

BUY
 TP: Rs 78 | ▲ 17%

**EQUITAS SMALL
 FINANCE BANK**

| Banking

| 02 May 2026

Return profile expected to improve as stress moderates

- Earnings improved on lower credit costs. Return ratios likely to improve, given the operating leverage and improvement in credit costs
- Asset quality improved, largely supported by low net slippages. MFI X bucket CE improved to 99.7% (Q4FY26) vs 99.3% (Q3FY26)
- Maintain BUY with revised TP of Rs 78 (earlier Rs 81); set at 1.2x Mar'28E ABV (from 1.3x)

Profitability improved on lower credit costs; return ratios set to improve:

EQUITASB reported PAT of Rs 2.1bn (+2.4x QoQ) in Q4FY26, which was above our estimates of Rs 1.5bn; primarily driven by lower interest expenses and lower Credit Costs (CC) vs our expectations. Further, NII increased to Rs 9.8bn (+18% YoY), driven by rise in gross advances (+22% YoY) and improved NIMs to 7.29% (+57bps QoQ). Loan growth was supported by high growth in MFI (+27% YoY), MSE Finance (+24% YoY) and NBFC (+269% YoY) segments. As a result, the MFI share increased to 12.5% of gross loans (+54bps QoQ). Management guided for the MFI loan share to remain at ~10% and the overall loan growth to be at ~20% levels. Also, C/I ratio improved to 67.6% (Q4FY26) from 73.1% (Q3FY26), supported by operating leverage. Management expects NIMs to moderate in the near term in the 7.0-7.1% range, given the bank's recent rise in TD and SA rates along with stable MFI share. With stable NIMs, high operating leverage, backed by loan growth and normalised CC, management expects RoA of ~1.2% in FY27 vs 0.2% in FY26.

AQ improved, largely supported by low net slippages: Asset quality (AQ) improved owing to the stress metrics moderating, with GNPA down to 2.5% (-13bps QoQ). This was mainly due to a multi-quarter low net slippages of only 0.8% (-1.7% QoQ), mainly led by MFI net slippages of 3.67% (-8.4% QoQ) and SBL (40% of gross loans) to 0.1% (-1.4% QoQ). Also, the X bucket collection efficiency for the overall MFI portfolio improved to 99.7% (Q4FY26) vs 99.3% (Q3FY26). As a result, the bank's early delinquency buckets improved with 1-90DPD at 6.78% (-82bps QoQ) in Q4FY26. PCR remains healthy at ~73% (86.8% including technical write-offs) with additional buffers through stress provisions and guarantee cover under CGFMU and CGTMSE schemes.

Maintain BUY: We expect advances to grow at ~20% CAGR over FY26–29E, with return ratios improving on healthy growth, operating leverage and lower credit costs, driving RoA/RoE to 1.1%/10.8% in FY27E and 1.4%/16.1% in FY29E. This is likely to support the stock performance in the near term. Hence, we maintain BUY with valuation multiple of 1.2x Mar'28E ABV (from 1.3x), to arrive at a revised TP of 78 (from Rs 81).

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	EQUITASB IN/Rs 67
Market cap	US\$ 802.8mn
Free float	100%
3M ADV	US\$ 1.9mn
52wk high/low	Rs 73/Rs 50
Promoter/FPI/DII	0%/15%/51%

