Q1 2024

1. Revenue growth analysis
- **Narrative:** Management discussed their strategic initiatives aimed at bolstering revenue growth. These initiatives include setting ambitious targets for growth in net advances and mobilizing substantial funds to support these objectives.
- **Management's Guidance:**
- The Managing Director and Chief Executive Officer, Mr. P. N. Vasudevan, indicated a target of achieving a 20% growth in net advances by the end of the fiscal year. The CFO mentioned plans to mobilize INR1,500 crores to INR1,600 crores net, which translates to a gross level of INR2,200 crores to INR2,300 crores.
- **Actual Results:**
['Q4', '2024']:
- Advances have grown by 23% year-on-year.
['Q3', '2024']:
- Gross Advances achieved a 32% year-on-year growth in Q3 FY24, which exceeds the management's guidance of 20% growth in net advances as set for the fiscal year.
['Q1', '2024']:
- Advances have grown by 36% and disbursements are 46% year-on-year. Gross Advances achieved were Rs. 29,601 Cr in Q1FY24.
['Q2', '2024']:
- In Q2 FY24, Equitas reported that their advances have grown by 37% year-on-year and 6% quarter-on-quarter, surpassing the target of 20% growth in net advances. Gross advances reached INR 31,229 crores compared to INR 22,779 crores in Q2 FY23.
- **Evaluation:**
- Expectations Exceeded: The management's guidance was for a 20% growth in net advances by year-end, but the actual results surpassed this target with a 23% growth by Q4 and even higher growth rates in earlier quarters, consistently exceeding expectations throughout the fiscal year.

2. Profitability metrics
- **Narrative:** Management has outlined specific profitability targets, indicating a focus on improving key financial metrics to enhance the company's overall financial health. This includes efforts to optimize return on assets and gross margins, thereby reinforcing their commitment to achieving sustainable growth.
- **Management's Guidance:**
- The management aims to achieve a 2% ROA. The CFO forecasted a 5% improvement in gross margins by the end of the fiscal year.
- **Actual Results:**
['Q4', '2024']:
- The actual results for Q4 FY24 indicate that the ROA was reported at 2.15%, slightly exceeding the management's guidance of 2%. The gross margins improved, as reflected by the yield on disbursement, which increased by over 1% from the previous year, indicating a positive trend towards the management's forecasted 5% improvement. However, specific data on the exact percentage improvement in gross margins is not directly available from the provided results.
['Q1', '2024']:
- ROA for Q1 FY24 stood at 2.10%, which is in line with the management's guidance of achieving a 2% ROA. The company achieved this target for the third consecutive quarter, demonstrating consistency in meeting its profitability goals. Gross margins were not explicitly reported, so the 5% improvement in gross margins forecasted by the CFO is not directly addressed in the available data.
['Q2', '2024']:
- ROA and ROE for Q2 FY '24 stands at 2.03% and 14.62%, respectively.
['Q3', '2024']:
- RoA and RoE for Q3 FY '24 stands at 1.98% and 14.44%, respectively.
- **Evaluation:**
- Expectations Met: The management's ROA target of 2% was consistently met or slightly exceeded across all quarters, while the improvement in gross margins, though not explicitly detailed, showed a positive trend towards the forecasted 5% improvement.

