,627 1,93,146 2,47,152 2,75,419 3,38,335 4,17,534** |
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| **INCOME STATEMENT (Rs mn) FY19 FY20 FY21 FY22E FY23E FY24E** |
| Interest Earned 21,119 26,454 31,944 35,848 42,478 51,985 |
| Interest Expended 9,602 11,501 13,965 15,615 18,225 22,700 |
| **NII 11,517 14,953 17,980 20,233 24,253 29,285** |
| Other Income 2,829 2,824 4,181 4,989 6,480 8,032 |
| **Total Income 14,346 17,777 22,160 25,222 30,733 37,317** |
| Opex 10,085 11,801 13,294 16,820 19,566 23,046 |
| **PPOP 4,261 5,976 8,866 8,402 11,167 14,271** |
| Provisions 1,024 1,470 4,750 5,059 4,818 5,112 |
| **PBT 3,237 4,506 4,116 3,343 6,349 9,159** |
| Tax 1,132 2,069 274 842 1,600 2,308 |
| **PAT 2,106 2,436 3,842 2,500 4,749 6,851** |
| Source: Company Data, HTI Estimates |

**Figure 104: Financial Summary**

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| **VALUATION RATIOS FY19 FY20 FY21 FY22E FY23E FY24E** |
| EPS (Rs) 2.1 2.3 3.4 2.2 4.1 6.0 |
| Earnings' Growth (%) 561.5 15.7 57.7 - 34.9 89.9 44.3 |
| BVPS (Rs) 22.4 26.1 29.8 31.9 36.0 42.0 |
| Adjusted BVPS (Rs) 20.6 23.9 27.5 27.6 31.6 38.1 |
| RoAA (%) 1.4 1.4 1.7 1.0 1.5 1.8 |
| RoAE (%) 9.8 9.7 12.5 7.1 12.2 15.3 |
| P/E (x) 27.4 24.8 17.0 26.3 13.8 9.6 |
| P/ABV (x) 2.8 2.4 2.1 2.1 1.8 1.5 |
| P/PPOP (x) 13.5 10.1 7.4 7.8 5.9 4.6 |

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| **PROFITABILITY FY19 FY20 FY21 FY22E FY23E FY24E** |
| Yields on Advances (%) 18.6 17.9 17.4 16.5 16.3 16.1 |
| Yields on Investments (%) 8.3 6.7 7.3 7.2 7.2 7.2 |
| Cost of Funds (%) 8.1 8.0 7.7 7.2 7.0 7.0 |
| Cost of Deposits (%) 7.0 7.5 7.1 6.9 6.8 6.8 |
| Spread (%) 10.5 9.9 9.8 9.4 9.3 9.1 |
| **Net Interest Margin (%) 8.9 9.4 9.1 8.6 8.6 8.4** |

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| **B/S Structure Ratios FY19 FY20 FY21 FY22E FY23E FY24E** |
| Loan Growth (%) 47.5 31.3 16.7 18.3 22.3 25.3 |
| Deposit Growth (%) 60.7 19.8 51.9 25.3 26.6 26.1 |
| Credit/ Deposit Ratio (%) 128.7 127.4 102.8 97.0 93.7 93.1 |
| Equity as a % of Advances 19.4 20.0 20.2 18.3 16.9 15.8 |
| Equity as a % of Assets 14.3 14.2 13.7 13.3 12.2 11.5 |
| CASA % 25.3 20.5 34.2 46.5 49.3 50.7 |
| CRAR % 22.5 23.6 24.2 23.4 21.7 20.7 |
| CET1 % 20.9 22.4 23.2 22.5 20.9 19.9 |

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| **OPERATING EFFICIENCY FY19 FY20 FY21 FY22E FY23E FY24E** |
| Cost to Income Ratio 70.3 66.4 60.0 66.7 63.7 61.8 |
| Cost to Average Assets 6.9 6.7 6.0 6.4 6.4 6.1 |

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| **ASSET QUALITY FY19 FY20 FY21 FY22E FY23E FY24E** |
| GNPAs (Rs mn) 2,957 4,173 6,428 8,882 9,725 10,221 |
| NNPAs (Rs mn) 1,864 2,286 2,662 4,891 5,083 4,536 |
| GNPA 2.6 2.7 3.6 4.2 3.8 3.1 |
| NNPA 1.6 1.5 1.5 2.3 2.0 1.4 |
| Slippages 3.2 3.0 3.5 6.0 3.8 3.0 |
| PCR 37.0 45.2 58.6 44.9 47.7 55.6 |
| Provisions % of Avg. AUMs 1.0 1.1 2.9 2.6 2.0 1.8 |

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| **Dupont (on Avg Assets) (%) FY19 FY20 FY21 FY22E FY23E FY24E** |
| Interest income 14.5 15.1 14.5 13.7 13.8 13.8 |
| Interest Expenses 6.6 6.6 6.3 6.0 5.9 6.0 |
| **Net Interest Income 7.9 8.5 8.2 7.7 7.9 7.7** |
| Non Interest Income 1.9 1.6 1.9 1.9 2.1 2.1 |
| Operating Expenses 6.9 6.7 6.0 6.4 6.4 6.1 |
| **Provisions 0.7 0.8 2.2 1.9 1.6 1.4** |
| Tax 0.8 1.2 0.1 0.3 0.5 0.6 |
| **RoAA 1.4 1.4 1.7 1.0 1.5 1.8** |
| Leverage 6.8 7.0 7.2 7.4 7.9 8.5 |
| **RoAE 9.8 9.7 12.5 7.1 12.2 15.3** |

Source: Company Data, HTI Estimates

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