BUY
TP: Rs 73 | ⮝ 30%

EQUITAS SMALL FINANCE BANK | Banking | 28 March 2025

De-risked portfolio growth; available at a discount

- **Rising share of diversified and secured portfolio with MFI mix likely to decline further; scaling up granular deposit franchise**
- **Asset quality moderated with pain in MFI portfolio leading to higher credit cost; soft delinquency buckets show signs of improvement**
- **Initiate coverage on EQUITASB with BUY rating and TP of Rs 73 (1.1x FY27E ABV)**

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Focus on diversified & secured portfolio; MFI share likely to dip to single-digit: EQUITASB grew its loan book at a healthy CAGR of 22.5% during FY20-24. The bank shifted focus to secured portfolio as evident by its rising share of secured loan mix to 85.6% (Dec'24) vs. 76.5% (Mar'20). It has consciously run-down its MFI disbursement to Rs 31.3 bn (-26.4% YoY) in 9M FY25. EQUITASB plans to reduce its MFI mix to single digits (14.4% as of Dec'24). The decline in MFI disbursement is largely met by the SBL segment. Within SBL, the focus is mainly to high-yield (~12-17%) M-LAP segment (top 15% of its MFI customers). We expect the advances to grow at a ~21% CAGR during FY25-27E, largely led by its secured portfolio.

Scaling-up a granular deposit franchise; retail deposits at 74.3%: Deposits saw a higher CAGR of 35.3% vs. loan CAGR of 22.5% in FY20-24, resulting in an improvement in the C-D ratio to 85.7% (Mar'24) from 127.2% (Mar'20). Retail deposits (CASA + retail TDs) mix grew to 74.3% (Dec'24) of total deposits vs. 55.8% (Mar'20), resulting in a fall in cost of deposits to 7.0% in FY24 (7.5% in FY20). Bank plans to reduce its cost of funds gap vs. large universal banks in the next few years.

AQ moderated with pain in MFI; higher provisions impacted profitability: Asset quality moderated mainly driven by rise in gross slippages to Rs 14.8 bn (+1.9x YoY) in 9M FY25. This was mainly due to stress in the MFI sector with net slippage ratio of 8.5% vs. 1.8% in the non-MFI book. Hence, bank created additional provisions of Rs 3.4 bn in 9M FY25 mainly for MFI stress and to maintain NNPA below 1%. As a result, its profitability was adversely impacted in 9M FY25. Around 20% of its portfolio is yet to breakeven, which is likely to start yielding profits in next few years. The SMA 0 & SMA 1 in MFI book declined QoQ to 2.03% (-14bps) and 1.51% (-20bps), respectively in Q3 FY25, reflecting signs of improvement in the CE.

Initiate coverage on EQUITASB with a BUY rating and TP of Rs 73: The stock price corrected ~40% last year and is presently trading at 1.0x Mar'26 ABV vs. 4-year avg. of 1.5x. We expect its advances to grow at ~21% CAGR and deliver improvement in RoA/RoE to 1.3%-1.5% / 11.6%-14.7% in FY26-FY27E. We initiate coverage on EQUITASB with a BUY rating and TP of Rs 73 (1.1x FY27E ABV).

Ticker/Price	EQUITASB IN/Rs 56
Market cap	US$ 744.8mn
Free float	100%
3M ADV	US$ 3.1mn
52wk high/low	Rs 108/Rs 54
Promoter/FPI/DII	0%/15%/43%

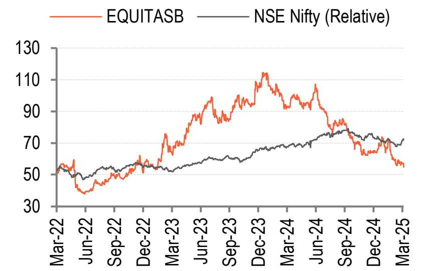
Source: NSE | Price as of 27 Mar 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	30,798	32,686	36,883
NII growth (%)	21.0	6.1	12.8
Adj. net profit (Rs mn)	7,990	2,291	7,433
EPS (Rs)	7.1	2.0	6.5
Consensus EPS (Rs)	80.7	87.5	101.7
P/E (x)	7.9	27.8	8.6
P/BV (x)	1.1	1.1	0.9
ROA (%)	2.0	0.5	1.3
ROE (%)	14.4	3.8	11.6

Source: Company, Bloomberg, BOBCAPS Research

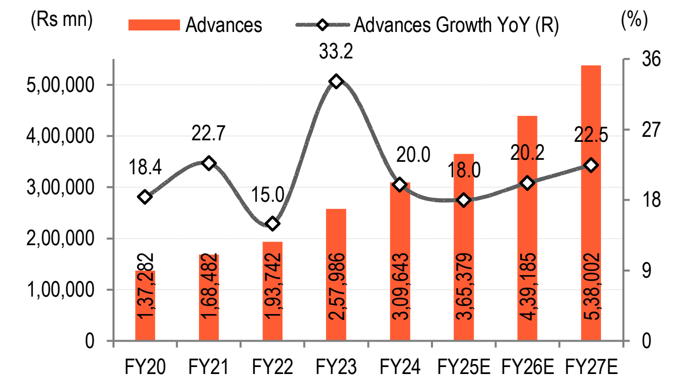
Stock performance



Source: NSE

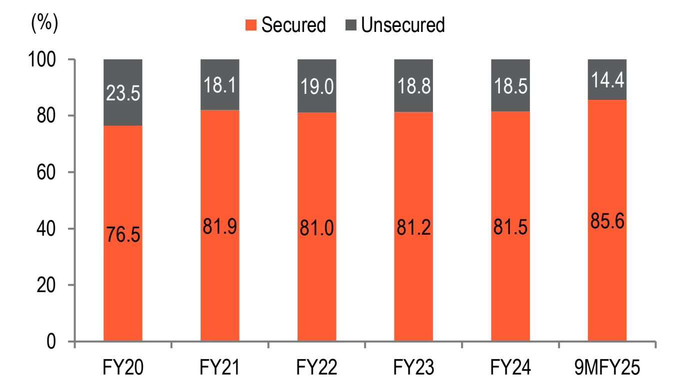
Story in charts

Fig 1 – Advances to deliver a CAGR of 20% in FY24-27E



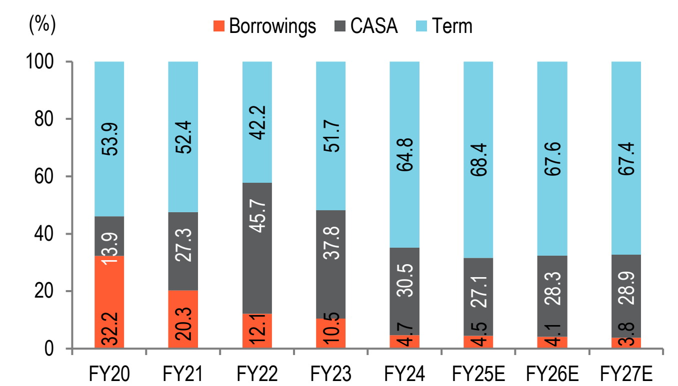
Source: Company, BOBCAPS Research

Fig 2 – With rising share of secured loans in the portfolio



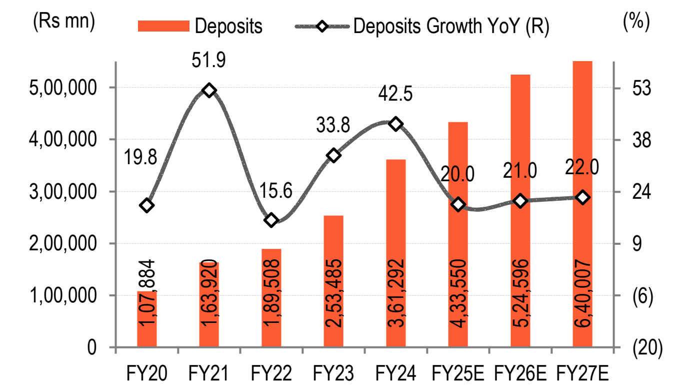
Source: Company, BOBCAPS Research

Fig 3 – Liability mix largely supported by deposits



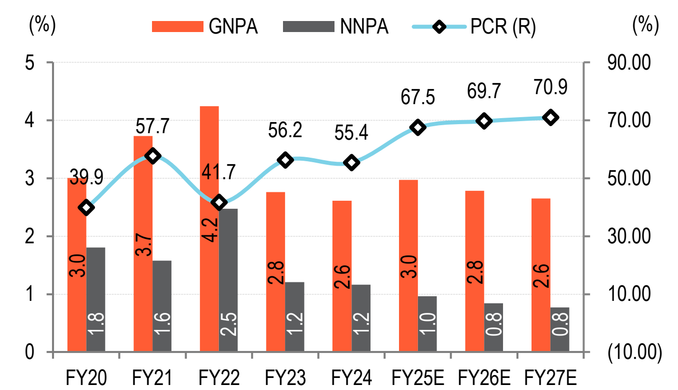
Source: Company, BOBCAPS Research

Fig 4 – Deposits to report CAGR of 21% in FY24-27E



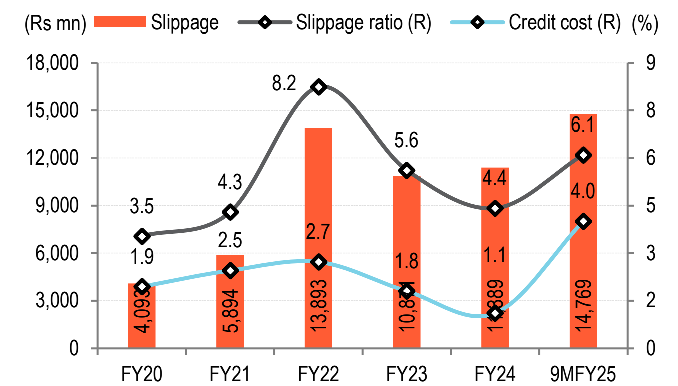
Source: Company, BOBCAPS Research

Fig 5 – Early buckets show signs of easing in AQ



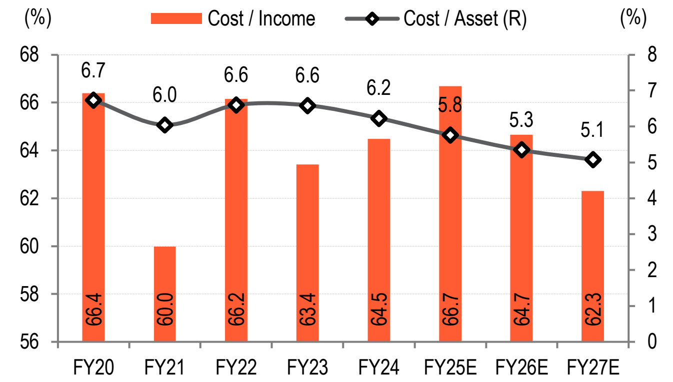
Source: Company, BOBCAPS Research

Fig 6 – Slippage trend and credit cost



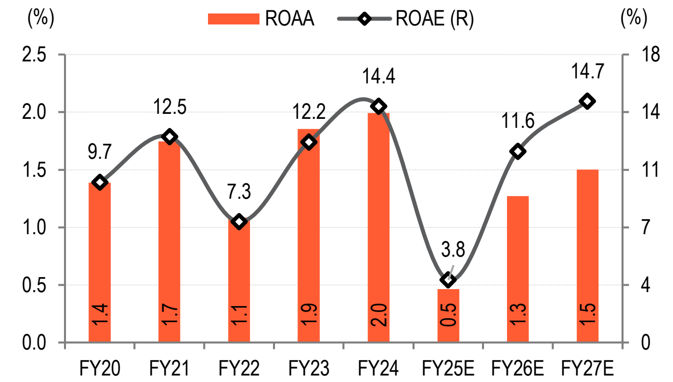
Source: Company, BOBCAPS Research

Fig 7 – Operating leverage to play out in next few years



Source: Company, BOBCAPS Research

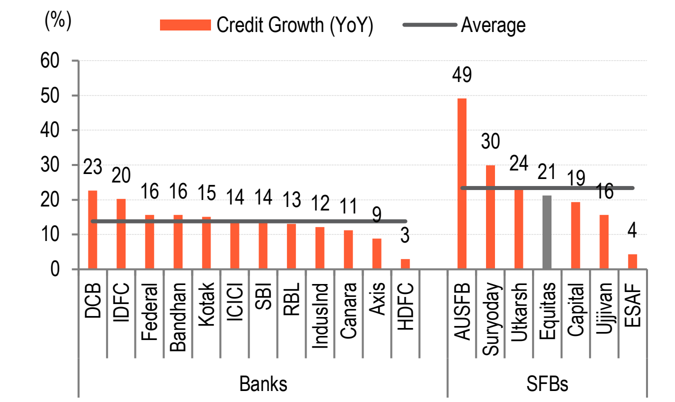
Fig 8 – Supporting improvement in return ratios



