

Equitas Holdings

Performance Highlights

Particulars (₹ cr)	1QFY17	4QFY16	% chg (qoq)	1QFY16	% chg (yoy)
NII	190.3	162.9	16.9	125.6	51.6
Pre-prov. profit	113.9	87.5	30.1	74.5	52.8
PAT	61.2	46.8	30.7	37.4	63.6

Source: Company, Angel Research

Equitas Holdings (Equitas) reported a strong set of results for 1QFY2017. Its AUM grew by 48% yoy which led to a PAT growth of 64% yoy to ₹61cr, both beating our expectations. The Management remains confident of sustenance of business growth in the years to come and expects to start the small finance bank (SFB) by 2QFY2017 end.

AUM growth remained strong, on track to start SFB: The company's AUM for the quarter grew by 48.4% yoy/7.1% qoq to ₹6,559cr. The MFI, (Vehicle Finance + MSE), and the Home Finance segments grew by 48%, 50%, and 32% yoy respectively. We believe the company will be able to achieve similar growth in the quarters to come. With the start of the SFB operations, Equitas will also offer Agriculture Gold Loans and Business Loans which will enable it to meet the priority sector lending norm. The AUM mix remained stable.

Rise in NPAs due to migration to 120 days NPA recognition norm from 150 days: The 27bp sequential rise in GNPA to 1.61% during the quarter is largely due to the company's migration to 4-months NPA recognition norm from 5 months earlier. Given that the company intends to start its banking operations by 2QFY2017 end, it will then have to move to the 3-months NPA recognition norm, which could lead to further escalation in NPAs in 2QFY2017. However, from an operational point of view, the asset quality has not deteriorated, as on a like to like basis, the rise in GNPA for 1QFY2017 would have been of 5-10bp only.

Margins to moderate down: The reported NIM for the quarter has improved to 12% vs 11.92% in 1QFY2016 and vs 11.40% for the entire FY2016 period. However, post the initiation of SFB operations, the maintenance of SLR and CRR will impact NIM to some extent. While the new bank will have access to lower cost funds it will take time to get sizeable access to the low cost CASA.

Outlook and valuation: We continue to believe that Equitas is strongly positioned to grow on the back of its balanced portfolio. Conversion to a SFB will have its own challenges. However, the market segment which the upcoming bank intends to cater to has vast untapped business potential and exploiting it effectively will drive the company's growth for multiple years. Despite costs having to be incurred in order to meet regulatory requirements (SLR + SRR), we believe the company will be able to deliver a ROA of 2.5% and ROE of 11.5% by FY2018. At the current market price the stock is trading at 2.3x its FY2018E BV of ₹75.6. **We maintain BUY on the stock with a target price of ₹235.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Operating Income	460	675	934	1,274
% chg	57.2	46.6	38.4	36.4
Net profit	106.6	167.1	195.6	275.9
% chg	44.0	56.2	17.1	41.0
NIM (%)	12.9	12.4	11.7	11.5
EPS (₹)	4.0	6.2	5.8	8.2
P/E (x)	49.0	31.5	33.4	23.7
P/ABV (x)		4.1	3.0	2.7
RoA (%)	3.0	3.1	2.5	2.5
RoE (%)	11.2	13.3	10.9	11.5

Source: Company, Angel Research; Note: CMP as of July 29, 2016

BUY

CMP	₹195
Target Price	₹235

Investment Period	12 months
-------------------	-----------

Stock Info

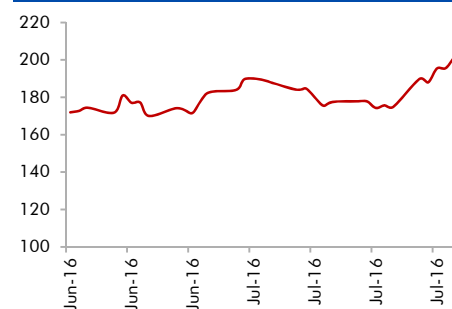
Sector	Financial
Market Cap (₹ cr)	6,554
Beta	0.9
52 Week High / Low	206 / 134
Avg. Daily Volume	883,000
Face Value (₹)	10
BSE Sensex	28,052
Nifty	8,638
Reuters Code	NA
Bloomberg Code	EQUITAS.IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	26.9
FII / NRIs / OCBs	48.5
Indian Public / Others	24.6

