BUY
TP: Rs 77 | ⮝ 15%

EQUITAS SMALL FINANCE BANK | Banking | 02 May 2025

EQUITASB bets on secured book for stability

- **Focus on diversified & secured portfolio; MFI mix likely to dip to mid-single-digit by FY26, thereby impacting NIMs**
- **Higher credit cost impacted profitability; asset quality improving, though MFI exposure in Tamil Nadu (TN) remains monitorable**
- **Maintain BUY. Revised TP of Rs 77 (from Rs 73); implying 1.2x FY27E ABV vs the last 3-year average P/ABV of 1.5x**

Niraj Jalan | Vijiya Rao
research@bobcaps.in

Focus on diversified & secured portfolio; MFI mix likely to dip to mid-single-digit: EQUITASB shifted focus to secured portfolio as evident by its rising share of secured loan mix to 88.1% (Mar'25) vs 85.6% (Dec'24). The bank has consciously run-down its MFI disbursement to Rs 3.6 bn (-69% QoQ) in Q4FY25. It plans to reduce its MFI mix to mid-single digits (12% as of Mar'25) by FY26. The decline in MFI disbursement was largely met by high-yielding segments - SBL and vehicle finance which accounted for 70% of the total disbursements in Q4FY25. Overall, net advances grew by 17% YoY and 2% QoQ, supported by higher growth in deposits (+19% YoY; +6 QoQ). As a result, CD ratio improved to 84% (-3% QoQ). We expect advances to grow at a ~21% CAGR during FY25-27E.

NIMs impacted with fall in high-yielding MFI book; higher credit cost impacted profitability: A consistent fall in the share of the high-yielding MFI portfolio resulted in NIMs declining to 7.13% (-26bps QoQ). This, along with the onset of RBI's rate cut cycle, will impact margins. However, it will be cushioned by bank's higher share of fixed rate portfolio (89% of total loans). At 70.5% (+2% QoQ), C/I ratio remained elevated. Credit cost was marginally higher at 2.74% (+9bps QoQ). However, non-MFI credit cost improved to 0.89% (-40bps QoQ) in Q4FY25. Higher credit cost mainly resulted in a decline in PAT to Rs 421mn (-36% QoQ) in Q4FY25. Management expects RoA to be>1% in FY26 and 1.5-1.7% in FY27.

Asset quality improved; MFI exposure in TN remains monitorable: GNPA ratio improved marginally to 2.89% (-8bps QoQ) in Q4FY25, largely driven by lower gross slippage of 5.9% (-56bps QoQ). Despite issues in Karnataka region, net slippages in MFI book improved to 12.9% (-1.3% QoQ). However, net slippages in non-MFI book increased marginally to 1.5% (+43bps QoQ), mainly due to one account of Rs 330mn slipping, which had recovered in Q3FY25 after initially slipping in Q2FY25. Impact of Tamil Nadu debt collection bill on MFI remains monitorable.

Maintain BUY: We expect its advances to grow at ~21% CAGR in FY25-27E and deliver improvement in RoA/RoE to 1%-1.4% / 9.7%-14.3% in FY26-FY27E. We maintain BUY rating with revised TP of Rs 77 (from Rs 73), set at 1.2x FY27E ABV.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	EQUITASB IN/Rs 67
Market cap	US$ 903.3mn
Free float	100%
3M ADV	US$ 3.7mn
52wk high/low	Rs 108/Rs 53
Promoter/FPI/DII	0%/16%/43%