Source: Company, BOBCAPS Research

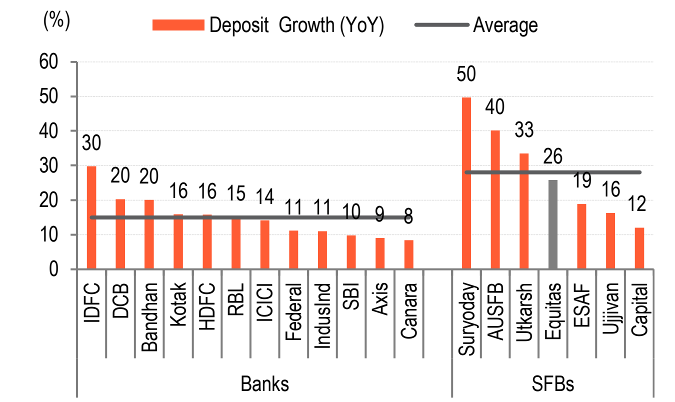
Peer comparison (Banks and SFBs as of Q3FY25)

Fig 9 – Credit growth in-line with SFBs average



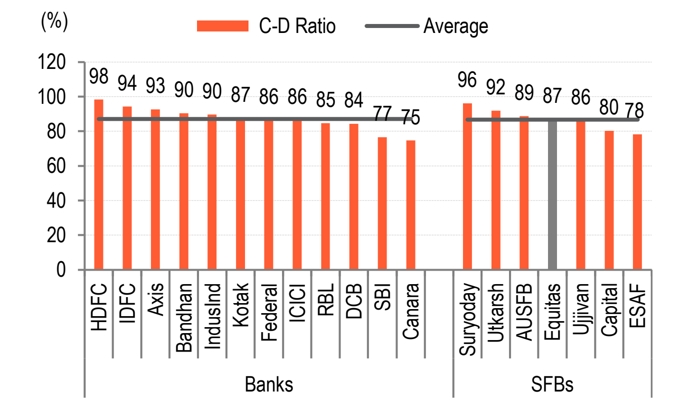
Source: Company, BOBCAPS Research

Fig 10 – Deposit growth largely similar to SFBs average



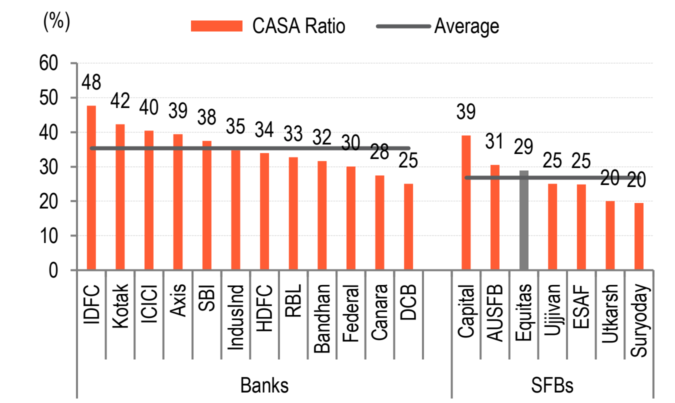
Source: Company, BOBCAPS Research

Fig 11 – CD Ratio improving



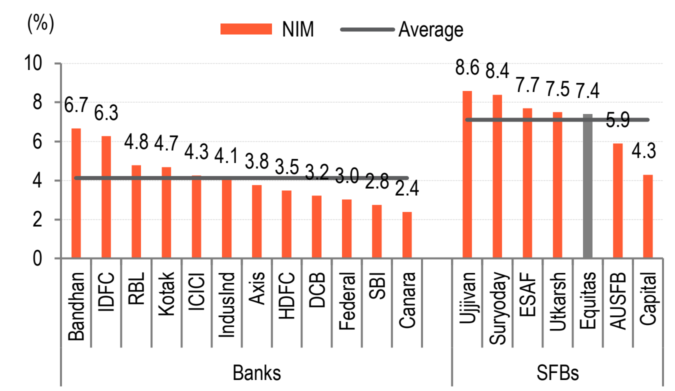
Source: Company, BOBCAPS Research

Fig 12 – CASA above SFBs average but yet to catch up with universal banks



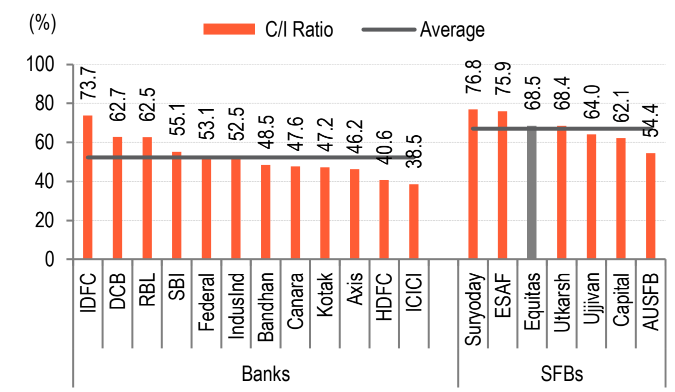
Source: Company, BOBCAPS Research

Fig 13 – NIMs to decline as focus shifts to secured book



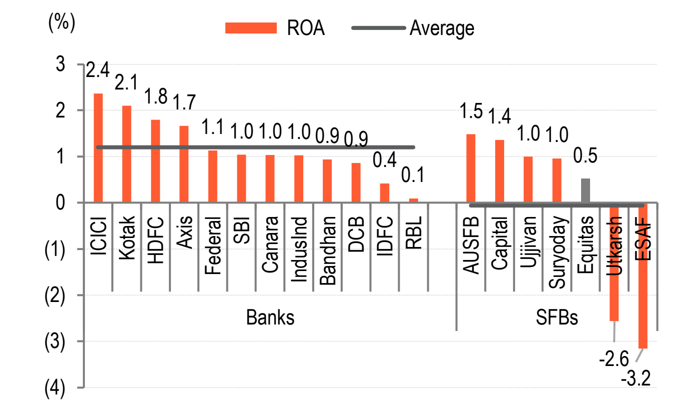
Source: Company, BOBCAPS Research

Fig 14 – Cost to income ratio higher than universal banks, expected to improve in medium term



