

EQUITAS SMALL FINANCE BANK

IPO NOTE



AT A GLANCE

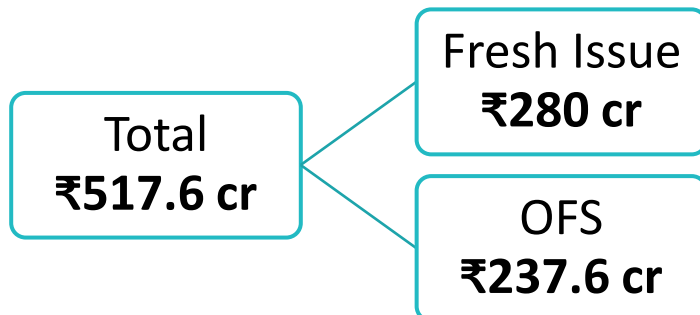
Promoted by Equitas Holdings Limited, Equitas Small Finance Bank (originally founded as a microfinance lender) is a professionally managed bank with an understanding of the unserved and underserved customer segments. The industry is at a nascent stage with a high growth opportunity in the upcoming years. Due to Covid 19, there is a likelihood of deterioration of the credit quality of its customers which might affect the NPA levels adversely. Nevertheless, the opportunity that the business provides shall reward long term investors.

FINANCIAL HIGHLIGHTS

	FY18	FY19	FY20
Deposits	5,604	9,007	10,788
Advances	7,706	11,594	13,747
Borrowings	5,177	3,973	5,135
Net Interest Income	861	1,152	1,495

₹ crore

ISSUE SIZE



ISSUE DETAILS

Issue Date	20 Oct'20 to 22 Oct'20
Price Band	₹32 - ₹33
Bid Lot	450 shares
Issue Size	₹510 - ₹518 cr
No. of Shares (Post Issue)	113.82 – 114.09 cr
Post-Issue Implied Market Cap	₹3,651- ₹3,756 cr
Price to Book Value	1.2

