

Industry
Bloomberg
BSE CODE

Financial
MAGMA IN
524000

Restricted Liquidity Led to Slowdown in Growth

RATING	NEUTRAL
CMP	48
Price Target	54
Potential Upside	13%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	138/45
Mkt Capital (Rs Cr)	1285
Free float (%)	47%
Avg. Vol 1M (,000)	74
No. of Shares (Crs)	27
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1128	1049	1043
PPP	707	623	674
PAT	304	147	306
NIM %	6.9	6.1	5.9
EPS (Rs)	11	5	11
EPS growth (%)	12.97	-51.54	107.47
ROE (%)	12.9	5.3	10.2
ROA (%)	1.9	0.9	1.7
BV	102	106	116
P/B (X)	0.5	0.5	0.4
P/E (x)	4.3	9.0	4.3

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2QFY20 Result Update

- NII has decreased by 26% YoY mainly on the back of almost stable growth with AUM standing at Rs 14643 Cr. On the back of slow down of loan growth, the C/I ratio has increased to 52% v/s 47% as at 2QFY20. Provision to AUM has remained elevated mainly on the back of higher loss on a repossessed vehicle of Rs 50 Cr v/s Rs 42 Cr QoQ. The effective tax rate stood at 29.78% with a decrease in the PAT growth by 61%.
- The cost of the fund stood at 10.1% v/s 8.9% YoY while incremental borrowings stand at 9.5%.
- AUM has remained almost stable YoY with a sequential decline of 5%. The de-growth is experienced in the entire segment except for used asset segment & mortgage finance.
- The share of securitization has increased to 11% as of 2QFY20. Management has guided flat to slightly higher AUM growth for Fy20.
- With lower liquidity availability in 2QFY20, disbursement numbers were impacted by 36% degrowth YoY. The share of the used asset has increased to 35% of the incremental disbursement with 20% of the mortgage disbursement is to the home loan. SME business was cautiously declined to provide for ALM matching.
- Gross stage 3 has increased by 6.4% from 5.1% QoQ while Net stage 3 has increased to 4.2% from 3.3%. The PCR stood stable at a 35.40% range. The credit cost remains elevated with only Rs 72 Cr is provided for incremental provision (out of which Rs 47 Cr is for write off 730+ dpd loan book).
- The EWS and CPMI indicator for the ABF segment has increased sequentially to 8.99% & 5.35% as of 2QFY20. Excessive rainfall & flood situation has declined the PAR of the September quarter thus decreasing the collection efficiency of the quarter. Credit cost is expected to soften in 2HFY20. Management has reiterated credit cost guidance from 1.5% -1.75% ranges to 2.25% to 2.5% range.
- The ED & ID of the Affordable Housing Fund has improved sequentially to 45 bps & 44 bps but for the SME business, the ED & ID has increased to 1.73% & 51 bps.
- Gross written premium of the insurance business has grown by 45% YoY to Rs 300 Cr. Investment carrying yield as at Q2 FY20 stands at 7.98%. The combined ratio has increased to 121.1% from 117.3% YoY.
- Management has guided the deferred tax impact of approximately Rs 22 Cr to be incurred in 4QFY20.

View and Valuation

The tightness in liquidity has led MAGMA to prioritise repayment of borrowing obligation over the growth. The limited capital was mainly deployed to higher-yielding used assets for margin protection. The share of used assets has increased by 63% as at 2QFY20, as, 80% of the assets are of fixed in nature, so as the older portfolio runs down there will be a gradual improvement of NIM by 20-25 bps every quarter, we expect it will take another year for the margin to recoup. The GNPA has spiked with higher flood and rainfall situation along with loss in the value to reposed assets, Management has increased the credit cost guidance to 2.5% range to 1.7%. We remain cautious on the current macro slowdown and maintain our NEUTRAL stance on the stock. We value the stock at P/B of 0.45x for FY21e at Rs 54.

Key Risks to our rating and target

- Rise in losses with lower repossession value.
- Growth in 2nd half of the year will be important.

