

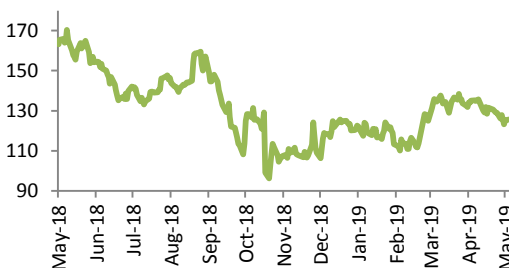
Equitas Holdings Ltd.

Recommendation	BUY
CMP	Rs. 126
Target Price	Rs. 187
Sector	Banking - SFB

Stock Details

BSE Code	539844
NSE Code	EQUITAS
Bloomberg Code	EQUITAS IN
Market Cap (Rs Cr)	4,287
Free Float (%)	100%
52- week H/L (Rs)	174/78
Avg. volume (BSE+NSE)	29,79,690
Face Value (Rs)	10
Div per share (FY 19)	N.A
Shares o/s (Cr)	34.1

Relative Performance	1Mth	3Mth	1Yr
Equitas	-7.1%	14.0%	-24.3%
Sensex	-4.7%	2.9%	4.3%



Shareholding Pattern

Mar' 19

Promoters Holding	0.0%
Institutional (Incl. FII)	60.6%
Public & others	39.4%

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Higher AUM growth negated by higher OPEX; Expect robust performance in FY20E

- Equitas Holdings reported another all-round healthy quarter. AUMs stood at Rs. 11,834 Cr, a growth of 44% YoY and 9% QoQ. Growth was mainly driven by Micro LAP which grew by 74% YoY (32% mix) while Vehicle Finance grew by 30% YoY (25% mix), mainly due to sharp increase in the new CV book. Microfinance grew by 34% YoY (26% mix). Among the new businesses, Corporate grew by 151% (4% mix) while Agri grew by 84% (4% mix), albeit on a smaller base. We expect the company to maintain its loan growth momentum and grow its AUM at 33% CAGR over FY19-21E.
- NIMs stood at 8.85% in Q4FY19 as against 8.95% in Q3FY19 and at 8.12% in Q4FY18. The main reason for expansion in NIMs was a conscious shift of funds from the investment book (yields of ~7%) to the advances book (yields of ~19%). Investments and bank balance – to – total balance sheet which formed 37% in Q4FY18 declined to 22% in the current quarter. NIMs are expected to stabilize in the 8-8.5% range over FY20-21. NII grew by 34% YoY.
- Opex growth was at 23% YoY with cost/income at 68.5% vs 68.2% QoQ & 76.9% YoY; excluding PSLC expenses of Rs. 7.4 Cr opex growth would have been 19% with cost/income at 66.7%. Opex was also higher partly due to the additional provision of ~Rs. 5.5 Cr towards special allowance for employees on the back of Supreme Court order.
- This led to PPP growing by 87% YoY. Quarterly provisioning remained flat QoQ at Rs. 25 Cr with credit cost of 1.0%.
- The highlight of the quarter was the improvement in asset quality. Despite the company's policy of daily recognition of NPA and catering to the bottom of the pyramid borrower segment, GNPA for the quarter came in at 2.52%, lower by 61 bps QoQ and 20 bps YoY. Gross slippages were at Rs. 64.4 Cr (at 2.2% in line with the annual run-rate of 2.5%), while higher write-offs at Rs. 41.4 Cr during the quarter led to a fall in GNPA.
- The company reported Net Profit of Rs. 68.8 Cr vs Rs. 34.9 Cr in Q4FY18 (+97% YoY) and Rs. 62.5 Cr in Q3FY19 (+10% QoQ).

