

MAGMA FINCORP LIMITED

Industry NBFC  
Bloomberg MGMA IN  
BSE Code 52400  
NSE Code MAGMA

14 May 2018

RATING	BUY
CMP	177
Price Target	212
Previous Target	
Potential Upside	120%

Stock Info

52wk Range H/L	191/118
Mkt Capital (Rs Cr)	4777
Free float (%)	72%
Avg. Vol 1M (,000)	986
No. of Shares (Crore)	24
Promoters Pledged %	

Revival of loan growth

Key Highlights

- ✓ MAGMA was one of worst affected of the lots in the demonitisation effect, but now with the improving sentiments in the rural economy and number of government sponsored road infrastructure development schemes ,Magma is going to be one of the key beneficiary of the upscale in commercial vehicle and used vehicle demand in the economy. MAGMA has finished off with its internal restructuring, and its concentrated efforts to improve its asset quality.
- ✓ MAGMA has revamped its business and collection processes which has lead to improvement in asset quality. It has focused in strengthening its cross sell leads , with 54% increase in cross sell disbursement yoy.
- ✓ Assets Quality has improved significantly as it shift to 90 dpd basis but still asset quality remains at the level 7% GNPA .
- ✓ Magma is well capitalised to encash the rising vehicle demand in the rural economy it has recently raised 500 cr through Qualified Institutionals Buyers route.

4Q FY18 Result:

MAGMA reported healthy 4QFY18 numbers. The NII grew by 20% yoy which was highest in last 8 quarters. backed by revival of AUM growth by 2% QOQ .Operating expenses grown by 27% yoy, while operating profit grew at 10% yoy , which led the cost to income (C/I) ratio to rise to 51% vs 47% in the corresponding quarter a year back. Fee income has degrown this quarter by 34% while Provision in percentage to AUM has increased this quarter to 2.75%. PAT has increased to 230 cr from 20 cr last year. Asset quality has remained stable at 7 bps even after shifting to 90 dpd basis .

View and Valuation

Magma has been in consolidation phase of business model over the last three years and now with the improvement in business scenario it is likely to post 33% PAT CAGR over FY18-20. It has also witnessed improvement in assets quality even after shifting to 90 days NPA recognition. Expected Normal monsoon and strong sales of commercial vehicle is likely to help to Magma to post positive AUM growth after 3 years of decline. Recent senior level hiring, diversification of product & geography and capital raising to the tune of Rs 500 Cr place Magma in well position to post 2% RoA in FY20. Magma is currently trading at attractive valuation of 1.3x FY20 BV. We expect re-rating of valuation multiple and value Magma at 1.6x BV FY20 to arrive at target price of Rs212. BUY.

Key Risks to our rating and target

- ◆ Significant NIM compression due to rising bond yield.
- ◆ Slow than expected growth in AUM.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	1141	1105	1226	1417	1628
PPP	681	654	692	778	907
PAT	211	20	230	338	407
NIM %	6.0	6.4	7.7	8.5	8.4
EPS (Rs)	9	1	10	13	15
EPS growth (%)	-6	-90	1027	29	20
ROE (%)	11.1	0.9	10.2	12.2	12.0
ROA (%)	1.1	0.1	1.5	2.0	2.1
BV	91	92	98	119	133
P/B (X)	0.8	1.2	1.8	1.5	1.3
P/E (x)	8.3	122.9	18.3	14.2	11.8

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**4Q FY 18 Results**  
**Better than expectation**
**Better Performance**

