

Industry  
Bloomberg  
BSE CODE

Financial  
MAGMA IN  
524000

## Spike in Credit Cost Affected Profitability.

RATING	NEUTRAL
CMP	67
Price Target	71
Potential Upside	6%
Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	155/67
Mkt Capital (Rs Cr)	1805
Free float (%)	47%
Avg. Vol 1M (,000)	466
No. of Shares (Cr)	27
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1128	1121	1225
PPP	707	639	790
PAT	304	233	362
NIM %	6.9	6.3	6.2
EPS (Rs)	11	9	13
EPS growth (%)	12.97	-23.24	55.00
ROE (%)	12.9	8.2	11.6
ROA (%)	1.9	1.3	1.8
BV	102	110	122
P/B (X)	0.7	0.6	0.6
P/E (x)	5.9	7.7	5.0

### 1QFY20 Result Update

- NII growth has decreased at the rate of 15% on the back of muted AUM growth of 9% YoY and margin pressure. Other income has grown at 6% YoY. The C/I have increased to 54.92% from 49.14% YoY. PAT was affected primarily due to spike in credit cost, it stood at Rs 11 Cr as at 1QFY20. NIM has decreased from 8.60% to 7.50% on a YoY basis.
- AUM growth has remained muted at 9%/2% on a YoY/QoQ basis. The growth was driven by vehicle finance at 4% YoY, mortgage finance at 28% YoY and SME finance at 9%YoY.
- GNPA has increased on a QoQ basis from 4.80% to 5.10% QoQ while NNPA increased to 3.30% from 3.10% QoQ. The PCR has declined to 35.75% from 36.68% QoQ.

### Sluggish AUM growth

AUM grew at the rate of 9%/2% YoY/ QoQ basis. The share vehicle finance portfolio stood at 67%, share of mortgage finance portfolio stood at 20% while SME stood at 13%. Disbursement has grown at 12% YoY, the incremental disbursement has been more towards UV/Cars segment (20%), used assets (30%), SME finance (16%) and home loan segment (12%). The contribution of CV, used assets and SME finance has increased to 10%, 20% and 20% from 8%, 17% and 17% respectively.

### Rising Asset Quality Concern

GNPA has increased on a QoQ basis from 4.80% to 5.10% QoQ while NNPA increased to 3.30% from 3.10% QoQ. The PCR has declined to 35.75% from 36.68% QoQ. The early bucket delinquency has remained at a lower range; the EWS has decreased from 8% to 5.7% the CPMI has decreased from 5.7% to 4.7%. The ED in Home loan has decreased from 1.4% to 70 bps while ID decreased from 1.6% to 7 bps. The ED in SME increased slightly to 1.43% from 1.3% while ID of SME has decreased from 60 bps to 40 bps.

### NII and Margin Growth Remain Affected

NII has decreased by 15% with muted AUM growth of 9% YoY and margin pressure. The incremental cost of borrowing stood at 10.5%. Yield on the SME segment stood at approx. 18.5% while for Used CV it stood at 18%. Risk premium for MAGMA has moved up from 25-30 bps above MCLR to up to 100 bps. Management expects another 10 bps increase in cost this quarter. Yield has improved by 30 bps in June with the help of rising share of used asset and it expected to improve by another 30 bps in 2HFY19. NIM expansion is expected by rising share of used vehicle, focus on fee income and rising share of direct business.

### View and Valuation

Slower growth in rural consumption and slow down in the vehicle segment has affected MAGMA loan growth. Margin has remained muted impacted by liquidity and NBFC sector stress. Though management has laid down plans for NIM improvement on the back of few measures like rising share of used asset, higher fee income and more quantum of direct business which we expect will take one's time for implementation. Rising credit cost is major concern which was led by movements to the higher buckets and rising losses from the reposed assets. However management remains confident of maintaining the credit cost at 1.75% going ahead. We remain cautious on the rural economy keeping in mind deficient monsoon and higher loss on account of reposed vehicle. We decrease our estimate by 30% in FY20 & down grade the stock to NEUTRAL. We value the stock at P/B 0.6x for FY21 to Rs 71.

### Key Risks to our rating and target

- Rise in losses with lower repossession value.
- Affected monsoon will impact rural further.

