AXIS SECURITIES

Pick of the Week

07th June, 2025

Equitas Small Finance Bank Limited

BFSI - Banks

Buy

Target Price

74

Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
66.6	74	11%

MARKET DATA

No. of Shares	114.0
Market Cap	7,596
52-week High / Low	108/52
BSE Code	543243
NSE Code	EQUITASBNK

Why EQUITAS SFB Ltd?

- ✓ **Growth Revival in Sight; Efforts to De-risk Portfolio Underway**
- ✓ **NIMs to Find Support in Rate Cut Cycle**
- ✓ **MFI Asset Quality Stress to Recede**
- ✓ **Improving RoA Trajectory**

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About the Company

Equitas Small Finance Bank Ltd. (EQSFB) is a diversified leading SFB offering a diversified suite of products, primarily catering to the low and middle-income individuals and businesses that have limited or no access to formal banking and finance channels.

Investment Rationale

A. **De-risking portfolio; Non-MFI segment to drive growth:** EQSFBs will continue to de-focus on the MFI segment, resulting in its mix in the overall portfolio dropping to mid single-digit vs. 12% in FY25. Over the medium term, the MFI portfolio is expected to further dwindle to lower single digits, with the bank looking to de-risk the portfolio. Amongst the secured products, EQSFB will continue to focus on SBL (with focus on Micro-LAP), Affordable Housing, Used CVs and Used Cars (while de-focusing on New CVs). The management has guided for growth momentum to improve going into FY26 as the bank looks to exit the year with credit growth of high-teens.

B. **NIMs to find support as interest rate cycle reverses:** The rate cut cycle should drive a reduction in CoF, though with a lag of a few quarters. The bank has tweaked its SA rate in FY25 and taken another SA rate cut in Apr'25, which should aid NIMs. Additionally, Equitas is making conscious efforts to reduce the TD rates, which should further aid CoF reduction. Going forward, it will focus on CASA accretion by deepening the elite offering and CA mobilisation through merchant acquiring. Furthermore, the ~89% fixed-rate book and declining slippages driving lower interest reversal should support the margins. Thus, NIMs are expected to be maintained at current levels.

C. **MFI stress easing gradually:** EQSFB's X-bucket collection efficiency (CE) in the MFI segment has stabilised in Mar'25 at 98.4% vs 98.2% in Dec'24, with KA/TN at 92.3%/98.8%. Ex-KA, delinquencies have been the lowest in 6 months. The bank expects the fresh delinquencies to reduce as CE in KA continues to improve. With CE on an improving trend, it expects credit costs to remain elevated in H1FY26 before declining meaningfully and normalising from Q3FY26 onwards. Currently, the impact of the TN ordinance is unclear. However, the management remains fairly certain that the situation would not be as bad as seen in KA. Thus, the impact of the new guardrails on the book is expected to be minimal. In the non-MFI book, credit costs of <1% are currently at normalised levels, and the management does not expect any material improvement from current levels, with the VF segment seeing a turnaround in Q4FY25.

D. **Outlook:** We believe growth is likely to pick up as asset quality headwinds gradually recede. With multiple levers to support margins, EQSFB is expected to report margins of 7.3% (+/- 5bps) over the medium term. The bank is looking to de-risk the portfolio by bringing down the share of MFI loans to low-single digit over the medium term, which should ensure more stability during turbulent times. The management remains confident of delivering RoA of ~1% as it exits FY26 with further improvement to 1.5-1.7% in FY27, led by (i) steady NIMs, (ii) lower incremental opex growth and (iii) declining credit costs.

E. **Recommendation**: **We recommend a BUY rating on the stock with a target price of Rs 74/share, implying an upside of 11% from the CMP.**

Financial Summary

Y/E March	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
FY24	3,080	1,377	799	7.0	49.4	1.3	2.0	1.2
FY25	3,252	1,334	147	1.3	50.2	1.3	0.3	1.0
FY26E	3,653	1,515	511	4.5	54.2	1.2	0.9	0.9
FY27E	4,312	1,941	876	7.7	60.9	1.1	1.3	0.8

Source: Axis Securities Research. CMP as on 06th June, 2025

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