Equitas Small Finance Bank Limited

January 30, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE AA-; Stable	Reaffirmed
Certificate of Deposit	1,500.00 (Enhanced from 650.00)	CARE A1+	Reaffirmed
Lower Tier-II bonds (Basel II)	500.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The issuer rating and ratings assigned to debt instruments of Equitas Small Finance Bank Limited (Equitas or ESFB) factors in the long track record of operations with diversified asset classes, comfortable capitalisation levels, and the adequate liquidity position. Ratings take note of improvement in deposit franchise, wherein credit /deposit ratio witnessed significant improvement.

However, ratings strengths are partially offset by the regionally concentrated nature of business, and the moderate asset quality due to the marginal credit profiles of the borrowers.

The bank's advances witnessed a 23% growth in FY24 and stood at ₹34,337 crore as on March 31, 2024, against ₹27,861 crore as on March 31, 2023. The advances further witnessed a 5% growth in H1FY25 and stood at ₹36,053 crore as on September 30, 2024. The growth in advances is well supported by the mobilisation of deposits by the bank. The deposits witnessed 42% growth in FY24 and stood at ₹36,129 crore as on March 31, 2024, against ₹25,348 crore as on March 31, 2023. The deposits further witnessed 10% growth in H1FY25 and stood at ₹ 39,859 crore as on September 30, 2024. The bank's credit deposit ratio (net advances/deposits) witnessed significant improvement in the last year and stood at 86% as on March 31, 2024, against 102% as on March 31, 2023. Credit deposit ratio remains stable at 85% as on September 30, 2024. The bank's asset quality remains moderate impacted by higher slippages and impact in the micro-finance institution (MFI) industry, gross non-performing assets (GNPA) stood at 2.95% as on September 30, 2024, against 2.52% as on March 31, 2024. Ratings also factor in the improvement in profitability indicators in FY24; however, witnessed moderation in H1FY25. The bank reported a return on total assets (ROTA) of 2.00% in FY24 against 1.87% in FY23. ROTA moderated to 0.16% in H1FY25, due to increase in credit cost on account of moderation in asset quality and additional provisioning to reduce the net NPA (NNPA) below 1% to meet the criteria laid out by Reserve Bank of India (RBI) for small finance banks (SFBs) to get Universal Bank license.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Sustained improvement in the scale of operations along with improvement in geographical diversification with sharp reduction in single state concentration while maintaining asset quality and profitability.

Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Deterioration in the asset quality, with the GNPA increasing to more than 4% on a sustained basis.
- Deterioration in the capital adequacy parameters, with the capital adequacy ratio (CAR) falling below 18% on a sustained basis.
- Moderation in the profitability parameters, with the ROTA falling below 1% on a sustained basis.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of the steady growth in advances with comfortable capitalisation levels while maintaining stable profitability levels.

Detailed description of key rating drivers

Key strengths

Long track record of operations in diversified asset classes

Equitas is a Chennai-headquartered SFB, which commenced its banking operations on September 05, 2016. The group has been founded by PN Vasudevan by setting up Equitas Micro Finance India Private Limited in 2007 as a non-banking financial company (NBFC) engaged in microfinance activities. The group subsequently incorporated Equitas Finance Limited (vehicle financing arm) in 2011 and Equitas Housing Finance Private Limited (housing finance arm) in 2011, and Equitas was formed through the amalgamation of these three entities. Equitas has a demonstrated track record in varied asset classes such as microfinance (MF), vehicle finance (VF), housing loans, and small business loans (SBL). PN Vasudevan, the current Managing Director and CEO of Equitas, has an extensive experience in the financial services sector. He is supported by the entire senior management team, which is from the NBFC or formal financial services sector with significant experience in the retail financing business. ESFB's board comprises 10 directors, of which nine are independent directors.

Comfortable capitalisation levels

The bank's capital adequacy has remained comfortable over the last five years, supported by internal accruals and timely capital infusion.

