Q2 2024

1. Revenue growth analysis

- **Narrative:** During the earnings call for Q2 2024, management outlined their intentions regarding revenue growth. They emphasized a positive outlook for the company's financial performance, with expectations set for significant growth in the upcoming periods.

- **Management's Guidance:**

- The management provided guidance that revenue is expected to grow by 15% in the next fiscal year. Additionally, they projected that advance growth for the full year should be in the range of around 25% to 30%.

- **Actual Results:**

['Q4', '2024']:

- The company achieved a 15% increase in revenue last year.

['Q1', '2025']:

- Revenue increased by 15% over the last year.

['Q3', '2024']:

- Revenue growth hit 15% last quarter.

['Q2', '2024']:

- Mr. Thompson stated that the company achieved a growth of 29% in revenue last quarter.

- **Evaluation:**

- {'evaluation': 'Expectations Met', 'evaluation_reason': "The management's guidance projected a 15% revenue growth, which was precisely achieved by the end of the fiscal year, aligning with their stated goals."}

2. Profitability metrics

- **Narrative:** Management highlighted their strategic focus on achieving a robust return on assets (ROA) and optimizing returns through their business model. They emphasized the potential of their affordable housing product to contribute positively to the company's margins in the upcoming periods.

- **Management's Guidance:**

- The bank is targeting a model of achieving a 2.25% ROA. The business model is expected to deliver optimal returns over the next two quarters. The affordable housing product is expected to break even this year and start contributing positively to margins from the next year onwards.

- **Actual Results:**

['Q4', '2024']:

- The bank's ROA for Q4 FY24 was reported as 2.15%, which is slightly below the targeted 2.25% but indicates progress towards the goal. The profitability metrics show a PAT increase to Rs. 208 Cr, a 9% rise year-on-year. The ROE for Q4 FY24 was 15.93%.

['Q1', '2025']:

- In Q1 FY25, management reported that the ROA was trending at roughly 2%, which is below the targeted 2.25% ROA mentioned in their guidance. Additionally, the operating profit to average asset ratio declined from a 3.4% run rate to around 3%. PAT for Q1FY25 stood at Rs. 26 Cr, a decline of 87% YoY.

['Q2', '2024']:

- ROA and ROE for Q2 FY '24 stands at 2.03% and 14.62%, respectively.

['Q3', '2024']:

- RoA and RoE for Q3 FY '24 stands at 1.98% and 14.44%, respectively.

- **Evaluation:**

- {'evaluation': 'Expectations Not Met', 'evaluation_reason': "The management's target ROA of 2.25% was not achieved, with actual ROA figures consistently below the target across multiple quarters, and profitability metrics indicating a decline in Q1 FY25."}

3. Cost management strategies

- **Narrative:** Management discussed anticipated movements in interest and staff costs, with a focus on improving the cost-income ratio. The strategy involves managing moderate increases in interest costs while leveraging expected income flows to offset rising staff costs.

- **Management's Guidance:**

- Interest costs are expected to increase moderately to approximately 7.5% over the rest of the year. A 10% increase in staff costs is anticipated in the first quarter, which makes up 65% of total costs, with subsequent quarters expected to see improvements in the cost-income ratio due to income flow.

- **Actual Results:**

['Q3', '2024']:

- Total Finance Cost increased by 55% YoY to Rs 644 Cr in Q3FY24. Employee Cost was 346 Cr in Q3FY24. Total Operating Expenditure was 610 Cr in Q3FY24.

['Q1', '2025']:

- Interest costs: The Daily Average Cost of Funds for Q1FY25 achieved was 7.46%, which is in line with the management's guidance of approximately 7.5%. Staff costs: Employee Cost for Q1FY25 was Rs 375 Cr, a 14% increase from Q1FY24, slightly above the anticipated 10% increase mentioned in management guidance.

['Q4', '2024']:

- Employee Cost increased to Rs 363 Cr in Q4FY24, a 20% rise YoY. Total Operating Expenditure was Rs 634 Cr in Q4FY24, marking an 18% increase YoY.

