

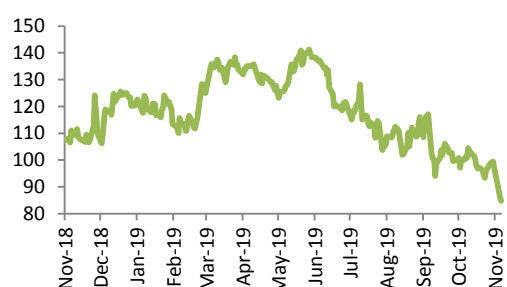
## Equitas Holdings Ltd.

Recommendation	HOLD
CMP	Rs. 86
Target Price	Rs. 122
Sector	Banking - SFB

## Stock Details

BSE Code	539844
NSE Code	EQUITAS
Bloomberg Code	EQUITAS IN
Market Cap (Rs Cr)	2,918
Free Float (%)	100%
52- week H/L (Rs)	143/78
Avg. volume (BSE+NSE)	47,44,730
Face Value (Rs)	10
Div per share (FY 19)	N.A
Shares o/s (Cr)	34.2

Relative Performance	1Mth	3Mth	1Yr
Equitas	-15%	-23%	-24%
Sensex	-21%	-31%	-38%



Shareholding Pattern	Sept' 19
Promoters Holding	0.0%
Institutional (Incl. FII)	63.6%
Public & others	36.4%

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### Asset quality deteriorates, remains key monitorable; Growth intact

- AUMs stood at Rs. 13,269 Cr, a growth of 33% YoY and 7% QoQ. Growth was mainly driven by Small Business Loans which grew by 44% YoY (33% mix) while Vehicle Finance continued its robust growth momentum growing at 31% YoY (24% mix), mainly due to 103% YoY in the new CV book. The share of microfinance continued to reduce to 24% of the book with growth remaining subdued at 18% YoY. Among the new businesses, Corporate grew by 63% (5% mix) while Agri grew by 49% (5% mix), albeit on a smaller base. We expect the company to maintain its loan growth momentum and grow its AUM at 31% CAGR over FY19-21E.
- Disbursement came at Rs. 2408 Cr growing by 11% YoY and by a healthy 19% QoQ after a soft Q1 which were lower due to the impact of elections on MFI segment and also Q1 being a seasonally weak quarter.
- NIMs were at 8.83%, higher by of 21 bps QoQ / 106 bps YoY. The main reason for expansion in NIMs YoY by 67 bps was the conscious shift of funds from the investment book (yields of ~7%) to the advances book (yields of ~19%). Investments and bank balance – to – total assets which formed 34% in Q2FY19 declined to 22%. NIMs will gradually keep coming down and stabilize between 7.5-8.0% in the long run as the portfolio mix shifts towards secured lending. NII grew by 29% YoY.
- Opex growth was at 21% YoY primarily due to higher employee expenses. C-I Ratio at 69.1% remained flat YoY & and decreased 70bps QoQ.
- This led to PPP growing by 21% YoY. Credit cost was at a 7 qtr high at 1.6% at Rs. 45 Cr (+47% on both YoY, QoQ) vs 1.1% QoQ & 1.4% YoY, mainly due to higher delinquencies in Used Vehicle portfolio and ageing of provisions.
- GNPA's increased marginally to 2.88% vs 2.75% QoQ & (Q2FY19 at 3.36%). Asset quality is weak in H1 for the co. every year. H2 should be better and NPAs are likely to settle at lower levels by Q4FY20 as per past trends.
- The company reported Net Profit of Rs. 47.6 Cr vs Rs. 48.8 Cr in Q2FY19 (-2% YoY) and Rs. 55.0 Cr in Q1FY20 (-14% QoQ).

### Valuation and Outlook

With visible ROE expansion to 16.4% in FY21E on the back of strong AUM growth and lower opex, we believe Equitas SFB's valuations will gravitate towards that of SFBs, banks and NBFCs demonstrating similar growth and profitability. We remain positive on the stock given strong earnings growth of 53% CAGR over FY19-21E. We value (Equitas SFB at 3.0x FY21E Adj. BV) Equitas Holdings at a 55% discount to SFB, at 1.4x FY21E Adj. BV at Rs. 122, post factoring the holdco discount.