Owing to advances growth of 23% in FY24, bank's CAR and Tier-1 CAR witnessed moderation to 21.70% and 20.71% as on March 31, 2024 against 23.80% and 23.08% as on March 31, 2023. However, the same remains comfortably above the regulatory requirements (minimum regulatory requirement of 15% and 7.5%). As on September 30, 2024, CAR and Tier-I CAR stood at 19.36% and 18.11%, providing a cushion to raise Tier-II capital. The bank's net worth (excluding deferred tax assets [DTA]) witnessed improvement supported by internal accruals and stood at ₹5,769 crore as on March 31, 2024 against ₹4,971 crore as on March 31, 2023. CARE Ratings Limited (CARE Ratings) expects the CAR levels to remain adequate for the growth over the medium term.

Improving deposit franchise; improvement seen in CD ratio in FY24

The bank's resource profile mainly consists of deposits comprising 92% of total liabilities as on March 31, 2024, against 85% of total liabilities as on March 31, 2023, followed by borrowings in the form of refinance from financial institutions (FIs) and inter-bank participation certification (IBPC).

Total deposits grew by 43% in FY24 and stood at ₹36,129 crore as on March 31, 2024, against ₹25,348 crore as on March 31, 2023. In H1FY25, deposits grew by 10% and stood at ₹39,859 crore as on September 30, 2024.

In terms of granularity of deposits, 65% of the total deposits stood below the ticket size of ₹2.0 crore as on March 31, 2024. The bank's current account savings account (CASA; as a percentage of the total deposits) stood at 32% as on March 31, 2024 against 42% as on March 31, 2023. However, CARE Ratings notes that, CASA in absolute numbers has remained stable, and term deposits (including Certificate of Deposits) witnessed growth of 68% in FY24.

The bank's CD (net advances/deposits) ratio improved to 86% as on March 31, 2024, against 102% as on March 31, 2023 (85% as on September 30, 2024). CARE Ratings expects the bank to maintain the CD ratio at current levels in the near term.

Diversified product profile

The bank's advances book is relatively diversified with its presence across MF, SBL, VF, housing finance (HF), and micro and small enterprise (MSE) finance. SBL and VF continue to comprise the major proportion of ~38% and 24% as on March 31, 2024 against 37% and 25%, respectively, as on March 31, 2023 (41% and 25% as on September 30, 2024). Over the last five years, the bank has been able to reduce the proportion of MF from 26% as on March 31, 2019, to 18% as on March 31, 2024, and remained stable at 16% as on September 30, 2024. The bank has reported an increase in HF, which comprises ~12% of the advances as on March 31, 2024 (PY: 10% as on March 31, 2023) and 12% as on September 30, 2024. Equitas also lends to the MSE and NBFC segments, which comprised ~3% and 2% of the advances, respectively, as on March 31, 2024 (4% and 4%, respectively, as on March 31, 2023). The MSE and NBFC segments stood at 4% and 2%, respectively, each as on September 30, 2024. The portfolio diversification has helped the bank in reducing the concentration risk pertaining to high exposure to a single product. The loan book of Equitas is also skewed towards secured lending, thus lowering the riskiness of the exposure.

The bank's advances witnessed growth of 23% in FY24 (against 35% in FY23). Gross advances stood at ₹34,337 crore as on March 31, 2024 against ₹27,861 crore as on March 31, 2023. With low disbursements in H1FY25, gross advances stood at ₹36,053 crore as on September 30, 2024. CARE Ratings expects the growth in advances continued to be driven by the SBL and HF segments.

Key weaknesses

Regional concentration of loan portfolio

Equitas SFB's advances are geographically concentrated, with Tamil Nadu contributing to 49% of the gross advances as on March 31, 2024 (52% as on March 31, 2023), followed by Maharashtra and Karnataka at 14% and 12%, respectively, as on March 31, 2023 (PY: 14% and 10%, respectively). The top three states and top five states contributed to 76% and 84% of the gross advances as on March 31, 2024, against 76% and 85%, respectively, as on March 31, 2023.

As on September 30, 2024, Tamil Nadu contributed 48% of gross advances followed by Maharashtra and Karnataka at 14% and 13%, respectively. The bank has its presence in 18 states across 964 banking outlets as on March 31, 2024. CARE Ratings expects the advances to remain concentrated in the medium term.

