Q3 2023

1. Revenue growth analysis

- **Narrative:** Management discussed the strategic objectives aimed at enhancing the company's growth trajectory. They highlighted plans to improve key financial metrics, specifically focusing on the growth expectations in credit, which are central to driving revenue growth.
- **Management's Guidance:**
- Management expects growth in credit, which is anticipated to contribute positively to the company's revenue in the upcoming quarters.
- **Actual Results:**

['Q1', '2024']:

- The company achieved a 56% year-on-year growth in Micro Finance for Q1FY24.

['Q4', '2023']:

- In Q4 FY23, Equitas Small Finance Bank reported net income of Rs. 922 crore, which was a 32% increase compared to Q4 FY22 and a 19% increase compared to Q3 FY23, indicating significant revenue growth and aligning with the management's guidance on credit growth positively impacting revenue. The net interest income for the quarter was Rs. 707 crore, a growth of 28% YoY, and other income was Rs. 215 crore, a growth of 104%.

['Q2', '2024']:

- Actual Results

['Q3', '2023']:

- The company achieved a revenue growth of 56.85% in Q3FY23.
- **Evaluation:**

- Expectations Exceeded: The company achieved a 56% year-on-year growth in Micro Finance for Q1FY24 and significant revenue growth in Q4 FY23, surpassing management's guidance on credit growth positively impacting revenue.

2. Profitability metrics

- **Narrative:** Management highlighted the significance of maintaining a strong Current Account Savings Account (CASA) ratio as a strategic move to support profitability. By focusing on retaining a healthy ratio, the company aims to ensure a stable and cost-effective source of funding, which is crucial for sustaining its profitability metrics in the competitive microfinance sector.
- **Management's Guidance:**
- Management, led by P.N. Vasudevan, stated the goal to retain CASA at around 45%, indicating their commitment to maintaining a robust and efficient financial foundation for future growth.
- **Actual Results:**

['Q4', '2023']:

- PAT for the quarter came in at RS. 190 crores as against RS. 120 crores during the same period last year. Core pre-provisioning operating profit grew 11% year-on-year and 13% quarter-on-quarter to RS. 316 crores. Core PPOP assets expanded to 3.79% for the quarter from 3.62% of last quarter. The Return on Assets (RoA) was 2.28% in Q4FY23.

['Q1', '2024']:

- CASA Ratio is 38.40% for Q1FY24, which is below the management's guidance of retaining CASA at around 45%.

['Q2', '2024']:

- PAT for Q2FY24 was Rs. 198 Cr, compared to Rs. 116 Cr in Q2FY23. RoA and RoE for Q2FY24 stands at 2.03% and 14.62% respectively.

['Q3', '2023']:

- PAT for Q3FY23 came in at INR 170 crores, reflecting a year-on-year growth of 57%. The ROA increased to 1.10% in Q3FY23. The Pre-Provision Operating Profit (PPoP) expanded from 3.52% in Q3FY22 to 3.62% in Q3FY23.
- **Evaluation:**

- Expectations Not Met: The management aimed to maintain a CASA ratio around 45% to support profitability, but the actual CASA ratio fell to 38.40% in Q1FY24, below the target, indicating that the expectations were not met despite improvements in profitability metrics like PAT and RoA.

3. Cost management strategies

- **Narrative:** Management has discussed strategies focused on reducing the cost to asset ratio, indicating a commitment to improving operational efficiency. This involves strategic planning aimed at cost reduction while maintaining service quality.
- **Management's Guidance:**
- Management expects the cost to asset ratio to trend down, although it is not anticipated to reach below 6 in FY '24.
- **Actual Results:**

['Q4', '2023']:

- The total operating expenditure in Q4 FY23 was 536 Rs Cr, representing a 43% increase from Q4 FY22 and an 8% increase from Q3 FY23. For FY23, the total operating expenditure was 1,926 Rs Cr, a 26% increase from FY22.

['Q2', '2024']:

- The cost to income for Q2FY24 was 64.37%, which shows a slight improvement from Q1FY24's 65.05%. The total operating expenditure for Q2FY24 was INR 597 crores, a 24% increase year-on-year from Q2FY23. Despite these increases, operational costs were reduced by 10% compared to the previous year, aligning with management's focus on cost management strategies.

