

Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs. 32 - 33
Face (Rs)	10
Issue Size (Rs)	517.57Cr
Issue Type	Book Building
Minimum lot	450
Issue Opens	October 20, 2020
Issue Closes	October 22, 2020
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	October 27, 2020
Unblocking of Funds	October 28, 2020
Credit of shares to Demat Account	October 29, 2020
Listing on exchange	November 02, 2020

Other Detail	
Book Running Lead Managers	JM Financial Limited, Edelweiss Financial Services Limited, IIFL Securities Limited
Registrar	KFin Technologies Private Limited

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Equitas Small Finance Bank Limited

Company Background

Equitas Small Finance Bank ("Equitas") was originally incorporated as 'V.A.P. Finance Private Limited' on June 21, 1993. The Bank Promoter, Equitas Holdings Limited ("EHL") was granted the RBI Final Approval on June 30, 2016, to establish an Small finance bank(SFB). Subsequently, the NBFC was converted in to an SFB and they commenced operations on September 5, 2016 as an SFB. The company provides microfinance loans promoting financial inclusion, housing finance, vehicle finance, and MSE finance. As of June 30, 2020, their distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India.

Issue Details

The offer comprises fresh issue of equity shares to raise Rs.280 Cr and Offer for sale by Equitas Holdings Limited of equity shares aggregating up to 7.2Cr shares.(up to Rs.237.60Cr)

Issue Objectives

- 1) To augment the bank's Tier-1 capital base to meet the future capital requirements.
- 2) To meet the RBI's listing requirement within three years from bank launch.

IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.32	Number of Shares at Rs.33	Issue Size at Rs.33 (Rs.Cr)
QIB	50%	71,625,000	70,545,454	232.80
Non-Institutional	15%	21,487,500	21,163,636	69.84
Retail	35%	50,137,500	49,381,818	162.96
EHL Shareholder*		15,937,500	15,454,545	51
Employee		312,500	303,030	0.97
Total		159,500,000	156,848,483	517.57

* Individuals and HUFs who are the public equity shareholders of Equitas Holdings Ltd as on 11th October, 2020.
Source: Company RHP, ACMIIL Research

Outlook and Valuations

Equitas is the largest small finance bank in India in terms of banking outlets and the 2nd largest small finance bank considering assets under management and total deposits in Fiscal 2019. Equitas is good investment avenue owing to its the deep pan-India presence, brand recognition, better growth with healthy asset quality, robust risk management system, equipped with basic retail banking infrastructure and sizeable market to grow. At the upper price band of Rs.33, stock is valued at 1.34x June2020 Book Value on diluted basis. **We recommend to subscribe the issue from a long-term prospective.**

Business Overview

Equitas is the largest SFB in India in terms of number of banking outlets, and the second largest SFB in India in terms of assets under management and total deposits in Fiscal 2019. It has been able to successfully diversify loan portfolio and significantly reduce its dependence on microfinance business as compared to other microfinance companies that have converted to SFBs.

Equitas offers a range of banking products and services to customers with a focus on serving the financially unserved and underserved customer segments in India. Its strength lies in promoting financial inclusion within these segments, with the group beginning operations in 2007 as an NBFC providing microfinance loans through EMFL. The company has been providing housing finance since 2011 through EHFL, and also been providing vehicle finance and MSE finance through the Erstwhile NBFC that received its asset finance license in 2012, primarily to economically disadvantaged households. While company's business model has transitioned over the years, the provision of sustainable credit to unserved and underserved segments has remained its core focus.

As of June 30, 2020, their distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India. They also distribute products through digital channels, and leverage technology to identify opportunities to better serve their target customer segment. To this end, they have introduced facial recognition features for transaction authentication in their mobile banking application.

They have over the years also invested in building a large and trained employee base, and as of March 31, 2019, Equitas had the 3rd largest number of employees among SFBs in India. As its products comprise small ticket loans and retail deposits, its operations require a large number of employees in the field to generate volumes for this business. As a result, they train their employees to undertake assessment and appraisal of customer creditworthiness with limited documented income. As of March 31, 2019, Equitas were 3rd among SFBs in India in terms of advances made per employee and 4th in terms of deposits collected per employee.