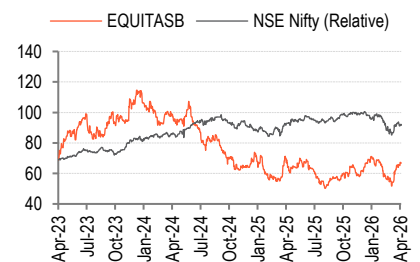
Source: NSE | Price as of 30 Apr 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
NII (Rs mn)	33,912	38,563	46,708
NII growth (%)	4.3	13.7	21.1
Adj. net profit (Rs mn)	1,031	6,951	9,909
EPS (Rs)	0.9	6.1	8.7
Consensus EPS (Rs)	0.9	5.8	8.6
P/E (x)	74.0	11.0	7.7
P/BV (x)	1.2	1.1	1.0
ROA (%)	0.2	1.1	1.3
ROE (%)	1.7	10.8	13.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	14,477	14,340	14,104	14,949	16,316	12.7	9.1
Income on investments	1,594	1,612	1,629	1,693	1,676	5.1	(1.0)
Int. on bal. with RBI & inter-bank funds & Others	369	537	441	276	371	0.6	34.6
Interest income	16,440	16,489	16,173	16,917	18,363	11.7	8.6
Interest expense	8,145	8,631	8,437	8,401	8,562	5.1	1.9
Net interest income	8,294	7,857	7,737	8,516	9,801	18.2	15.1
Growth YoY (%)	5.5	(2.0)	(3.6)	4.1	18.2		
Others	2,254	2,917	2,289	2,895	2,635	16.9	(9.0)
Non-interest income	2,254	2,917	2,289	2,895	2,635	16.9	(9.0)
Growth YoY (%)	(6.2)	39.8	(4.2)	21.4	16.9		
Total income	10,549	10,774	10,026	11,411	12,436	17.9	9.0
Growth YoY (%)	2.8	6.7	(3.7)	8.0	17.9		
Staff expenses	4,184	4,600	4,737	5,163	5,141	22.9	(0.4)
Other operating expenses	3,251	3,027	2,884	3,176	3,270	0.6	3.0
Operating expenses	7,436	7,627	7,621	8,339	8,411	13.1	0.9
Pre-Provisioning Profit (PPoP)	3,113	3,148	2,406	3,072	4,025	29.3	31.0
Growth YoY (%)	(16.9)	(7.5)	(31.2)	(7.7)	29.3		
Provisions	2,580	6,122	2,070	1,935	1,241	(51.9)	(35.8)
Growth YoY (%)	142.0	101.0	(37.2)	(20.4)	(51.9)		
Exceptional Item	-	-	-	-	-	-	-
PBT	533	(2,975)	335	1,137	2,783	422.3	144.8
Tax	112	(737)	94	237	657	487.4	177.1
PAT	421	(2,238)	241	900	2,127	405.1	136.2
Growth YoY (%)	(79.7)	(968.7)	87.4	35.8	405.1		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	0.4	(2.0)	0.2	0.8	1.9	402.7	135.4
Book Value (Rs)	63	61	61	62	64	0.6	2.5

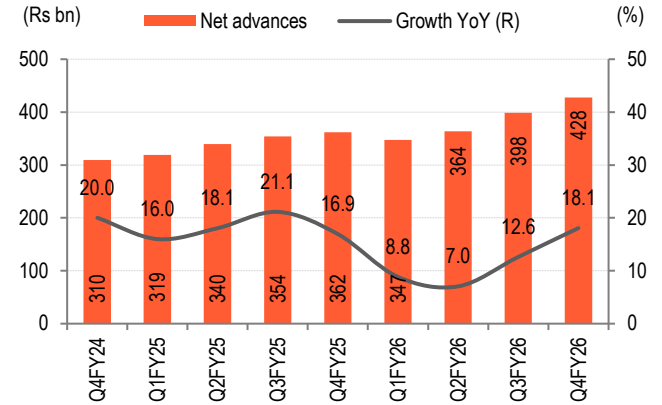
Source: Company, BOBCAPS Research

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

(Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Deposits	4,31,067	4,43,790	4,40,935	4,36,680	4,65,331	7.9	6.6
Growth YoY (%)	19.3	18.3	10.6	7.2	7.9		
Advances	3,62,089	3,47,410	3,63,523	3,98,460	4,27,513	18.1	7.3
Growth YoY (%)	16.9	8.8	7.0	12.6	18.1		
Investment	92,887	90,630	1,05,980	1,04,180	1,01,488	9.3	(2.6)
Equity	72,124	69,890	69,985	70,870	72,659	0.7	2.5
Assets	5,28,356	5,39,340	5,54,313	5,57,860	6,06,104	14.7	8.6
Growth YoY (%)	16.6	16.1	14.0	9.8	14.7		
Yield (%)							
Yield on Funds	13.16	12.84	12.32	12.65	13.09	(8bps)	44bps
Cost of Funds	7.37	7.53	7.18	7.04	6.83	(54bps)	(20bps)
Spread	5.79	5.30	5.14	5.61	6.26	46bps	64bps
Net Interest Margin	6.64	6.12	5.89	6.37	6.98	34bps	62bps
Ratios (%)							
Other Income / Net Income	21.4	27.1	22.8	25.4	21.2	(19bps)	(418bps)
Cost to Income ratio	70.5	70.8	76.0	73.1	67.6	(285bps)	(544bps)
CASA ratio	28.8	29.4	30.9	29.5	26.2	(258bps)	(330bps)
C/D ratio	84.0	78.3	82.4	91.2	91.9	787bps	63bps
Investment to Assets	17.6	16.8	19.1	18.7	16.7	(84bps)	(193bps)
Assets Quality							
GNPA	10,677	10,360	10,819	11,161	11,349	6.3	1.7
NNPA	3,540	3,416	3,578	3,672	3,061	(13.5)	(16.6)
Provision	7,137	6,944	7,241	7,489	8,288	16.1	10.7
GNPA (%)	2.89	2.82	2.82	2.62	2.49	(40bps)	(13bps)
NNPA (%)	0.98	0.94	0.95	0.88	0.68	(30bps)	(20bps)
Provision (%)	66.85	67.03	66.93	67.10	73.03	618bps	593bps
Others							
Branches	994	1,035	1,042	1,053	1,060	66	7
ATMs	375	376	382	390	396	21	6
Employees	25,409	25,865	27,145	28,451	28,058	2,649	(393)

