

SFB Subsidiary IPO Note

Industry	NBFC / SFB
EHL CMP (Rs)	50
EHL Target Price (Rs)	72
ESFB Price Band (Rs)	32-33
ESFB Target Price (Rs)	42
52 Week H/L (Rs)	121/33
Volumes (BSE+NSE)*	66,24,730
Shares O/S (mn)	341.8
Market Cap (Rs mn)	17089.5
Free Float (%)	100.0
Bloomberg	EQUITAS IN
Reuters	EQHL.BO

*Three month daily average

Share Holding Pattern (30/6/2020)

Particulars	Shares (mn)	Holding (%)
Promoters	-	-
FIIIs	96.4	28.2
DIIIs	103.4	30.3
Others	142.1	41.5
Total	341.8	100.0

Source: BSE

Financial Highlights – Equitas SFB

(Rs bn)	FY20	FY21E	FY22E
Operating Income	17.8	19.9	23.8
NIM (%)	10.0	9.8	9.9
PAT	2.4	2.0	3.3
PAT Growth (%)	15.7	-17.0	63.9
ABV (Rs)	23.7	25.3	27.9
P/ABV (x)	1.4	1.3	1.2
RoAE (%)	9.7	6.8	9.8
RoAA (%)	1.4	1.0	1.4

Share Price Trend


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Key Takeaways of the Virtual IPO Meet

- Issue Details** – Public issue dates – Oct 20 to Oct 22, 2020. Expected date of listing is November 2, 2020. Price band – Rs 32-33; Fresh issue of upto Rs 2.8bn translating into fresh issue of 84.8mn shares at upper price band; OFS of 72mn shares leading to selling stake worth Rs 2.4bn at upper price band. Equitas Holdings Ltd (EHL) to hold 86.2% stake (calculated at upper price band) in Equitas SFB post listing.
- Regulatory Issues Affecting the Stock** – (1) Originally the IPO of Rs 10bn was supposed to be completed before September 2019, within 3 years of Equitas becoming a bank. But due to technical issues it got delayed to March 2020. Due to market conditions it got further postponed and now is coming at much lower issue size of Rs 5.2bn. (2) EHL has to reduce stake in SFB to 40% by September 4, 2021 for which it will either take inorganic route in lending space or do a block sale. (3) After completion of 5 years of operations, it will apply for a reverse merger. (4) As per SEBI ICDR Regulations, 20% promoter holding will be locked in for 3 years from listing. So to ensure that holding company is able to reverse merge with SFB, it will apply to SEBI for exemption from this rule, after it applies to RBI for reverse merger.
- Average ticket size of entire loan book is Rs 0.4mn. 96% of market in this ticket size is unorganized indicating huge untapped potential.
- The company does cash flow-based lending with LTV below 40%.
- Deposits have reached Rs 117.9bn with retail deposits at ~57%. The bank offers higher rates on its deposit products as compared to large private banks. Its CASA ratio is 20%.
- As on June 30, 2020 it had 856 branches and 322 ATMs across 17 states and UTs. It does not have a presence in East India and at present plans to leverage on existing presence in South, West and North India.
- Share of digital transactions on liability side is at 97%. It had launched a digital savings product just before lockdown started in March, and on same it got 55000 accounts which was 2x the volumes it did in simple format. On asset side it's not gone digital as 90% of customers are from the informal segment.
- The contribution of MFI segment will continue to come down as it diversifies across products.
- In CV segment, LCVs and SCVs are doing better. HCV segment should bounce back in 6-12 months depending on pick up in core sectors of the economy.
- GNPA's have been steady at 2.5-2.7% in the past 3 years.
- 36.2% of the loan book was under moratorium as on August 31, 2020. The SC ruling on freezing of NPA recognition till further notice applies to the bank and so it will see how it can report the asset quality numbers in upcoming results.
- Cumulative collection efficiency improved from 11% in April 2020 to 83.4% in August 2020.
- The bank will reschedule loans in cases where the cash flows have not come back to pre-covid levels.