Investment Rationale

Customer centric organization with a deep understanding of the unserved and underserved customer segments:

Bank's strength lies in promoting financial inclusion within unserved and underserved customer segments. They have also been providing vehicle finance and MSE finance through the Erstwhile NBFC that received its asset finance license in 2012, primarily to economically disadvantaged households. Equitas has gained a deep understanding of the market over the years that enable them to meet the financing requirements of potential customers. Equitas disbursed "priority sector loans" to 93,196 customers as of June 30, 2020. Further, as of June 30, 2020, advances to the unserved and underserved segments represented 89.12% of their Gross Advances. Bank's engagement with its target customer segments and understanding of related socio-economic dynamics allows them to establish effective credit and operational procedures, identify potential market demand, and leverage their existing operating network to introduce new products, increase the customer base, and grow their product portfolio.

Strong retail liability portfolio with a strategic distribution network

The bank offers a variety of demand deposits and savings bank account options including deposits and other services through which their customers can realize their savings goals. These deposits are primarily sourced from mass and mass-affluent customer segments, which has enabled low cost of funding opportunities and has been a source of strength for Bank's liability portfolio. Their retail deposit base has grown at a CAGR of 143.53% from Rs.642.63 crore as of March 31, 2018 to Rs.4,377.12 crore as of June 30, 2020. The ratio of their retail deposits to total deposits for the 3 months ended June 30, 2020 was 46.40. Demand deposits, savings account and term deposits represented 2.80%, 17.17%, and 80.03% of the total deposits, respectively, as of June 30, 2020.

As of June 30, 2020, ESFB had 856 Banking Outlets and 322 ATMs spread across 17 states and union territories in India. In the 3 months ended June 30, 2020, they recorded an average of 1,146 transactions per month per ATM, and an average of 78% of such transactions were by customers of other banks. In Fiscal 2019, 2020 and the 3 months ended June 30, 2020, the average debit card spend was Rs.271.89 crore, Rs.112.02 crore and Rs.51.39 crore, respectively.

Robust risk management framework

Equitas applies different credit assessment procedures based on the products they offer. They also have a risk management framework to identify, measure, monitor and manage credit, market and operational risks including IT security risk. The framework is aimed at protecting their Bank's financial strength and reputation, and ensures that their risk management operations are independent of the business operations, through various policies, procedures and allocation of responsibilities. Their risk management and credit evaluation processes, together with their ability to evaluate risk, have enabled them to contain their level of NPAs, As of June 30, 2020, the Gross NPAs were Rs.416.67 crore, or 2.68% of the Gross Advances, and Net NPAs were Rs.213.37 crore, or 1.48% of the net Advances.

Among the largest SFBs in India with a well-diversified asset portfolio:

Equitas is the largest SFB in India in terms of number of banking outlets, as of March 31, 2019, and in Fiscal 2019 they recorded the 4th lowest yields indicating their diversification away from microfinance. Their asset products include provision of small business loans comprising Loan against properties, housing loans, agriculture loans, microfinance to Joint liability groups, used and new commercial vehicle loans, gold loans, MSE loans, and corporate loans.

Details of Gross Advances by product

	As of March 31					
	2018		2019		2020	
	Amt(In Cr)	% to Total	Amt(In Cr)	% to Total	Amt(In Cr)	% to Total
Small Business Loans	2113	27%	3673	31%	4,995	33%
Housing Finance	270	3%	377	3%	604	4%
Agriculture Loans	287	4%	528	5%	680	4%
Micro Finance	2257	28%	3070	26%	3,616	24%
Vehicle Finance (New & Old)	2238	28%	2951	25%	3,760	24%
MSE Finance (Working Capital)	8	0%	181	2%	669	4%
Corporates	250	3%	456	4%	818	5%
Others*	514	6%	468	4%	224	1%
Total Gross Advances	7937	100%	11703	100%	15367	100%

