Q4 2023

1. Revenue growth analysis
- **Narrative:** Management provided an optimistic outlook for the company's financial performance, emphasizing a robust growth trajectory in advances. The strategic focus remains on bolstering the lending portfolio to achieve significant expansion in the current fiscal year.
- **Management's Guidance:**
- The management expects advances to grow around 25% to 30% for the current year.
- **Actual Results:**
['Q3', '2024']:
- Advances have grown by 31% year-on-year.
['Q1', '2024']:
- Advances have grown by 36% and disbursements are 46% year-on-year.
['Q4', '2023']:
- Advances have grown by 35% year-on-year and 12% quarter-on-quarter to Rs. 27,861 crores.
['Q2', '2024']:
- Advances have grown by 37% year-on-year, exceeding the management's guidance of 25% to 30% growth for the current year.
- **Evaluation:**
- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': 'The management guidance anticipated a growth of 25% to 30% in advances, but actual results consistently surpassed this expectation, achieving growth rates between 31% and 37% year-on-year across different quarters.'}

2. Cost management strategies
- **Narrative:** The management has discussed their focus on maintaining efficiency in their cost structure. This involves aligning their cost of funds with larger banks and managing their cost-to-income ratio effectively. Additionally, they are strategizing to maintain a stable CASA (Current Account Saving Account) composition to optimize costs.
- **Management's Guidance:**
- 1. The speaker expects the cost of funds to get very close to the larger banks over the next five to six years. 2. P N Vasudevan mentioned that the cost-to-income ratio is expected to remain at similar levels to where it is today. 3. Murali Vaidyanathan mentioned maintaining CASA at 45% as a total composition to manage CASA costing rate.
- **Actual Results:**
['Q3', '2024']:
- In Q3 FY24, the Daily Average Cost of Funds was reported as 7.36%, indicating progress towards aligning with larger banks' cost structures over the long term. The Total Operating Expenditure was 610 Cr, reflecting the company's ongoing efforts in managing operational costs. Additionally, the Total Finance Cost increased by 55% YoY to Rs 644 Cr, highlighting cost pressures possibly impacting the cost-to-income ratio.
['Q4', '2023']:
- Cost to income moderated to 58.09% for the quarter.
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- The cost of funds has gone up by 20 basis points during the quarter.
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- Q4FY23 saw a 20bps increase in CoF sequentially to 6.61%, for the year ended with a CoF of 6.38%.
['Q2', '2024']:
- The cost to income is maintained at 64.3% level, which is comparatively better than Q1 FY 24 at 65.05%. CASA Ratio was 34% in Q2FY24, compared to 48.05% in Q2FY23.
['Q1', '2024']:
- 1. The cost of funds may end the year at about 7.5% [66bddbde9d24b2d78b4143c521efe15d]. 2. The cost-to-income ratio will remain at around 63%-65% [cd1e923456c0603f9314df68aeacae70]. 3. Cost to income was 62.87% in Q1FY24 [e57f2d424e516994cc87bde1bbceb650]. 4. Cost to income was 58.09% including the income from ARC Sale in Q1FY24 [e57f2d424e516994cc87bde1bbceb650]. 5. Murali Vaidyanathan stated that the savings account cost is at 6.18%, which is lower than last year [ca90c3dce33ae76385dda2b022125195].
- **Evaluation:**
- {'evaluation': 'Expectations Not Met', 'evaluation_reason': 'While the management aimed to align the cost of funds with larger banks and maintain a cost-to-income ratio at current levels, the actual results showed an increase in the cost of funds and a fluctuating cost-to-income ratio, indicating challenges in meeting these strategic cost management goals. Additionally, the CASA ratio was significantly lower than the target of 45%, impacting overall cost optimization.'}

