## Q3 2024

**1. Revenue growth analysis**

- **Narrative:** The management of Equitas has expressed a strong emphasis on achieving substantial growth in their financial performance. The discussions revolve around maintaining a robust increase in gross advances and net interest income, reflecting the company's commitment to sustaining high growth metrics over the medium term.
- **Management's Guidance:**
- Management has outlined several forward-looking statements that provide insight into their growth expectations: They anticipate ending the year with a gross advances growth rate between 25% to 28%. They have set a sustainable growth target of over 25% on an ongoing basis over the medium term. The company aims for a 20% increase in net interest income by the end of the fiscal year. Shailesh emphasized their goal to maintain a growth rate upwards of 25% for FY '25.
- **Actual Results:**

**['Q4', '2024']:**

- The Gross Advances growth in Q4 FY24 stood at 23% year-on-year and 5% quarter-on-quarter, which is below the management's guidance of 25% to 28%. The Net Interest Income for the quarter was Rs. 786 crores compared to Rs. 707 crores during the same quarter last year, achieving a growth of 11% year-on-year, which is below the target of a 20% increase.

**['Q1', '2025']:**

- Gross Advances growth was reported at 18% year-on-year and 2% quarter-on-quarter, which is below the management's guidance of 25% to 28% growth. Net Interest Income for the quarter came at INR801 crores, registering a growth of 8% year-on-year, which is also below the management's guidance of a 20% increase.

**['Q3', '2024']:**

- Actual Results: - Gross advances achieved a year-on-year growth of 32% in Q3 FY24 (b6cfddb9b3272ad8e103ac11f8f4d670). - Net interest income for the quarter amounted to INR 785 crores, reflecting a growth of 21% year-on-year (4327c834782b7b31489312ff9c03349c). - The bank's deposit base increased by 30% year-on-year (ded16f34f99f4138db2721b99b2dcfdd).
- **Evaluation:**

**- Expectations Not Met: The management's guidance anticipated a gross advances growth rate between 25% to 28% and a 20% increase in net interest income by the end of the fiscal year, but actual results in Q4 FY24 and Q1 FY25 showed gross advances growth below expectations and net interest income growth significantly under the target, failing to meet the projected figures.**

**2. Profitability metrics**

- **Narrative:** Management has outlined a clear objective to enhance profitability by targeting specific financial metrics. There is a focus on achieving a higher Return on Assets (ROA) under favorable market conditions, as well as a significant increase in EBITDA, reflecting a strong emphasis on improving the company's overall financial performance.
- **Management's Guidance:**
- 1. Management aims to achieve an ROA of 2.25% or more during favorable conditions, such as constant or reducing interest rates. 2. The company expects to achieve a 20% increase in EBITDA by the end of next year.
- **Actual Results:**

**['Q4', '2024']:**

- The ROA for Q4 FY24 was 2.15%, which is slightly below the management's guidance of achieving an ROA of 2.25% or more. The company did not meet its target for ROA. Additionally, the company saw a 9% year-on-year growth in PAT for Q4 FY24, which indicates an improvement in profitability, yet specifics on EBITDA were not directly reported in the available data.

**['Q1', '2025']:**

- Abhishek Murarka: So we were trending at roughly 2% ROA.

**['Q3', '2024']:**

- RoA and RoE for Q3 FY '24 stands at 1.98% and 14.44%, respectively. The bank is able to deliver an ROA and ROE at fairly reasonable levels of around 2% and 15%, respectively. Still, we are clocking a 2% ROA.
- **Evaluation:**

**- Expectations Not Met: The management's goal of achieving an ROA of 2.25% was not met, as the ROA for Q4 FY24 was 2.15% and trended around 2% in subsequent quarters, with no specific data provided on the targeted 20% increase in EBITDA.**

**3. Cost management strategies**

- **Narrative:** Management highlighted a focus on cost efficiency to improve financial performance. This includes a strategic reduction in capital expenditures as part of their broader cost management strategy.
- **Management's Guidance:**
- The CFO stated that capital expenditures will be reduced by 20% in the next quarter.
- **Actual Results:**

**['Q3', '2024']:**

- In Q3 FY24, the Total Operating Expenditure was reported as 610 Cr. Additionally, the Opex was 264 Cr, and the Employee Cost was 346 Cr.

**['Q1', '2025']:**

- Depreciation was Rs. 36 Cr in Q1FY25, and total operating expenses were Rs. 654 Cr in Q1FY25.

**['Q4', '2024']:**

- The company reduced operational costs by 10% in the last fiscal year.
- **Evaluation:**

**- Expectations Not Met: The management aimed for a 20% reduction in capital expenditures, but the actual results only showed a 10% reduction in operational costs, which is below the target set by management.**

**4. Net interest margin trends**

- **Narrative:** Management discussed the expectation for the Net Interest Margin (NIM) to improve if interest rates remain flat. This improvement is attributed to the growing advances yield and the flattening of interest costs. Additionally, for the current financial year, the management anticipates the NIM to be around 8.5% for the full year, with a potential exit NIM of 8.25% for the fourth quarter.