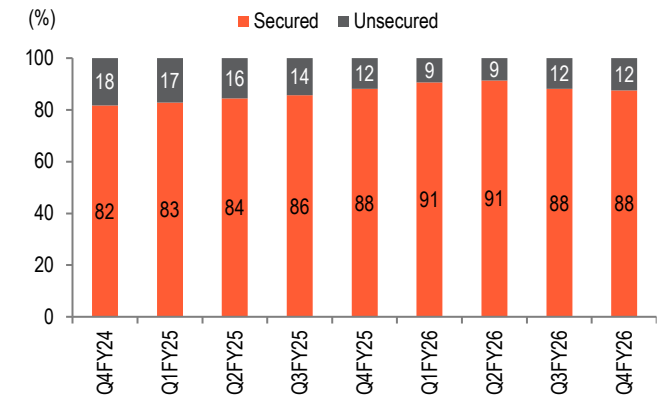
Source: Company, BOBCAPS Research

Fig 3 – Advances grew 18.1% YoY



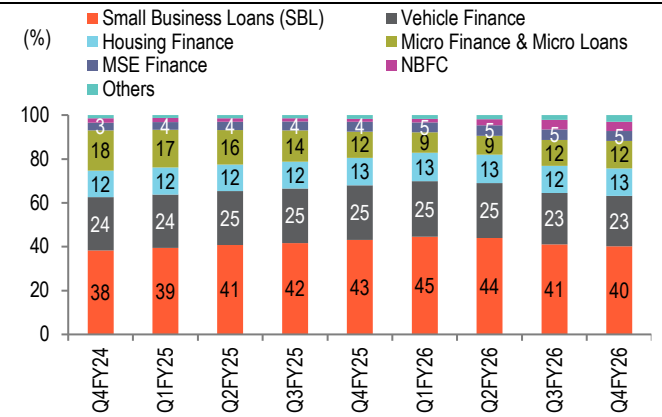
Source: Company, BOBCAPS Research

Fig 4 – Unsecured mix (including DA) rises to 12% in Q4



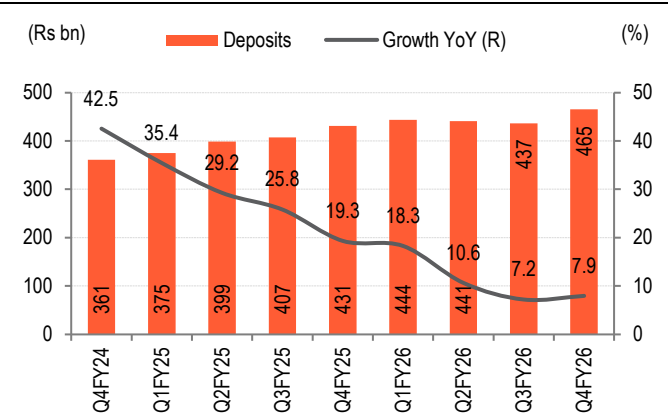
Source: Company, BOBCAPS Research

Fig 5 – Rising granularity of loan mix



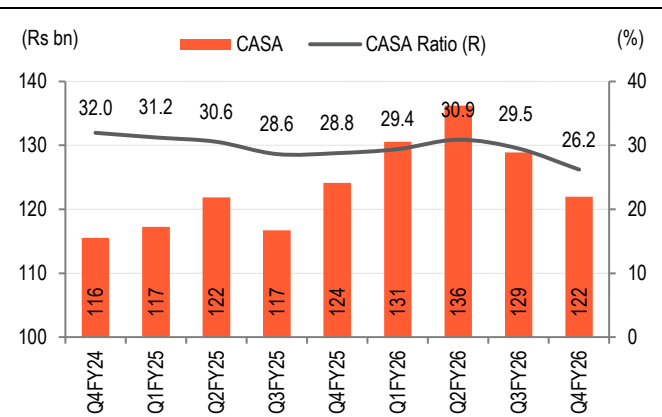
Source: Company, BOBCAPS Research

Fig 6 – Deposits growth moderate



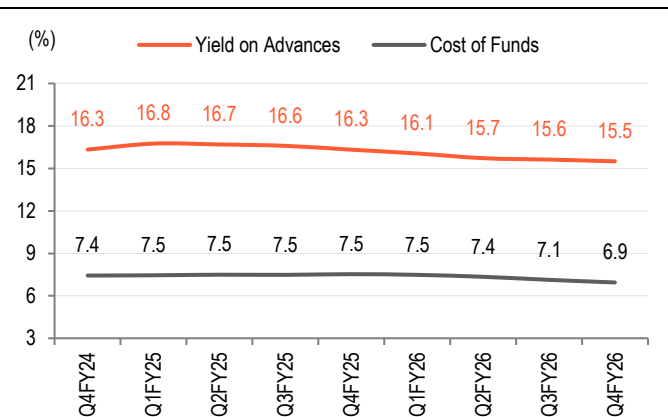
Source: Company, BOBCAPS Research

Fig 7 – CASA ratio stood at 26.2%



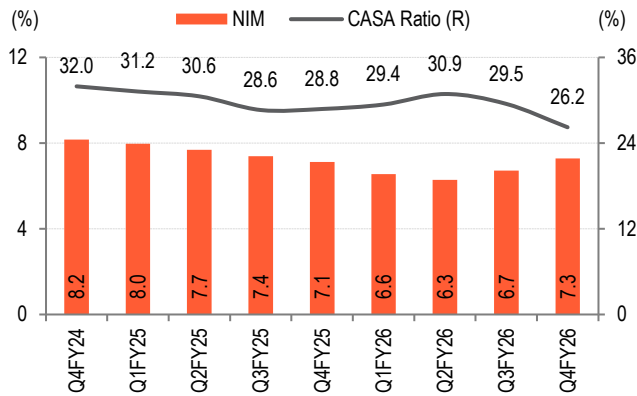
Source: Company, BOBCAPS Research

Fig 8 – Yield compression lower than CoF reduction...



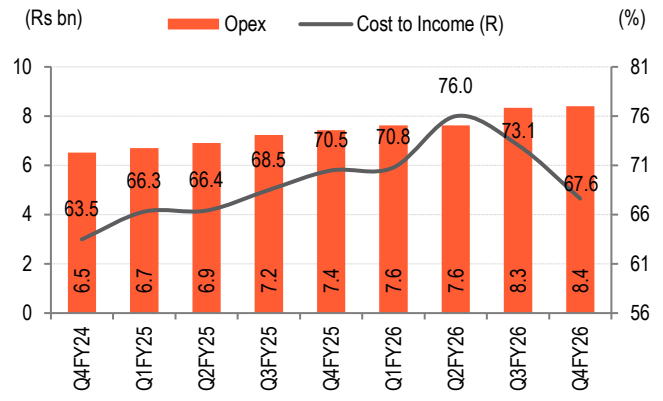
Source: Company, BOBCAPS Research

Fig 9 – ...aided NIMs that improved 57bps QoQ



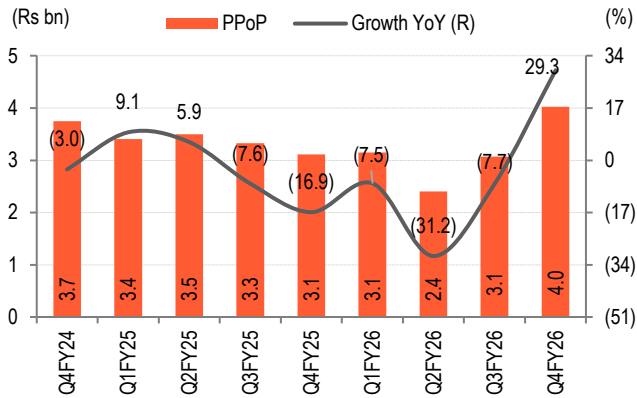
Source: Company, BOBCAPS Research

Fig 10 – C/I ratio improved ...