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## Muted Growth

### 1QFY20 Results

### Below Expectations

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	586	624	560	586	601	2.6%	2.6%	2,126	2,250	5.8%
Interest Exp.	265	275	287	295	329	24.1%	11.4%	1,117	1,122	0.4%
NII	321	350	273	291	272	-15.2%	-6.3%	1,009	1,128	11.8%
Other Income	20	15	9	15	21	5.8%	37.0%	202	264	30.6%
Total Income	341	365	347	340	323	-5.2%	-5.0%	1,210	1,391	14.9%
Ope Exp.	167	171	175	172	177	6.0%	3.1%	605	684	13.0%
PPP	173	194	172	168	146	-15.9%	-13.2%	605	707	16.9%
Provisions	85	87	52	41	129	52.1%	211.7%	316	265	-16.0%
PBT	89	107	120	127	17	-80.9%	-86.6%	289	442	52.8%
Tax	29	27	43	40	5	-82.7%	-87.6%	54	138	156.4%
Extra Items	-	-	-	-	-					
Net Profit	68	77	74	85	11	-84.4%	-87.5%	237	304	28%

### Concall Highlights

- Management says there is a consumption slowdown in the primary markets, there is gradual momentum from consumption to conservation. Further monsoon performance will decide course of investment in the sector.
- The incremental cost of borrowing stood at 10.5%. Yield on the SME segment stood at approx. 18.5% while for Used CV it stood at 18% (including the entire segment). Risk premium for MAGMA has moved up from 25-30 bps above MCLR to up to 100 bps. Management expects resolution of public sector funding gap will provided the need rate cut in the cost. Management expects another 10 bps increase in cost this quarter. Yield has improved by 30 bps in June with the help of rising share of used asset and it expected to improve another 30 bps in 2HFY19. NIM expansion is expected by rising share of used vehicle, focus on fee income and rising share of direct business.
- Management focus on used asset, which stands at 30% of ABF which will serve well in higher cost of borrowing environment. SME business has cautious disbursal to keep in line strong asset quality. Management expects demand improvement in 2HFY19 on the back of BS-VI implementation.
- The conversion of borrowings into long term borrowing has led to increase in the cost. CP stands at 6% of the total borrowings.
- Management is taking step to improve operating expenditure in FY20.
- The hike in credit cost was basically on behalf of moving to 730 day past where provisioning is provided to the amount of 100%. The rise in credit cost was attributed to both loss on sales from repossession and movement to higher buckets. Management has guided credit cost to remain in the range of 1.75% range going ahead. The release from reposed vehicle stood at 45% from 56% QoQ. Collection efficiency stood 96.1% from 97.7% QoQ which was majorly affected due to election especially April & may month.
- For SME book past 450 days 100% provision is done while for ABF book past 730 dpd is 100% provision. Bucket 0 for SME has 99% collection efficiency.
- The EWS (early warning signal) & CPMI are trading at multi year low.
- Direct sourcing stood at 68% for home loan and 81% for the business. Rising share of direct has resulted in better NIM due to lower payout ratio.
- About 40% of used vehicle segment are through cross sell to own customers base. If asset quality remains stable in the segment management can grow upto 50% of the portfolio going ahead. The used CV is of 4-5 years tenure.
- The average ticket size of vehicle finance has decreased to Rs 4.35 Lakhs from 4.65 Lakhs YoY, while SME has declined to Rs 9 lakh from Rs 12-13 Lakhs.

## Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	49.6	52.4	49.1	46.8	50.5	50.6	54.9	5.79	4.30
Empl. Cost/ Tot. Exp. %	31.0	30.0	32.2	29.2	32.0	32.1	37.1	4.86	4.95
Other Exp/Tot. Exp.%	14.6	17.6	13.4	14.2	14.9	14.2	12.0	-1.36	-2.17
Provision/PPP %	61.4	19.0	48.8	45.0	30.5	24.6	88.3	39.53	63.75
Tax Rate %	25.4	35.7	32.2	25.6	35.8	31.3	29.0	-3.18	-2.31
Int Exp./Int Inc. (%)	48.0	50.3	45.2	44.0	51.2	50.4	54.7	9.48	4.32
Other Inc./NII %	1.7	22.4	6.1	4.3	27.0	16.9	18.6	12.56	1.72
PPP/ Net Income %	50.4	47.6	50.9	53.2	49.5	49.4	45.1	-5.79	-4.30
PAT/ Net Income %	14.5	24.8	17.7	21.8	22.1	25.6	3.7	-13.93	-21.84
NII Growth % (YoY)	(3.1)	(13.1)	9.0	12.2	(8.4)	10.1	(15.2)	-24.19	-25.30
PPP Growth YoY %	(5.0)	(8.4)	6.9	5.9	12.4	9.2	(15.9)	-22.88	-25.14
PAT Growth %	20.9	165.71	76.3	4.8	64.9	6.6	(84.4)	-160.69	-90.96