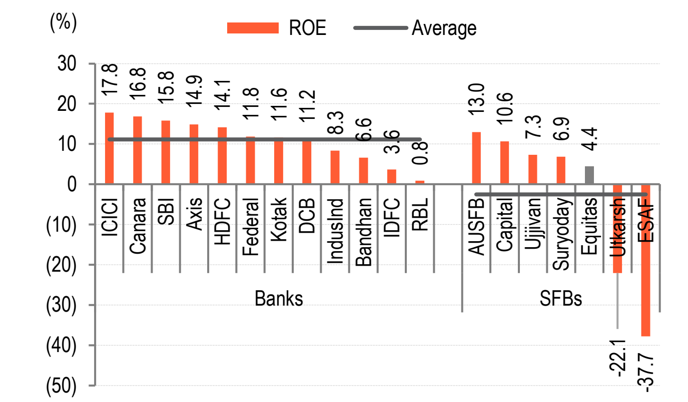
Source: Company, BOBCAPS Research

Fig 15 – Return ratio dented due to higher provisions from MFI stress



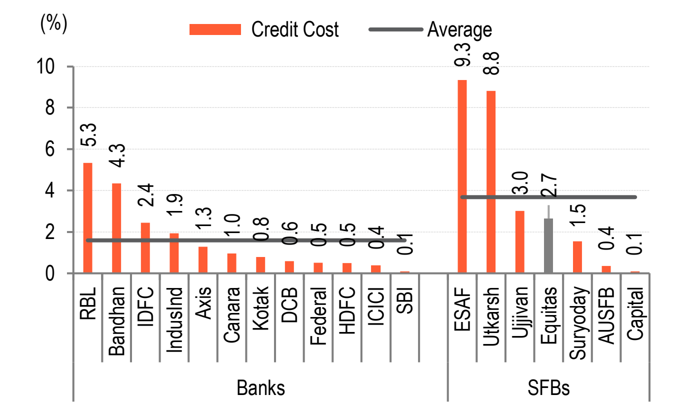
Source: Company, BOBCAPS Research

Fig 16 – Return ratios set to improve in near term



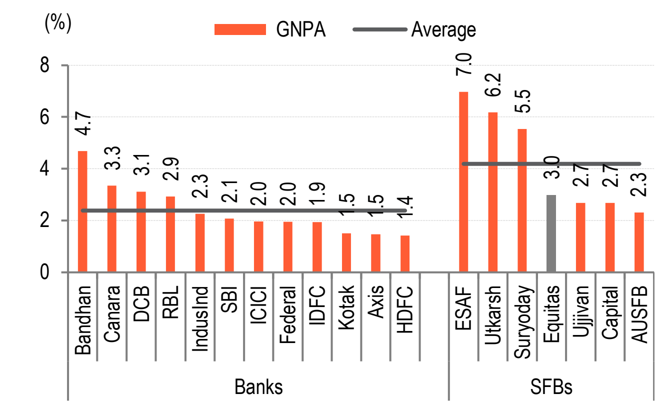
Source: Company, BOBCAPS Research

Fig 17 – Credit cost increased mainly due to MFI stress



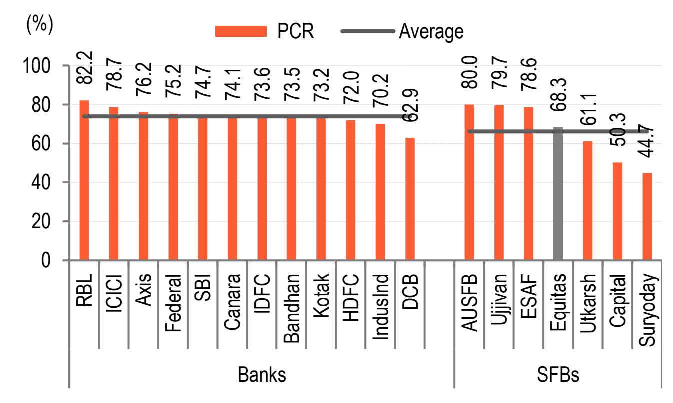
Source: Company, BOBCAPS Research

Fig 18 – Asset quality better than SFB average



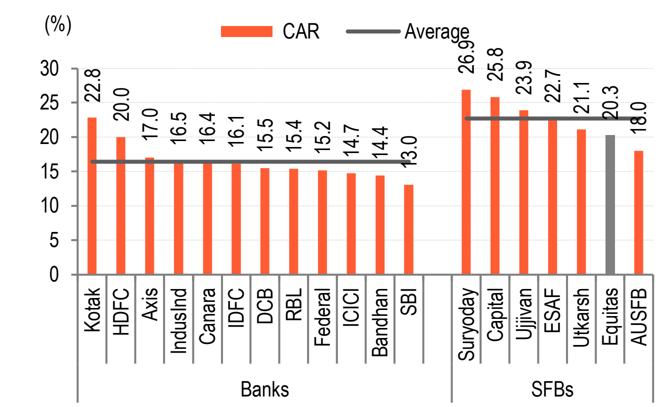
Source: Company, BOBCAPS Research

Fig 19 – PCR marginally below universal banks



Source: Company, BOBCAPS Research

Fig 20 – Adequate capital position

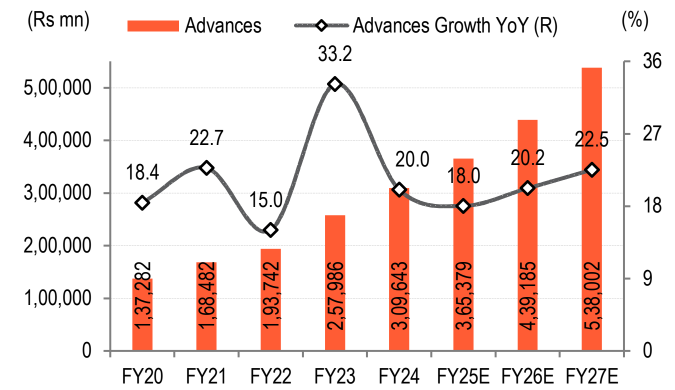


Source: Company, BOBCAPS Research

Focus on diversified and secured portfolio

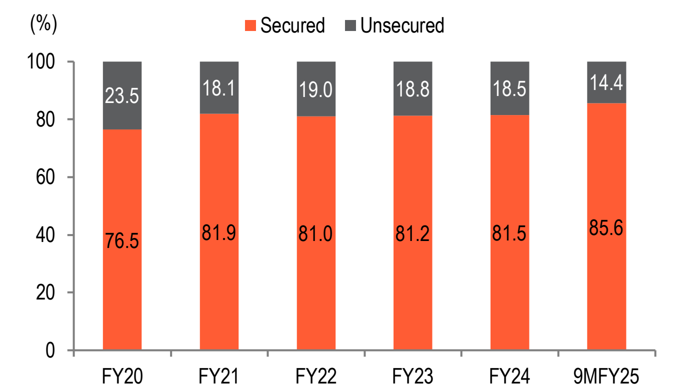
EQUITASB grew its loan portfolio at a CAGR of 22.3% during FY2020-24 to Rs. 343.4 bn as of March 2024. The focus has shifted to secured portfolio as compared to unsecured portfolio. This is evident by its rising share of secured portfolio to 85.6% as of December 2024 compared to 76.5% as of March 2020. The management has consciously reduced its share of unsecured portfolio or Micro Finance (MFI) book to 14.4% as of Dec'24 from 23.5% as of Mar'20. We expect the share of MFI book to further decline to single digits in the near term.

Fig 21 – Advances to deliver a CAGR of 20% in FY24-27E



Source: Company, BOBCAPS Research

Fig 22 – With focus on secured lending



Source: Company, BOBCAPS Research

The diversified secured lending portfolio includes Small Business Loans (SBL), Housing Finance, Vehicle Finance, MSE Finance and NBFC segments. A brief overview of the secured portfolio is as below.

Fig 23 – Segments

Segments	Purpose
Micro Finance & Micro Loans	Address unbanked & underserved market segments, focus on group loan models
Small Business Loans	Bank's flagship product, focused on lending business activities in daily use products & services
Housing Finance	Self-construction of home, purchase of a house, repairs & renovations, and loan take overs.
Vehicle Finance	New & used commercial vehicle lending
MSE	Focus on organised segment by providing WC Loans (CC/OD) & term loans for Capex
NBFC	Term Loans to NBFC to enable them to offer retail customers such as MFI, VF & HF

Source: Company, BOBCAPS Research

Fig 24 – Segment details

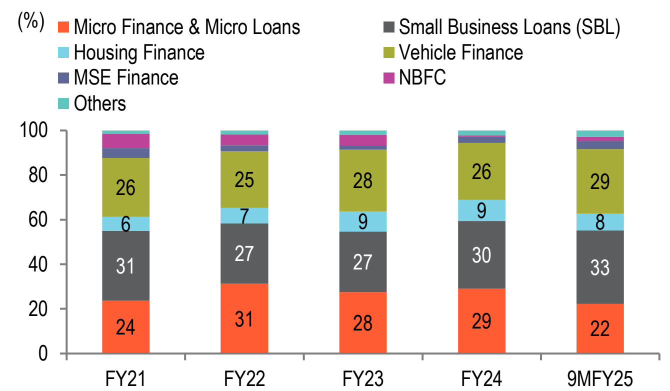
Segments	Introduced	Period	Disbursement (mn) Q3FY25	Disbursement (% of total)	Advances (mn) Q3FY25	Advances (% of total)	Loan ATS (mn)	Yield	GNPA %	PCR%
Micro Finance & Micro Loans	2007	Short term	11,450	22	53,700	15	0.03	22%-24%	5.6	77.1
Small Business Loans	2013	Medium Term	17,130	33	1,55,640	42	0.5	12%-17%	2.3	27.0
Housing Finance	2011	upto 20 years	3,660	7	45,650	12	1.0	10% -12%	1.4	29.3
Vehicle Finance	2011 Used Car Loans-2021 New Car Loans-2024	New Car-37- 84 months Used Car Loan- 12 to 84 months	15,120	29	92,620	25	0.3	New Car- 10% - 16%, Used Car- 10.5% - 23.02%	2.7	48.5
MSE	2018	NA	1,970	4	14,990	4	5.5	10% - 12%	5.7	79.1
NBFC		NA	650	1	5500	1	134	10% - 13%	0.9	100.0

Source: Company, BOBCAPS Research

Rising share of secured advances

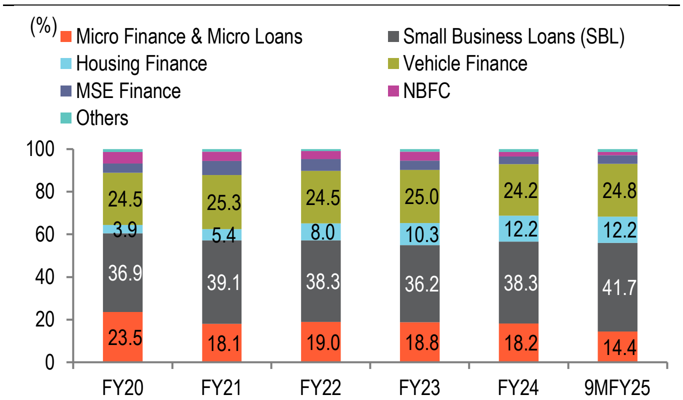
The higher disbursements in the secured portfolio resulted in a rise in its mix in the overall portfolio (85.6% as of Dec'24 vs. 76.5% as of Mar'20). The bank has consciously run-down its MFI disbursement to Rs 31.3 bn (-26.4% YoY) in 9M FY25. The decline in MFI disbursement is largely met by the SBL segment (32.9% of total disbursement; 41.7% of total loans) in 9M FY25. As a result, EQUITASB witnessed de-risking of its portfolio. The non-MFI or secured portfolio growth is largely led by small business loans segment.

Fig 25 – Disbursement mix rising towards secured lending



Source: Company, BOBCAPS Research

Fig 26 – Portfolio mix shift towards secured book

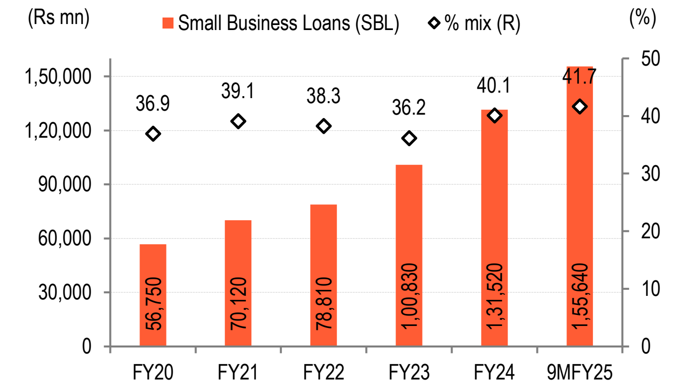


Source: Company, BOBCAPS Research

Small Business loans (SBL) – untapped potential

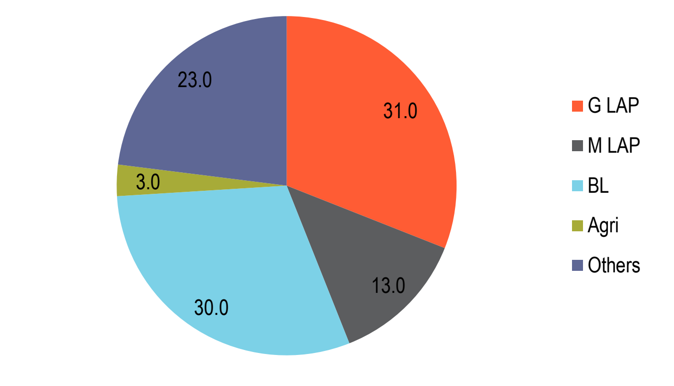
EQUITASB launched SBL in 2013 to cater to the needs of micro finance borrowers who require higher ticket size individual loans. SBL is a leading product of the bank which is secured against borrower's commercial or self-occupied property. We expect EQUITASB to witness higher credit growth due to large unmet demand and lower competition from banks and NBFCs, as their lending is to relatively higher ticket size customers in this segment. The products in the SBL segment include micro LAP and merchant overdraft. Given high-yield and RoA product, the bank focuses on micro LAP segment (top 15% of its MFI customers) to counter the impact of reducing its high-yielding MFI book.

Fig 27 – SBL loans



Source: Company, BOBCAPS Research

Fig 28 – SBL product mix (Q3FY25)



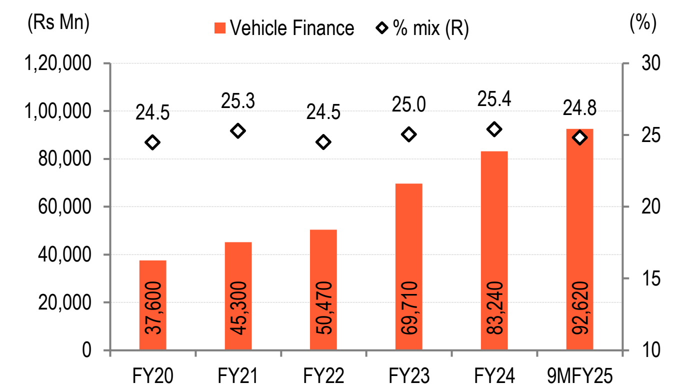
Source: Company, BOBCAPS Research

Vehicle Finance – Increasing focus on used vehicles vs. new vehicles

The vehicle finance borrowers are typically first-time customers who are skilled drivers and aims to be a vehicle owner and small fleet operator. The bank's strategy is to focus on the vehicle finance segment as it is a high-yield product and a profitable segment.

