RESULT REVIEW

BUY
TP: Rs 65 | ⮝ 15%

EQUITAS SMALL FINANCE BANK | Banking | 11 August 2025

Profitability dented on one-off provisions amid AQ challenges

- **Higher one-off provisions dented profitability; NIMs falling mainly due to decline in share of MFI book**
- **Asset quality improved marginally largely masked by higher w/offs with stress spilling over to secured segments**
- **Maintain BUY. Revised TP of Rs 65 (from Rs 77); set at 1.1x Jun'27E ABV vs the last 3-year average P/ABV of 1.5x**

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Higher one-off provisions dented profitability: EQUITASB reported net loss of Rs 2.2bn in Q1FY26 vs. net profit of Rs 258mn in Q1FY25. The net loss was mainly driven by one-time impact of higher NPA provisioning (Rs 1.45bn) vs. IRAC norms (Fig 14) and additional standard asset provision for MFI book (Rs 1.85bn). Excluding the one-time impact of higher provisions, the bank would have reported PAT of Rs 260mn in Q1FY26. Further, the management expects provision of Rs 3bn in the MFI book in the next 3 quarters of FY26. In addition, the NIMs declined to 6.55% (-142bps YoY) in Q1FY26 mainly due to decline in high-yielding MFI book (9% of gross loans as of Jun'25 vs. 17% as of Jun'24). Management expects NIMs for FY26 to remain around similar levels as of Q1FY26. Also, the bank expects the exit RoA for Q4FY26 to be ~1%. We expect the bank to deliver RoA/RoE of 1.1-1.3%/ 11.7-14.3%, respectively during FY27/FY28E.

Asset quality improved marginally largely masked by higher w/offs with stress spilling over to secured segments: GNPA ratio improved marginally to 2.82% (-7bps QoQ) in Q1FY26. However, the GNPA ratio improvement was mainly masked by higher w/offs of Rs 4.8bn (Q1FY26) vs. Rs 3.0bn in Q4FY25. Higher w/offs seem to be to meet one of the criteria for application of universal banking license of GNPA ≤ 3% and NNPA ≤ 1% in the last two financial years. EQUITASB will be able to apply for universal banking license by next year if it maintains the AQ criteria. Further, we note that the stress spread to secured SBL segment (45% of gross loans) wherein the GNPA ratio increased to 3.3% (Q1FY26) from 2.5% (Q4FY25). The stress was largely due to ordinance passed in Tamil Nadu and Karnataka which impacted the collection efficiency. Hence, gross slippage ratio in MFI and non-MFI book deteriorated to 20.8% (+6.5% QoQ) and 5.1% (+59bps QoQ). However, we note that 100% of MFI disbursement in Q1FY26 was covered under the CGFMU scheme. Management expects the MFI stress to normalise by Q4FY26.

Maintain BUY: We expect its advances to grow at ~19% CAGR in FY25-28E and deliver improvement in RoA/RoE to 1.1%-1.3% / 11.7%-14.3% in FY27-FY28E. We maintain BUY and roll over valuation to 1.1x Jun'27E ABV (earlier 1.2x FY27E ABV) compared to last 3-year average of 1.5x with revised TP of Rs 65 (from Rs 77).

Key changes

Target	Rating
▼	◄►

Ticker/Price	EQUITASB IN/Rs 56
Market cap	US$ 734.6mn
Free float	100%
3M ADV	US$ 2.9mn
52wk high/low	Rs 87/Rs 53
Promoter/FPI/DII	0%/16%/47%

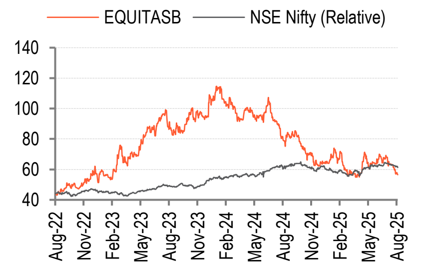
Source: NSE | Price as of 8 Aug 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	32,516	34,048	40,543
NII growth (%)	5.6	4.7	19.1
Adj. net profit (Rs mn)	1,470	1,711	7,664
EPS (Rs)	1.3	1.5	6.7
Consensus EPS (Rs)	1.3	4.4	7.3
P/E (x)	43.7	37.6	8.4
P/BV (x)	1.1	1.0	0.9
ROA (%)	0.3	0.3	1.1
ROE (%)	2.4	2.8	11.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	QoQ (%)	YoY (%)
Income Statement							
Interest Income	13,247	13,660	14,250	14,477	14,340	(0.9)	8.3
Income on investments	1,542	1,700	1,637	1,594	1,612	1.1	4.5
Int. on bal. with RBI & inter-bank funds & Others	220	189	232	369	537	45.6	143.3
Interest income	**15,010**	**15,549**	**16,119**	**16,440**	**16,489**	**0.3**	**9.9**
Interest expense	6,995	7,526	7,935	8,145	8,631	6.0	23.4
Net interest income	**8,015**	**8,023**	**8,184**	**8,294**	**7,857**	**(5.3)**	**(2.0)**
Growth YoY (%)	7.9	4.8	4.2	5.5	(2.0)		
Others	2,087	2,389	2,384	2,254	2,917	29.4	39.8
Non-interest income	**2,087**	**2,389**	**2,384**	**2,254**	**2,917**	**29.4**	**39.8**
Growth YoY (%)	21.8	31.7	16.0	(6.2)	39.8		
Total income	**10,102**	**10,412**	**10,568**	**10,549**	**10,774**	**2.1**	**6.7**
Growth YoY (%)	10.5	10.0	6.7	2.8	6.7		
Staff expenses	3,747	4,024	4,255	4,184	4,600	9.9	22.8
Other operating expenses	2,951	2,891	2,985	3,251	3,027	(6.9)	2.6
Operating expenses	6,698	6,915	7,239	7,436	7,627	2.6	13.9
Pre-Provisioning Profit (PPoP)	**3,404**	**3,497**	**3,329**	**3,113**	**3,148**	**1.1**	**(7.5)**
Growth YoY (%)	9.1	5.9	(7.6)	(16.9)	(7.5)		
Provisions	3,046	3,297	2,431	2,580	6,122	137.3	101.0
Growth YoY (%)	407.2	421.6	188.1	142.0	101.0		
Exceptional Item	-	-	-	-	-	-	-
PBT	**358**	**201**	**897**	**533**	**(2,975)**	**(658.2)**	**(931.9)**
Tax	100	72	234	112	(737)	(759.4)	(836.9)
PAT	**258**	**129**	**663**	**421**	**(2,238)**	**(631.4)**	**(968.7)**
Growth YoY (%)	(86.5)	(93.5)	(67.2)	(79.7)	(968.7)		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	0.2	0.1	0.6	0.4	(2.0)	(630.6)	(953.5)
Book Value (Rs)	53	62	63	63	61	(3.1)	15.9

