

Issue Details

Issue Size	₹ 510 to ₹ 518 Crores	Price Band:	₹ 32 - ₹ 33
IPO Date:	20 th October 2020 – 22 nd October 2020	Offer Ratio:	QIB:50%, HNI:15%, Retail: 35%
Bid Lot:	450 Equity Shares and in multiples thereafter		

Company Profile

Equitas Small Finance Bank Ltd. is the largest Small Finance Bank (SFB) in India in terms of number of banking outlets, and the second largest in India in terms of assets under management and total deposits in Fiscal 2019. (Source: CRISIL Report). They offer a range of banking products and services to customers with a focus on serving the financially unserved and underserved customer segments in India. As of June 30, 2020, our distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India. The promoter of the bank is Equitas Holdings Limited, which is a listed entity. The key management of the bank comprises Mr. Arun Ramanathan as Part Time Chairman and Mr. Vasudevan Pathangi Narasimhan as the MD and CEO.

Equitas Small Finance Bank's asset products include provision of small business loans comprising LAPs, housing loans, and agriculture loans to micro-entrepreneurs, microfinance to JLGs predominantly comprising women, used and new commercial vehicle loans to drivers and micro-entrepreneurs typically engaged in logistics, MSE loans to proprietorships, and corporate loans.

On the liability side, their target customers comprise mass and mass-affluent individuals to whom they offer current accounts, salary accounts, savings accounts, and a variety of deposit accounts. Additionally, they also provide non-credit offerings comprising ATM-cum-debit cards, third party insurance, mutual fund products, and issuance of FASTags.

- **Diversified Loan Book**

Top 3 segments by AUM (%)	March 31, 2020
Small Business Loans	41
Vehicle Finance	24
Microfinance	24

- **Expanding Deposit Base**

Top 2 Funding sources (%)	March 31, 2020
Term Deposits	47
CASA	13

Competitive Strengths

- Customer centric organization with a deep understanding of the unserved and underserved customer segments
- Among the largest SFBs in India with a well-diversified portfolio
- Strong retail liability portfolio with a strategic distribution network
- Customized credit assessment procedures for effective credit risk management
- Professional management, experienced leadership and trained employee base
- Technology as an enabler to drive operating procedures

Financials (Restated)

Particulars (Rs. In Crs)	March 31, 2020	March 31, 2019
Equity Share Capital	1,053.4	1,005.9
Reserves	1,690.7	1,248.4
Net Worth	2,744.1	2,254.3
Total Deposits incl Retail	10,788.4	9,006.7
Retail Deposits	3,811.0	1,636.0
Borrowings	5,134.9	3,973.0
Loan AUM	15,367.0	11,704.0
Revenue from Operations (Interest Income)	2,645.4	2,111.9
Profit Before Tax	350.9	323.7
Net Profit for the year	243.6	210.6

Ratios (in %)	March 31, 2020	March 31, 2019
Yield on On-Book Advances	18.90	19.13
Cost of Funds	7.97	8.13
NIM on Interest Earning Assets	9.11	8.55
Gross Non-Performing Assets	2.72	2.53
Net Non-Performing Assets	1.66	1.44
Capital Adequacy Ratio	23.61	22.44
Return on Assets	1.39	1.45
Return on Equity	9.84	9.85

Object of the Offer

Particulars	Amount
To shore up bank's Tier I capital base to meet future capital requirements	[TBA]

** To be finalised upon determination of the Offer Price*

Key Risk Factors

- The continuing impacts of COVID-19 are highly unpredictable and could be significant, and may have an adverse effect on the business, operations and future financial performance.
- The Bank is subject to stringent regulatory requirements and prudential norms and their inability to comply with such laws, regulations and norms may have an adverse effect on the business, results of operations, financial condition and cash flows
- The business is vulnerable to interest rate risk, and any volatility in interest rates or inability to manage interest rate risk could adversely affect the Net Interest Margins, income from treasury operations, business, financial condition, results of operations and cash flows
- Any adverse developments in the segments they operate in, including small business loans, microfinance and vehicle finance could adversely affect the business and results of operations
- A significant portion of bank's advances are towards customers located in the State of Tamil Nadu and any adverse changes in the conditions affecting the region can adversely impact the business, financial condition, results of operations and cash flows
- The Bank has not complied with paragraph 6 of the SFB Licensing Guidelines. In the event of any continued noncompliance, they may be subject to various sanctions and penalties by the RBI and the business, financial condition, results of operations and cash flows could be adversely impacted.

- Their deposits depend on a limited number of customers and a loss of such customers could materially and adversely affect their deposit portfolio, funding sources, financial condition, results of operations and cash flows
- Company, its Promoter, and its Directors, are involved in certain legal proceedings, any adverse developments related to which, could materially and adversely affect the Company's business, reputation and cash flows. Please refer page 32, point 9 for details.
- Company's microfinance loan portfolio and unsecured business loans portfolio are not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, the Company may be unable to collect the unpaid balance.
- The Company has significant exposure to loans against property. It may not be able to realize the expected value of the collateral on loans due to fluctuating real estate prices and/ or enforce the security in a timely manner or at all in the event of default and this may have a material adverse effect on its business, results of operations, financial condition and cash flows.
- If the Company is not able to control the level of non-performing assets in its portfolio or if there is an increase in RBI mandated provisioning requirements, it could adversely affect its business, financial conditions, results of operations and cash flows.
- The Company is having certain contingent liabilities that have not been disclosed in its financial statements, which, if materialize, may adversely affect its results of operations, financial condition and cash flows. Please see page 47, point 46 for details.