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Muted Growth

2QFY20 Results

Below Expectations

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	624	560	586	601	601	-3.8%	-0.1%	2,126	2,250	5.8%
Interest Exp.	275	287	295	329	342	24.6%	4.0%	1,117	1,122	0.4%
NII	350	273	291	272	259	-26.0%	-5.0%	1,009	1,128	11.8%
Other Income	15	9	15	21	14	-6.5%	-32.1%	202	264	30.6%
Total Income	365	347	340	323	335	-8.2%	3.6%	1,210	1,391	14.9%
Ope Exp.	171	175	172	177	175	2.4%	-1.6%	605	684	13.0%
PPP	194	172	168	146	160	-17.5%	10.1%	605	707	16.9%
Provisions	87	52	41	129	123	40.2%	-4.8%	316	265	-16.0%
PBT	107	120	127	17	38	-64.7%	122.2%	289	442	52.8%
Tax	27	43	40	5	11	-58.9%	128.2%	54	138	156.4%
Extra Items	-	-	-	-	-					
Net Profit	76	74	85	11	30	-60.5%	172.7%	237	304	28%

Concall Highlights

- Magma has a liquidity surplus of Rs 1900 as of 2QFY20. Its primary objective is to successful repay borrowings.
- Magma has raised Rs 3750 Cr of borrowings during the 1HFY20 out of which Rs 2130 Cr is raised in 2QFY20.
- Credit cost is expected to soften in 2HFY20. Management has reiterated credit cost guidance from 1.5% -1.75% ranges to 2.25% to 2.5% range.
- 80% of book is of fixed rate in nature.
- Share of used assets are increasing in the total portfolio, 63% of disbursal in 2QFY20 is contributed by used assets.
- Management states liquidity issue are behind them & the disbursement is expected to revive to Rs 2000 Cr + in 3QFY20.
- Substitution of short term borrowings with long term borrowings has led to spike in the cost by 117 bps. Management expects the Incremental cost of fund to be lower by 50-75 bps. Management guided overall cost of fund is expected to start declining by 1st of April 2020.
- Stress in macro-economic is reflected in our portfolio particular Asset backed portfolio which is largely rural.
- Management is experiencing stress in SME segment, incrementally management is resorting to stricter norms of underwriting.
- Collection efficiency has increased to 97.5% from 96.1% QoQ. Largely contributed by below PAR 94.2% in the month of September. Flood and incessant rain has led to decline in the September in states like UP, Bihar & MP.
- Management remains optimistic to decline the GNPA in the 2HFY20. Management states it would like to maintain overall GNPA of 4-5% range with Tractor at 5-6%, SME at 3% & Housing closer to 1%.
- 70% of the incremental stress is from CV & CE portfolio which is from majorly UP, Bihar, MP and west Bengal.
- Direct assignment stood at 839 Cr v/s Rs 450 Cr YoY.
- CEO of vehicle finance is expected to get onboard by 1st April 2020.
- Management has started origination in 3 products i.e Passenger vehicle, Commercial Vehicle & Construction Equipment.
- Deffered tax impact is expected to be incurred in 4QFY20 with approximately to Rs 21 Cr of impact.
- The Rs 122 Cr of provision in 2QFY20 is divided into 3 parts, Rs 72 Cr (85.9 Cr in 1FY20) as provisioning for NPA out of which Rs 47 Cr (More than 730 dpd) is write Off while Loss on repossessed asset stood 50.5 Cr from 42.8 Cr QoQ.
- Finance capability of CV operators are affected as the deployment has declined 50% thus affecting cash flows. As the EMIs are high on new asset category thus stress in higher in this segment.
- Management states under stress environment the loss on repossession can be around 35-40%.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	51.4	49.1	46.8	50.4	50.6	54.9	52.1	5.38	-2.79
Empl. Cost/ Tot. Exp. %	29.9	32.2	29.2	32.0	30.0	37.1	33.1	3.93	-3.98
Other Exp/Tot. Exp.%	17.6	13.4	14.2	14.9	14.2	12.0	13.2	-0.99	1.19
Provision/PPP %	21.1	48.8	45.0	30.5	24.6	88.3	76.5	31.46	-11.89
Tax Rate %	35.7	32.2	25.6	35.8	32.0	29.0	29.8	4.21	0.78
Int Exp./Int Inc. (%)	45.5	45.2	44.0	45.9	50.4	54.7	56.9	12.95	2.22
Other Inc./NII %	1.6	6.1	4.3	4.0	5.2	18.6	29.4	25.08	10.73
PPP/ Net Income %	48.6	50.9	53.2	49.6	49.4	45.1	47.9	-5.38	2.79
PAT/ Net Income %	24.7	17.7	21.8	22.1	25.6	3.7	7.9	-13.88	4.18
NII Growth % (YoY)	5.2	9.0	12.2	13.2	10.1	(15.2)	(26.0)	-38.23	-10.81
PPP Growth YoY %	(5.9)	6.9	5.9	12.5	9.2	(15.9)	(17.5)	-23.36	-1.54
PAT Growth %	165.7	76.3	4.8	65.0	6.6	(84.4)	(61.4)	-66.24	22.94