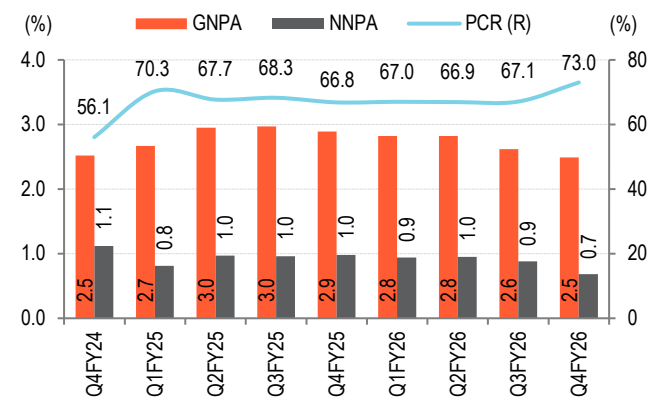
Source: Company, BOBCAPS Research

Fig 11 – ...resulting in a QoQ increase in PPOp



Source: Company, BOBCAPS Research

Fig 12 – Asset quality improved



Source: Company, BOBCAPS Research

Fig 13 – Credit cost normalised



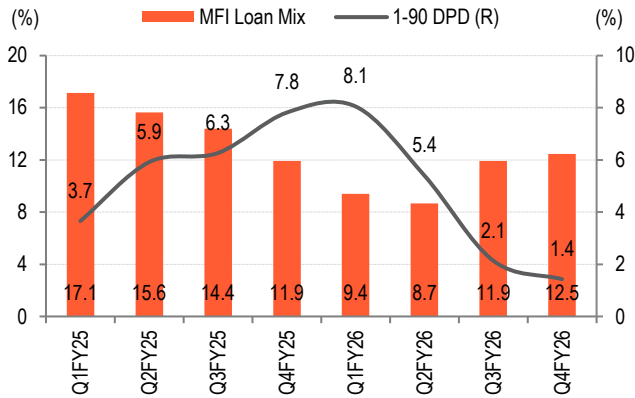
Source: Company, BOBCAPS Research

Fig 14 – Provisioning remains more stringent than IRAC norms

Asset Classification	Nature	As per IRAC (%)	As per Equitas - Mar'25 (%)	As per Equitas - Mar'26 (%)
Sub-standard	Secured	15	25	27
	Unsecured	25	87	99
Doubtful-1	Secured	25	57	80
	Unsecured	100	100	100
Doubtful-2	Secured	40	61	100
	Unsecured	100	100	100
Doubtful-3	Secured	100	100	100
	Unsecured	100	100	100

