Magma Fin Corp Ltd.

Industry	Financial
Bloomberg	MAGMA IN
BSE CODE	52400

Reverting to Growth Phase

RATING	BUY
CMP	107
Price Target	129
Potential Upside	21%

Rating Change	↑
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	193/94
Mkt Capital (Rs Cr)	2890
Free float (%)	47%
Avg. Vol 1M (,000)	231
No. of Shares	27
Promoters Pledged %	

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Key Highlights -

- MAGMA has finished off with its internal restructuring and consolidation phase, and its concentrated efforts to improve its asset quality are showing visible results. Magma is focusing on growing its commercial vehicle portfolio and used vehicle portfolio. With the huge government investment in infrastructure sector there is an upscale in CV demand in the economy and MAGMA would be the key beneficiary of it.
- MAGMA has more dependence on bank borrowings does not expect any liquidity crunch going ahead & management has restated its previous growth disbursement 25-30% for FY19.
- Cost of fund is expected to rise by 20-50 bps going ahead, we expect NIM pressure to offset by the rising share of high yielding assets.
- Management is optimistic that in 2HFY19 delinquency will be lower with seasonal downscale of GNPA. Management has reiterate its previous credit cost guidance of 1.6% for FY19.

2Q FY19 Results-

MAGMA has reported stable 2QFY19 numbers with healthy AUM growth of 6%/4% YoY/QoQ. Net Interest Income (NII) grew by 12% YoY. NIM (Reported) has increased to 9% from 8.6% QoQ due to rise in yields. However OPEX grew by 20% yoy, total income grew by 12% YoY, which led to rise in the cost to income (C/I) ratio from 44% to 47% YoY . Other income has increased by 3% YoY. Provision has de grown by 3% YoY. PAT has registered a robust 5% YoY growth. GNPA/NNPA has remained same QoQ at 9.5%/4.4%; PCR has marginally increased to 56.5%.

View and Valuation

Magma has been in consolidation phase of business model over the last three years but after the realignment of business model, management expects AUM to grow by 15-16% in FY19. Disbursement has picked up impressively during the quarter. ALM of Magma is largely stable considering utilization of available bank limits. Further management stated that liquidity can also be infused from securitization (Rs 2000 Cr) portfolio. However, further tightening of liquidity situation can slow down the expected AUM growth of MAGMA. Though assets quality has remained stable, management expects it to further improve going ahead; credit cost is expected to lower down in 2HFY19. Due to rising rates, cost of fund is expected to increase 20-50 bps and thus will impact the NIM in 2HFY19. After recent correction in stock price valuation has been at comfortable level. We upgrade to BUY and maintain our previous target price of Rs 129 at 1.1x P/BVS FY20e.

Key Risks to our rating and target

- Tapering in AUM growth and deterioration in assets quality will be having major impact.
- Decline in the interest yield of the portfolio.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	1141	1105	1162	1204	1379
PPP	681	654	691	777	900
PAT	211	20	230	337	420
NIM %	6.0	6.4	7.3	7.3	7.3
EPS (Rs)	8.9	0.9	9.7	12.5	15.6
EPS growth (%)	-5.9	-90.4	1026.2	28.9	24.7
ROE (%)	11.1	0.9	10.2	13.2	14.1
ROA (%)	1.1	0.1	1.5	2.0	2.2
BV	91	92	98	103	118
P/B (X)	0.8	1.2	1.6	1.0	0.9
P/E (x)	8.3	122.9	15.8	8.6	6.9