Margin Performance

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	13.1	14.9	15.6	13.8	14.2	14.3	14.3	-1.35	0.02
Cost Of Funds	9.2	8.8	9.1	9.5	9.6	10.3	10.6	1.52	0.31
Spreads	4.0	6.1	6.6	4.3	4.6	4.0	3.7	-2.87	-0.28
NIM	8.2	8.6	9.0	8.4	8.1	7.5	7.9	-1.10	0.40

Exhibit: Yield and Cost

Yield has remained stable while cost of fund stands increased

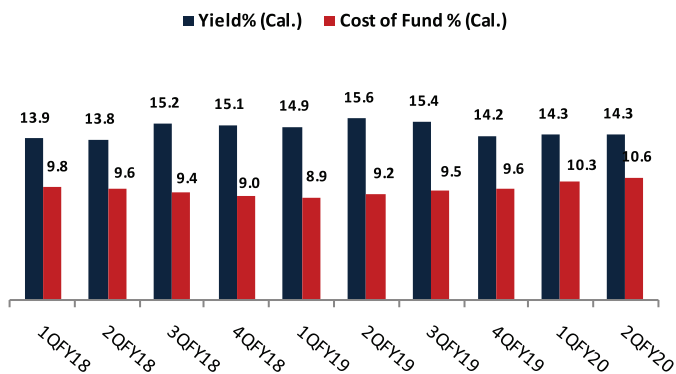
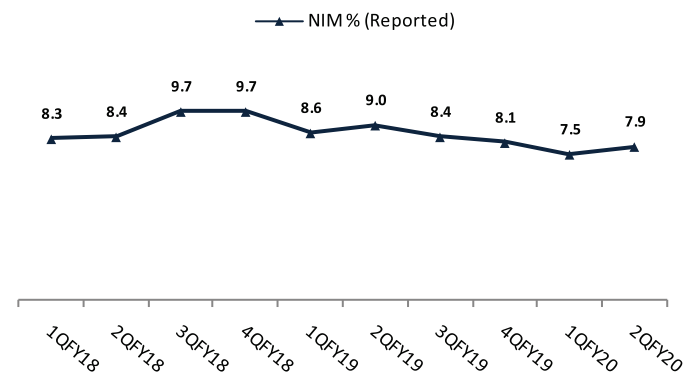


Exhibit: Net Interest Margin

NIM has declined on a YoY basis



Asset & Borrowings Growth Trend

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	1641	1939	2233	1840	2200	2133	2586	2066	1015
Growth YoY %	-9	15	51	25	34	10	16	12	-54
AUM	15688	15252	15555	15966	16623	16507	17029	17312	16463
Growth YoY %	-11	-12	-3	1	6	6	8	9	-1
Borrowings	12056	9506	9829	11844	12165	12017	13401	13560	12658
Growth YoY %	12	-12	-3	-3	1	0	9	14	4

Asset Composition %

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Vehicle Finance & CE	70	70	70	70	70	68	68	67	67
Mortgage Finance	19	18	18	17	17	18	19	20	22
SME Finance	12	12	13	13	13	14	13	13	12
Total	100	100	100	100	100	100	100	100	100

