Equitas Small Finance Bank Limited

July 07, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	609.82 (reduced from 1,000)	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Sub-total	**609.82 (Rupees Six Hundred Nine crore and Eighty Two lakh only)**		
Non-Convertible Debenture Issue I (EFL)	50.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures Issue II (EFL)	19.33 (reduced from 58.00)	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures Issue III (EFL)	500.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures Issue IV (EFL)	750.00 (reduced from 850.00)	CARE A+; Stable [Single A Plus; Outlook: Stable]]	Reaffirmed
Non-Convertible Debenture Issue I (EMFL)	60.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue V (EMFL)	75.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Sub total	**1,454.33 (Rupees One Thousand Four Hundred Fifty Four crore and Thirty Three lakh only)**		
Subordinate Debt (EMFL)	30.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Long-term Bank Facilities	-	-	Withdrawn
Non-Convertible Debentures Issue II (EMFL)	-	-	Withdrawn
Non-Convertible Debenture Issue III (EMFL)	-	-	Withdrawn
Non-Convertible Debenture Issue IV (EMFL)	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Equitas Microfinance Limited (EMFL) along with Equitas Housing Finance Limited (EHFL) were amalgamated with Equitas Finance Limited (EFL). Subsequently, EFL was converted into Equitas Small Finance Bank Limited (ESFB). Hence, CARE has taken a combined view of EMFL, EHFL and EFL (collectively referred as Equitas Holdings Limited) while arriving at the ratings of ESFB.

The reaffirmation in the ratings assigned to the long-term bank facilities and debt instruments of ESFB factors in the fresh capital infusion in EMFL & EFL and the improvement in the business risk profile arising from product/portfolio diversification on account of merger of the three entities. The ratings also factor in the experience of the founder and senior management team, demonstrated equity raising ability of the Equitas group and comfortable capital adequacy levels. The ratings also take note of transition from NBFC to a Small Finance Bank (SFB).

The ratings are constrained by the moderation in profitability and asset quality levels, geographically concentrated portfolio and low seasoning of portfolio originated in the new business segments. Going forward, the ability of the company to diversify its portfolio across geographies and products, improve asset quality and profitability in all segments and effectively manage transition from NBFC to SFB will be the key rating sensitivities.

[1]*Complete definition of the ratings assigned are available at www.careratings.com*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management team

Mr P N Vasudevan, is the Managing Director and CEO of ESFB. He is also the founder of the Equitas group and has vast experience in the NBFC sector. He has extensive experience in the financial services sector and had served as the Head – Consumer Banking Group in Development Credit Bank Limited, for more than one and half year. The board of ESFB comprises 11 directors of which 8 are Independent directors. The entire senior management team is from NBFC/formal financial services sector with significant experience in the vehicle and retail financing business.

Comfortable capital adequacy and liquidity profile

CAR and Tier 1 CAR stood comfortable at 35.51% and 32.30% as on March 31, 2017 on account of mobilisation of fresh equity through IPO. During April 2016, EHL has successfully completed the IPO and raised Rs.2,177 crore which includes fresh equity of Rs.720 crore. As on March 31, 2017, the company had cash and bank balance of Rs.1,114 crore. Investments stood at Rs.1,887 crore as on March 31, 2017.

Diversified product profile

ESFB provides varied loan products such as microfinance loans, vehicle loans, LAP, Housing loans, Business loans, SME loans and Gold loans. The share of microfinance loans has decreased from 54% of the total AUM as on March 31, 2016, to 46% as on March 31, 2017, as the company slowed down MFI disbursements significantly post demonetisation. The share of vehicle loans has increased from 25% as on March 31, 2016, to 27% as on March 31, 2017. Also, the share of SME&LAP has increased from 18% as on March 31, 2016 to 22% as on March 31, 2017.

