

Promoted by Equitas Holdings Limited (“EHL”), Equitas Small Finance Bank (“ESFB”) was incorporated on June 21, 1993. The Bank, seeking in-principle approval from RBI to undertake a merger of EHL with the Bank, such that the merger would be effective from September 4, 2021 and seeking in-principle approval to permit the dilution of EHL’s shareholding in the Bank pursuant to such merger.

ESFB is the largest SFB in India in terms of number of banking outlets, and the 2nd largest SFB in India in terms of Assets under Management (“AUM”) and total deposits in Fiscal 2019. (Source: CRISIL Report). **ESFB has been able to successfully diversify their loan portfolio and significantly reduce their dependence on the microfinance business as compared to other microfinance companies that have converted to SFBs.**

Their asset products include small business loans, housing loans, and agriculture loans, Vehicle Loan, MSE Loan etc.

OFFER STRUCTURE

Particulars		IPO Details	Indicative Timetable	
Fresh Issue		INR 280 cr	Offer Closing Date	22 nd October 2020
No. of shares (#)		8.49 – 8.75 Cr	Finalisation of Basis of Allotment with Stock Exchange	27 th October 2020
Offer For Sale Shares up to (#)		7.2 cr	Initiation of Refunds/ unblocking of funds from ASBA Account	28 th October 2020
Price band		INR 32-33	Credit of Equity Shares to Demat accounts	29 th October 2020
Face Value		INR 10	Commencement of Trading of Eq.shares on stock exchanges	2 nd November 2020

Issue break-up	% of shares	Book Running Lead Managers (BRLMs)		Registrar to the issue
QIB	50%	JM Financial Limited		KFin Technologies Private Limited
Non- Institutional	15%	Edelweiss Financial Services Limited		
Retail	35%	IIFL Securities Limited		

Brief Financial Details*

(₹ In Cr)

	As at Jun’ 30,		As at Mar’ 31,		
	2020	2019	2020	2019	2018
Equity Share Capital	1,053.40	1,005.94	1,053.40	1,005.94	1,005.94
Reserves#	1,735.14	1,292.16	1,677.47	1,235.10	1,024.53
Net worth	2,788.54	2,298.10	2,730.87	2,241.04	2,030.47
Deposits as stated	11,787.13	9,133.42	10,788.41	9,006.74	5,603.97
Deposits Growth (%)	29.05%	-	19.78%	60.72%	-
Advances as stated	14,388.62	12,023.30	13,747.24	11,593.57	7,706.03
Advances Growth (%)	19.67%	-	18.58%	50.45%	-
Interest Earned	721.31	603.39	2,645.44	2,111.93	1,531.69
Interest Earned Growth (%)	19.54%	-	25.26%	37.88%	-
EBITDA	93.13	111.79	447.39	415.52	136.02
EBITDA (%)	12.91%	18.53%	16.91%	19.67%	8.88%
Profit Before Tax	73.68	88.75	350.94	323.74	48.51
Net Profit for the year	57.67	57.06	243.64	210.57	31.83
Net Profit as % to revenue	8.00%	9.46%	9.21%	9.97%	2.08%
Net Interest Margin	2.16%	2.22%	9.11%	8.55%	9.02%
Gross NPAs	416.67	334.30	417.32	295.71	212.53
Net NPAs	213.37	187.21	228.63	167.43	112.51
EPS (₹) as stated~	0.55	0.57	2.39	2.09	0.32
RoNW (%) as stated	2.07%^	2.48%	8.92%	9.40%	1.57%
Net Asset Value (₹)	26.47	22.85	25.92	22.28	20.18

Source: RHP *Restated Summary Statement, Ratios calculated for 30th June 2020 & 30th June 2019 is not annualised. #Reserves are net of Capital Reserve

Objects of issue – Equitas Small Finance Bank IPO

In terms of the RBI in-principle approval, RBI final approval and SFB licensing guidelines, the bank is required to list its equity shares on the stock exchanges within three years from the date of commencement of business by the bank. Here are the objects of the IPO issue.