Exhibit: AUM Growth %

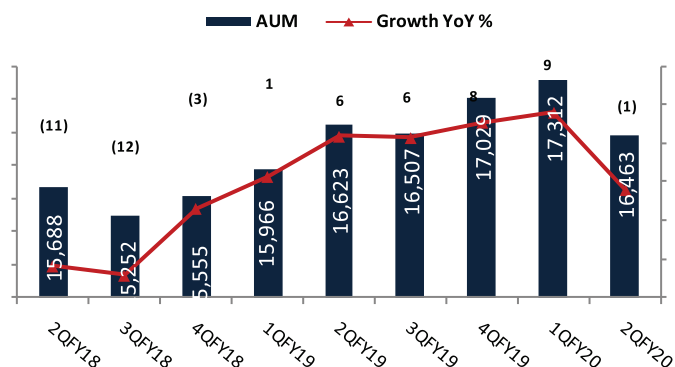
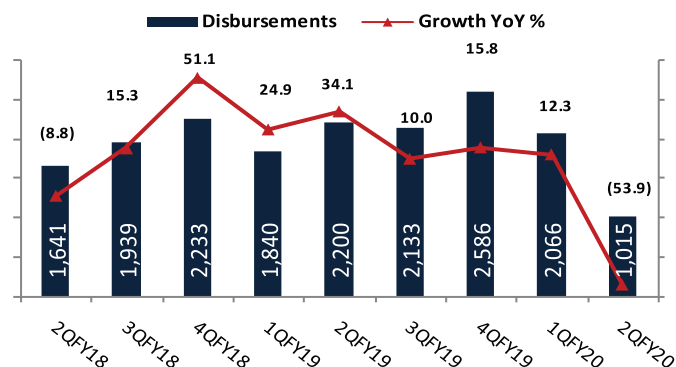


Exhibit: Provision % to AUM



Asset Mix

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

Asset Quality

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	1,373	1,422	1,452	946	747	814	928	-0.36	0.14
GNPA %	9.3	9.5	9.5	6.3	4.8	5.1	6.4	-0.33	0.25
NNPA	625	626	631	585	473	523	599	-0.05	0.15
NNPA %	4.5	4.4	4.4	4.0	3.1	3.3	4.2	-0.05	0.27
Total Specific PCR %	55	56	57	38	37	36	35	-0.37	-0.01