- Equitas SFB is aiming for 12-15% RoE in the long term considering the profitable nature of SFB model.
- Due to pandemic, there is no major structural change in the JLG disbursement model as the company has to look at the bonding of the group members before providing loan.
- Unlike during the time of demonetization, this time there has been no political interference in any part of the country.
- There have been some issues with collection in parts of Punjab and Kolhapur and Sangli area of Maharashtra.

Estimating Equitas Holdings valuations based on SFB listing

- Ujjivan Small Finance Bank (which is 83% subsidiary of Ujjivan Financial Services) recently got listed on the exchanges. At cmp, Ujjivan SFB trades at P/ABV multiple of 1.6x FY22E ABV with a FY22E ROE of 11.7%.
- We assign Equitas Small Finance Bank a P/ABV multiple of 1.5x its FY22E ABV as it has a lower FY22E ROE of 9.8% (after considering capital raising). At 1.5x FY22E P/ABV multiple, we value Equitas SFB at Rs 42 per share.
- After considering that EHL will be holding 86.2% stake (upper price band) post the listing of Equitas SFB and assigning it a holding company discount of 40%, we arrive at a target price of Rs 72.
- At our target price, Equitas Holdings Ltd should trade at 0.8x FY22E ABV. We have a 'Buy' rating on EHL. In case of Equitas SFB, as the SME/MFI businesses face various challenges at operating level in wake of current pandemic and the interest waiver issue for which PIL has been filed in SC, listing gains look difficult. So based on expectation of improvement in performance from FY22E onwards, we recommend investors to 'Subscribe' to the issue from a long term perspective.

Equitas SFB & EHL Valuation

EHL & SFB Target Price Calculations (Rs mn)	FY22E
Paidup Capital	11382.5
Reserves	24193.4
Networth	35575.9
Net NPA	3809.7
Adj Networth	31766.2
Assigned Multiple (x)	1.5
Valuation of Equitas SFB (Rs mn)	47649.4
FY22E Price Target of SFB (Rs)	41.9
EHL's Assumed Stake Post Listing (%)	86.2
Holding Company Discount (%)	40.0
No of Shares of EHL (mn)	341.8
EHL Target Price (Rs)	72.1
% Upside	44.2
% Annualized	28.7

EHL Implied Multiple Based on SFB Valuation

EHL Consolidated Implied P/BV (x) (Rs mn)	FY20	FY21E	FY22E
EHL Networth (I)	29031.3	30740.7	33541.7
EHL PAT	2,060.0	1709.4	2801.0
PAT Growth (%)	16.7	-17.0	63.9
RoAE (%)	7.7	5.7	8.7
Less: Net NPA from Networth (II)	2476.1	3481.5	3809.7
EHL Adjusted Networth (I - II)	26555.2	27259.3	29732.0
EHL Consolidated ABV (Rs)	77.7	79.8	87.0
P/ABV (x)	0.6	0.6	0.6
Implied Target Multiple Based on SFB Valuation (x)			0.8

Q1FY21 Results Summary – Equitas Small Finance Bank

Particulars (Rs mn)	Q1FY21	Q1FY20	% YoY Change	Q4FY20	% QoQ Change
Interest on Advances	6,610.0	5,500.1	20.2	6,684.2	-1.1
Income from Investments	440.0	390.8	12.6	371.0	18.6
Other Interest	160.0	142.9	12.0	203.6	-21.4
Interest Earned	7,210.0	6,033.8	19.5	7,258.7	-0.7
Interest Expended	3,170.0	2,660.1	19.2	3,018.8	5.0
Net Interest Income (NII)	4,040.0	3,373.7	19.7	4,240.0	-4.7
Non-Interest Income	300.0	591.6	-49.3	736.0	-59.2
Operating Income	4,340.0	3,965.3	9.4	4,976.0	-12.8
Operating Expenditure	2,880.0	2,738.1	5.2	3,092.1	-6.9
Pre-Provisioning Profits	1,460.0	1,227.2	19.0	1,883.9	-22.5
Provisions and Contingencies	680.0	308.1	120.7	1,299.7	-47.7
Profit Before Tax	780.0	919.1	-15.1	584.3	33.5
Provision for Tax	180.0	327.2	-45.0	154.2	16.7
Net Profit	600.0	591.9	1.4	430.1	39.5