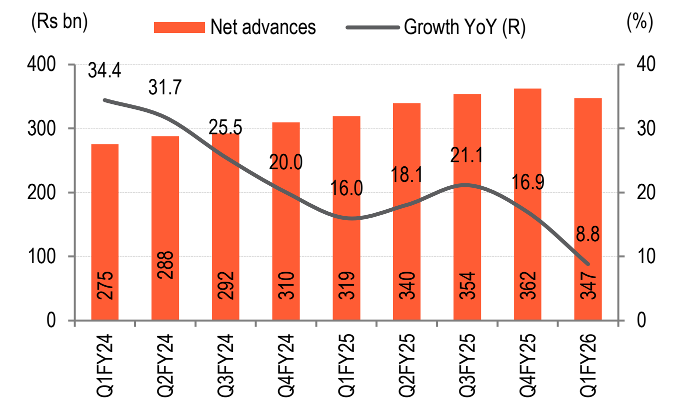
Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	QoQ (%)	YoY (%)
Deposits	3,75,240	3,98,588	4,07,380	4,31,067	4,43,790	3.0	18.3
Growth YoY (%)	35.4	29.2	25.8	19.3	18.3		
Advances	**3,19,260**	**3,39,625**	**3,53,860**	**3,62,089**	**3,47,410**	**(4.1)**	**8.8**
Growth YoY (%)	16.0	18.1	21.1	16.9	8.8		
Investment	94,920	99,868	94,150	92,887	90,630	(2.4)	(4.5)
Equity	60,080	70,860	71,460	72,124	69,890	(3.1)	16.3
Assets	4,64,460	4,86,335	5,08,230	5,28,356	5,39,340	2.1	16.1
Growth YoY (%)	22.1	21.2	22.2	16.6	16.1		
Yield (%)							
Yield on Funds	13.60	13.64	13.52	13.16	12.84	(33bps)	(77bps)
Cost of Funds	7.28	7.54	7.55	7.37	7.53	16bps	25bps
Spread	6.32	6.10	5.97	5.79	5.30	(49bps)	(102bps)
Net Interest Margin	**7.26**	**7.04**	**6.86**	**6.64**	**6.12**	**(52bps)**	**(115bps)**
Ratios (%)							
Other Income / Net Income	20.7	22.9	22.6	21.4	27.1	570bps	641bps
Cost to Income ratio	66.3	66.4	68.5	70.5	70.8	30bps	448bps
CASA ratio	31.2	30.6	28.6	28.8	29.4	62bps	(183bps)
C/D ratio	85.1	85.2	86.9	84.0	78.3	(572bps)	(680bps)
Investment to Assets	20.4	20.5	18.5	17.6	16.8	(78bps)	(363bps)
Assets Quality							
GNPA	8,890	10,228	10,719	10,677	10,360	(3.0)	16.5
NNPA	2,641	3,303	3,400	3,540	3,416	(3.5)	29.3
Provision	6,249	6,925	7,318	7,137	6,944	(2.7)	11.1
GNPA (%)	2.67	2.95	2.97	2.89	2.92	3bps	25bps
NNPA (%)	0.81	0.97	0.96	0.98	0.98	0bps	17bps
Provision (%)	70.29	67.71	68.28	66.83	67.03	20bps	(326bps)
Others							
Branches	969	987	994	994	1,035	41	66
ATMs	370	370	375	375	376	1	6
Employees	22,585	23,233	24,238	25,409	25,865	456	3,280