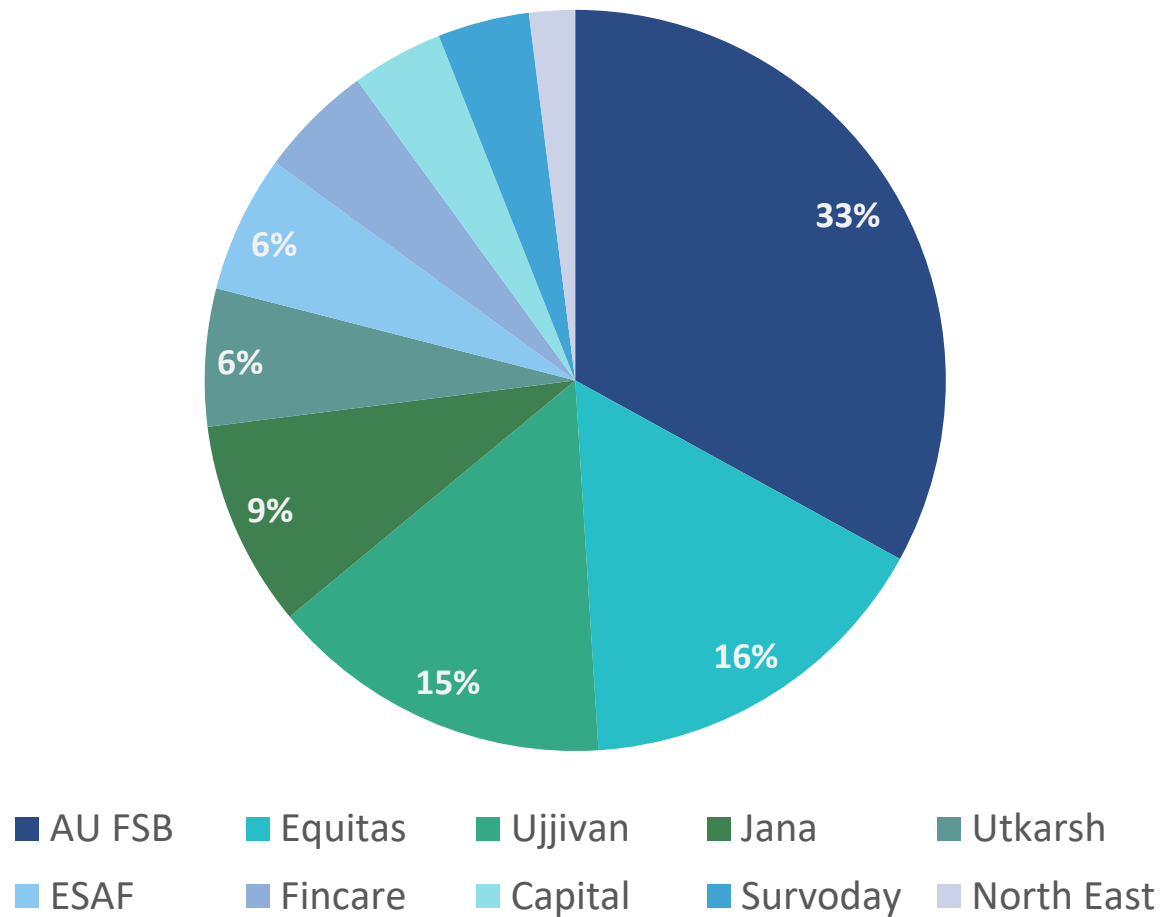
SMALL FINANCE BANKS

Small Finance Banks (SFB) were created pursuant to the announcement in Union Budget 2014-2015. SFB is a private financial institution intended to further the objective of **financial inclusion** by primarily carrying out basic banking activities of acceptance of deposits and lending to **unserved and underserved sections** including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

	Small Finance Bank	Commercial Bank
TARGET CUSTOMERS	Small businesses, small farmers, unorganized workers and MSMEs.	Diversified customer base.
LOAN SERVICES	75% of total lending has to be to the priority sector. 50% of loan book to constitute loans of ticket size up to ₹25 lakh (can be relaxed by RBI)	No such restrictions.
CAPITAL REQUIREMENT	The minimum capital for SFBs is prescribed at ₹100 crore. The capital adequacy ratio requirement is of 15% of Risk Weighted Assets.	The minimum capital for commercial banks is prescribed at ₹500 crore. The capital adequacy ratio requirement is lower.
BRANCHES	25% of all new branches opened in a year should be in unbanked rural centres (population < 10,000).	No such requirement.

INDUSTRY COMPOSITION

Top 3 Players accounts for 64% of the market (based on AUM)