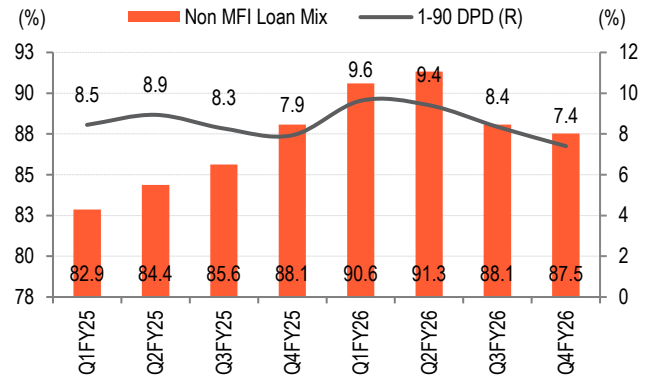
Source: Company, BOBCAPS Research

Fig 15 – DPD trends – MFI book improving



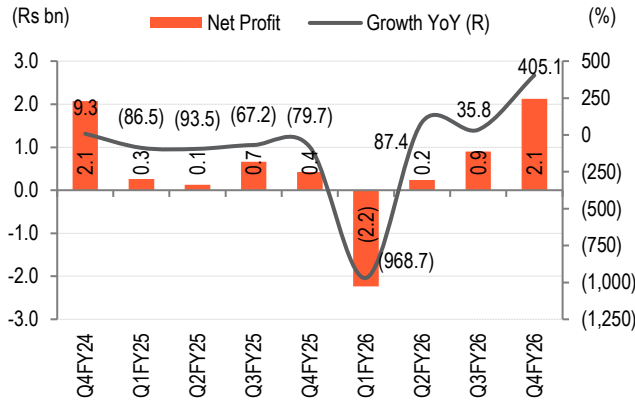
Source: Company, BOBCAPS Research

Fig 16 – DPD trends – non-MFI book improving



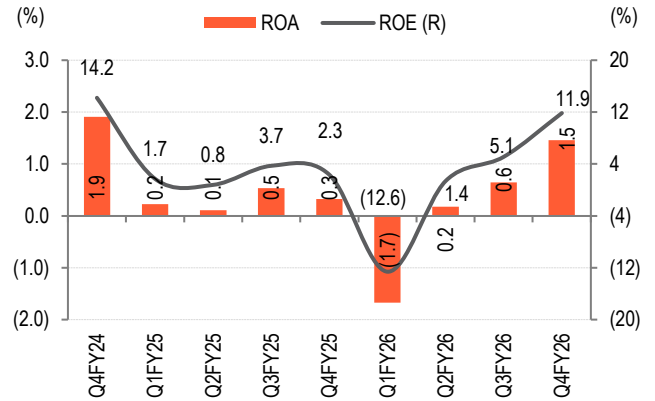
Source: Company, BOBCAPS Research

Fig 17 – PAT grew 405% YoY



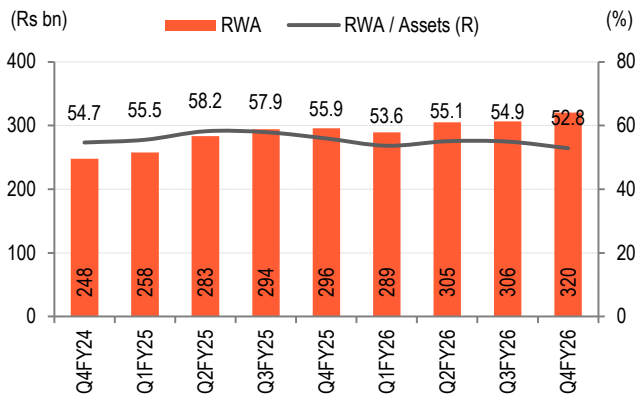
Source: Company, BOBCAPS Research

Fig 18 – Return ratios set to improve



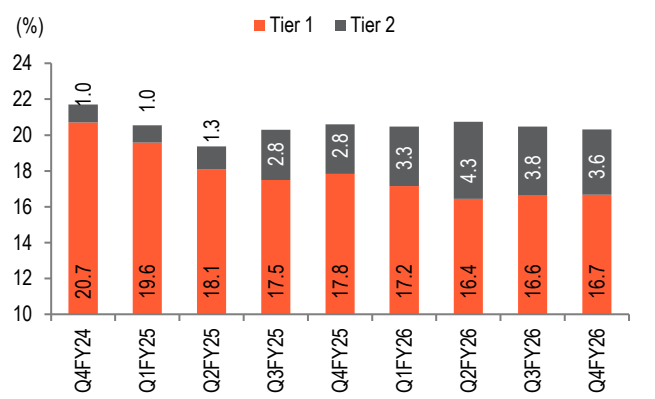
Source: Company, BOBCAPS Research

Fig 19 – RWA/Assets stable



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

Fig 20 – Well capitalised with 20.3% CAR



Source: Company, BOBCAPS Research

Earnings Call Highlights

- **Advances growth:** Management maintains guidance of **20%+ YoY growth** in advances for FY27, supported by traction across all key segments.
- **Profitability outlook:** Targets **ROA of ~1.2% for FY27**, with a **Q4FY27 exit ROA of ~1.5%**; implying gradual improvement through the year.
- **CD ratio: Targeting a reduction** from slightly above 90% to **sub-90%** levels, aimed at maintaining a more comfortable and sustainable liquidity profile.
- **NIMs trajectory:** Margins are seen to have **bottomed out**, with a **sustainable NIM of ~7.0-7.1%** for FY27, despite CoF pressures and a marginal moderation in CD ratio.
- **Credit cost normalisation:** Credit costs are **expected to get normalised to ~1.5% for FY27 vs ~2.9% in FY26**.
- **Cost ratios:** C/I ratio **likely to improve in H2FY27**, driven by operating leverage, though **Q1FY27 may see a temporary uptick** due to annual increments.
- **Universal bank transition:** Post the audited FY26 results, the bank will **assess eligibility for universal banking license** and initiate discussions with RBI.
- **Product profitability: All lending segments now profitable** on a fully loaded basis, including newer verticals like affordable housing and MSE finance.