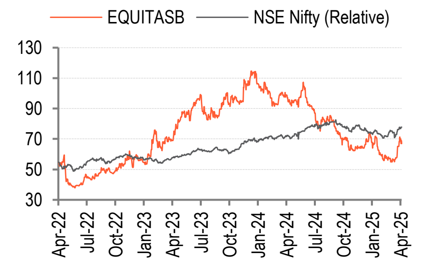
Source: NSE | Price as of 30 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	32,516	36,548	43,689
NII growth (%)	5.6	12.4	19.5
Adj. net profit (Rs mn)	1,470	6,176	10,339
EPS (Rs)	1.3	5.4	9.1
Consensus EPS (Rs)	2.1	6.1	8.8
P/E (x)	51.8	12.4	7.4
P/BV (x)	1.3	1.1	1.0
ROA (%)	0.3	1.0	1.4
ROE (%)	2.4	9.7	14.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ (%)	YoY (%)
Income Statement							
Interest Income	12,794	13,247	13,660	14,250	14,477	1.6	13.2
Income on investments	1,566	1,542	1,700	1,637	1,594	(2.6)	1.8
Int. on bal. with RBI & inter-bank funds & Others	87	220	189	232	369	58.9	325.3
Interest income	**14,447**	**15,010**	**15,549**	**16,119**	**16,440**	**2.0**	**13.8**
Interest expense	6,588	6,995	7,526	7,935	8,145	2.6	23.6
Net interest income	**7,859**	**8,015**	**8,023**	**8,184**	**8,294**	**1.3**	**5.5**
Growth YoY (%)	11.2	7.9	4.8	4.2	5.5		
Others	2,405	2,087	2,389	2,384	2,254	(5.4)	(6.2)
Non-interest income	**2,405**	**2,087**	**2,389**	**2,384**	**2,254**	**(5.4)**	**(6.2)**
Growth YoY (%)	0.7	21.8	31.7	16.0	(6.2)		
Total income	**10,263**	**10,102**	**10,412**	**10,568**	**10,549**	**(0.2)**	**2.8**
Growth YoY (%)	8.5	10.5	10.0	6.7	2.8		
Staff expenses	3,634	3,747	4,024	4,255	4,184	(1.7)	15.1
Other operating expenses	2,882	2,951	2,891	2,985	3,251	8.9	12.8
Operating expenses	6,516	6,698	6,915	7,239	7,436	2.7	14.1
Pre-Provisioning Profit (PPoP)	**3,748**	**3,404**	**3,497**	**3,329**	**3,113**	**(6.5)**	**(16.9)**
Growth YoY (%)	(3.0)	9.1	5.9	(7.6)	(16.9)		
Provisions	1,066	3,046	3,297	2,431	2,580	6.1	142.0
Growth YoY (%)	(15.1)	407.2	421.6	188.1	142.0		
Exceptional Item	-	-	-	-	-	-	-
PBT	**2,682**	**358**	**201**	**897**	**533**	**(40.6)**	**(80.1)**
Tax	605	100	72	234	112	(52.3)	(81.5)
PAT	**2,076**	**258**	**129**	**663**	**421**	**(36.5)**	**(79.7)**
Growth YoY (%)	9.3	(86.5)	(93.5)	(67.2)	(79.7)		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	1.8	0.2	0.1	0.6	0.4	(36.2)	(79.8)
Book Value (Rs)	53	53	62	63	63	0.9	20.3

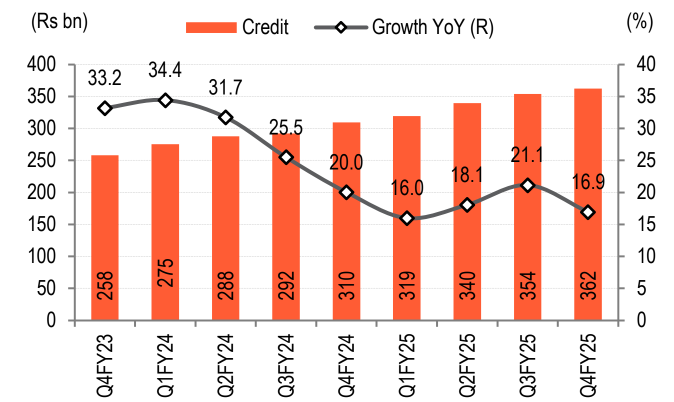
Source: Company, BOBCAPS Research

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

(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ (%)	YoY (%)
Deposits	**3,61,292**	**3,75,240**	**3,98,588**	**4,07,380**	**4,31,067**	**5.8**	**19.3**
Growth YoY (%)	42.5	35.4	29.2	25.8	19.3		
Advances	**3,09,643**	**3,19,260**	**3,39,625**	**3,53,860**	**3,62,089**	**2.3**	**16.9**
Growth YoY (%)	20.0	16.0	18.1	21.1	16.9		
Investment	90,653	94,920	99,868	94,150	92,887	(1.3)	2.5
Equity	59,687	60,080	70,860	71,460	72,124	0.9	20.8
Assets	4,53,039	4,64,460	4,86,335	5,08,230	5,28,356	4.0	16.6
Growth YoY (%)	29.6	22.1	21.2	22.2	16.6		
Yield (%)							
Yield on Funds	13.81	13.60	13.64	13.52	13.16	(35bps)	(64bps)
Cost of Funds	7.28	7.28	7.54	7.55	7.37	(18bps)	9bps
Spread	6.53	6.32	6.10	5.97	5.79	(17bps)	(74bps)
Net Interest Margin	**7.51**	**7.26**	**7.04**	**6.86**	**6.64**	**(22bps)**	**(87bps)**
Ratios (%)							
Other Income / Net Income	23.4	20.7	22.9	22.6	21.4	(119bps)	(206bps)
Cost to Income ratio	63.5	66.3	66.4	68.5	70.5	199bps	700bps
CASA ratio	32.0	31.2	30.6	28.6	28.8	15bps	(319bps)
C/D ratio	85.7	85.1	85.2	86.9	84.0	(286bps)	(171bps)
Investment to Assets	20.0	20.4	20.5	18.5	17.6	(94bps)	(243bps)
Assets Quality							
GNPA	8,213	8,890	10,228	10,719	10,677	(0.4)	30.0
NNPA	3,609	2,641	3,303	3,400	3,540	4.1	(1.9)
Provision	4,604	6,249	6,925	7,318	7,137	(2.5)	55.0
GNPA (%)	2.52	2.67	2.95	2.97	2.89	(8bps)	37bps
NNPA (%)	1.12	0.81	0.97	0.96	0.98	2bps	(14bps)
Provision (%)	56.06	70.29	67.71	68.28	66.83	(145bps)	1,077bps
Others							
Branches	964	969	987	994	994	-	30
ATMs	365	370	370	375	375	-	10
Employees	22,854	22,585	23,233	24,238	25,409	1,171	2,555

