

## Q4 2024

### 1. Revenue growth analysis

- **Narrative:** Management has highlighted strategic initiatives aimed at enhancing the company's lending portfolio, particularly in the used commercial vehicles segment. This focus is part of a broader strategy to drive substantial growth in advances and disbursements across all product lines.

- **Management's Guidance:**

- Management projects that advances and disbursements will grow at an impressive rate of 25%, signaling robust expansion across their lending portfolio.

- **Actual Results:**

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

- Gross Advances for Q4FY24 amounted to Rs. 34,337 Cr, compared to Rs. 27,861 Cr in Q4FY23. This represents a growth of approximately 23% year-over-year, which is slightly below the management's projection of a 25% growth rate. Additionally, disbursements for Q4FY24 amounted to Rs. 5,095 Cr, compared to Rs. 5,917 Cr in Q4FY23, showing a decline in this metric.

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

- Advances have grown by 18% year-on-year and 2% quarter-on-quarter. SBL advances, which contributed 45% of the book, have grown 27% year-on-year and 4% quarter-on-quarter. The merchant overdraft advances have crossed INR1,000 crores. Vehicle finance advances have grown by 15% year-on-year and 2% quarter-on-quarter. The used car book has grown by 59% year-on-year and 9% quarter-on-quarter, and the book now stands at INR1,339 crores. The affordable housing loan book has grown by 35% year-on-year and 4% quarter-on-quarter. MF advances have grown by 6% year-on-year, but degrown by 5% quarter-on-quarter. Disbursement rate is 25%.

- **Evaluation:**

- **Expectations Not Met:** The management projected a 25% growth in advances and disbursements, but the actual growth in Gross Advances was approximately 23% year-over-year, and disbursements showed a decline, which indicates that the expectations were not fully met.

### 2. Profitability metrics

- **Narrative:** Management did not provide specific qualitative guidance or future impact expectations related to profitability metrics for Q4 2024.

- **Management's Guidance:**

- There were no forward-looking statements provided related to profitability metrics for future quarters in the given dataset from Q4 2024.

- **Actual Results:**

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

- Actual Results

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

- The PAT for Q4 FY24 was Rs. 208 Cr, compared to Rs. 190 Cr for Q4 FY23, achieving a growth of 9% year-on-year. ROA and ROE for Q4 FY24 stand at 1.91% and 14.22% respectively. The adjusted ROA was about 2.15% for this quarter.

- **Evaluation:**

- Cannot be Evaluated: Since management did not provide specific qualitative guidance or future impact expectations related to profitability metrics for Q4 2024, there is no benchmark to compare the actual results against, resulting in insufficient information to determine if expectations were met.

### 3. Cost management strategies

- **Narrative:** Management has indicated a cautious approach towards managing costs, particularly focusing on the cost of funds and cost to income ratio. The strategy involves maintaining a balance in the cost structure during an investment-heavy phase to ensure sustainable growth.

- **Management's Guidance:**

- The cost of funds is expected to increase by another 10 to 12 basis points for the current quarter or half year. Additionally, the management expects the cost to income ratio to remain between 60% and 63% during the investment phase this year.

- **Actual Results:**

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

- Daily Average Cost of Funds for Q4FY24 was 7.44%, compared to 6.61% in Q4FY23.

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

- The Daily Average Cost of Funds for Q1FY25 achieved was 7.46%. Total Finance Cost reported as 699 Cr in Q1FY25, an increase of 7% YoY and 6% QoQ.

- **Evaluation:**

- **Expectations Met:** The management guidance expected a cost of funds increase by 10 to 12 basis points and the actual results showed an increase within this range, with the cost of funds rising to 7.44% in Q4FY24 and 7.46% in Q1FY25. Additionally, the cost to income ratio target during the investment phase was maintained.

### 4. Net interest margin trends

- **Narrative:** Management highlighted a strategic shift in their approach to financial metrics, particularly focusing on yield calculations. This shift indicates a refined strategy in assessing the financial health and performance of the company's lending operations.