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	561	549	532	580	581	3.6%	0.2%	2,230	2,242	0.5%
Interest Exp.	257	240	228	221	217	-15.7%	-1.9%	1,125	906	-19.5%
NII	304	309	303	359	364	20.0%	1.5%	1,105	1,336	20.9%
Other Income	13	19	18	11	9	-30.5%	-12.7%	169	57	-66.3%
Total Income	317	328	322	370	374	17.9%	1.1%	1,274	1,393	9.3%
Ope Exp.	149	169	167	176	190	27.2%	8.2%	620	701	13.0%
PPP	168	159	155	194	184	9.6%	-5.4%	654	692	5.9%
Provisions	319	91	75	102	106	-66.9%	3.9%	607	374	-38.4%
PBT	(152)	68	80	92	78	-151.5%	-15.6%	47	318	580.5%
Tax	(30)	23	31	27	7	-122.1%	-76.1%	34	88	157.2%
Extraordinary	-	-	-	-	-					
Net Profit	(122)	45	49	65	71	158.6%	9.9%	20	231	1030%

**NIM expansion backed by strong recovery**

NII growth has been strong at 20% YOY, backed by a comeback in AUM growth of 2% QOQ. Disbursement growth is strong at 51% YOY, while ABF alone has grown at 58% witnessing strong growth in used vehicle and commercial vehicles. NIM has remained constant at 9.70% QOQ. The yield on advances increased by 168 bps yoy to 15.09% because of strong recovery in rural economy, while the cost of funds has decreased by 88 bps to 8.96%, this has helped in margin expansion to 9.7%. Incremental cost of fund is at 9.1%, Management is confident even with hardening of bond yield cost of fund will remain under 9%.

**Operational Efficiency to kick in going ahead**

Cost to income ratio has increased from 51% to 47% YOY. Operating profit has grown at 10% YOY while Operating expenses has grown at 27% yoy. MAGMA restructuring and aggressive expansion strategy has led to temporary ascent in the cost to income ratio. MAGMA plans to add marginally 10 branches per year.

**Revival in Loan Book Growth**

Loan Book Growth was marginal at 2%, while Disbursement growth is 51% yoy. Strong disbursement of 58% in Asset backed finance, 21% in SME finance and 20% in used vehicle, collectively has shown strong signals of revival in vehicle demand. The share of vehicle finance is at 70%, Mortgage finance is at 18% and Sme finance is at 12%. With the forecasted normal monsoon this year, Magma growth story will take an upturn. On the long run management has guided that it will decrease the share of tractors and cars for used vehicle and increase the shares of small and light commercial vehicles.

**Asset Quality**

Asset quality has improved significantly, it has remained stable at 7% QOQ even after shifting to 90 dpd basis. Provisioning has increased to 27% from 17% yoy. Provision in percentage to AUM has increased this quarter to 2.7% from 2.6% QOQ, Further going ahead management has guided that it will be 50-75 bps on lower.

**Concall**

- \* Management has guided for 25-30 % disbursement growth for FY19, and 15-18% AUM growth.
- \* Portfolio mix to change to ABF -70%,Mortgage -20% (home loan 75% while LAP 25%)and sme to increase to `12%
- \* management has guided to reduce the mix of cars and tractors and increase share of used vehicle and commercial vehicle( small & light commercial vehicle ) .
- \* OPEX to go down to industry level in next 3 years.
- \* Management has guided to add marginally 10 new branches every year.
- \* NIM to remain between 8-8.5%.
- \* cost of fund will be below 9% for FY19.
- \* Market borrowings may increase over time by 2020.
- \* Management has guided for 2% ROA.