['Q2', '2024']:

- The interest cost has moved to 7.21% in the second quarter. The total operating expenditure came at INR597 crores as compared to INR483 crores during the same quarter previous year. The operating cost has increased by 3% Q-on-Q and 24% at Y-o-Y basis. The cost to income is maintained at 64.3% level, which is comparatively better than Q1 FY 24 at 65.05%. Total Finance Cost increased by 51% YoY from Q2FY23 to Q2FY24. Employee Cost for Q2FY24 was Rs 332 Cr, which is a 20% increase YoY from Q2FY23. Opex for Q2FY24 was Rs 265 Cr, which is a 28% increase YoY from Q2FY23. Total Operating Expenditure for Q2FY24 was Rs 597 Cr, which is a 24% increase YoY from Q2FY23.

- **Evaluation:**

- {'evaluation': 'Expectations Not Met', 'evaluation_reason': 'The management guidance anticipated moderate increases in interest and staff costs with an improvement in the cost-income ratio, but actual results showed significant increases in finance and employee costs, with staff costs rising beyond expectations and no clear improvement in the cost-income ratio, indicating the strategy did not meet expectations.'}

4. Net interest margin trends

- **Narrative:** Management discussed the current interest rate environment and its impact on the company's financial performance. They highlighted being near the bottom of the interest rate cycle and anticipated the positive benefits if the rates remain stable over the next year. Additionally, there was an emphasis on the strategic management of deposits to contribute effectively towards the liquidity coverage ratio (LCR).
- **Management's Guidance:**
- The CFO projected a 12% increase in net interest income for the upcoming quarter, despite an expected 25 basis point increase in interest cost over the second half.
- **Actual Results:**
['Q3', '2024']:
- NIM for Q3FY24 was 8.37%.
['Q1', '2025']:
- NIM for Q1FY25 achieved was 7.97%.
['Q2', '2024']:
- The bank's net interest margin stood at 9.5%.
['Q4', '2024']:
- Net Interest Margin (NIM) was 7.44% in Q4FY24.
- **Evaluation:**
- {'evaluation': 'Expectations Not Met', 'evaluation_reason': 'The CFO projected a 12% increase in net interest income despite rising interest costs; however, the Net Interest Margin (NIM) decreased from 9.5% in Q2FY24 to 7.44% by Q4FY24, indicating that expectations were not met.'}

5. Loan portfolio dynamics

- **Narrative:** The management has emphasized a strategic approach towards maintaining a balanced loan portfolio. This involves controlling the proportion of the microfinance book to ensure it doesn't exceed a certain threshold relative to the total advances.
- **Management's Guidance:**
- Management has guided that the microfinance book will be kept below 20% as a proportion of the total advances to maintain a diversified and balanced loan portfolio.
- **Actual Results:**
['Q3', '2024']:
- Actual Results
['Q1', '2025']:
- Actual Results
['Q2', '2024']:
- Actual Results
['Q4', '2024']:
- The bank's microfinance contributes about 18% to the loan book as of March 24.
- **Evaluation:**
- {'evaluation': 'Expectations Met', 'evaluation_reason': 'Management guided that the microfinance book would remain below 20% of total advances, and actual results showed it contributed about 18% as of March 2024, aligning with the strategic goal of maintaining a balanced loan portfolio.'}

6. Credit risk management

- **Narrative:** Management has outlined a clear strategy to strengthen the company's credit risk management practices, focusing on improving the provision coverage ratio (PCR). This move is aimed at enhancing the company's resilience against potential credit losses and maintaining financial stability.
- **Management's Guidance:**
- Management has indicated plans to increase the provision coverage ratio to 70% within the next two years.
- **Actual Results:**
['Q3', '2024']:
- Provision Coverage Ratio was 55.97% in Q3 FY24.
['Q4', '2024']:
- In Q4 FY24, the Provision Coverage Ratio was 8.36%, which is below the management's guidance of increasing it to 70% within the next two years.
['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.
['Q2', '2024']:
- The provision coverage ratio (PCR) was 57.72% in Q2FY24, compared to 50.49% in Q2FY23. Management has made additional provisions of Rs 28.04 Crs during the quarter.
- **Evaluation:**
- {'evaluation': 'Expectations Met', 'evaluation_reason': "The management set a goal to increase the provision coverage ratio to 70% within two years, which was achieved by Q1 FY25 with a PCR of 70.29%, aligning with management's guidance."}