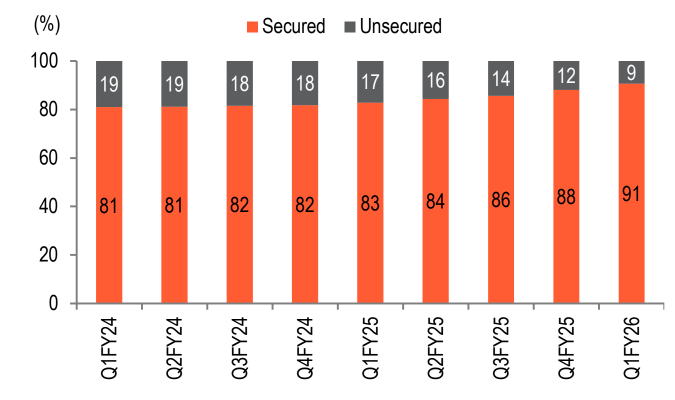
Source: Company, BOBCAPS Research

Fig 3 – Credit growth moderated on cautious MFI lending…



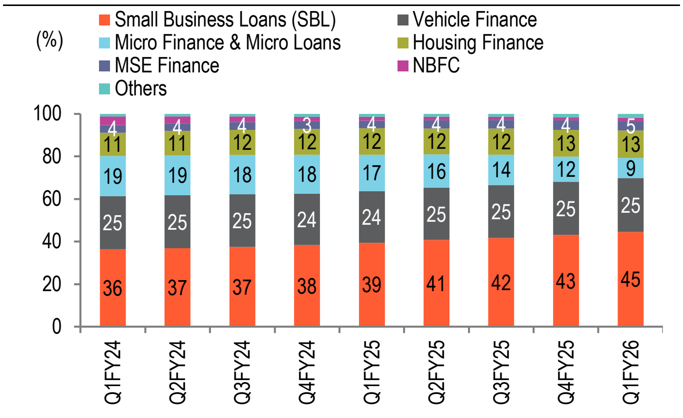
Source: Company, BOBCAPS Research

Fig 4 – …. portfolio mix shifting towards secured assets



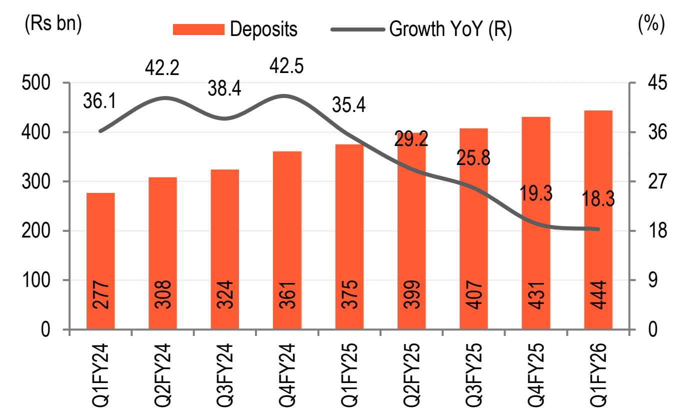
Source: Company, BOBCAPS Research

Fig 5 – Rising granularity of loan mix



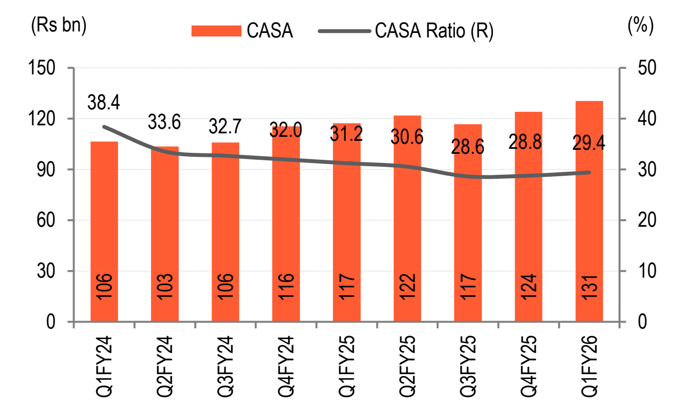
Source: Company, BOBCAPS Research

Fig 6 – Deposits growth remained higher than loan growth



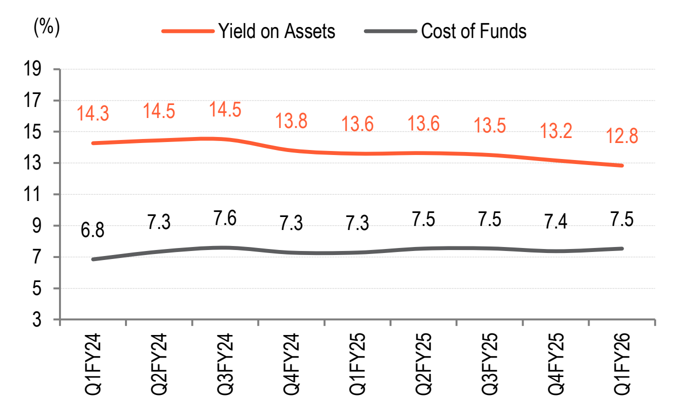
Source: Company, BOBCAPS Research

Fig 7 – CASA ratio stable



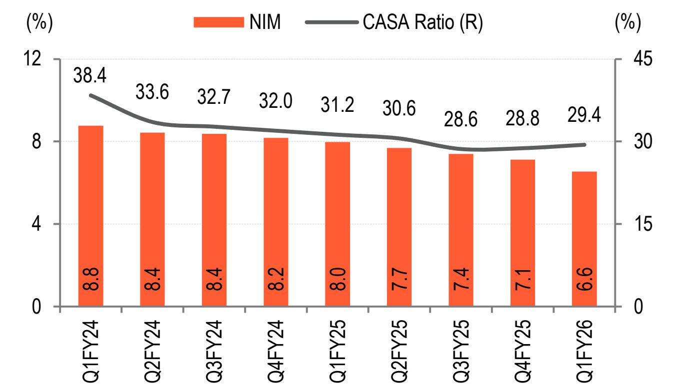
Source: Company, BOBCAPS Research

Fig 8 – Yield on assets to decline due to RBI rate cuts, interest reversals and fall in MFI book