Abs.(%)	3m	1yr	3yr
Sensex	9.5	1.8	43.2
Equitas	43.1	NA	NA

3-Year Daily Price Chart



Source: Company, Angel Research

Siddharth Purohit

022 – 3935 7800 Ext: 6872

siddharth.purohit@angelbroking.com

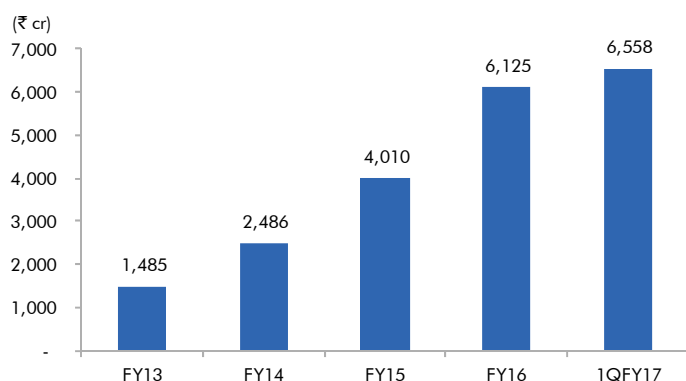
Exhibit 1: 1QFY2017 performance (standalone)

Particulars (₹ cr)	1QFY17	4QFY16	% chg (qoq)	1QFY16	% chg (yoy)	FY2016	FY2015	% chg
Net interest income	190.3	162.9	16.9	125.6	51.6	577.7	392.1	47.3
Non-interest income	37.0	29.6	24.8	23.74	55.8	101.2	69.1	46.4
Operating income	227.3	192.5	18.1	149.3	52.2	678.9	461.2	47.2
Operating expenses	113.4	105.0	8.0	74.8	51.7	359.7	247.2	45.5
Pre-prov. profit	113.9	87.5	30.1	74.5	52.8	319.2	214.0	49.2
Provisions & cont.	17.6	14.6	20.3	16.5	6.7	59.1	50.4	17.2
PBT	96.3	72.9	32.1	58.1	65.8	260.1	163.6	59.0
Prov. for taxes	35.2	26.1	34.6	20.7	69.8	93.0	57.0	63.3
PAT	61.2	46.8	30.7	37.4	63.6	167.1	106.6	56.2
EPS (₹)	1.8	1.4	30.7	1.4	31.1	6.2	4.0	55.0
Cost-to-income ratio (%)	49.9	54.5		50.1		53.0	53.6	
Effective tax rate (%)	36.5	35.8		35.7		35.7	34.8	

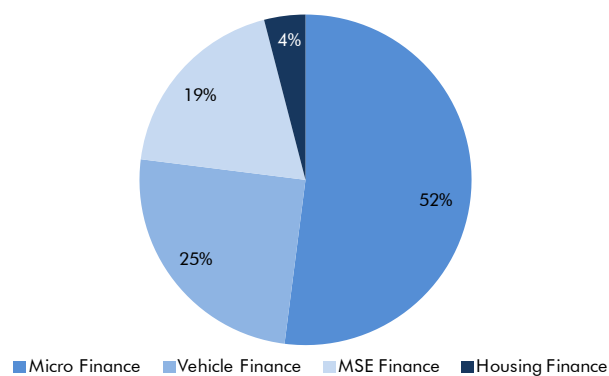
Source: Company, Angel Research

AUM growth remained strong and likely to remain robust going ahead: During the quarter, Equitas continued to report strong growth in its AUM, which is of 48.4% yoy / 7.1% qoq. A close look at the segmental performance shows that the growth has been secular across verticals with the Vehicle Finance + MSE segment reporting the highest growth of 50% yoy / 10% qoq. The Microfinance business also grew by a strong 48.4% yoy / 4.8% qoq. The growth was in spite the Tamil Nadu elections in May 2016 and a severe heat wave hitting the state. With a good monsoon, we expect growth to pick up further. Though the Management has remained selective in the Home Finance segment, it has still been able to report a 32% yoy / 4.5% qoq growth in the segment during the quarter.

AUM mix remains healthy with a bias in favor of non-Microfinance loans: The Management has been able to grow the balance sheet with a primary focus on the microfinance segment while the Vehicle Finance + MSE segment also supported growth. Further, to complement the operations of the upcoming SFB, the Management intends to start two new products, (a) Agriculture Gold Loans and (b) Business Loans, which will help the bank in meeting the priority sector lending norm. The overall AUM mix remained stable.

