

Company Background

Equitas Holdings Limited (EHL) operates with two wholly owned subsidiaries. Equitas Small Finance Bank Limited (ESFBL), which has pan India operations and is focused on providing financing solutions for individuals and micro and small enterprises (MSEs). Equitas Technologies Private Limited (ETPL) offers a common platform for transporters and customers to connect online and carry out transactions on real-time basis.

Revival in AUM growth visible-to be driven by new product offerings

ESFB witnessed strong AUM growth of 41% YoY in Q3FY19, which was significantly higher than that witnessed in the preceding two quarters standing at 36% and 27% respectively. Within the overall AUM, the growth in the MFI space, which has remained recessed on account of asset quality woes grew by 20% YoY compared to 2% in the preceding quarter. The overall disbursement growth also remains robust growing 43% YoY, with MFI disbursements up ~70% YoY. Although the MFI segment has been recovering at a steady pace, the share of this segment in the overall AUM stood at 27%, still considerably lower than pre demonetization levels of 50%. Given the trend of increasing traction, we expect the overall AUM to grow at ~30-35% over the next 2-3 years. This would be primarily contributed by a ramp in the company's new product offerings like Housing and AGRI and expect the contribution from MFI to remain at ~30%.

Strengthening liability franchise to help in securing low cost funds and boost NIMs

The company's total deposits stood at INR 66.18 Bn as of Q3FY19 growing at 79 % YoY. The CASA deposits were INR 20.16 Bn for the period growing at 67% YoY. The management has stated that the focus of the bank would be on growing the low cost deposit base with an emphasis on granular CASA balance, while not being competitive on bulk accounts. ESFB is also keen on growing the retail TD base, with the proportion of retail TD at 39% and the CASA + Retail TD at ~58% for Q3FY19. We remain confident on the company's ability in meeting its objective of building a granular low cost liability franchise, which would further help in improving the overall NIM profile going ahead. The NIM was 8.9% for the period, with finance costs that were lower 7% QoQ.

Proposal of subsidiary listing removes overhang and provides clarity

The company's Board of Directors on 1st February approved a composite scheme of arrangement with ESFBL for the issuance and allotment of 89.21 crore equity shares by ESFBL for no-cash consideration to the shareholders of EHL. This would be done by utilizing the share premium and reserves available as of FY18, helping to list the Bank shares, as well as in bringing down EHL's holding in the Bank down to 53% from the current level of 100% and subsequently to 40% as stipulated by the RBI's deadline of September 2021.

Valuation and Outlook

AUM growth witnessed strong traction in Q3FY19-led by a revival in the MFI portfolio (trend of lowering mix in overall AUM) and majorly contributed by new product launches, which we feel would ramp up going ahead making us believe that ~30-35% AUM can be achieved over the next 2-3 years. Asset quality has also been showing constant signs of improvement, which we feel still has a scope to improve further leading to GNPLs of ~3% by FY21. The company has been focusing on strengthening its low cost liability franchise with an emphasis on CASA as well as retail TD which would help in improving NIMs going ahead. We also expect the cost to income ratio to inch towards ~55% by FY21 on account of operating leverage benefit. The stock currently trades at 1.4x FY20 P/B and we assign a target price of INR 140 (1.7x FY20 P/B). We believe Equitas Bank post demerger can trade at much higher valuation due to strong growth, stable asset quality and operational leverage post branch conversion.

Key Financials

YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	8,382	9,255	11,569	16,081	21,066
Growth %	42.2%	10.4%	25.0%	39.0%	31.0%
Pre-Provisioning Profits	3,655	2,231	4,462	8,032	11,646
Growth%	14.5%	(39.0%)	100.0%	80.0%	45.0%
Net Profit	1,594	314	1,994	3,390	4,474
Growth %	(4.6%)	(80.3%)	535.0%	70.0%	32.0%
EPS	4.7	0.9	5.8	9.9	13.1
Growth %	(4.6%)	(80.3%)	535.0%	70.0%	32.0%