Exhibit: Asset Quality

GNPA & NNPA has increased

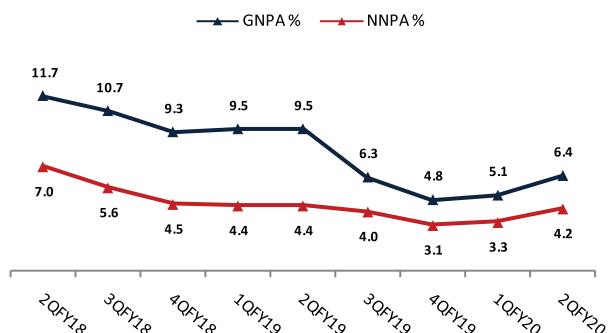


Exhibit: Provisions

PCR has remained stable

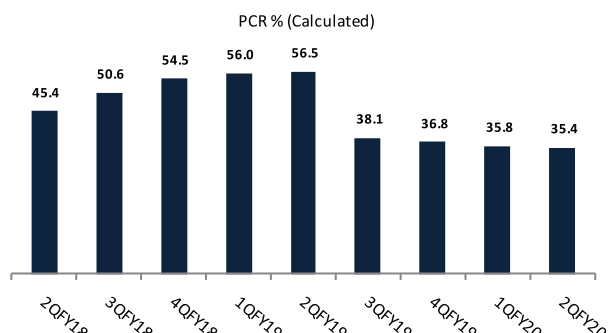


Exhibit: EWS & CPMI for Vehicle Loan

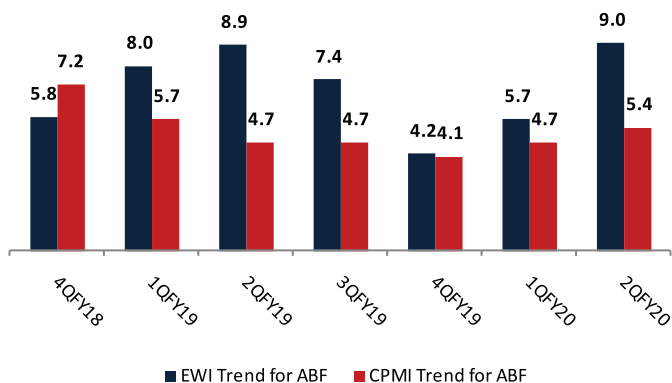
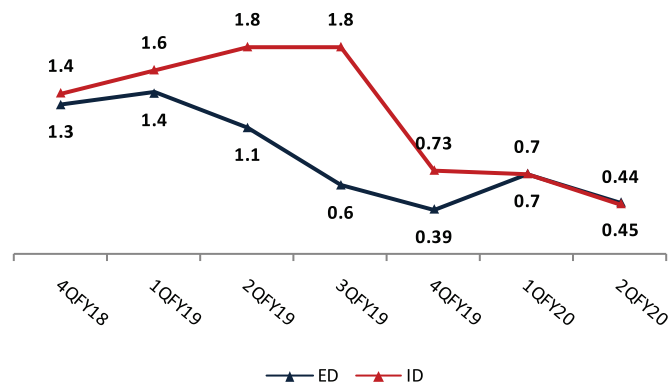


Exhibit: ED & ID of AHF(Affordable Housing Finance)



Other Details

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
EWI Trend For ABF	8	5.9	8.0	8.9	7.4	4.2	5.7	9.0
CPMI Trend For ABF	10	7.2	5.7	4.7	4.7	4.1	4.7	5.4

Asset Quality

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gross Stage 1 and Stage 2 Assets	13,023	13,401	13,569	13,895	13,988	14,898	15,282	13,653
ECL Provision – Stage 1 and 2	407	388	359	348	333	293	300	286
Stage 1 and 2 Coverage Ratio (%)	3.10%	2.90%	2.60%	2.50%	2.40%	2.00%	2.00%	2.10%
Gross Stage 3 Assets	1,563	1,263	1,302	1,326	946	747	814	928
ECL Provision – Stage 3	790.0	638	676	695	361	274	291	329
Gross Stage 3 Assets (%) (~ GNPA)	0	9%	9%	9%	6%	5%	5%	6%
Net Stage 3 Assets (%) (~NNPA)	0.1	5%	4%	4%	4%	3%	3%	4%
Stage 3 Coverage Ratio (%)	1	51%	52%	52%	38%	37%	36%	35%

Exhibit: General Insurance- Portfolio Construct

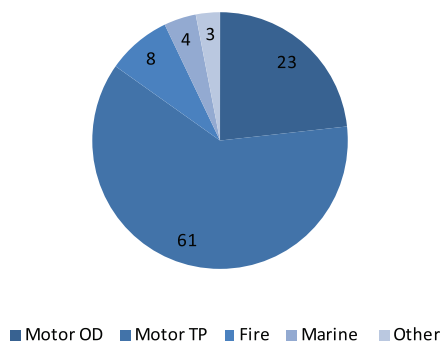
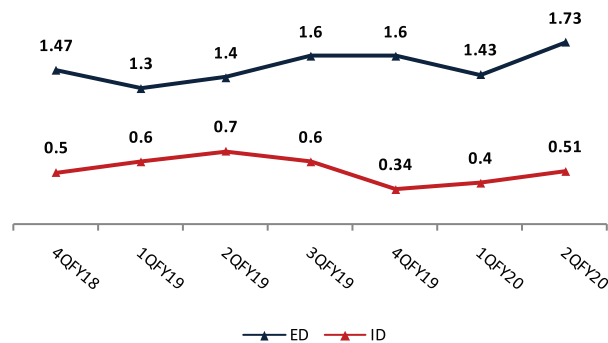