Exhibit 2: AUM growth remains strong


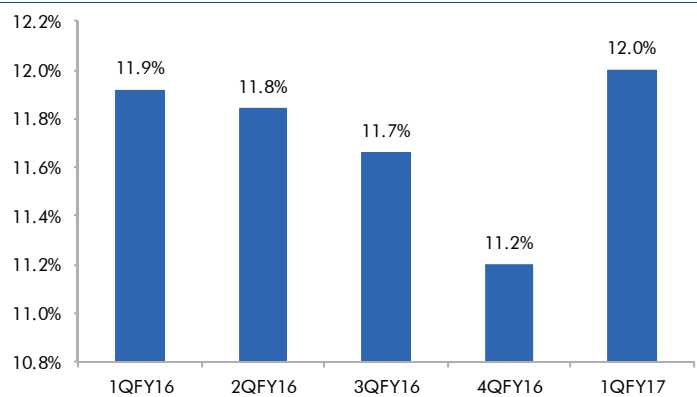
Source: Company, Angel Research

Exhibit 3: Loan Mix


Source: Company, Angel Research

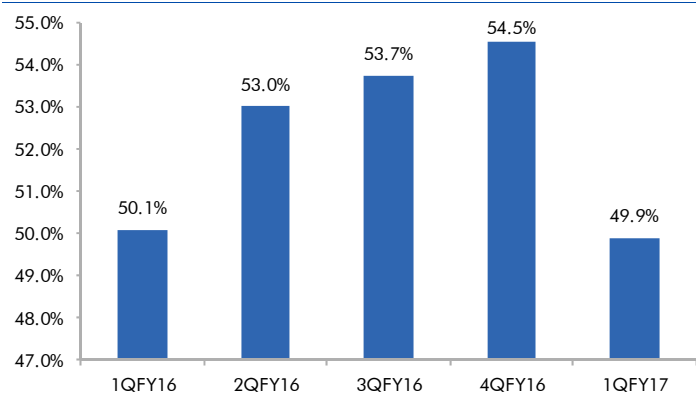
Margins to see moderation: The reported NIM has improved to 12% vs 11.92% in 1QFY2016 and vs 11.40% for the entire year FY2016. However, going forward, the NIM could take some adverse impact post the conversion to a SFB wherein SLR and CRR maintenance norms will have to be adhered to. While the new bank will have access to lower cost funds it will take time to get sizeable access to the low cost CASA.