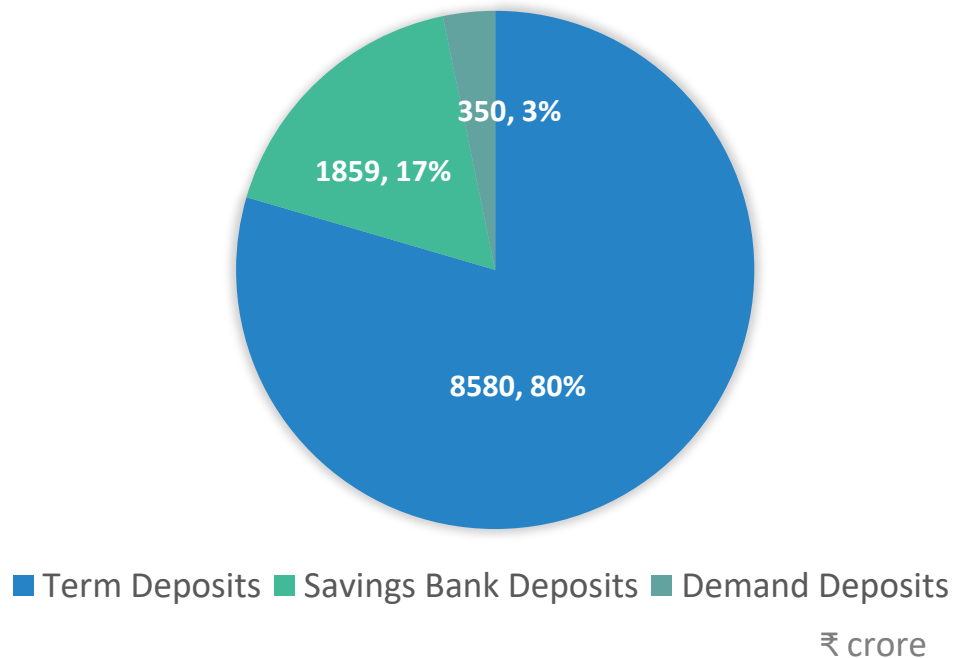


Data as on FY19

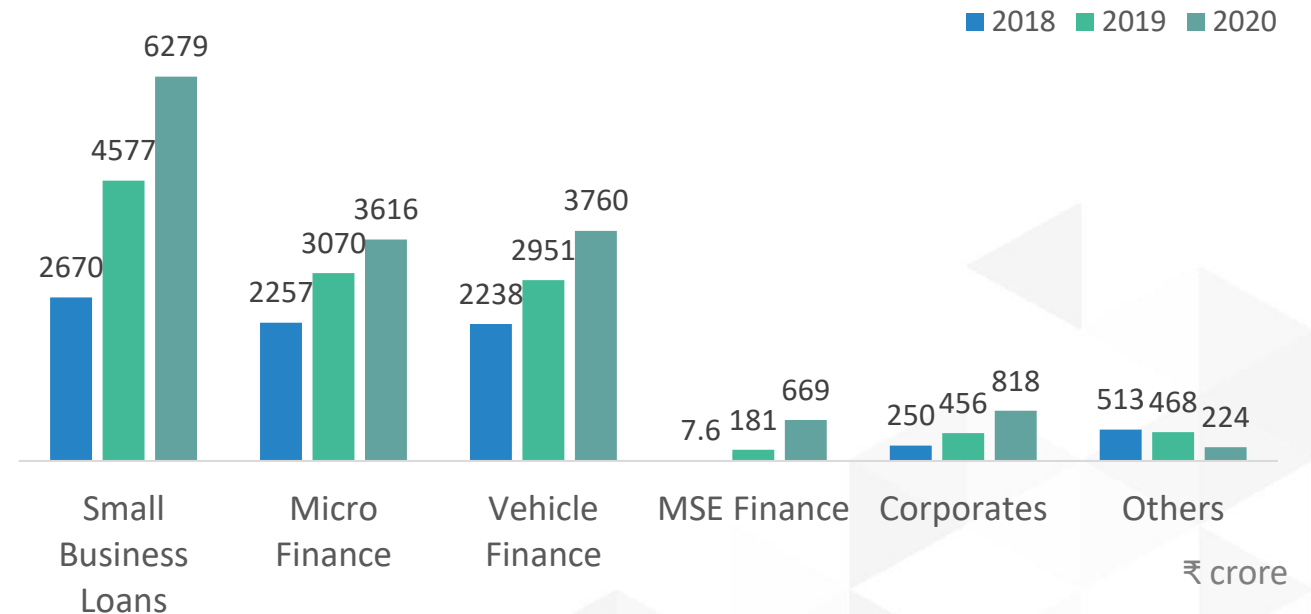
ABOUT THE COMPANY

Equitas Small Finance Bank is the largest SFB in India in terms of number of banking outlets, and the second largest SFB in India in terms of Asset under Management. The asset products include small business loans, housing loans, and agriculture loans, vehicle loan, MSE loan etc. The focus customer segments include individuals with limited access to formal financing channels on account of their informal, variable and cash-based income profile. It offers a range of financial products and services that address the specific requirements of these customer segments by taking into account their income profile, nature of business and type of security available.

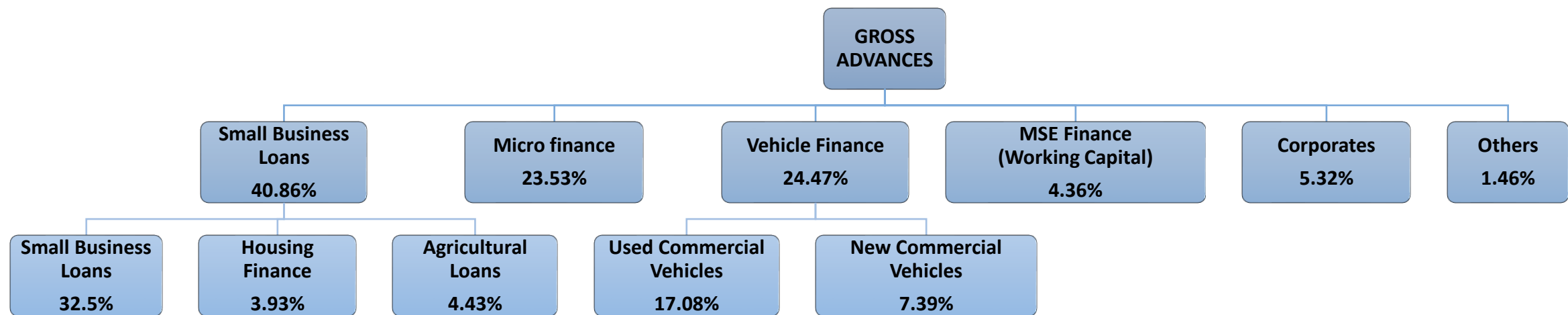
DEPOSITS COMPOSITION (FY20)