Exhibit: ED & ID of SME



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	38	38	47	47	47	54	54	54
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	2,811	3,078
Networth	1,504	1,655	2,151	2,172	1,972	2,744	2,865	3,132
Change (%)	8	10	30	1	(9)	39	4	9
Borrowings	10375	11847	11902	10096	9829	12185	13650	14333
Change (%)	(2)	14	0	(15)	(3)	24	12	5
Provisions	283	357	480	315	13	13	29	31
Other Liability	1,017	1,023	990	1,012	3,080	1,848	1,665	1,749
Total Liabilities	13,178	14,882	15,523	13,595	14,894	16,789	18,210	19,245
Investments	402	414	400	546	140	141	344	361
Loans	11,352	13,274	14,099	11,968	12,040	14,422	15,823	16,615
Change (%)	3	17	6	(15)	1	20	10	5
Fixed Assets	184	206	217	224	193	189	224	235
Other Assets	414	362	399	503	2,114	1,081	688	722
Cash Balance	827	627	408	353	407	957	1,131	1,312
Total Assets	13,178	14,882	15,523	13,595	14,894	16,789	18,210	19,245

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	2,404	2,452
Interest expended	1,177	1,233	1,192	1,125	1,117	1,122	1,355	1,410
Net Interest Income	813	977	1,141	1,105	1,009	1,128	1,049	1,043
Change (%)	20	20	17	(3)	(9)	12	(7)	(1)
Other Income	128	176	174	169	202	264	220	188
Change (%)	31	38	(1)	(3)	19	31	(17)	(15)
Total Net Income	941	1,153	1,315	1,274	1,210	1,391	1,269	1,230
Change (%)	21	23	14	(3)	(5)	15	(9)	(3)
Operating Expenses	559	685	634	620	605	684	647	556
Change (%)	20	23	(7)	(2)	(2)	13	(5)	(14)
Employee Expenses	243	362	317	293	368	437	420	351
Change (%)	19	49	(12)	(8)	25	19	(4)	(17)
Other Expenses	316	323	317	327	237	247	227	206
Pre-provisioning Profit	382	468	681	654	605	707	623	674
Change (%)	24	23	46	(4)	(7)	17	(12)	8
Provisions	184	244	375	607	316	265	427	261
Change (%)	91	33	53	62	(48)	(16)	61	(39)
PBT	198	223	306	47	289	442	196	413
Tax	38	36	92	34	54	138	50	107
Profit After Tax	160	187	213	13	235	303	146	306
Change (%)	10	17	14	(94)	1,753	29	(52)	110
Adjusted PAT	152	181	211	20	237	304	147	306
Change (%)	10	19	17	(90)	1,061	28	(52)	107