2Q FY 19 Results
In line with Expectation

Stable Asset Quality

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	595	580	586	586	624	4.8%	6.5%	2,230	2,068	-7.3%
Interest Exp.	284	221	267	265	275	-3.3%	3.6%	1,125	906	-19.5%
NII	312	359	319	321	350	12.2%	8.9%	1,105	1,162	5.2%
Other Income	15	11	5	20	15	3.4%	-23.2%	169	230	35.8%
Total Income	326	370	325	341	365	11.8%	7.1%	1,274	1,392	9.3%
Ope Exp.	143	176	167	167	171	19.5%	1.9%	620	701	13.0%
PPP	183	194	158	173	194	5.9%	12.1%	654	691	5.8%
Provisions	90	102	33	85	87	-3.1%	3.4%	607	374	-38.4%
PBT	93	92	125	89	107	14.5%	20.4%	47	317	579.2%
Tax	21	27	44	29	27	29.5%	-4.3%	34	88	157.2%
Extra Items	-	-	-	-	-					
Net Profit	72	65	80	60	80	10.1%	32.2%	20	230	1027%

NIM pressure continues

NII has grown at a healthy pace at 12% YOY, backed by healthy AUM growth 6%, highest in last several quarters. Overall NIM has increased to 9% from 8.6 % QoQ. Yield on AUM increased by 74 bps QoQ to 15.65% while the cost of funds has also increased by 27 bps to 9.18% QoQ which resulted in NIM expansion. As management has tilted its focus towards higher yielding assets we expect NIM to remain steady in the rising bond yield scenario. Management has guided to pass on the rise in cost of borrowings to incremental new customer. All books are in fixed rate except for mortgage therefore we expect incremental rate hike will take few quarters to support NIM.

Strong disbursement & Healthy AUM growth

End of consolidation phase has led to revival in loan book growth. Loan Book has grown positively by 4% YoY. Disbursement has shown improvement it has grown at the rate of 13% YoY. Growth in the vehicle-Finance portfolio has revived to strong 6% YoY growth with commercial vehicle growth of 62% & used vehicle growth of 33% YoY, Mortgage finance has remained stable, SME finance has grown at the robust rate 15% YoY. The share of vehicle finance has de grown significantly from 85% in FY14 back to 70% in this quarter, Share of mortgage finance has increased from 9% in FY14 to 17% during the quarter and SME finance portfolio has increased significantly from 5% in FY14 to 13% in 2QFY19. Management has realigned its product mix towards new SCVs, new LCVs and Used assets. Mortgage business is completely remodeled to a affordable housing book. SME provides immense opportunity with lower competition due to liquidity crunch. Management is focused in aligning the business across every product mix to derive maximum efficiency.

Stable assets quality

GNPA has remained stable at 9.5% QoQ and NNPA stood same at 4.4% QoQ with PCR of 56.5%. Collection efficiency has risen across product portfolio with more than 100% while in SME it has improved from 96% to 97% QoQ. Magma has highlighted that early delinquencies have showed an improvement across businesses. The EWI and CPMI indicators for the vehicle finance business have shown significant improvement since 2QFY18. Management is optimist delinquency to improve in the 2HFY19 and restated it credit cost guidance of 1.6% for FY19.

Others

Magma HDI General Insurance has grown at 69.4% YoY. It continues to enjoy best OD loss n the industry. GWP stands at Rs 207 Cr with Combined Ratio of 117.3%. Motor dominated the portfolio by 78%.
HL Ratio has improved from 25% in Q1 FY18 to 63% in Q2 FY19; direct sourcing has improved from 28% in Q1 FY18 to 78% in Q2 FY19. CAR stood at 22% with Tier 1 of 17.2% as at 2QFY19.

Concall Highlights

- NIM expansion is backed up by fresh capital raised and change product mix. Management has guided to pass on the rise in cost of borrowings to incremental new customer. All books are in fixed rate except for mortgage therefore incremental rate hike will take few quarter to support NIM.
- ABF business focus will be on commercial & used vehicle. Commercial vehicle grew by 62% & used vehicle grew by 33% YoY. New CV growth is expected to decrease going ahead. Tractor portfolio weightage has coming down as management wants to lower dependence on seasonality.