Growth in the loan portfolio during FY17; however, decline in profitability seen

AUM grew by 16% from Rs.6,126 crore as on March 31, 2016 to Rs.7,110 crore as on March 31, 2017. However, Disbursements have marginally decreased from Rs.5,194 crore in FY16 (refers to the period April 1 to March 31) to Rs.5,144 crore in FY17 mainly due to lower disbursements in MFI segments post demonetisation. It is to be noted that interest income of non-MFI business for entire FY and MFI business for 7 months are accounted in SFB as MFI portfolio was transferred to the books of SFB effective from September 02, 2016. Hence yields, cost of funds, NIM and ROTA at holding company level considered for comparison and presented in the para below.

Interest yield has decreased from 22.18% in FY16 to 19.49% in FY17 on comparable basis primarily on account of reduction in microfinance portfolio, increase in NPA levels and diversification into secured asset classes like vehicle finance, housing finance, business loans and LAP where the yields are relatively lesser than microfinance. NIM decreased from 9.29% in FY16 to 8.50% in FY17 on account of moderation in yield because of increased concentration in secured asset classes. ROTA also decreased from 3.06% in FY16 to 2.02% in FY17 due to lower NIM and higher operating expenses.

Resource profile

During FY17, ESFB mobilised deposits to the tune of Rs.1,921 crore. Of the total deposits, CASA proportion stood at 17.26% and term deposits constitute 82.74% as on March 31, 2017. Of the total liabilities, Tangible networth constitute 21%, borrowings constitute 52%, deposits constitute 21% and the remaining is constituted by current liabilities (6%). With the conversion into SFB, apart from mobilizing deposits, ESFB has various funding options available in the form of money market borrowings, bank lines of credit, certificate of deposits, etc.

Key Rating Weaknesses

Moderation in asset quality

ESFB follows 90+ DPD basis for recognition of NPAs. GNPA and NNPA has increased from 1.34% and 0.95% as on March 31, 2016 (30+ DPD for EMFL & 150+ DPD for EFL) to 3.62% and 1.84% as on March 31, 2017 (90+ DPD). The moderation is both on account of transition to 90+dpd and due to the impact of demonetisation across the microfinance industry. With more than 60% of ESFB's portfolio being in Tamil Nadu, where the asset quality of microfinance loans was relatively stable than other geographies, the impact of demonetisation was relatively lesser for ESFB. NNPA to networth stood at 5.33% as on March 31, 2017, as against 3.21% as on March 31, 2016.

Geographically concentrated loan portfolio

ESFB has presence in 13 states spread across 284 liability branches and 611 asset branches as on March 31, 2017. At the combined level, the loan portfolio is concentrated towards TN and Maharashtra which constitutes around 60% and 14% of AUM as on March 31, 2017. Top 3 states accounts for 81% of the total AUM as on March 31, 2017 (PY: 80%).

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Financial sector](#)
[Bank - CARE's Rating Methodology For Banks](#)

About the Company
Equitas Small Finance Bank Limited (ESFB) is a Chennai-based SFB which has commenced its operations on September 05, 2016. ESFB was formed through amalgamation of three of the Equitas group entities. Equitas Holdings Ltd (EHL) is the holding company of ESFB. As on March 31, 2017, 100% stake in ESFB is held by EHL which is listed in NSE and BSE.

RBI has granted the final license to start SFB operations. One of the conditions that were stipulated by RBI is merger of three of Equitas Holdings Limited's (EHL) subsidiaries, namely, Equitas Micro Finance Limited (EMFL) and Equitas Housing Finance Limited (EHFL) with Equitas Finance Limited (EFL). The Madras High Court had approved the amalgamation of EMFL and EHFL with EFL. On amalgamation coming into effect, Equitas Finance Limited was renamed as Equitas Small Finance Bank on the same day.

ESFB is currently engaged in retail banking business with focus on micro-finance, vehicle finance, housing finance, business loans and loan against property (LAP) and providing financing solutions for individuals and micro and small enterprises (MSEs) that are underserved by formal financing channels while providing a comprehensive banking and digital platform for all. As on March 31, 2017, the company had a network of 284 liability branches and 611 asset branches, with deposits of Rs.1,921 crore and advances of Rs.5,702 crore.