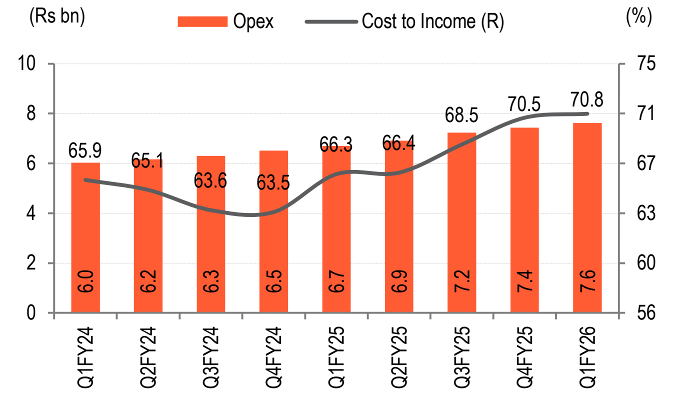
Source: Company, BOBCAPS Research

Fig 9 – NIMs declined mainly due to shift from higher yielding MFI book to secured segments



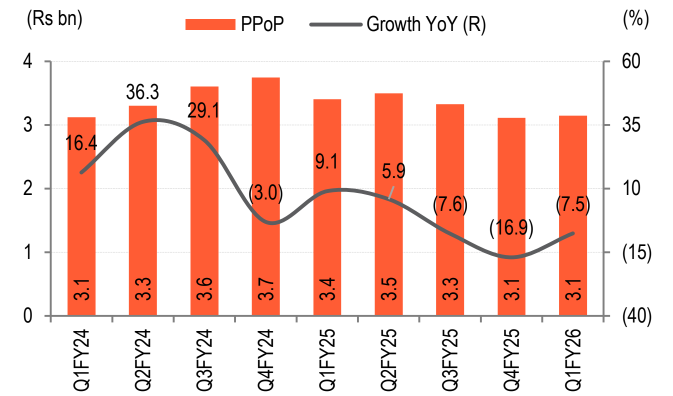
Source: Company, BOBCAPS Research

Fig 10 – C/I ratio remains elevated…



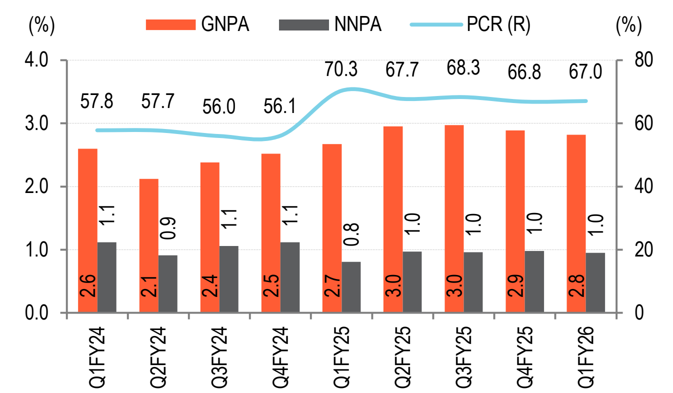
Source: Company, BOBCAPS Research

Fig 11 – …resulting in a decline in PPoP



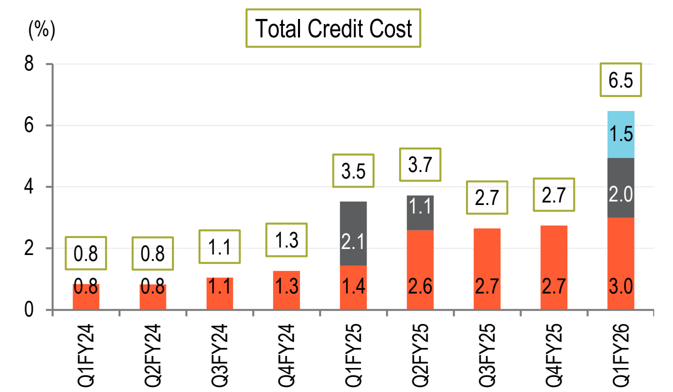
Source: Company, BOBCAPS Research

Fig 12 – Asset quality improved marginally



Source: Company, BOBCAPS Research

Fig 13 – Credit cost up on account of one-time provisions



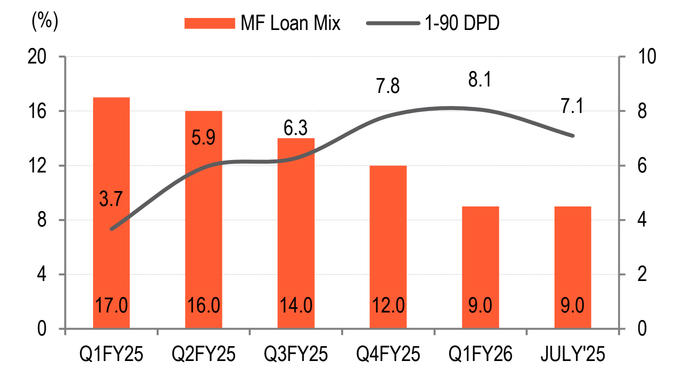
Source: Company, BOBCAPS Research
Q1FY25- Additional floating provision of Rs.1.80bn (2.1%) | Q2FY25- Additional stress sector provisioning of ~Rs.1bn (1.1%) | Q1FY26- Additional standard asset provision of Rs.1.85bn (2.0%), Additional NPA Provision due to change in Provisioning norms of ~Rs.1.45bn (1.5%).

Fig 14 – Asset Classification – Revised norms

Asset Classification	Nature	As per IRAC (%)	As per Mar'25 Norms (%)	Revised Norms (%)
Sub-standard	Secured	15	25	27
	Unsecured	25	87	100
Doubtful-1	Secured	25	57	81
	Unsecured	100	100	100
Doubtful-2	Secured	40	61	100
	Unsecured	100	100	100
Doubtful-3	Secured	100	100	100
	Unsecured	100	100	100