Valuation and Outlook

With visible ROE expansion to ~16-18% levels in the long term (by FY22E) on the back of strong AUM growth, lower opex and stable credit costs, we believe Equitas' 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 52% CAGR over FY19-21E. We value (Equitas SFB at 3.0x FY21E Adj. BV) Equitas Holdings at a 30% discount to SFB, at 2.1x FY21E Adj. BV at Rs. 187, 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	136.8	63.6	2.0	0.3%	1.4%
FY19E	1,185	28%	216	589%	6.3	19.9	67.6	1.9	1.5%	9.0%
FY20E	1,540	30%	352	63%	10.3	12.2	76.5	1.6	1.9%	13.2%
FY21E	1,917	25%	499	42%	14.6	8.6	89.0	1.4	2.1%	16.1%

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Quarterly Results

Particulars (Rs. Cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Comments
Interest Earned	374	388	396	439	482	533	557	575	
Interest Expended	158	160	162	190	228	256	237	242	
Net Interest Income	216	228	234	249	254	277	320	333	NIMs have improved YoY and remained stable QoQ, on the back of conscious efforts to reduce the investment book (earning ~7%) and divert funds to yield earning advances (earning ~20%).
Growth	6%	14%	1%	12%	18%	22%	37%	34%	
NIMs	8.90%	8.90%	8.80%	8.12%	7.29%	7.77%	8.98%	8.85%	
Other Income	80	34	33	43	61	65	65	68	
% of total income	27%	13%	12%	15%	19%	19%	17%	17%	
Total Income	296	262	267	292	316	342	386	401	
Growth	30%	-2%	-1%	21%	7%	31%	45%	38%	
Employee exp	135	130	133	122	138	136	134	147	Cost to Income ratio inched up slightly QoQ, however, improved substantially from 76.9% in Q4FY18 to 68.5% in Q4FY19.
Other op exp	91	87	92	102	101	99	129	128	Excluding the PSLC expense, C-I would have stood at ~66%.
Total op exp	226	217	225	224	239	234	263	275	
Growth	100%	68%	32%	15%	6%	8%	17%	23%	
Cost to income ratio	76.6%	83.0%	84.4%	76.9%	75.9%	68.5%	68.2%	68.5%	
Profit before prov.	69	44	42	67	76	108	123	126	Quarterly provisioning has remained flat at Rs. 25 Cr QoQ.
Provisions	44	27	87	14	21	31	24	25	Credit cost came at 1.0%.
Growth	150%	-49%	195%	-62%	-52%	13%	-72%	80%	
Credit Cost	2.58%	1.50%	4.66%	0.72%	1.05%	1.41%	1.04%	0.99%	
Profit before tax	25	17	-45	54	55	77	98	101	
Tax	10	7	-15	19	20	27	36	33	
Profit after tax	15.4	10.9	-30.0	34.9	35.4	49.7	62.5	68.8	
Growth	-75%	-81%	-167%	409%	129%	355%	-308%	97%	
No. of shares	337.8	339.0	337.8	340.4	340.8	341.1	341.1	341.1	AUMs witnessed robust growth of 44% YoY mainly led by Micro-LAP and Vehicle Finance books. The MFI book has also seen a strong recovery.
EPS	0.5	0.3	-0.9	1.0	1.0	1.5	1.8	2.0	
AUMs	7,039	7,326	7,720	8,238	8,926	9,981	10,861	11,835	
Growth	7%	3%	8%	15%	27%	36%	41%	44%	
CASA Ratio	25.9%	28.3%	32.7%	34.6%	32.1%	34.6%	30.5%	28.3%	
CAR	31.90%	31.62%	0.00%	0.00%	25.59%	22.27%	21.57%	20.92%	
Slippages	NA	NA	NA	52	60	118	75	64	Asset Quality improved with slippages ratio falling from 2.7% to 2.2% QoQ and GNPA improving to 2.5% (~61 bps QoQ and ~20 bps YoY).
Slippage Ratio	0.0%	0.0%	0.0%	2.5%	2.7%	4.7%	2.7%	2.2%	
Gross NPA	4.9%	5.8%	5.0%	2.7%	2.8%	3.4%	3.1%	2.5%	
Net NPA	2.4%	2.8%	1.6%	1.4%	1.5%	2.0%	1.8%	1.6%	
PCR	52.0%	51.4%	67.4%	47.3%	46.8%	41.0%	44.2%	37.1%	
ROA	0.7%	0.4%	0.0%	1.1%	1.0%	1.4%	1.7%	1.8%	
ROE	2.7%	1.9%	-5.4%	6.1%	6.1%	8.4%	10.3%	11.0%	