During FY17, EHL reported PAT of Rs.159 crore on a total income of Rs.1,557 crore as against PAT of Rs.167 crore on a total income of Rs.1,115 crore in FY16.

Status of non-cooperation with previous CRA: *Not Applicable*

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr Sudhakar P
Tel: 044-2849 7812
Mobile: 9442228580
Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long-term	-	-	-	-	Withdrawn
Fund-based-Long-term	-	-	Jun 2019	609.82	CARE A+; Stable
Debentures-Non Convertible Debentures I (EMFL)	Aug 2014	12.67	May 2019	60.00	CARE A+; Stable
Debentures-Non Convertible Debentures II (EMFL)	-	-	-	-	Withdrawn
Debt-Subordinate Debt (EMFL)	Sep 2015	13.80	Sep 2022	30.00	CARE A+; Stable
Debentures-Non Convertible Debentures III (EMFL)	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures IV (EMFL)	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures V (EMFL)	Aug 2015	12.13	Jun 2018	75.00	CARE A+; Stable
Debentures-Non Convertible Debentures III (EFL)	Aug 2016	10.15	Sep 2019	500.00	CARE A+; Stable
Debentures-Non Convertible Debentures IV (EFL)	Aug 2016	10.15	Sep 2019	750.00	CARE A+; Stable
Debentures-Non Convertible Debentures I (EFL)	Jun 2013	12.70	Jun 2019	50.00	CARE A+; Stable
Debentures-Non Convertible Debentures II (EFL)	Nov 2013	12.00	Nov 2017	19.33	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A- (11-Aug-15)	1)CARE A- (02-Dec-14) 2)CARE BBB+ (04-Jul-14)

CARE Ratings
Professional Risk Opinion

2.	Debentures-Non Convertible Debentures	LT	19.33	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A- (11-Aug-15)	1)CARE A- (02-Dec-14) 2)CARE BBB+ (04-Jul-14)
3.	Fund-based-Long-term	LT	600.00	Withdrawn	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A- (11-Aug-15) 2)CARE A- (22-Apr-15)	1)CARE A- (02-Dec-14) 2)CARE BBB+ (04-Jul-14)
4.	Fund-based-Long-term	LT	609.82	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A (10-Mar-16) 2)CARE A (24-Jul-15)	1)CARE A (02-Feb-15) 2)CARE A- (10-Jun-14)
5.	Debentures-Non Convertible Debentures	LT	60.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A (24-Jul-15)	1)CARE A (02-Feb-15) 2)CARE A- (10-Jun-14)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A (24-Jul-15)	1)CARE A (13-Mar-15)
7.	Debt-Subordinate Debt	LT	30.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A- (24-Jul-15) 2)CARE A- (02-Apr-15)	-
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A (24-Jul-15) 2)CARE A (28-May-15)	-
9.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A (24-Jul-15) 2)CARE A (15-Jun-15)	-
10.	Debentures-Non Convertible Debentures	LT	75.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (21-Jul-16)	1)CARE A (01-Sep-15)	-
11.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+	-	-

						(12-Aug-16)		
12.	Debentures-Non Convertible Debentures	LT	750.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-16) 2)CARE A+ (06-Sep-16) 3)CARE A+ (24-Aug-16)	-	-
13.	Fund-based - LT-Term Loan	-	-	-	-	1)CARE A+; Stable (14-Dec-16)	-	-
14.	Debentures-Non Convertible Debentures	-	-	-	-	1)CARE A+; Stable (14-Dec-16)	-	-
15.	Debentures-Non Convertible Debentures	-	-	-	-	1)CARE A+; Stable (14-Dec-16)	-	-
16.	Debentures-Non Convertible Debentures	-	-	-	-	1)CARE A+; Stable (14-Dec-16)	-	-
17.	Debentures-Non Convertible Debentures	-	-	-	-	1)CARE A+; Stable (14-Dec-16)	-	-
18.	Debt-Subordinate Debt	-	-	-	-	1)CARE A+; Stable (14-Dec-16)	-	-
19.	Debentures-Non Convertible Debentures	-	-	-	-	1)CARE A+; Stable (14-Dec-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691