

# Magma Fincorp Ltd.

Sensex: 25285

CMP: INR 78



BFSI

**Magma Fincorp Limited (Magma), a non-deposit taking non-banking finance company (NBFC), provides financing of Utility Vehicles & Cars (25% of loans), Commercial Vehicles (10% of loans), Construction Equipments (8% of loans), Used Commercial Vehicles (12% of loans), Tractors (19% of loans) and SME Loans (9% of loans). It has also entered Affordable Housing Finance (18% of loans), General Insurance and Gold Loans segments. Magma has a dedicated base of around 4.9 lakhs active customers and has total loan assets of INR 185 billion. The company has 223 branches with employee base of 9223 people.**

## Diversified loan book with single product exposure restricted to 25%

Magma has diversified loan book portfolio of seven products with single product exposure restricted to 25%. Over the last three years, Magma has reduced its reliance on traditional areas of UV/CV/Car and construction equipment financing and focused on newer products like tractor, used assets, mortgage and SME loans. Newer products now constitute 57% of its loan book and 68% of its incremental disbursement.

## Rural focus could hinder growth in short term

Of its 223 branches, ~80% are in rural and semi rural areas. While this was proving to be advantageous when rural income was growing at higher pace, we expect its loan book to grow at slower pace given the slowdown in rural areas.

## Should benefit from fall in rates

Magma is primarily a wholesale funded entity, with more than half of its borrowings being bank borrowings (base rate linked), and nearly a fourth being bonds. With most banks reducing their base rate and Magma's loan book (except SME) being at fixed rate, it should benefit from lower cost of funding.

## Asset quality under stress

Asset quality has deteriorated following stress in some of the focus segments of the company. Rural stress has led to asset quality issues in the tractor portfolio, while NPLs in mortgages were steady. Used CV segment has also been under stress. For 9MFY16, GNPA/NNPA increased YoY to 6.7%/5% from 3.9%/2.8% (180 days past due). Recently, Magma has initiated steps to restructure its operations by merging the sales team with collection team (up to 90 dpd) and the initial outcome is positive with

increased collection. Currently, credit cost is ~2% and management is targeting to bring it down to 1% - 1.25% range.

## Addressing high operating cost

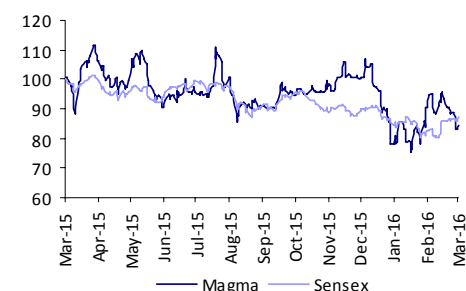
Due to its smaller scale, Magma suffers from high operating cost (opex) compared to its peers (>4% compared to industry average of ~3%). Its opex is also high as Magma's business model is people centric and branch light. Recently, Magma has increased customer touch points from 1,500 to 3,600 field officers (by merging the sales team with collection team), thereby field officers coverage has dropped from 75kms to 30kms. This will help Magma attain disbursement rate of INR110bn from existing INR70bn, without adding sales force. Owing to this initiative, NIM should improve by ~40bps supported by higher proportion of direct sales (from 18% to 45%) and fee income is expected to improve by 20bps.

## Outlook & Valuation

As Magma is struggling with asset quality challenges, it is focusing on improving earning profile and asset quality than on AUM growth. Magma has significantly slowed down disbursements across businesses with disbursements down 32% YoY in 9MFY16). On the positive side, Magma's focus on high yield loans is paying off through higher NIM (highest ever NIM of 7.18% in Q3FY16) despite lower loan growth. Similarly, various initiatives on containing operating expenditure like increased usage of technology, rationalization of structure and alignment of product geography has led to improvement in OPEX to AUM ratio to 3.46% in Q3FY16 from 3.63% in Q3FY15. Magma is targeting OPEX to AUM ratio of 3.2% to 3.25% in FY17. At CMP, the stock is trading at 1.5x 9MFY16 P/ABVPS.