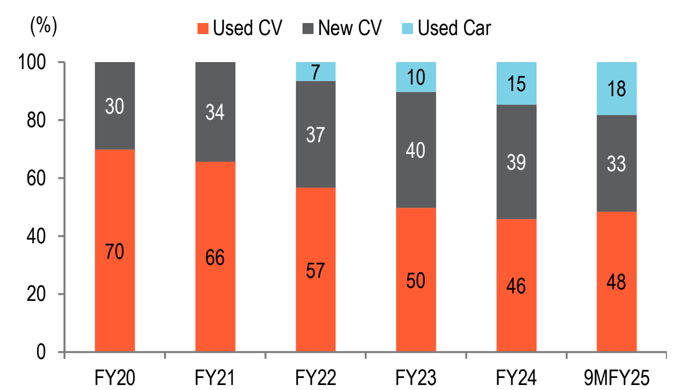
However, within the vehicle finance segment, the bank has defocused on the new commercial vehicle (NCV) loans, as it expected a negative market cycle in the small commercial vehicle segment. As a result, the NCV advances declined to Rs 30.8 bn (-4.7% YoY) as of Dec'24 from a high of Rs. 32.8 bn as of Mar'24. Further, the used car segment has grown sharply to Rs. 17.0 bn as of Dec'24 compared to Rs. 3.3 bn as of Mar'22. The bank operates vehicle finance segment from around 260 branches. Given the under-penetration in the used CV segment, government's support in development of road infrastructure, rising ownership cost of new vehicles along with increased formalization of used CV segment, the bank is expected to witness steady growth in the used CV segment compared to new CV segment.

Fig 29 – Vehicle finance



Source: BOBCAPS Research, Company

Fig 30 – Vehicle mix

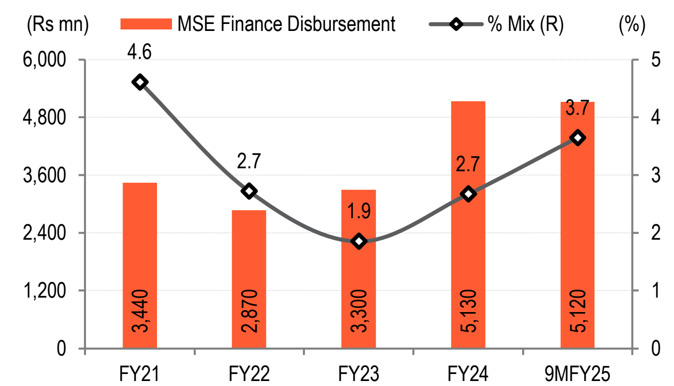


Source: BOBCAPS Research, Company

MSE Finance

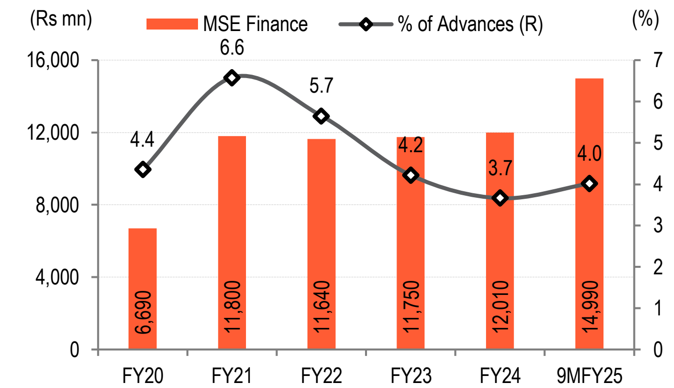
MSE segment provides lending to micro and small enterprises (MSE), who are mainly engaged in the manufacturing and trading activities in urban and semi-urban regions. The lending activity involves working capital loan (cash credit and overdraft loans) and term loans to the organised and formal segments of the economy largely for business expansion purpose. The average quarterly disbursement run-rate increased to Rs. 1,700 mn in 9M FY25 compared to Rs. 1,150 mn in 9M FY24 (Rs. 807 mn in 9M FY23). As a result, the MSE advances increased sharply by 28% YoY to Rs. 15.0 bn (4.0% of total advances) as of Dec'24. A large portion (>90%) of these advances meets the Priority Sector Lending (PSL) requirement of the bank. However, we note that this portfolio is yet to breakeven. As the portfolio size increases and economies of scale plays out, we expect the portfolio to contribute to the bottom line.

Fig 31 – MSE Disbursement mix



Source: Company, BOBCAPS Research

Fig 32 – MSE Finance & Mix%

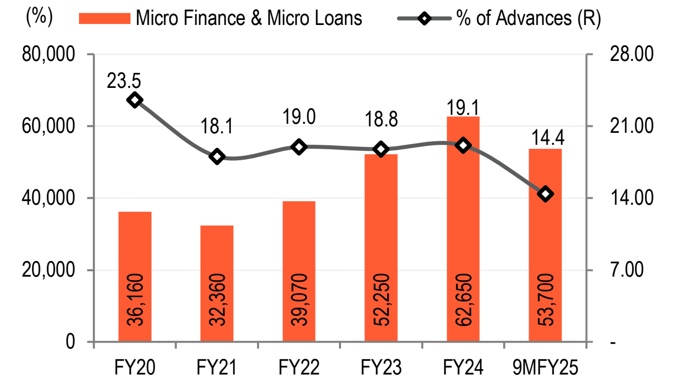


Source: Company, BOBCAPS Research

Micro Finance & Micro Loans – Mix to further drop to single digits

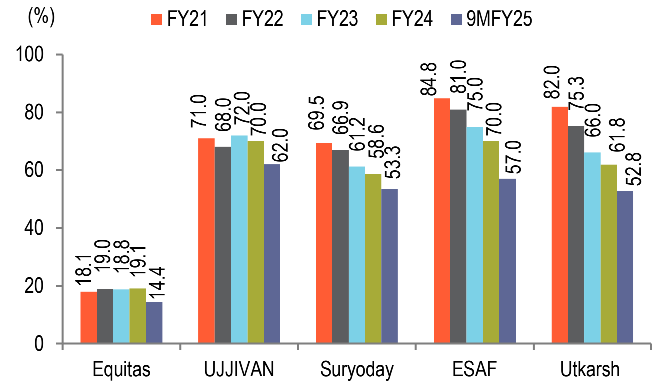
Micro Finance (MFI) loans are typically provided to women borrowers to support their small businesses or other income generating activities. With bank's focus towards secured lending, the MFI segment remains a de-focus segment. This was evident from the steep decline in the average quarterly disbursement run-rate to Rs 10.4 bn in 9M FY25 compared to Rs 14.2 bn in 9M FY24. As a result, the share of MFI portfolio gradually declined from a high of 23.5% in FY20 to 14.4% in 9M FY25. Given the susceptibility of the portfolio to episodic events and its unsecured nature, the bank expects MFI advances share to further decline to single-digits.

Fig 33 – MFI loan and % share



Source: Company, BOBCAPS Research

Fig 34 – MFI share lower vs. peers



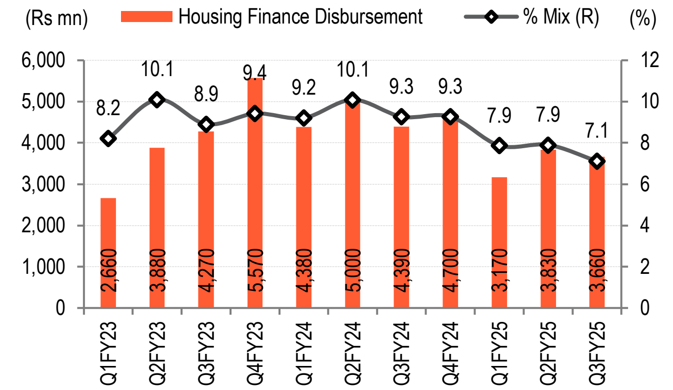
Source: Company, BOBCAPS Research

Housing Finance – expected to yield profitability next year

The housing finance loans are typically to self-employed individuals with lower access to formal credit channels (banks and housing finance companies), planning to construct or buy their first affordable housing property. The housing finance loans comprises affordable housing, loan against property (LAP) and loans for self-construction. EQUITASB caters the housing finance product across six states in India.

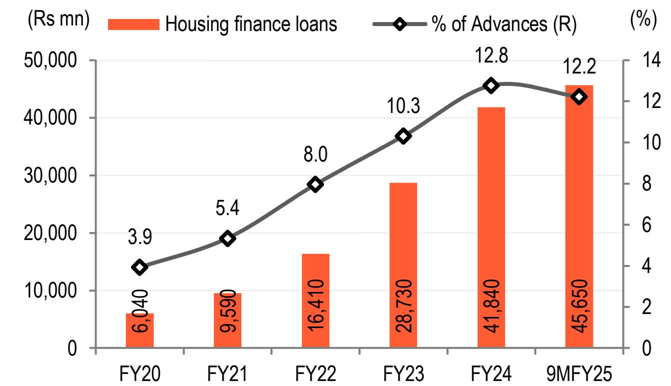
The average quarterly disbursement run-rate declined to Rs 3.55 bn in 9M FY2025 vs. Rs 4.59 bn in 9M FY2024. The decline was driven by bank's strategy to slowdown disbursement in the western states and increase penetration in the southern states of India. This geographical rejig was to improve the disbursement yield in affordable housing portfolio. Housing finance portfolio accounted for 12.2% of the total advances as of Q3 FY25 (3.9% as of FY2020). However, this portfolio is yet to breakeven but is expected to turn profitable next year as it seasons, which is likely to result in higher profitability.

Fig 35 – Housing finance – quarterly disbursement trend



Source: Company, BOBCAPS Research

Fig 36 – Housing finance advances and % mix

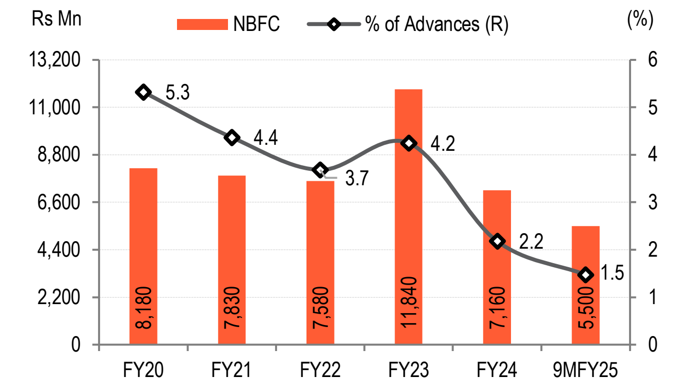


Source: Company, BOBCAPS Research

NBFC loans

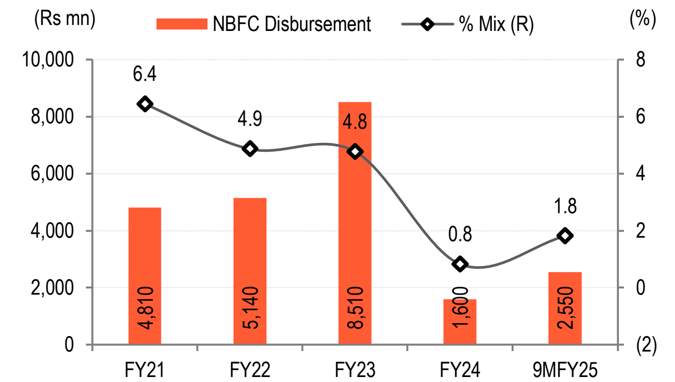
EQUITASB provides term loans to non-banking financial companies (NBFCs) which allow them to further lend to retail borrowers in segments such as MFI, vehicle finance, housing finance, among others. The average ticket size of the NBFC loans is Rs 100 mn to Rs 1000 mn with yield on advances ranging between 10-13%.