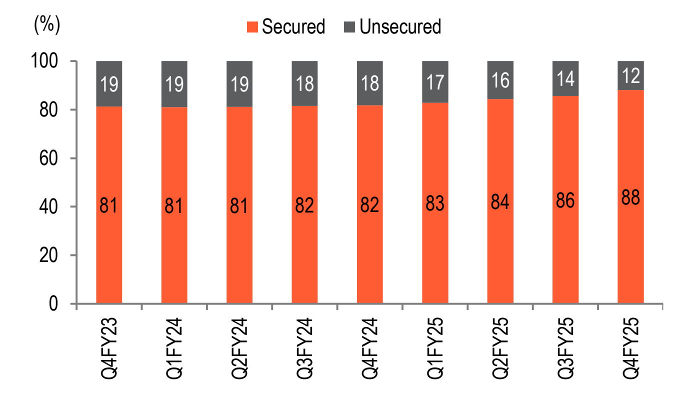
Source: Company, BOBCAPS Research

Fig 3 – Credit growth normalising on cautious MFI lending…



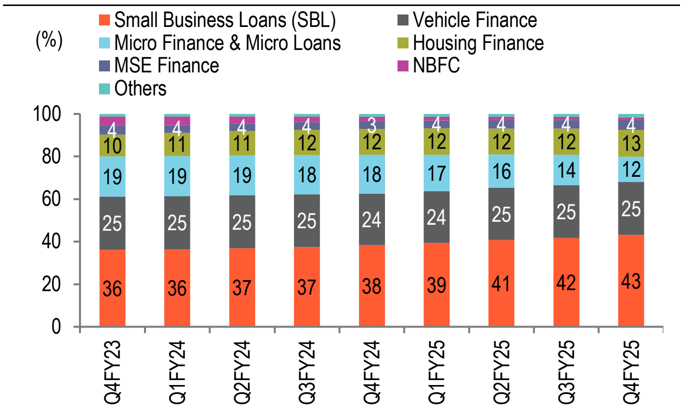
Source: Company, BOBCAPS Research

Fig 4 – …. portfolio mix shifting towards secured assets



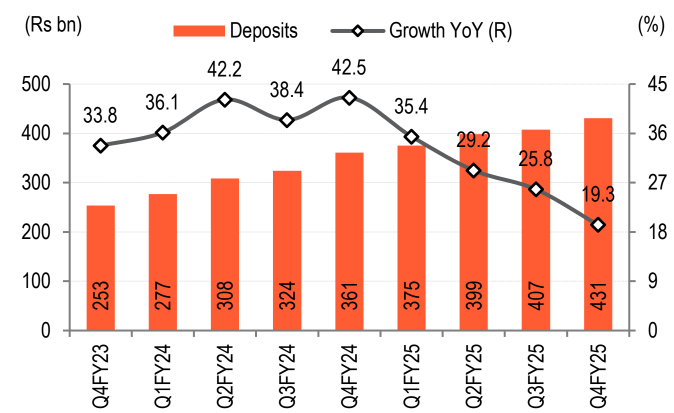
Source: Company, BOBCAPS Research

Fig 5 – Rising granularity of loan mix



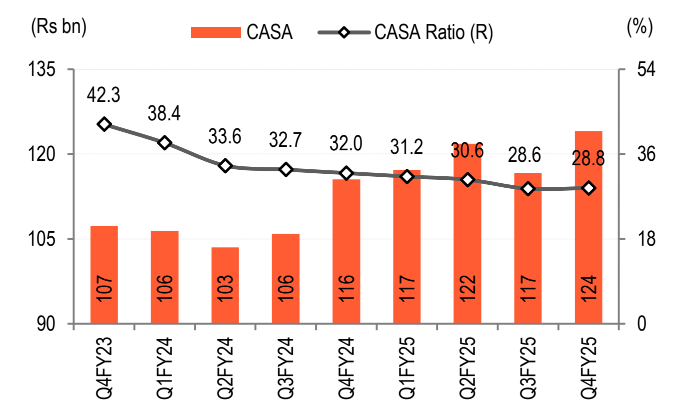
Source: Company, BOBCAPS Research

Fig 6 – Deposits growth remained higher than loan growth



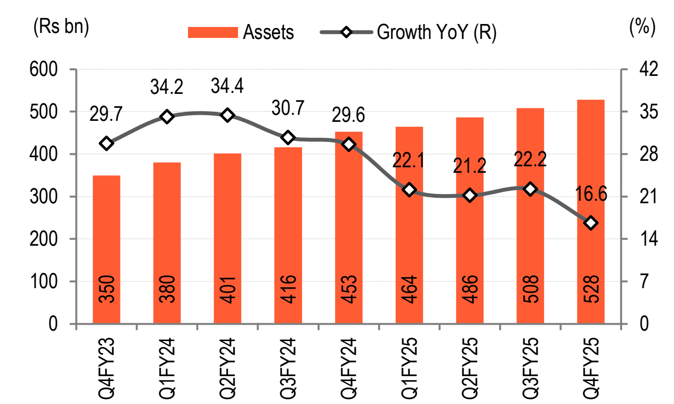
Source: Company, BOBCAPS Research

Fig 7 – CASA Ratio slides



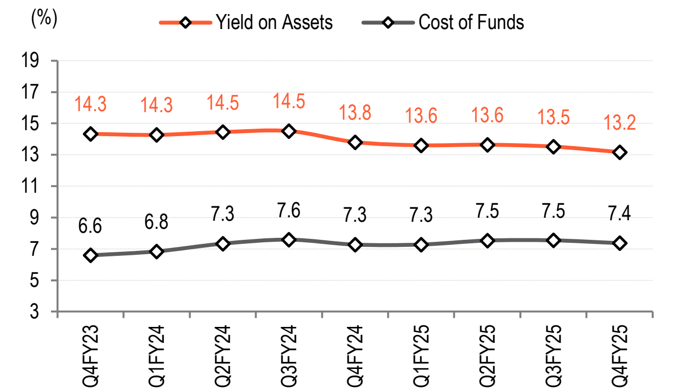
Source: Company, BOBCAPS Research

Fig 8 – Asset growth moderates



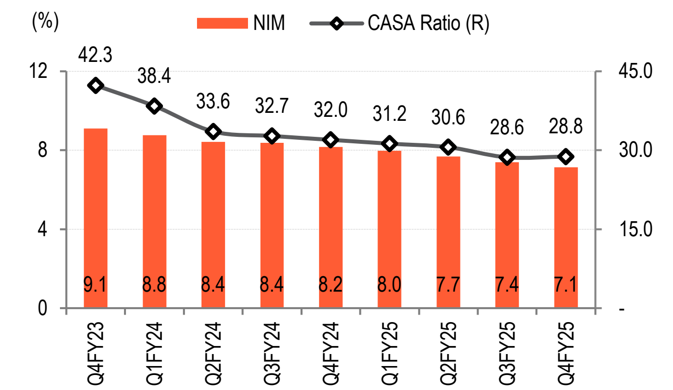
Source: Company, BOBCAPS Research

Fig 9 – Yield on assets to decline due to RBI rate cuts



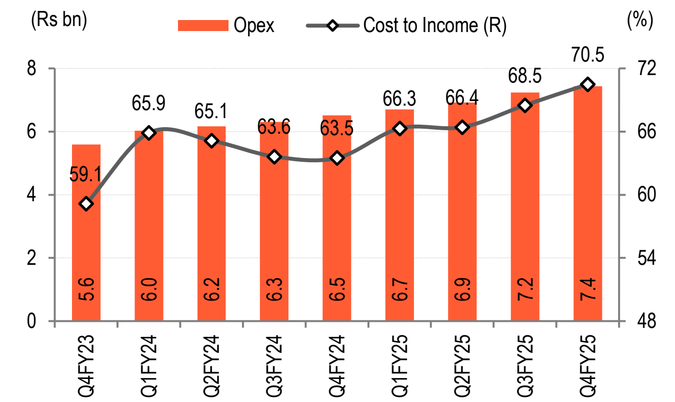
Source: Company, BOBCAPS Research

Fig 10 – NIMs declined with fall in MFI mix & low CASA



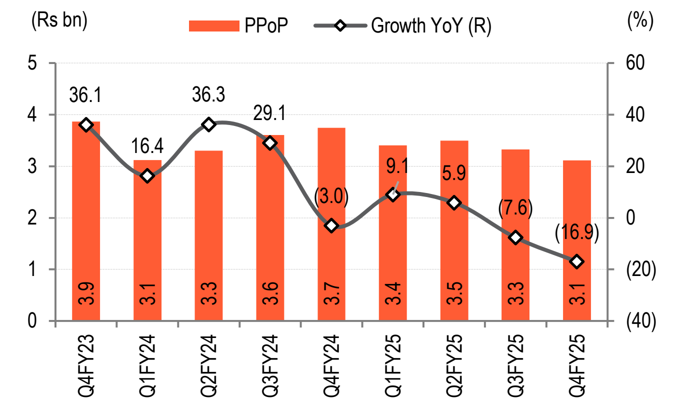
Source: Company, BOBCAPS Research

Fig 11 – C/I ratio remains elevated…



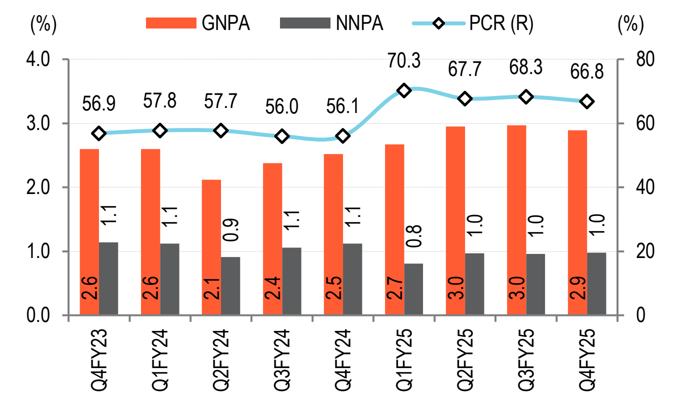