Profitability Matrix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
C/I Ratio %	47.3	50.0	47.1	51.4	52.0	47.5	50.8	3.73	3.34
Empl. Cost/ Tot. Exp. %	22.3	23.9	21.0	27.0	27.7	25.6	25.7	4.75	0.07
Other Exp/Tot. Exp.%	8.4	8.4	9.2	7.0	7.5	6.7	6.5	-2.70	-0.22
Provision/PPP %	55.4	65.0	190.3	57.4	48.5	52.4	57.5	-132.80	5.13
Tax Rate %	33.9	35.3	19.6	33.7	38.7	29.6	8.4	-11.15	-21.24
Int Exp./Int Inc. (%)	48.5	46.9	45.8	43.7	42.9	38.1	37.3	-8.56	-0.79
Other Inc./NII %	5.1	4.4	4.6	6.2	6.0	2.7	2.5	-2.05	-0.20
PPP/ Net Income %	52.7	50.0	52.9	48.6	48.0	52.5	49.2	-3.73	-3.34
PAT/ Net Income %	15.5	11.3	(38.5)	13.7	15.2	17.6	19.1	57.59	1.54
NII Growth % (YoY)	(3.4)	(6.2)	(8.8)	3.1	(1.7)	16.6	20.0	28.79	3.40
PPP Growth YoY %	5.9	(7.1)	(16.2)	4.1	(10.0)	20.5	9.6	25.75	-10.97
PAT Growth %	3.8	(30.3)	(284.8)	(5.3)	(3.5)	78.2	158.6	443	80.42

Margin Performance

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Yield on Advances	13.5	13.3	13.4	13.9	13.8	15.2	15.1	1.68	-0.12
Cost Of Funds	10.3	10.1	9.8	9.8	9.6	9.4	9.0	-0.88	-0.41
Spreads	3.2	3.2	3.6	4.2	4.2	5.8	6.1	2.56	0.29
NIM	7.4	7.4	7.6	8.3	8.4	9.7	9.7	2.10	0.00

Exhibit: Yield and Cost  
Stable Margins

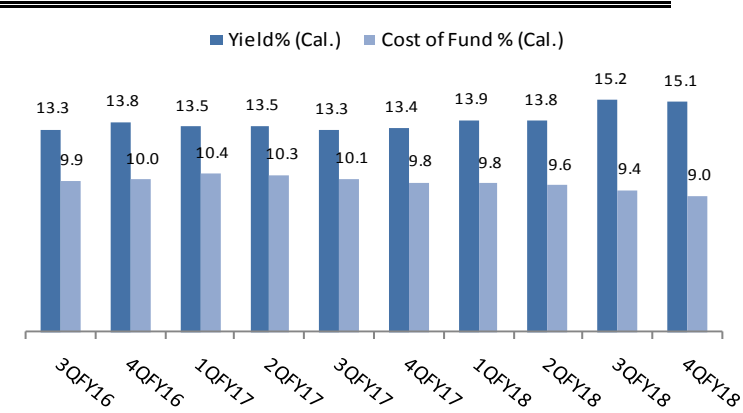
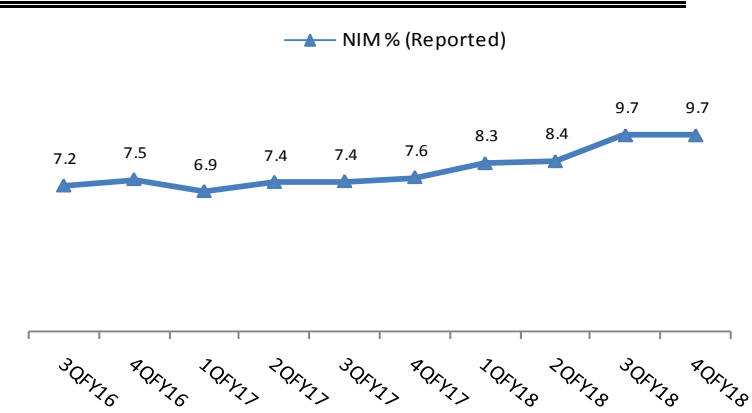


Exhibit: Net Interest Margin  
NIMs expanding



Asset & Borrowings Growth Trend

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Disbursements	1868	1757	1799	1682	1478	1473	1641	1939	2233
Growth YoY %	-20	2	-1	-5	-21	-16	-9	15	51
AUM	18183	17796	17600	17345	16101	15483	15262	15252	15555
Growth YoY %	-7	-7	-6	-6	-11	-13	-13	-12	-3
Borrowings	11902	11737	10807	10789	10096	9604	9347	9506	9829
Growth YoY %	0	1	-7	-10	-15	-18	-14	-12	-3

