kotak Securities

Pick of the week

6th July'20

EQUITAS HOLDINGS LTD

Recommendation	Time Period
Buy	12 Months

Current Price	Target Price	Potential Upside
₹ 53	₹100	88.6%

Investment Argument

- Equitas reported ~66% yoy operating profit but earnings declined ~60% primarily on account of higher provisions for Covid. Revenue growth was solid at 27% yoy driven by strong growth in Net interest income at 30% yoy.
- Gross Non-performing loans (GNPL) ratio improved ~20 bps qoq to 2.7% as slippages (~2.6% of loans from 3.8% in 3QFY20). Net Non-performing loans (NNPL) ratio was stable at ~1.7%. ~93% of the loan book is under moratorium as of April 2020. Provision coverage on NPLs stood at 45% as of 4QFY20 (up ~150 bps qoq).
- Overall deposit growth moderated further to ~20% yoy in 4QFY20 (~3% qoq) led by sequential declines in current account deposits, Corporate deposits (CDs) and bulk Term deposits (TDs). This was offset by a strong performance in retail TDs (up ~24% qoq, 133% yoy).
- Calculated Net interest margin (NIM) for the SFB expanded by ~40 bps qoq to 9.3% in 4QFY20 driven by both, a decline in cost of funds by ~20 bps qoq to ~7.8% and increase in yields qoq up ~90 bps to 19.5%. KIE expects NIM to remain marginally weak in FY22-23E led by lower yields as the company skews the product mix further towards less-riskier products.
- KIE expects: 1) 15% CAGR in CASA and ~40% growth in TDs over FY20-23E; 2) forecasts 20% CAGR in AUM over FY20-23E driven by slowdown in all businesses and 3) cost to income ratio to moderate to ~62% by FY22E (~70% in FY19). KIE is building higher gross NPLs at ~4% and net NPLs at 1.5% for FY22-23E.
- KIE maintains BUY rating with fair value at Rs.100 valuing the stock at 1.1x book and ~10x EPS March 2022E for RoEs which are likely to remain subdued in the medium term but move closer to industry average beyond FY23E.