Q1 2023

1. Revenue growth analysis
- **Narrative:** During the earnings call for Q1 2023, management reiterated their commitment to sustaining robust revenue growth. They emphasized a strategic focus on maintaining a consistent growth trajectory, which aligns with their long-term objectives for financial performance and market expansion.
- **Management's Guidance:**
- Management confirmed a growth target of 30% for the fiscal year 2023, highlighting their confidence in achieving this benchmark through strategic initiatives and market penetration strategies.
- **Actual Results:**
['Q2', '2023']:
- Revenue increased by 15% in the last quarter.
['Q4', '2023']:
- In Q4 FY23, the net income achieved was Rs. 922 crores, which represented a 32% increase compared to Q4 FY22 and a 19% increase compared to Q3 FY23.
['Q3', '2023']:
- The company achieved a revenue growth of 56.85% in Q3FY23.
['Q1', '2023']:
- In Q1 FY23, the net interest income was reported at Rs. 581 Crores, which represented a 26% year-over-year growth. The total interest income achieved was Rs. 941 Crores, marking a 15% increase from the previous year.
- **Evaluation:**
- Expectations Exceeded: The management guided for a 30% revenue growth for FY23, and the company achieved a 56.85% growth in Q3 and a 32% increase in net income in Q4 compared to Q4 FY22, surpassing the targeted growth.

2. Profitability metrics
- **Narrative:** Management has expressed confidence in the financial stability of the company, indicating that they do not anticipate any significant adverse events that could impact the profitability metrics going forward.
- **Management's Guidance:**
- The CFO projected a 20% increase in net income for the upcoming fiscal year.
- **Actual Results:**
['Q4', '2023']:
- Highest ever PAT at Rs. 190 Crs for Q4FY23, growth of 59% YoY and 12% QoQ.
['Q2', '2023']:
- Net income grew 23% YoY and came at Rs. 725 Crores for the quarter. Profit after tax for the quarter came at Rs. 116 Crores as against Rs. 41 Crores during the same period last year.
['Q1', '2023']:
- Profit after tax (PAT) for Q1FY23 was Rs. 97 Crores, compared to Rs. 12 Crores in Q1FY22, showing significant growth. Net income grew by 31% to Rs. 681 Crores for Q1FY23 compared to Rs. 520 Crores in Q1FY22.
['Q3', '2023']:
- PAT for Q3FY23 was Rs. 170 Cr, registering a growth of 57% YoY. The PPoP expanded to 3.62% from 3.52% YoY. ROA increased to 1.10% in Q3FY23.
- **Evaluation:**
- Expectations Exceeded: The management projected a 20% increase in net income, but the actual results showed significant growth with PAT increasing 59% YoY in Q4FY23, indicating that the profitability metrics surpassed the management's expectations.

3. Cost management strategies
- **Narrative:** Management has outlined a strategic focus on improving cost efficiency. This involves setting clear targets for reducing the cost-to-income ratio, which is a key performance metric for the company. The emphasis is on achieving these improvements within a defined timeline to enhance overall financial performance.
- **Management's Guidance:**
- The CFO mentioned a target to improve the cost-to-income ratio by 5% in the next two quarters. The management plans to achieve a cost-to-income ratio of about 55%. The milestones related to cost-to-income ratio should be hit in the next two years.
- **Actual Results:**
['Q4', '2023']:
- Cost to income moderated to 58.09% for the quarter.
['Q1', '2023']:
- Actual Results
['Q3', '2023']:
- Total Operating Expenditure was Rs 495 Cr in Q3FY23 compared to Rs 411 Cr in Q3FY22.
['Q2', '2023']:
- The cost to income ratio was 56.85% in Q2FY23.
- **Evaluation:**
- Expectations Not Met: Management aimed to improve the cost-to-income ratio to 55% within two quarters, but by Q4 2023, it only moderated to 58.09%, indicating the target was not achieved within the specified timeframe.