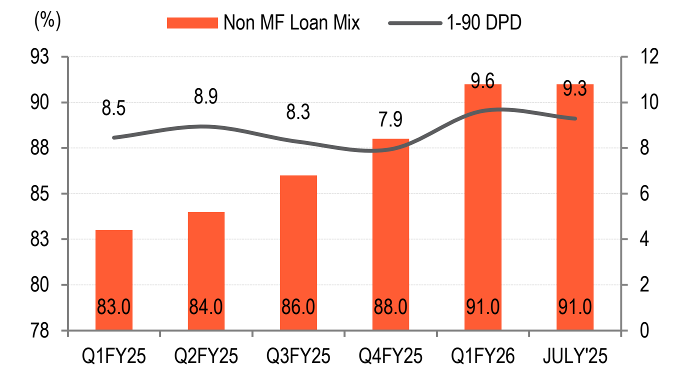
Source: Company, BOBCAPS Research

Fig 15 – DPD trends – MFI book



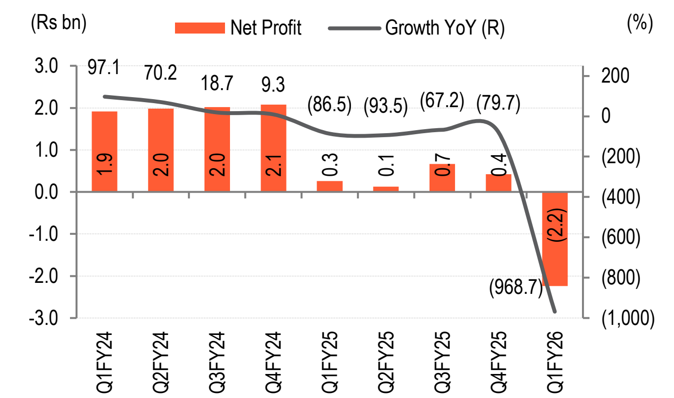
Source: Company, BOBCAPS Research

Fig 16 – DPD trends – non-MFI book



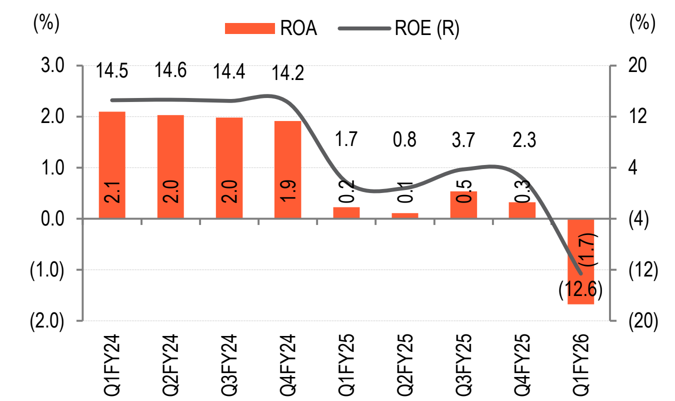
Source: Company, BOBCAPS Research

Fig 17 – Higher credit cost resulted in net loss



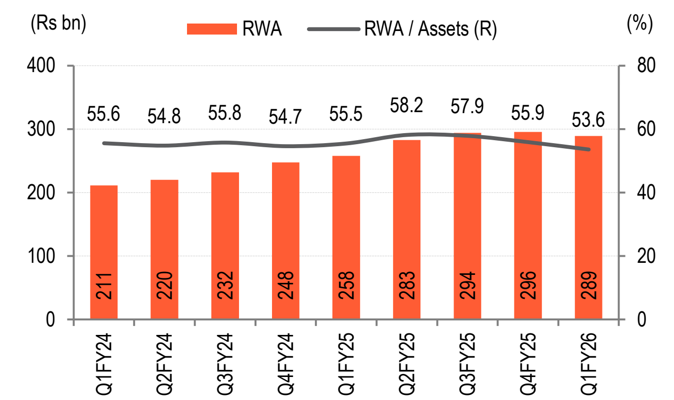
Source: Company, BOBCAPS Research

Fig 18 – Return ratios deteriorated



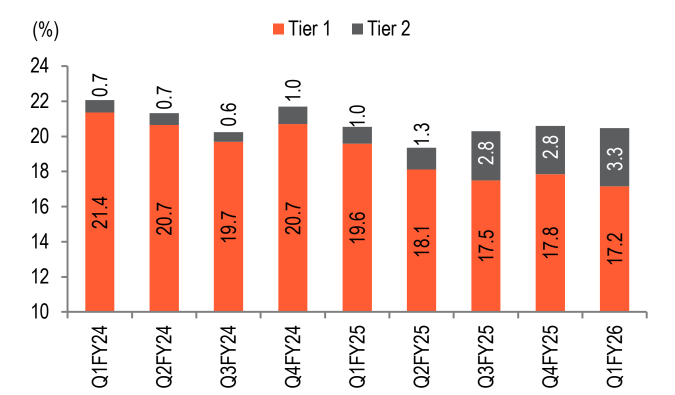
Source: Company, BOBCAPS Research

Fig 19 – RWA/Assets declines marginally



Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

Fig 20 – Well capitalised with 20.5% CAR



Source: Company, BOBCAPS Research

Earnings call highlights

Advances and deposits

- **Advances**: Gross Advances stood at Rs 376.1bn in Q1FY26, marking a decline of 1% QoQ but a growth of 8% YoY, as the bank continued with a calibrated contraction in the MFI portfolio. The MFI book dropped 22% QoQ and 41% YoY to Rs 35.4bn. Growth was driven by secured products: **Small Business Loans (SBL)** rose 22% YoY and 2.3% QoQ to Rs 167.7bn, **Vehicle Finance** grew 12% YoY and 0.6% QoQ to Rs 95.1bn, led by Used Car loans (+50% YoY, +7.4% QoQ) and Used CV loans (+26% YoY, +3.5% QoQ). **Housing Finance** increased 12% YoY and 2.1% QoQ to Rs 48.7bn, while MSE Finance remained flat QoQ but rose 37% YoY to Rs 17bn

- Management expects overall advances to grow 15–16% YoY in FY26E, led by 20%+ growth in the secured book.

- **Deposits:** Total deposits grew 18% YoY to Rs 443.8bn. The bank has launched FCNR deposits during the quarter, garnering over USD 3 million, and continues to focus on deepening its retail franchise.

- **CASA Ratio:** CASA ratio remained stable at 29% in Q1FY26, with retail deposits forming 73% of the overall deposit base. Current account growth was supported by strong traction in institutional ASBA accounts, while excluding ASBA- CA balances grew 21% YoY.

Profitability

- **Net Interest Income (NII)**: NII for Q1FY26 was Rs 7.86bn (-2% YoY, -5% QoQ) with the decline driven largely by interest income reversals and muted disbursements.