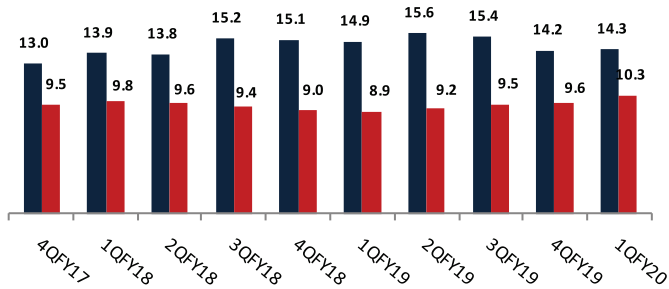
## Margin Performance

MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	14.5	13.1	14.9	15.6	13.8	14.2	14.3	-0.64	0.06
Cost Of Funds	9.5	9.2	8.8	9.1	9.5	9.6	10.3	1.50	0.73
Spreads	5.0	4.0	6.1	6.6	4.3	4.6	4.0	-2.14	-0.67
NIM	7.8	8.2	8.6	9.0	8.4	8.1	7.5	-1.10	-0.60

### Exhibit: Yield and Cost

Yield declined & cost of fund both stands increased

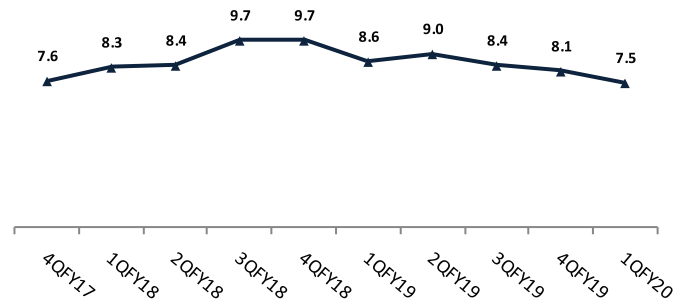
■ Yield% (Cal.) ■ Cost of Fund % (Cal.)



### Exhibit: Net Interest Margin

NIM declined

▲ NIM % (Reported)



## Asset & Borrowings Growth Trend

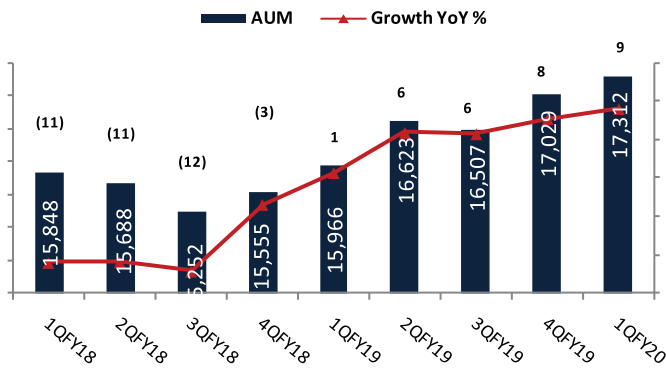
Fig in Rs Cr

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Disbursements	1473	1641	1939	2233	1840	2200	2133	2586	2066
Growth YoY %	-16	-9	15	51	25	34	10	16	12
AUM	15848	15688	15605	15801	15873	16623	16507	17029	17312
Growth YoY %	-11	-11	-10	-2	0	6	6	8	9
Borrowings	12185	12056	12043	12327	11844	12165	12017	13401	13560
Growth YoY %	4	12	12	22	-3	1	0	9	14