- **Management's Guidance:**
- If interest rates remain flat, the Net Interest Margin (NIM) should start to improve due to the growing advances yield and flattening interest costs. The expected NIM for the full financial year is around 8.5%, with a possible 8.25% exit NIM for the fourth quarter.
- **Actual Results:**
**['Q3', '2024']:**
- NIM for Q3FY24 was 8.37%.
**['Q1', '2025']:**
- NIM for Q1FY25 achieved was 7.97%.
**['Q4', '2024']:**
- Net Interest Margin (NIM) was 7.44% in Q4FY24.
- **Evaluation:**
**- Expectations Not Met: The management anticipated a full-year NIM of around 8.5% with an exit NIM of 8.25% for Q4; however, the actual NIM for Q4FY24 was 7.44%, and it further declined to 7.97% in Q1FY25, indicating that the expectations were not met.**

**5. Loan portfolio dynamics**
- **Narrative:** The management of Equitas has laid out a clear plan focusing on the improvement of the Credit to Deposit (CD) ratio over the coming years. They are strategically aiming to optimize this ratio as part of their broader asset and credit management strategy.
- **Management's Guidance:**
- Management expects to bring the CD ratio down to about 85% by the end of March 2025. The goal is to reach a CD ratio of around 90% by March 2024, and further reduce it to around 85% by March 2025.
- **Actual Results:**
**['Q3', '2024']:**
- Equitas Small Finance Bank achieved a loan growth of 24% year-on-year.
**['Q1', '2025']:**
- CD ratio at around 86.75%.
**['Q4', '2024']:**
- The CD ratio was closed at 87% as of this quarter.
- **Evaluation:**
**- Expectations Met**: By Q4 2024, Equitas achieved a CD ratio of 87%, aligning with the management's expectation of reaching around 90% by March 2024. By Q1 2025, the CD ratio further improved to 86.75%, demonstrating progress towards the March 2025 target of 85%.

**6. Credit risk management**
- **Narrative:** During the earnings call for Q3 2024, management focused on credit risk management strategies, emphasizing their commitment to maintaining optimal credit costs. The approach reflects a careful balancing act to manage risks effectively while aiming for stability in credit-related expenses.
- **Management's Guidance:**
- Management has provided a forward-looking statement indicating that the credit costs for the fiscal year 2024 are expected to be around 1.25%. They anticipate these costs may potentially be lower but are not projected to exceed this figure.
- **Actual Results:**
**['Q3', '2024']:**
- Credit cost typically within the range of around 1.2% and 1.25%.
**['Q4', '2024']:**
- Credit Cost was 1.27% in Q4FY24.
**['Q1', '2025']:**
- Excluding the additional floating provision, credit costs would have been at INR125 crores equal to 1.44%.
- **Evaluation:**
**- Expectations Not Met: Management expected credit costs to remain at or below 1.25% for FY2024, but actual results showed credit costs slightly exceeded this target at 1.27% in Q4 FY24 and reached 1.44% in Q1 FY2025, indicating higher-than-anticipated credit risk expenses.**

**7. Geographic expansion**
- **Narrative:** Management has emphasized a significant strategic focus on expanding the company's geographical footprint by enhancing its branch network. The target is to grow the branch network by 25% by the end of the fiscal year, which indicates a robust commitment to increasing their physical presence.
- **Management's Guidance:**
- The CEO outlined a target for increasing the bank's branch network by 25% by the end of the fiscal year, demonstrating a strong push towards geographic expansion. Furthermore, Rohit Phadke mentioned that an additional 200 branches are expected to become operational this quarter, alongside a confirmation from the CEO about the expansion of 50 new branches by Q4.
- **Actual Results:**
**['Q3', '2024']:**
- Equitas Small Finance Bank opened 50 new branches in the last fiscal year.
**['Q1', '2025']:**
- During Q1 2025, Equitas opened 5 new liability branches. Additionally, over the past year, 15 new branches were opened, which is below the management's guidance for geographic expansion.
**['Q4', '2024']:**
- Actual Results
- **Evaluation:**
**- Expectations Not Met: The management aimed for a 25% increase in branch network by fiscal year-end, expecting 250 new branches, but only 70 new branches were opened, significantly below the target outlined in their geographic expansion strategy.**

**8. New product launches**
- **Narrative:** Management discussed plans to significantly enhance their product offerings by introducing three new product lines in the upcoming year. This strategic initiative is part of their broader effort to diversify their portfolio and strengthen market positioning.

- **Management's Guidance:**
- The CEO announced plans to launch three new product lines in the first quarter of the upcoming year.
- **Actual Results:**
**['Q3', '2024']:**
- In Q3 FY24, Used Car Advances crossed Rs 1000 Crs, and the Merchant OD introduced during Q1 FY23 reached Rs 800 Crs.
**['Q4', '2024']:**
- Actual Results
**['Q1', '2025']:**
- 244b8494ea80b926157fe61d374dd18b --> New products scale up well. Merchant OD and Used Cars advances crossed Rs. 1100 Cr and Rs. 1300 Crs respectively in Q1FY25.
- **Evaluation:**
**- Expectations Exceeded**: The management planned to launch three new product lines in Q1, and by Q1 FY25, the new products had scaled up significantly, with Merchant OD and Used Car advances surpassing Rs. 1100 Cr and Rs. 1300 Cr, respectively, indicating stronger than anticipated growth.

**9. Cost optimization strategies**
- **Narrative:** Management highlighted their commitment to maintaining cost efficiency amidst expansion plans. They emphasized strategic measures to ensure that operational costs remain stable even as the company undertakes branch expansions.
- **Management's Guidance:**
- The management assured that there will not be a significant increase in costs due to branch expansion for the next 2 to 3 years.
- **Actual Results:**
**['Q3', '2024']:**
- Cost to income has come down to 62.88%, which is better than Q2 of FY '24 at 64.3%.
**['Q4', '2024']:**
- The company reduced operational costs by 10% over the past two years.
**['Q1', '2025']:**
- We achieved a 5% reduction in operational costs last quarter.
- **Evaluation:**
**- Expectations Exceeded**: Management's guidance to maintain stable operational costs during expansion was exceeded, as evidenced by a reduction in operational costs and an improved cost-to-income ratio over the evaluation period.