Key Ratios

NIM (%)	9.4%	8.1%	8.3%	8.5%	8.5%
ROA (%)	1.8%	0.3%	1.2%	1.5%	1.7%
RoE (%)	7.1%	1.4%	8.1%	12.0%	13.7%
BV per Share (Rs.)	65.4	66.7	72.5	82.5	95.6

Valuation Ratios

P/E (x)	24.0x	122.1x	19.2x	11.3x	8.6x
P/BV (x)	1.7x	1.7x	1.5x	1.4x	1.2x

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	111
Target Price (Rs)	140
BSE code	539844
NSE Symbol	EQUITAS
Bloomberg	EQUITAS IN
Reuters	EQHL.BO

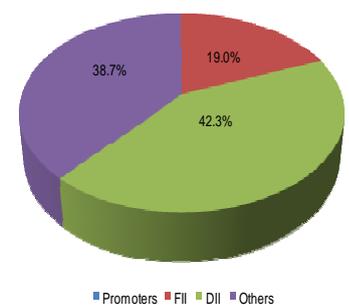
Key Data

Nifty	10,831
52WeekH/L(Rs)	173/78
O/s Shares (Mn)	341
Market Cap (Rs bn)	38.2
Face Value (Rs)	10

Average volume

3 months	28,08,360
6 months	39,84,680
1 year	29,49,750

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Nishar Poojara (nisharpoojara@bpwealth.com)

022-61596407/022-61596408

Company Background

Punjab National Bank (PNB) is one of the oldest banks with a branch network of 7,000 spanning the entire country. The Bank's branches remain biased towards rural (40%), with the remainder remaining balanced across semi urban, urban & metro centers catering to diverse customer base through a spectrum of services

Improving asset quality contributed by lower slippages and higher recoveries indicative of trending towards normalization.

PNB's asset quality has been consistently improving with GNPA and NNPA trending downwards standing at 16.3% & 8.2% as of Q3FY19, with the improvement being visible sequentially through FY18 onwards. The overall stressed asset portfolio at 16.8% has also been depicting a similar trend over the same time frame. Slippages too were lower at 3% of loans and the PCR at 68.5% has been increasing constantly, lending further comfort. Recovery in Q3FY19 was INR 29.7 Bn and we expect the asset quality to receive a fillip from the NCLT cases to witness a higher level of resolution in the near to medium term. Further, the bank has also fully provided INR 20 Bn for the gems and jewelry sector abating any further fears. Three rounds of capital infusions by the GOI has essentially helped the bank cover up for the fraud. The company also plans to monetize another ~INR 10 Bn through sale of non core assets.

Stake sale in subsidiaries to be value accretive

Over the years, PNB Housing has emerged as one of the leading housing finance firms in the country with an AUM of ~623 Bn and GNPA of 0.25% as FY18. The company has 84 branches spread across the north, south and west with a mortgage portfolio of 70%. The bank plans to sell 22% for ~INR 35 bn, while retaining a 10.7% stake, as per media reports. PNB holds a 30% stake in PNB Metlife India Insurance and plans to offload 4% in the IPO slated this year. We feel that the bank's move to monetize a part of its subsidiary holdings would help in infusing additional funds, thus supporting its capital, while also leaving an upside.

Improving operating metrics

PNB's NII grew by 7.6% YoY and the company reported a drop in provisions to the tune of 29%, providing some comfort, although operating profit was still down 27% due to massive fall in other income for Q3FY19. We expect loan growth to remain muted over the next 2-3 years in low single digits. However, what seems encouraging is the growth in retail advances at 15% YoY, with the share of retail advances in AUM touching 20% compared to 16.5% over the same period last year. Within retail, housing remains the highest growing segment, which we feel would continue to growing owing to the recent crisis turning a more favorable situation for larger players with a decent liability franchise.