Source: Company data, Nirmal Bang Retail Research

Key Conference-call Highlights

Loan Book & Disbursement Growth

- ✦ Equitas reported another healthy quarter with advances clocking a robust growth of 44% YoY and AUMs standing at Rs. 11,835 Cr. The management has guided for a 35-40% advances growth for FY20E. It does not look to add any new products to the current product portfolio.
- ✦ Disbursement came at Rs. 2214 Cr vs Rs. 1679 Cr growing at 32% YoY and remained flat QoQ. Disbursements to MFI and Micro-LAP could not increase due to elections as well as additional holidays in the month of January. The management is hopeful of pick up in momentum and will look to increase the disbursement of high yielding products like MFI and Micro-LAP in the coming quarters.
- ✦ The management also expects the MFI book (26% mix) to grow at 20-25% on a steady state basis and also expects the Used CV book (19% mix) to pick-up going ahead. Equitas is looking to expand its sales team to grow the used CV book.
- ✦ Within the MSE segment (Rs. 525 Cr; 4% mix), the management indicated that it will reduce the existing unsecured business loan portfolio (Rs. 347 Cr; 3% mix) as a conscious strategic decision. Equitas will focus on growing the secured working capital loans having ticket sizes of Rs. 60-70 lacs vs ~Rs. 13 Lacs for unsecured business loans.
- ✦ The management also believes that MSE will form a sizeable portion of the product mix at 15% from the current level of 4%, in the long term. This will also see a shift in the product mix, with other products contributing 3-4% lower than current levels.
- ✦ Corporate loan book (4% mix) will grow as the company will continue to lend to NBFCs, which have minimum or no exposure to CP market. Equitas is currently not looking to fund HFCs.
- ✦ Currently, MFI disbursements ticket size stands at ~Rs. 29,000 and may be increased by Rs. 3,000-4,000 in all geographies. However, it will not touch Rs. 45,000 like its peers.

Asset Quality

- ✦ Despite the company's policy of daily recognition of NPA and catering to the bottom of the pyramid borrower segment, GNPA for the quarter came in at 2.52%, lower by 61 bps QoQ. Gross slippages were at Rs. 64.4 Cr (2.2%) while stronger write-offs led to a fall in GNPA.
- ✦ Micro-LAP portfolio GNPA looks high at 2.6% as it includes the legacy portfolio of housing finance worth Rs. 450 Cr, which was characterized by a high NPA. Keeping aside the legacy portfolio, Micro-LPA GNPA stand at 1.1%.

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Other Operational Highlights

- ✦ Opex growth was at 23% YoY with cost/income at 68.5% vs 68.2% QoQ & 76.9% YoY; excluding PSLC expenses of Rs. 7.4 Cr opex growth would have been 19% with cost/income at 66.7%. Opex was also higher partly due to the additional provision of ~Rs. 5.5 Cr towards special allowance for employees on the back of Supreme Court order.
- ✦ Equitas is planning to add 20 asset and liability branches each in FY20E from the current count of 500 and 375 branches respectively. Equitas will also increase the employee count by ~2,000 (currently 14,653). The management has guided for 15% increase in opex for FY20E.
- ✦ Equitas will continue to focus on building retail deposits and has increased term deposit rates resulting in a muted CASA growth.
- ✦ The management indicated that henceforth, the investments book growth would be in-line with the balance sheet growth. This will be accompanied by lower opex and lower credit costs thereby supporting ROA.
- ✦ NIMs have improved YoY and remained stable QoQ, on the back of conscious efforts to reduce the investment book (earning ~7%) and divert funds to yield earning advances (earning ~20%). NIMs will keep coming down in the long term and stabilize as the portfolio mix stabilizes towards secured lending. Eg: As the share of secured working capital loans under MSE rises to 15% from the current 2%, NIMs will constantly decline as yields under this product are at ~14% vs ~20% for most other products. However lower yields will also be accompanied by lower opex (owing to higher ticket size) and lower credit costs (secured) thus supporting ROA.
- ✦ The company is currently awaiting regulatory approvals from RBI and SEBI for separate listing of the SFB which is due in Sep 2019.