Exhibit: AUM Growth %

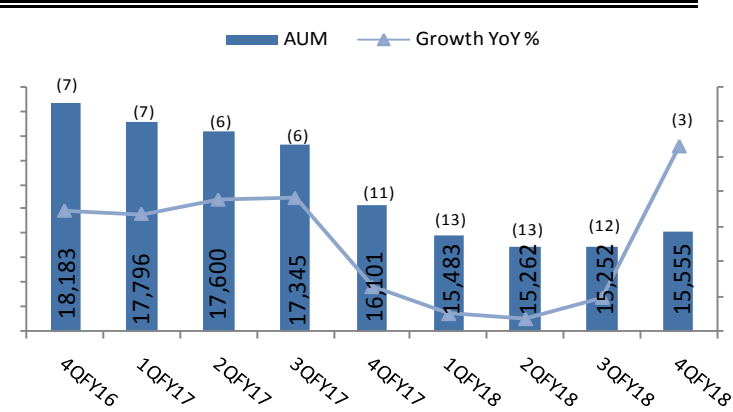
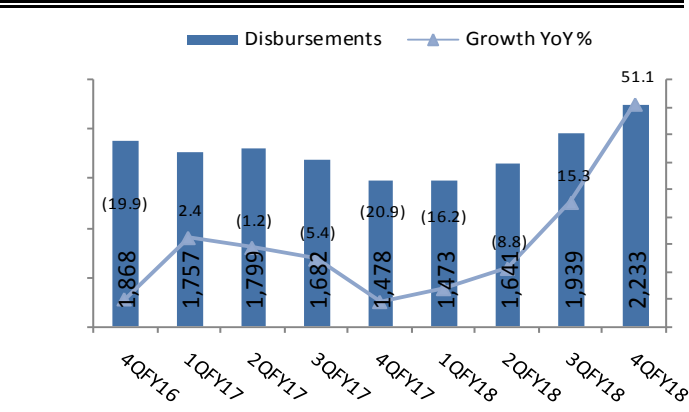


Exhibit: Disbursement Growth %



Asset Mix

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
UV/Cars	25	25	25	25	25	25	25	24	24
CV	9	8	8	7	7	6	7	7	8
CE	8	8	7	7	7	7	6	6	6
Used Assets	11	11	11	11	11	13	14	15	16
Agri Finance/Tractors	19	19	20	20	20	19	18	17	16
SME finance	10	10	10	11	12	12	12	12	13
Mortgage Finance	19	18	19	19	19	19	19	18	18

Disbursement Mix

UV/Cars	22	28	25	29	26	26	24	21	20
Tractor/Agri Finance	15	22	18	21	12	13	10	12	9
Commercial Vehicles	4	4	4	4	7	6	10	11	13
Construction Equipment	5	6	4	6	6	8	5	6	7
Used Asset	13	14	16	16	17	23	25	25	22
SME Finance/ Loans	19	16	19	16	22	17	18	18	21
Mortgage Finance	22	11	14	9	10	9	8	8	8

Asset Quality

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1,619	1,717	1,080	1,087	1,097	1,083	1,089	1%	1%
GNPA %	9.2	9.9	6.7	7.0	7.2	7.1	7.0	0.3	-0.1
NNPA(Rs in Cr)	1,231	1,271	889	866	836	795	793	-11%	0%
NNPA %	7.2	7.5	5.6	5.7	5.6	5.3	5.2	-0.4	-0.1
Specific PCR %	24.0	26.0	17.7	20.3	23.8	26.6	27.2	9.50	0.60

