

**Sharp PAT recovery driven by NIM expansion and normalising credit costs.**

**CMP: INR 72**

**Rating: Buy**

**Target Price: INR 90**

**Stock Info**

BSE	543243
NSE	EQUITASBNK
Bloomberg	EQUITASB IN
Reuters	EQUI.M3
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Mn)	11,410
Mkt Cap (INR Bn)	76.29
52w H/L (INR)	73.4 / 50.0
Avg Yearly Vol (in 000')	3789.36

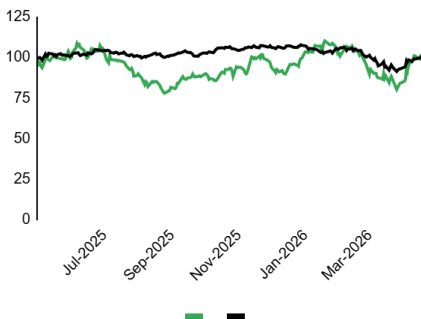
**Shareholding Pattern %**

(As on March 2026)

Promoters	0.00
Public & Others	100

Stock Performance (%)	1m	6m	12m
Equitas Small Finance Bank Ltd	30.54	18.35	11.17
Nifty 50	4.32	(6.08)	(2.05)

**AU Small Finance Bank Vs Nifty 50**



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Equitas Small Finance Bank reported a strong performance in Q4FY26, with NII coming in above our estimates while PPOP significantly beat estimates, and sharply lower provisions supported a meaningful earnings beat. Asset quality improved materially, with GNPA at 2.60% vs 2.75% in Q3FY26 and NNPA at 0.72% vs 0.92% in Q3FY26. NII stood at INR 9,801 Mn, ahead of our estimate of INR 9,143 Mn, up 15.1% QoQ and 18.2% YoY. PPOP came in at INR 4,025 Mn compared with our estimate of INR 3,060 Mn, up 31.0% QoQ and 29.3% YoY. Provisions declined to INR 1,241 Mn vs our estimate of INR 1,780 Mn, down 35.9% QoQ and 51.9% YoY (aided by INR 683 Mn write-back on ARC sale of NPAs). PAT stood at INR 2,127 Mn, significantly above our estimate of INR 1,043 Mn, up 136.3% QoQ and 405.1% YoY. Gross advances increased to INR 461,650 Mn, up 6.7% QoQ and 21.5% YoY, while deposits grew to INR 465,331 Mn, rising 6.6% QoQ and 8.0% YoY. NIM expanded ~57bps QoQ to 7.29%, supported by interest income growth on advances and a 19bps QoQ decline in cost of funds to 6.94%, while improved asset quality and sharply lower credit costs further strengthened the quarter.

**Loan growth remained healthy while asset quality improved meaningfully:** The bank delivered strong growth, with gross advances rising 22% YoY (19% YoY excluding DA), supported by robust traction across SBL (+13% YoY), Housing Finance (+21% YoY), Vehicle Finance (+12% YoY), MSE (+24% YoY) and Gold Loans (+180% YoY), while asset quality strengthened materially. Gross NPA improved to 2.60% from 2.75% QoQ, while Net NPA declined to 0.72% from 0.92%, reflecting easing MFI stress and improving collections. MFI 1-90 DPD declined sharply to 1.43% (vs 7.82% in Q4FY25) and X-bucket collection efficiency stood at 99.71%, indicating credit stress has largely stabilised and the worst is behind. Net slippages reduced sharply to 0.79% (vs 2.52% in Q3FY26) - the lowest in 10 quarters — while management's outlook of 20%+ advances growth in FY27 and exit RoA of ~1.5% by Q4FY27 adds confidence to medium-term earnings recovery.

**Margin expansion and sharply lower provisions drove strong earnings rebound:** NIM improved to 7.29%, up 57bps QoQ, supported by lower cost of funds (down 19bps QoQ to 6.94%) and strong yield on advances at 15.51%, while CASA at 26% and improving funding mix kept liability costs in check. Operating leverage played out well - opex was well-controlled with employee costs sharply lower QoQ at INR 5,141 Mn (vs INR 6,163 Mn in Q3FY26), partly aided by reversal of the one-time labour code provision, and Cost-to-Income improving to 67.5% from 73.0% in Q3FY26. Significantly lower provisions drove 405% YoY growth in PAT, while RoA/RoE improved to 1.46%/14.10%, reinforcing confidence in earnings normalisation. With margins improving, asset quality strengthening and provisioning pressures easing meaningfully, the quarter strengthens confidence in the bank's recovery trajectory, though Q1FY27 may see some moderation due to annual increments and recent SA/TD rate revisions.