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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 74% in FY19. **We expect the company to maintain its growth momentum and grow its AUM at 33% CAGR over FY19-21E.**
- We expect Equitas to sustain NIMs in the ~8.0-8.5% range over FY20-21. 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 26%. Cost of funds is expected to be under control on the back of increase in deposits as % of total borrowings from 24%/44%/63% over FY17/18/19.
- We believe 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 16% CAGR over FY19-21E as against total net income growth of 26% CAGR and thus deliver cost/income ratio of 58.7% in FY21E v/s 70.1% in FY19.**
- With current Tier 1 ratio of 20.9% and scope for raising Tier 2 capital (currently 1.5%), 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 16-18%) over the same period.
- Operating leverage along with an improvement in capital gearing shall propel ROE to 16.1% by FY21E from 9.0 % in FY19.**
- With visible ROE expansion to ~16-18% levels in the long term (by FY21/22E) on the back of strong AUM growth, lower opex and stable credit costs, we believe Equitas' 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 30% discount to SFB, at 2.1x FY21E Adj. BV at Rs. 187, post factoring the holdco discount.

ROA/ROE to improve led by operating leverage

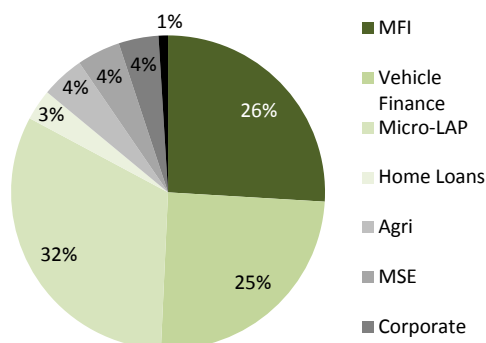
	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
NII	12.3%	10.8%	10.9%	10.5%	10.9%	8.1%	8.0%	8.4%	8.1%
Other Income	4.0%	2.0%	1.9%	1.8%	1.4%	1.7%	1.8%	1.6%	1.6%
Total Income	16.3%	12.8%	12.8%	12.4%	12.3%	9.7%	9.8%	10.0%	9.8%
Opex	11.7%	7.0%	6.9%	6.6%	7.7%	7.8%	6.8%	6.3%	5.7%
PPP	4.6%	5.7%	5.9%	5.8%	4.6%	1.9%	2.9%	3.7%	4.0%
Provisions	0.8%	0.8%	1.4%	1.1%	1.3%	1.5%	0.7%	0.8%	0.8%
PBT	3.8%	4.9%	4.5%	4.7%	3.3%	0.4%	2.2%	2.9%	3.2%
Tax Rate	20%	35%	35%	36%	37%	39%	35%	35%	35%
ROA	2.3%	3.2%	3.0%	3.0%	2.1%	0.3%	1.5%	1.9%	2.1%
Leverage	3.6	3.8	3.8	4.4	4.5	5.1	6.2	6.9	7.6
ROE	8.2%	12.2%	11.1%	13.3%	9.3%	1.4%	9.0%	13.2%	16.1%

Source: Company, NBRR

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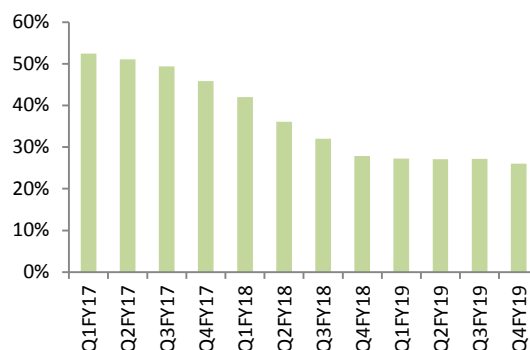
Story in charts