Fig 37 – NBFC portfolio



Source: BOBCAPS Research, Company

Fig 38 – NBFC Disbursement



Source: BOBCAPS Research, Company

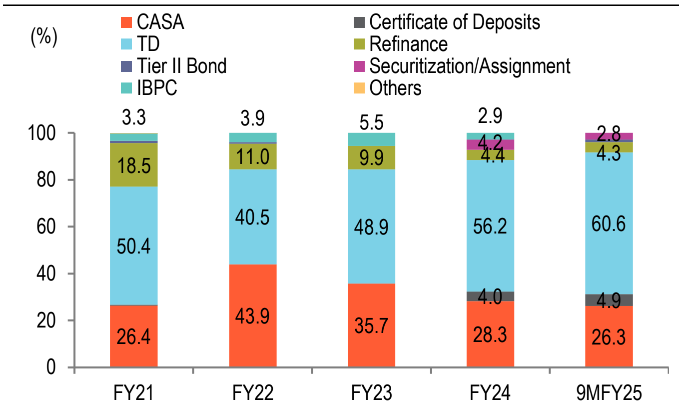
Building a granular deposit franchise

The bank witnessed significant improvement in deposit mobilisation in the last five years. Deposits accounted for 90.9% of total funding[1] as on 31 December 2024 compared to 65.2% as on March 31, 2020. The deposits growth was initially led by mobilising bulk deposits to shed high-cost borrowings. As a result, the borrowings declined to Rs. 24.3 bn (5.4% of total liabilities) as of Dec'24 vs. Rs. 51.3 bn (31%) as of Mar'20. Also, the bank gradually focused to improve its share of low-cost CASA deposits and retail term deposits. These retail deposits (CASA + retail term deposits) share increased to 74.3% of total deposits as of Dec'24 compared to 55.8% as of Mar'20. Further, deposits witnessed a higher CAGR of 35.3% as compared to loan CAGR of 22.5% during FY2020-24, resulting in an improvement in the loan to deposit ratio to 85.7% as of Mar'24 compared to a high of 127.2% as of Mar'20.

The granular nature of deposits is also reflected in lower share of twenty largest depositors to total deposits at 15.6% as of Mar'24 from a high of 32.0% as of Mar'20. The higher share of retail and granular deposits resulted in the cost of deposits falling to 7.0% in FY24 compared to 7.5% in FY20.

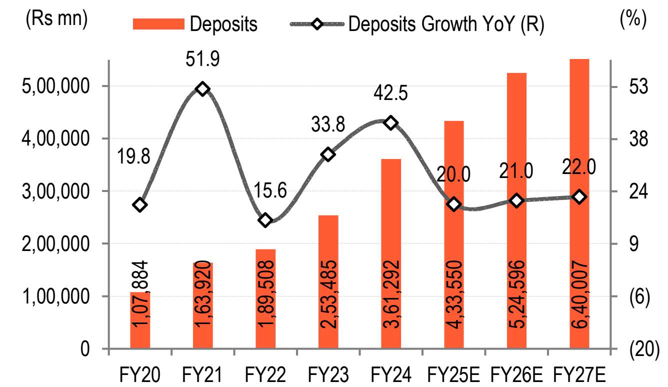
Under the EQUITASB's "Liability 2.0 Strategy", the bank plans to improve the depositor's stickiness through cross-sell, data analytics and product offerings, among others. The bank is also expanding its offerings for the deposit customers such as personal loans for depositors launched in Q3 FY25. Also, credit card product for depositor is expected to be launched by March 2025. Further, the bank revised its savings interest rates twice (Oct'24 and Jan'25) in this fiscal year which already led to a decline in cost of savings deposit by ~11 bps YoY in 9M FY2025. Also, the bank reduced its peak term deposit rates by 25 bps in Q3 FY2025. The depositor's stickiness will allow the bank to decrease its cost of deposits and subsequently reduce its cost of funds gap compared to large universal banks and better than AAA-rated NBFCs in the next 3-5 years.

Fig 39 – Funding mix - largely supported by deposits



Source: Company, BOBCAPS Research

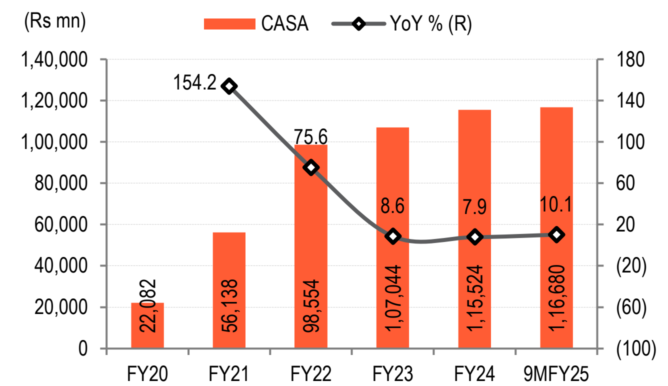
Fig 40 – Deposits to report CAGR of 21% in FY24-27E



Source: Company, BOBCAPS Research

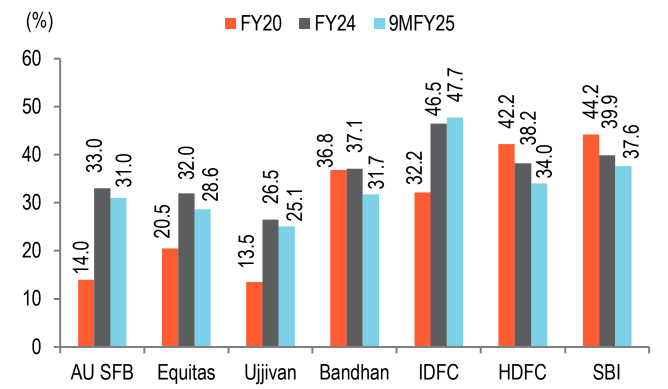
[1] *Total funding calculated as (total liabilities - share capital - reserves & surplus)*

Fig 41 – CASA Deposits



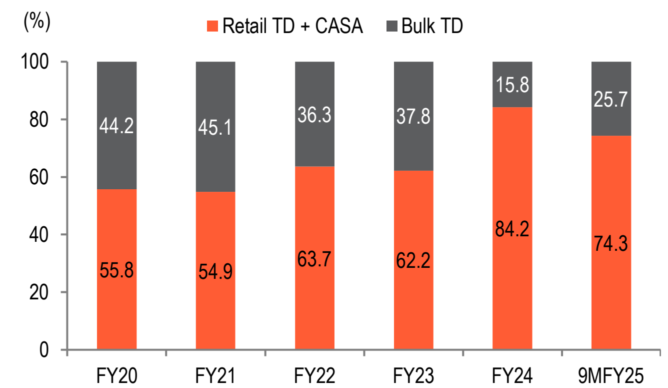
Source: Company, BOBCAPS Research

Fig 42 – CASA- Peers



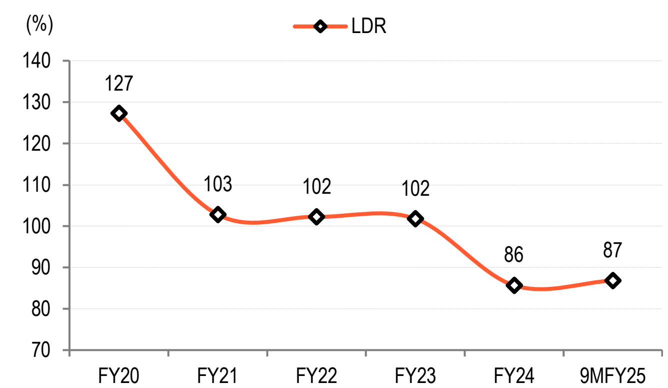
Source: Company, BOBCAPS Research

Fig 43 – Deposits mix largely led by retail deposits



Source: Company, BOBCAPS Research

Fig 44 – Improving LDR supported by deposit accretion



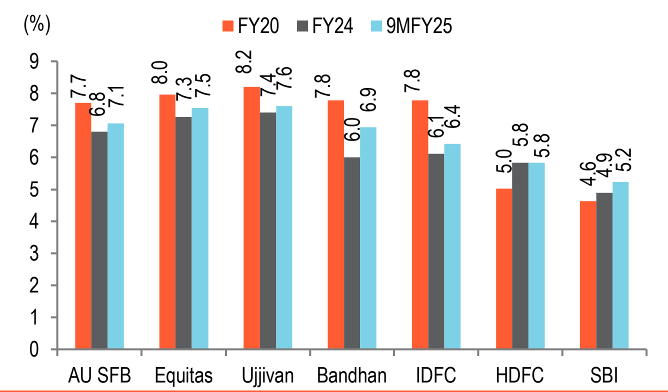
Source: Company, BOBCAPS Research

Fig 45 – Interest rate on savings deposits - peers

Banks	Upto ₹0.10 Mn	₹0.10 – ₹0.50 Mn	₹0.50 – ₹1 Mn	₹1 – ₹2.5 Mn	>₹2.5 Mn
AU SFB	3.00%	3.00%	5.00%	7.25%	7.25%
Equitas	**3.00%**	**5.00%**	**5.00%**	**7.00%**	**7.25% - 7.80%**
Ujjivan	3.25%	5.00%	7.25%	7.25%	7.50%
Bandhan	3.00%	6.00%	6.00%	7.00%	6.25% - 8.00%
IDFC	3.00%	3.00%	5.00%	7.25%	7.25%
HDFC	3.00%	3.00%	3.00%	3.00%	3.50%
SBI	2.70%	2.70%	2.70%	2.70%	2.70% - 3.00%

Source: Company, BOBCAPS Research

Fig 46 – Cost of funds – peers



Source: Company, BOBCAPS Research

Asset quality moderated with pain in MFI portfolio; soft buckets showing signs of improvement

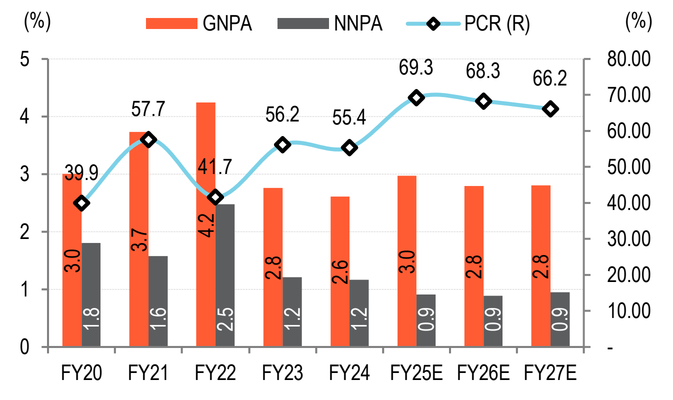
The bank's asset quality peaked in FY2022 with GNPA ratio of 4.2% mainly driven by the impact of Covid-19 pandemic. Post which, the slippage ratio improved in FY2023 and FY2024, thereby aiding improvement in the GNPA ratio. However, the bank's asset quality moderated in 9M FY2025, mainly driven by rise in gross slippages to Rs 14.8 bn (slippage ratio of 6.1%), which was higher than slippages reported in FY2024 of Rs 11.4 bn (4.4%). The rise in slippages in 9M FY2025 was mainly due to stress in the MFI sector. In 9M FY2025, EQUITASB reported net slippages of Rs 4.0 bn or 8.5% (slippage ratio) in the MFI book (14.4% of total advances) vs. Rs 3.8 bn or 1.8% in the non-MFI portfolio. This indicates that the AQ issues in the non-MFI portfolio largely remains contained.

We note that the bank is facing asset quality issues mainly in the Micro Finance and MSE Finance segments with GNPA ratio of 5.6% and 5.7%, respectively as on December 31, 2024. As a result, the credit cost increased to ~4.0% in 9M FY2025 from ~1.1% in 9M FY2024. However, the softer bucket delinquency for the MFI portfolio in the SMA 0 and SMA 1 declined sequentially by 14 bps QoQ and 20 bps QoQ to 2.03% and 1.51%, respectively in Q3 FY2025. This indicates signs of improvement in collections and moderation in asset quality stress in the early buckets. While the SMA 2 in the MFI portfolio increased to 2.73% (+69 bps) QoQ, indicating high credit cost for the next couple of quarters.

As per RBI regulations, one of the criteria for SFBs to get Universal Bank License is to maintain GNPA and NNPA of <3% and <1%, respectively in the last 2 years. EQUITASB created additional provision of Rs 3.4 bn in 9M FY2025 due to MFI sector stress and to report NNPA below 1%. This led to a rise in the provision coverage ratio to 68.3% as on December 31, 2024 (56% as on December 31, 2023). Hence, the bank reported GNPA and NNPA of 2.97% and 0.96%, respectively as on December 31, 2024.

