

Equitas Small Finance Bank: Good Issue

IPO Note : Largest Small Finance Bank in terms of banking outlet : Tough Competition in this Segment Good fundamentals but fully-Priced : Ranking***



Issue details

Price band (Rs)	Rs.32-33
IPO Opening Date	20/10/2020
IPO Closing Date	22/10/20
Issue Size	Rs.517.60 Cr.

Recommendations

On financial performance front, on a consolidated basis ESFB has posted total income/net profits of Rs. 1772.90 cr. / Rs. 31.83 cr. (FY18), Rs. 2394.83 cr. / Rs. 210.57 cr. (FY19) and Rs. 2927.80 cr. / Rs. 243.64 cr. (FY20). For Q1 of FY21, it has posted net profit of Rs. 57.67 cr. on a total income of Rs. 750.97 cr. If we attribute latest earnings on fully diluted equity post issue, then asking price is at a **P/E of around 15 against industry average P/E of 16.26**. Thus prima facie issue is fully priced. As per offer documents, ESFB has shown AU SFB, Ujjivan SFB, DCB Bank, City Union Bank, Bandhan Bank, Shriram City Union Fin., Shriram Transport Fin., Cholamandalam Inv., Mah & Mah Financial Services, Sundaram Finance, CreditAccess Gramin and Spandana Sphoorty Fin. as its listed peers. They are currently quoting at a P/Es of around 33.07, 24.8, 6.99, 23.56, 18.65, 6.02, 7.71, 17.51, 16.17, 19.82, 35.91 and 11.99. **The company that was primarily the micro finance company is now listing a small finance bank with diverse financial services. Based on Q1 FY21 earnings, the issue appears to be fully priced. High risk Investors may apply. Tough competition in the small finance bank segment.**

Highlights

- Equitas Small Finance Bank Ltd. (ESFB) is one of the largest SFB in India in terms of number of banking outlets, and the second largest SFB in India in terms of assets under management and total deposits in Fiscal 2019.
- As of June 30, 2020, ESFB's distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India.
- ESFB has reported net NPAs of 1.46%, 1.44% and 1.66% respectively for the last three fiscals. For the Q1 of FY21, its net NPAs stood at 1.48%.

Company Introduction

Incorporated in 1993, Chennai based Equitas Small Finance Bank Ltd (ESFBL) was the largest small finance bank in India in Fiscal 2019 considering banking outlets and the 2nd largest small finance bank considering assets under management and total deposits. Unlike other microfinance companies, it has a diversified loan portfolio and less dependence on microfinance business. With the main focus on financially unserved and underserved customers, the bank offers a wide range of banking products and services. The company provides microfinance loans promoting financial inclusion, housing finance, vehicle finance, and MSE finance. Equitas Small Fin Bank offers financial products according to customers' income profile, type of security available and nature of business. Apart from this, the bank also provides current accounts, salary accounts, savings accounts, other deposit accounts, ATM-cum-debit cards, mutual fund products, third party insurance, and issuance of FASTags. ESFBL follows credit assessment procedures through a risk management framework which is analyzed by its Risk Management Committee. As on 30th Sep 2019, it has the largest distribution channel among Small Finance Banks (SFBs) including 853 Banking Outlets and 322 ATMs in India across 15 states and union territories.



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Financial Summary (Rs. In Crore)

Particulars	Qtr. Ended June 2020	FY2020	FY2019	FY2018
Total Income	750.96	2927.79	2394.83	1772.90
Net Profit	57.67	243.63	210.57	31.83
EPS (Rs)	0.55	2.34	1.84	0.3

EPS : Not annualized

Source: RHP and ACE Equity

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

Company Promoters:

Equitas Holdings Limited is the promoter of the company.

The object of the issue

The objects of the Offer are:

The bank proposes to utilize the Net Proceeds from the fresh issue offer towards augmenting the Bank's Tier I capital base to meet the future capital requirement.

IPO Issue Proceed

To finance its Tier-I capital augmenting, ESFB is coming out with a maiden IPO of combo offer of fresh equity issue (Rs. 280.00 cr.) and offer for sale (Rs. 237.60 cr.). It consist fresh equity issue of approx 84848485 shares of Rs. 10 each (at the upper price band) and offer for sale of 72000000 shares. Thus the overall issue will be for approx. 156848485 equity shares. The issue opens for subscription on October 20, 2020 and will close on October 22, 2020. The company has fixed the price band of Rs. 32 - Rs. 33 per share. Minimum application is to be made for 450 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. ESFB mulls mobilizing around Rs. 517.60 cr. (based on upper price band) through this IPO. The issue constitutes 13.78% of the post issue paid up capital of the company. From the residual portion, it has reserved 50% for QIBs, 15% for HNIs and 35% for Retail Investors. Post issue, ESFB's current paid up equity capital of Rs. 1053.40 cr. will stand enhanced to Rs. 1138.25 cr. With this issue, the company is looking for a market cap of Rs. 3756.23 cr.

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