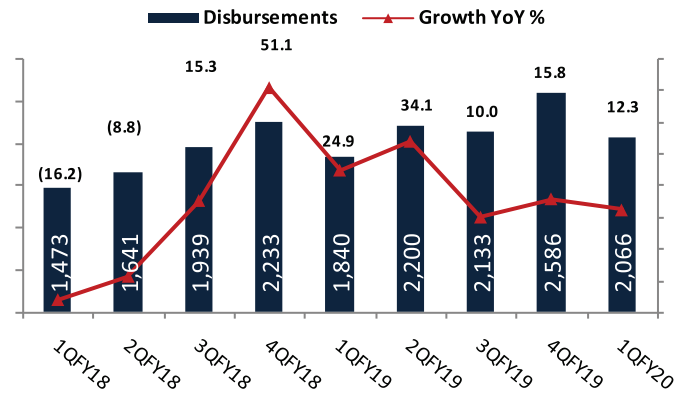
## Asset Composition %

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Vehicle Finance & CE	70	70	70	71	70	70	68	68	67
Mortgage Finance	18	18	18	17	17	17	18	19	20
SME Finance	12	12	12	12	13	13	14	13	13
Total	100	100	100	100	100	100	100	100	100

## Exhibit: AUM Growth %



## Exhibit: Disbursement Growth %



## Asset Mix

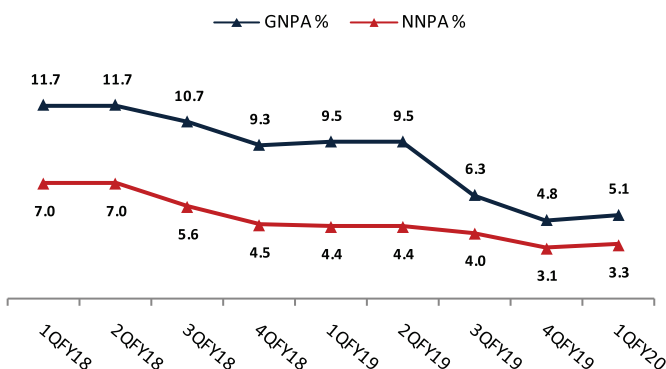
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
UV/Cars	25	25	25	24	24	22	21	20	20
CV	6	7	7	8	8	9	10	10	10
CE	7	6	6	7	7	7	7	8	7
Used Assets	13	14	15	16	17	17	18	19	20
Agri Finance/Tractor	19	18	17	16	14	15	12	11	10
SME Finance	12	12	12	12	13	13	14	13	13
Mortgage Finance	18	18	18	17	17	17	18	19	20

## Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA	1,563	1,373	1,422	1,452	946	747	814	-0.43	0.09
GNPA %	10.7	9.3	9.5	9.5	6.3	4.8	5.1	-0.46	0.06
NNPA	773	625	626	631	585	473	523	-0.16	0.11
NNPA %	5.6	4.5	4.4	4.4	4.0	3.1	3.3	-0.25	0.06
Total Specific PCR %	51	55	56	57	38	37	36	-0.36	-0.03