Year	NII (Rs cr)	Growth (%)	PAT (Rs cr)	Growth (%)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoA (%)	RoE (%)
FY18	924	7%	31	-80%	0.9	93.7	63.6	1.4	0.3%	1.4%
FY19E	1,179	28%	217	592%	6.4	13.6	68.3	1.3	1.5%	9.1%
FY20E	1,528	30%	343	58%	10.0	8.6	76.9	1.1	1.9%	12.8%
FY21E	1,889	24%	509	49%	14.9	5.8	90.3	1.0	2.2%	16.4%

## Equitas Holdings Ltd.

## Quarterly Results

Particulars (Rs. Cr)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Comments
Interest Earned	388	396	439	482	526	557	575	603	639	NIMs were at 8.83%, an improvement of 106 bps YoY and 21 bps QoQ. Although NIMs will gradually keep coming down and stabilize between 7.5-8.0% in the long
Interest Expended	160	162	190	228	254	237	242	266	289	
Net Interest Income	228	234	249	254	272	320	333	337	351	
Growth	14%	1%	12%	18%	19%	37%	34%	33%	29%	
NIMs	8.90%	8.80%	8.12%	7.29%	7.77%	8.98%	8.85%	8.62%	8.83%	
Other Income	34	33	43	61	72	65	68	55	64	
% of total income	13%	12%	15%	19%	21%	17%	17%	14%	15%	
Total Income	262	267	292	316	343	386	401	392	414	
Growth	-2%	-1%	21%	7%	31%	45%	38%	24%	21%	
Employee exp	130	133	122	138	135	134	147	166	173	Opex growth was at 21% YoY due to hiring in the sale and collections team and a 10% increment given to staff. C-I ratio stood at 69.1% (same YoY). Opex growth would continue to remain at 15% YoY in FY20E.
Other op exp	87	92	102	101	103	129	128	107	114	
Total op exp	217	225	224	239	237	263	275	274	286	
Growth	68%	32%	15%	6%	9%	17%	23%	14%	21%	
Cost to income ratio	83.0%	84.4%	76.9%	75.9%	69.1%	68.2%	68.5%	69.8%	69.1%	
Profit before prov.	44	42	67	76	106	123	126	119	128	
Provisions	27	87	14	21	31	24	25	31	45	Credit cost was at a 7 qtr high at 1.6% at Rs. 45 Cr (+47% on both YoY, QoQ) vs 1.1% QoQ & 1.4% YoY, mainly due to higher delinquencies in Used Vehicle portfolio and ageing of provision.
Growth	-49%	195%	-62%	-52%	14%	-72%	80%	47%	47%	
Credit Cost	1.50%	4.66%	0.72%	1.05%	1.43%	1.04%	0.99%	1.14%	1.56%	
Profit before tax	17	-45	54	55	75	98	101	88	83	
Tax	7	-15	19	20	27	36	33	33	35	
Profit after tax	10.9	-30.0	34.9	35.4	48.8	62.5	68.8	55.0	47.6	
Growth	-81%	-167%	409%	129%	346%	-308%	97%	55%	-2%	
No. of shares	339.0	337.8	340.4	340.8	341.1	341.1	341.5	341.6	341.6	AUMs clocked a robust growth of 33% YoY standing at Rs. 13,269 Cr. QoQ growth was at 7%, driven by sharp increase in New CV book and Small Business loans.
EPS	0.3	-0.9	1.0	1.0	1.4	1.8	2.0	1.6	1.4	
AUMs	7,326	7,720	8,238	8,926	9,981	10,861	11,835	12,355	13,269	
Growth	3%	8%	15%	27%	36%	41%	44%	38%	33%	
CASA Ratio	28.3%	32.7%	34.6%	32.1%	34.6%	30.5%	28.3%	25.8%	23.3%	
CAR	31.62%	0.00%	0.00%	25.59%	22.27%	21.57%	20.92%	20.11%	20.46%	
Slippages	NA	NA	52	60	118	75	64	79	115	
Slippage Ratio	0.0%	0.0%	2.5%	2.7%	4.7%	2.7%	2.2%	2.6%	3.5%	Asset quality is weak in H1 for the co. every year. H2 should be better and NPAs are likely to settle at lower levels by Q4FY20 as per past trends.
Gross NPA	5.8%	5.0%	2.7%	2.8%	3.4%	3.1%	2.5%	2.8%	2.9%	
Net NPA	2.8%	1.6%	1.4%	1.5%	2.0%	1.8%	1.6%	1.7%	1.6%	
PCR	51.4%	67.4%	47.3%	46.8%	41.0%	44.2%	43.5%	44.1%	43.8%	
ROA	0.4%	-1.1%	1.1%	1.0%	1.4%	1.7%	1.8%	1.5%	1.1%	
ROE	1.9%	-5.3%	6.1%	6.2%	8.5%	10.4%	11.2%	9.8%	8.1%	