* Others include loan-against-gold, unsecured business loans, overdrafts against fixed deposits and staff loans.
Source: Company RHP, ACMIIL Research

Within their credit portfolio, the small business loans (including housing loan) and vehicle finance product segments recorded significant growth with a CAGR of 53.34% and 29.62%, respectively, from March 31, 2018 to March 31, 2020. Their used commercial vehicle loan customers can avail top-up loans based on their repayment track record to finance repair work or purchase replacement parts. As a result of their diverse asset product portfolio, Equitas advanced small business loans to 185,128 new customers, microfinance to 2,656,819 new customers, and vehicle finance loans to 132,427 new customers from Fiscal 2018 to Fiscal 2020.

Strong Track Record of Financial Performance:

Key Financial Indicator (Amt in Mn)	As of March 31			FY18-20 CAGR%
	2018	2019	2020	
Total Income	17,729	23,948	29,278	29%
Net Interest Income	8605	11517	14953	32%
Net Interest Margin	9.02%	8.55%	9.11%	--
Net Profit	318	2106	2436	177%
Cost to income ratio	79.97%	70.30%	66.38%	--
Advances	58087	85783	99110	31%
GNPA	2.68%	2.53%	2.72%	--
NNPA	1.46%	1.44%	1.66%	--
Capital Adequacy Ratio	29.60%	22.45%	23.61%	--
CASA	16378	22742	22082	16%
CASA ratio	29.23%	25.25%	20.47%	--
ROE	1.57%	9.40%	8.92%	--
ROA	0.30%	1.43%	1.38%	--

Source: Company RHP, ACMIIL Research

Peer Comparision (As on 31st March 2020)

Name of the company	Consolidated/ Standalone	Face Value (Rs)	P/BV	RoNW (%)	NAV (Rs)
Equitas Small Finance Bank Limited	Standalone	10	1.27	8.92%	25.92
AU Small Finance Bank Ltd	Standalone	10	5.11	15.45%	143.6
Ujjivan Small Finance Bank Ltd	Standalone	10	1.90	11.71%	17.29
DCB Bank Limited	Standalone	10	0.81	10.84%	100.44
City Union Bank Limited	Standalone	1	2.09	9.36%	69.03
Bandhan Bank Limited	Standalone	10	3.36	20.64%	90.98
Shriram City Union Finance Limited	Consolidated	10	0.82	13.92%	1,112.81
Shriram Transport Finance Limited	Consolidated	10	0.82	13.87%	798.42
Cholamandalam Investment & Finance Ltd	Consolidated	2	2.61	12.85%	100.05
Mahindra & Mahindra Financial Services Ltd	Consolidated	2	0.67	8.89%	196.51
Sundaram Finance Ltd	Consolidated	10	2.23	12.70%	604.24
CreditAccess Grameen Limited	Consolidated	10	4.01	12.43%	186.43
Spandana Sphoorty Financial Limited	Consolidated	10	1.43	13.38%	408.29

All the financial information for listed industry peers mentioned above is sourced from the audited financial statements of the relevant companies for Fiscal 2020. P/B figures for the peers is computed based on closing market price as on October 6, 2020 as available at NSE website.

Source: Company RHP, ACMIIL Research

Risk and Concern

- 1) The continuing impacts of COVID-19 are highly unpredictable and could be significant, and may have an adverse effect on their business, operations and future financial performance.
- 2) Equitas is subject to stringent regulatory requirements and prudential norms and their inability to comply with such laws, regulation and norms may have an adverse effect on our business, results of operations, financial condition and cash flows.