3. Cost management strategies
- **Narrative:** During the earnings call, management detailed their cost management strategies with a focus on reducing the cost-to-income ratio and managing operating expenses. They acknowledged a marginal increase in the cost-to-income ratio due to investments in technology and brand advertising. However, they expressed confidence in decreasing operating expense growth over the coming quarters, aiming for a more efficient cost structure in the medium term.
- **Management's Guidance:**
- 1. The CEO mentioned that operating expense growth, which was 32% year-on-year in the first quarter, should decrease over the remaining three quarters, and the cost-to-income ratio should marginally come down to around 63%-64%. 2. Dheeraj Mohan stated that cost to income is expected to be around 60% or below next year, and between 55% to 60% in the medium term.
- **Actual Results:**
['Q3', '2024']:
- Opex was 264 Cr in Q3FY24.
['Q2', '2024']:
- The cost to income is maintained at 64.3% level, which is comparatively better than Q1 FY 24 at 65.05%.
['Q4', '2024']:
- ef338c538eb78121f1ba7cdf0a80fbd2 --> Employee Cost increased to Rs 363 Cr in Q4FY24, a 20% rise YoY.
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- ef338c538eb78121f1ba7cdf0a80fbd2 --> Total Operating Expenditure was Rs 634 Cr in Q4FY24, marking an 18% increase YoY.
['Q1', '2024']:
- Total operating expenditure came at INR581 crores. The cost-to-income ratio was 62.87% in Q1FY24. Operating expenditure increased by 41% year-over-year in Q1FY24.
- **Evaluation:**
- Expectations Not Met: Management aimed to decrease operating expense growth and bring the cost-to-income ratio down to 63%-64% over the quarters. However, while the cost-to-income ratio improved slightly to 64.3% in Q2, it did not meet the guidance of 63%-64%, and operating expenses continued to rise significantly by 18% year-over-year in Q4, indicating that cost management strategies fell short of expectations.

4. Net interest margin trends
- **Narrative:** Management has indicated a stable outlook for the Net Interest Margin (NIM), projecting it to maintain an average level of 8.5% for the entire year. This indicates a focus on sustaining current profitability levels despite potential fluctuations in the cost of funds.
- **Management's Guidance:**
- Management expects the Net Interest Margin to remain around 8.5% for the full year, stating explicitly that NIMs should not deteriorate below this level.
- **Actual Results:**
['Q3', '2024']:
- NIM for Q3FY24 was 8.37%.
['Q2', '2024']:
- The NIM has contracted by nearly 75 basis points or 0.75% over the same period.
['Q4', '2024']:
- Net Interest Margin (NIM) was 7.44% in Q4FY24.
['Q1', '2024']:
- The Net Interest Margin (NIM) was recorded at 6.20% in Q1FY23, 6.25% in Q2FY23, 6.41% in Q3FY23, 6.61% in Q4FY23, and 6.94% in Q1FY24.
- **Evaluation:**
- Expectations Not Met: Management projected the Net Interest Margin to remain around 8.5% for the full year, but the actual NIM fell short, reaching as low as 7.44% in Q4FY24, indicating a shortfall in maintaining the expected margin.

5. Loan portfolio dynamics
- **Narrative:** The management of Equitas has articulated a positive outlook on their loan portfolio dynamics. They are focusing on an aggressive expansion strategy aimed at achieving significant growth in their loan book. This strategy is underpinned by expectations of favorable macroeconomic conditions, including potential easing of inflation and a good monsoon, which could support continued momentum throughout the year.
- **Management's Guidance:**
- 1. The CFO stated that the bank aims to increase its loan book by 20% by the end of the fiscal year. 2. The CFO also emphasized a more ambitious target, aiming to achieve a loan growth of 25% for the fiscal year 2024. 3. Further reiterating this aggressive growth trajectory, the CFO stated that the bank aims to achieve a loan book growth of 25% by the end of the fiscal year. 4. Additionally, P.N. Vasudevan indicated a strategic target to reduce the CD ratio to about 85% over the next couple of years, aligning with their broader financial management objectives.
- **Actual Results:**
['Q3', '2024']:
- Equitas Small Finance Bank achieved a loan growth of 24% year-on-year.
['Q2', '2024']:
- Actual Results
['Q4', '2024']:
- Advances increased by 20% from Mar-23 to Mar-24.
['Q1', '2024']:
- Advances grew at 36% YoY and 6% QoQ despite Q1 seasonality.
- **Evaluation:**
- Expectations Met: Equitas aimed for a 25% loan book growth by the end of the fiscal year 2024, and the actual results showed a 24% year-on-year growth in Q3 and a 20% growth from Mar-23 to Mar-24, aligning closely with management's expectations.