Source: Company, BOBCAPS Research

Fig 12 – …Resulting in a decline in PPoP



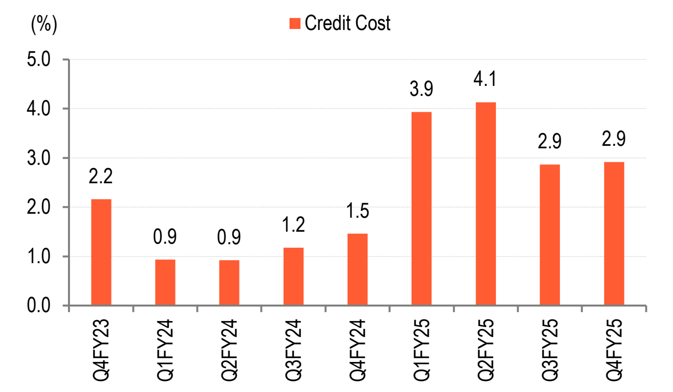
Source: Company, BOBCAPS Research

Fig 13 – Asset quality improved marginally



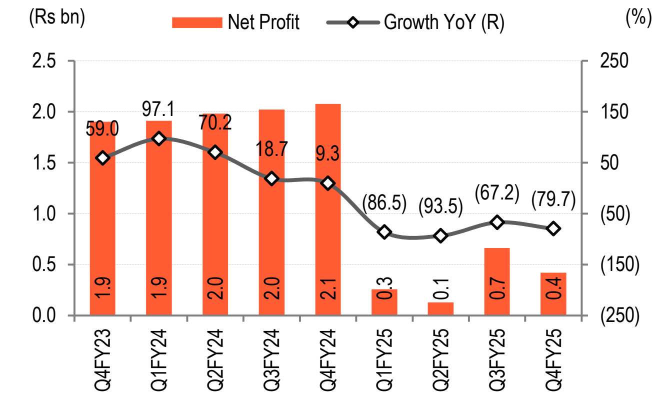
Source: Company, BOBCAPS Research

Fig 14 – Credit cost remained stable



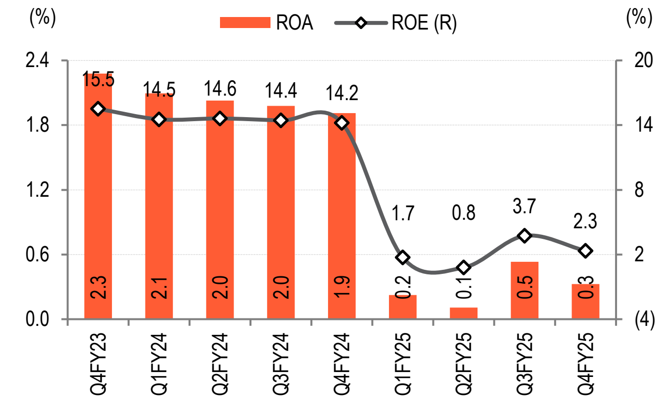
Source: Company, BOBCAPS Research

Fig 15 – Higher credit cost resulted in lower PAT



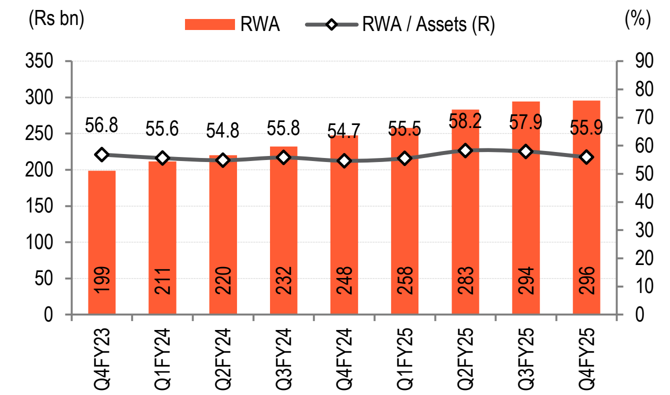
Source: Company, BOBCAPS Research

Fig 16 – Return ratios moderated



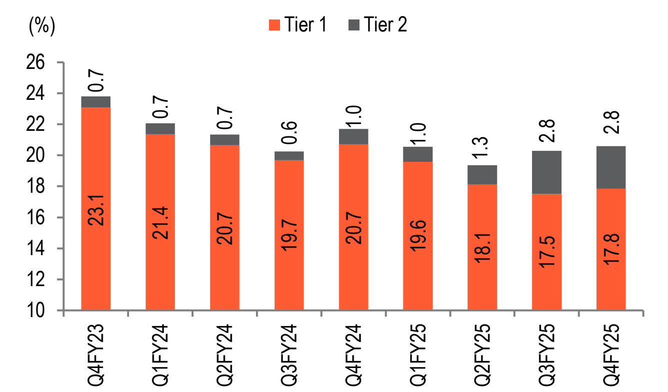
Source: Company, BOBCAPS Research

Fig 17 – RWA/Assets declines marginally



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

Fig 18 – Well capitalised with ~21% CAR



Source: Company, BOBCAPS Research

Earnings call highlights

Advances and deposits

- **Advances:** Gross Advances stood at Rs 379.9bn in Q4FY25, marking a growth of 2% QoQ and 11% YoY despite a planned contraction in MFI book. Growth was driven primarily by secured products: **Small Business Loans** (SBL) rose 5.3% QoQ and 25% YoY to Rs 163.8bn. **Used Vehicle** segments also delivered strong momentum: Used Car loans grew 10.6% QoQ and 53% YoY; used CV loans rose 5.4% QoQ and 24% YoY.