Source: Company data, Nirmal Bang Retail Research

## Key Conference-call Highlights

### Diversified book ensures growth sustenance

- ✦ Advances clocked a robust growth of 33% YoY and AUM standing at Rs. 13,269 Cr. QoQ growth was at 7%.
- ✦ Segmental AUM Growth (Mix) – MFI +18% (24% mix); Vehicles +31% (24% mix); Small Business +44% (33% mix); Others +40% (19% mix).
- ✦ Disbursement came at Rs. 2408 Cr growing by 11% YoY. Disbursements increased by a healthy 19% QoQ after a soft Q1 (Rs. 2018 Cr) owing to the impact of elections on MFI segment and also Q1 being a seasonally weak qtr. Overall, H1 is seasonally slow for the co. in terms of growth and is expected to pick up pace in H2 as per the management.
- ✦ Within vehicles, the co is shifting focus from Used CVs (higher yields, higher credit cost) to New CVs where borrowers are small fleet owners owning 2-6 LCVs. Co is avoiding New HCV segment due to higher competition and lower yields.
- ✦ MSE loans are currently being offered in 200 out of 600 asset branches. The management believes MSE will form a sizeable portion of the product mix at 15% from a current level of 3-5%, in the next 5 years.
- ✦ Corporate loan book (5% mix) will grow fast as the company will continue to lend to NBFCs, which have minimum or no exposure to CP market.

### Other Operational Highlights

- ✦ Opex growth was at 21% YoY with C-I ratio at 69.1% against 69.8% QoQ & a similar figure YoY.
- ✦ Equitas is planning to add 20 asset and liability branches each which will take the tally to 620 and 420 respectively. Co added 1800 employees during the quarter in Small Business Loans and New CV loans segment, equally split between sales and collections. Also the Co. gave a 10% increment in April. The management has maintained its earlier guidance of 15% increase in opex for FY20E.
- ✦ Equitas will continue to focus on building retail deposits resulting in muted CASA growth.
- ✦ NIMs were at 8.83%, an improvement of 106 bps YoY and 21 bps QoQ. Although NIMs will gradually keep coming down and stabilize between 7.5-8.0% in the long run as the portfolio mix shifts towards secured lending (currently 74%). Unsecured portion comprises of MFIs (24%) and Unsecured Small Business Loans (2%).
- ✦ Co was earlier not focused on affordable housing finance, but now has identified 40-50 branches in tier 4/5 towns and recruited people exclusively for this segment.
- ✦ Percentage of loans linked to EBR + Floating rate are just 2-3%. Most of the loans are on fixed basis and hence are not mandated to be benchmarked.

## Equitas Holdings Ltd.

**Asset Quality**

- ✎ Credit cost was at a 7 qtr high at 1.6% at Rs. 45 Cr (+47% on both YoY, QoQ) vs 1.1% QoQ & 1.4% YoY, mainly due to higher delinquencies in Used Vehicle portfolio and ageing of provisions.
- ✎ Asset quality deteriorated with slippages increasing 44% QoQ / -3% YoY to Rs. 115 Cr. Slippage ratio was elevated at 3.5% against 2.6% QoQ & 4.7% YoY. Slippage ratio for FY19 was at 2.7%.
- ✎ GNPA's increased marginally to 2.88% vs 2.75% QoQ & (Q2FY19 at 3.36%).
- ✎ Asset quality is typically weak in H1 for the co. every year. H2FY20 should be better and NPAs are likely to settle at lower levels (2.51%) by Q4FY20 as per past trends.

**Listing of Equitas SFB (Scheme of Arrangement)**

- ✎ Equitas Holdings will list the SFB via the IPO route which is expected to be completed within six months.
- ✎ Listing of SFB via the IPO route will result into Holdco Discount to Equitas Holdings. Equitas Holdings is already trading at implied discount of 68% and thus there is no scope for further downside.
- ✎ However, RBI requires promoter to reduce holding to 40% by Sep 2021. Thus the co. is exploring a combination of ways to achieve this like: acquisitions, subsequent OFS post IPO, raising fresh capital post IPO. We believe OFS post IPO, will be the best option to reduce promoter shareholding, in case Sebi does not approve reverse merger of Holdco into SFB.
- ✎ Based on the co's previous experience of dealing with Sebi for its earlier Scheme of Arrangement, it believes Sebi will not permit reverse merger of the Holdco into SFB as Sebi norms specify either there has to be a scheme of merger or a scheme of reconstruction (where cos. buy/sell assets in each other). The Holdco merging into SFB does not fall under any of these 2 schemes.