Product Portfolio (Gross Advances) over the past 3 years



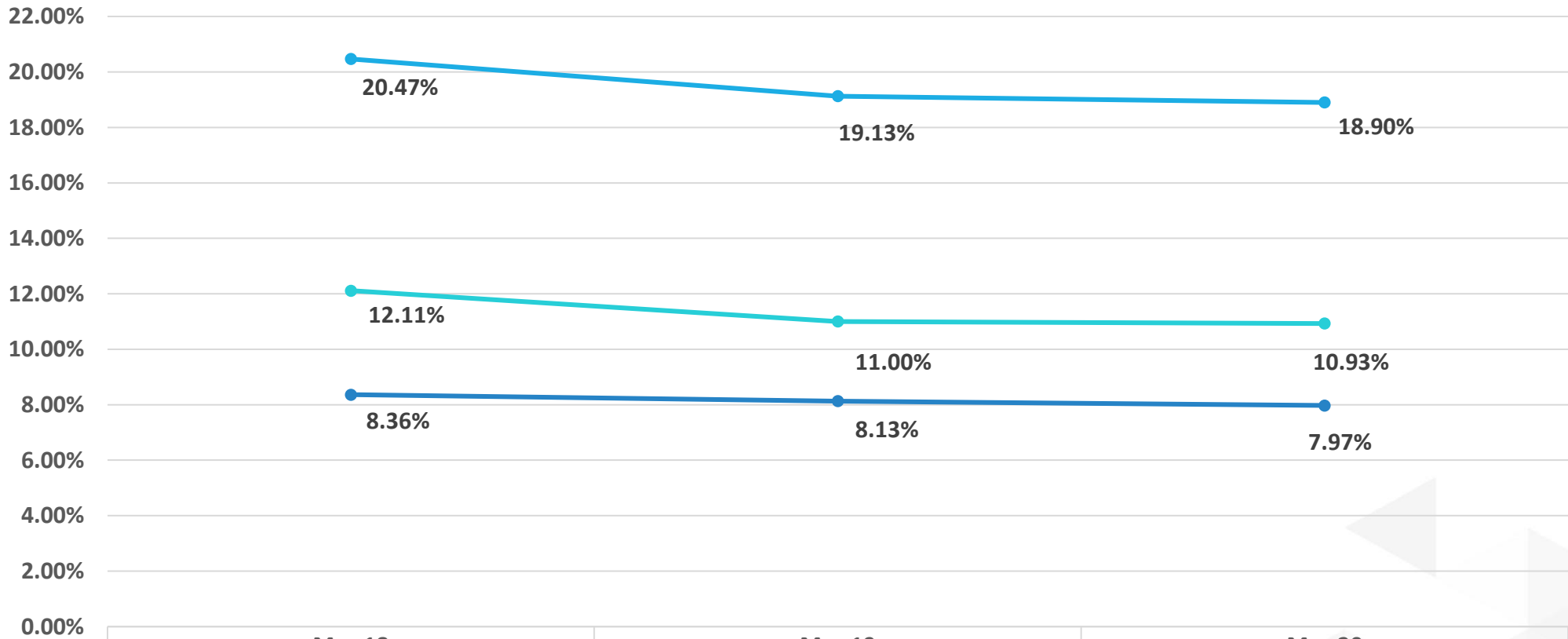
GROSS ADVANCES BREAKUP- FY20



Category	Average Ticket Size	Target Customers
Small Business Loans	₹50,000 - ₹20,00,000	Self-employed individuals operating small enterprises, typically in urban and semi-urban locations.
Micro finance	₹5,000 - ₹35,000	Loans are provided for purchase of plots or house, construction of house, etc.
Vehicle Finance	-	First-time formal financial channel borrowers, without sufficient credit history
MSE Finance (Working Capital)	₹10,00,000 - ₹5,00,00,000	Enterprises engaged in manufacturing and trading business
Corporates	₹1,50,000 - ₹50,00,00,000	Term Loans to NBFCs