Exhibit 4: NIM to see moderation going ahead



Source: Company, Angel Research

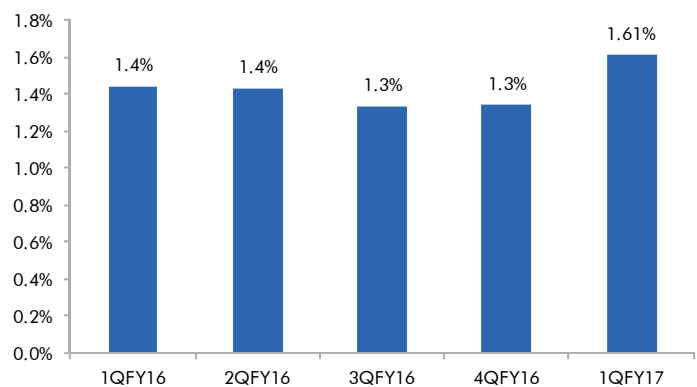
Exhibit 5: Cost to Income trend



Source: Company, Angel Research

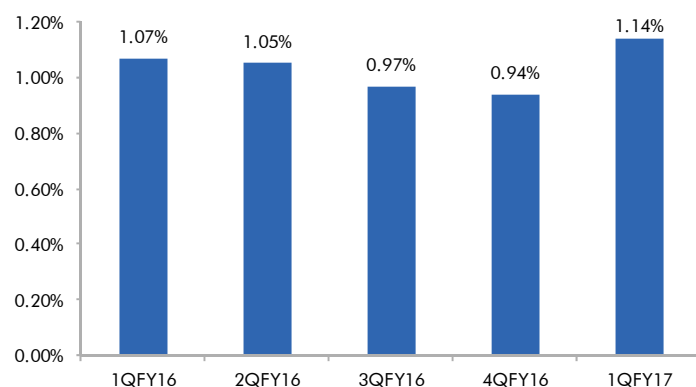
Asset quality marginally weakened due to migration to NPA recognition at 4 months compared to 5 months earlier: Equitas has so far been able to maintain its asset quality. The 27bp sequential rise in GNPA to 1.61% during the quarter is largely due to the company's migration to 4-months NPA recognition norm from 5 months earlier. So a large part of the rise in NPA can be attributed to the change in regulatory compliance norms which the company will have to fall in line with before starting banking operations. Hence there could be a further rise in NPAs in 2QFY2017. However, without the migration effect, the rise in GNPA would only have been of 5-10bp, which indicates at there being no weakness in asset quality during the quarter. The Management has indicated that with the compliance to the 90-days NPA recognition norm, GNPA could rise to 2.20%.

Exhibit 6: Rise in GNPA due to regulatory adherence



Source: Company, Angel Research

Exhibit 7: Trend in Net NPA



Source: Company, Angel Research

Exhibit 8: Key Operating Parameters

AUM (₹ Cr)	FY13	FY14	FY15	FY16	Q1FY16	Q4FY16	Q1FY17	YOY%	% QoQ
EMFL	1,135	1,503	2,144	3,283	2,319	3,283	3,442	48.4	4.8
EFL	305	889	1,686	2,596	1,905	2,596	2,859	50.1	10.1
EHFL	45	94	180	246	195	246	257	31.8	4.5
Total	1,485	2,486	4,010	6,125	4,419	6,125	6,558	48.4	7.1
Disbursements (₹ Cr)									
EMFL	1,149	1,505	2,129	3,173	620	931	802	29.4	(13.9)
EFL	300	818	1,365	1,917	413	564	565	36.8	0
EHFL					21	29	24	14.3	(14.3)
Total	1,449	2,323	3,494	5,090	1,054	1,524	1,391	32.0	(8.7)
As % of AUM									
EMFL	76.4	60.5	53.5	53.6	52.5	53.6	52.5		
EFL	20.5	35.8	42.0	42.4	43.1	42.4	43.6		
EHFL	3.0	3.8	4.5	4.0	4.4	4.0	3.9		

Source: Company, Angel Research

Exhibit 9: Segmental NPA%

Gross NPAs %	FY13	FY14	FY15	FY16	Q1FY16	Q4FY16	Q1FY17
Microfinance Business	0.00	0.10	0.10	0.23	0.11	0.23	0.25
Non Micro Finance Business	1.00	1.60	2.00	2.49	2.67	2.49	3.03
Net NPAs %							
Micro Finance Business	0.00	0.00	0.00	0.06	0.04	0.06	0.05
Non Micro Finance Business	0.70	1.40	1.50	2.49	2.67	2.49	3.03
Consolidated GNPA %	0.30	0.70	1.08	1.34	1.44	1.34	1.61
Consolidated NNPA %	0.20	0.60	0.80	0.94	1.07	0.94	1.14
Credit Cost %	0.77	0.93	1.55	1.17	1.56	1.17	1.11

Source: Company, Angel Research

Outlook and valuation

We continue to believe that Equitas is strongly positioned to grow on the back of its balanced portfolio. Conversion to a SFB will have its own challenges. However, the market segment which the upcoming bank intends to cater to has vast untapped business potential and exploiting it effectively will drive the company's growth for multiple years. Despite costs having to be incurred in order to meet regulatory requirements (SLR + SRR), we believe the company will be able to deliver a ROA of 2.5% and ROE of 11.5% by FY2018. At the current market price the stock is trading at 2.3x its FY2018E BV of ₹75.6. **We maintain BUY on the stock with a target price of ₹235.**

Company Background

Equitas is a diversified financial services player with strong presence across microfinance, vehicle finance, MSE finance, and housing finance segments. Incorporated in 2007 and headquartered in Chennai, Equitas operates across 11 states through 549 branches. Equitas, through its subsidiary Equitas Micro Finance Ltd (EMFL) is the fifth largest microfinance company in India (on gross loan portfolio basis). Equitas has also received in-principle approval from the RBI to set up a SFB in October 2015.

Key Management Personnel:

P. N. Vasudevan, Managing Director.

S. Bhaskar, CFO, joined the Equitas Group in 2007.

H.K.N. Raghavan, CEO of EMFL, joined the Equitas Group in 2008.