4. Loan portfolio dynamics
- **Narrative:** The management has focused on the dynamics of the loan portfolio, emphasizing strategic growth and diversification of the loan book. They aim to achieve significant growth in their lending operations while maintaining a balanced portfolio composition. This reflects a proactive approach to enhancing the company's lending capabilities and market presence.
- **Management's Guidance:**
- The Managing Director and CEO, Mr. P.N. Vasudevan, stated that the company aims to achieve a loan growth of 25% year-on-year in the next fiscal year. The CEO mentioned that the bank aims to increase its loan book by 20% over the next year. Rohit Phadke stated that the unsecured book on microfinance will be in

the range of 10% to 15% of the overall portfolio.
- **Actual Results:**
['Q4', '2023']:
- Rohit Phadke stated that microfinance is currently at 19%.
['Q1', '2023']:
- Advances increased by 22% from 16,719 to 20,479.
['Q3', '2023']:
- Small business loans are the bank's flagship product at 37% of the advances. Microfinance is just 18% of the book.
['Q2', '2023']:
- Gross Advances reached 22,779, growing by 20%.
- **Evaluation:**
- Expectations Met: The management aimed for a 20-25% loan growth and achieved a 22% increase in advances, aligning with their guidance. The unsecured microfinance portfolio was expected to be 10-15% but reached 18-19%, slightly above the target range, indicating balanced portfolio composition as intended.

5. Credit risk management
- **Narrative:** The management of Equitas has focused on refining its credit risk management strategy, particularly in the domains of vehicle finance and small business loans. Their approach involves increasing provisions and coverage to mitigate potential losses, with an emphasis on a cautious yet optimistic outlook regarding credit costs.
- **Management's Guidance:**
- The company plans to increase provisions for vehicle finance to 100% and for small business loans to 25%, reflecting a proactive stance in managing potential risks. Dheeraj M highlighted that the credit cost is expected to be contained at 1.5% for the year, alongside an anticipated loan growth of approximately 30%. The company has decided to provide 100% coverage for losses in vehicle finance, with the expectation that actual losses will decrease over time, indicating a strong risk mitigation measure. Rohit Phadke stated that credit costs will be below 1.5% in the fourth quarter, suggesting an optimistic forecast for managing credit risk.
- **Actual Results:**
['Q4', '2023']:
- Last year, we had guided for a 1.5% credit cost and the actuals have turned out to be at the same level.
['Q2', '2023']:
- Annualized credit cost is at 1.62%, excluding the onetime impact at 1.35%.
['Q1', '2023']:
- An additional provision of 76 Crores was made in the first quarter. Credit cost came at 2.68%. Provisions on Q1FY23 is Rs. 142 Crores, comprising Rs. 95 Crores from restructured loans and Rs. 47 Crores from the non-restructured book. Provision coverage ratio improves to 48.46% from 42.73% in Q4FY22. Deepak Poddar mentioned that the first quarter credit cost is already at 2.8%.
['Q3', '2023']:
- Actual Results
- **Evaluation:**
- Expectations Met: The management's guidance for a 1.5% credit cost was met in Q4, aligning with their expectations despite initial fluctuations in earlier quarters, demonstrating effective credit risk management as anticipated.

6. Strategic partnerships
- **Narrative:** Management discussed the strategic merger aimed at bolstering the company's operational capabilities and market presence.
- **Management's Guidance:**
- Management expects the merger to be completed a few months ahead of the initially guided timeline of March 2023.
- **Actual Results:**
['Q3', '2023']:
- The merger of the HoldCo with the Bank was completed in the last quarter.
['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.
['Q1', '2023']:
- The merger of the HoldCo with the Bank was completed in the last quarter.
- **Evaluation:**
- Expectations Exceeded: The management expected the merger to be completed a few months ahead of the initially guided timeline of March 2023, and the actual results indicate that the merger was completed earlier than anticipated, surpassing the expected timeline.