- **Management's Guidance:**

- Management plans to discontinue reporting on yield on advances and instead will concentrate on yield on gross advances starting from the next quarter. This change is expected to provide a clearer perspective on the company's interest margin trends and overall financial performance.

- **Actual Results:**

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

- Net Interest Margin (NIM) was 7.44% in Q4FY24.

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

- NIM for Q1FY25 achieved was 7.97%.

- **Evaluation:**

- **Expectations Exceeded:** The management's strategic shift to focus on yield on gross advances was expected to provide better insights into interest margin trends, and the actual results showed a significant improvement in Net Interest Margin from 7.44% in Q4FY24 to 7.97% in Q1FY25, surpassing expected clarity and financial performance.

## 5. Loan portfolio dynamics

- **Narrative:** Management has outlined a comprehensive strategy to enhance the loan portfolio dynamics with a focus on reducing the proportion of microfinance and unsecured loans while maintaining a balanced mix of secured to unsecured loans. The company is strategically slowing down on lower-yield loans such as those to NBFCs and new commercial vehicle loans, to sustain portfolio yield levels. Additionally, the company is taking proactive measures to adjust the CD ratio and expand into personal loans and credit cards to compensate for the reduced microfinance share.

### - Management's Guidance:

- 1. The bank aims to achieve a 20% growth in its loan book by the end of the next fiscal year. 2. The unsecured book will not exceed 20% of advances. 3. In the medium to long term, the secured to unsecured ratio will remain at 80 to 20, while the microfinance portfolio will continue to reduce in terms of portfolio mix. 4. The CD ratio is planned to be reduced to about 85 by March 2025. 5. The bank is slowing down on loans to NBFCs and new commercial vehicle loans, as a measure to maintain portfolio yield levels. 6. The earlier guidance of reducing the microfinance portfolio to 15% stands. 7. Microfinance as a contribution to the total advances will come down, with the space being filled up between personal loans and credit cards. 8. The bank will not focus on lending to NBFCs for the next one year, expecting this area to further decrease.

### - Actual Results:

#### ['Q4', '2024']:

- We improved the CD ratio from 103% as of March '23 to around 87% by March 24. The bank's microfinance contributes about 18% to the loan book as of March 24. Advances increased by 20% from Mar-23 to Mar-24.

#### ['Q1', '2025']:

- Our loan portfolio grew by 12% over the last fiscal year. CD ratio at around 86.75%.

### - Evaluation:

- **Expectations Met:** The company successfully achieved a 20% growth in its loan book by the end of the fiscal year, reduced the CD ratio to around 87%, and decreased the microfinance portfolio to 18% of the loan book, aligning closely with management's guidance.

## 6. Credit risk management

- **Narrative:** The management of Equitas has outlined a focused approach to enhancing credit risk management. A key strategic initiative involves improving key financial ratios to strengthen the company's financial health. Specifically, efforts are being directed towards optimizing the Credit-Deposit (CD) ratio and the Provision Coverage Ratio (PCR) over the forthcoming fiscal periods. These measures are indicative of a proactive stance in managing credit risk and ensuring financial resilience.

### - Management's Guidance:

- 1. The management team plans to reduce the CD ratio from 103% as of March 2023 to approximately 87% by March 2024. 2. They are aiming to enhance the Provision Coverage Ratio (PCR) to 70% over the next 1-2 years. 3. There is a target to maintain a credit cost of 1.25% on gross advances.

### - Actual Results:

#### ['Q4', '2024']:

- The Credit-Deposit (CD) ratio was brought down from 100% to 87%. The Provision Coverage Ratio (PCR) was not explicitly mentioned in the actual results provided, but efforts were noted towards managing provisions. The credit cost was reported at 1.27% in Q4 FY24.

#### ['Q1', '2025']:

- We have done a one-time correction in our PCR ratio, provision coverage ratio, and taken it from about 55- and-odd percent to 70%. PCR achieved was 70.29% in Q1FY25. Excluding the additional floating provision, credit costs would have been at INR125 crores equal to 1.44%. Credit cost without considering the floating provision is at 1.44%.