Loan Book Mix



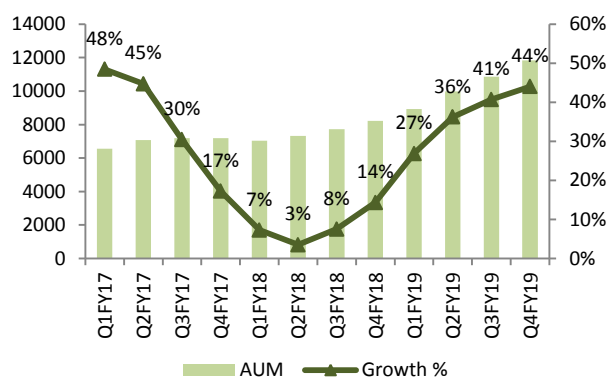
Source: Company, NBRR

Share of Microfinance declines to 26%



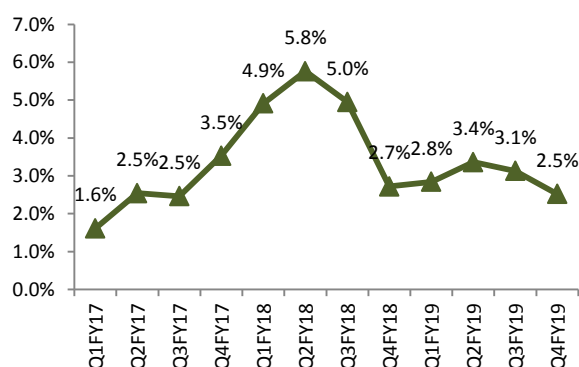
Source: Company, NBRR

AUM Growth being driven by Non-MFI segments



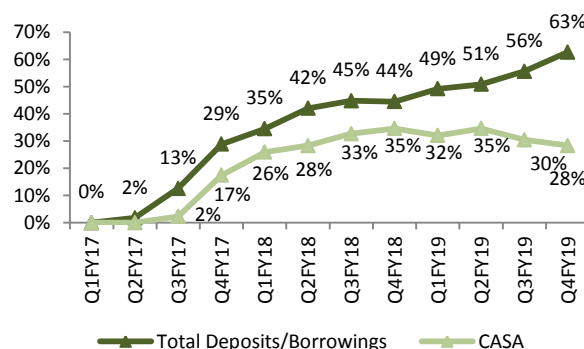
Source: Company, NBRR

Improvement in asset Quality



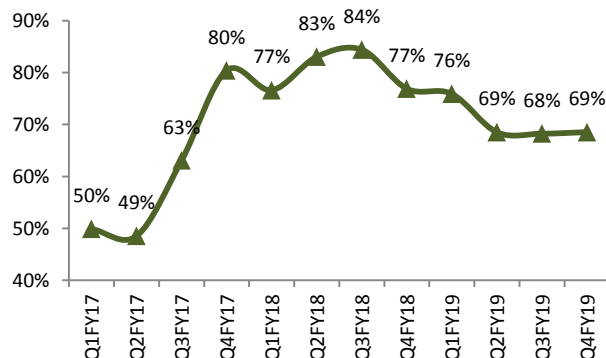
Source: Company, NBRR

Improving total deposits / borrowings



Source: Company, NBRR

Cost/Income continues to decline (66.7% excl. PSLC impact)