Valuation and Outlook

Improving asset quality that is being helped by lower slippages and higher recoveries is indicative of easing trending towards normalization. The bank has also fully provided INR 20 Bn for the gems and jewelry sector abating any further fears. Despite the bank being embroiled in a major fraud, the deposit profile has remained largely unchanged or even improved marginally. We believe that credit costs would improve going ahead and expect the ROEs to recover in the medium term. The potential stake sales in subsidiaries would be accretive, keeping us upbeat. We are valuing PNB on SOTP basis. We assign a BUY rating with target price of INR 100 implying 1.2x FY20 P/B for core banking business and INR 24 per share value for value unlocking. (PNB housing & MetLife stake) and arrive at price target of INR 124 per share for the bank.

Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	149,932	149,224	174,592	178,957	187,905
Growth %	(2.1%)	(0.5%)	17.0%	2.5%	5.0%
Pre-Provisioning Profits	140,785	82,670	114,085	127,775	133,525
Growth%	28.1%	NA	38.0%	12.0%	4.5%
Net Profit	13,248	(122,828)	(54,044)	48,640	56,909
Growth %	NA	NA	NA	NA	17.0%
EPS	3.5	(32.3)	(14.2)	12.8	15.0
Growth %	NA	NA	NA	NA	17.0%

Key Ratios					
NIM (%)	2.7%	2.4%	2.6%	2.7%	2.9%
ROA (%)	0.2%	-1.7%	-0.7%	0.6%	0.7%
RoE (%)	3.2%	-29.9%	-15%	11.2%	11.5%
BV per Share (Rs.)	110.1	108.0	51.7	82.9	103.2

Valuation Ratios					
P/E (x)	20.5x	-2.2x	-5.0x	5.6x	4.8x
P/BV (x)	0.6x	0.7x	1.4x	0.9x	0.7x

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	71
Target Price (Rs)	124
BSE code	532461
NSE Symbol	PNB
Bloomberg	PNB IN
Reuters	PNBK.BO

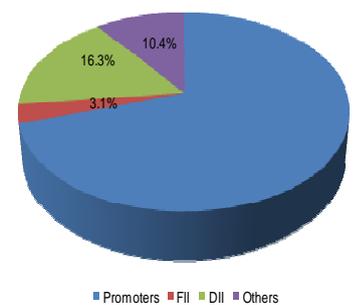
Key Data

Nifty	10,888
52WeekH/L(Rs)	163/58
O/s Shares (Mn)	3801
Market Cap (Rs bn)	271.2
Face Value (Rs)	2

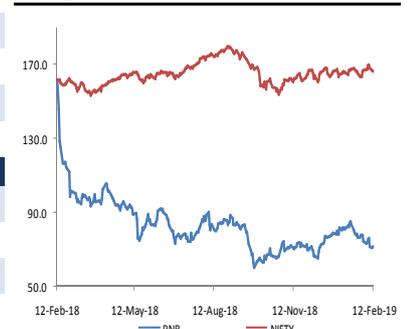
Average volume

3 months	2,28,59,280
6 months	2,81,03,440
1 year	3,45,94,980

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Nishar Poojara (nisharpoojara@bpwealth.com)

022-61596407/022-61596408

Company Background

CanFin Homes Ltd set up in 1987, has evolved into one of the top players in the housing finance sector. The company has 154 Branches, 21 Affordable Housing Loan Centers (AHLCS) & 14 Satellite offices spread across various locations of the country. The company offers a range of loan products- housing loans as well as non-housing loans and is predominantly retail focused.

Stable operating performance despite a challenging environment imputes confidence

For Q3FY19, the company was able to report consistent NIMs at 3.2% on a QoQ basis with a slight improvement in NII growing at 7% YoY. This was commendable as Can Fin was able to hold up in an adverse liquidity environment when many of the company's peers were struggling to stay afloat due to lack of liquidity and subsequently constraining their ability to lend- marginal cost of borrowings at 8% in Q3FY19 compared to 7.9% in the preceding quarter. We feel that the company's parentage coupled with strong balance sheet and financials would continue to support operations, specially in such situations. Profitability also remains intact with ROA of 1.9% and ROE of 21.4% for the period and expect the company to maintain profitability going ahead by calibrating growth and focusing in select regions to prevent margin compression.