Profitability Matrix

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-
C/I Ratio %	47.1	47.3	43.8	47.5	51.4	49.1	46.8	**2.99**	**-2.39**
Empl. Cost/ Tot. Exp. %	21.0	28.7	27.2	25.6	29.9	32.2	29.2	**1.98**	**-3.05**
Other Exp/Tot. Exp.%	13.1	14.5	13.0	12.0	17.6	13.4	30.3	**17.33**	**16.96**
Provision/PPP %	190.3	92.6	49.1	52.4	21.1	48.8	45.0	**-4.15**	**-3.81**
Tax Rate %	19.6	(220.9)	22.6	29.6	35.7	32.2	25.6	**2.95**	**-6.61**
Int Exp./Int Inc. (%)	45.8	49.8	47.7	38.1	45.5	45.2	44.0	**-3.69**	**-1.25**
Other Inc./NII %	4.6	4.4	4.7	2.7	1.6	6.1	4.3	**-0.37**	**-1.79**
PPP/ Net Income %	52.9	52.7	56.2	52.5	48.6	50.9	53.2	**-2.99**	**2.39**
PAT/ Net Income %	(38.5)	12.6	22.1	17.6	24.7	17.7	21.8	**-0.33**	**4.14**
NII Growth % (YoY)	(8.8)	(1.7)	1.0	16.6	5.2	9.0	12.2	**11.23**	**3.22**
PPP Growth YoY %	(16.2)	5.8	6.9	20.5	(5.9)	6.9	5.9	**-0.99**	**-1.05**
PAT Growth %	(284.8)	-18.7808	42.7	78.2	165.7	76.3	4.8	**-37.89**	**-71.51**

Margin Performance

Margin %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-
Yield on Advances	13.4	13.9	13.8	15.2	15.1	14.9	15.6	**1.82**	**0.71**
Cost Of Funds	9.8	9.8	9.6	9.4	9.0	8.9	9.2	**-0.45**	**0.27**
Spreads	3.6	4.2	4.2	5.8	6.1	6.0	6.5	**2.27**	**0.44**
NIM	7.6	8.3	8.4	9.7	9.7	8.6	9.0	**0.60**	**0.40**

Exhibit: Yield and Cost

Margin Steady

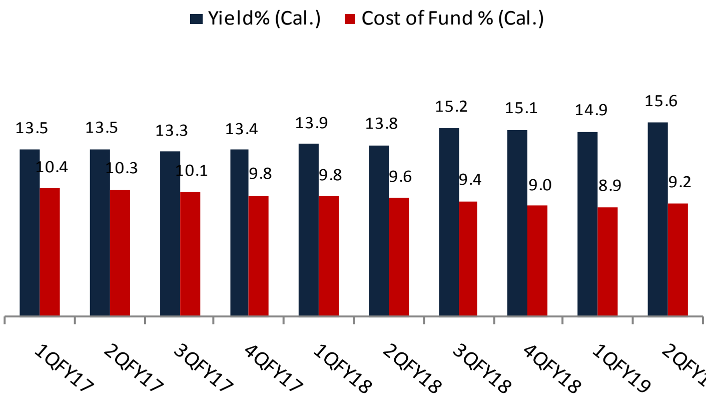
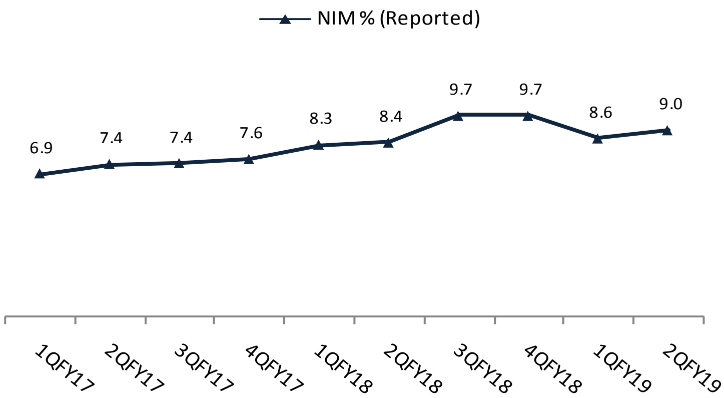