- **Deposits:** Total deposits stood at Rs 431.1bn, marking a 6% QoQ and 19% YoY growth. The increase was led by strong momentum in Retail Term Deposits, which grew 25% YoY.
- **CD Ratio**: Credit-Deposit ratio improved to 85.65% in Q4FY25 from 88.66% in Q3FY25, reflecting a more balanced funding profile.
- **CASA Ratio**: CASA ratio marginally increased to 28.8% in Q4FY25 vs. 28.6% in Q4 FY24. Within CASA, CA deposits grew 10% QoQ, but SA deposits increased 6% QoQ. As a result, the share of CASA + Retail TD marginally declined to 72% in Q4FY25 from 73% in Q3FY25.

Profitability

- **Net Interest Income (NII)**: NII grew by 1% QoQ and 6% YoY to Rs 8.3bn. However, net interest margin (NIMs) declined by 26bps QoQ, suggesting margin compression mainly driven by decline in high-yielding MFI book.
- **Other Income**: Other income declines to Rs 2.25bn (-5% QoQ) with fall in asset fee income (-5% QoQ) and treasury & PSLC fee income (-30% QoQ).
- **Provisions**: Provisions for the quarter stood at Rs 2.6 bn, up 6% QoQ, translating to a credit cost of 2.74% from 2.65% in Q3 FY25.