6. Asset quality trends
- **Narrative:** Management has focused on maintaining asset quality through strategic measures. The discussion highlighted efforts to enhance the company's Provision Coverage Ratio (PCR) and stabilize slippages as part of their asset quality management strategy.
- **Management's Guidance:**
- The company aims to increase its Provision Coverage Ratio (PCR) to 70% over the next few quarters. Additionally, slippages are expected to remain steady at around 3% for the full year.
- **Actual Results:**
['Q3', '2024']:
- In Q3 FY24, the actual results for the theme Asset and Credit Management with a focus on asset quality trends were as follows:
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- - Gross Slippages stood at 3.99%, slightly above the expected 3% as per management guidance. [Citation: e2f4970fd154a0969077d1fd8f2c3f54]
- - The Provision Coverage Ratio (PCR) was 48.46%, which is below the target of 70% set by management. [Citation: 1fd8a69c1cb41263eda65257dec3e6e1]
['Q2', '2024']:
- GNPA improved by 48 bps at 2.12% in Q2 FY '24 as compared to Q1 FY '24 and improved by 170 bps as compared to Q2 FY 23. NNPA improved by 21 bps at 0.91% in Q2 FY '24 as compared to 1.12% in Q1 FY 24 and 1.93% in Q2 FY '23. The 31 days to 90 days SMA 1, SMA 2 bucket was 3.3% in the first quarter and is now about 3.26%.
['Q4', '2024']:
- Provision Coverage Ratio (PCR) was 56.06% in Q4 FY24.
['Q1', '2024']:
- The current Provision Coverage Ratio (PCR) is around 58%. In the first quarter, slippages were roughly at around 3%.
- **Evaluation:**
- Expectations Not Met: The actual results for asset quality trends did not meet management's guidance, with the Provision Coverage Ratio (PCR) falling short at 48.46% compared to the target of 70%, and gross slippages slightly exceeding the expected 3% at 3.99% in Q3 FY24.

7. Credit risk management
- **Narrative:** Management discussed strategies to strengthen credit risk management by increasing provisioning and controlling credit costs. These measures are aimed at enhancing the company's resilience and maintaining stability in asset quality.
- **Management's Guidance:**
- The management confirmed that there will be INR90 crores to INR100 crores of additional provisioning in the remaining three quarters. The company has guided for a credit cost of 1.25% for this year.

- **Actual Results:**
['Q3', '2024']:
- The total provision for Q3 FY '24 was INR84 crores. Credit cost typically within the range of around 1.2% and 1.25%.
['Q4', '2024']:
- Credit Cost was 1.27% in Q4FY24.
['Q1', '2024']:
- Actual Results
['Q2', '2024']:
- We have made additional provision of INR28.03 crores, and the total provision for the quarter is at INR63 crores. Credit Cost for Q2FY24 was Rs 63 Cr, showing a 30% decrease YoY from Q2FY23.
- **Evaluation:**
- Expectations Met: Management guided for additional provisioning of INR90-100 crores and a credit cost of 1.25%. The actual provisions and credit costs were largely within the expected range, with Q3 provisions at INR84 crores and credit costs between 1.2% and 1.27% over the quarters, aligning with the guidance.

8. Non-performing assets management
- **Narrative:** The management of Equitas Small Finance Bank discussed their expectations regarding the normalization of Non-performing assets (NPA) levels, particularly within the micro part of the MSME segment. This strategic focus is aimed at aligning the portfolio growth with other bank products, indicating a comprehensive approach to asset and credit management.
- **Management's Guidance:**
- Management expects the NPA levels in the micro part of the MSME segment to return to more normal levels, which is anticipated to facilitate portfolio growth in line with other bank products.
- **Actual Results:**
['Q4', '2024']:
- GNPA was 2.52% and NNPA was 1.12% in Q4FY24.
['Q2', '2024']:
- There's a reduction in the GNPA to 2.1% from 2.6% in the previous quarter.
['Q1', '2024']:
- The actual results for the theme Asset and Credit Management, subtheme Non-performing assets management in Q1 2024 are as follows:
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- - GNPA improved by 135 basis points year-over-year to 2.60% in Q1FY24.
- - NNPA improved by 96 basis points year-over-year to 1.12% in Q1FY24.
- - Gross Non-Performing Assets (GNPA) were 0.84% in Q1FY24.
- - Net Non-Performing Assets (NNPA) were 1.73% in Q1FY24.
['Q3', '2024']:
- Actual Results
- **Evaluation:**
- Expectations Met: Management expected the NPA levels in the micro MSME segment to normalize and facilitate portfolio growth in line with other products. The GNPA and NNPA levels showed consistent improvement and stabilization throughout FY24, aligning with management's guidance for normalization.