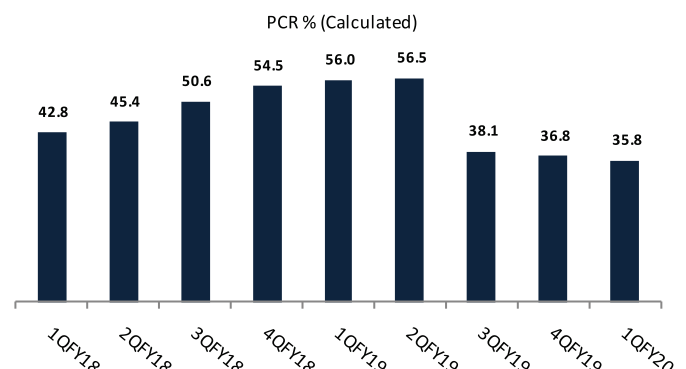
## Exhibit: Asset Quality

GNPA & NNPA has increased

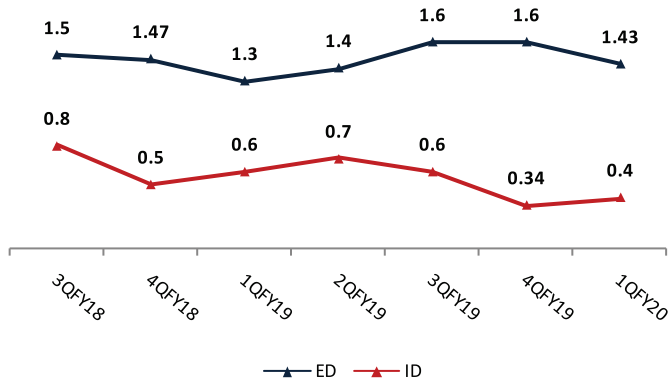


## Exhibit: Provisions

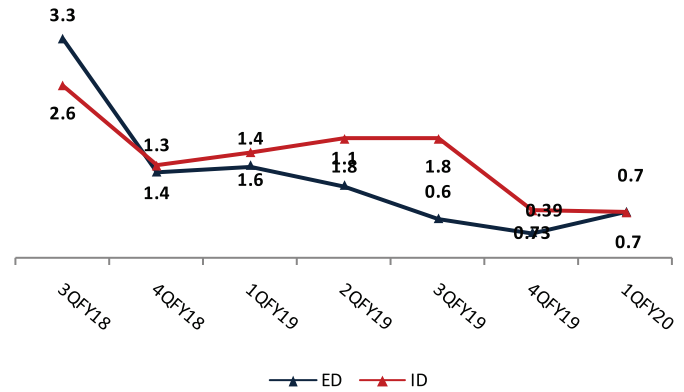
PCR declined



## Exhibit: ED & ID for Vehicle Loan



## Exhibit: ED & ID for Home Loan



## Other Details

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
EWI Trend For ABF	8.3	5.8	8.0	8.9	7.4	4.2	5.7
CPMI Trebd For ABF	9.5	7.2	5.7	4.7	4.7	4.1	4.7

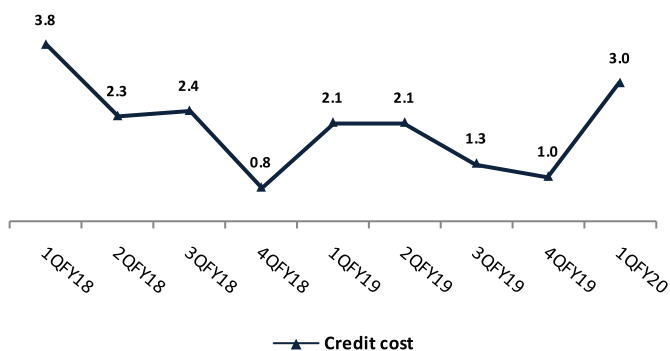
## Asset Quality

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gross Stage 1 and Stage 2 Assets	13,023	13,401	13,542	13,866	13,988	14,898	15,282
ECL Provision – Stage 1 and 2	407	388	359	348	333	293	300
Stage 1 and Stage 2 Coverage Ratio (%)	3.10%	2.90%	2.60%	2.50%	2.40%	2.00%	2.00%
Gross Stage 3 Assets	1,563	1,263	1,422	1,452	836	747	814
ECL Provision – Stage 3	790	638	796	821	250	274	291
Gross Stage 3 Assets (%) (~ GNPA)	11%	9%	10%	10%	6%	5%	5%
Net Stage 3 Assets (%) (~NNPA)	6%	5%	4%	4%	4%	3%	3%
Stage 3 Coverage Ratio (%)	51%	51%	56%	57%	30%	37%	36%

