

EHL is a diversified financial services provider focused on individuals and micro and small enterprises that are underserved by formal financing channels. Incorporated in 2007 and headquartered in Chennai, its subsidiary Equitas Micro Finance Limited is the 5th largest microfinance company in India in terms of gross loan portfolio¹ as of March 31, 2015.

As of December 31, 2015 Equitas operates in 11 states, 1 union territory and the NCT of Delhi and had 539 branches across India. The company has received in-principle approval from the RBI to establish a Small Finance Bank ("SFB") on October 7, 2015. The Company is a Non Systemically Important Core Investment Company (CIC), exempt from registration with RBI. However, in terms of SFB "In-Principle" approval, the Company is in the process of filing the application with the RBI for registering as a CIC. The IPO is purely for domestic investors in order to comply with the RBI guidelines. EHL intends to reduce foreign shareholding from 92.6% to ~35%. This is to comply with regulatory requirements of maximum 49% foreign investment in the proposed SFB.

At the upper end of the price band of Rs. 110, the IPO is valued at ~1.85x at FY16 Post issue P/BV which is reasonable. With due consideration to factors like a) robust corporate governance standards and transparent operations leading to institutional confidence and customer goodwill, b) comprehensive understanding and successful track record with underserved customer segment offering significant growth opportunities, c) standardized operating procedures and efficient use of technology resulting in effective risk management and improved efficiencies, d) customer and product profile has significant synergies with the SFB business and can enable access to larger customer base and enhance revenue generation & capital raising options, e) strong execution track record, f) impressive NIM and RoA with decent RoE, g) strong asset quality with NPAs under control, we recommend investors to "SUBSCRIBE" the issue.

Investment Rationale

Established player in Microfinance Industry:

Operates through wholly owned subsidiary, Equitas Micro Finance Limited (EMFL). The Company Provides loans ranging approximately between Rs. 2,000 – Rs. 35,000. It is the 5th largest microfinance company in India based on gross loan portfolio (as of March 31, 2015) and has 2.78mn loan accounts with CAR of 21.02%. Microfinance AUM witnessed a CAGR of 44% over FY12-FY15, owing to an improved regulatory environment.

Credible management instills confidence in investors: EHL has attracted top notch investors like IFC, CDC, FMO and DEG owing to the reputation of its key management personnel who have been associated with reputed lending companies like Cholamandalam in the past. Even before RBI issued stringent operating guidelines for the Microfinance sector, Equitas followed transparent lending practices with regards to loan pricing, loan recovery and loan limits. Equitas also offers commission-free insurance to all its microfinance borrowers which has to institutional confidence and customer goodwill.

Diversified product offering and markets with significant cross-selling opportunities: EHL is focused on customer segments that are underserved by formal financing channels. EHL offers a range of financial products and services including microfinance, used commercial vehicle finance, MSE finance and housing finance, that provides EHL with significant cross selling and up-selling opportunities to its target customer segments.

Issue date	April 05 - 07, 2016
Issue size	Rs. 21.76 bn. at upper end of the price band
Type of issue	Fresh Issue: Rs. 7,200 mn Offer for sale: 132,425,884 Equity Shares by the Selling Shareholders
Face Value	Rs. 10
Price Band	Rs. 109 –110 per share
Lot size	135 equity Shares & multiple of 135 equity shares thereafter
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%
Post issue market cap	Rs. 36.8 bn at upper price band
Book Running Lead Managers	Axis Capital, Edelweiss, HSBC, ICICI Securities
Registrar to the issue	Karvy Computershare Pvt. Ltd.

Y/e 31 Mar (Rs. cr)	Dec 15	FY15	FY14	FY13
Net Interest Income	415	392	246	147
Net Profit	120	107	74	32
EPS (Rs.)	4.47	4.48	3.99	2.10
BV (Rs.)	48	44	102	82
P/E (x)	-	25	28	52
P/BV(x)	-	2.5	1.08	1.34
RoA (%)	-	3.3	3.7	2.5
RoE (%)	-	11.2	12.2	6.75
Gross NPA (%)	1.33	1.08	0.73	0.27
Net NPA(%)	0.97	0.80	0.61	0.18
NIM (%)	11.6	12.07	12.4	12.7
AUM	5,505	4010	2486	1,484
No. of eq. shares (cr)	26.94	26.88	7.3	5.77

Shareholding Pattern	Pre Issue
Promoters group	-
Foreign	93%
Others	7%
Total	100

Promoters & Management

- 1) **P N Vasudevan (Founder) is Director of the company since inception and Managing Director since July 26, 2007.**
 - a) Extensive experience in the financial services sector and had served as the Head – Consumer Banking Group in Development Credit Bank, for over 1.5 years
 - b) Worked for about 2 decades in Cholamandalam Investment and Finance Company Limited, where he resigned as vice president and business head of vehicle finance