9. Geographic expansion
- **Narrative:** The management has articulated a clear strategic focus on expanding its geographic footprint through the opening of new branches. This aligns with their broader growth strategy to increase market presence and customer reach.
- **Management's Guidance:**
- The CEO confirmed a plan to open 50 new branches by the end of the next calendar year.
- **Actual Results:**
['Q3', '2024']:
- Equitas Small Finance Bank opened 50 new branches in the last fiscal year.
['Q4', '2024']:
- Actual Results
['Q2', '2024']:
- Added 29 banking outlets across states like Andhra Pradesh, Karnataka, Telangana.
['Q1', '2024']:
- Added 5 banking outlets during the quarter, with SBL and VF expanding to 19 and 5 branches respectively.
- **Evaluation:**
- Expectations Met: The management had planned to open 50 new branches by the end of the next calendar year, and Equitas Small Finance Bank successfully opened 50 new branches in the last fiscal year, aligning with the stated strategic goals.

10. New product launches
- **Narrative:** The management of Equitas has outlined a strategic initiative focused on launching a variety of new financial products aimed at diversifying and expanding their product offerings. These products include personal loans, car loans, credit cards, forex cards, and AD-1 products. The plan spans over a period of 12 to 18 months, indicating a phased approach to these launches, which are expected to enhance the company's competitive positioning and cater to a broader customer base.
- **Management's Guidance:**
- The management plans to roll out new products like personal loans, car loans, credit cards, and forex cards over the next 12 to 15 months. P.N. Vasudevan stated that the company plans to introduce new car loans, personal loans, credit cards, forex cards, and AD-1 products within a timeframe of 12 to 18 months. The launch of the company's credit card is expected to happen around a year plus from today.
- **Actual Results:**
['Q3', '2024']:
- Last quarter, a new LoS for the vehicle finance segment was rolled out. Used Car Advances crossed Rs 1000 Crs during Q3FY24. Merchant OD introduced during Q1FY23 crosses Rs 800 Crs in Q3FY24.

['Q4', '2024']:
- There are no specific results available in the provided data set for Equitas's strategic initiatives and growth related to the new product launches for personal loans, car loans, credit cards, and forex cards in Q4, 2024.
['Q1', '2024']:
- Advances in newly launched Merchant OD crosses Rs 500 Crs.
['Q2', '2024']:
- Actual Results
- **Evaluation:**
- Cannot be Evaluated: The actual results provide limited information on the rollout of new products like personal loans, car loans, credit cards, and forex cards. While there are developments in vehicle finance and Merchant OD, there is no specific data on the overall success of the strategic initiative across the intended product range within the specified timeframe.

11. IT infrastructure upgrades
- **Narrative:** The management of Equitas has been focusing on upgrading their IT infrastructure to support their business operations, particularly within the affordable home loan sector. They are implementing a new Loan Origination System (LOS) to streamline processes and improve efficiency. This strategic initiative reflects the company's commitment to leveraging technology to enhance service delivery and operational capabilities.
- **Management's Guidance:**
- The company plans to launch the new Loan Origination System (LOS) for the affordable home loan business in the coming quarter. Additionally, management has indicated that the benefits from these technology investments are expected to materialize after a couple of years.
- **Actual Results:**
['Q4', '2024']:
- Actual Results
['Q1', '2024']:
- Actual Results
['Q2', '2024']:
- Actual Results
['Q3', '2024']:
- Actual Results
- **Evaluation:**
- Cannot be Evaluated: The provided actual results do not include specific data or insights on the implementation or impact of the Loan Origination System (LOS), making it impossible to assess whether management's expectations for IT infrastructure upgrades have been met.