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	17,877	19,567	18,183	16,101	15,555	17,029	17,199	18,059
Off-Book AUM	6,525	6,293	4,084	4,133	3,515	2,607	1,376	1,445
Aum Growth (%)	10	9	(7)	(11)	(3)	9	1	5
Borrowings Growth (%)	(2.1)	14.2	0.5	(15.2)	(2.6)	24.0	12.0	5.0
Aum/Borrowings Ratio (%)	1	1	1	1	1	1	1	1
Disbursement (Rs Cr)	2639	2332	1868	1478	2233	2586	2751.9	3070.1
Disbursement Growth (%)	20	20	20	(21)	51	16	6	12
CRAR (%)	17	16	19	20	21	25	21	21
Tier 1 (%)	12	11	15	15	17	21	17	17
Tier 2 (%)	5.1	5.2	4.1	5.0	3.4	4.1	4.1	3.9
Debt/Equity (x)	6.9	7.2	5.5	4.6	5.0	4.4	4.8	4.6
Assets Quality Metrics								
Gross NPA (Rs)	642	830	1,464	1,080	1,089	747	808	849
Gross NPA (%)	-	-	8.1	6.7	7.0	4.8	4.7	4.7
Net NPA (Rs)	514	659	1,151	889	793	473	509	535
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	68.6	38.7
Margin Metrics								
Yield On Advances (%)	11.7	11.8	12.4	13.0	13.4	13.8	14.0	13.9
Cost Of Funds (%)	7.2	7.0	7.0	7.4	8.1	8.0	9.1	9.2
Spread (%)	4.5	4.8	5.4	5.6	5.3	5.8	5.0	4.8
NIM on AUM (%)	4.8	5.2	6.0	6.4	6.4	6.9	6.1	5.9
Profitability & Efficiency Metrics								
Int. Expended/Int.Earned (%)	59.2	55.8	51.1	50.5	52.6	49.9	56.4	57.5
Other Income/NII (%)	15.7	18.0	15.2	15.3	20.0	23.4	21.0	18.0
Operating Profit/ Net Income (%)	40.6	40.6	51.8	51.3	50.0	50.8	49.0	54.8
Net Profit/Net Income (%)	16.1	15.7	16.1	1.6	19.6	21.9	11.6	24.8
Cost to Income (%)	59.4	59.4	48.2	48.7	50.0	49.2	51.0	45.2
Employee Exp/ Net Income (%)	25.8	31.4	24.1	23.0	30.4	31.4	33.1	28.5
Cost on Average Assets (%)	3.3	3.7	3.4	3.6	3.8	4.2	3.8	3.2
Provisions/PPP (%)	48.2	52.2	55.1	92.8	52.2	37.5	68.6	38.7
Tax Rate (%)	19.2	16.2	30.2	72.9	18.7	31.3	25.5	26.0
Valuation Ratio Metrics								
EPS (Rs)	8.0	9.5	8.9	0.9	10.0	11.3	5.5	11.3
Change (%)	9.7	18.8	(5.9)	(90.4)	1,061	13	(51.5)	107.5
ROAE (%)	10.5	11.4	11.1	0.9	11.4	12.9	5.3	10.2
ROAA (%)	0.9	1.0	1.1	0.1	1.5	1.9	0.9	1.7
Dividend Payout (%)	11.7	10.1	10.8	111.5	9.6	8.5	26.3	12.7
Dividend yield (%)	1.1	0.9	1.1	0.8	0.5	1.6	2.4	2.4
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	106	116
Change (%)	7.5	9.9	4.5	0.9	(9.2)	22.5	4.4	9.3
P/B (X)	0.9	1.1	0.8	1.2	1.8	0.5	0.5	0.4
P/E (X)	9.0	9.9	8.3	122.9	15.3	4.3	9.0	4.3

Financial Details

Exhibit: DuPont Analysis

Fig in Rs Cr

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	15.1	15.7	15.3	15.3	14.9	14.2	13.7	13.1
Interest expended	9.0	8.8	7.8	7.7	7.8	7.1	7.7	7.5
Net Interest Income	6.2	7.0	7.5	7.6	7.1	7.1	6.0	5.6
Non-Fund Based Income	1.0	1.3	1.1	1.2	1.4	1.7	1.3	1.0
Total Income	7.2	8.2	8.6	8.8	8.5	8.8	7.3	6.6
Total Operating Expenses	4.3	4.9	4.2	4.3	4.3	4.3	3.7	3.0
Employee Expenses	1.8	2.6	2.1	2.0	2.6	2.8	2.4	1.9
Other Expenses	2.4	2.3	2.1	2.2	1.7	1.6	1.3	1.1
Operating Profit	2.9	3.3	4.5	4.5	4.2	4.5	3.6	3.6
Provisions	1.4	1.7	2.5	4.2	2.2	1.7	2.4	1.4
Others	-	-	-	-	-	-	-	-
PBT	1.5	1.6	2.0	0.3	2.0	2.8	1.1	2.2
Tax	0.3	0.3	0.6	0.2	0.4	0.9	0.3	0.6
PAT/RoAA	1.2	1.3	1.4	0.1	1.7	1.9	0.8	1.6
Equity Multiplier (x)	9.1	8.9	8.0	6.7	6.9	6.7	6.2	6.2
ROAE	10.5	11.4	11.1	0.9	11.4	12.9	5.3	10.2

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