V. S. Murthy, CEO of Equitas Finance Ltd (EFL), joined the Equitas Group in 2010.

Income statement (standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Nil	293	460	675	934	1,274
- YoY Growth (%)	67.8	57.2	46.6	38.4	36.4
Other Income	1.1	0.9	3.9	5.1	6.9
- YoY Growth (%)	-	-	-	30.5	35.0
Operating Income	294.0	461.2	678.9	939.2	1280.8
- YoY Growth (%)	67.5	56.9	47.2	38.3	36.4
Operating Expenses	161.8	247.2	359.7	535.4	730.1
- YoY Growth (%)	28.4	52.8	45.5	48.8	36.4
Pre - Provision Profit	132.2	214.0	319.2	403.9	550.7
- YoY Growth (%)	166.9	61.9	49.2	26.5	36.4
Prov. & Cont.	18.4	50.4	59.1	102.9	138.9
- YoY Growth (%)	106.5	174.1	17.2	74.1	35.0
Profit Before Tax	113.8	163.6	260.1	301.0	411.8
- YoY Growth (%)	186.3	43.7	59.0	15.7	36.8
Prov. for Taxation	39.5	56.6	93.0	105.3	135.9
- as a % of PBT	35	35	36	35	33
PAT	74.3	107.0	167.1	195.6	275.9
- YoY Growth (%)	133.0	44.0	56.2	17.1	41.0

Balance sheet (standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Share Capital	73	269	270	335	335
Reserve & Surplus	669	902	1,071	1,921	2,197
Net Worth	742	1,172	1,341	2,256	2,532
Borrowings	1,849	3,032	4,683	6,557	7,868
- Growth (%)	45	64	54	40	20
Deposits	-	-	-	350	1,850
- Growth (%)	-	-	-	-	429
Other Liab. & Prov.	160	262	482	426	575
Total Liabilities	2,751	4,466	6,507	9,588	12,825
Cash and Cash Equivalents	415	557	947	852	958
Investments	72	176	12	1,468	1,731
Advances	2,123	3,465	5,070	7,098	9,583
- Growth (%)	75	63	46	40	35
Fixed Assets	27	47	66	86	111
Other Assets	114	222	412	85	442
Total Assets	2,751	4,466	6,507	9,588	12,825

Ratio analysis (standalone)

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profitability ratios (%)					
NIMs	12.9	12.9	12.4	11.7	11.5
RoA	3.3	3.0	3.1	2.5	2.5
RoE	12.2	11.2	13.3	10.9	11.5
Asset Quality (%)					
Gross NPAs	15.5	37.4	68.1	140.3	188.4
Gross NPAs %	0.7	1.1	1.3	1.6	1.6
Net NPAs	13.0	27.8	47.8	87.0	116.8
Net NPAs %	0.6	0.8	0.9	1.0	1.0
Credit Cost	0.9	1.5	1.2	1.2	1.2
Per Share Data (₹)					
EPS	10.2	4.0	6.2	5.8	8.2
BVPS	102.1	43.6	49.7	67.4	75.6
Adj BV	100.3	42.5	47.9	64.8	72.1
Valuation Ratios					
PER (x)	19.1	49.0	31.5	33.4	23.7
P/ABVPS (x)	NA	NA	4.1	3.0	2.7
Dividend Yield (%)	-	-	-	-	-
DuPont Analysis					
Interest Income	21.0	20.9	20.2	19.3	18.4
Interest Expenses	8.2	8.2	7.9	7.7	7.1
NII	12.7	12.8	12.3	11.6	11.4
(-) Prov. Exp.	0.0	0.0	0.1	0.1	0.1
Adj. NII	12.8	12.8	12.4	11.7	11.4
Other Inc.	7.0	6.9	6.6	6.7	6.5
Op. Inc.	5.7	5.9	5.8	5.0	4.9
Opex	0.8	1.4	1.1	1.3	1.2
PBT	4.9	4.5	4.7	3.7	3.7
Taxes	1.7	1.6	1.7	1.3	1.2
RoA	3.2	3.0	3.0	2.4	2.5
Leverage	3.8	3.8	4.4	4.5	4.7
RoE	12.2	11.2	13.3	10.9	11.5

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement

Equitas Holdings

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)