- With ~90% of the book on fixed rates, the bank expects to benefit in a declining interest rate environment, while NIMs are likely to hold around current levels for FY26.

- **Other Income**: Other income is up 40% YoY to Rs 2.7bn supported by uptick in treasury & PSLC fee income and asset fee income. Management expects healthy growth in other income for FY26, supported by improving disbursements, expansion in secured lending, and cross-sell initiatives.

- **Provisions**: In Q1FY26, PPoP was Rs 3.15bn, but total provisions surged to Rs 6.1bn due to an additional one-time NPA provision of Rs 1.45bn from revised norms and Rs 1.85bn of standard asset provisioning for microfinance, resulting in a net loss of Rs 2.24bn.

- Credit cost for the quarter stood at 6.48% (2.99% as per Mar'25 norms, 1.96% additional standard asset provisioning, and 1.53% from revised norms), with bulk of the increase due to the stressed MFI book.

- Management noted that this elevated provisioning is a one-time impact from change in provisioning norms and a conservative stance on MFI stress, and expects credit cost to normalize in the second half of FY26 as recoveries improve and secured book continues to perform well.

- For the rest of FY26, management does not expect any further one-time provisioning adjustments. Future changes to provisioning norms will be evaluated based on PCR levels and portfolio performance.
- **Return Ratios:** Due to loss in the current quarter, ROA (-1.68%), ROE (-15.02%) were impacted negatively. However, management expects exit ROA for Q4FY26 to be around 1%.

Asset quality

- EQUITASB saw pressure in MFI portfolio in Q1FY26 which is also spreading to secured segments.
- GNPA improved to 2.82% (vs 2.89% QoQ); NNPA improved slightly to 0.95% (-3bps QoQ). PCR stood at 67.03%; including write-offs, it improved to 85.58%.
- Net Slippages for the quarter stood at Rs 4.53bn of which MFI book contributed Rs 2.3bn and non-MFI contributed Rs 2.2bn.
- Net slippages ratio (MFI Book) increased to 20.29% from 12.85% while non-MFI net slippages ratio increased to 2.67% from 1.54%.
- The bank started following MFIN Guardrail 2.0 rules in Jan'25 to improve the quality of new loans.
- Loans given during Jan–Jun'25 have collection efficiency of ~99.6%, which is similar to pre-crisis times.

