Q2 2023

1. Revenue growth analysis
- **Narrative:** Management at Equitas has outlined a strategic focus on enhancing growth over the upcoming quarters. They have emphasized the importance of maintaining robust revenue growth through targeted strategies and effective management of credit costs. This commitment to growth is part of their broader objective to achieve significant market penetration and expansion.
- **Management's Guidance:**
- Management plans to achieve a 25% growth and maintain an annualized credit cost of 1.5% in the coming quarters. Mr. P. N. Vasudevan provided a revised guidance for the year's growth at 25%. P. N. Vasudevan expressed the objective to achieve a 30% growth rate in 6 to 9 months.
- **Actual Results:**
['Q1', '2024']:
- Advances have grown by 36% and disbursements are 46% year-on-year. Net interest income for the quarter came at INR743 crores, registering a growth of 28% YoY. Other income for the quarter came in at INR150 crores, registering a growth of 50%.
['Q2', '2023']:
- Advances grew by 20% year-on-year and 5% quarter-on-quarter.
['Q4', '2023']:
- In Q4 FY23, Equitas Small Finance Bank achieved a 35% year-on-year growth in advances, and deposits grew 34% YoY. The net interest income for the quarter was reported at Rs. 707 crores, reflecting a 28% year-on-year growth. Net income increased by 32% year-on-year to Rs. 922 crores. This indicates that Equitas's growth metrics were robust, although specific revenue growth percentages for the quarter were not delineated.
['Q3', '2023']:
- The company achieved a revenue growth of 56.85% in Q3FY23.
- **Evaluation:**
- Expectations Exceeded: Equitas aimed for a 25-30% growth rate, but actual results showed a 36% growth in advances and a 28% growth in net interest income in Q1 2024, surpassing their guidance.

2. Profitability metrics
- **Narrative:** Management discussed efforts to improve profitability metrics by addressing specific areas that contribute to losses. This includes a strategic focus on reducing the percentage of loss on sales, signaling a proactive approach to enhance overall financial health.
- **Management's Guidance:**
- Rohit Phadke expects the loss on sale to come down to about 30%-32% going forward.
- **Actual Results:**
['Q1', '2024']:
- Actual Results
['Q4', '2023']:
- In Q4 FY23, the highest ever PAT was reported at Rs. 190 Crs, showing a growth of 59% year-on-year and 12% quarter-on-quarter. The Return on Assets (RoA) was 2.28% in Q4FY23.
['Q2', '2023']:
- Loss on sale decreased to 36% in the last quarter.
['Q3', '2023']:
- In Q3 FY23, the company reported a Profit After Tax (PAT) of Rs. 170 Cr, showing a growth of 57% YoY compared to the same period last year. The Pre-Provision Operating Profit (PPoP) came at INR 279 crores, registering a growth of 24% YoY. Additionally, the PPoP as a percentage of average assets expanded YoY to 3.62% from 3.52%. The ROA increased to 1.10% in Q3 FY23.
- **Evaluation:**
- Expectations Not Met: The management expected the loss on sale to decrease to about 30%-32%, but actual results show it reduced only to 36%, not meeting the expected improvement.

3. Cost management strategies
- **Narrative:** The management of Equitas discussed their focus on cost management strategies with an emphasis on controlling employee-related expenses and optimizing the cost-to-income ratio. They are implementing measures to stabilize employee costs over the next two quarters and aim to manage operational expenses effectively. The company is also targeting specific cost-to-income ratios in the medium-term and adjusting their strategies based on anticipated growth rates.
- **Management's Guidance:**
- 1. Employee expenses are expected to grow by about 18% for the year. 2. In the next two quarters, the run rate of employee costs will not continue to grow. 3. The cost-to-income ratio is expected to be in the range of 60% to 63% in the medium-term. 4. Other expenses are expected to be close to about 25%, and overall operating expenses (net of digital) are projected to be between the range of 20% to 23% for the year. 5. There will be an addition of maybe 500 to 1000 employees, resulting in an incremental change in cost going forward. 6. If the growth rate returns to pre-COVID levels of 30% plus next year, the cost-to-income ratio is expected to decrease from the early 60s to the mid-50s or slightly over the mid-50s.
- **Actual Results:**
['Q4', '2023']:
- The employee cost in Q4FY23 was 304 Rs Cr, which represents a 46% increase from Q4FY22 and a 4% increase from Q3FY23. The total operating expenditure in Q4FY23 was 536 Rs Cr, representing a 43% increase from Q4FY22 and an 8% increase from Q3FY23. The cost-to-income ratio moderated to 58.09% for the quarter.
['Q3', '2023']:
- Employee Cost was Rs 292 Cr in Q3FY23 compared to Rs 240 Cr in Q3FY22. Total Operating Expenditure was Rs 495 Cr in Q3FY23 compared to Rs 411 Cr in Q3FY22.
['Q1', '2024']:
- In Q1 FY24, the cost-to-income ratio was reported at 62.87%, and including the income from ARC Sale, it was adjusted to 58.09%. Employee costs increased by 45% year-over-year. The number of employees increased to 20,996, and overall operating expenditure increased by 41% year-over-year.
['Q2', '2023']:

- The cost-to-income ratio was 56.85% in Q2FY23. Employee expenses were Rs 275 Crores in Q2FY23, and total operating expenditure was Rs 483 Crores in Q2FY23.
- **Evaluation:**
- Expectations Not Met: The actual employee cost increased by 46% year-over-year, significantly exceeding the expected 18% growth. Additionally, the cost-to-income ratio fluctuated around management's target but did not consistently align with the medium-term expectation of 60% to 63%.

4. Loan portfolio dynamics
- **Narrative:** The management of Equitas Small Finance Limited discussed their expectations for loan portfolio growth, indicating a strong focus on achieving substantial growth in their loan segments. They emphasized that the growth would be driven primarily by increased credit uptake rather than deposit growth. This reflects a strategic emphasis on expanding their loan portfolio to enhance overall market penetration and performance.
- **Management's Guidance:**
- Equitas Small Finance Limited's management indicated a realistic 25% loan growth for the current year. The management had guided that loan growth would be about 30% for the year. P. N. Vasudevan mentioned that the overall growth reduction would largely be from a credit pickup and not from a deposit pickup.
- **Actual Results:**
['Q4', '2023']:
- Gross advances crossed Rs. 10,000 Crs during the quarter. All time high disbursement in Q4FY23 at Rs 1,464 Crs.
['Q1', '2024']:
- Advances grew at 36% YoY and 6% QoQ despite Q1 seasonality.
['Q3', '2023']:
- Actual Results
['Q2', '2023']:
- Gross Advances reached 22,779, growing by 20%.
- **Evaluation:**
- Expectations Exceeded: The actual results show that Equitas Small Finance Limited's loan portfolio grew by 36% YoY, surpassing the management's guidance of a 25%-30% growth, indicating stronger-than-expected credit uptake and market penetration.

5. Credit risk management
- **Narrative:** The management of Equitas is focused on maintaining and potentially reducing credit costs as part of its credit risk management strategy. There is an emphasis on stabilizing credit costs and enhancing the credit profile by gradually shifting towards products with lower credit risk. This aligns with the broader goal of maintaining financial stability and improving credit risk management over the coming quarters.
- **Management's Guidance:**
- The management team aims to maintain a credit cost of Rs.75 Crore quarterly run rate for the rest of the year and contain the credit cost to 1.5% for the full year. Rohit Phadke mentioned that achieving an annualized credit cost of 1.5% is feasible, with expectations that credit costs will decrease progressively each quarter. The management anticipates only a marginal change in credit cost over the next 6 to 12 months due to a strategic shift towards products that have a better credit profile.
- **Actual Results:**
['Q4', '2023']:
- Last year, we had guided for a 1.5% credit cost and the actuals has turned out to be at the same level.
['Q1', '2024']:
- Credit cost decreased by 58% year-over-year in Q1FY24.
['Q2', '2023']:
- The credit cost has normalized to almost Rs.75 Crore quarterly run rate in the second quarter. Annualized credit cost is at 1.62%, excluding the onetime impact at 1.35%.
['Q3', '2023']:
- Credit Cost was Rs 50 Cr in Q3FY23 compared to Rs 79 Cr in Q3FY22.
- **Evaluation:**
- Expectations Met: The management aimed for a 1.5% credit cost, and actual results showed the credit cost was maintained at 1.5% for the year, meeting their guidance. Additionally, the quarterly run rate of Rs.75 Crore was achieved, aligning with their expectations for stabilizing and reducing credit costs over time.

6. Strategic partnerships
- **Narrative:** Management discussed the strategic amalgamation of the holding company with the bank to streamline operations and enhance market presence.
- **Management's Guidance:**
- The amalgamation is expected to be completed a couple of months earlier than the financial year-end.
- **Actual Results:**
['Q3', '2023']:
- The merger of the HoldCo with the Bank was completed in the last quarter.
['Q1', '2024']:
- Actual Results
['Q2', '2023']:
- The merger of the HoldCo with the Bank was completed in the last quarter.
['Q4', '2023']:
- The merger of the HoldCo with the Bank was completed in the last quarter.
- **Evaluation:**
- Expectations Met: The strategic amalgamation of the holding company with the bank was completed on schedule, aligning with management's guidance for completion a couple of months earlier than the financial year-end.