**Valuation & View:** The bank guided for 20%+ advances growth in FY27, driven by traction across products, with MFI maintained at ~10% of the overall book, while exit RoA of ~1.5% by Q4FY27 and full-year FY27 RoA of ~1.2% provides clear medium-term visibility. Margins are expected to remain supported by further moderation in cost of funds, while normalising credit costs and operating leverage should drive sustained improvement in profitability. With asset quality improving, MFI cycle stabilising and the recovery in profitability becoming visible, **we maintain our Buy rating on the stock with a target price of INR 90, based on 1.2x FY29E ABVPS, implying 24.6% upside from the CMP of INR 72.**

Y/E Mar (Rs Bn)	FY24	FY25	FY26A	FY27E	FY28E	FY29E
NII	30.80	32.52	33.91	38.77	46.27	56.48
PAT	7.99	1.47	1.03	6.57	9.02	13.19
Networth	59.69	60.73	61.25	68.81	77.83	91.02
Adj BVPS (Rs)	49.50	50.42	50.50	56.74	64.17	75.17
EPS (Rs)	7.04	1.30	0.91	5.78	7.94	11.62
P/E (x)	9.23	50.17	71.56	11.24	8.18	5.59
P/Adj BV (x)	1.24	1.21	1.20	1.07	0.95	0.81

Source: Arihant Research, Company Filings

## Q4FY26 - Quarterly Performance (Standalone)

Amt in Mn	Q4FY26	Q3FY26	Q4FY25	Q-o-Q	Y-o-Y
Interest Income	18,363	16,917	16,440	8.6%	11.7%
Interest Expended	8,562	8,401	8,145	1.9%	5.1%
<b>Net Interest Income</b>	<b>9,801</b>	<b>8,516</b>	<b>8,294</b>	<b>15.1%</b>	<b>18.2%</b>
Other Income	2,635	2,895	2,254	-9.0%	16.9%
Operating Income	12,436	11,411	10,549	9.0%	17.9%
Operating Expenses	8,411	8,339	7,436	0.9%	13.1%
Employee Expenses	5,141	5,163	4,184	-0.4%	22.9%
Other Operating Expenses	3,270	3,176	3,251	3.0%	0.6%
<b>PPOP</b>	<b>4,025</b>	<b>3,072</b>	<b>3,113</b>	<b>31.0%</b>	<b>29.3%</b>
Provisions	1,241	1,935	2,580	-35.8%	-51.9%
PBT	2,783	1,137	533	144.8%	422.3%
Tax Expenses	657	237	112	177.1%	487.3%
<b>Net Income</b>	<b>2,127</b>	<b>900</b>	<b>421</b>	<b>136.2%</b>	<b>405.1%</b>
<b>Balance Sheet Analysis</b>					
Advances	4,27,513	3,98,460	3,62,090	7.3%	18.1%
Deposits	4,65,331	4,36,680	4,31,070	6.6%	7.9%
Total Assets	6,06,104	5,57,860	5,28,360	8.6%	14.7%
CASA Deposits	1,21,980	1,28,860	12,410	-5.3%	882.9%
CASA (%)	26.00%	30.00%	29.00%	-400bps	-300bps
CAR (%)	20.31%	20.47%	20.60%	-16bps	-29bps
<b>Spreads</b>					
<b>NIMs (%)</b>	<b>7.29%</b>	<b>6.72%</b>	<b>7.13%</b>	<b>57bps</b>	<b>16bps</b>
Cost of Funds	6.94%	7.13%	7.54%	-19bps	-60bps
Yield on Average Advances	0.00%	15.63%	16.18%	-1563bps	-1618bps
<b>Asset Quality</b>					
GNPA	11,161	10,819	10,719	3.2%	4.1%
NNPA	3,670	3,580	3,400	2.5%	7.9%
<b>GNPA (%)</b>	<b>2.49%</b>	<b>2.62%</b>	<b>2.89%</b>	<b>-13bps</b>	<b>-40bps</b>
<b>NNPA (%)</b>	<b>0.68%</b>	<b>0.88%</b>	<b>0.98%</b>	<b>-20bps</b>	<b>-30bps</b>
Provision Coverage Ratio	73.03%	67.10%	66.09%	<b>593bps</b>	<b>694bps</b>
<b>Returns &amp; Expenses</b>					
<b>RoA</b>	<b>1.40%</b>	<b>0.65%</b>	<b>0.32%</b>	<b>76bps</b>	<b>108bps</b>
RoE	13.89%	6.06%	2.77%	783bps	1112bps
Cost / Income Ratio	67.64%	73.08%	70.49%	-544bps	-285bps