## Equitas Holdings Ltd.

## Valuation and View

- Equitas offers a unique opportunity to participate in a business model that offers nimbleness and pricing power of an NBFC on one hand and the deposit generating ability of a bank on the other. Equitas has successfully diversified across 8 products with its core focus on self-employed individuals and micro and small enterprises (MSEs) that are underserved by formal financing channels.
- Non-Microfinance mix in AUM has increased from 46% in FY16 to 76% in Q2FY20. **We expect the company to maintain its growth momentum and grow its AUM at 31% CAGR over FY19-21E.**
- We expect Equitas to sustain NIMs at over 8.0% during FY19-21 and subsequently in the range of ~7.5-8.0% over the longer term. We believe a significant portion of the long term strategy to scale down Micro Finance portfolio has been already executed with the share of MF now at 24%. Cost of funds is expected to be under control on the back of increase in deposits as % of total borrowings at 44%/63%/68% over FY18/19/20E.
- Operating costs have peaked out and the benefit of operating leverage shall kick-in with acceleration in loan/NII growth. **We forecast Equitas' opex to grow at 14% CAGR over FY19-21E as against total income growth of 24% CAGR and thus deliver cost/income ratio of 59.8% in FY21E v/s 70.1% in FY19.**
- With current Tier 1 ratio of 20.5% and scope for raising Tier 2 capital (currently 1.1%), we do not foresee Equitas raising Tier 1 capital over the next three years. We believe Equitas can grow its AUM at ~30% CAGR and reach top quartile profitability levels (ROE of 17-18%) over the same period (next three years).
- Operating leverage along with an improvement in capital gearing shall propel ROE to 16.4% by FY21E from 9.0 % in FY19.**
- With visible ROE expansion to ~17-18% levels in the long term (by FY22E) on the back of strong AUM growth and lower opex, we believe Equitas SFB's valuations will gravitate towards that of SFBs, banks and NBFCs demonstrating similar growth and profitability. We value (Equitas SFB at 3.0x FY21E Adj. BV) Equitas Holdings at a 55% discount to SFB, at 1.4x FY21E Adj. BV at Rs. 122, post factoring the holdco discount.

## ROA/ROE to improve led by operating leverage

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
NII	12.3%	10.8%	10.9%	10.5%	10.9%	8.1%	8.0%	8.4%	8.1%
Other Income	4.0%	2.0%	1.9%	1.8%	1.4%	1.7%	1.8%	1.4%	1.4%
Total Income	16.3%	12.8%	12.8%	12.4%	12.3%	9.7%	9.8%	9.8%	9.5%
Opex	11.7%	7.0%	6.9%	6.6%	7.7%	7.8%	6.8%	6.4%	5.7%
PPP	4.6%	5.7%	5.9%	5.8%	4.6%	1.9%	2.9%	3.4%	3.8%
Provisions	0.8%	0.8%	1.4%	1.1%	1.3%	1.5%	0.7%	0.9%	0.9%
PBT	3.8%	4.9%	4.5%	4.7%	3.3%	0.4%	2.3%	2.5%	2.9%
Tax Rate	20%	35%	35%	36%	37%	39%	35%	25%	25%
ROA	2.3%	3.2%	3.0%	3.0%	2.1%	0.3%	1.5%	1.9%	2.2%
Leverage	3.6	3.8	3.8	4.4	4.5	5.1	6.2	6.8	7.5
ROE	8.2%	12.2%	11.1%	13.3%	9.3%	1.4%	9.1%	12.8%	16.4%

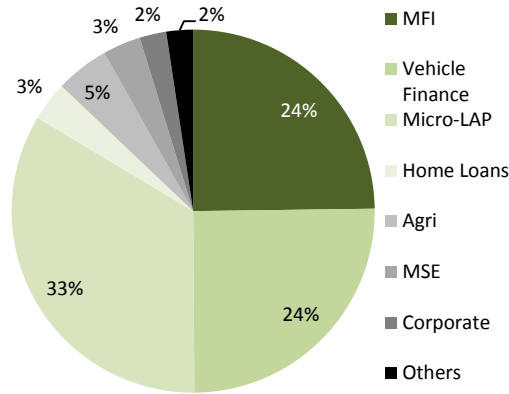
Source: Company, NBRR



Equitas Holdings Ltd.