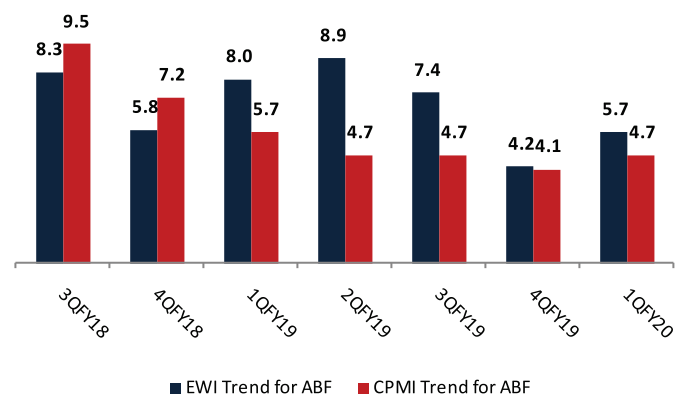
## Exhibit: AUM Breakup

Credit cost has Increased



## Exhibit: EWS & CPMI

EWS & CPMI improving



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>38</b>	<b>38</b>	<b>47</b>	<b>47</b>	<b>47</b>	<b>54</b>	<b>54</b>	<b>54</b>
Equity Capital	38	38	47	47	47	54	54	54
Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	1,466	1,617	2,104	2,125	1,925	2,690	2,898	3,220
<b>Networth</b>	<b>1,504</b>	<b>1,655</b>	<b>2,151</b>	<b>2,172</b>	<b>1,972</b>	<b>2,744</b>	<b>2,951</b>	<b>3,274</b>
Change (%)	8	10	30	1	(9)	39	8	11
Borrowings	10375	11847	11902	10096	9829	12185	14867	16353
Change (%)	(2)	14	0	(15)	(3)	24	22	10
Provisions	283	357	480	315	13	13	30	33
<b>Other Liability</b>	<b>1,017</b>	<b>1,023</b>	<b>990</b>	<b>1,012</b>	<b>3,080</b>	<b>1,848</b>	<b>1,814</b>	<b>1,995</b>
<b>Total Liabilities</b>	<b>13,178</b>	<b>14,882</b>	<b>15,523</b>	<b>13,595</b>	<b>14,894</b>	<b>16,789</b>	<b>19,661</b>	<b>21,655</b>
Investments	402	414	400	546	140	141	375	412
Loans	11,352	13,274	14,099	11,968	12,040	14,422	17,233	18,957
Change (%)	3	17	6	(15)	1	20	19	10
Fixed Assets	184	206	217	224	193	189	244	268
Other Assets	414	362	399	503	2,114	1,081	450	495
Cash Balance	827	627	408	353	407	957	1,360	1,524
<b>Total Assets</b>	<b>13,178</b>	<b>14,882</b>	<b>15,523</b>	<b>13,595</b>	<b>14,894</b>	<b>16,789</b>	<b>19,661</b>	<b>21,655</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	1,990	2,210	2,332	2,230	2,126	2,250	2,502	2,764
Interest expended	1,177	1,233	1,192	1,125	1,117	1,122	1,381	1,538
Net Interest Income	813	977	1,141	1,105	1,009	1,128	1,121	1,225
Change (%)	20	20	17	(3)	(9)	12	(1)	9
Other Income	128	176	174	169	202	264	173	221
Change (%)	31	38	(1)	(3)	19	31	(34)	27
Total Net Income	941	1,153	1,315	1,274	1,210	1,391	1,295	1,446
Change (%)	21	23	14	(3)	(5)	15	(7)	12
Operating Expenses	559	685	634	620	605	684	655	655
Change (%)	20	23	(7)	(2)	(2)	13	(4)	0
Employee Expenses	243	362	317	293	368	437	420	408
Change (%)	19	49	(12)	(8)	25	19	(4)	(3)
Other Expenses	316	323	317	327	237	247	235	247
Pre-provisioning Profit	382	468	681	654	605	707	639	790
Change (%)	24	23	46	(4)	(7)	17	(10)	24
Provisions	184	244	375	607	316	265	283	258
Change (%)	91	33	53	62	(48)	(16)	7	(9)
PBT	198	223	306	47	289	442	356	532
Tax	38	36	92	34	54	138	123	170
Profit After Tax	160	187	213	13	235	303	233	362
Change (%)	10	17	14	(94)	1,753	29	(23)	55
Adjusted PAT	152	181	211	20	237	304	233	362
Change (%)	10	19	17	(90)	1,061	28	(23)	55



## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
AUM	17,877	19,567	18,183	16,101	15,555	17,029	18,732	20,605
Off-Book AUM	6,525	6,293	4,084	4,133	3,515	2,607	1,499	1,648
Aum Growth (%)	10	9	(7)	(11)	(3)	9	10	10
Borrowings Growth (%)	(2.1)	14.2	0.5	(15.2)	(2.6)	24.0	22.0	10.0
Aum/Borrowings Ratio (%)	1	1	1	1	1	1	1	1
Disbursement (Rs Cr)	2639	2332	1868	1478	2233	2586	2997.1	3502.9
Disbursement Growth (%)	20	20	20	(21)	51	16	16	17
CRAR (%)	17	16	19	20	21	25	19	19
Tier 1 (%)	12	11	15	15	17	21	16	16
Tier 2 (%)	5.1	5.2	4.1	5.0	3.4	4.1	3.7	3.4
Debt/Equity (x)	6.9	7.2	5.5	4.6	5.0	4.4	5.0	5.0
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	642	830	1,464	1,080	1,089	747	880	968
Gross NPA (%)	-	-	8.1	6.7	7.0	4.8	4.7	4.7
Net NPA (Rs)	514	659	1,151	889	793	473	555	610
Net NPA (%)	-	-	6.4	5.6	5.2	3.1	3.0	3.0
Specific Provision Coverage (%)	-	-	21.0	17.7	27.2	36.8	37.0	37.0
Prov. Exp/Average Loan (%)	48.2	52.2	55.1	92.8	52.2	37.5	44.3	32.7
<b>Margin Metrics</b>								
Yield On Advances (%)	11.7	11.8	12.4	13.0	13.4	13.8	14.0	14.1
Cost Of Funds (%)	7.2	7.0	7.0	7.4	8.1	8.0	8.9	9.0
Spread (%)	4.5	4.8	5.4	5.6	5.3	5.8	5.1	5.1
NIM on AUM (%)	4.8	5.2	6.0	6.4	6.4	6.9	6.3	6.2
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expended/Int.Earned (%)	59.2	55.8	51.1	50.5	52.6	49.9	55.2	55.7
Other Income/NII (%)	15.7	18.0	15.2	15.3	20.0	23.4	15.5	18.0
Operating Profit/ Net Income (%)	40.6	40.6	51.8	51.3	50.0	50.8	49.4	54.7
Net Profit/Net Income (%)	16.1	15.7	16.1	1.6	19.6	21.9	18.0	25.0
Cost to Income (%)	59.4	59.4	48.2	48.7	50.0	49.2	50.6	45.3
Employee Exp/ Net Income (%)	25.8	31.4	24.1	23.0	30.4	31.4	32.5	28.2
Cost on Average Assets (%)	3.3	3.7	3.4	3.6	3.8	4.2	3.7	3.3
Provisions/PPP (%)	48.2	52.2	55.1	92.8	52.2	37.5	44.3	32.7
Tax Rate (%)	19.2	16.2	30.2	72.9	18.7	31.3	34.5	32.0
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	8.0	9.5	8.9	0.9	10.0	11.3	8.7	13.4
Change (%)	9.7	18.8	(5.9)	(90.4)	1,061	13	(23.2)	55.0
ROAE (%)	10.5	11.4	11.1	0.9	11.4	12.9	8.2	11.6
ROAA (%)	0.9	1.0	1.1	0.1	1.5	1.9	1.3	1.8
Dividend Payout (%)	11.7	10.1	10.8	111.5	9.6	8.5	16.6	10.7
Dividend yield (%)	1.1	0.9	1.1	0.8	0.5	1.2	1.8	1.8
Dividend Per Share	0.8	0.8	0.8	0.8	0.8	0.8	1.2	1.2
Book Value (Rs)	79	87	91	92	83	102	110	122
Change (%)	7.5	9.9	4.5	0.9	(9.2)	22.5	7.6	10.9
P/B (X)	0.9	1.1	0.8	1.2	1.8	0.7	0.6	0.6
P/E (X)	9.0	9.9	8.3	122.9	15.3	5.9	7.7	5.0

## Financial Details

### Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	15.1	15.7	15.3	15.3	14.9	14.2	13.7	13.4
Interest expended	9.0	8.8	7.8	7.7	7.8	7.1	7.6	7.4
<b>Net Interest Income</b>	<b>6.2</b>	<b>7.0</b>	<b>7.5</b>	<b>7.6</b>	<b>7.1</b>	<b>7.1</b>	<b>6.2</b>	<b>5.9</b>
Non-Fund Based Income	1.0	1.3	1.1	1.2	1.4	1.7	1.0	1.1
Total Income	7.2	8.2	8.6	8.8	8.5	8.8	7.1	7.0
<b>Total Operating Expenses</b>	<b>4.3</b>	<b>4.9</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>	<b>3.6</b>	<b>3.2</b>
Employee Expenses	1.8	2.6	2.1	2.0	2.6	2.8	2.3	2.0
Other Expenses	2.4	2.3	2.1	2.2	1.7	1.6	1.3	1.2
Operating Profit	2.9	3.3	4.5	4.5	4.2	4.5	3.5	3.8
Provisions	1.4	1.7	2.5	4.2	2.2	1.7	1.6	1.3
Others	-	-	-	-	-	-	-	-
PBT	1.5	1.6	2.0	0.3	2.0	2.8	2.0	2.6
Tax	0.3	0.3	0.6	0.2	0.4	0.9	0.7	0.8
PAT/RoAA	1.2	1.3	1.4	0.1	1.7	1.9	1.3	1.8
Equity Multiplier (x)	9.1	8.9	8.0	6.7	6.9	6.7	6.4	6.6
ROAE	10.5	11.4	11.1	0.9	11.4	12.9	8.2	11.6



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