(Please refer the entire list of risk factors given in section II (page 24 onwards) given in RHP)

Comparison with peers

Company	FV/Share (₹)	EPS (Diluted)	RoNW (%)	NAV (₹ per share)	P/E
Equitas Small Finance Bank	10	2.39	8.92	25.92	[•]
AU Small Finance Bank Ltd.	10	22.32	15.45	143.6	32.91
Ujjivan Small Finance Bank Ltd.	10	2.18	11.71	17.29	15.09
DCB Bank Ltd.	10	10.74	10.84	100.44	7.59
City Union Bank Ltd.	1	6.41	9.36	69.03	22.54
Bandhan Bank Ltd.	10	18.76	20.64	90.98	16.31
Shriram City Union Finance Ltd.	10	154.92	13.92	1,112.81	5.89
Shriram Transport Finance Ltd.	10	110.73	13.87	798.42	5.91
Sundaram Finance Ltd.	10	71.85	12.7	604.24	18.72
CreditAccess Grameen Ltd.	10	23.00	12.43	186.43	32.54
Spandana Spoorthy Financial Ltd.	10	55.74	13.38	408.29	10.50

Source: All the financial information for listed industry peers mentioned above is on a consolidated basis (unless otherwise available only on standalone basis) and is sourced from the annual reports of the respective company for the year ended March 31, 2020 submitted to stock exchanges

Financial information for our Bank is derived from the Restated Financial Information as at and for the year ended March 31, 2020.

Notes:

1. P/E Ratio has been computed based on the closing market price of Equity Shares on NSE on October 6, 2020 divided by the Basic EPS/Diluted EPS.

2. RoNW is computed as net profit after tax (or total comprehensive income, as applicable) divided by closing net worth. Net worth has been computed as sum of share capital, reserves and surplus, money received against share warrants and employee stock options outstanding, as applicable.

3. NAV is computed as the closing net worth divided by the Equity Shares outstanding as on March 31, 2020.

Disclaimer

The information contained herein are strictly confidential and are meant solely for the information of the recipient and shall not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written permission of JM Financial Services Ltd. ("JMFS"). The contents of this document are for information purpose only. This document is not an investment advice and must not alone be taken as the basis for an investment decision. Before taking any decision to invest, the recipient of this document must read carefully the Red Herring Prospectus of the company dated October 11, 2020 to know the details of IPO and various risks and uncertainties associated with the investment in the IPO of Equitas Small Finance Bank Ltd. All recipients of this document must before acting on the given information/details, make their own investigation and apply independent judgment based on their specific investment objectives and financial position. They can also seek appropriate professional advice from their own legal and tax consultants, advisors, etc. to understand various risks and investment considerations arising from such investment. The investor should possess appropriate resources to analyze such investment and the suitability of such investment to such investor's particular circumstances before making any decisions on the investment. The Investor shall be solely responsible for any action taken based on this document. JMFS shall not be liable for any direct or indirect losses arising from the use of the information contained in the document and accept no responsibility for statements made otherwise issued or any other source of information received by the investor and the investor would be doing so at his/her/its own risk. The information contained in this document should not be construed as forecast or promise or guarantee or assurance of any kind. The investors are not being offered any assurance or guaranteed or fixed returns. The users of this document must bear in mind that past performances are not indicative of future results. The actual returns on investment may be materially different than the past. Investments in equity shares including the investment in the IPO of Equitas Small Finance Bank Ltd. involves higher degree of risk and they are generally not an appropriate avenue for someone with limited resources/ limited investment and low risk tolerance. Also, investments in securities markets are subject to market risks including, without limitation, price, volatility and liquidity and capital risks. Therefore, the users of this document must carefully consider all the information given in the Red Herring Prospectus including the risks factors given in page no.24 onwards before making an investment in the Equity Shares of Equitas Small Finance Bank Ltd.

In rendering this information, JMFS assumed and relied upon, without independent verification, the accuracy and completeness of all the data provided by the issuer Equitas Small Finance Bank Ltd. JMFS does not warrant the accuracy, reasonableness and/or completeness of any information mentioned in this document. Also, JMFS takes no responsibility of updating any data/information in this document from time to time. JMFS, its affiliates/associates and any of its directors, officers, employees and any other persons associated with it shall not be liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this document in any manner whatsoever.

This document is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject JMFS and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come, are required to take note of such restrictions and comply with the same.

Registration details:

JM Financial Services Ltd.

Corporate Identity Number: U67120MH1998PLC115415

Stock Broker - INZ000195834

(NSE - Member Code- 10548 | BSE - Clearing No. 325 | MSEI - Membership No.-58300); NCDEX-1282; MCX- 56555

Depository Participant- NSDL - IN-DP-NSDL-241-2004 | CDSL - IN-DP-CDSL-236-2004.

Investment Adviser- INA000012351. Portfolio Manager- INP000000621

Mutual Fund Distributor- ARN0002; Research Analyst-INH000001196

Registered office Address: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin-400025

Tel: (91 22) 6630 3030 |Fax: (91 22) 6630 3223

Corporate office Address: 5th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin-400025

Tel: (91 22) 6704 3000/3024 3000 |Fax: (91 22) 6704 3139