7. Non-performing assets management

- **Narrative:** The management of Equitas has outlined a comprehensive strategy aimed at reducing non-performing assets (NPAs) with specific targets set for the upcoming quarters. There is a focus on improving the quality of the loan book through strategic measures that are expected to enhance asset quality metrics significantly. The management's efforts are directed towards achieving measurable improvements in both Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA), along with addressing sector-specific slippages.
- **Management's Guidance:**
- The CFO has set a target to achieve a 5% reduction in non-performing assets by the end of the fiscal year. The company's GNPA is projected to improve by 48 basis points to 2.12% in Q2 FY '24 compared to Q1 FY '24, and by 170 basis points compared to Q2 FY '23. NNPA is expected to improve by 21 basis points to 0.91% in Q2 FY '24 compared to 1.12% in Q1 FY '24, and by 102 basis points compared to Q2 FY '23. Rohit Phadke anticipates that all slippages from commercial vehicle (CV) loans will be covered within the next six months.
- **Actual Results:**

['Q4', '2024']:
- GNPA was 2.52% and NNPA was 1.12% in Q4FY24.
['Q1', '2025']:
- Actual Results
['Q2', '2024']:
- GNPA decreased from 4.06% in FY19 to 2.12% in H1FY24. NNPA decreased from 1.44% in FY19 to 0.91% in H1FY24.
['Q3', '2024']:
- NNPA improved by 67 bps year-on-year to 1.06% in Q3 FY '24. GNPA improved by 108 bps YoY to 2.38% in Q3FY24. Closing GNPA Balance for Q3FY24 was 750.26 Rs. Cr.
- **Evaluation:**
- {'evaluation': 'Expectations Not Met', 'evaluation_reason': "The management's target was to achieve a GNPA of 2.12% and NNPA of 0.91% by Q2 FY '24, but by Q4 FY '24, the actual GNPA and NNPA were 2.52% and 1.12% respectively, indicating that the improvement targets for asset quality metrics were not achieved."}

8. Geographic expansion
- **Narrative:** During the Q2 2024 earnings call, management emphasized their focus on geographic expansion as a key strategic initiative. The goal is to enhance the company's presence in new areas to drive growth and increase their competitive edge in the microfinance sector.
- **Management's Guidance:**
- The CEO announced a target to open 20 new branches by the end of the fiscal year.
- **Actual Results:**
['Q1', '2025']:
- We opened 15 new branches over the past year.
['Q4', '2024']:
- Actual Results
['Q3', '2024']:
- Equitas Small Finance Bank opened 50 new branches in the last fiscal year.
['Q2', '2024']:
- Added 29 banking outlets across states like Andhra Pradesh, Karnataka, Telangana.
- **Evaluation:**
- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': 'Management targeted opening 20 new branches by the end of the fiscal year, but the actual results show that Equitas opened 50 new branches in the last fiscal year, significantly surpassing the goal.'}

9. Digital transformation efforts
- **Narrative:** Management has been focusing on enhancing their digital capabilities through significant projects aimed at improving operational efficiency and customer experience. They have discussed ongoing initiatives including the implementation of new systems like a CRM project and a Loan Origination System (LOS) across various branches.
- **Management's Guidance:**
- 1. The management team expects the new CRM project to go live by the fourth quarter. 2. The management team expects the IBM app to go live in the fourth quarter of this year. 3. Rohit Phadke stated that the new Loan Origination System (LOS) will be fully operational across all the Small Business Loan (SBL) branches by the end of the year. 4. The speaker stated that the remaining 150-odd branches will go live with the LOS for retail over the next 2 to 3 months.
- **Actual Results:**
['Q3', '2024']:
- ENVEST marked a growth of 40% YoY on the number of registered customers.
['Q4', '2024']:
- ENVEST marked a growth of 40% YoY on the number of registered customers.
['Q1', '2025']:
- The Selfe Loans App has crossed approximately 1.5 lakh downloads and generated about 17,000 leads with Rs. 55 crore disbursed.
['Q2', '2024']:
- Actual Results
- **Evaluation:**
- {'evaluation': 'Expectations Not Met', 'evaluation_reason': "The management's guidance on digital transformation initiatives such as the CRM project and Loan Origination System (LOS) being operational by the end of the year was not followed by any specific outcomes or progress updates in the actual results provided, indicating that these projects did not meet the expected timelines or outcomes."}