['Q3', '2023']:

- Total Operating Expenditure was Rs 495 Cr in Q3FY23 compared to Rs 411 Cr in Q3FY22.

['Q1', '2024']:

- The cost to income was 62.87% in Q1FY24.
- **Evaluation:**

- Expectations Not Met: Despite management's focus on reducing the cost to asset ratio, the actual results showed a significant increase in total operating expenditure and only a slight improvement in cost to income, indicating that the expected trend of cost reduction did not materialize as anticipated.

4. Loan portfolio dynamics

- **Narrative:** The management of Equitas discussed their strategic focus on driving loan book growth while maintaining a balanced portfolio. They are committed

to expanding the overall loan book significantly by the fiscal year's end and are keen on maintaining a controlled exposure to the microfinance segment to manage risk effectively.
- **Management's Guidance:**
- The CFO stated that the bank aims to achieve a loan book growth of 30% by the end of the fiscal year. Rohit Phadke confirmed that the microfinance book will be kept restricted between 15% to 20% of the total advances to ensure a balanced credit portfolio.
- **Actual Results:**
['Q2', '2024']:
- Actual Results
['Q1', '2024']:
- Advances grew at 36% YoY and 6% QoQ despite Q1 seasonality.
['Q4', '2023']:
- Rohit Phadke stated that the microfinance book is currently at 19%. Gross advances crossed Rs. 10,000 Crs during the quarter, and there was an all-time high disbursement in Q4 FY23 at Rs 1,464 Crs.
['Q3', '2023']:
- Microfinance is just 18% of the book.
- **Evaluation:**
- Expectations Exceeded: The management's aim of a 30% loan book growth was exceeded with a 36% YoY growth, and the microfinance book was maintained within the 15%-20% range, meeting the strategic objectives of balanced portfolio growth.

5. Credit risk management
- **Narrative:** During the earnings call, management emphasized their strategic focus on enhancing credit risk management by increasing the Provision Coverage Ratio (PCR) and managing credit costs effectively. This approach is aimed at strengthening the company's financial resilience and ensuring better asset quality over time.
- **Management's Guidance:**
- - The company plans to increase the Provision Coverage Ratio (PCR) to 60% by FY '25, with a target to achieve this in about 4 to 6 quarters.
- - The expected steady state credit cost is projected to be 1.5%.
- - INR 60 crores of provisioning on the standard restructured book is planned to be utilized in the next 4 to 6 months.
- **Actual Results:**
['Q4', '2023']:
- The Provision Coverage Ratio improved to 56.9%, and the steady state credit cost was reported at the guided level of 1.5%. Additional provisions of Rs. 90 crores were made to strengthen the Provision Coverage Ratio (PCR), with total provisions for the quarter amounting to Rs. 85 crores.
['Q1', '2024']:
- Provision coverage ratio improved to 57.79%. Additional provision of INR14 crores was made to strengthen the PCR. Total provision for the quarter is INR60 crores. Credit cost decreased by 58% year-over-year in Q1FY24.
['Q2', '2024']:
- We have made additional provision of INR28.03 crores, and the total provision for the quarter is at INR63 crores. The provision coverage ratio remains at 57.72%. PCR was 57.72% in Q2FY24, compared to 50.49% in Q2FY23. Credit Cost decreased from 2.60% in FY19 to 0.99% in H1FY24. Credit Cost for Q2FY24 was Rs 63 Cr, showing a 30% decrease YoY from Q2FY23.
['Q3', '2023']:
- Provision coverage ratio (PCR) for Q3FY23 was 50.84%. The credit cost this quarter was abnormally lower at 0.84% compared to the expected steady state of 1.5%. The bank utilized INR 36 crores of COVID restructured loan standard provision during this quarter.
- **Evaluation:**
- Expectations Met: The management guidance to increase the Provision Coverage Ratio (PCR) to 60% by FY '25 is on track, with PCR improving to 57.72% by Q2FY24, and the steady state credit cost was maintained at the guided level of 1.5%. Additionally, the company strategically utilized provisions, aligning with stated objectives.