Balance Sheet Details

Particulars (Rs mn)	Q1FY21	Q1FY20	% YoY Change	Q4FY20	% QoQ Change
Deposits	117,870	91330.0	29.1	107884.1	9.3
Borrowings	55,260	46450.0	19.0	51348.74	7.6
Advances	143,890	120250.0	19.7	137472.4	4.7
AUM	155,730	122530.0	27.1	153669.5	1.3

Key Ratios

Particulars (Rs mn)	Q1FY21	Q1FY20	Bps Change	FY20
Yield on "On book" Advances	18.8	18.4	41	18.9
Cost of Funds	7.6	7.9	-27	8.0
Lending Spread	11.2	10.5	68	10.9
NIM on Interest Earning Assets	8.6	8.6	3	9.1
GNPA	2.7	2.7	-2	2.7
NNPA	1.4	1.5	-11	1.7
Credit Cost	1.9	1.0	94	1.9
Provision Coverage	48.8	44.0	479	45.2
ROA	1.2	1.5	-30	9.7
ROE	8.7	9.8	-108	1.4

Income Statement – Equitas Small Finance Bank

Y/E March (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Interest on Advances	13422.4	18323.5	24200.1	27530.7	33722.8
Interest on Investments	1812.4	2579.6	1576.5	1650.8	2095.3
Other Interest	192.3	303.2	677.9	813.4	1016.8
Interest Income	15427.1	21206.3	26454.4	29994.9	36834.8
Interest Expended	6821.7	9688.9	11501.4	13077.2	16398.9
Net Interest Income	8605.4	11517.3	14953.1	16917.6	20435.9
Other Income	2412.2	2829.0	2823.5	2958.7	3368.2
Operating Income	11017.6	14346.3	17776.6	19876.3	23804.1
Employee Cost	5154.1	5513.1	7097.9	7665.7	8852.2
Other Operating Expenses	3657.0	4571.8	4702.9	4938.0	5925.6
Operating Expenditure	8811.1	10084.9	11800.8	12603.8	14777.8
Operating Profit	2206.4	4261.4	5975.8	7272.5	9026.3
Provisions and Contingencies	1721.2	1024.1	2466.4	4570.8	4599.3
Profit Before Tax	485.2	3237.4	3509.4	2701.8	4427.0
Tax	166.9	1131.7	1073.0	680.0	1114.3
Profit After Tax	318.3	2105.7	2436.4	2021.7	3312.7

Balance Sheet – Equitas Small Finance Bank

Y/E March (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
CAPITAL AND LIABILITIES					
Capital	10059.4	10059.4	10534.0	11382.5	11382.5
Reserves and Surplus	10378.1	12483.8	16907.5	20880.7	24193.4
Networth	20437.5	22543.2	27441.5	32263.2	35575.9
Demand Deposits	3891.3	4823.5	3496.3	3915.9	4503.3
Savings Deposits	12487.1	17919.1	18585.8	22303.0	27878.7
Term Deposits	39661.3	67324.7	85801.9	97847.8	116498.0
Deposits	56039.7	90067.4	107884.1	124066.7	148880.0
Borrowings	51772.1	39730.3	51348.7	59051.0	69680.2
Other Liabilities and Provisions	4850.2	5286.1	6471.2	7118.3	8186.1
Equity and Liabilities	133099.6	157626.9	193145.5	222499.2	262322.2
ASSETS					
Cash and Balances with RBI	3860.8	4027.0	3808.6	3722.0	4466.4
Balances with Banks	8250.8	8579.1	21559.8	25645.2	22850.3
Investments	38568.4	23444.5	23425.1	27156.0	32476.8
Net Advances	77066.9	115950.0	137472.4	158578.7	194565.3
Fixed Assets	2808.8	2373.4	2127.7	2170.2	2213.7
Other Assets	2543.8	3252.8	4751.9	5227.1	5749.8
Total Assets	133099.6	157626.9	193145.5	222499.2	262322.2