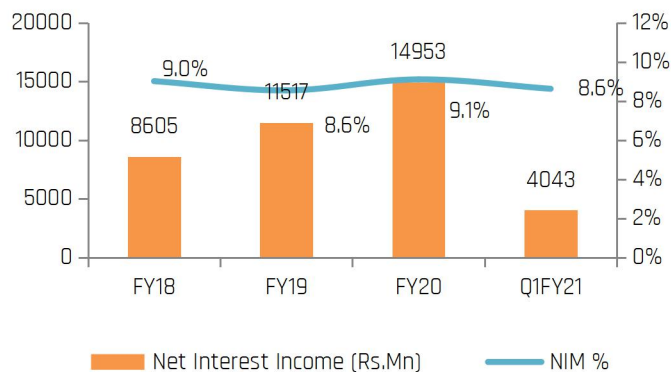
Business Impact - COVID 19

The Bank has experienced and may continue to experience a significant decline in collections as a significant proportion of its collections is cash-based and involve physical presence of their employees,

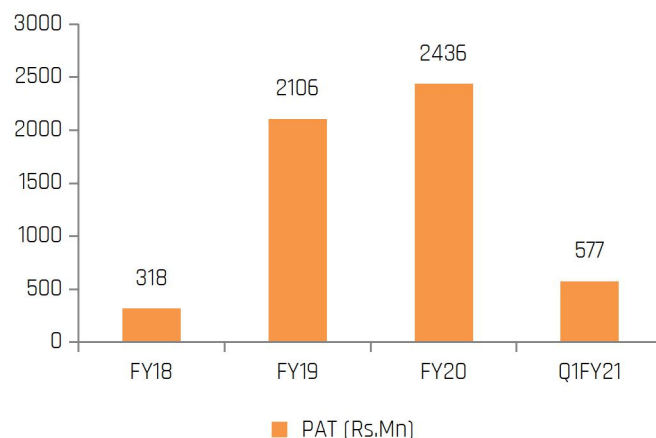
- There has been and there may continue to be a decline in disbursements due to reduced economic activity. As a result, relate revenue from processing fees and documentation charges, have and may continue to decline.
- There may be a significant increase in the NPA levels due to possible deterioration in the credit quality of its customers.
- Reduction in policy rates may be passed on to customers; however, there may not be a corresponding reduction in borrowing cost in-line with the reduction in policy rates.

The RBI issued guidelines as part of a COVID-19 Regulatory Package dated March 27, 2020, April 17, 2020 and May 23, 2020. In terms of these guidelines, the bank has granted a moratorium of up to 6 months on the payment of all instalments and/ or interest, as applicable, falling due between March 1, 2020 and August 31, 2020 to all eligible borrowers, in accordance with the schemes approved by the Board.

