

Pick of the week



Equitas Holdings Limited

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 116

Target Price

₹ 160

Potential Upside

37.9%

Investment Argument

- Equitas reported ~50% yoy earnings growth led by 33% yoy growth in operating profits and 40% yoy decline in provisions due to a lower tax rate. Revenue growth was solid at 22% yoy driven by strong growth in NII at 22% yoy
- Headline asset quality held up in 3QFY20 with GNPL ratio flat qoq at 2.9% while net NPL ratio increased by ~10 bps qoq to 1.7%. Given the nature of its loan portfolio, KIE is building higher gross NPLs at ~3% and net NPLs at 1.5% for FY22E
- Equitas SFB reported AUM growth of 37% yoy in 3QFY20 led by strong growth in small business loans and swift ramp-up in new product segments. Overall deposits for Equitas SFB stood at ~Rs105 tn as of 3QFY20, up 33% yoy/~5% qoq. Share of CASA at 14% of total borrowings (down ~200 bps qoq). Muted growth in CASA deposits; robust growth in retail TDs at ~150% yoy
- Calculated NIM for the SFB expanded by ~30 bps qoq to 8.9% in 3QFY20 driven by a decline in cost of funds while yields were stable qoq. Cost of funds (calculated) was down ~30 bps qoq to ~8% while yield on advances was stable at 18.6%.
- KIE Forecasts - Higher gross NPLs at ~3% and net NPLs at 1.5% for FY22E, 30% CAGR in AUM over FY19-22E, NIM to remain stable over FY20-21E led by favorable cost of funds trajectory
- KIE maintains BUY rating with fair value at Rs160 (from Rs170 earlier). At fair value, KIE values the stock at 1.9X book and ~19X EPS December 2021E book for RoEs moving closer to industry average by FY22E. With the listing of the bank likely to be completed by 4QFY20, we expect the bank to re-rate as it would address most concerns of investors. Maintain BUY.