- 2) **S. Bhaskar is the Chief Financial Officer of the company.**
 - a) Qualified Chartered Accountant
 - b) He joined Equitas group on October 15, 2007.
 - c) Worked for 2 decades at Cholamandalam Investment & Finance Company Limited
 - d) Prior to joining Equitas Group, he was Group Treasurer and Senior Vice President (Audit) for Murugappa Group, Chennai

- 3) **H.K.N. Raghavan is the Chief Executive Officer of Equitas Micro Finance Limited.**
 - a) He joined Equitas group on December 8, 2008.
 - b) Prior to joining EMFL, he had worked in various fast-moving consumer goods companies like Hindustan Unilever Limited, Agro Tech Foods Provident Fund, Henkel SPIC India Limited, Dabur Foods Limited and Subhiksha Trading Services Limited

- 4) **V.S. Murthy is the Chief Executive Officer of Equitas Finance Ltd.**
 - a) He joined Equitas group on November 10, 2010.
 - b) Previously worked with Cholamandalam DBS Finance Limited and Dhandapani Finance Limited as the Head – Secured Loans

Timeline

2007	•Incorporation of the Company
2009	•Investment in core banking solution by a license agreement with Temenos Singapore Pte. Ltd.
2010	•Incorporation of Equitas Housing Finance Pvt. Ltd. as a wholly owned subsidiary
2011	•Acquisition of entire shareholding of V.A.P Finance Ltd. and Singhivi on Mar. 21, 2011 and July 07, 2011 respectively
2012	<ul style="list-style-type: none"> •Demerger of micro finance business •Certificate of registration as NBFC cancelled at the request of the Company pursuant to the Company becoming a non-systemically important CIC •Name changed to Equitas Holdings Pvt. Ltd.
2013	•Name of Singhivi Investment & Finance Private Limited changed to Equitas Micro Finance Private Limited
2015	<ul style="list-style-type: none"> •Conversion into a public limited company and change of name to Equitas Holdings Limited •RBI In-principle approval for Small Finance Bank •Incorporation of Equitas Technologies Private Limited as a wholly owned subsidiary

Business segments

1) Microfinance

The microfinance business is conducted through the wholly-owned subsidiary Equitas Micro Finance (“EMFL”) which is registered with the RBI as an NBFC-MFI. As of March 31, 2015, EMFL was the 5th largest microfinance company in India in terms of gross loan portfolio. As of December 31, 2015, there were 27.80 Lakhs loan accounts in their microfinance business.

2) Vehicle Finance

The vehicle Finance business is conducted through the subsidiary Equitas Finance Ltd. (“EFL”). The used commercial vehicle finance customers are typically first-time formal financial channel borrowers purchasing commercial vehicles. The customers also include small fleet operators. As of December 31, 2015, the vehicle finance business operations included a network of 134 branches. The vehicle finance business AUM was Rs.1,405.63 Crores as of December 31, 2015, which represented 25.53% of the aggregate AUM as of such date. As of June 30, 2015, there were 52,274 loan accounts in the vehicle finance business.

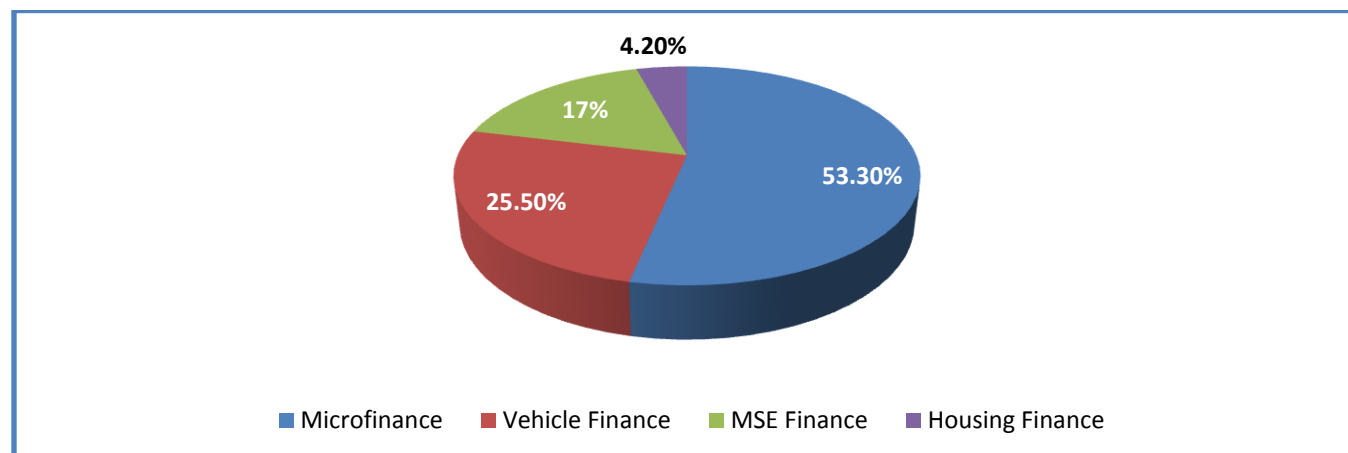
3) Micro and Small Enterprise (MSE) Finance

The Micro and Small Enterprises Finance business is also conducted through the subsidiary Equitas Finance Ltd. (“EFL”). The company provides asset backed financing primarily focused on self-employed individuals operating micro enterprises and small enterprises, typically in urban and semi-urban locations. As of December 31, 2015, the MSE loans business included a network of 134 branches. The MSE finance business AUM was Rs.935.52 Crores as of December 31, 2015, which represented 16.99% of the aggregate AUM as of such date. As of December 31, 2015, there were 45,992 loan accounts in the MSE finance business.