3. Net interest margin trends
- **Narrative:** Management has provided insights into the expected trends in Net Interest Margins (NIM) over the coming periods. They have highlighted potential fluctuations in the NIM due to anticipated changes in interest rates and cost of funds. The company is preparing for these changes through strategic adjustments in pricing policies.
- **Management's Guidance:**
- 1. The NIMs (Net Interest Margins) will decrease over a three or four-year period. 2. The CEO indicated that NIM is expected to remain around the 9% level for the next two to three quarters, with a variance of plus or minus 10 basis points. 3. Murali Vaidyanathan discussed the current pricing strategy and indicated a potential change when interest rates start to dip. 4. A 3 to 4 basis point hike per month on the cost of funds is expected over the next six months.
- **Actual Results:**
['Q3', '2024']:
- Equitas' NIM for Q3 FY24 was reported at 8.37%, reflecting the increased liquidity on account of improved CD ratio and the rising cost of funds.
['Q4', '2023']:
- The Net Interest Margin (NIM) was 6.42% in Q4FY23.
['Q2', '2024']:
- The NIM for Q3FY24 was 8.37%, reflecting increased liquidity and rising cost of funds. The NIM contracted by nearly 75 basis points over the period, and the bank's net interest margin stood at 9.5%.

['Q1', '2024']:
- The Net Interest Margin (NIM) was recorded at 6.94% in Q1FY24.
- **Evaluation:**
- {'evaluation': 'Expectations Not Met', 'evaluation_reason': 'Management expected NIM to remain around 9% for the next two to three quarters, with minor variance. However, the actual NIM reported was significantly lower at 6.42% in Q4 FY23 and 6.94% in Q1 FY24, indicating that expectations were not met.'}

4. Loan portfolio dynamics
- **Narrative:** The management of Equitas has outlined a growth strategy focused on expanding its loan book by the end of the fiscal year. This involves a targeted year-on-year growth rate, and a strategic shift in the composition of the loan portfolio. The company is looking to adjust the balance within its loan offerings, placing a significant emphasis on mortgage loans while decreasing its focus on microfinance.
- **Management's Guidance:**
- The company aims to achieve a loan book growth of 30% year-on-year by the end of the fiscal year. The mix of the loan book is expected to be adjusted as follows: mortgages will constitute about 50%, microfinance will decrease from 19% to about 15%, and vehicle finance will be around 20% to 25%.
- **Actual Results:**
['Q3', '2024']:
- Actual Results
['Q2', '2024']:
- Actual Results
['Q4', '2023']:
- Actual Results
['Q1', '2024']:
- Advances grew at 36% YoY and 6% QoQ despite Q1 seasonality.
- **Evaluation:**
- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': 'The management aimed for a 30% year-on-year loan book growth, and the actual results show a 36% YoY growth, surpassing the target despite the seasonal challenges in Q1, indicating expectations were exceeded.'}

5. Credit risk management
- **Narrative:** Management discussed the anticipated normalization of credit costs, indicating an effort to stabilize financial metrics and manage risk more effectively. This reflects a strategic focus on maintaining credit discipline and ensuring a sustainable risk profile.
- **Management's Guidance:**
- The management expects credit costs to normalize to around 1.2% to 1.25%. Furthermore, the CEO provided guidance on credit costs for FY '24.
- **Actual Results:**
['Q3', '2024']:
- The total provision for Q3 FY '24 was INR84 crores, and credit costs were reported to be within the range of around 1.2% to 1.25%.
['Q4', '2023']:
- Credit Cost was 2.60% in FY19, 2.26% in FY20, 1.79% in FY21, 1.56% in FY22, and 0.99% in FY23.
['Q1', '2024']:
- Credit cost decreased by 58% year-over-year in Q1FY24.
['Q2', '2024']:
- Credit Cost for Q2FY24 was Rs 63 Cr, showing a 30% decrease YoY from Q2FY23.
- **Evaluation:**
- {'evaluation': 'Expectations Met', 'evaluation_reason': "The management's guidance anticipated credit costs to normalize to 1.2% to 1.25%, and the actual results for Q3 FY '24 reported credit costs within this expected range, indicating alignment with their goals."}