Exhibit: Asset Quality

Stable assets quality

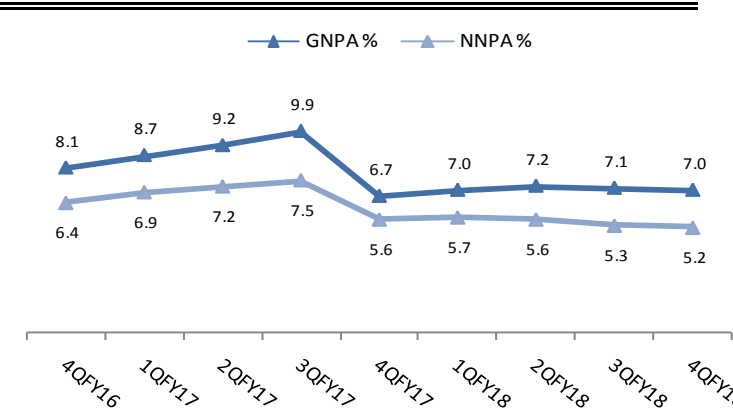
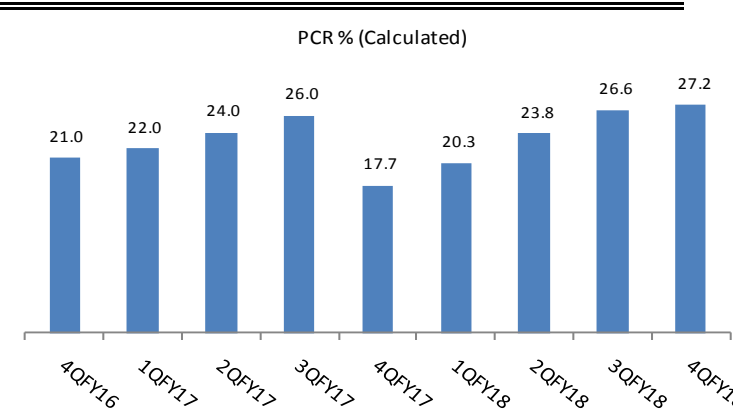


