Equitas Holdings Q1FY21

Financial Results & Highlights

Brief Introduction:

Equitas Small Finance Bank is a small finance bank founded in 2007 by Equitas as a microfinance lender, with headquarters in Chennai, India. After receiving license from the Reserve Bank of India (RBI) on 30 June 2016, Equitas began banking on 5 September 2016 as a subsidiary of holding company Equitas Holdings Ltd. With effect from 4 February 2017, Equitas became a scheduled bank. The small finance bank remains a subsidiary of Equitas Holdings.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	5	6	-25.00%	5	-10.00%
PBT	4	4	0.00%	3	33.33%
PAT	3	3	0.00%	1	200.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	787	663	18.70%	803	-1.99%
PBT	67	108	-37.96%	23	191.30%
PAT	52	70	-25.71%	16	225.00%

Detailed Results:

1. The consolidated revenues for the company rose 18.7% YoY while PBT fell almost 38% YoY. PAT also fell 26% YoY in Q1.
2. The Advances for the company grew 27% YoY in Q1, while disbursements were at Rs 564 Cr a decline of 79% YoY. 76% of advances is secured loans.
3. Deposits excluding CD grew to Rs 11,471 Cr which is up 30% YoY and 11% QoQ. Retail TD grew 96% YoY & 15% QoQ to Rs 4,377 Cr.
4. CASA ratio for the quarter was 21% at Rs 2,354 Cr. LCR is at 139%.
5. The bank made provisions of Rs 68.34 Cr including COVID-19 provision of Rs 45 Cr in Q1. Total provisioning for COVID-19 to date came up to Rs 144.63 Cr.
6. GNPAs were at 2.68% & PCR was at 48.79%. The cost to income has gone down to 66.41% in Q1 from 69.09% last year. Overall opex rose 5% YoY. Opex to total average assets was at 5.74% in Q1 vs 6.76% last year.
7. NIM was at 8.63% in Q1 and NII rose 20% YoY. The cost of funds was at 7.63%.

8. RoA & RoE were at 1.2% and 8.72% respectively for Q1.
9. The company added 57,044 new accounts under digital means in Q1. Equitas SFB has now gone live with video KYC.
10. Total CRAR was at 21.59% with Tier 1 at 20.61%.
11. The lending spread increased to 11.18% in Q1 from 10.67% last year.
12. The loan book breakup is as follows:
    1. Microfinance: 23% of the loan book, 16% YoY growth
    2. Small Business Loan: 42% of the loan book, 32% YoY growth
    3. Vehicle Finance: 24% of the loan book, 25% YoY growth
    4. MSE Finance: 5% of the loan book, 154% YoY growth
    5. Corporate Loans: 5% of the loan book, 39% YoY growth
    6. Others: 1% of the loan book, 38% YoY decline
13. Tamil Nadu is the dominant state for the company with 61.91% of advances belonging to this geography.
14. The yield on on-book advances is at 18.81%.
15. The company maintained a cash balance of Rs 429 Cr.

Investor Conference Call Highlights:

1. 90% of customers are from the informal economy who are into trading or providing of daily use goods and services.
2. The moratorium level in May was at 90% which went down to 51% in May and is at 43% for July.
3. The average loan per client excluding microfinance is at Rs 4 Lacs.
4. The total COVID-19 provisions of Rs 145 Cr is around 0.95% of total advances.
5. The company disbursed Rs 875 Cr in July which is at 75% of pre-COVID levels.
6. The company has already filed its DRHP for the upcoming IPO of Equitas SFB.
7. The company is calculating the moratorium on a monthly basis. Those who have not made their monthly payment are considered to be under a moratorium for that month.
8. The company has not yet disbursed any loans under the new MSME scheme announced by the govt. It has however registered under it. Most of the bank's customers will not be eligible for it as they are individual loan customers.
9. The management expects NIMs to stay in the current range or near 9% going forward.
10. The collection efficiency in the MSE segment is 21%.

11. The management has stated that only one segment is a cause for worry for them. It is the heavy commercial vehicle finance segment. Thus the company had taken steps before COVID to reduce volumes in this segment and focus more on small and light commercial vehicles. Now it has taken additional steps to put in loan caps and more conservative measures.

12. The company is going to focus on gold loans in the next 2-3 months. It has already launched it across 100 branches and is disbursing around 1000 loans in July. The management is expecting to double this portfolio in August.