(i) Offer for sale – The promoter selling shareholder shall be entitled to the proceeds from the offer for sale. Bank will not receive any proceeds from the offer for sale.

(ii) Bank proposes to utilize the Net Proceeds from its offer towards augmenting Bank's Tier I capital base to meet Bank's future capital requirements.

Who are the company promoters?

Equitas Holdings Limited is the promoter of the company.

Key strengths of Equitas Small Finance Bank Limited?

Every investor should understand the company's key strengths so that one can compare with its competitors to know how unique is such company in their business. Their investment decision would change based on these facts. Here are the key strengths of the company.

- 1) Customer centric organization with a deep understanding of the unserved and underserved customer segments.
- 2) Among the largest SFBs in India with a well-diversified asset portfolio.
- 3) Strong retail liability portfolio with a strategic distribution network.
- 4) Customized credit assessment procedures for effective credit risk management.
- 5) Technology as an enabler to drive operating procedures.
- 6) Professional management, experienced leadership and trained employee base.

Reasons to invest in this IPO

Here are a few reasons to invest.

- 1) Equitas Small Finance Bank is among the largest SFBs in India with a well-diversified asset portfolio. It has a strong retail liability portfolio with a strategic distribution network.
- 2) Company has posted strong revenue growth in the last 3 years. Its revenues grew from Rs 1,772 Crores in FY2018 Vs Rs 2,927 Crores in FY2020.
- 3) It is generating consistent margins in the last 3 years.

Risk Factors of investing in this IPO

These risk factors can impact company revenue and margins which would affect its share price. Investors should go through these points and understand them before investing.

- 1) Current Covid-19 crisis is unpredictable and could have significant impact on this banking business. Loan defaults / NPAs can increase.

2) These banks are subject to stringent RBI regulatory requirements and prudential norms and inability to comply with such laws, regulations and norms may have an adverse effect its business, results of operations, financial condition and cash flows.

3) Bank has not complied with paragraph 6 of the Small Finance Bank Licensing Guidelines. In the event of any continued non compliance, they may be subject to various sanctions and penalties by the RBI and its business, financial condition, results of operations and cash flows could be adversely impacted.

4) Bank business is vulnerable to interest rate risk, and any volatility in interest rates or inability to manage interest rate risk could adversely affect its net interest margins, income from treasury operations, business, financial condition, results of operations and cash flows.

5) This bank has limited operating history as Small Finance Bank and its future financial and operational performance cannot be evaluated on account of its evolving and growing scale of operations.

6) There is stiff competition in small business loans, microfinance and vehicle finance. Any adverse developments in such segments could adversely affect its business and results of operations.

7) Bank promoter is required to reduce its shareholding in the Bank to 40% of its paid-up equity share capital on or prior to September 4, 2021. Except for the Offer for Sale, as of the date of this Red Herring Prospectus, promoter has not approved any specific method to achieve such compliance. However, if and when any method is proposed to be undertaken, bank cannot assure that any required consent, approval, waiver or clarification will be received in a timely manner, or at all, to enable its promoter to reduce its shareholding as required.

8) Bank advances are majorly for customers located in Tamil Nadu and any adverse changes in the conditions affecting the region can adversely impact its business, financial condition, results of operations and cash flows.

9) Its micro finance loan portfolio and unsecured business loans portfolio are not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, they may be unable to collect the unpaid balance.

10) If the bank is not able to control the level of non-performing assets in its portfolio or if there is an increase in RBI mandated provisioning requirements, it could adversely affect its business, financial conditions, results of operations and cash flows.

11) For complete internal and external risk factors, you can refer the RHP of the company.

Our View: Equitas Small Finance Bank IPO

Equitas Small Finance Bank is one of the largest small finance banks in India with diversified asset portfolio. It is generating strong revenue and margin growth in the last 3 years. Its issue share price is also reasonably priced. Investors can invest in this IPO with a 3-5 years time frame. We expect small to nil listing gains.