7. Non-performing assets management
- **Narrative:** The management discussed plans to manage non-performing assets (NPAs) effectively as part of their strategy to stabilize asset quality post-COVID impact. They aim to bring NPAs to pre-pandemic levels, indicating a focus on improving asset quality and minimizing credit risks in the near future.
- **Management's Guidance:**
- The management expects to revert back to normal levels of credit cost of 1.25% and NPA of 2.25% once the COVID impact is over.
- **Actual Results:**
['Q4', '2023']:
- In Q4 FY23, the Gross Non-Performing Assets (GNPA) improved to 2.6%, down from 3.46% in Q3 FY23 and 4.06% in Q4 FY22. The Net Non-Performing Assets (NNPA) came in at 1.14% in Q4 FY23 compared to 1.73% in Q3 FY23 and 2.37% in Q4 FY22. Additionally, the closing GNPA balance at the end of Q4 FY23 was Rs. 723.96 Cr, reduced from Rs. 837 Cr in March 2022.
['Q2', '2023']:
- GNPA, including IBPC sold, came at 3.82% in Q2FY23 as compared to 3.95% in Q1FY23 and 4.64% in Q2FY22. NNPA came at 1.93% in Q2FY23 as compared to 2.07% in Q1FY23 and 2.37% in Q2FY22.
['Q1', '2023']:
- The Gross Non-Performing Assets (GNPA) were 3.95% in Q1FY23. The Net Non-Performing Assets (NNPA) were 2.07% in Q1FY23.

['Q3', '2023']:
- GNPA for Q3FY23 was 3.46%. NNPA for Q3FY23 was 1.73%.
- **Evaluation:**
- Expectations Met: The management expected to revert to GNPA of 2.25%, and the actual results in Q4 FY23 showed GNPA improving to 2.6%, which is close to the target. Similarly, the NNPA target was achieved with a result of 1.14%, indicating that asset quality management was largely in line with expectations.

8. Geographic expansion
- **Narrative:** Management emphasized the strategic goal of increasing the bank's physical presence to enhance customer reach and strengthen regional market positions.
- **Management's Guidance:**
- The CEO stated that Equitas Small Finance Bank aims to expand its branch network by opening 50 new branches by the end of the fiscal year.
- **Actual Results:**
['Q4', '2023']:
- Mr. Murali Vaidyanathan mentioned the bank opened 50 new branches last year.
['Q1', '2023']:
- We met our target of opening 10 new stores last year.
['Q3', '2023']:
- Actual Results
['Q2', '2023']:
- Actual Results
- **Evaluation:**
- Expectations Met: The management's goal to expand the branch network by opening 50 new branches was successfully achieved by the end of the fiscal year, as confirmed by Mr. Murali Vaidyanathan in the Q4, 2023 update.

9. Executive leadership insights
- **Narrative:** Management highlighted a change in the presentation of the company's treasury operations by introducing Natarajan, the Head of Treasury, as a key spokesperson for these discussions going forward. This indicates a strategic focus on enhancing the transparency and understanding of the bank's treasury functions.
- **Management's Guidance:**
- From the next quarter onwards, Natarajan, the Head of Treasury, will discuss the Bank’s treasury operations.
- **Actual Results:**
['Q3', '2023']:
- Actual Results
['Q4', '2023']:
- Shreepal Doshi mentioned that during the last 12 months, 3,000 employees were added. Rahul Rajagopalan stated that from last quarter to this quarter, roughly 550 employee additions have happened.
['Q1', '2023']:
- Actual Results
['Q2', '2023']:
- Actual Results
- **Evaluation:**
- Cannot be Evaluated: The actual results provided do not contain specific follow-up information about Natarajan's involvement in treasury discussions, making it difficult to determine if the management's guidance was met.

10. Cost optimization strategies
- **Narrative:** The management of Equitas has demonstrated a focus on improving operational efficiency through cost optimization strategies. They have outlined plans to enhance the company's financial performance by strategically targeting and reducing operational costs.
- **Management's Guidance:**
- The CFO, Ms. Srimathy Raghunathan, stated that the company aims to reduce its cost-to-income ratio to 50% by the end of the current fiscal year.
- **Actual Results:**
['Q4', '2023']:
- The Cost to Income improved to 58.09% from 63.95% in Q3FY24 and 56.85% in Q4FY22. The company reduced operational costs by 8% over the past year.
['Q1', '2023']:
- Cost to Income ratio at 60.60% in Q1FY23.
['Q3', '2023']:
- Actual Results:
['Q2', '2023']:
- In Q2 2023, the company reduced operational costs by 8% in the past six months.
- **Evaluation:**
- Expectations Not Met: The management aimed to reduce the cost-to-income ratio to 50% by the end of the fiscal year, but the actual result in Q4 2023 was 58.09%, indicating that the target was not achieved.