The X-bucket CE in the MFI portfolio declined to 98.2% in Q2 FY2025 from 98.9% in Q1 FY2025 and ~99.4% in FY2024. Management stated that the X-bucket CE has stabilised in Q3 FY2025, with material improvement yet to be seen. MFI customers with loans from more than 3 lenders accounted for ~10-15% of total customers leading to overleveraged borrowers. The bank has recruited 1,000 employees (800 employees for the MFI segment) in Q3 FY2025. The rise in the number of field officers will improve the bank's collection efforts, which is likely to support in improved collection efficiency in the next few quarters.

Fig 47 – Early buckets show signs of easing in AQ



Source: Company, BOBCAPS Research

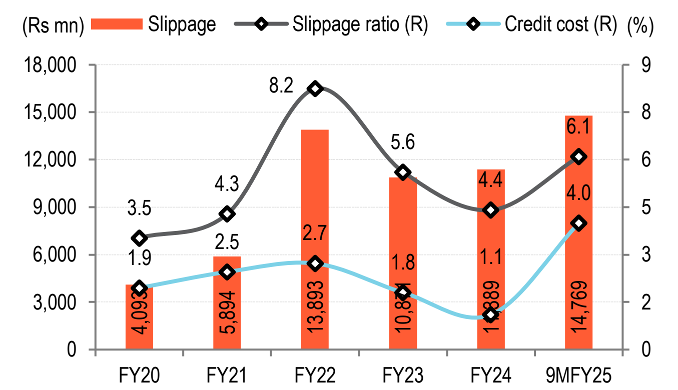
Fig 48 – GNPA movement

GNPA Movement	FY21	FY22	FY23	FY24	9MFY25
Opening GNPA	4,173	6,428	8,372	7,240	8,213
Additions (Slippages)	5,894	13,893	10,871	11,389	14,769
Upgradation	380	5,227	4,589	4,413	-
Recoveries	812	3,118	3,315	3,682	6,994*
Write Off	2,447	3,604	4,098	2,320	5,269
Closing GNPA	**6,428**	**8,372**	**7,240**	**8,213**	**10,719**
Slippage ratio%	4.3	8.2	5.6	4.4	6.4
Recoveries & Upgrades (%) ^	28.6	129.8	94.4	111.8	85.2
Write-offs (%) ^	58.6	56.1	49.0	32.1	64.2

* Upgradation and recoveries clubbed together
^ Calculated on opening GNPA

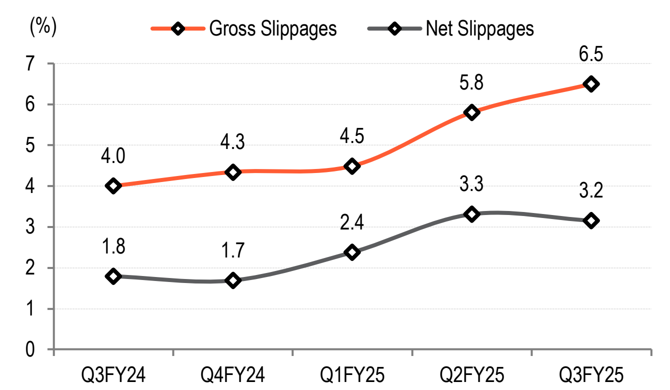
Source: Company, BOBCAPS Research

Fig 49 – Slippage trend and credit cost



Source: Company, BOBCAPS Research

Fig 50 – Gross and Net slippages



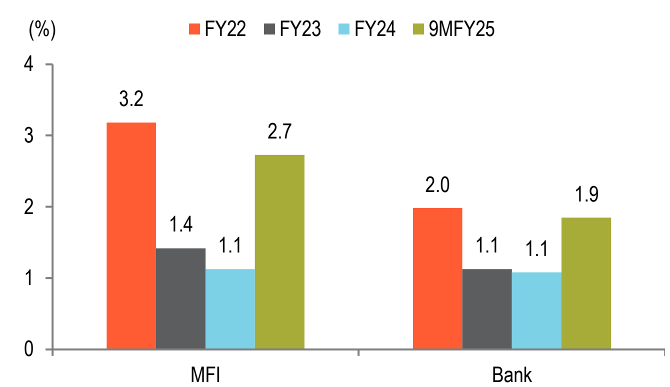
Source: Company, BOBCAPS Research

Fig 51 – GNPA - segment wise

GNPA - segment wise	FY21	FY22	FY23	FY24	9MFY25
Micro Finance & Micro Loans	3.4	5.9	2.3	4.0	5.6
Small Business Loans (SBL)	3.3	3.6	3.4	1.9	2.3
Housing Finance	-	-	0.9	1.0	1.4
Vehicle Finance	3.8	4.0	2.2	2.3	2.7
MSE Finance	2.8	4.9	6.3	7.1	5.7
NBFC	0.7	0.6	0.4	0.7	0.9
Total GNPA	**3.7**	**4.2**	**2.8**	**2.6**	**2.9**

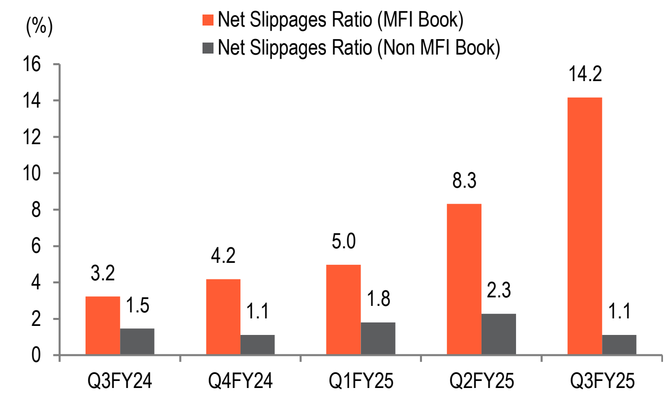
Source: Company, BOBCAPS Research

Fig 52 – SMA-2 of MFI and non-MFI portfolio increased



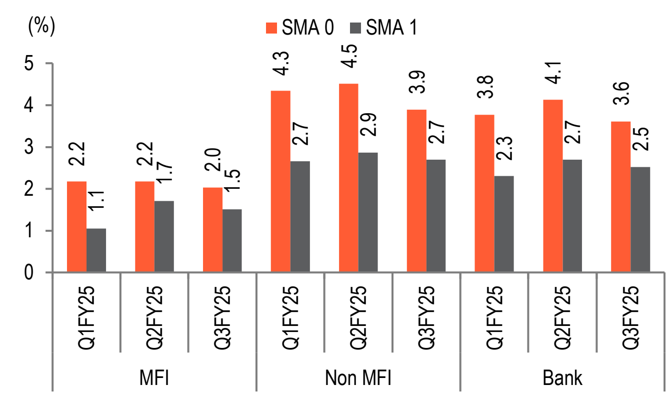
Source: Company, BOBCAPS Research

Fig 53 – Net Slippage Ratio MFI & Non MFI



Source: BOBCAPS Research, Company

Fig 54 – SMA 0 and 1 improving



Source: BOBCAPS Research, Company

Profitability to improve driven by operating leverage

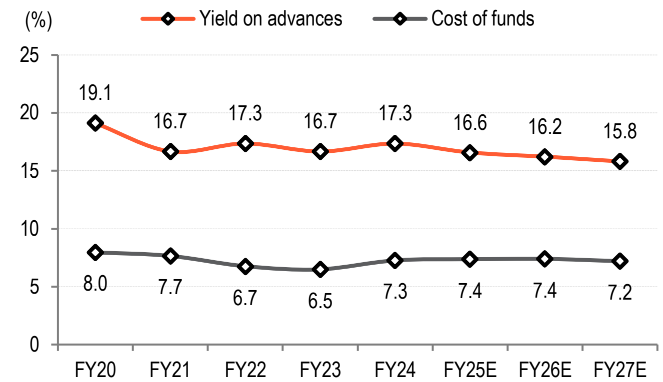
With bank's focus to increase the share of its secured portfolio and reduce the share of its high-yielding MFI book (14% in 9M FY2025 vs. 23% in FY2020), the overall lending yields are expected to moderate. As a result, the bank's net interest margins (NIM) declined to 7.6% in 9M FY2025 from a high of 9.1% in FY2020. The NIMs are expected to moderate in the medium term which is likely to be partially offset by expected decline in cost of funds.

Despite compression in NIMs, the bank's return ratios have improved in the last five years mainly driven by improvement in the credit cost. The bank reported net profit of Rs 8.0 bn in FY2024, translating into RoA and RoE of 2.0% and 14.4%, respectively, compared to Rs 5.7 bn or RoA of 1.9% and RoE of 12.2% in FY2023 (RoA of 1.4% and RoE of 9.7% in FY2020). The bank's credit cost improved to 1.1% in FY2024 compared to 1.8% in FY2023 (1.9% in FY2020). The bank's cost to income ratio remains elevated at 64.5% in FY2024 vs. 63.4% in FY2023 (66.4% in FY2020), largely due to investments in branch expansion, technology, new products and employee, among others.

The bank witnessed a significant decline in net profits to Rs 1.0 bn in 9M FY2025 compared to Rs 5.9 bn in 9M FY2024. The decline was mainly on account of rise in provisions to Rs 8.8 bn or 4.0% of average advances in 9M FY2025 compared to Rs 2.1 bn or 1.1% in 9M FY2024. The significant rise in provisions was mainly due to additional provisions of Rs 3.4 bn created in 9M FY2025, given stress in MFI portfolio and to maintain NNPA below 1%. As a result, the credit cost of the MFI portfolio swelled to ~10% in 9M FY2025 vs. non-MFI credit cost of 1.1% in 9M FY2025 and bank's last 5-year average credit cost of ~2%. With rising share of non-MFI portfolio (86% as of Q3 FY2025) which is at a lower credit cost than the MFI portfolio, the overall bank's credit cost is expected to moderate in the next couple of years.

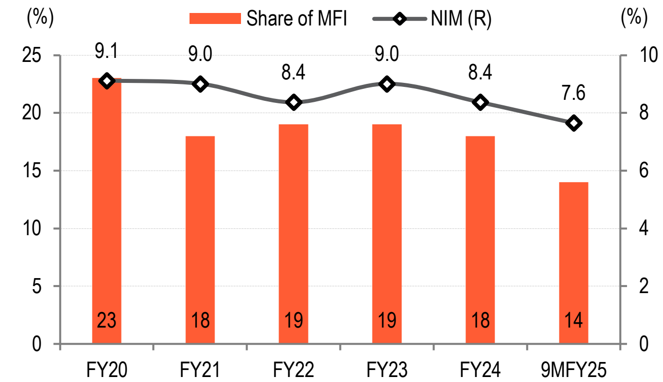
Going forward, we expect the bank to witness operating leverage with incremental customer acquisition cost to gradually decline. The productivity of existing branches and employees is expected to improve as operating leverage plays out. NIMs are expected to remain under pressure given the bank's strategy to reduce its share of high-yielding unsecured portfolio (MFI). We note that ~20% of the portfolio such as Housing Finance (12%), MSE Finance (4%) and new small commercial vehicle (~5%) is yet to breakeven. We expect the bank's profitability to improve as these segments start yielding profits in the next few years.