- **MFI strategy:** MFI book to be **maintained at ~10% of advances**; collection efficiency at **~99.7% (X-bucket)** indicates that the stress cycle is largely behind.
- **Gold loan strategy:** Scaling up aggressively with **~180% YoY growth**, leveraging **data mining to tap existing customers** with external gold loans; current yields at **~14%**, with **further upside expected** as sourcing expands via asset-focused branches.
- **Vehicle finance shift:** Strategic **pivot away from New CV** segment (-20% YoY) **towards higher-yield segments**, with **Used CV (+25% YoY)** and **Used Cars (+31% YoY)** driving growth and improving portfolio mix.
- **Liability strategy (Liability 2.0):** Focus on granular deposit franchise via “family banking” and premium offerings (Elite Artha, Elite Epic) to reduce CoF gap vs large banks.
- **Macro risk watch:** Monitoring **West Asia tensions and inflation**; **CV segment** vulnerable to diesel price spikes (>10%) due to lag in freight rate pass-through.
- **Risk management stance:** Plans to **tighten underwriting and moderate growth** if stress emerges, with clear priority on asset quality.
- **Capital plans:** Plans to raise **Rs 4–5bn Tier-2 capital in FY27**; Tier-1 raise possible in late FY27/early FY28 if required.
- **Seasonality impact: Q1- Q2 typically weaker** for collections and slippages due to monsoon/agri cycles, implying near-term volatility in AQ metrics.

Valuation Methodology

We expect advances to grow at ~20% CAGR over FY26–29E, with return ratios improving on healthy growth, operating leverage and lower credit costs, driving RoA/RoE to 1.1%/10.8% in FY27E and 1.4%/16.1% in FY29E. This is likely to support the stock performance in the near term. Hence, we maintain BUY with valuation multiple of 1.2x Mar'28E ABV (from 1.3x), to arrive at a revised TP of 78 (from Rs 81).

