ACADEMIC TASK NO – 2

**Corporate Finance: FIN542**

# Equitas Small Finance Bank

**Submitted To – Mr. Amanjot Singh Syan**

SUBMITTED BY: GROUP 4

SEC-Q2240



(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 =

=

= 33.91

* EPS (Earning Per Share) = = 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 (Ke) = 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%

∴ Ke = 7.40%+ 1\*6% =13.4%

**Earning Price Ratio:**

P/E Ratio: = = 17.07%

P/B Ratio: == 1.47%

P/S Ratio: = 1.74%

**COST OF DEBT (Kd)**

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

Kdb  \*100

* Cost of Irredeemable Debentures before tax

Kdb = \*100

* Cost of Redeemable Debentures after tax

Kda  \*100

* Cost of Irredeemable Debentures after tax

Kda = \*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

Kdb = \*100

= \*100

= 0.06589\*100

**Kdb = 40.2 %**

Total income of FY22 =3997.23Cr

Tax =97.37Cr

Tax rate = \*100

= 0.024359\*100

**t = 2.43659 %**

* Cost of debentures after tax

Kda = \*100

= \*100

= \*100

= 0.3922\*100

**Kda  = 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: = = 0.6385

∴Weight of Debt: = = 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 %](https://www.gurufocus.com/term/ROIC/BOM:543243/ROIC-/Equitas-Small-Finance-Bank) 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>
2. <https://www.gurufocus.com/term/wacc/NSE:EQUITASBNK/WACC-Percentage/Equitas%20Small%20Finance%20Bank>
3. <https://www.moneycontrol.com/financials/equitassmallfinancebank/balance-sheetVI/ESF>
4. <https://www.moneycontrol.com/financials/equitassmallfinancebank/profit-lossVI/ESF>
5. <https://economictimes.indiatimes.com/equitas-small-finance-bank-ltd/balancesheet/companyid-64238.cms>