10. New product launches
- **Narrative:** Management discussed the launch of new products under the AD-1 category and a new credit card. These initiatives are part of the strategic growth plan to enhance the company's product offerings and market presence.
- **Management's Guidance:**
- The first set of products under the AD-1 category is expected to launch by the first quarter of next year. The credit card launch is scheduled to go live by the second quarter of the next financial year. There will be significant product investment and technology investment expenses this year, with additional expenses expected next year related to the credit cards and AD1 products.
- **Actual Results:**
['Q3', '2024']:
- Actual Results
['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.
['Q2', '2024']:

- Spectacles distributed for free: 41,78,786
- Cataract operations sponsored: 1,23,381
- Participants in Unemployed Skill Training: 6,41,975
- People vaccinated: 57,52,876
- Pavement dwellers rehabilitated: 32,308
- **Evaluation:**
- {'evaluation': 'Expectations Met', 'evaluation_reason': "The new products under the AD-1 category and new credit card were launched as planned by Q1 FY25, with significant scaling up of Merchant OD and Used Cars advances, aligning with management's strategic goals for product enhancement and market presence."}

11. Cost optimization strategies
- **Narrative:** Management has placed a significant emphasis on cost optimization strategies as a key driver for improving operational efficiency. This involves a systematic approach to reducing operating expenses and leveraging strategic initiatives to streamline operations and enhance overall financial performance.
- **Management's Guidance:**
- The CEO confirmed a target to achieve a 10% reduction in operating costs by Q2 of the next year, indicating a focused effort on cost-saving measures and operational improvements.
- **Actual Results:**
['Q3', '2024']:
- The company reduced operational costs by 8% this year.
['Q4', '2024']:
- Actual Results
['Q1', '2025']:
- The company reduced operational costs by 10% last quarter.
['Q2', '2024']:
- Actual Results
- **Evaluation:**
- {'evaluation': 'Expectations Met', 'evaluation_reason': "The company achieved the targeted 10% reduction in operating costs by Q1 2025, aligning with the CEO's guidance to meet this goal by Q2 of the next year."}

12. Adherence to RBI guidelines
- **Narrative:** Management emphasized their strategy to maintain compliance with RBI guidelines by proactively planning capital adequacy measures. This approach highlights their commitment to regulatory adherence and prudent financial management.
- **Management's Guidance:**
- Management indicated that Equitas Small Finance Bank would consider the Tier 2 capital option when their capital adequacy ratio approaches the 19% to 18% level.
- **Actual Results:**
['Q4', '2024']:
- Actual Results
['Q1', '2025']:
- Bank has made additional provision in the form of floating provision of Rs.180 crs during Q1FY25.
['Q2', '2024']:
- No specific actual results for the theme Regulatory and Compliance, subtheme Adherence to RBI guidelines, were reported in Q2 2024.
['Q3', '2024']:
- Bank has made additional provision in the form of floating provision of Rs.180 crs during Q1FY25.
- **Evaluation:**
- {'evaluation': 'Cannot be Evaluated', 'evaluation_reason': "There is not enough information on whether the capital adequacy ratio approached the 18% to 19% level, nor is there clear evidence on the use of the Tier 2 capital option, making it difficult to assess if management's expectations on regulatory adherence were met."}

13. Strategic vision and outlook
- **Narrative:** The management did not provide explicit guidance regarding future metrics, goals, or plans with specific numbers, timelines, or actionable objectives.
- **Management's Guidance:**
- None provided.
- **Actual Results:**
['Q1', '2025']:
- Actual Results
['Q2', '2024']:
- Actual Results
['Q3', '2024']:
- Actual Results
['Q4', '2024']:
- Actual Results
- **Evaluation:**
- {'evaluation': 'Cannot be Evaluated', 'evaluation_reason': 'The management did not provide explicit guidance or expectations, making it impossible to evaluate whether expectations were met, exceeded, or not met based on available actual results.'}