INTEREST SPREAD

Yields and Spreads



	Mar-18	Mar-19	Mar-20
Yield on Advances	20.47%	19.13%	18.90%
Cost of Funds	8.36%	8.13%	7.97%
Spread	12.11%	11.00%	10.93%

SECTOR OUTLOOK

- SFBs have grown at a CAGR of 26% from Fiscal 2016 to Fiscal 2019, in terms of assets under management (AUM). Top three SFBs accounted for 64% of the total SFB AUM in Fiscal 2019, compared to 53% in Fiscal 2016. These top three SFBs recorded a CAGR of 34% from Fiscal 2016 to Fiscal 2019.
- Further, it is expected that the loan portfolio of SFBs will grow at a CAGR of approximately 25% in the near term due to support from (i) significant market opportunities in the rural segment; (ii) new product offerings and cross-selling opportunities with the ability to cross-sell products on the liability side and asset side to improve customer stickiness and loyalty; (iii) higher presence of informal credit channels; (iv) geographic diversification; (v) ability to manage local stakeholders, (vi) access to low cost funds, and (vii) loan recovery and control on NPAs
- In the last three years, SFBs have shifted their focus from microfinance to other products, but the core customer focus is not likely to change owing to regulatory norms. Going forward, SFBs will have to focus on small ticket size lending to financially underserved and unserved segments (loans below Rs 2.5 million have to form at least 50% of loan book)
- SFBs have a sizeable growth opportunity as most of them were previously functioning as NBFCs/MFIs. In the last one year, all SFBs have focused on increasing their deposit base immediately after commencement of their operations. Overall deposit base of SFBs has grown by 109% to around Rs 555 billion in Fiscal 2019. However, the CASA deposit reduced from 24% in Fiscal 2018 to 20% in Fiscal 2019

PROMOTER BACKGROUND AND SHAREHOLDING

Equitas Small Finance Bank was originally incorporated as 'V.A.P. Finance Private Limited' on June 21, 1993. The Promoter, Equitas Holdings Limited ("EHL") was granted the RBI Final Approval on June 30, 2016, to establish an SFB. Subsequently, it was converted into an SFB and they commenced operations on September 5, 2016 as an SFB.