Asset quality witnessed improvement in FY24; however, the same continues to remain moderate due to marginal credit profile of borrowers

The bank primarily lends to the self-employed segment of borrowers, who are vulnerable to income shocks and economic downturns. Bank's asset quality has witnessed slight improvement in FY24. GNPA and NNPA improved and stood at 2.52% and 1.12% as on March 31, 2024, against 2.60% and 1.14% as on March 31, 2023. The improvement is due to reduced slippages and write-off aggregating to ₹232 crore in FY24. Slippage ratio has reduced to 4.2% in FY24 (PY: 5.5%). GNPA and NNPA moderated and stood at 2.95% and 0.97% as on September 30, 2024. Bank has made additional provisions aggregating ₹326 crore, on account of stress in the MFI sector and with objective to reduce NNPA below 1% to meet the criteria laid out by meet the criteria set out by RBI for SFBs to get Universal Bank license with respect to maintain GNPA and NNPA of less than 3% and 1%, respectively, in the last two years. This also resulted in increase in PCR to 67% as on September 30, 2024 from levels of 56% as on March 31, 2024. CARE Ratings notes that the NPAs are elevated in the MFI segment and MSE Segment. GNPA in MFI segment and MSE segment stood at 4.83% and 9.35%, respectively as on September 30, 2024 against 4.02% and 7.10%, respectively, as on March 31, 2024.

The bank sold its NPA book (including NPA and technical written-off book) to an asset reconstruction company aggregating to ₹581 crore in FY23 and ₹162 crore in FY24. The net book value of the Security Receipts (SR) stood at ₹9 crore as on March 31,

2024. The gross stressed assets (GNPA + standard restructured advances + SR) reduced and stood at 2.87% as on March 31, 2024, against 2.95% as on March 31, 2023 (3.27% as on September 30, 2024). The net stressed assets/net worth stood at 6.65% as on March 31, 2024, against 7.33% as on March 31, 2023 (5.83% as on September 30, 2024). The ability of the bank to control the slippages going forward remains a key rating sensitivity.

Profitability witnessed improvement in FY24; however, witnessed moderation in H1FY25

In FY24, the bank's total income witnessed a growth of 30% to ₹6,285 crore (FY23: ₹4,831 crore), aided by a healthy increase in the interest income by 32% and non-interest income by 19%, aided by a pickup in disbursements and profit from sale of investments. The bank's net interest margin (NIM) moderated to 7.71% in FY24 from 8.27% in FY23, due to increase in the cost of funds. Its operational expenses/average total assets continue to remain high at 6.26% in FY24 against 6.63% in FY23. The bank's pre-provisioning operating profit (PPOP) improved by 17% to ₹1,377 crore in FY23 from ₹1,176 crore in FY23. With a reduction in credit cost to 0.79% in FY24 from 1.32% in FY23, the bank reported an improvement in profitability with a profit-after-tax (PAT) of ₹799 crore in FY24 against a PAT of ₹574 crore in FY24. Thus, the ROTA improved to 2.00% in FY24 from 1.87% in FY23.

In H1FY25, the bank reported PAT of ₹39 crore against PAT of ₹389 crore in H1FY24. NIM moderated with increase in cost of funds, Opex witnessed improvement to 5.81% in H1FY25 against 6.51% in H1FY24. Bank has made additional provisioning in H1FY25, thus resulting in increase in credit cost of 2.71% in H1FY25 against 0.66% in H1FY24. Bank has made additional provisions aggregating ₹326 crore in H1FY25 on account of stress in the microfinance sector in addition to the objective to reduce NNPA below 1% to meet the criteria laid out by meet the criteria set out by RBI for SFBs to get Universal Bank license with respect to maintain GNPA and NNPA of less than 3% and 1%, respectively, in the last two years. Thus, bank reported reduction in ROTA to 0.16% in H1FY25 against 2.08% in H1FY24. The bank's ability to control cost and improve profitability level remains critical.