Exhibit: Net Interest Margin

NIM stable



Asset & Borrowings Growth Trend

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Disbursements	1799	1682	1478	1473	1641	1939	2233	1840	2200
Growth YoY %	-1	-5	-21	-16	-9	15	51	25	34
AUM	17600	17345	16101	15848	15688	15252	15555	15966	16623
Growth YoY %	-6	-6	-11	-11	-11	-12	-3	1	6
Borrowings	10807	10789	10096	12185	12056	9506	9829	11844	12165
Growth YoY %	-7	-10	-15	4	12	-12	-3	-3	1

Asset Composition %

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Vehicle Finance & CE	71	71	70	69	70	70	70	70	70
Mortgage Finance	19	19	19	19	19	18	18	17	17
SME Finance	10	11	12	12	12	12	13	13	13
Total	100	100	100	100	100	100	100	100	100

Exhibit: AUM Growth %

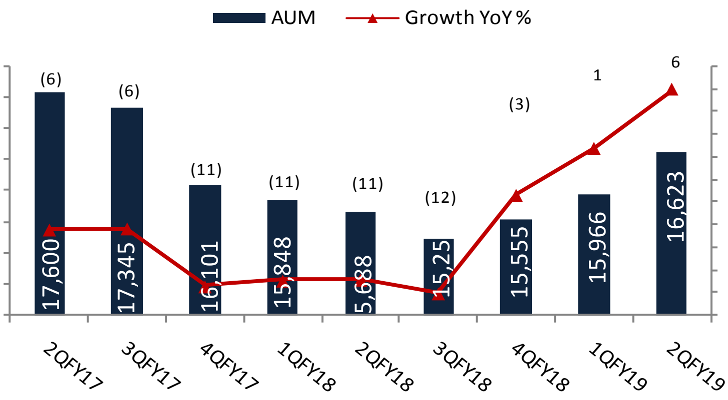
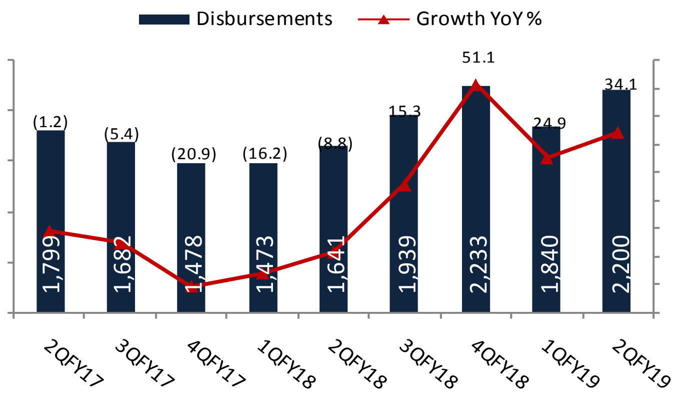


Exhibit: Disbursement Growth %



Asset Mix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
UV/Cars	25	25	25	25	25	24	24	24	22
CV	8	7	7	6	7	7	8	8	9
CE	7	7	7	7	6	6	6	7	7
Used Assets	11	11	11	13	14	15	16	17	17
Agri Finance/Tractor	20	20	20	19	18	17	16	14	15
SME Finance	10	11	12	12	12	12	13	13	13
Mortgage Finance	19	19	19	18	18	18	18	17	17

Asset Quality

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-
GNPA	1,080	1,682	1,694	1,083	1,373	1,422	1,452	(260)	49
GNPA %	6.7	11.7	11.7	7.1	9.3	9.5	9.5	(2.2)	0.2
NNPA	889	962	926	795	625	626	631	(336)	1
NNPA %	5.6	7.0	7.0	5.3	4.5	4.4	4.4	(2.6)	(0.1)
Total Specific PCR %	18	43	45	27	55	56	57	13	2