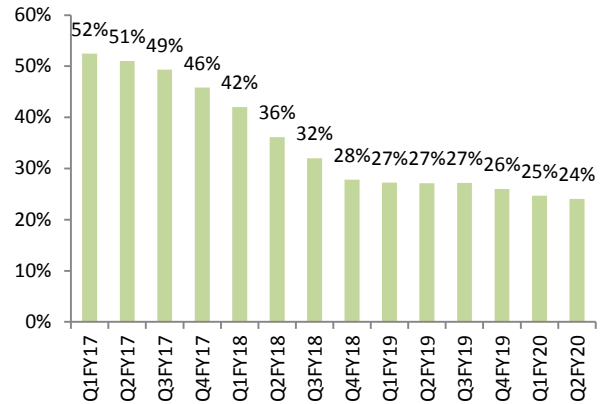
Story in charts

Loan Book Mix



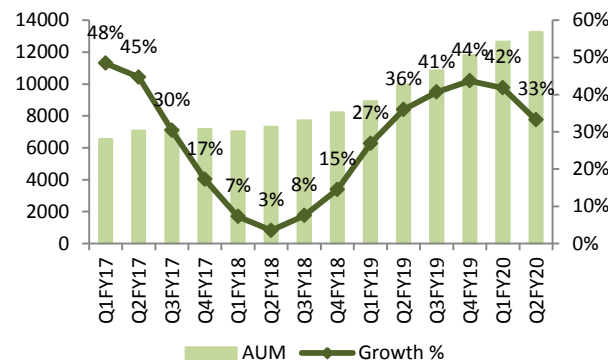
Source: Company, NBRR

Share of Microfinance declines to 24%



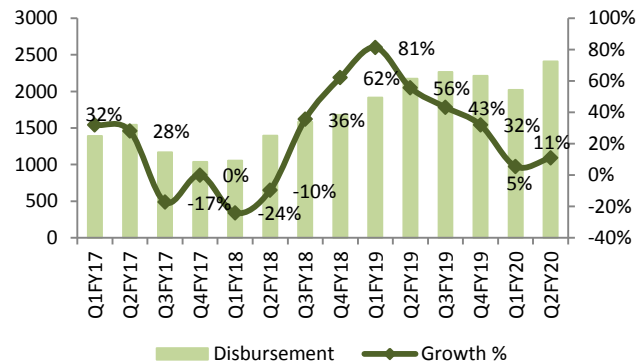
Source: Company, NBRR

AUM Growth (driven by Non-MFI segments)