Focus on Non-metros to drive growth while granular retail focused portfolio provides safety

In the light of intensifying competition from banks and NBFCs specially in the metros and Tier -1 cities the company has been growing its presence in tier 2 and lower markets to strengthen and establish its foothold. Can Fin plans to open 30 branches in non metros clustered around Karnataka and Tamil Nadu and its branch network remains heavily skewed towards non metros with 109 branches and 66 branches in metros as of Q3FY19. Since the portfolio comprises majorly of salaried individuals with small ticket sizes we expect the asset quality to remain stable and not spew any negative surprises going ahead.

Valuation and Outlook

A trend of stabilizing NIMs witnessed sequentially (in 2Q & 3QFY19) and favorable competitive positioning accorded post the turmoil in the housing finance space make us believe that NIMs for the company would further improve due to the strong parentage. This phenomenon would also lead to an uptick in the AUM growth as many of its peers are unable to lend. Additionally, the company predominantly has had a retail focused portfolio which provides comfort against the backdrop of many NBFCs having a sizeable amount of developer loans (deemed risky). The recently announced budget also augurs well for housing, helping to propagate demand. A strong retail mix and likely gains from current environment would also augur well for the company. The attractive valuation of 1.6x FY20 P/B gives us confidence to assign a BUY rating on the stock with a target price of INR 305 (2.1x FY20 P/B)

Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	4,221	5,105	5,360	6,057	7,208
Growth %	40.3%	20.9%	5.0%	13.0%	19.0%
Pre-Provisioning Profits	3,655	4,668	4,948	5,690	6,715
Growth%	14.5%	27.7%	6.0%	15.0%	18.0%
Net Profit	2,353	2,827	3,152	3,436	3,986
Growth %	49.8%	20.1%	11.5%	9.0%	16.0%
EPS	17.7	21.2	23.7	25.8	29.9
Growth %	49.8%	20.1%	11.5%	9.0%	16.0%
Key Ratios					
NIM (%)	3.5%	3.5%	3.2%	3.1%	3.1%
ROA (%)	1.9%	1.9%	1.9%	1.8%	1.7%
RoE (%)	26.8%	21.0%	19.0%	17.1%	16.6%
BV per Share (Rs.)	65.9	101.1	124.8	150.6	180.5
Valuation Ratios					
P/E (x)	15.0x	12.5x	11.2x	10.3x	8.8x
P/BV (x)	4.0x	2.6x	2.1x	1.8x	1.5x

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	264
Target Price (Rs)	305
BSE code	511196
NSE Symbol	CANFINHOME
Bloomberg	CANF IN
Reuters	CNFH.BO

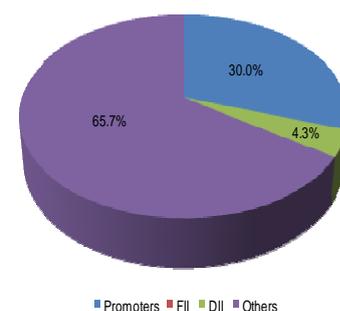
Key Data

Nifty	10,831
52WeekH/L(Rs)	557/217
O/s Shares (Mn)	133
Market Cap (Rs bn)	35.3
Face Value (Rs)	2

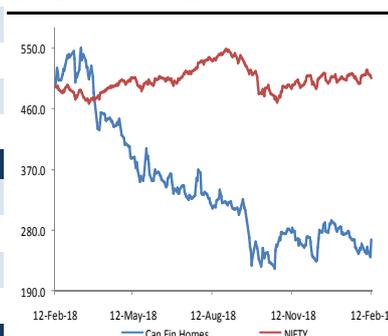
Average volume

3 months	11,85,820
6 months	14,83,110
1 year	13,61,470

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Nishar Poojara (nisharpoojara@bpwealth.com)

022-61596407/022-61596408



Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392