13. The company has streamlined the loan process so that the end to end execution for a gold loan takes no more than 40 mins. It is also planning to open up the digital gold loan side in the next few months.

14. The management has stated that for the customers that have not paid their EMIs in moratorium they will not need to pay interest on that and these EMIs will instead be paid at the end of the loan thereby effectively extending the loan tenure by the number of months that the client has missed his payments. This rescheduling will not be available for everyone and it will be granted only after assessment on an individual basis on possible impairment on the client repayment ability.

15. In the vehicle finance division, around 49% of LCV customers have not availed moratorium while in HCV around 47% have not availed moratorium.

16. The SA for the bank has been divided into 2 segments. The first is the mass segment where the bank provides 3.5% interest and this segment has deposits up to Rs 1 Lac and the average ticket size of Rs 34000. In the second category are mass affluent which has to have deposits above Rs 1 Lac. The company is only offering a 7% interest rate for incremental funds above Rs 1 Lac in this category.

17. The company has reduced term deposit rates by 75 bps.

18. Overdue accounts at the end of July was at Rs 345 Cr. These overdue accounts are from cases where the company has not collected even 1 EMI in the last 4 months. This is at 11% of the customer base.

19. The LGD in used commercial vehicle business is at 40% and in small business loans, this is expected to be less than 30%.

20. In the MSE segment, 70% of loans are of CC/OD type for working capital needs. Around 65% of CC/OD loans were under moratorium in at the start. Now the figure has fallen to 32% in June and 26% in July.

21. The new circular on current accounts by RBI is expected to be beneficial for the SFB as it opens up the lower and middle areas of the supply chain for a new entrant like Equitas. In the current accounts, the company is offering 2 features which are 20% savings from the change in banking patterns and a new feature called TD suite where any deposits above a threshold value will be automatically put into TD to earn interest.

22. To maintain customer uniformity and reduce discrimination issues, the company has decided that it will only accept full payments in the case of JLG loans and not collect partial loans as it has had

a very adverse impact on customer behavior in the past when implemented. This stance is limited to microfinance only.

23. The management does not expect employee costs to go down as it will keep its current workforce and not remove anyone. It is widely expected that overall opex should remain at current levels going forward.
24. In Q1, Rs 132 Cr was disbursed to MFI customers where 15% were for new customers and 85% were for existing customers. In July, 9% was for new customers and 91% was for existing customers.
25. According to the management, Tamil Nadu is picking up faster than Maharashtra and Maharashtra should take 1-1.5 months more to recover as compared to Tamil Nadu. The management expects normalcy to come back to TN in the next 2-3 months.
26. Around 68% of SCV customers in vehicle finance have not applied for the moratorium. The demand has shifted more towards LCV from HCV. This is driven by an increase in online commercial activities and a higher quantum of home deliveries.
27. The company is still in the process of renegotiating rents in many locations. The company is also looking to leverage its investment in digital platforms to fuel growth for the company now that physical growth has been kept muted due to COVID-19.
28. The management states that rescheduling moratorium loans will be carried out on a very selective basis and it will only be applied as a last resort for customers with no other options.
29. Small business loans are not considered a high-risk segment as the average LTV here is less than 40% and in most cases, the collateral put in are the homes of customers which they will try and repay to keep out of repossession at all costs.
30. The high-risk segment according to the management is the space in vehicle finance where the customer's equity is less than the company's equity. This figure comes out to be around Rs 750+ Cr. The company is keeping track of these vehicles to ensure that they are in good condition and that the company is aware of any developments for them.

Analyst's Views:

Equitas Holdings has been one of the important players in the MFI industry in India. The company has successfully formed its own SFB which is expected to get listed in the near future and they have already released the DRHP for it. The company has done well to maintain its deposit and loan book growth despite challenges arising from COVID-19 and not expanding its branch network in the current period. The company is doing well to maintain a high customer acquisition rate through the digital medium and to have successfully implemented video KYC. Dependence on Tamil Nadu remains a big risk for the company as any adverse event in the region may drastically affect the company's performance. It remains to be seen how the company will be affected when the moratorium closes and what kind of collections it can achieve. Nonetheless, given the company's history of consistent performance and the highly anticipated IPO of its SFB, Equitas Holdings remains a good stock to watch out for in the Microfinance and Small Finance Banking market.

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