Dupont Analysis – Equitas Small Finance Bank

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Interest Earned	13.7	14.6	15.1	14.4	15.2
Interest Expended	6.0	6.7	6.6	6.3	6.8
NII	7.6	7.9	8.5	8.1	8.4
Other Income	2.1	1.9	1.6	1.4	1.4
Operating Income	9.8	9.9	10.1	9.6	9.8
Opex	7.8	6.9	6.7	6.1	6.1
PPP	2.0	2.9	3.4	3.5	3.7
Provisions	1.5	0.7	1.4	2.2	1.9
PBT	0.4	2.2	2.0	1.3	1.8
Tax	0.1	0.8	0.6	0.3	0.5
RoAA	0.3	1.4	1.4	1.0	1.4
Leverage	5.6	6.8	7.0	7.0	7.1
RoAE	1.6	9.8	9.7	6.8	9.8

Ratios (Calculated) – Equitas Small Finance Bank

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Valuation					
EPS (Rs)	0.3	2.1	2.3	1.8	2.9
BVPS (Rs)	20.3	22.4	26.1	28.3	31.3
Adj BVPS (Rs)	19.0	20.6	23.7	25.3	27.9
P/E (x)	104.3	15.8	14.3	18.6	11.3
P/ABV (x)	1.7	1.6	1.4	1.3	1.2
Growth (%)					
NII	61.2	33.8	29.8	13.1	20.8
Advances	35.2	50.5	18.6	15.4	22.7
Deposits	191.7	60.7	19.8	15.0	20.0
Net Profit	-69.4	561.5	15.7	-17.0	63.9
EPS	-69.4	561.5	15.7	-17.0	63.9
Total Funds (Business Growth)	74.6	54.8	19.1	15.2	21.5
Profitability (%)					
Yield on Advances	20.0	19.0	19.1	18.6	19.1
Yield on Investments	6.3	8.3	6.7	6.5	7.0
Cost of Deposits	6.5	7.0	7.5	7.2	7.6
Cost of Funds	7.8	8.2	8.0	7.6	8.2
Interest Spread	8.3	8.5	9.7	9.7	9.7
Net Interest Margin	9.0	9.0	10.0	9.8	9.9
CASA	29.2	25.3	20.5	21.1	21.8
Cost/Income	80.0	70.3	66.4	63.4	62.1
Tax/PBT	34.4	35.0	30.6	25.2	25.2
RoAE	1.6	9.8	9.7	6.8	9.8
RoAA	0.3	1.4	1.4	1.0	1.4
Balance Sheet Ratios (%)					
Credit/(Deposit + Borrowings)	71.5	89.3	86.3	86.6	89.0
Investment/Deposit	68.8	26.0	21.7	21.9	21.8
Productivity Ratios (Rs mn)					
Business per Employee	9.9	14.1	15.2	17.6	20.7
Profit per Employee	0.0	0.1	0.2	0.1	0.2
Capital Adequacy Ratio (%)					
CAR	29.6	22.4	23.6	21.4	20.3
Tier I Capital Ratio	27.1	20.9	22.4	20.4	19.4
Asset Quality					
Slippages (%)	6.0	4.1	3.5	4.5	3.9
Gross NPA (Rs mn)	2125.3	2957.1	4173.2	6394.9	6184.6
Gross NPA (%)	2.7	2.5	2.7	3.6	2.9
Net NPA (Rs mn)	1315.0	1864.2	2476.1	3481.5	3809.7
Net NPA (%)	1.7	1.6	1.8	2.2	2.0
Provision Coverage (%)	38.1	37.0	40.7	45.6	38.4
Credit Cost (%)	2.7	1.1	1.9	3.0	2.5
Provision to Average Assets (%)	1.5	0.7	1.4	2.2	1.9

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