Source: Arihant Research, Company Filings

## Concall KTA

*Equitas Small Finance Bank concluded FY26 on a high note, reporting record quarterly profitability driven by a sharp structural recovery in its microfinance portfolio and sustained momentum in secured assets. The bank witnessed a significant sequential expansion in Net Interest Margins (NIM) to 7.29% and achieved its highest-ever quarterly disbursements, reflecting strong demand across its core segments. With collection efficiencies returning to normal levels and all product lines now operating profitably, the bank has provided a confident outlook for FY27, targeting healthy advances growth and further expansion in return ratios.*

### Record Profitability and Margin Expansion

- Highest Ever PAT: The bank reported its highest-ever quarterly Profit After Tax (PAT) of INR 2,127 mn, representing a stellar 406% YoY and 136% QoQ growth.
- Net Interest Income (NII): NII grew 18% YoY to INR 9,800 mn, supported by a healthy 22% growth in gross advances.
- NIM Expansion: NIM improved by 57 bps sequentially to 7.29%, aided by strong growth in advances and a reduction in the daily average cost of funds to 6.94%.
- Improved Returns: Return on Assets (RoA) for the quarter stood at 1.46%, while Return on Equity (RoE) reached 14.10%.

### Strong Asset Momentum and Diversified Growth

- Record Disbursements: Quarterly disbursements reached an all-time high of INR 73,470 mn, growing 72% YoY.
- Secured Growth: Non-MFI (secured) book grew 21% YoY, led by Housing Finance (+21% YoY), MSE Finance (+24% YoY), and Gold Loans (+180% YoY).
- Vehicle Finance Pivot: The portfolio is successfully shifting toward used segments, with Used Car and Used CV advances growing 31% and 25% YoY respectively.
- Flagship Resilience: The Small Business Loans (SBL) segment, the bank's largest contributor at 40% of mix, maintained steady growth of 13% YoY.

### Structural Recovery in Asset Quality

- NPA Compression: Gross NPA improved to 2.49% (down 13 bps QoQ), and Net NPA dropped to 0.68% (down 20 bps QoQ).
- Record Low Slippages: Net slippages for the quarter stood at INR 851 mn (0.79% annualized), the lowest level in the last 10 quarters.
- MFI Turnaround: The microfinance book saw significant strengthening, with 1-90 DPD reducing to 1.34% (vs. 7.82% YoY) and X-bucket collection efficiency reaching 99.71%. Healthy Coverage: Provision Coverage Ratio (PCR) remains robust at 73.03%; including technical write-offs, the PCR stands at 86.81%.

### Liability Franchise and Capital Position

- Retail Granularity: Total deposits grew 8% YoY to INR 465,330 mn, with retail deposits (Retail TD + CASA) constituting 68% of the mix.
- CASA Strength: The CASA ratio stood at 26%, with Current Account balances growing 20% sequentially.
- Cost of Funds: The daily average cost of funds declined to 6.94% in Q4FY26 from 7.13% in Q3FY26.
- Capital Adequacy: The bank is well-capitalized with a CRAR of 20.31%, consisting of Tier-I capital at 16.68%.

### Guidance and Forward Outlook

- Advances Growth: Aims for 20%+ growth in overall advances for FY27, maintaining the MFI portfolio at approximately 10% of total advances.
- Profitability Guidance: Expects to achieve a full-year FY27 RoA of ~1.20%, with an exit RoA target of 1.50% by Q4FY27.
- Credit Costs: Annual credit costs are expected to normalize to a guided range of approximately 1.50%.
- Operational Leverage: Cost-to-income ratio is expected to moderate further in H2FY27 as advances growth provides better leverage over fixed costs.
- Universal Banking: Following the strong FY26 performance, the bank will evaluate and potentially apply for a Universal Banking license based on current RBI guidelines.

## Key Financials

Profit & Loss Statement (INR bn)	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
Interest Income	54.9	63.1	67.9	78.0	91.9	109.8
Interest Expended	24.1	30.6	34.0	39.2	45.7	53.3
<b>Net Interest Income</b>	<b>30.8</b>	<b>32.5</b>	<b>33.9</b>	<b>38.8</b>	<b>46.3</b>	<b>56.5</b>
Other Income	8.0	9.1	10.7	12.0	14.3	17.5
Operating Income	38.8	41.6	44.6	50.8	60.6	74.0
Operating Expenses	25.0	28.3	32.0	35.2	40.7	47.3
Employee Expenses	13.7	16.2	19.6	21.0	24.6	29.0
Other Operating Expenses	11.3	12.1	12.4	14.2	16.2	18.3
<b>PPOP</b>	<b>13.8</b>	<b>13.3</b>	<b>12.6</b>	<b>15.6</b>	<b>19.9</b>	<b>26.7</b>
Provisions	3.1	11.4	11.4	7.3	8.0	9.1
PBT	10.6	2.0	1.3	8.3	11.9	17.6
Tax Expenses	2.6	0.5	0.3	1.7	2.8	4.4
<b>Net Income</b>	<b>8.0</b>	<b>1.5</b>	<b>1.0</b>	<b>6.6</b>	<b>9.0</b>	<b>13.2</b>