Exhibit: Provisions

Improving PCR



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>47</b>	<b>47</b>	<b>47</b>	<b>54</b>	<b>54</b>
>> <i>Equity Capital</i>	38	38	38	47	47	47	54	54
>> <i>Preference Capital</i>	-	-	-	-	-	-	-	-
Reserves & Surplus	1,359	1,466	1,617	2,104	2,125	2,272	3,140	3,515
<b>Networth</b>	<b>1,397</b>	<b>1,504</b>	<b>1,655</b>	<b>2,151</b>	<b>2,172</b>	<b>2,319</b>	<b>3,194</b>	<b>3,569</b>
<i>Change (%)</i>	26.9	7.6	10.1	30.0	1.0	6.8	37.7	11.7
<b>Total Borrowing</b>	<b>10,599</b>	<b>10,375</b>	<b>11,847</b>	<b>11,902</b>	<b>10,096</b>	<b>9,829</b>	<b>11,111</b>	<b>13,051</b>
<i>Change (%)</i>	69.3	(2.1)	14.2	0.5	(15.2)	(2.6)	13.0	17.5
Provisions	164	283	357	480	315	441	447	446
Other Liability	953	1,017	1,023	990	1,012	1,112	1,222	1,305
<b>Total Liabilities</b>	<b>13,114</b>	<b>13,178</b>	<b>14,882</b>	<b>15,523</b>	<b>13,595</b>	<b>13,701</b>	<b>15,974</b>	<b>18,370</b>
Investments	267	402	414	400	546	649	716	830
Loans	10,976	11,352	13,274	14,099	11,968	12,040	13,774	15,978
<i>Change (%)</i>	58	3	17	6	(15)	1	14	16
Fixed Assets	176	184	206	217	224	200	233	249
Other Assets	478	414	362	399	503	395	555	623
Cash Balances	<b>1,218</b>	<b>827</b>	<b>627</b>	<b>408</b>	<b>353</b>	<b>418</b>	<b>698</b>	<b>691</b>
<b>Total Assets</b>	<b>13,114</b>	<b>13,178</b>	<b>14,882</b>	<b>15,523</b>	<b>13,595</b>	<b>13,701</b>	<b>15,974</b>	<b>18,370</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest income	1,604	1,990	2,210	2,332	2,230	2,131	2,358	2,719
Interest expended	926	1,177	1,233	1,192	1,125	906	941	1,091
<b>Net Interest Income</b>	<b>678</b>	<b>813</b>	<b>977</b>	<b>1,141</b>	<b>1,105</b>	<b>1,226</b>	<b>1,417</b>	<b>1,628</b>
<i>Change (%)</i>	73.3	19.9	20.2	16.8	(3.2)	11.0	15.6	14.9
Other Income	98	128	176	174	169	167	161	186
<i>Change (%)</i>	53.7	30.9	37.8	(1.3)	(2.6)	(1.4)	(3.6)	15.2
<b>Total Net Income</b>	<b>775</b>	<b>941</b>	<b>1,153</b>	<b>1,315</b>	<b>1,274</b>	<b>1,393</b>	<b>1,578</b>	<b>1,814</b>
<i>Change (%)</i>	71	21	23	14	(3)	9	13	15
<b>Operating Expenses</b>	<b>466</b>	<b>559</b>	<b>685</b>	<b>634</b>	<b>620</b>	<b>701</b>	<b>800</b>	<b>907</b>
<i>Change (%)</i>	54	20	23	(7)	(2)	13	14	13
Employee Expenses	204	243	362	317	293	369	404	462
<i>Change (%)</i>	36.9	19.1	48.9	(12.3)	(7.5)	25.6	9.7	14.4
Other Expenses	262	316	323	317	327	333	396	445
<b>Pre-provisioning Profit</b>	<b>309</b>	<b>382</b>	<b>468</b>	<b>681</b>	<b>654</b>	<b>692</b>	<b>778</b>	<b>907</b>
<i>Change (%)</i>	104.0	23.5	22.5	45.5	(4.0)	5.8	12.5	16.5
Provisions	97	184	244	375	607	374	267	290
<i>Change (%)</i>	102.1	90.6	32.7	53.4	61.8	(38.4)	(28.7)	8.9
PBT	212	198	223	306	47	318	511	616
Tax	68	38	36	92	34	88	174	209
<b>Profit After Tax</b>	<b>145</b>	<b>160</b>	<b>187</b>	<b>213</b>	<b>13</b>	<b>230</b>	<b>338</b>	<b>407</b>
<i>Change (%)</i>	86.3	10.1	17.3	14.0	(94.1)	1,713.9	46.7	20.5
<b>Adjusted Profit</b>	<b>138</b>	<b>152</b>	<b>181</b>	<b>211</b>	<b>20</b>	<b>230</b>	<b>338</b>	<b>407</b>
<i>Change (%)</i>	86.8	9.8	19.0	17.0	(90.3)	1,027.6	46.7	20.5