Other information

- **Universal banking license:** Management reiterated its long term aspiration to transition from a small finance bank to a universal bank, stating that it needs no new investments for applying. EQUITASB can apply for the universal banking license next year if they are able to maintain GNPA less than 3% and NNPA less than 1% consistently.
- **Capital raise:** Bank raised Tier II capital of Rs 5bn in July 2025 which is expected to improve the CAR by 1.7%. Further, the bank received shareholder's approval to raise Tier I equity of Rs 12.5bn which is expected to augment CAR by 4.3%. This equity raise is planned around first quarter of next year to support business growth.

Valuation methodology

EQUITASB's stock price is trading at 1-SD below its mean in terms of 1-year forward P/ABV. The correction was largely due to stress in its MFI portfolio, which led to higher credit costs and adversely impacted its profitability.

We expect the bank to witness advances CAGR of ~19% over FY25- FY28E and deliver improvement in RoA/RoE to 1.1%-1.3% / 11.7%-14.3% in FY27-FY28E. The bank's steady growth in advances, expected normalisation of credit costs in the MFI segment and improvement in return ratios is likely to support the stock's performance. We maintain BUY and roll over valuation to 1.1x Jun'27E ABV (earlier 1.2x FY27E ABV) compared to last 3-year average of 1.5x with revised TP of Rs 65 (from Rs 77).

Fig 21 – Key operational assumptions

(%)	FY25A	FY26E	FY27E	FY28E
Advances growth	16.9	15.5	19.0	22.5
NII growth	5.6	4.7	19.1	20.0
PPoP growth	(3.1)	4.9	25.6	27.2
PAT growth	(81.6)	16.4	347.9	37.0
NIM	7.5	6.5	6.6	6.7
GNPA	2.9	2.9	2.7	2.2
CAR	20.6	18.4	17.4	16.5

Source: Company, BOBCAPS Research

Fig 22 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.4
Equity risk premium (%)	5.5
Beta	0.8
Cost of equity (%)	10.8
Blended ROE (%)	11.0
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	5.5
Long term dividend payout ratio (%)	50.0
Justified P/BV Multiple (x)	1.1

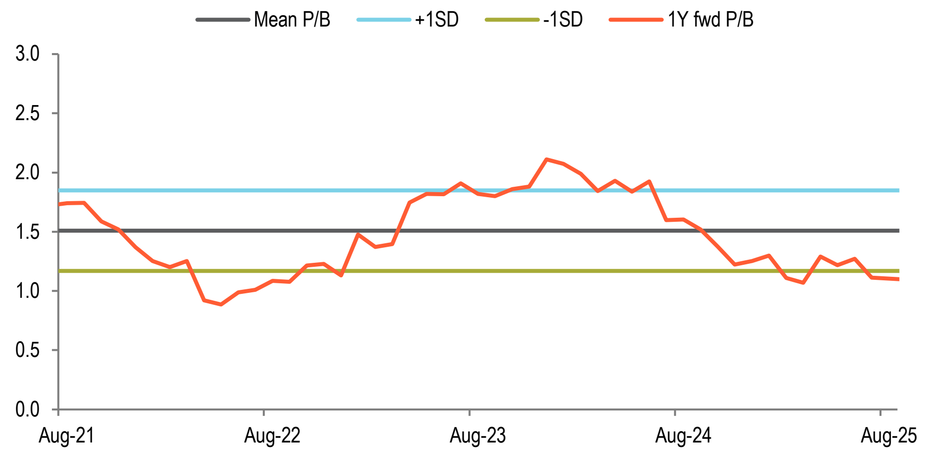
Source: Company, BOBCAPS Research

Fig 23 – Actual vs Estimates

Key Parameters (Rs mn)	Q1FY26A	Q1FY26E	Actual vs. Estimates
Loan	3,47,410	3,63,222	(4)
Deposits	4,43,790	4,43,790	(0)
Assets	5,39,340	5,26,488	2
NII	7,857	8,058	(2)
PPOP	3,148	2,890	9
Provision	6,122	2,702	127
PAT	(2,238)	141	(1,687)

Source: Company, BOBCAPS Research

Fig 24 – PB band chart



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

High geographic concentration risk – The bank has presence across 18 states and UTs in India as of June 2025. However, Tamil Nadu & Pondicherry accounted for 46% of total advances (Jun'25), indicating concentration risk. Also, MFI exposure in TN remains monitorable, given the state government's debt collection bill to protect borrowers from coercive recovery methods may adversely impact the credit discipline and thereby asset quality.