- **Return Ratios**: RoA moderated 21bps QoQ to 0.32% and RoE declined 138bps to 2.3%, largely driven by higher provisions.

Asset quality

- GNPA improved to 2.89% (vs 2.97% QoQ); NNPA rose slightly to 0.98% (+2bps QoQ). PCR stood at 66.83%; including write-offs, it improved to 82.01%.
- Gross slippages in CV improved from 9.62% to 6.27%, HF from 1.81% to 1.53% QoQ in Q4FY25, MF eased slightly from 14.83% to 14.37%, reflecting improving asset quality. However, SBL's gross slippages rose from 3.08% to 3.55% while MSE spiked from 4.70% to 13.53%, as one account (Rs 330mn) slipped into NPA in Q2FY25, recovered in Q3FY25 and slipped again in Q4FY25.
- MFI net slippages declined to 12.85% (14.16% in Q3FY25); non-MFI rose slightly to 1.54% (1.11% in Q3 FY25) due to one large account.
- Credit cost (non-MFI) improved to 0.89% (vs 1.29% in Q3FY25).

- In March 2025, X Bucket collection efficiency in MFI improved across regions: Karnataka rose from 88.00% to 92.28%, All India from 97.83% to 98.36%, while Tamil Nadu remained stable at 98.81% vs. 98.84% in February 2025.
- SMA-2 at bank level improved sequentially, easing from 1.85% in Q3FY25 to 1.72% in Q4FY25.