Exhibit: Asset Quality

Gross Stage 3 remain at the same level

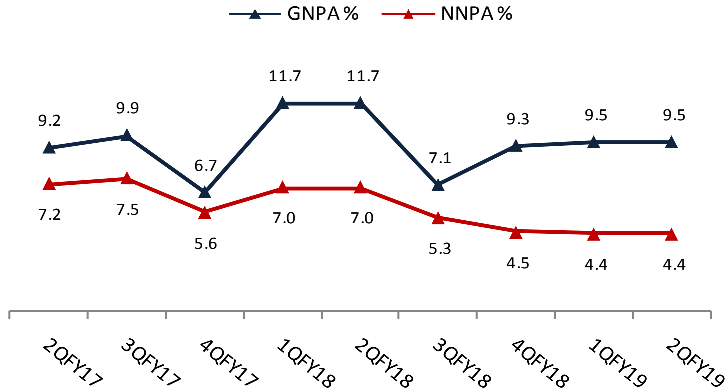


Exhibit: Provisions

PCR steady

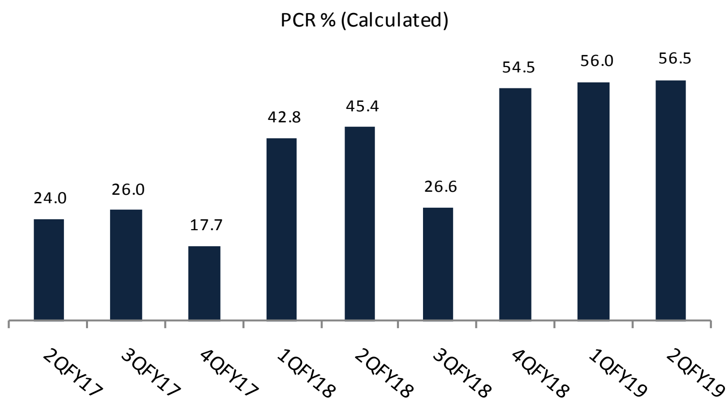


Exhibit: ED & ID for Vehicle Loan

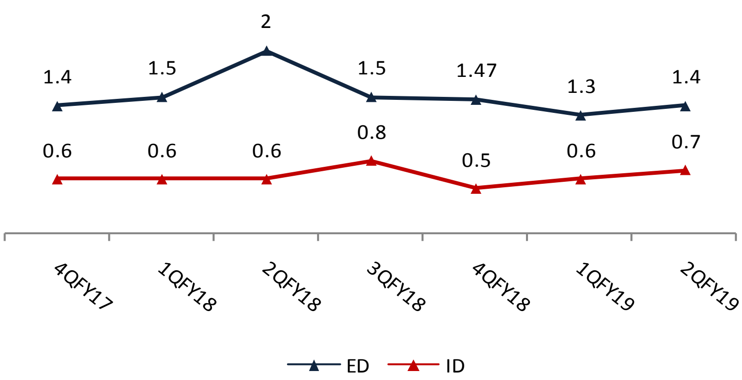
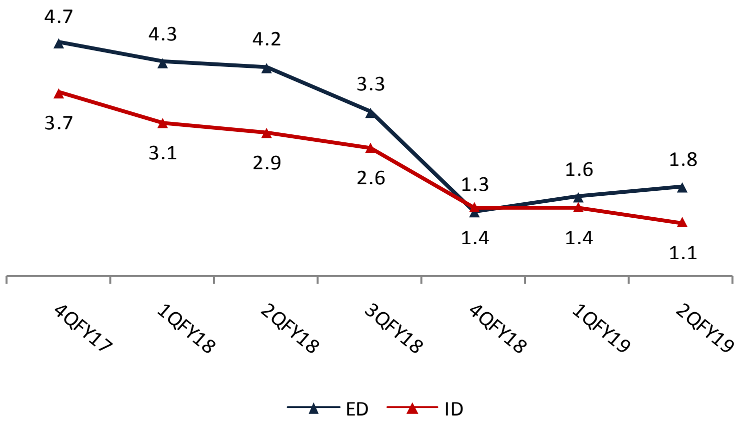


Exhibit: ED & ID for Home Loan



Colletion Efficiency

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Collection Effeciency %	97	90	102	97	99	100	106	98	101
>> ABF	97	89	104	97	100	101	108	98	102
>> Housing	96	95	95	96	97	96	104	98	100
>> SME	97	96	97	96	95	98	98	96	97

Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Gross Stage 1 and Stage 2 Assets	12,723	12,754		13,384	13,542	13,866
ECL Provision – Stage 1 and 2	400	407		388	359	348
Stage 1 and Stage 2 Coverage Ratio (%)	3.1	3.2		2.9	2.6	2.5
Gross Stage 3 Assets	1,682	1,694		1,373	1,422	1,452
ECL Provision – Stage 3	720.0	768.0		748.0	796.0	821.0
Gross Stage 3 Assets (%) (~ GNPA)	11.7	11.7		9.3	9.5	9.5
Net Stage 3 Assets (%) (~NNPA)	7.0	6.8		4.5	4.4	4.4
Stage 3 Coverage Ratio (%)	42.8	45.4		54.5	56.0	56.5

*3QFY18 has not been stated.

Exhibit: Collection Efficiency

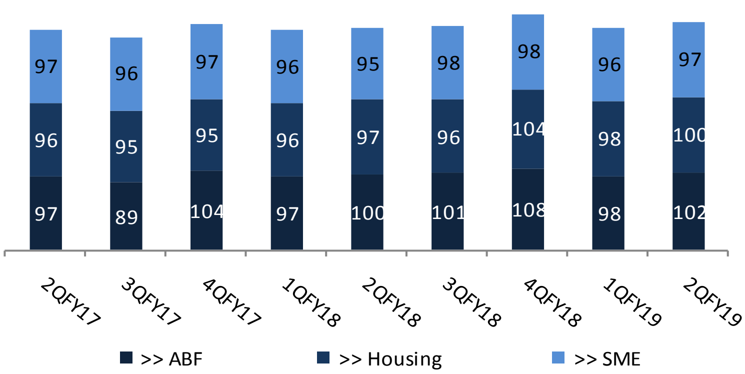
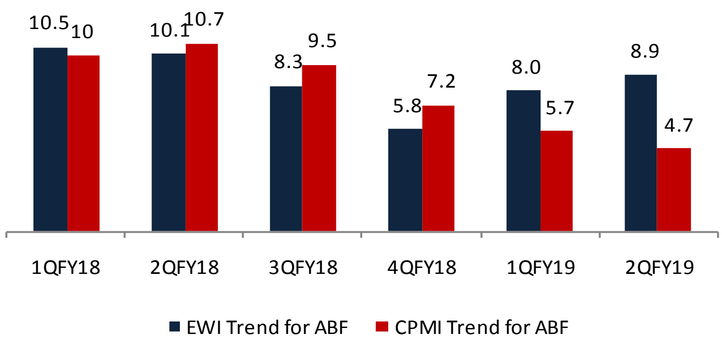


Exhibit: EWS & CPMI



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	38	38	38	47	47	47	54	54
>> Equity Capital	38	38	38	47	47	47	54	54
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	1,359	1,466	1,617	2,104	2,125	2,272	2,731	3,119
Networth	1,397	1,504	1,655	2,151	2,172	2,319	2,785	3,173
Change (%)	26.9	7.6	10.1	30.0	1.0	6.8	20.1	13.9
Borrowings	10,599	10,375	11,847	11,902	10,096	9,829	13,020	14,843
Change (%)	69.3	(2.1)	14.2	0.5	(15.2)	(2.6)	32.5	14.0
Provisions	164	283	357	480	315	441	418	492
Other Liability	953	1,017	1,023	990	1,012	1,112	1,562	1,781
Total Liabilities	13,114	13,178	14,882	15,523	13,595	13,701	17,786	20,289
Investments	267	402	414	400	546	649	615	701
Loans	10,976	11,352	13,274	14,099	11,968	12,040	15,995	18,235
Change (%)	58.4	3.4	16.9	6.2	(15.1)	0.6	32.9	14.0
Fixed Assets	176	184	206	217	224	200	229	240
Other Assets	478	414	362	399	503	395	422	461
Cash Balance	1,218	827	627	408	353	418	525	651
Total Assets	13,114	13,178	14,882	15,523	13,595	13,701	17,786	20,289