Liquidity: Adequate

As per the bank's structural liquidity statement as on September 30, 2024, the bank has no negative cumulative mismatches upto one year. Equitas' liquidity coverage ratio remained comfortable at 159% as on September 30, 2024, against the minimum regulatory requirement of 100%. In addition, the bank consistently maintains excess statutory liquidity ratio (SLR) investments, which provide a cushion to the bank's liquidity profile. Equitas had excess SLR investments of ₹1,490 crore as on September 30, 2024, aggregating 3.78%. The bank has access to systemic liquidity by way of RBI's LAF and MSF schemes.

Environment, social, and governance (ESG) risks

ESFB has focused on serving the vast underbanked and unbanked population of the country.

The bank deals with borrowers who are mostly from the economically weaker sections of the society with poor linkages to the mainstream financial markets. The Bank's policies and processes have been fine-tuned to ensure utmost clarity and fairness while dealing with such clients. Given the nature of the bank's activities, it does not have a significant carbon footprint. However, the bank strives to reduce the environmental impact by reducing paper usage through digitalisation, tech-led innovations, recycling and reusing electronic equipment and using recycled paper, eco-friendly pads and pencils, among others.

The bank has introduced the 'Pragati Card,' a QR code-based payment inquiry solution for microfinance customers, replacing traditional sticker collections and serving as a digital passbook. Bank is actively promoting paper-free banking practices among account holders, including options such as e-mail statements, internet banking, mobile banking, e-wallets, and electronic toll collection. The bank is also implementing the Loan Origination System Hetra, issuing virtual debit cards for half-KYC customers, and introducing green pin technology for debit cards. The bank fosters a culture of continuous learning and improvement.

Bank's people philosophy is based on Employee Care and Employee Connect, aiming to attract, develop, and retain top talent and empower them with the requisite knowledge and skills to stay ahead of the curve.

Applicable criteria

[Definition of Default](#)
[Issuer Rating](#)
[Rating Outlook and Rating Watch](#)
[Bank](#)
[Financial Ratios - Financial Sector](#)
[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Other bank

ESFB is a Chennai-headquartered SFB, which commenced its banking operations on September 05, 2016. Post its initial public offering (IPO) in October 2020, the bank was listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The bank completed the amalgamation process of Equitas Holdings Limited with Equitas in February 2023.

ESFB is currently focussed on the retail banking business with focus on MF, VF, HF, business loans, loan-against-property (LAP), and providing financing solutions for individuals and MSEs that are underserved by formal financing channels while providing a comprehensive banking and digital platform for all. As on September 30, 2024, the bank had a network of 987 banking outlets, with deposits of ₹39,859 crore and gross advances of ₹36,053 crore.

Brief Financials (₹ crore) (Standalone)	March 31, 2023(A)	March 31, 2024(A)	September 30, 2024(UA)
Total operating income	4,831	6,285	3,503
PAT	574	799	39
Total assets*	34,771	45,104	48,634
Net NPA (%)	1.14	1.12	0.97
ROTA (%)	1.87	2.00	0.16

A: Audited UA: Unaudited. Note: These are the latest financial results available.
As per CARE Ratings' calculations.
*Excluding DTA

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Lower Tier-II bonds (Basel II)	INE063P08112	05-12-2024	9.60%	05-12-2030	500.00	CARE AA-; Stable
Certificate Of Deposit	-	-	-	-	1500.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AA-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debt-Subordinate Debt	LT	-	-	-	-	-	1)Withdrawn (09-Aug-21)
2	Certificate Of Deposit	ST	1500.00	CARE A1+	1)CARE A1+ (26-Sep-24)	1)CARE A1+ (17-Jan-24) 2)CARE A1+ (18-Jul-23)	-	-
3	Issuer Rating-Issuer Ratings	LT	0.00	CARE AA-; Stable	1)CARE AA-; Stable (26-Sep-24)	1)CARE AA-; Stable (17-Jan-24)	-	-
4	Bonds-Lower Tier II	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (26-Sep-24)	-	-	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Lower Tier II	Simple
2	Certificate Of Deposit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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