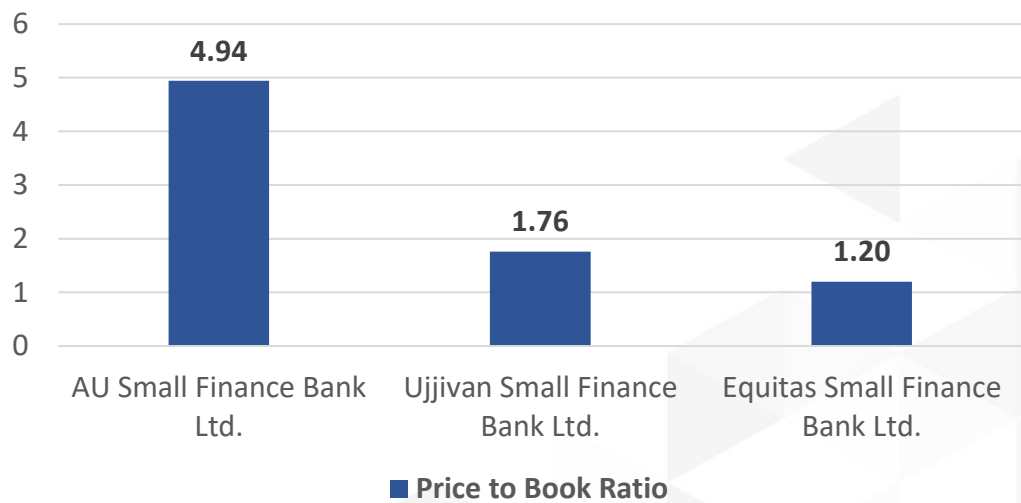
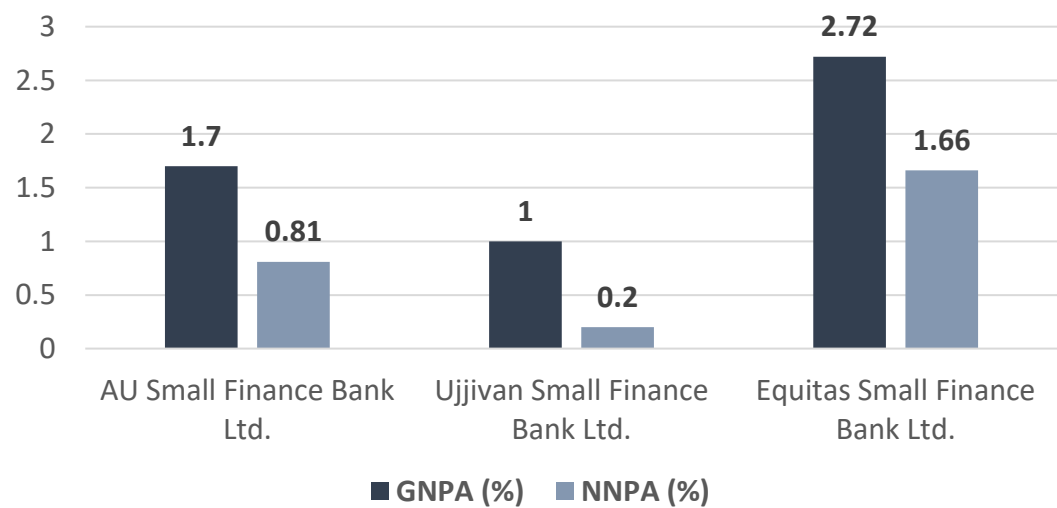
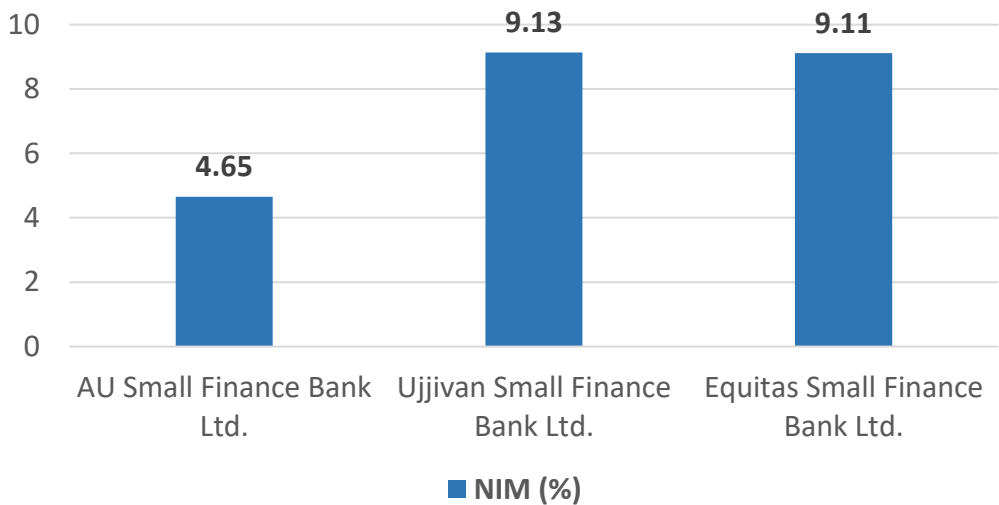
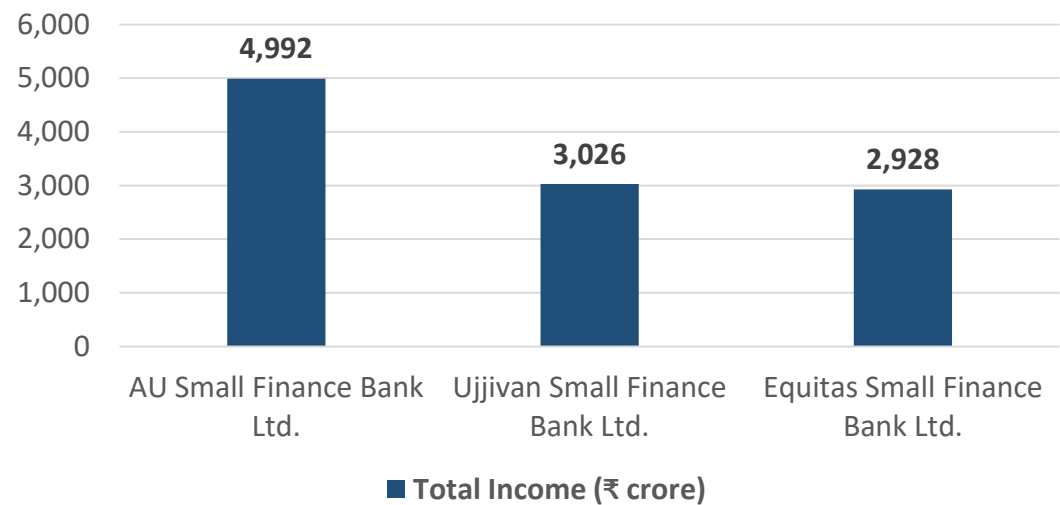
As per the guidelines of RBI, the initial shareholding of the promoter in a SFB should be brought down to 40% within first five years, and should be further bought down to 30% within 10 years and further to 26% within 12 years from the commencement of operations. It requires mandatory listing of SFBs within three years of reaching a net worth of ₹500 crore.