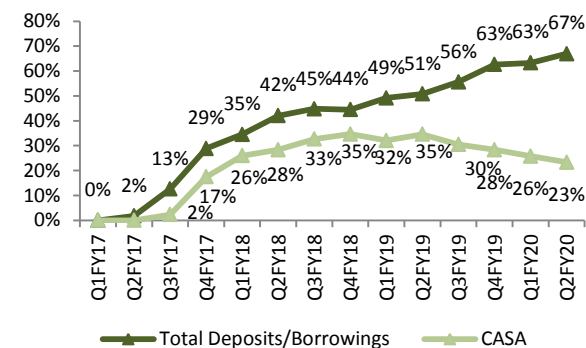
Source: Company, NBRR

Seasonally weak H1 resulting in subdued disb. growth



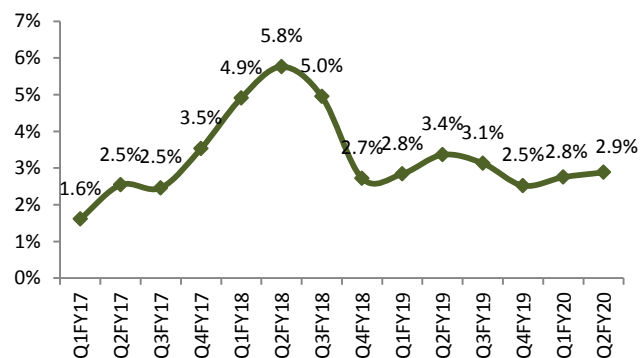
Source: Company, NBRR

Improving total deposits / borrowings



Source: Company, NBRR

Asset Quality stable



Source: Company, NBRR

## Equitas Holdings Ltd.

## Financials

P&L (Rs. Crs)	FY17	FY18	FY19	FY20E	FY21E	Bal. Sheet (Rs. Crs)	FY17	FY18	FY19	FY20E	FY21E
Interest earned	1,443	1,598	2,140	2,771	3,516	Equity capital	338	340	341	341	341
Interest expended	576	674	961	1,244	1,627	Reserves & surplus	1,893	1,936	2,157	2,500	3,009
<b>NII</b>	<b>867</b>	<b>924</b>	<b>1,179</b>	<b>1,528</b>	<b>1,889</b>	Net worth	2,231	2,276	2,498	2,841	3,350
Non interest income	114	189	267	252	328	Deposits	1,572	4,719	8,016	11,336	14,756
<b>Total income</b>	<b>981</b>	<b>1,114</b>	<b>1,446</b>	<b>1,779</b>	<b>2,217</b>	Growth	-	200%	70%	41%	30%
Growth	44%	14%	30%	23%	25%	Borrowings	4,971	5,888	4,785	5,380	7,163
Operating expenses	615	891	1,012	1,161	1,326	Other liab and prov	670	612	763	839	923
Growth	71%	45%	14%	15%	14%	Total liabilities	7,213	11,219	13,564	17,556	22,842
Staff costs	396	520	555	690	801	<b>Total liab and equity</b>	<b>9,443</b>	<b>13,495</b>	<b>16,062</b>	<b>20,397</b>	<b>26,192</b>
Other Op Exp	219	371	457	470	525	Cash and bank bal	1,064	1,194	1,261	1,360	1,623
<b>Profit before prov</b>	<b>366</b>	<b>223</b>	<b>434</b>	<b>619</b>	<b>891</b>	Investments	1,896	3,857	2,345	2,783	3,476
Growth	15%	-39%	95%	43%	44%	Net Advances	5,829	7,800	11,720	15,341	20,069
Provisions	103	172	101	161	211	Growth	15%	34%	50%	31%	31%
Growth	74%	67%	-41%	60%	31%	Other assets	326	313	444	654	754
Exceptional items	-11	0	0	0	0	Fixed Assets	329	330	292	257	270
Profit before tax	252	51	333	458	681	<b>Total assets</b>	<b>9,443</b>	<b>13,495</b>	<b>16,062</b>	<b>20,397</b>	<b>26,192</b>
Taxes	92	20	116	115	172						
<b>Net profit</b>	<b>159</b>	<b>31</b>	<b>217</b>	<b>343</b>	<b>509</b>						
Growth	-5%	-80%	592%	58%	49%						

Key Ratios	FY17	FY18	FY19	FY20E	FY21E	Asset Quality	FY17	FY18	FY19	FY20E	FY21E
Yield on Advances	21.5%	19.7%	20.6%	19.8%	19.3%	GNPA	206	213	296	386	486
Yield on Tot Assets	18.5%	14.3%	14.8%	15.4%	15.3%	GNPA ratio	3.5%	2.7%	2.5%	2.5%	2.4%
Cost of Borrowings	10.1%	7.6%	8.1%	8.3%	8.3%	NNPA	86	112	167	217	267
Spread	11.4%	12.1%	12.5%	11.4%	11.0%	NNPA ratio	1.5%	1.4%	1.4%	1.4%	1.3%
NIM	9.4%	8.1%	8.2%	8.6%	8.3%	PCR (Reported)	47%	43%	44%	45%	46%
						Credit Cost	2.5%	1.0%	1.2%	1.2%	1.2%

Profitability Ratios	FY17	FY18	FY19	FY20E	FY21E	Balance Sheet Ratios	FY17	FY18	FY19	FY20E	FY21E
Cost / Income	62.7%	80.0%	70.0%	65.2%	59.8%	CD Ratio	370.8%	165.3%	146.2%	135.3%	136.0%
ROA	2.1%	0.3%	1.5%	1.9%	2.2%	CASA	1.1%	34.6%	28.3%	20.2%	19.7%
ROE	9.3%	1.4%	9.1%	12.8%	16.4%	CAR	35.5%	28.6%	22.4%	21.8%	21.2%
						Tier - 1	32.3%	27.1%	20.9%	19.1%	17.4%

Per Share Data	FY17	FY18	FY19	FY20E	FY21E	Valuation Ratios	FY17	FY18	FY19	FY20E	FY21E
EPS	4.7	0.9	6.4	10.0	14.9	P/E	18.3	93.7	13.6	8.6	5.8
BVPS	66.0	66.9	73.2	83.2	98.1	P/BV	1.3	1.3	1.2	1.0	0.9
Adjusted BVPS	63.5	63.6	68.3	76.9	90.3	P/ABV	1.4	1.4	1.3	1.1	1.0

Source: Company data, NBRR

**Disclosure:**

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