Source: Company, NBRR

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Financials

P&L (Rs. Crs)	FY17	FY18	FY19	FY20E	FY21E
Interest earned	1,443	1,598	2,148	2,701	3,434
Interest expended	576	674	963	1,162	1,517
NII	867	924	1,185	1,540	1,917
Non interest income	114	189	260	301	389
Total income	981	1,114	1,444	1,840	2,306
<i>Growth</i>	44%	14%	30%	27%	25%
Operating expenses	615	891	1,012	1,160	1,354
<i>Growth</i>	71%	45%	14%	15%	17%
<i>Staff costs</i>	396	520	555	650	760
<i>Other Op Exp</i>	219	371	457	510	594
Profit before prov	366	223	432	681	953
<i>Growth</i>	15%	-39%	94%	57%	40%
Provisions	103	172	101	140	185
<i>Growth</i>	74%	67%	-42%	39%	32%
Exceptional items	-11	0	0	0	0
Profit before tax	252	51	332	541	767
Taxes	92	20	116	189	268
Net profit	159	31	216	352	499
<i>Growth</i>	-5%	-80%	589%	63%	42%

Key Ratios	FY17	FY18	FY19	FY20E	FY21E
Yield on Advances	21.5%	19.7%	20.7%	19.1%	18.6%
Yield on Tot Assets	18.5%	14.3%	14.8%	14.9%	14.7%
Cost of Borrowings	10.1%	7.6%	8.1%	7.7%	7.6%
Spread	11.4%	12.1%	12.6%	11.4%	11.0%
NIM	9.4%	8.1%	8.2%	8.5%	8.2%

Profitability Ratios	FY17	FY18	FY19	FY20E	FY21E
Cost / Income	62.7%	80.0%	70.1%	63.0%	58.7%
ROA	2.1%	0.3%	1.5%	1.9%	2.1%
ROE	9.3%	1.4%	9.0%	13.2%	16.1%

Per Share Data	FY17	FY18	FY19	FY20E	FY21E
EPS	4.7	0.9	6.3	10.3	14.6
BVPS	66.0	66.9	73.2	83.5	98.1
Adjusted BVPS	63.5	63.6	67.6	76.5	89.0

Source: Company data, NBRR

Bal. Sheet (Rs. Crs)	FY17	FY18	FY19	FY20E	FY21E
Equity capital	338	340	341	341	341
Reserves & surplus	1,893	1,936	2,157	2,509	3,008
Net worth	2,231	2,276	2,498	2,850	3,349
Deposits	1,572	4,719	8,016	11,236	14,636
<i>Growth</i>	-	200%	70%	40%	30%
Borrowings	4,971	5,888	4,785	5,779	7,661
Other liab and prov	670	612	763	839	923
Total liabilities	7,213	11,219	13,564	17,854	23,220
Total liab and equity	9,443	13,495	16,062	20,704	26,569
Cash and bank bal	1,064	1,194	1,261	1,124	1,317
Investments	1,896	3,857	2,345	2,838	3,696
Net Advances	5,829	7,800	11,720	15,942	20,689
<i>Growth</i>	15%	34%	50%	36%	30%
Other assets	326	313	444	494	544
Fixed Assets	329	330	292	307	322
Total assets	9,443	13,495	16,062	20,704	26,569
AUM	7,176	8,238	11,834	15,942	20,689
<i>Growth</i>	17%	15%	44%	35%	30%

Asset Quality	FY17	FY18	FY19	FY20E	FY21E
GNPA	206	213	353	453	643
GNPA ratio	3.5%	2.7%	3.0%	2.8%	3.1%
NNPA	86	112	189	239	309
NNPA ratio	1.5%	1.4%	1.6%	1.5%	1.5%
PCR (Reported)	47%	46%	47%	52%	54%
Credit Cost	2.5%	1.0%	1.0%	1.0%	1.0%

Balance Sheet Ratios	FY17	FY18	FY19	FY20E	FY21E
CD Ratio	370.8%	81.7%	29.3%	25.3%	25.3%
CASA	1.1%	34.6%	28.3%	26.6%	26.6%
CAR	35.5%	28.6%	22.4%	20.2%	19.4%
Tier - 1	32.3%	27.1%	20.9%	17.5%	15.7%

Valuation Ratios	FY17	FY18	FY19	FY20E	FY21E
P/E	26.7	136.8	19.9	12.2	8.6
P/BV	1.9	1.9	1.7	1.5	1.3
P/ABV	2.0	2.0	1.9	1.6	1.4

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Disclosure:

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