Arun Ramanathan is the part-time Chairman and Non-Executive Independent Director of the bank. Vasudevan Pathangi Narasimhan is the MD and CEO of the bank.

Shareholding	Pre - IPO	Post – IPO
Promoters	95.49%	82.05%
Public	4.51%	17.95%
Total	100%	100%

	Share in Issue (₹ crore)	% of Issue
QIB	229-233	50%
NIB	69-70	15%
Retail	160-163	35%
Employee	1-1	-
EHL Shareholder Reservation	51-51	-
Total	510-518	100%

LISTED PEERS



RISK FACTORS

- SFB model is relatively new to India and such operations pose various business and financial challenges. These include sourcing deposits from the public at large at competitive prices to support the loan portfolio build up, operationalization of banking outlets, diversifying loan portfolio and other operations to source and deliver cost effective financial services to customers. The efficiency of senior management shall be vital in designing and developing a comprehensive enterprise wide risk management framework.
- SFBs may face stiff competition from public sector and private sector banks as these banks benefit from greater trust among the customers in the rural region. Cost of accepting deposits may be high in the initial years of operation due to high interest rate offerings in order to attract the customers. Further, the average deposit per customer in the rural region is low.
- A significant portion of the advances are towards customers located in the state of Tamil Nadu and any adverse changes in the conditions affecting the region can adversely impact the business, financial condition, results of operations and cash flows. As of March 31, 2020 and June 30, 2020, advances towards customers in Tamil Nadu represented 54.26% and 54.31%, respectively, of the Gross Advances.
- As of March 31, 2020 and June 30, 2020, the Gross NPAs were ₹417.32 crore and ₹416.66 crore respectively, representing 2.72% and 2.68% respectively, of Gross Advances (including IBPC issued), while Net NPAs were ₹228.62 crore and ₹213.37 crore respectively, representing 1.66% and 1.48% respectively, of its net Advances as of such dates.

KEY FINANCIAL METRICS

Particulars	Data as on 31 st March					(₹ crore)
	June'2020	June'2019	2020	2019	2018	
Net Interest Margin	8.63%	8.88%	9.11%	8.55%	9.02%	
Gross NPA (%)	2.68%	2.73%	2.72%	2.53%	2.68%	
Net NPA (%)	1.48%	1.56%	1.66%	1.44%	1.46%	
CASA Ratio	19.97%	24.49%	20.47%	25.25%	29.23%	
Credit to Deposit Ratio	189.12%	189.23%	190.53%	174.98%	181.28%	
EPS (₹)	0.55	0.57	2.39	2.09	0.32	
Return on Net Worth (%)	8.27%	9.93%	8.92%	9.40%	1.57%	
Net Asset Value (per share)	26.47	22.85	25.92	22.28	20.18	
Return on Assets	1.12%	1.43%	1.38%	1.43%	0.30%	
Debt to Equity Ratio	6.18	5.96	5.80	5.76	5.28	
Provision Coverage Ratio	48.79%	44.00%	45.22%	43.38%	47.07%	
Capital Risk Adequacy Ratio (as % of RWA)	22.02%	22.03%	23.61%	22.45%	29.60%	