6. Digital transformation efforts
- **Narrative:** Management emphasized their commitment to investing in digital transformation as a part of their strategic initiatives to drive future growth.
- **Management's Guidance:**
- Management indicated that there would be a consistent level of investment dedicated to enhancing digital capabilities, which aligns with their broader strategic objectives.
- **Actual Results:**
['Q2', '2024']:
- We have put in place a comprehensive enterprise data warehouse, EDW, that project got completed in the second quarter.
['Q3', '2024']:
- Our entire CVs upgrade got completed in the first quarter. We have put in place a comprehensive enterprise data warehouse, EDW, that project got completed in the second quarter.
['Q1', '2024']:
- Actual Results
['Q4', '2023']:
- Acquisition scale up and Customized Digital Solutions helped the Bank to grow the CA book, CA witnessed a growth of 26% YoY and 22% QoQ. Bank witnessed a growth of 78% in the number of POS from 13,216 in FY22 to 23,570 in FY23. Bank witnessed a 25% increase in Unique Card Activation compared to the previous year at 1.03 Lakhs.
- **Evaluation:**
- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': "Management's commitment to digital transformation was successfully realized through the completion of significant projects like the enterprise data warehouse and CV upgrades, which substantially contributed to the growth in key metrics, such as a 26% YoY growth in the CA book and a 78% increase in POS, surpassing initial expectations."}

7. Non-performing assets management
- **Narrative:** The management has focused on improving the provisioning of non-performing assets (NPAs) to strengthen the financial stability of the company. This is a part of their broader strategy to manage and reduce NPAs effectively over time.

- **Management's Guidance:**
- The target is to increase the Provision Coverage Ratio (PCR) on the entire NPA book from 57% to 70% over the next few quarters.
- **Actual Results:**
['Q2', '2024']:
- Actual Results
['Q1', '2024']:
- In Q1 FY24, the Provision Coverage Ratio (PCR) was reported at 57.79%.
['Q3', '2024']:
- In Q3 FY24, the Net Non-Performing Assets (NNPA) improved by 67 basis points year-on-year to 1.06%. The Gross Non-Performing Assets (GNPA) improved by 108 basis points year-on-year to 2.38%.
['Q4', '2023']:
- The actual results for Q4 2023 indicate that the overall Provision Coverage Ratio (PCR) on the entire NPA book remained at 57% as of March. Collections have been strong, with the Gross Non-Performing Assets (GNPA) in absolute terms decreasing from Rs. 837 crores in March 2022 to Rs. 724 crores in March 2023. Additionally, GNPA improved by 147 basis points year-on-year, reaching 2.6% in Q4 FY23 compared to 3.46% in Q3 FY23 and 4.06% in Q4 FY22. Meanwhile, the Net Non-Performing Assets (NNPA) came in at 1.14% in Q4 FY23, improving from 1.73% in Q3 FY23 and 2.37% in Q4 FY22.
- **Evaluation:**
- {'evaluation': 'Expectations Not Met', 'evaluation_reason': 'The management aimed to increase the Provision Coverage Ratio (PCR) from 57% to 70%, but by Q3 FY24, the PCR remained closer to 57.79%, indicating that the target was not achieved within the expected timeframe.'}

8. Geographic expansion
- **Narrative:** Management's discussion focused on expanding the company's branch network to enhance geographic reach. This involves not only increasing the number of branches but also strategically focusing on different types of branches to optimize growth and service offerings.
- **Management's Guidance:**
- P N Vasudevan stated that there will be an addition of approximately 15 liability branches and 30 to 40 asset branches for the current financial year. Murali Vaidyanathan mentioned that the company plans to expand the RS. 1 lakh to RS. 1 crores bucket to get the SA.
- **Actual Results:**
['Q3', '2024']:
- Equitas Small Finance Bank opened 50 new branches in the last fiscal year.
['Q2', '2024']:
- 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.
- **Evaluation:**
- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': "Management planned to add 15 liability branches and 30 to 40 asset branches, totaling 45 to 55 branches for the year. The actual results showed that Equitas Small Finance Bank opened 50 new branches, which surpassed the lower end of management's guidance."}