Valuation methodology

EQUITASB's stock price is trading at 1-SD below its mean in terms of 1-year forward P/ABV. The stock is trading at 1.2x Mar'26 ABV vs 3-year average of 1.5x. The correction was largely due to stress in its MFI portfolio, which led to higher credit provisions and adversely impacted its profitability. Although the bank has diversified its portfolio to secured segments (88% of total advances) and plans to reduce its share of MFI book (12%) to single digits.

The bank is expected to witness improvement in branch and employee productivity as operating leverage plays out. We expect the bank to witness advances CAGR of ~21% over FY25- FY27E and deliver improvement in RoA/RoE to 1%-1.4% / 9.7%-14.3% in FY26-FY27E. The bank's steady growth in advances, expected normalisation of credit cost in the MFI segment and improvement in return ratios is likely to support the stock's performance. We maintain BUY rating on EQUITASB with revised TP of Rs 77 (from Rs 73), set at 1.2x FY27E ABV.

Fig 19 – Key operational assumptions

(%)	FY24A	FY25A	FY26E	FY27E
Advances growth	20.0	16.9	19.0	22.5
NII growth	21.0	5.6	12.4	19.5
PPoP growth	17.1	(3.1)	14.5	21.9
PAT growth	39.3	(81.6)	320.0	67.4
NIM	8.4	7.1	6.9	6.7
GNPA	2.6	2.9	2.7	2.6
CAR	21.7	20.6	18.6	17.7

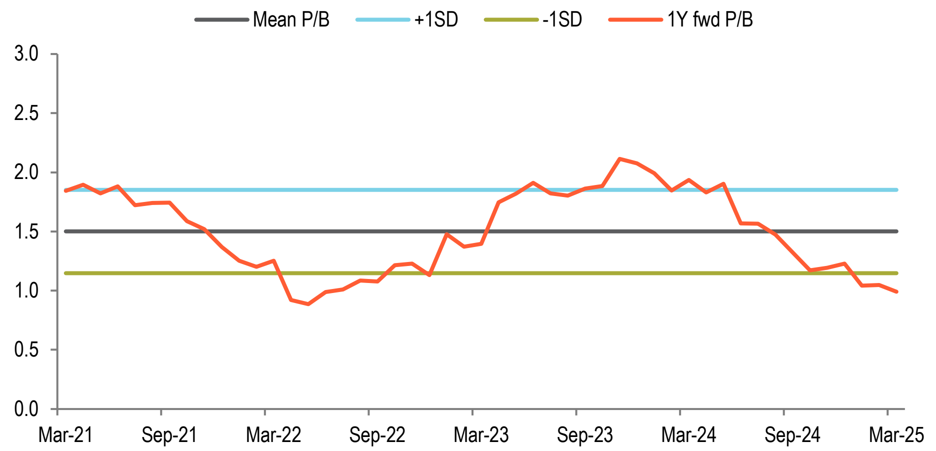
Source: Company, BOBCAPS Research

Fig 20 – 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 (%)	11.3
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	5.6
Long term dividend payout ratio (%)	50.0
Justified P/BV Multiple (x)	1.2

Source: Company, BOBCAPS Research

Fig 21 – 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 March 2025. However, Tamil Nadu & Pondicherry accounted for 46% of total advances (Mar'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)	FY23A	FY24A	FY25A	FY26E	FY27E
Net interest income	**25,447**	**30,798**	**32,516**	**36,548**	**43,689**
NII growth (%)	24.8	21.0	5.6	12.4	19.5
Non-interest income	6,696	7,987	9,115	10,766	12,926
Total income	32,143	38,784	41,631	47,314	56,615
Operating expenses	20,383	25,011	28,288	32,039	37,999
PPOP	11,760	13,774	13,343	15,275	18,616
PPOP growth (%)	34.9	17.1	(3.1)	14.5	21.9
Provisions	4,072	3,142	11,354	7,018	4,794
PBT	7,688	10,631	1,988	8,257	13,823
Tax	1,952	2,642	518	2,081	3,483
Reported net profit	**5,736**	**7,990**	**1,470**	**6,176**	**10,339**
Adjustments	0	0	0	0	0
Adjusted net profit	**5,736**	**7,990**	**1,470**	**6,176**	**10,339**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Equity capital	11,106	11,349	11,399	11,399	11,399
Reserves & surplus	40,474	48,338	49,327	55,503	65,842
Net worth	51,579	59,687	60,725	66,902	77,241
Deposits	2,53,485	3,61,292	4,31,067	5,17,281	6,36,255
Borrowings	29,738	17,875	21,370	24,575	28,999
Other liab. & provisions	14,779	14,184	15,194	39,533	45,436
Total liab. & equities	**3,49,581**	**4,53,039**	**5,28,356**	**6,48,291**	**7,87,931**
Cash & bank balance	12,443	35,790	55,363	67,807	78,440
Investments	66,646	90,653	92,887	1,29,258	1,56,924
Advances	2,57,986	3,09,643	3,62,089	4,30,886	5,27,835
Fixed & Other assets	12,508	16,953	18,018	20,340	24,731
Total assets	**3,49,581**	**4,53,039**	**5,28,356**	**6,48,291**	**7,87,931**
Deposit growth (%)	33.8	42.5	19.3	20.0	23.0
Advances growth (%)	33.2	20.0	16.9	19.0	22.5