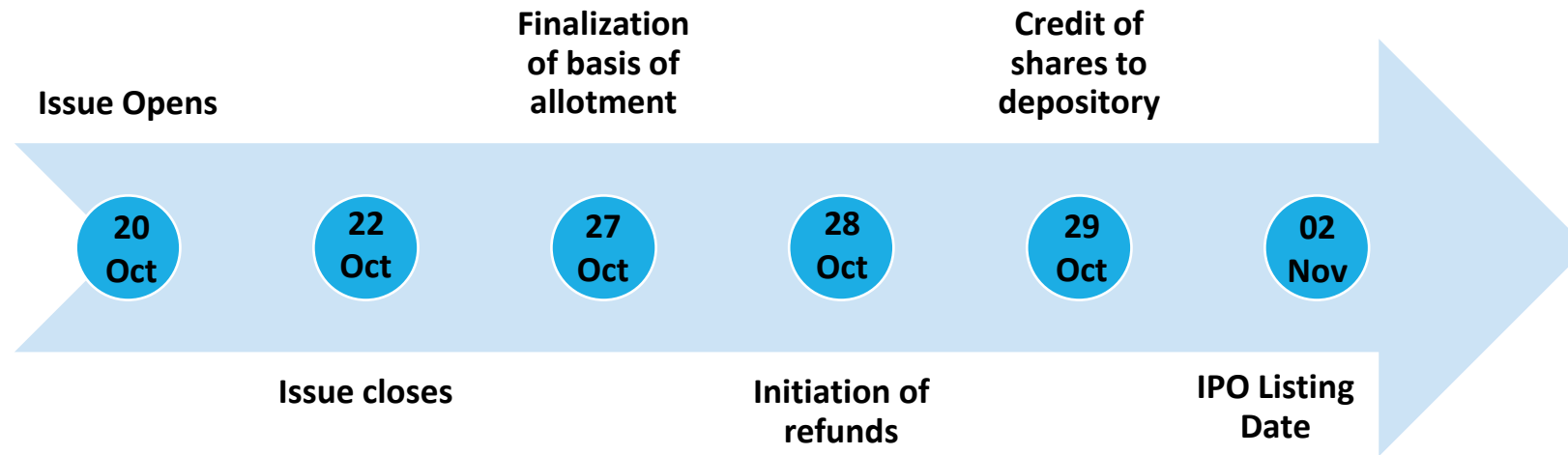
STATEMENT OF PROFIT AND LOSS

Particulars	Data as on 31 st March					(₹ crore)
	June'2020	June'2019	2020	2019	2018	
Interest Earned	721.31	603.39	2,645.44	2,111.93	1,531.69	
Other Income	29.66	59.16	282.35	282.90	241.22	
Total Income	750.97	662.55	2,927.79	2,394.83	1,772.91	
Interest Expended	317.03	266.22	1,150.14	960.20	671.15	
Operating Expenses	291.92	276.76	1,180.08	1,008.49	881.11	
Provisions and Contingencies	84.35	62.51	353.94	215.58	188.81	
Total Expenses	693.30	605.49	2,684.16	2,184.27	1,741.07	
Net Profit for the Period	57.67	57.06	243.63	210.56	31.84	
Transfer to Statutory Reserves	-	-	60.91	52.64	7.96	
Transfer to Special Reserve Account	-	-	4.83	2.64	0.67	
Transfer to Investment & Fluctuation Reser.	-	-	2.76	8.43	2.30	
Balance carried over to Balance Sheet	57.67	57.06	175.13	146.86	20.91	

STATEMENT OF ASSETS AND LIABILITIES

Particulars	Data as on 31 st March (crore)				
	June'2020	June'2019	2020	2019	2018
Cash and Balances with RBI	429.02	391.45	380.86	402.70	386.08
Balance with Banks and Money at Call	1,496.55	1,406.67	2,155.98	857.91	825.08
Investments	3,478.58	2,270.26	2,342.51	2,344.45	3,856.84
Advances	14,388.62	12,023.30	13,747.24	11,593.57	7,706.03
Fixed Assets	197.66	226.73	212.77	237.34	280.88
Other Assets	901.71	346.39	475.19	326.72	246.23
Total Assets	20,892.14	16,664.80	19,314.55	15,762.69	13,301.15
Other Liabilities and Provisions	777.66	575.16	647.12	528.61	476.22
Borrowings	5,525.53	4,644.84	5,134.87	3,973.03	5,177.21
Deposits	11,787.13	9,133.42	10,788.41	9,006.74	5,603.97
Total Equity	2,801.82	2,311.38	2,744.15	2,254.32	2,043.75
Total Liabilities and Equity	20,892.14	16,664.80	19,314.55	15,762.69	13,301.15
Contingent Liabilities	19.21	29.95	26.98	32.72	33.15

TIMELINES



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