9. New product launches
- **Narrative:** Management emphasized a strategic focus on expanding the retail term deposit (TD) customer base. This initiative aligns with the company's broader goal of strengthening its retail banking segment. The bank has noted a trend of increasing interest from individuals in bulk term deposits, indicating a potential area of growth.
- **Management's Guidance:**
- Management expects a continuation of the trend with more individuals opting for bulk TDs, which is anticipated to contribute positively to the bank's retail deposit growth in the upcoming quarters.
- **Actual Results:**
['Q3', '2024']:
- 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
- **Evaluation:**
- {'evaluation': 'Cannot be Evaluated', 'evaluation_reason': 'The actual results provided do not offer specific insights into the impact of the strategic focus on expanding the retail term deposit customer base or the anticipated growth in retail deposits, making it impossible to determine if expectations were met.'}

10. Cost optimization strategies
- **Narrative:** Management discussed their focus on improving operational efficiency through cost optimization strategies. This involves maintaining a disciplined approach to managing expenses while aiming to enhance the overall cost structure of the company.
- **Management's Guidance:**
- The Chief Financial Officer, Mr. Sridharan N., indicated that the bank expects to maintain a Cost-to-Income ratio below 60% for the next fiscal year.
- **Actual Results:**
['Q2', '2024']:
- Actual Results
['Q3', '2024']:
- Cost to income has come down to 62.88%, which is better than Q2 of FY '24 at 64.3%.
['Q1', '2024']:

- In Q1 FY24, the company reduced operational costs by 5% over the past six months.
['Q4', '2023']:
- Cost to Income improved to 58.09% from 63.95% in Q3FY24 and 56.85% in Q4FY22.
- **Evaluation:**
- {'evaluation': 'Expectations Not Met', 'evaluation_reason': 'The management aimed for a Cost-to-Income ratio below 60% for the next fiscal year, but the actual results showed a ratio of 62.88% in Q3 FY24, indicating that the target was not achieved.'}

11. Adherence to RBI guidelines
- **Narrative:** Management highlighted their commitment to adhering to RBI guidelines by strategically planning the utilization of provisions to align with regulatory expectations.
- **Management's Guidance:**
- The company intends to utilize the remaining restructured standard provision of Rs. 48 crores over a period, contingent upon collections as mandated by the RBI guidelines.
- **Actual Results:**
['Q3', '2024']:
- Bank has made additional provision in the form of floating provision of Rs.180 crs during Q1FY25.
['Q4', '2023']:
- Actual Results
['Q1', '2024']:
- Bank has made additional provision in the form of floating provision of Rs.180 crs during Q1FY25.
['Q2', '2024']:
- Actual Results
- **Evaluation:**
- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': 'Management planned to utilize Rs. 48 crores in provisions, but the actual result showed an additional provision of Rs. 180 crores, indicating a more proactive approach in aligning with RBI guidelines, thus exceeding expectations.'}

12. Digital onboarding processes
- **Narrative:** Management discussed their strategic focus on leveraging digital routes to target specific corporate clients, categorized as CAT A and CAT B. This initiative is part of their broader digital transformation efforts to streamline onboarding processes and enhance client acquisition.
- **Management's Guidance:**
- Management plans to continue targeting CAT A and CAT B corporates through digital channels, with the current progress indicating that the user acceptance testing (UAT) phase has been completed, and further rollout is underway.
- **Actual Results:**
['Q1', '2024']:
- 82% of all customers acquired last quarter were onboarded using e-KYC. 46% of all customers e-signed the agreement, eliminating the use of physical agreements for this set of customers. E-KYC penetration stood at 82% as of Jun'23.
['Q2', '2024']:
- Actual Results
['Q3', '2024']:
- 100% of all new customers acquired last quarter were onboarded using e-KYC. 95% of all new customers acquired last quarter signed the agreement, eliminating the need for use of physical agreement.
['Q4', '2023']:
- Actual Results
- **Evaluation:**
- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': "The management's goal of streamlining onboarding processes through digital channels was exceeded, as evidenced by 100% of new customers being onboarded using e-KYC and 95% signing agreements digitally by Q3 2024, surpassing the initial rollout expectations."}