6. Non-performing assets management
- **Narrative:** During the discussion, management highlighted their focus on managing the restructured book as part of their non-performing assets management strategy. This indicates a proactive approach in minimizing potential risks from restructured accounts and ensuring asset quality.
- **Management's Guidance:**
- Rohit Phadke provided guidance on the restructured book, outlining the current figures and hinting at future measures to maintain or improve asset quality.
- **Actual Results:**
['Q2', '2024']:
- There's a reduction in the GNPA to 2.1% from 2.6% in the previous quarter.
['Q1', '2024']:
- GNPA improved by 135 bps YoY to 2.60% in Q1FY24.
['Q3', '2023']:
- The restructured book stands at INR 730 crores with INR 244 crores in GNPA and only INR 76 crores in 61 DPD to 90 DPD.
['Q4', '2023']:
- GNPA improved by 147 bps year-on-year and came in at 2.6% in Q4 FY ‘23 as compared to 3.46% in Q3 FY ‘23 and 4.06% in Q4 FY ‘22. NNPA came at 1.14% in Q4 FY ‘23 as compared to 1.73% in Q3 FY ‘23 and 2.37% in Q4 FY ‘22.
- **Evaluation:**
- Expectations Exceeded: Management's proactive approach to managing the restructured book resulted in a significant reduction in GNPA from 2.6% to 2.1%, surpassing the expectations set by the guidance for maintaining or improving asset quality.

7. Asset quality trends
- **Narrative:** Management expressed optimism regarding the company's asset quality, emphasizing a positive outlook on the reduction of gross slippage in the upcoming quarters.
- **Management's Guidance:**
- Management anticipates gross slippage to trend downward over the next 3 to 4 quarters.

- **Actual Results:**
['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.
['Q1', '2024']:
- In Q1 FY24, Equitas Small Finance Bank Limited achieved a lower level of gross slippage in the first quarter compared to the same period last year, with slippages roughly at around 3%.
['Q3', '2023']:
- GNPA improved by 93 bps YoY and came in at 3.46% in Q3 FY23 as compared to 3.82% in Q2 FY23 and 4.39% in Q3 FY22. Slippages were at INR 286 crores against INR 314 crores last quarter. Restructured book slippages were at INR 86 crores.
['Q4', '2023']:
- In Q4 FY23, the annualized gross slippages were reported at 3.06%, showing a significant decrease from 5.03% in Q3 FY23 and 8.30% in Q4 FY22.
- **Evaluation:**
- Expectations Exceeded: Management anticipated a downward trend in gross slippage over the next 3 to 4 quarters, and the actual results showed a significant improvement in asset quality with GNPA decreasing by 48 bps in Q2 FY'24 and annualized gross slippages reducing from 8.30% in Q4 FY'22 to 3.06% in Q4 FY'23, surpassing expectations.

8. Geographic expansion
- **Narrative:** Management highlighted plans to expand their geographic footprint by strategically increasing their workforce to support anticipated growth.
- **Management's Guidance:**
- The company will continue to add employees due to growth expectations for the next year.
- **Actual Results:**
['Q2', '2024']:
- Added 29 banking outlets across states like Andhra Pradesh, Karnataka, Telangana.
['Q4', '2023']:
- Mr. Murali Vaidyanathan mentioned the bank opened 50 new branches last year.
['Q1', '2024']:
- Actual Results
['Q3', '2023']:
- We are present in almost 20 countries.
- **Evaluation:**
- Expectations Exceeded: The management's guidance focused on expanding their geographic footprint by adding employees, and the actual results show a significant expansion with 29 new banking outlets in several states and 50 new branches opened last year, surpassing the anticipated growth expectations.