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
EPS	4.9	7.1	1.3	5.4	9.1
Dividend per share	1.0	1.0	0.0	0.9	1.1
Book value per share	46.4	52.6	53.3	58.7	67.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
P/E	13.8	9.4	51.8	12.4	7.4
P/BV	1.4	1.3	1.3	1.1	1.0
Dividend yield (%)	1.5	1.5	0.0	1.3	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Net interest income	8.2	7.7	6.6	6.2	6.1
Non-interest income	2.2	2.0	1.9	1.8	1.8
Operating expenses	6.6	6.2	5.8	5.4	5.3
Pre-provisioning profit	3.8	3.4	2.7	2.6	2.6
Provisions	1.3	0.8	2.3	1.2	0.7
PBT	2.5	2.6	0.4	1.4	1.9
Tax	0.6	0.7	0.1	0.4	0.5
ROA	1.9	2.0	0.3	1.0	1.4
Leverage (x)	6.6	7.2	8.2	9.2	10.0
ROE	12.2	14.4	2.4	9.7	14.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Net interest income	24.8	21.0	5.6	12.4	19.5
Pre-provisioning profit	34.9	17.1	(3.1)	14.5	21.9
EPS	106.8	46.6	(81.8)	319.1	67.4
Profitability & Return ratios (%)					
Net interest margin	9.0	8.4	7.1	6.9	6.7
Fees / Avg. assets	54.1	49.8	46.4	45.8	45.0
Cost-Income	63.4	64.5	68.0	67.7	67.1
ROE	12.2	14.4	2.4	9.7	14.3
ROA	1.9	2.0	0.3	1.0	1.4
Asset quality (%)					
GNPA	2.8	2.6	2.9	2.7	2.6
NNPA	1.2	1.2	1.0	0.9	0.8
Slippage ratio	5.6	4.4	6.6	4.8	4.1
Credit cost	1.8	1.1	3.4	1.8	1.0
Provision coverage	56.2	55.4	66.2	68.3	69.6
Ratios (%)					
Credit-Deposit	101.8	85.7	84.0	83.3	83.0
Investment-Deposit	26.3	25.1	21.5	25.0	24.7
CAR	23.8	21.7	20.6	18.6	17.7
Tier-1	23.1	20.7	17.8	16.0	15.2

Source: Company, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
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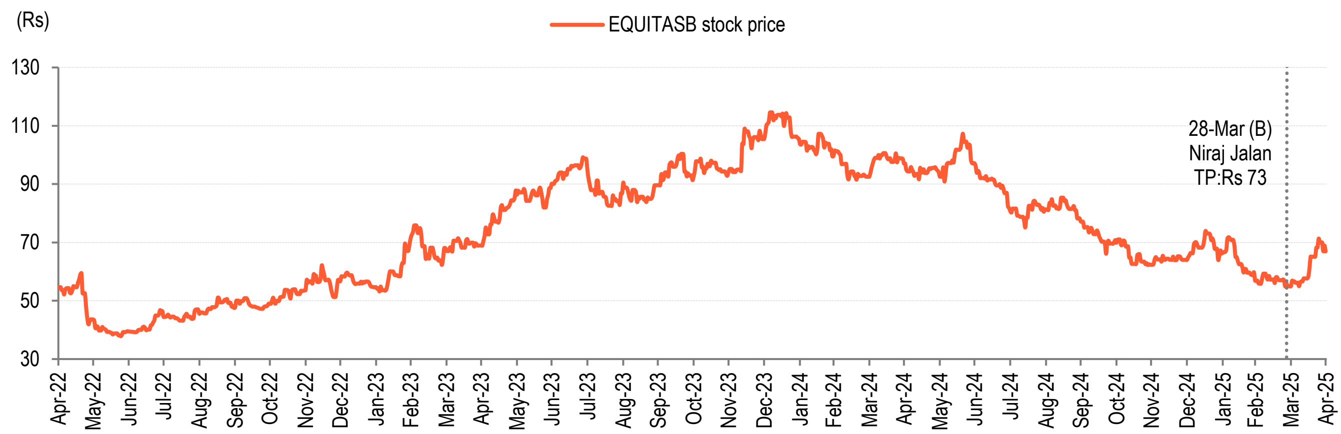

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