Shareholding %	Dec-15
Promoters	27.00
FIIIs	64.40
DIIIs	1.20
Others	7.40

## Relative Price Performance



Key Data	
BSE Code	524000
NSE Code	MAGMA
Bloomberg Code	MGMA IN
Reuters Code	MAGM.BO
Shares O/S (mn)	236.85
Face Value	2
Mcap (INR bn)	18.73
52 Week H/L	109/67
2W Avg. Qty, NSE	152273
Free Float (INR bn)	13.67
Beta	1.17

Y/E (INR mn) cons.	FY12	FY13	FY14	FY15
Interest income	10315	16520	20813	23536
Interest Expended	6254	9260	11771	12329
Net interest income	4061	7260	9042	11207
Growth	-18.50%	78.77%	24.55%	23.94%
NIM	4.05%	5.48%	5.51%	6.16%
APAT	779	1460	1596	1872
Growth	-36.25%	87.42%	9.32%	17.29%
EPS (INR)	4.11	7.69	8.40	9.83
P/E (x)	18.29	10.77	8.36	9.65
P/ABV (x)	1.31	1.10	1.11	1.60
Net NPA	1.10%	1.30%	2.00%	3.00%
RoA	0.90%	1.20%	1.21%	1.33%
RoE	6.20%	9.70%	9.55%	10.70%
Dividend Yield	0.80%	0.97%	1.14%	0.84%

**Quarterly Result**

(INR mn)	Q3FY16	Q2FY16	QoQ % Chg	Q3FY15	YoY % Chg	9MFY16	9MFY15	YoY % Chg
<b>Operational Income</b>	<b>6214</b>	<b>6102</b>	<b>1.84%</b>	<b>6168</b>	<b>0.75%</b>	<b>18378</b>	<b>17336</b>	<b>6.01%</b>
Interest Cost	2937	2955	-0.61%	3168	-7.29%	8936	9185	-2.71%
Net Interest Income	3277	3147	4.13%	3000	9.23%	9442	8151	15.84%
Other Income	72	99	-27.27%	76	-5.26%	250	252	-0.74%
<b>Total Income</b>	<b>3349</b>	<b>3246</b>	<b>3.17%</b>	<b>3076</b>	<b>8.88%</b>	<b>9692</b>	<b>8402</b>	<b>15.35%</b>
Employee Cost	803	815	-1.47%	941	-14.67%	2478	2586	-4.17%
Oth Expense	704	709	-0.71%	715	-1.54%	2102	2143	-1.92%
Depreciation	107	102	4.90%	84	27.38%	305	225	35.51%
<b>Total Expense</b>	<b>1614</b>	<b>1626</b>	<b>-0.74%</b>	<b>1740</b>	<b>-7.24%</b>	<b>4885</b>	<b>4954</b>	<b>-1.39%</b>
Provisions	995	890	11.80%	792	25.63%	2764	1912	44.54%
<b>PBT</b>	<b>740</b>	<b>730</b>	<b>1.37%</b>	<b>544</b>	<b>36.03%</b>	<b>2043</b>	<b>1536</b>	<b>33.00%</b>
Tax	217	243	-10.70%	93	133.33%	568	205	177.41%
<b>PAT</b>	<b>523</b>	<b>487</b>	<b>7.39%</b>	<b>451</b>	<b>15.96%</b>	<b>1475</b>	<b>1331</b>	<b>10.80%</b>
MI	1	1	-25.54%	11	-92.05%	14	47	-69.42%
PAT After MI	522	486	7.47%	440	18.75%	1461	1284	13.75%

**Key Ratios**

	Q3FY16	Q2FY16	QoQ % Chg	Q3FY15	YoY % Chg	9MFY16	9MFY15	YoY % Chg
Total Income/Assets	16.22%	16.23%	-	16.65%	-	-	-	-
Int Exp/Assets	7.58%	7.73%	-	8.45%	-	-	-	-
Gross Spread	8.64%	8.50%	-	8.20%	-	-	-	-
OPEX/Assets	4.16%	4.25%	-	4.64%	-	-	-	-
RoA	1.35%	1.28%	-	1.20%	-	-	-	-
RoE	9.06%	8.50%	-	10.19%	-	-	-	-
CRAR	19.07%	19.09%	-	16.43%	-	-	-	-
Tier 1	14.82%	14.44%	-	110.04%	-	-	-	-