Fig 55 – Yield on advances and cost of funds



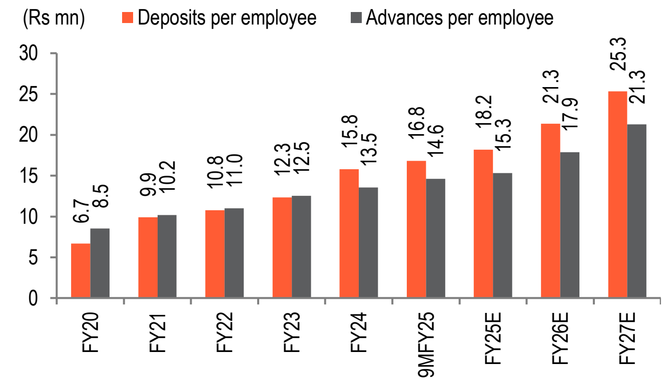
Source: BOBCAPS Research, Company

Fig 56 – NIMs expected to moderate with expected rise in secured portfolio



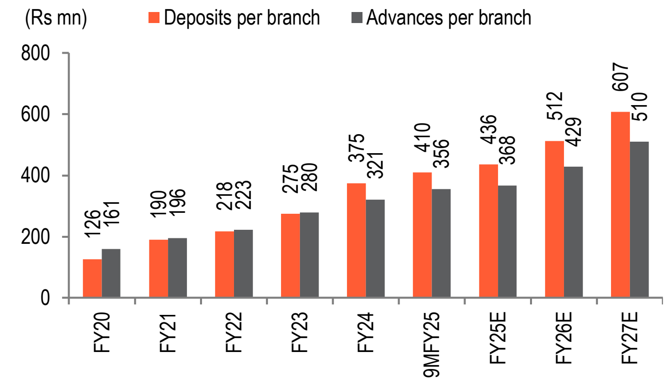
Source: BOBCAPS Research, Company

Fig 57 – Deposits/ Advances per employee



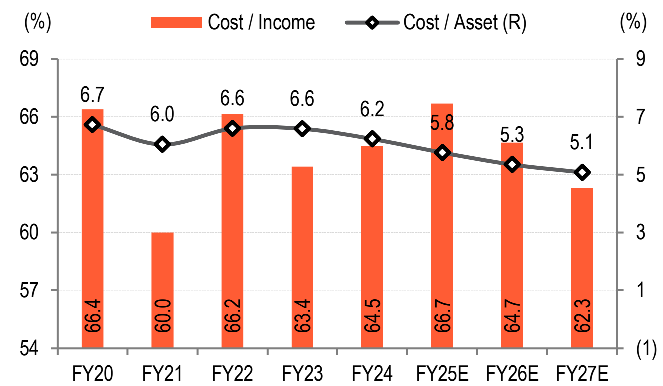
Source: Company, BOBCAPS Research

Fig 58 – Deposits/ Advances per branch



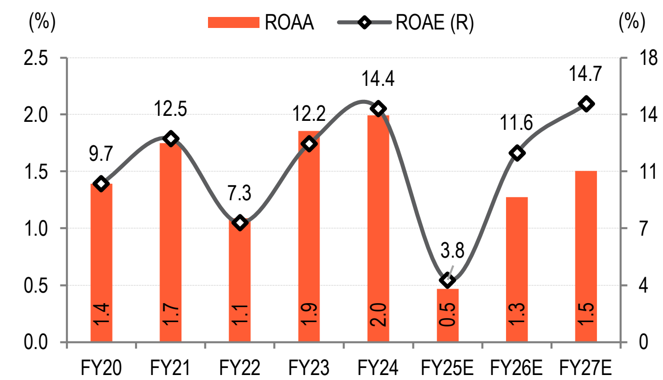
Source: Company, BOBCAPS Research

Fig 59 – Operating leverage to play out in next few years



Source: Company, BOBCAPS Research

Fig 60 – Supporting improvement in return ratios

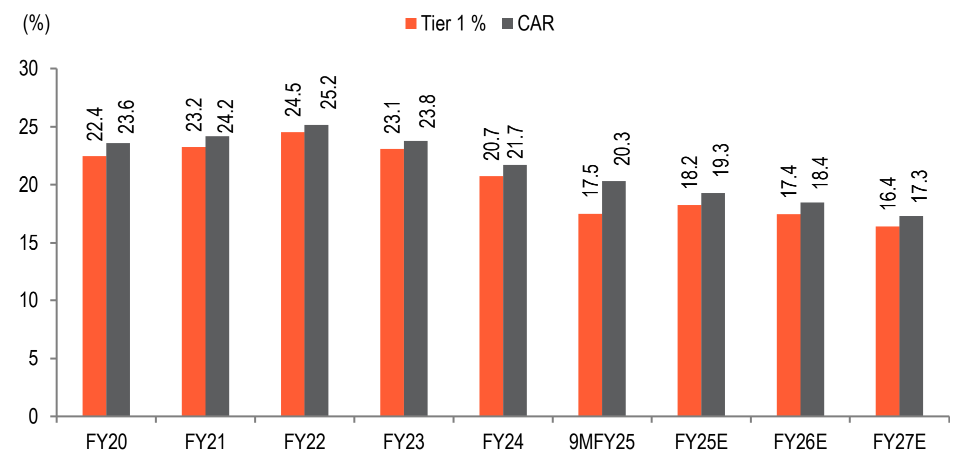


Source: Company, BOBCAPS Research

Adequate capital position

The bank's capital ratios remain adequate for its current scale of operations, aided by its internal accruals and timely capital infusion. EQUITASB reported Tier I and CAR of 17.5% and 20.3%, respectively as on December 31, 2024, compared to minimum regulatory requirement of 7.5% and 15%, respectively. The last capital infusion was of Rs 5.5 bn in FY2022, via Qualified Institutions Placement (QIP) at a premium of Rs. 43.59 per share. This capital raise supported the bank's Tier I capital and helped to comply with SEBI's minimum public shareholding requirements, with public shareholding increasing to 25.37% from 18.7%. Also, the bank raised Tier II bonds of Rs. 5 bn in Q3 FY2025. The bank's healthy internal accruals resulted in net worth of Rs. 60.1 bn as on December 31, 2024, compared to Rs. 57.2 bn as on December 31, 2023. We expect the bank's capital ratios to remain adequate and support growth in the medium term.

Fig 61 – Capital ratios remains adequate



Source: Company, BOBCAPS Research

Company overview

EQUITASB is a Chennai headquartered small finance bank (SFB) and is the second largest SFB in India, in terms of advances. It started operations as an MFI company in 2007. The entity started its banking operations from September 2016. EQUITASB got listed on the stock exchanges in October 2020. The bank offers retail banking services and offers products (MFI, SBL, M-LAP, HF, VF) to financially unserved and underserved customer segments. The bank operates with 994 banking outlets across 18 states and Union Territories as on December 31, 2024.

Management

Fig 62 – Board of directors

Name	Position	Background & Experience
Anil Kumar Sharma	Part-time Chairman & Independent Director	A veteran central banker with 37+ years at RBI, including as Executive Director. He holds a Master's degree in Economics and CAIIB & Diploma in Treasury, Investment & Risk Management (DTIRM) from Indian Institute of Banking & Finance. His regulatory expertise helps guide Equitas's governance and compliance frameworks.
Vasudevan Pathangi Narasimhan	Managing Director & CEO	Founder of Equitas and a seasoned banker with over 28 years' experience in retail lending. Formerly with Cholamandalam (Vice President and Head – Vehicle Finance) and DCB (Executive Vice President & Head – Consumer Banking Group, he is the key architect of the bank's vision and growth strategy. He holds Bachelor's degree in Science (Physics) and Company Secretary.
Navin Avinashchander Puri	Independent Director	Former senior executive at HDFC Bank as Country Head (Branch Banking) with experience in customer experience, retail banking, and digital transformation. Currently serves an Independent Director on multiple boards (Aditya Birla Sun Life AMC Limited, Aditya Birla Health Insurance Company Limited and Bandhan Life Insurance Limited).
Ramesh Rangan	Independent Director	Ex-MD of State Bank of Patiala with degree in Mathematics, Associate of Indian Institute of Bankers, Management Diploma. Former Nominee Director in IBA and IIBF. Currently serves on board of Sumedha Fiscal Services Limited, Omkara Assets Reconstruction Private Limited and SBI DFHI Limited as an independent director.
Samir Kumar Barua	Independent Director	Former Director of IIM Ahmedabad, with a Ph.D. in Management and M.Tech in Industrial Management & Operations Research. Has advised the Government of India on capital market, media, and petroleum sector reforms. Served on expert committees of RBI, SEBI, BSE, and NSE. Currently Director at Torrent Gas and Independent Director at Axis Capital.
Geeta Dutta Goel	Independent Director	She is the Country Director at the Michael & Susan Dell Foundation (India), with a background in Economics and a PGDM. A former Chairperson of India's Impact Investors Council, she has served on the boards of leading financial inclusion institutions like Ujjivan, Janalakshmi, and Arohan. She currently holds board roles at Home First Finance, Niva Bupa Health Insurance, CIIE Initiatives, and Finreach Solutions, and is a Governing Council member of Mobile Creches and the NSE Social Stock Exchange.
Dr. Gulshan Rai	Independent Director	He holds Doctoral and Master's degrees in Electronics & Communications and Physics, and has been associated with the banking and financial sector since 1988. A former National Cyber Security Coordinator at the PMO, he also led CERT-In and the E-Security & Cyber Law Division at the Ministry of Communications & IT. He was instrumental in shaping India's cyber laws, including the IT Act and its amendments.
Narayanan N R	Independent Director	With over 35 years of experience across Retail Banking, Truck Financing, and Heavy Electrical Equipment Sales, he has deep expertise in scaling and managing large business operations. He spent ~22 years at ICICI Bank, playing key roles across Retail Assets and Liabilities during critical phases of strategic transformation. Currently, he serves as an Independent Director at Aditya Birla Housing Finance and Tata Trustee Company.
Keezhayur Sowrirajan Sampath	Independent Director	A practicing Chartered Accountant with 38 years of professional experience and over two decades of Board-level governance exposure across Banking, Insurance, Co-operative, and PSE sectors. Has chaired Audit Committees at LIC, Punjab National Bank, Bharat Dynamics Ltd., and Bank of India, and served on key board sub-committees including Risk, Credit, CSR, and IT.
Ramkumar Krishnaswamy	Independent Director	Founder of Leadership Centre with 30+ years of experience in business and HR. Former Executive Director at the ICICI Group, where he led leadership development, cultural transformation, and innovation. Served on the boards of ICICI Prudential Life, ICICI Ventures, and as President of ICICI Foundation. A certified counsellor and psychometric designer, he has created 100+ leadership programs and delivered 20,000+ hours of facilitation. He is also a published author and speaker on leadership and human capital.

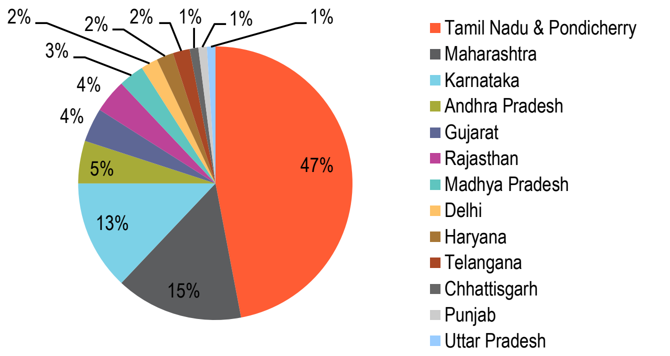
Source: Company, BOBCAPS Research

Key risks

High geographic concentration risk – The bank has presence across 18 states and UTs in India as of December 2024. However, the top three states (Tamil Nadu & Pondicherry, Maharashtra and Karnataka) accounted for ~75% of total advances and ~50% of total deposits as on December 31, 2024. The high concentration of advances and deposits was driven by higher number of branches in these states at ~62% of total branches as on March 31, 2024. Hence, the bank remains vulnerable to any event risks and economic conditions of these states.