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	1,604	1,990	2,210	2,332	2,230	2,068	2,312	2,644
Interest expended	926	1,177	1,233	1,192	1,125	906	1,108	1,265
Net Interest Income	678	813	977	1,141	1,105	1,162	1,204	1,379
Change (%)	73.3	19.9	20.2	16.8	(3.2)	5.2	3.6	14.5
Other Income	98	128	176	174	169	230	282	322
Change (%)	53.7	30.9	37.8	(1.3)	(2.6)	35.8	22.6	14.0
Total Net Income	775	941	1,153	1,315	1,274	1,392	1,486	1,700
Change (%)	70.5	21.3	22.6	14.0	(3.1)	9.3	6.7	14.4
Operating Expenses	466	559	685	634	620	701	709	800
Change (%)	53.8	19.9	22.6	(7.5)	(2.1)	13.0	1.2	12.8
>> Employee Expenses	204	243	362	317	293	369	458	527
Change (%)	36.9	19.1	48.9	(12.3)	(7.5)	25.6	24.3	15.1
>> Other Expenses	262	316	323	317	327	333	251	273
Pre-provisioning Profit	309	382	468	681	654	691	777	900
Change (%)	104.0	23.5	22.5	45.5	(4.0)	5.8	12.3	15.9
Provisions	97	184	244	375	607	374	292	283
Change (%)	102.1	90.6	32.7	53.4	61.8	(38.4)	(22.0)	(3.0)
PBT	212	198	223	306	47	317	485	617
Tax	68	38	36	92	34	88	149	198
Profit After Tax	145	160	187	213	13	230	337	420
Change (%)	86.3	10.1	17.3	14.0	(94.1)	1,712.3	46.4	24.7
Adjusted PAT	138	152	181	211	20	230	337	420
Change (%)	86.8	9.8	19.0	17.0	(90.3)	1,026.6	46.4	24.7

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	16,240	17,877	19,567	18,183	16,101	15,555	17,577	20,038
>> Off-Book AUM	5,264	6,525	6,293	4,084	4,133	3,515	1,582	1,803
Aum Growth (%)	34.9	10.1	9.5	(7.1)	(11.5)	(3.4)	13.0	14.0
Borrowings Growth (%)	69.3	(2.1)	14.2	0.5	(15.2)	(2.6)	32.5	14.0
Aum/Borrowings Ratio (%)	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Disbursement (Rs Cr)	2,057	2,639	2,332	1,868	1,478	2,233	2,461	3,406
Disbursement Growth (%)	19.6	19.6	19.6	19.6	(20.9)	51.1	10.2	38.4
CRAR (%)	16.6	16.6	16.3	18.7	20.4	20.7	21.4	21.2
>> Tier 1 (%)	11.5	11.5	11.1	14.6	15.4	17.3	18.0	17.7
>> Tier 2 (%)	5.1	5.1	5.2	4.1	5.0	3.4	3.4	3.5
Debt/Equity (x)	7.6	6.9	7.2	5.5	4.6	4.2	4.7	4.7
Assets Quality Metrics								
Gross NPA (Rs)	264	642	830	1,464	1,080	1,089	1,494	1,323
Gross NPA (%)	-	-	-	8.1	6.7	7.0	8.5	6.6
Net NPA (Rs)	209	514	659	1,151	889	793	657	582
Net NPA (%)	-	-	-	6.4	5.6	5.2	3.9	3.0
Specific Provision Coverage (%)	-	-	-	21.0	17.7	27.2	56.0	56.0
Prov. Exp/Average Loan (%)	31.3	48.2	52.2	55.1	92.8	54.1	37.5	31.4

Margin Metrics

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Yield On Advances (%)	11.3	11.7	11.8	12.4	13.0	13.1	14.0	14.1
Cost Of Funds (%)	8.4	7.2	7.0	7.0	7.4	6.6	7.9	8.1
Spread (%)	3.0	4.5	4.8	5.4	5.6	6.5	6.0	6.0
NIM on AUM (%)	4.8	4.8	5.2	6.0	6.4	7.3	7.3	7.3

