ACADEMIC TASK NO – 2

Corporate Finance: FIN542

Equitas Small Finance Bank

Submitted To – Mr. Amanjot Singh Syan

SUBMITTED BY: GROUP 4

SEC-Q2240

LOVELY PROFESSIONAL UNIVERSITY

(Master of Business Administration)

MITTAL SCHOOL OF BUSINESS

Annexure-V- Cover Page for Academic Tasks

Course Code: FINM542 **Course Title: Corporate Finance**
Course Instructor: Mr. Amanjot Singh Syan
Academic Task No.: 02 **Academic Task Title: Equitas Small Finance Bank**
Date of Allotment : 21/09/2022 **Date of Submission: 06/10/2022**
Student's Roll No: RQ2240A14 **Student's Reg. No: 12202342**

Group No	Name	Registration number	Sec No	Roll Number	Peer Rating	Reason for given PEER Rating	Work done by the person
4	Soumoditta Dey	12200571	Q2240	RQ2240A13	05	Equal work	Cost of equity
4	Nowneesh T	12202342	Q2240	RQ2240A14	05	Equal work	Cost of debt
4	Muskan Kumari	12202351	Q2240	RQ2240A15	05	Equal work	Cost of preference share capital
4	Piyush Sudesh Yadav	12202353	Q2240	RQ2240A16	05	Equal work	Weight average cost of capital

Equitas Small Finance Bank Analysis And Calculation

COST OF CAPITAL:

According to the Equitas Small Finance Bank's FY22 :

- Book value Per Share $= \frac{\text{Total stockholders equity – preferred stock}}{\text{Shares outstanding}}$

$$= \frac{42462-0}{1252}$$

$$= 33.91$$

- EPS (Earning Per Share) $= \frac{2807.318-0}{1170.653} = 2.40$
- Dividend payout Ratio = 0
- Market Capital= (Share price * Shares Outstanding) = 49.864* 1252.03 = 62432.823 Cr.
- Interest expenses= 14,230 Cr.
- Net income= 2807 Cr.
- Latest two-year Avg. Long-Term Debt & Capital Lease Obligation = 35,347.0851

COST OF EQUITY

CAPM Model:

Cost of Equity (K_e) = Risk-Free Rate of Return + (ß) of Asset* (Expected Return of the Market – Risk free Rate of Return)

- The current risk-free rate in INDIA =7.40000000% (10-Year Treasury Constant Maturity Rate)
- market premium = 6%

$$\therefore K_e = 7.40\% + 1*6\% = 13.4\%$$

Earning Price Ratio:

P/E Ratio: $\frac{\text{Current market cap}}{\text{Earnings based on TTM}} = \frac{62432.823}{365.8} = 17.07\%$

P/B Ratio: $\frac{\text{Market Cap}}{\text{Book Value}}=\frac{62432.823}{4244.9}$= 1.47%

P/S Ratio: $\frac{\text{Market Cap}}{\text{Sales}}=\frac{62432.823}{3580.7}$= 1.74%

COST OF DEBT (K_d)

The cost of debt is the effective interest rate that a company pays on its debts, such as bonds and loans. The cost of debt can refer to the before-tax cost of debt, which is the company's cost of debt before taking taxes into account, or the after-tax cost of debt. The cost of debt measurement is useful in understanding the overall rate of a company for paying for using these types of debt financing.