Fig 21 – Actual vs Estimates

Key Parameters (Rs mn)	Q4FY26A	Q4FY26E	Actual vs. Estimates
Loan	4,27,513	4,28,685	(0.3)
Deposits	4,65,331	4,65,330	0.0
Assets	6,06,104	5,89,970	2.7
NII	9,801	8,954	9.5
PPOP	4,025	3,626	11.0
Provision	1,241	1,586	(21.7)
PAT	2,127	1,508	41.1

Source: Company, BOBCAPS Research

Fig 22 – Key operational assumptions

(%)	FY26A	FY27E	FY28E	FY29E
Advances growth	18.1	19.0	20.0	20.5
NII growth	4.3	13.7	21.1	19.6
PPoP growth	(5.2)	29.2	29.0	27.4
PAT growth	(29.9)	574.3	42.6	32.7
NIM	6.7	6.6	6.8	6.9
GNPA	2.6	2.5	2.3	2.2
CAR	20.3	18.8	17.8	17.3

Source: Company, BOBCAPS Research

Fig 23 – Revised estimates

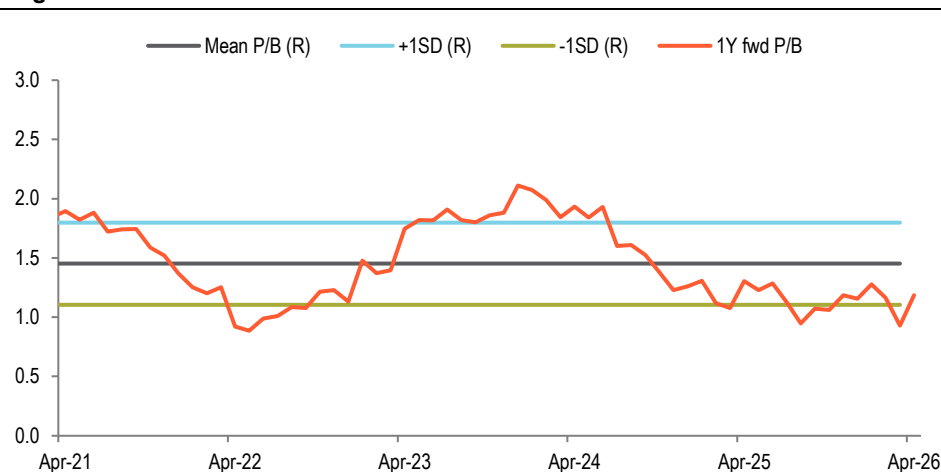
Estimates Key Parameters (Rs mn)	New		Old		Change (%)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Loan	5,08,740	6,10,488	4,97,510	6,06,962	2.3	0.6
Deposits	5,51,417	6,56,186	5,74,526	6,89,432	(4.0)	(4.8)
Assets	7,11,401	8,34,363	6,96,040	8,36,210	2.2	(0.2)
NII	38,563	46,708	39,431	47,895	(2.2)	(2.5)
PPOP	16,342	21,082	16,479	22,077	(0.8)	(4.5)
Provision	7,050	7,835	6,868	7,731	2.6	1.3
PAT	6,951	9,909	7,189	10,730	(3.3)	(7.7)
ABV (Rs)	56	63	55	63	0.5	(0.6)

Source: Company, BOBCAPS Research

Fig 24 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.9
Equity risk premium (%)	5.5
Beta	0.9
Cost of equity (%)	12.0
Blended ROE (%)	12.6
Initial high growth period (yrs)	15.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	6.3
Long term dividend payout ratio (%)	50.0
Justified P/BV Multiple (x)	1.2

Source: Company, BOBCAPS Research

Fig 25 – PB band chart

Source: Company, BOBCAPS Research

Key Risks

Key downside risks to our estimates:

- **High geographic concentration risk** – The bank has presence across 18 states and UTs in India, as of Mar'26. However, Tamil Nadu & Pondicherry accounted for 45.3% of total advances (Mar'26), indicating concentration risk.
- The unexpected asset quality shocks leading to higher credit cost.
- Slowdown in credit growth.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	32,516	33,912	38,563	46,708	55,858
Nil growth (%)	5.6	4.3	13.7	21.1	19.6
Non-interest income	9,115	10,735	12,187	14,144	16,390
Total income	41,631	44,647	50,750	60,852	72,247
Operating expenses	28,288	31,997	34,408	39,770	45,383
PPOP	13,343	12,650	16,342	21,082	26,864
PPOP growth (%)	(3.1)	(5.2)	29.2	29.0	27.4
Provisions	11,354	11,368	7,050	7,835	9,288
PBT	1,988	1,281	9,292	13,247	17,576
Tax	518	251	2,342	3,338	4,429
Reported net profit	1,470	1,031	6,951	9,909	13,147
Adjustments	0	0	0	0	0
Adjusted net profit	1,470	1,031	6,951	9,909	13,147