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	17,888	20,750
Off Book AUM	5,264	6,525	6,293	4,084	4,133	3,515	4,114	4,773
AUM Growth (%)	34.9	10.1	9.5	(7.1)	(11.5)	(3.4)	15.0	16.0
Borrowing Growth (%)	69.3	(2.1)	14.2	0.5	(15.2)	(2.6)	13.0	17.5
Loan to Borrowing Ratio (%)	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Disbursement	2,057	2,639	2,332	1,868	1,478	2,233	2,862	3,528
Disbursement Growth	20	20	20	20	(21)	51	28	23
CRAR (%)	16.6	16.6	16.3	18.7	20.4	20.7	23.3	22.4
>> Tier 1 (%)	11.5	11.5	11.1	14.6	15.4	17.3	19.9	19.0
>> Tier 2 (%)	5.1	5.1	5.2	4.1	5.0	3.4	3.4	3.4
Debt-Equity ratio	7.6	6.9	7.2	5.5	4.6	4.2	3.5	3.7
Assets Quality Metrics								
Gross NPA	264	642	830	1,464	1,080	1,089	1,163	1,370
Gross NAP (%)	-	-	-	8.1	6.7	7.0	6.5	6.6
Net NPA	209	514	659	1,151	889	793	826	959
Net NPA (%)	-	-	-	6.4	5.6	5.2	4.7	4.7
Specific Provision Coverage (%)	-	-	-	21.0	17.7	27.2	29.0	30.0
Provision/Average Advances (%)	31.3	48.2	52.2	55.1	92.8	54.1	34.3	32.0
Margin Metrics								
Yield On Aum (%)	11.3	11.7	11.8	12.4	13.0	13.5	14.1	14.1
Cost Of Funds (%)	11.0	11.2	11.1	10.0	10.2	9.1	9.0	9.0
Spread (%)	0.4	0.4	0.7	2.3	2.8	4.4	5.1	5.0
NIM (%)	4.8	4.8	5.2	6.0	6.4	7.7	8.5	8.4
Profitability & Efficiency Metrics								
Int. Expended/Int.Earned (%)	58	59	56	51	50	42	40	40
Other Income/NII (%)	14	16	18	15	15	14	11	11
Operating Profit/ Net Income (%)	40	41	41	52	51	50	49	50
Net Profit/Net Income (%)	18	16	16	16	2	17	21	22
Cost to Income (%)	60	59	59	48	49	50	51	50
Employee Exp/ Net Income (%)	26	26	31	24	23	26	26	26
Cost on Average Assets (%)	3	3	4	3	4	4	5	5
Provisions/PPP (%)	31	48	52	55	93	54	34	32
Tax Rate (%)	32	19	16	30	73	28	34	34
Valuation Ratio Metrics								
EPS (Rs)	7	8	9	9	1	10	13	15
Change (%)	86.6	9.7	18.8	(5.9)	(90.4)	1,027.3	29.2	20.5
ROAE (%)	11.1	10.5	11.4	11.1	0.9	10.2	12.2	12.0
ROAA (%)	1.0	0.9	1.0	1.1	0.1	1.5	2.0	2.1
Dividend Payout (%)	9.6	11.7	10.1	10.8	111.5	9.9	9.6	9.5
Dividend yield (%)	0.7	1.1	0.9	1.1	0.8	0.4	0.6	0.7
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	119	133
Change (%)	26.7	7.5	9.9	4.5	0.9	6.8	21.2	11.7
P/B (X)	1.1	0.9	1.1	0.8	1.2	1.8	1.5	1.3
P/E (X)	11.3	9.0	9.9	8.3	122.9	18.3	14.2	11.8

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	15.1	15.7	15.3	15.3	15.6	15.9	15.8
Interest expended	9.0	8.8	7.8	7.7	6.6	6.3	6.4
Net Interest Income	6.2	7.0	7.5	7.6	9.0	9.5	9.5
Other Income	1.0	1.3	1.1	1.2	1.2	1.1	1.1
Total Income	7.2	8.2	8.6	8.8	10.2	10.6	10.6
Total Operating Expenses	4.3	4.9	4.2	4.3	5.1	5.4	5.3
>> Employee Expenses	1.8	2.6	2.1	2.0	2.7	2.7	2.7
>> Other Expenses	2.4	2.3	2.1	2.2	2.4	2.7	2.6
Operating Profit	2.9	3.3	4.5	4.5	5.1	5.2	5.3
Provisions	1.4	1.7	2.5	4.2	2.7	1.8	1.7
Others	-	-	-	-	-	-	-
PBT	1.5	1.6	2.0	0.3	2.3	3.4	3.6
Tax	0.3	0.3	0.6	0.2	0.6	1.2	1.2
PAT/RoA	1.2	1.3	1.4	0.1	1.7	2.3	2.4
>> Equity Multiplier (x)	9.1	8.9	8.0	6.7	6.1	5.4	5.1
RoE	10.5	11.4	11.1	0.9	10.2	12.2	12.0

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