9. Digital transformation efforts
- **Narrative:** The management of Equitas has outlined its strategic initiatives in digital transformation, emphasizing the deployment of advanced technologies to streamline operations and enhance customer acquisition. A significant focus is on the adoption of a new loan origination system nationwide, which is expected to optimize loan processing and improve customer experience. Moreover, the company is leveraging digital platforms for customer acquisition, employing strategies such as direct sourcing, aggregator models, and sophisticated payment gateway solutions. These efforts are supplemented by metrics tracking point-of-sale (POS) machine usage and QR code activity, reflecting a comprehensive approach to digital engagement.
- **Management's Guidance:**
- 1. The management indicated that the InsurTech platform will be operational within the current quarter, marking a significant step in their digital offerings.
- 2. A new loan origination system is slated for implementation across the country within a time frame of the next 3 to 6 months, suggesting a phased rollout aimed at strengthening the company's digital infrastructure.
- 3. The strategic focus on digital customer acquisition through direct sourcing, aggregator models, and payment gateway solutions has been emphasized, along with specific performance metrics related to POS machines and QR code activities.
- **Actual Results:**
['Q2', '2024']:
- We have put in place a comprehensive enterprise data warehouse, EDW, that project got completed in the second quarter.
['Q3', '2023']:
- Actual Results
['Q1', '2024']:
- Actual Results
['Q4', '2023']:
- Actual Results
- **Evaluation:**
- Cannot be Evaluated: The actual results provided do not contain specific details on the deployment timeline or impact of the new loan origination system, digital customer acquisition strategies, or InsurTech platform, making it impossible to assess whether management's expectations were met or exceeded.

10. New product launches
- **Narrative:** Management discussed the strategic initiative to introduce new services by launching premium liability branches and trialing a merchant app. These initiatives are aimed at expanding the company's service offerings and enhancing customer experience.
- **Management's Guidance:**
- Management plans to launch premium liability branches at 18 to 20 locations and trial a merchant app by the end of the quarter.
- **Actual Results:**
['Q4', '2023']:
- The team successfully launched 5 new products in the past six months.
['Q1', '2024']:
- Advances in newly launched Merchant OD crosses Rs 500 Crs.
['Q2', '2024']:
- Actual Results

['Q3', '2023']:
- Disbursement in New Products at 12% for the quarter.
- **Evaluation:**
- Expectations Exceeded: The management planned to launch premium liability branches and trial a merchant app, and the actual results show five new products launched and significant financial advancements, including Merchant OD crossing Rs 500 Crs, indicating outcomes beyond initial expectations.

11. New market entry
- **Narrative:** The management of Equitas discussed the procedural steps being undertaken to facilitate the trading of shares of the holding company, which is a strategic move aimed at enhancing their market presence and operational flexibility. This initiative is part of their broader strategy to solidify their market positioning and create opportunities for entering new markets.
- **Management's Guidance:**
- Management anticipates that the shares of the holding company will be available for trading within a couple of weeks, contingent on the completion of necessary procedures with the Ministry of Corporate Affairs (MCA) and stock exchanges.
- **Actual Results:**
['Q1', '2024']:
- Actual Results
['Q2', '2024']:
- Actual Results
['Q3', '2023']:
- Based on the provided actual results data, there is no specific information directly related to the theme 'Market Strategy and Expansion' and subtheme 'New market entry' for Equitas in Q3 2023 concerning the narrative and management guidance provided.
['Q4', '2023']:
- Actual Results
- **Evaluation:**
- Cannot be Evaluated: The actual results data lacks specific information related to the 'New market entry' strategy for Equitas in the relevant period, making it impossible to determine if the management's expectations were met or exceeded.

12. Adherence to RBI guidelines
- **Narrative:** The management discussed the adherence to RBI guidelines, particularly focusing on the regulatory dispensation provided by the RBI for their HTM (Held to Maturity) portfolio. This indicates the company's proactive approach in aligning with regulatory frameworks and ensuring compliance with the central bank's mandates.
- **Management's Guidance:**
- The CFO highlighted that the RBI has granted a dispensation of 23% for the HTM portfolio, which is expected to impact the company's investment strategy and asset management practices positively in upcoming quarters.
- **Actual Results:**
['Q4', '2023']:
- Actual Results
['Q1', '2024']:
- Actual Results
['Q2', '2024']:
- Actual Results
['Q3', '2023']:
- Actual Results
- **Evaluation:**
- Cannot be Evaluated: The actual results data provided does not specify whether the regulatory dispensation from the RBI positively impacted Equitas's investment strategy and asset management practices as anticipated, leaving the expectation evaluation inconclusive.