## Financials

### Income Statement

Year End March (INR mn)	FY12	FY13	FY14	FY15
Operating income	10315	16520	20813	23536
<i>Growth</i>	<i>21.25%</i>	<i>60.16%</i>	<i>25.99%</i>	<i>13.08%</i>
Interest Expended	6254	9260	11771	12329
Net interest income	4061	7260	9042	11207
<i>Growth</i>	<i>-18.50%</i>	<i>78.77%</i>	<i>24.55%</i>	<i>23.94%</i>
Oth Income	315	500	364	323
Net Income	4376	7760	9406	11530
Operating Expenditure	3031	4660	5588	6852
Operating Income	1345	3100	3818	4678
Provisions & Contingencies	307	970	1841	2444
PBT	1038	2130	1977	2234
Tax	259	670	381	362
PAT	779	1460	1596	1872
Extra-ordinary Items		0	0	0
APAT	779	1460	1596	1872
<i>Growth</i>	<i>-36.25%</i>	<i>87.42%</i>	<i>9.32%</i>	<i>17.29%</i>
EPS (INR)	4.11	7.69	8.40	9.83

### Balance Sheet

Year End March (INR mn)	FY12	FY13	FY14	FY15
Equity Share Capital	1806	2350	1878	1706
Reserves	10636	13594	14658	16168
Total Shareholders Funds	12442	15944	16536	17875
Minority Interest	188	255	332	398
Borrowings	59128	96364	84517	98982
<i>Growth</i>	<i>38.72%</i>	<i>62.97%</i>	<i>-12.29%</i>	<i>17.11%</i>
Oth Liabilities	10121	830	1569	2326
<b>Total Liabilities</b>	<b>81880</b>	<b>131138</b>	<b>131782</b>	<b>148825</b>

### APPLICATION OF FUNDS

Current Assets	9631	14359	10222	8373
Investments	0	2669	4019	4138
Loans	69047	109631	113471	132514
<i>Growth</i>	<i>47.27%</i>	<i>58.78%</i>	<i>3.50%</i>	<i>16.78%</i>
Fixed Assets	1785	1817	1729	2118
Other Assets	3184	4462	4053	3783
<b>Total Assets</b>	<b>81880</b>	<b>131138</b>	<b>131782</b>	<b>148825</b>

### Key Ratios

Year End March	FY12	FY13	FY14	FY15
<b>Per Share Data (INR)</b>				
EPS	4.11	7.69	8.40	9.83
BVPS	65.57	83.94	86.98	93.86
ABVPS	57.24	75.06	63.27	59.27
DPS	0.60	0.80	0.80	0.80
<b>Profitability Ratios</b>				
Yield on Loans	14.80%	16.30%	16.10%	17.00%
Cost of Fund	8.70%	9.00%	9.00%	8.80%
NIM	4.05%	5.48%	5.51%	6.16%
RoA	0.90%	1.20%	1.21%	1.33%
RoE	6.20%	9.70%	9.55%	10.70%
<b>Balance Sheet Ratios</b>				
Loans/Borrowings	116.78%	113.77%	134.26%	133.88%
Debt/Equity (x)	4.75	6.04	5.11	5.54
Capital Adequacy Ratio (CAR)	21.20%	16.80%	16.60%	16.30%
Tier I	14.10%	10.60%	11.52%	11.09%
<b>Asset Quality Ratios</b>				
Gross NPA	1.30%	1.60%	2.70%	3.90%
Net NPA	1.10%	1.30%	2.00%	3.00%
Provision Coverage Ratio	15.38%	18.75%	25.93%	23.08%
Slippage Ratio	-	-	-	-
<b>Efficiency Ratios</b>				
Collection Efficiency	100.50%	98.20%	95.70%	95.20%
Business per Employee (in INR mn)	12.11	15.02	11.63	13.54
Profit per Employee (in INR mn)	0.14	0.20	0.16	0.19
<b>Valuation Ratios</b>				
P/E(x)	18.29	10.77	8.36	9.65
P/ABV(x)	1.31	1.10	1.11	1.60
Dividend Yield	0.80%	0.97%	1.14%	0.84%

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