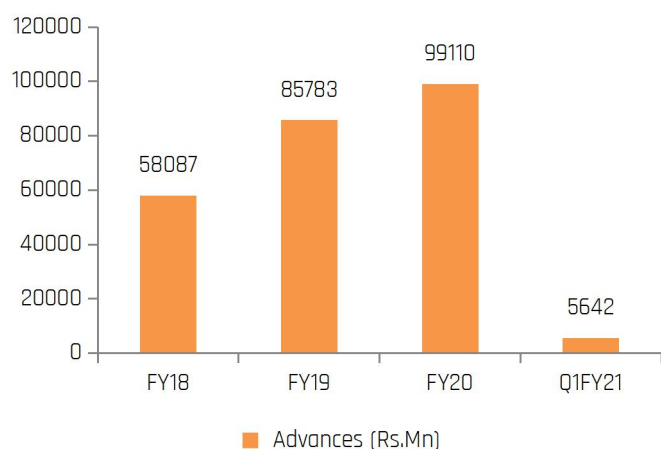
Net Interest Income



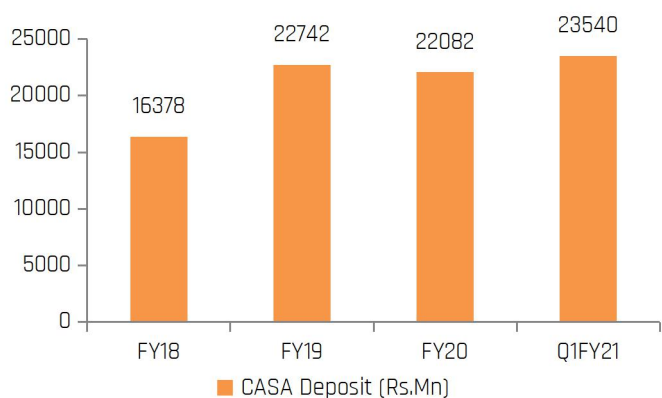
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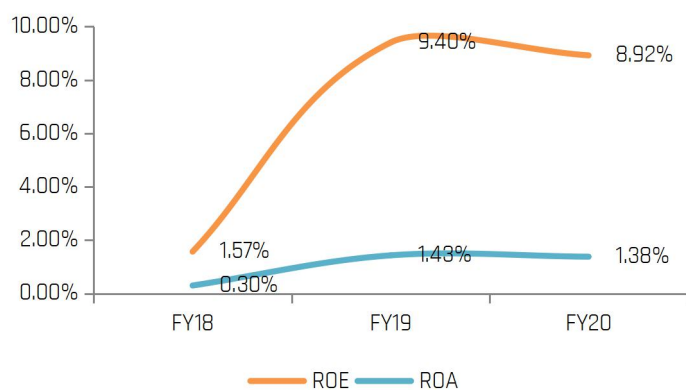
ADVANCES



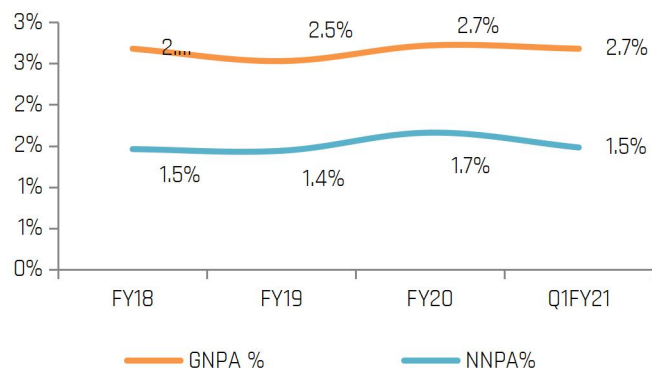
CASA DEPOSIT



ROE & ROA



GNPA & NNPA



Source: Company RHP, ACMIIL Research

Financials

Income statement

Particulars (Rs In Mn)	FY 18	FY 19	FY 20	Q1FY21
Income				
Interest Earned	15,317	21,119	26,454	7,213
Other Income	2,412	2,829	2,824	297
Total Income	17,729	23,948	29,278	7,510
Expenditure				
Interest Expended	6,711	9,602	11,501	3,170
Operating Expenses	8,811	10,085	11,801	2,919
Provisions and Contingencies	1,888	2,156	3,539	843
Total Expenditure	17,411	21,843	26,842	6,933
Net Profit/ (Loss) for the period/year	318	2,106	2,436	577
Source: Company RHP, ACMIIL Research				

Balance sheet

Particulars (Rs In Mn)	FY 18	FY 19	FY 20	Q1FY21
Capital and Liabilities				
Capital	10,059	10,059	10,534	10,534
Reserves and Surplus	10,378	12,484	16,907	17,484
Deposits	56,040	90,067	1,07,884	1,17,871
Borrowings	51,772	39,730	51,349	55,255
Other Liabilities and Provisions	4,762	5,286	6,471	7,777
Total Capital and Liabilities	1,33,012	1,57,627	1,93,145	2,08,921
Assets				
Cash and Balances with RBI	3,861	4,027	3,809	4,290
Balances with Banks	8,251	8,579	21,560	14,965
Investments	38,568	23,445	23,425	34,786
Advances	77,060	1,15,936	1,37,472	1,43,886
Fixed Assets	2,809	2,373	2,128	1,977
Other Assets	2,462	3,267	4,752	9,017
Total Assets	1,33,012	1,57,627	1,93,145	2,08,921
Source: Company RHP, ACMIIL Research				

ACMIIL Retail Research Products

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