### - Evaluation:

- **Expectations Met:** The management successfully reduced the Credit-Deposit (CD) ratio to the targeted 87% by March 2024, and enhanced the Provision Coverage Ratio (PCR) to 70% by Q1 FY25, aligning with their stated goals. The credit cost was slightly above the target but within a reasonable range, indicating overall alignment with expectations.

## 7. Non-performing assets management

- **Narrative:** The management has focused on maintaining non-performing assets (NPAs) within a manageable range, reflecting their commitment to controlling credit risks and ensuring financial stability in the microfinance segment.

### - Management's Guidance:

- Management anticipates that Microfinance Gross Non-Performing Assets (GNPAs) will remain range-bound between 3.5% and 4.5% in future quarters.

### - Actual Results:

#### ['Q1', '2025']:

- Micro Finance has GNPA of 3.82% and PCR of 69.45%.

#### ['Q4', '2024']:

- GNPA was 2.52% and NNPA was 1.12% in Q4FY24.

### - Evaluation:

- **Expectations Met:** The management anticipated that Microfinance Gross Non-Performing Assets (GNPAs) would remain between 3.5% and 4.5%, and the actual results showed a GNPA of 3.82% in Q1 2025, aligning with the guidance.

## 8. Cost optimization strategies

- **Narrative:** Management emphasized their focus on operational efficiency through cost optimization strategies. The discussion highlighted efforts to streamline operations and reduce costs, aiming to improve overall financial performance and competitiveness in the market.

### - Management's Guidance:

- The CFO, Mr. Sridharan N., indicated that the bank expects to reduce its cost-to-income ratio to below 50% by the end of Q3 FY25.

### - Actual Results:

#### ['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 Not Met:** The management aimed to reduce the cost-to-income ratio to below 50% by Q3 FY25, but the actual results only indicate a 5% reduction in operational costs last quarter and a 10% reduction over the past two years, without specific evidence of achieving the targeted ratio.

#### 9. New product launches

- **Narrative:** Management has outlined strategic initiatives aimed at expanding their product offerings, particularly focusing on the introduction of personal loans and credit cards. This move is part of their broader strategy to diversify their product portfolio and capture a larger market share in the financial services sector.

- **Management's Guidance:**

- The personal loans are expected to be launched between April and May, with credit cards anticipated to be introduced towards the end of the calendar year.

- **Actual Results:**

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

- Actual Results

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

- Actual Results

- **Evaluation:**

- Cannot be Evaluated: The actual results lack detailed information about the launch timeline or performance outcomes of the personal loans and credit cards, making it impossible to assess whether management's guidance and expectations were met.

#### 10. Competitive positioning

- **Narrative:** Management discussed their anticipations regarding the stabilization of the equity and bond markets, which they consider as pivotal for reinforcing their competitive positioning in the market. The expectation is that market stability will provide a conducive environment for executing strategic initiatives that can enhance their market presence.

- **Management's Guidance:**

- Management expects both equity and bond markets to stabilize towards the second half of the upcoming quarter, which is anticipated to fortify their competitive stance by leveraging stable markets for strategic gains.

- **Actual Results:**

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

- Actual Results

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

- Actual Results

- **Evaluation:**

- Cannot be Evaluated: The actual results provided do not contain specific details or outcomes regarding the stabilization of equity and bond markets or their impact on the company's competitive positioning, making it impossible to determine if expectations were met.

#### 11. Customer acquisition strategies

- **Narrative:** Management highlighted their strategic focus on enhancing customer acquisition through cross-selling financial products, including credit cards and personal loans, to existing clients, while also targeting new-to-bank (NTB) customers through direct acquisition efforts.

- **Management's Guidance:**

- The CEO confirmed plans to cross-sell credit cards and personal loans to existing customers and acquire new-to-bank (NTB) customers directly via the bank's initiatives.

- **Actual Results:**

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

- Actual Results

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

- Murali Vaidyanathana mentioned that they added close to 1.2-1.3 lakhs of new to bank customers.

- **Evaluation:**

- **Expectations Met:** Management aimed to enhance customer acquisition through cross-selling and direct efforts, and successfully added 1.2-1.3 lakhs of new-to-bank customers by Q4 2024, aligning with their strategic focus.