Formula

- Cost of Redeemable Debentures before tax

  $K_{db} = \frac{I+\left(\frac{RV-NP}{n}\right)}{\frac{RV+NP}{2}} *100$

- Cost of Irredeemable Debentures before tax

  $K_{db} = \frac{I}{NP} *100$

- Cost of Redeemable Debentures after tax

  $K_{da} = \frac{I(1-t)+\left(\frac{RV-NP}{n}\right)}{\frac{RV+NP}{2}} *100$

- Cost of Irredeemable Debentures after tax

  $K_{da} = \frac{I(1-t)}{NP} *100$

Cost of debt calculation

Total Interest of the company=1,421.13Cr

Borrowings=2,616.40Cr

Total debt of the company= 3534.70Cr

- Cost of debentures before tax

$K_{db} = \frac{I}{NP} * 100$

$= \frac{1{,}421.13}{3534.70} * 100$

$= 0.06589 * 100$

K_{db} = 40.2 %

Total income of FY22 =3997.23Cr

Tax =97.37Cr

Tax rate = $\frac{97.37}{3997.23} * 100$

$= 0.024359 * 100$

t = 2.43659 %

- Cost of debentures after tax

$K_{da} = \frac{I(1-t)}{NP} * 100$

$= \frac{1{,}421.13(1-2.44\%)}{3534.70} * 100$

$= \frac{1{,}421.13 * (0.9756)}{3534.70} * 100$

$= 0.3922 * 100$

K_{da} = 39.22 %

We are able to calculate the cost of debt for only Irredeemable Debentures because the balancesheet do not contain the number of year the debt should be return. So we are unable to calculate the Redeemable Debenture.

By calculating the debenture before and after tax, we are able to know how debenture is affected by the tax rate.

Then we have to compare it with the equity. If the cost of equity is high when compare to debt. Then the company is maintaining its good position.

COST OF PREFERENCE SHARE CAPITAL

The cost of preference share capital is the dividend dedicated and paid by means of the company.This price isn't always applicable for project evaluation because this is not the value of obtaining Additional capital. To determine the cost of acquiring the marginal price, we can beLocating the yield at the preference share based at the modern-day market price of thepreference share. The preference share is issued at a said dividend fee at the face valueof the share. Despite the fact that the dividend is not mandatory and it does now not create felonyobligations like debt, it has the choice of payment over equity for dividend paymentand distribution of property at the time of liquidation. therefore, with out paying thedividend to preference shares, they cannot pay something to equity shares. In that situation,Control commonly attempts to pay a regular dividend to the preference shareholders.

Cost of Pref. Share capital (Kp) = amount of preference dividend/ Preference share capital

Kp = D/P If we have obtained this preference share capital after some adjustments like premium or discount or pay some cost of floatation, at that time, it is our duty to deduct discount and cost of floatation or add premium in par value of pref. share capital.

In adjustment case cost of pref. share capital will change and we can calculate it with following way:- Kp = D/ NP D = Annual pref. dividend, NP = Net proceed = Par value of Pref. share capital – discount – cost of floatation

. Calculation of preference share capital issued by the company:

The Equity Small Finance ltd has not issued any cost of preference share in the last 5 years.

WEIGHTED AVERAGE COST

∴Weight of Equity: $\frac{E}{E+D} = \frac{62432.823}{62432.823+35347.0815} = 0.6385$

∴Weight of Debt: $\frac{D}{E+D} = \frac{35347.0815}{62432.823+35347.0815} = 0.3615$

As of this year (2022), Equitas Small Finance Bank's weighted average cost of capital is 19.41%. Equitas Small Finance Bank's ROIC % is 0.00% (calculated using TTM income statement data). Equitas Small Finance Bank earns returns that do not match up to its cost of capital. It will destroy value as it grows.

Equitas Small Finance Bank's Weighted Average Cost Of Capital (WACC) is calculated as:

WACC = E / (E + D) * Cost of Equity + D / (E + D) * Cost of Debt * (1 - Tax Rate)

= 0.6385 * 13.4% + 0.3615 * 40.2051% * (1 – 24.4%)

= 17.45%

- All numbers are indicated by the unit behind each term and all currency related amount are in USD.
- For other sections: All numbers are in millions except for per share data, ratio, and percentage. All currency related amount are indicated in the company's associated stock exchange currency.

Because it costs money to raise capital. A firm that generates higher ROIC % than it costs the company to raise the capital needed for that investment is earning excess returns. A firm that expects to continue generating positive excess returns on new investments in the future will see its value increase as growth increases, whereas a firm that earns returns that do not match up to its cost of capital will destroy value as it grows.

Reference Link

1. https://equitasbank.com/integrated-annual-report-21-22/pdf/equitas-ar-2021-22.pdf
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