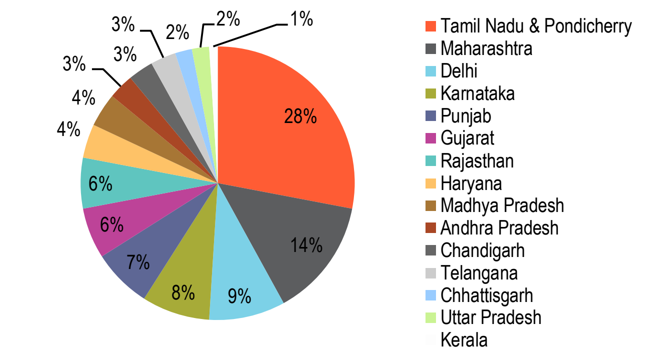
Although, the bank reduced its advances concentration from Tamil Nadu & Pondicherry to 47% as on December 31, 2025, from 55% as on March 31, 2020. However, we expect the geographical concentration to remain in the medium term due to its portfolio size and branch presence.

Fig 63 – Advances state wise (Dec'24)



Source: Company, BOBCAPS Research

Fig 64 – Deposits state wise (Dec'24)



Source: Company, BOBCAPS Research

Marginal profile of borrowers – Although the bank is diversifying its asset class away from unsecured MFI segment, but the borrower base largely remains marginal. The marginal profile of borrowers with income volatility exposes the bank's profitability to irregular events such as floods, political instigation, among others, which may result in higher credit costs.

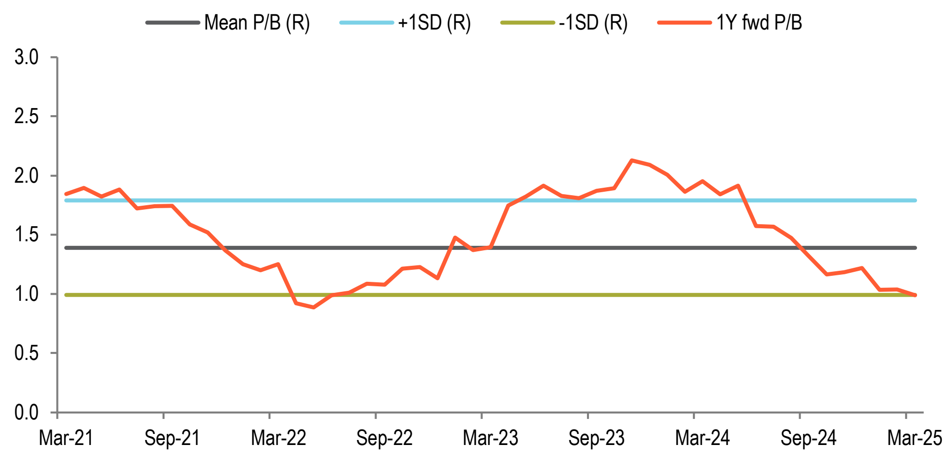
Ability to raise deposits at competitive rates on a sustained basis – The bank witnessed healthy traction in deposits to Rs 361 bn as on March 31, 2024, with a CAGR of 35% during FY2020-FY2024, compared to advances CAGR of 23% during the same period. As a result, the credit deposit ratio improved to 85.7% as on March 31, 2024, from a high of 127.2% as on March 31, 2020. Further, the bank's retail deposits (CASA+ retail term deposits) increased to 74.3% as on December 31, 2024, compared to 55.8% as on March 31, 2020. The CASA deposits improved but remain low at 28.6% as on December 31, 2024 (20.5% as on March 31, 2020). The higher interest rates offered by the bank in the savings deposit compared to private sector banks have also aided in deposit growth. The bank's ability to improve the share of CASA deposits and raise deposits at competitive rates on a consistent basis remains monitorable.

Valuation methodology

EQUITASB's stock price corrected ~40% in the last one year and is trading at 1-SD below its mean in terms of 1-year forward P/ABV. The stock is presently trading at 1.0x Mar'26 ABV compared to 4-year average of 1.5x. The stock's 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 (85.6% of total advances) and plans to reduce its share of MFI book (14.4%) to single digits.

The bank is scaling up a granular deposit franchise with rising share of retail term deposits (74.3% of total deposits) and improve customer stickiness which is expected to gradually reduce its cost of funds gap vs. large universal banks. 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 FY2025-FY2027E and deliver improvement in RoA/RoE to 1.3%-1.5% / 11.6%-14.7% in FY2026-FY2027E. The bank's steady growth in advances, expected normalization of credit cost in the MFI segment and improvement in return ratios is likely to support the stock's performance. We initiate coverage on EQUITASB with a BUY rating and TP of Rs 73 (1.1x FY27E ABV).

Fig 65 – EQUITASB trades at a 1Y forward P/ABV of 1.0x vs 4Y average of 1.5x



Source: Company, BOBCAPS Research

Fig 66 – Key assumptions

Parameter	FY23A	FY24A	FY25E	FY26E	FY27E
Advances (Growth YoY %)	33.2	20.0	18.0	20.2	22.5
Net Interest Income (Growth YoY %)	24.8	21.0	6.1	12.8	19.7
PPoP (Growth YoY %)	34.9	17.1	2.6	20.7	28.3
PAT (Growth YoY %)	104.3	39.3	-71.3	224.5	43.9
NIM (%)	9.0	8.4	7.2	7.0	6.9
GNPA (%)	2.8	2.6	3.0	2.8	2.6
CAR (%)	23.8	21.7	19.3	18.4	17.3

Source: Company, BOBCAPS Research

Fig 67 – Valuation summary

Gordon growth model	Assumptions
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: BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	**25,447**	**30,798**	**32,686**	**36,883**	**44,144**
NII growth (%)	24.8	21.0	6.1	12.8	19.7
Non-interest income	6,696	7,987	9,739	11,382	13,889
Total income	32,143	38,784	42,425	48,264	58,033
Operating expenses	20,383	25,011	28,288	31,206	36,156
PPOP	11,760	13,774	14,137	17,058	21,877
PPOP growth (%)	34.9	17.1	2.6	20.7	28.3
Provisions	4,072	3,142	11,022	7,120	7,573
PBT	7,688	10,631	3,115	9,938	14,304
Tax	1,952	2,642	824	2,504	3,605
Reported net profit	**5,736**	**7,990**	**2,291**	**7,433**	**10,700**
Adjustments	0	0	0	0	0
Adjusted net profit	**5,736**	**7,990**	**2,291**	**7,433**	**10,700**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity capital	11,106	11,349	11,390	11,390	11,390
Reserves & surplus	40,474	48,338	48,782	56,216	66,915
Net worth	51,579	59,687	60,172	67,606	78,305
Deposits	2,53,485	3,61,292	4,33,550	5,24,596	6,40,007
Borrowings	29,738	17,875	20,378	22,416	25,106
Other liab. & provisions	14,779	14,184	15,144	23,518	42,932
Total liab. & equities	**3,49,581**	**4,53,039**	**5,29,244**	**6,38,136**	**7,86,350**
Cash & bank balance	12,443	35,790	36,580	45,284	55,624
Investments	66,646	90,653	1,06,269	1,30,122	1,63,637
Advances	2,57,986	3,09,643	3,65,379	4,39,185	5,38,002
Fixed & Other assets	12,508	16,953	21,015	23,544	29,088
Total assets	**3,49,581**	**4,53,039**	**5,29,244**	**6,38,136**	**7,86,350**
Deposit growth (%)	33.8	42.5	20.0	21.0	22.0
Advances growth (%)	33.2	20.0	18.0	20.2	22.5

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
EPS	4.9	7.1	2.0	6.5	9.4
Dividend per share	1.0	1.0	0.0	1.2	1.1
Book value per share	46.4	52.6	52.8	59.4	68.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
P/E	11.5	7.9	27.8	8.6	6.0
P/BV	1.2	1.1	1.1	0.9	0.8
Dividend yield (%)	1.8	1.8	0.0	2.2	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	8.2	7.7	6.7	6.3	6.2
Non-interest income	2.2	2.0	2.0	2.0	2.0
Operating expenses	6.6	6.2	5.8	5.3	5.1
Pre-provisioning profit	3.8	3.4	2.9	2.9	3.1
Provisions	1.3	0.8	2.2	1.2	1.1
PBT	2.5	2.6	0.6	1.7	2.0
Tax	0.6	0.7	0.2	0.4	0.5
ROA	1.9	2.0	0.5	1.3	1.5
Leverage (x)	6.6	7.2	8.2	9.1	9.8
ROE	12.2	14.4	3.8	11.6	14.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Net interest income	24.8	21.0	6.1	12.8	19.7
Pre-provisioning profit	34.9	17.1	2.6	20.7	28.3
EPS	106.8	46.6	(71.7)	223.9	43.9
Profitability & Return ratios (%)					
Net interest margin	9.0	8.4	7.2	7.0	6.9
Fees / Avg. assets	54.1	49.8	49.6	48.8	48.8
Cost-Income	63.4	64.5	66.7	64.7	62.3
ROE	12.2	14.4	3.8	11.6	14.7
ROA	1.9	2.0	0.5	1.3	1.5
Asset quality (%)					
GNPA	2.8	2.6	3.0	2.8	2.6
NNPA	1.2	1.2	1.0	0.8	0.8
Slippage ratio	5.6	4.4	6.3	4.9	4.2
Credit cost	1.8	1.1	3.3	1.8	1.6
Provision coverage	56.2	55.4	67.5	69.7	70.9
Ratios (%)					
Credit-Deposit	101.8	85.7	84.3	83.7	84.1
Investment-Deposit	26.3	25.1	24.5	24.8	25.6
CAR	23.8	21.7	19.3	18.4	17.3
Tier-1	23.1	20.7	18.2	17.4	16.4

Source: Company, BOBCAPS Research

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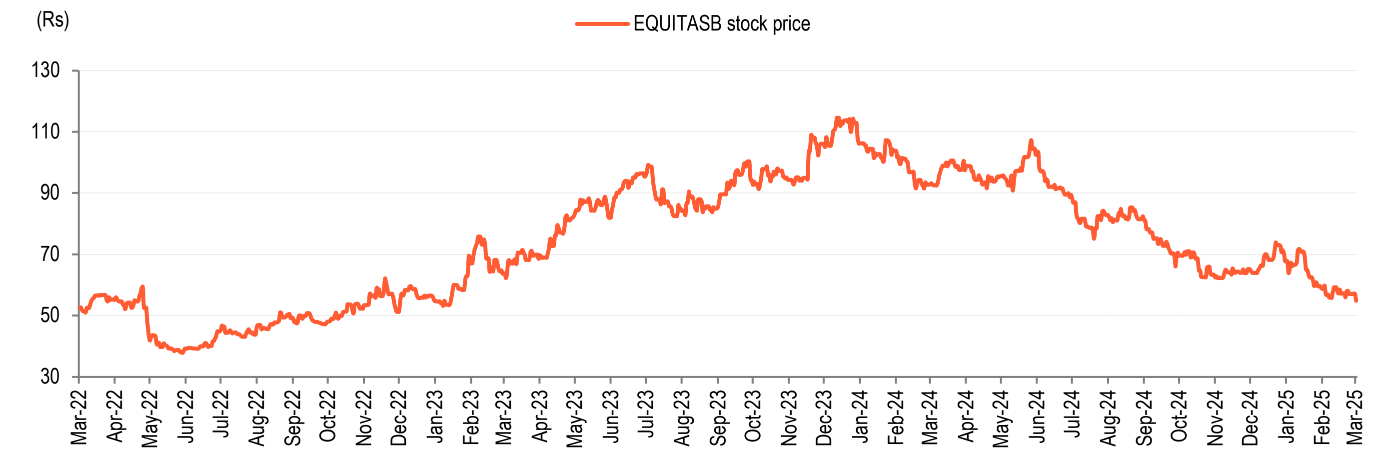

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