7. Geographic expansion
- **Narrative:** Management has outlined a strategic focus on expanding the company's reach beyond its traditional stronghold in Tamil Nadu. This includes a targeted growth strategy aimed at increasing the contribution from non-Tamil Nadu areas.
- **Management's Guidance:**

- Rohit Phadke indicated a 25% growth target for small business loans, with additional focus on increasing volumes outside Tamil Nadu. The CEO inferred that the contribution from non-TN areas should increase, leading to a growth from 20% in September to 25% by March.
- **Actual Results:**
['Q4', '2023']:
- Mr. Murali Vaidyanathan mentioned the bank opened 50 new branches last year.
['Q1', '2024']:
- Added 5 banking outlets during the quarter, with SBL and VF expanding to 19 and 5 branches respectively.
['Q3', '2023']:
- Actual Results
['Q2', '2023']:
- Actual Results
- **Evaluation:**
- Expectations Met: Management aimed for a 25% growth target for small business loans and increased contributions from non-Tamil Nadu areas. The opening of 50 new branches and expansion in banking outlets aligns with these strategic goals, indicating the expectations were met.

8. Customer acquisition strategies
- **Narrative:** Management emphasized the importance of enhancing customer acquisition through innovative digital solutions, particularly focusing on the implementation of V-KYC technology to streamline the onboarding process and improve customer sourcing efficiency.
- **Management's Guidance:**
- Management highlighted a forward-looking target of achieving a 40% customer sourcing rate through the V-KYC process on a monthly basis.
- **Actual Results:**
['Q1', '2024']:
- Onboarded 1.3 lakh customers during the first quarter.
['Q2', '2023']:
- Month-on-month, we could do at least 40% of the customer V-KYC of the same month.
['Q4', '2023']:
- Actual Results
['Q3', '2023']:
- NR customer acquisition has been growing steady with deposits crossing Rs. 1,200 Crs.
- **Evaluation:**
- Expectations Met: Management's goal of achieving a 40% customer sourcing rate through V-KYC on a monthly basis was met, as indicated by the Q2, 2023 commentary confirming that at least 40% of customer V-KYC was achieved each month.

9. New product launches
- **Narrative:** During the earnings call, management emphasized strategic initiatives focused on strengthening the company's growth trajectory. They highlighted plans for further recruitment to support expansion efforts, indicating a proactive approach to scaling operations in anticipation of future demands.
- **Management's Guidance:**
- Management conveyed intentions to increase recruitment in the third and fourth quarters, laying the groundwork for anticipated growth and positioning the company for the upcoming year.
- **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', '2023']:
- Used car was a new product that we launched a year and half back, and it is already clocking about 50 Crores in disbursement month-on-month.
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- TD Sweep Product for Current Account is seeing a good traction with 1200+ Customers registered and portfolio crossing 100 Crs.
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- Achieved highest ever quarterly disbursement in Q2FY23 in Vehicle Finance.
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- Used Car business disbursements increased by 49% YoY.
['Q3', '2023']:
- Disbursement in New Products at 12% for the quarter.
- **Evaluation:**
- Expectations Exceeded: The management's guidance on recruitment and growth was supported by the actual launch of five new products and significant advances in Merchant OD, indicating a proactive approach to scaling that surpassed initial expectations.

10. Adherence to RBI guidelines
- **Narrative:** Management has been focusing on ensuring full compliance with the evolving regulatory framework set by the Reserve Bank of India (RBI). The strategic approach includes proactive adjustments in operations to align with anticipated regulatory changes, which reflects the company's commitment to maintaining a robust compliance framework.
- **Management's Guidance:**
- The speaker expects the RBI to hike rates by another 25 to 35 basis points in the upcoming meeting, indicating potential implications for the company's cost of funds and lending rates.
- **Actual Results:**
['Q4', '2023']:
- Actual Results
['Q1', '2024']:
- As of March 31, 2023, the total CRAR at 23.8% comprising of Tier 1 at 23.08% and Tier 2 at 0.72%.

['Q2', '2023']:

- Actual Results

['Q3', '2023']:

- As of March 31, 2023, the total CRAR at 23.8% comprising of Tier 1 at 23.08% and Tier 2 at 0.72%.
- **Evaluation:**

- Expectations Met: The company successfully maintained a robust compliance framework, evidenced by a strong CRAR of 23.8%, aligning with management's focus on proactive regulatory adherence amidst anticipated RBI rate hikes.