Balance Sheet (in INR Bn)	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Equity &amp; Liabilities</b>						
Share Capital	11.3	11.4	11.4	11.4	11.4	11.4
Reserves & Surplus	48.3	49.3	49.8	57.4	66.4	79.6
Net Worth	59.7	60.7	61.2	68.8	77.8	91.0
Deposits	361.3	431.1	465.3	549.1	647.9	764.6
Borrowings	17.9	21.4	57.7	63.5	68.6	74.1
Other Liabilities and Provisions	14.2	15.2	21.8	22.4	27.7	33.6
<b>Total Capital &amp; Liabilities</b>	<b>453.0</b>	<b>528.4</b>	<b>606.1</b>	<b>703.8</b>	<b>822.1</b>	<b>963.3</b>
<b>Assets</b>						
Cash & Balances with RBI	35.0	49.5	55.6	61.2	67.3	74.0
Balances with Other Banks & Call Money	0.8	5.8	1.0	1.2	1.5	1.8
Investments	90.7	92.9	101.5	106.6	111.9	117.5
Advances	309.6	362.1	427.5	493.2	583.6	699.6
Fixed Assets	6.0	7.0	7.2	8.2	9.3	10.4
Other Assets	11.0	11.1	13.3	33.4	48.5	60.0
<b>Total Assets</b>	<b>453.0</b>	<b>528.4</b>	<b>606.1</b>	<b>703.8</b>	<b>822.1</b>	<b>963.3</b>

Source: Arianth Research, Company Filings

Ratios	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Growth rates</b>						
Advances (%)	20.0%	17.0%	18.1%	15.4%	18.3%	19.9%
Deposits (%)	42.3%	19.3%	7.9%	18.0%	18.0%	18.0%
Total assets (%)	29.6%	16.6%	14.7%	16.1%	16.8%	17.2%
NII (%)	21.0%	5.6%	4.3%	14.3%	19.3%	22.1%
Pre-provisioning profit (%)	17.1%	-3.1%	-5.2%	23.2%	27.5%	34.5%
PAT (%)	39.3%	-81.6%	-29.9%	536.9%	37.3%	46.3%
<b>Balance sheet ratios</b>						
Credit/Deposit (%)	85.7%	84.0%	91.9%	89.8%	90.1%	91.5%
CASA (%)	32.0%	29.0%	26.0%	28.0%	29.0%	30.0%
Advances/Total assets (%)	68.3%	68.5%	70.5%	70.1%	71.0%	72.6%
Leverage (x) (Asset/Shareholder's Fund)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
CAR (%)	24.4%	21.8%	20.3%	18.1%	17.3%	16.8%
CAR - Tier I (%)	24.0%	21.4%	16.7%	17.8%	17.0%	16.6%
<b>Operating efficiency</b>						
Cost/income (%)	64.5%	68.0%	71.7%	69.3%	67.2%	63.9%
Opex/total assets (%)	5.5%	5.4%	5.3%	5.0%	5.0%	4.9%
Opex/total interest earning assets	2.5%	2.3%	2.4%	2.3%	2.4%	2.4%
<b>Profitability</b>						
NIM (%)	8.0%	6.9%	6.2%	6.2%	6.5%	6.8%
RoA (%)	1.8%	0.3%	0.2%	0.9%	1.1%	1.4%
RoE (%)	13.4%	2.4%	1.7%	9.5%	11.6%	14.5%
<b>Asset quality</b>						
Gross NPA (%)	2.9%	2.9%	2.6%	2.4%	2.2%	1.9%
Net NPA (%)	1.1%	1.0%	0.7%	0.7%	0.6%	0.6%
PCR (%)	63.7%	69.4%	68.1%	65.5%	63.0%	60.8%
Credit cost (%)	1.0%	3.1%	2.7%	1.5%	1.4%	1.3%
<b>Per share data / Valuation</b>						
EPS (INR)	7.0	1.3	0.9	5.8	7.9	11.6
BVPS (INR)	53	54	54	61	69	80
ABVPS (INR)	50	50	51	57	64	75
P/E (x)	9.2	50.2	71.6	11.2	8.2	5.6
P/BV (x)	1.2	1.2	1.2	1.1	0.9	0.8
P/ABV (x)	1.3	1.3	1.3	1.1	1.0	0.9

Source: Arianth Research, Company Filings

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BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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