Profitability & Effeciency Metrics

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Int. Expended/Int.Earned (%)	57.8	59.2	55.8	51.1	50.5	43.8	47.9	47.8
Other Income/NII (%)	14.4	15.7	18.0	15.2	15.3	19.8	23.4	23.3
Operating Profit/ Net Income (%)	39.9	40.6	40.6	51.8	51.3	49.7	52.3	52.9
Net Profit/Net Income (%)	17.8	16.1	15.7	16.1	1.6	16.5	22.6	24.7
Cost to Income (%)	60.1	59.4	59.4	48.2	48.7	50.3	47.7	47.1
Employee Exp/ Net Income (%)	26.3	25.8	31.4	24.1	23.0	26.5	30.8	31.0
Cost on Average Assets (%)	3.3	3.3	3.7	3.4	3.6	4.4	4.3	4.3
Provisions/PPP (%)	31.3	48.2	52.2	55.1	92.8	54.1	37.5	31.4
Tax Rate (%)	31.8	19.2	16.2	30.2	72.9	27.6	30.6	32.0

Valuation Ratio Metrics

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs)	7	8	9	9	1	10	12	16
Change (%)	86.6	9.7	18.8	(5.9)	(90.4)	1,026.2	28.9	24.7
ROAE (%)	11.1	10.5	11.4	11.1	0.9	10.2	13.2	14.1
ROAA (%)	1.0	0.9	1.0	1.1	0.1	1.5	2.0	2.2
Dividend Payout (%)	9.6	11.7	10.1	10.8	111.5	9.9	9.6	9.2
Dividend yield (%)	0.7	1.1	0.9	1.1	0.8	0.5	0.9	1.1
Dividend Per Share	0.6	0.8	0.8	0.8	0.8	0.8	1.0	1.2
Book Value (Rs)	74	79	87	91	92	98	103	118
Change (%)	26.7	7.5	9.9	4.5	0.9	6.8	5.7	13.9
P/B (X)	1.1	0.9	1.1	0.8	1.2	1.6	1.0	0.9
P/E (X)	11.3	9.0	9.9	8.3	122.9	15.8	8.6	6.9

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	15.1	15.1	15.7	15.3	15.3	15.2	14.7	13.9
Interest expended	8.7	9.0	8.8	7.8	7.7	6.6	7.0	6.6
Net Interest Income	**6.4**	**6.2**	**7.0**	**7.5**	**7.6**	**8.5**	**7.6**	**7.2**
Non-Fund Based Income	0.9	1.0	1.3	1.1	1.2	1.7	1.8	1.7
Total Income	7.3	7.2	8.2	8.6	8.8	10.2	9.4	8.9
Total Operating Expenses	**4.4**	**4.3**	**4.9**	**4.2**	**4.3**	**5.1**	**4.5**	**4.2**
>> Employee Expenses	1.9	1.8	2.6	2.1	2.0	2.7	2.9	2.8
>> Other Expenses	2.5	2.4	2.3	2.1	2.2	2.4	1.6	1.4
Operating Profit	2.9	2.9	3.3	4.5	4.5	5.1	4.9	4.7
Provisions	0.9	1.4	1.7	2.5	4.2	2.7	1.9	1.5
Others	-	-	-	-	-	-	-	-
PBT	2.0	1.5	1.6	2.0	0.3	2.3	3.1	3.2
Tax	0.6	0.3	0.3	0.6	0.2	0.6	0.9	1.0
PAT/RoAA	**1.3**	**1.2**	**1.3**	**1.4**	**0.1**	**1.7**	**2.1**	**2.2**
Equity Multiplier (x)	8.5	9.1	8.9	8.0	6.7	6.1	6.2	6.4
ROAE	**11.1**	**10.5**	**11.4**	**11.1**	**0.9**	**10.2**	**13.2**	**14.1**

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