4) Housing Finance

The Company’s focus on providing micro-housing and affordable-housing loans to self-employed individuals who have limited access to loans from banks and larger housing finance companies. The typical tenure of such loans varies between 7 and 20 years. As of December 31, 2015, the Housing finance business operations included a network of 14 branches. The Average Loan Account Size for micro-housing loans and affordable-housing loans was Rs.2.4 Lakhs Rs.10.60 Lakhs in the nine months ended December 31, 2015. The housing finance business includes housing loans as well as non-housing loans within specified limits permitted. The housing finance business AUM was Rs.229.25 Crores as of December 31, 2015, which represented 4.16% of the aggregate AUM as of such date. As of December 31, 2015, there were 4,022 loan accounts in the housing finance business.

AUM breakdown as on 31st Dec, 2015



Source: Company, Ajcon Research



Key unique strength - Standardized operating procedures and efficient use of technology

Equitas has implemented standardized operating procedures that have enabled them to develop a scalable and replicable business model across their various financing product portfolios.

Their business operations involve a large number of small transactions, mostly in cash, across hundreds of rural and urban locations.

They have implemented standardized terms for their financing products, as well as standardized operating procedures for customer acquisition, customer engagement, account management and cash collection. They typically have separate teams for customer origination, disbursement and collection aimed at improving operating efficiencies, productivity and risk management.

The company has introduced certain innovative operating measures such as electronic microfinance loan application process at the field level, customized pre-printed stickers for their microfinance loan accounts, SMS based collection tracking processes. These measure increases employee productivity and enables real time processing, mitigate the operational risks in their microfinance business and enable field staff to update their transaction record systems with collections report on a real-time basis which enable them to reduce cash collection risks. The company centrally manages back end processes, including credit verification, loan disbursement processing, receivables management and cash management procedures. Their IT infrastructure and effective use of technology has enabled them to develop an effective risk control framework and improve employee productivity and operating efficiencies.

Objects of the issue

The overall issue is purely for domestic investors in order to comply with the RBI guidelines. EHL intends to reduce foreign shareholding from 92.6% to ~35%. This is to comply with regulatory requirements of maximum 49% foreign investment in the proposed SFB.

Offer for sale - Upto 132,425,884 Equity shares

Offer for sale by	Shares upto
International Finance Corporation	16,463,772 Equity Shares
FMO (Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.)	11,926,668 Equity Shares
Avishkaar Goodwill India Microfinance Development Co Ltd	4,999,998 Equity Shares
Aquarius Investments Ltd	7,153,038 Equity Shares
Creation Investments Equitas Holdings LLC	868,125 Equity Shares
Helion Venture Partners II LLC	4,288,648 Equity Shares
IFIF (India Financial Inclusion Fund)	25,938,594 Equity Shares
Lumen Investment Holdings Ltd	22,571,820 Equity Shares
MVH S.P.A.	16,975,484 Equity Shares
Sarva Capital LLC	6,635,770 Equity Shares
Sequoia Capital India Investment III	12,840,861 Equity Shares
WestBridge Ventures II LLC	1,583,106 Equity Shares
P N Vasudevan	180,000 Equity Shares

The company proposes to utilise Rs.616 Crores from the Net Proceeds towards investment in their subsidiaries to augment their capital base to meet their future financial capital requirements arising out of growth in the business. The Investment is proposed to be undertaken by way of subscription to the equity shares of the subsidiaries for an aggregate amount of Rs.616 Crores in the following manner:

Particulars	Involved in	Amount (Rs. cr)
Equitas Micro Finance Ltd ("EMFL")	Business of micro finance lending;	288
Equitas Finance Ltd ("EFL")	Business of providing vehicle finance and MSE finance;	288
Equitas Housing Finance Ltd ("EHFL")	Business of providing housing finance.	40
		616

Source: RHP



Microfinance Industry in India

- 1) Indian microfinance industry is dominated by NBFCs-MFI with an 88% share of the market. RBI guidelines in 2011 stipulate that all for profit microfinance institutions in India should operate as NBFC-MFIs. Not for profit institutions can operate as trusts or Section 25 companies.
- 2) The microfinance sector in India witnessed rapid growth in the value of outstanding loans post 2000-01 once RBI granted priority sector status to bank loans advanced to MFIs.
- 3) In Union Budget 2016, the government announced setting up Micro Units Development and Refinance Agency (MUDRA), which will act as regulator for MFIs and also provide them refinancing services



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