- Unexpected asset quality shocks leading to higher credit cost.
- Slowdown in credit growth.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	**30,798**	**32,516**	**34,048**	**40,543**	**48,669**
NII growth (%)	21.0	5.6	4.7	19.1	20.0
Non-interest income	7,987	9,115	11,228	12,547	14,755
Total income	38,784	41,631	45,275	53,090	63,424
Operating expenses	25,011	28,288	31,283	35,517	41,077
PPOP	13,774	13,343	13,992	17,573	22,347
PPOP growth (%)	17.1	(3.1)	4.9	25.6	27.2
Provisions	3,142	11,354	11,705	7,327	8,305
PBT	10,631	1,988	2,288	10,246	14,042
Tax	2,642	518	577	2,582	3,539
Reported net profit	**7,990**	**1,470**	**1,711**	**7,664**	**10,504**
Adjustments	0	0	0	0	0
Adjusted net profit	**7,990**	**1,470**	**1,711**	**7,664**	**10,504**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	11,349	11,399	11,399	11,399	11,399
Reserves & surplus	48,338	49,327	51,038	57,552	66,791
Net worth	59,687	60,725	62,436	68,951	78,189
Deposits	3,61,292	4,31,067	5,10,815	6,12,978	7,41,703
Borrowings	17,875	21,370	24,575	28,999	34,219
Other liab. & provisions	14,184	15,194	25,385	22,293	25,210
Total liab. & equities	**4,53,039**	**5,28,356**	**6,23,212**	**7,33,221**	**8,79,321**
Cash & bank balance	35,790	55,363	66,403	76,418	92,118
Investments	90,653	92,887	1,18,539	1,35,397	1,48,879
Advances	3,09,643	3,62,089	4,18,213	4,97,673	6,09,650
Fixed & Other assets	16,953	18,018	20,057	23,733	28,674
Total assets	**4,53,039**	**5,28,356**	**6,23,212**	**7,33,221**	**8,79,321**
Deposit growth (%)	42.5	19.3	18.5	20.0	21.0
Advances growth (%)	20.0	16.9	15.5	19.0	22.5

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	7.1	1.3	1.5	6.7	9.2
Dividend per share	1.0	0.0	0.0	1.0	0.0
Book value per share	52.6	53.3	54.8	60.5	68.6

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	7.9	43.7	37.6	8.4	6.1
P/BV	1.1	1.1	1.0	0.9	0.8
Dividend yield (%)	1.8	0.0	0.0	1.8	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	7.7	6.6	5.9	6.0	6.0
Non-interest income	2.0	1.9	2.0	1.9	1.8
Operating expenses	6.2	5.8	5.4	5.2	5.1
Pre-provisioning profit	3.4	2.7	2.4	2.6	2.8
Provisions	0.8	2.3	2.0	1.1	1.0
PBT	2.6	0.4	0.4	1.5	1.7
Tax	0.7	0.1	0.1	0.4	0.4
ROA	2.0	0.3	0.3	1.1	1.3
Leverage (x)	7.2	8.2	9.4	10.3	11.0
ROE	14.4	2.4	2.8	11.7	14.3

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	21.0	5.6	4.7	19.1	20.0
Pre-provisioning profit	17.1	(3.1)	4.9	25.6	27.2
EPS	46.6	(81.8)	16.1	347.9	37.0
Profitability & Return ratios (%)					
Net interest margin	8.4	7.5	6.5	6.6	6.7
Fees / Avg. assets	49.8	46.4	48.8	46.3	45.8
Cost-Income	64.5	68.0	69.1	66.9	64.8
ROE	14.4	2.4	2.8	11.7	14.3
ROA	2.0	0.3	0.3	1.1	1.3
Asset quality (%)					
GNPA	2.6	2.9	2.9	2.7	2.2
NNPA	1.2	1.0	0.9	0.8	0.6
Slippage ratio	4.4	6.6	6.1	4.1	3.0
Credit cost	1.1	3.4	3.0	1.6	1.5
Provision coverage	55.4	66.2	68.3	69.6	70.5
Ratios (%)					
Credit-Deposit	85.7	84.0	81.9	81.2	82.2
Investment-Deposit	25.1	21.5	23.2	22.1	20.1
CAR	21.7	20.6	18.4	17.4	16.5
Tier-1	20.7	17.8	15.5	14.6	13.8

Source: Company, BOBCAPS Research

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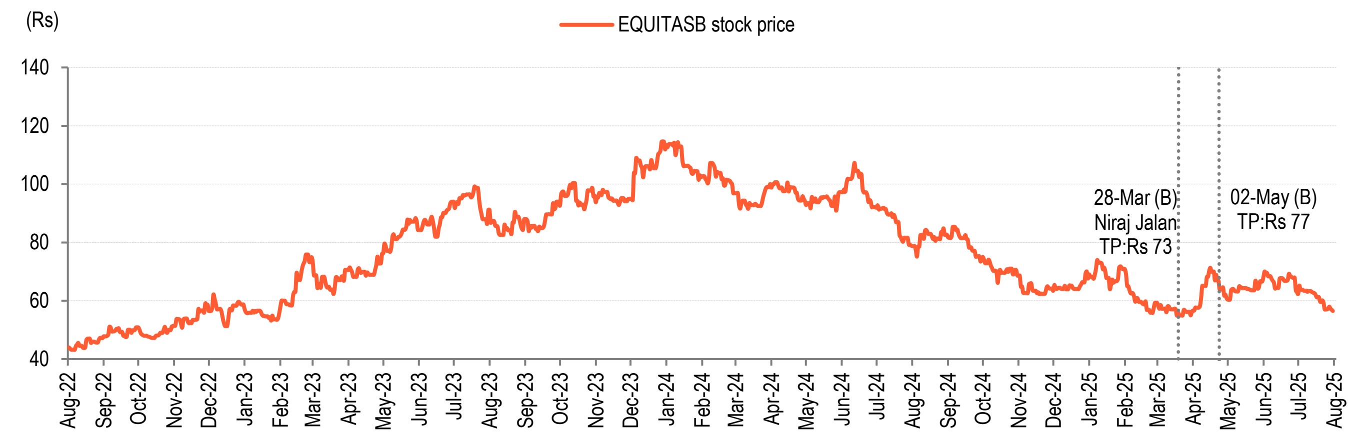

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