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Equity capital	11,399	11,410	11,410	11,410	11,410
Reserves & surplus	49,327	49,838	55,746	64,461	76,024
Net worth	60,725	61,248	67,156	75,872	87,435
Deposits	4,31,067	4,65,331	5,51,417	6,56,186	7,87,424
Borrowings	21,370	57,726	65,773	73,008	81,039
Other liab. & provisions	15,194	21,799	27,055	29,297	30,826
Total liab. & equities	5,28,356	6,06,104	7,11,401	8,34,363	9,86,723
Cash & bank balance	55,363	56,663	59,480	60,561	63,735
Investments	92,887	1,01,488	1,19,726	1,36,658	1,57,369
Advances	3,62,089	4,27,513	5,08,740	6,10,488	7,35,639
Fixed & Other assets	18,018	20,440	23,455	26,655	29,980
Total assets	5,28,356	6,06,104	7,11,401	8,34,363	9,86,723
Deposit growth (%)	19.3	7.9	18.5	19.0	20.0
Advances growth (%)	16.9	18.1	19.0	20.0	20.5

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
EPS	1.3	0.9	6.1	8.7	11.5
Dividend per share	0.0	0.0	0.9	1.0	1.4
Book value per share	53.3	53.7	58.9	66.5	76.6

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
P/E	51.7	74.0	11.0	7.7	5.8
P/BV	1.3	1.2	1.1	1.0	0.9
Dividend yield (%)	0.0	0.0	1.4	1.6	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	6.6	6.0	5.9	6.0	6.1
Non-interest income	1.9	1.9	1.9	1.8	1.8
Operating expenses	5.8	5.6	5.2	5.1	5.0
Pre-provisioning profit	2.7	2.2	2.5	2.7	3.0
Provisions	2.3	2.0	1.1	1.0	1.0
PBT	0.4	0.2	1.4	1.7	1.9
Tax	0.1	0.0	0.4	0.4	0.5
ROA	0.3	0.2	1.1	1.3	1.4
Leverage (x)	8.2	9.3	10.3	10.8	11.2
ROE	2.4	1.7	10.8	13.9	16.1

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Net interest income	5.6	4.3	13.7	21.1	19.6
Pre-provisioning profit	(3.1)	(5.2)	29.2	29.0	27.4
EPS	(81.8)	(30.1)	573.9	42.6	32.7
Profitability & Return ratios (%)					
Net interest margin	7.5	6.7	6.6	6.8	6.9
Fees / Avg. assets	46.4	47.3	46.3	45.8	45.0
Cost-Income	68.0	71.7	67.8	65.4	62.8
ROE	2.4	1.7	10.8	13.9	16.1
ROA	0.3	0.2	1.1	1.3	1.4
Asset quality (%)					
GNPA	2.9	2.6	2.5	2.3	2.2
NNPA	1.0	0.7	0.7	0.6	0.6
Slippage ratio	6.6	5.9	4.1	3.4	3.3
Credit cost	3.4	2.9	1.5	1.4	1.4
Provision coverage	66.2	72.5	71.5	71.2	71.1
Ratios (%)					
Credit-Deposit	84.0	91.9	92.3	93.0	93.4
Investment-Deposit	21.5	21.8	21.7	20.8	20.0
CAR	20.6	20.3	18.8	17.8	17.3
Tier-1	17.8	16.7	15.5	14.7	14.3

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

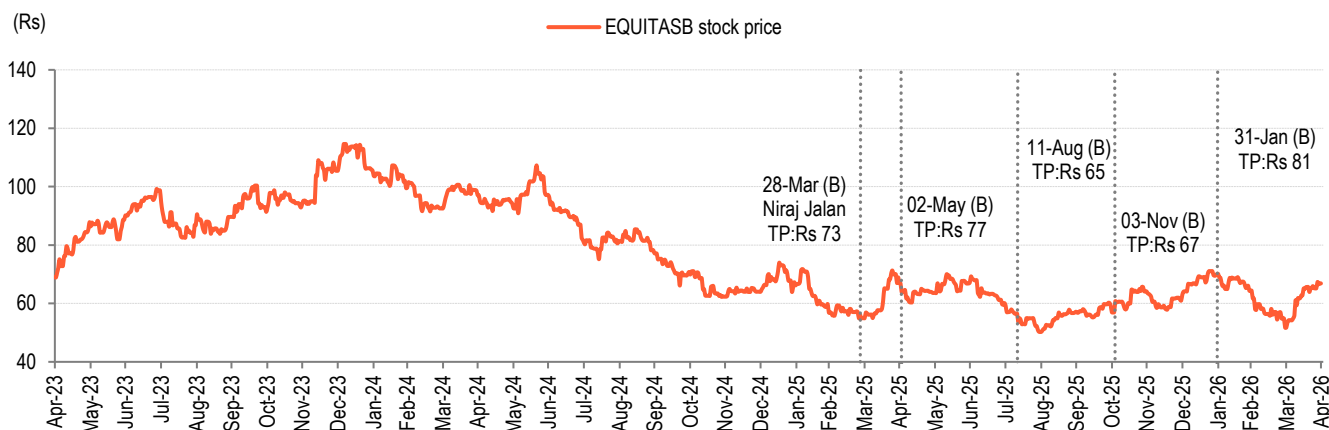
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): EQUITAS SMALL FINANCE BANK (EQUITASB IN)



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