

Industry  
Bloomberg  
BSE CODE

Financial  
MAGMA IN  
524000

## Muted Growth Coupled With Asset Quality Concerns

RATING	NEUTRAL
CMP	59
Price Target	57
Potential Upside	-3%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	138/37
Mkt Capital (Rs Cr)	1621
Free float (%)	47%
Avg. Vol 1M (,000)	19
No. of Shares (Crs)	27
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1128	1041	1046
PPP	707	616	639
PAT	304	95	284
NIM %	6.9	6.1	5.9
EPS (Rs)	11	4	11
EPS growth (%)	12.97	-68.72	198.17
ROE (%)	12.9	3.4	9.7
ROA (%)	1.9	0.6	1.6
BV	102	104	114
P/B (X)	0.6	0.6	0.5
P/E (x)	5.3	17.0	5.7

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### 3QFY20 Result Update

- NII has decreased by 7.5% YoY mainly on the back of low growth with AUM standing steady sequentially. On the back of slow down of loan growth, the C/I ratio has increased to 53.96% in 3QFY20 v/s 52% as at 2QFY20. Provision to AUM has remained elevated which led to a decrease in the PAT by 70% YoY.
- NIM is remained almost steady on a QoQ basis. The Cost of funds stands is at 10.2% currently which is expected to come down from 1QFY21. In the next financial year, it is expected to be lower by 30-35 bps. The incremental cost of the fund has declined by 9.2% from more than a 10% level. The higher share of liquidity is having a toll on the margin.
- AUM has remained almost stable YoY with a sequential decline of 1%. The de-growth is experienced in the entire segment except for used asset segment & mortgage finance. The share of securitization has remained stable at 11% as of 3QFY20. AUM at the end of the year is expected to at the same level as at the beginning of the FY20.
- With lower liquidity availability in 3QFY20, disbursement numbers were impacted by 6% degrowth YoY. The share of the used asset has increased to 39% of the incremental disbursement with 19% of the disbursement in SME finance.
- Gross stage 3 has increased to 6.7% from 6.4% QoQ while Net stage 3 has increased to 4.5% from 4.2%. The PCR stood stable at a 34.40% range. The credit cost is already at a peak level with up to 63% of the stress is to the CV segment.
- The collection efficiency stood at 99.7% for the last 12 months of onboard loans. The 0 bucket collection efficiency is at 98.66% as at 3QFY20. The load utilisation is at 50-60% & freight rates are lower as a result the earning capability of the customer is hampered. The release in the repossession of vehicles has dropped to 35% from 45% previously.
- The EWS and CPMI indicator for the ABF segment has increased sequentially to 10.6% & 4.5% as of 3QFY20.
- The ED of the Affordable Housing Fund has improved sequentially to 39 bps whereas ID for affordable housing increased to 54 bps, for the SME business, the ED declined to 1.66% and ID increased to 0.81.
- The gross written premium of the insurance business has grown by 34% YoY to Rs 358 Cr. The combined ratio has declined to 117% from 125% YoY.

### View and Valuation

The growth has been sluggishly affected by the CV stress for the last few quarters. The growth is mainly driven by the used & mortgage segment. The margin remains under pressure as the focus was on converting the entire borrowings into long term borrowings but now management has shifted its focus towards the cost of the liability. The management has been trying to keep a check on the cost but the book slowdown is hindering C/I ratio. Despite management's previous guidance of better credit ratio in the 2HFY20, the stress seems to remain strong with 63% of the incremental stress coming from the CV segment. We remain cautious of the current economic & asset quality growth and maintain our NEUTRAL stance on the stock. We maintain our previous target price of 57 at 0.5x P/BFY21e.

### Key Risks to our rating and target

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

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## Muted Growth

### 3QFY20 Results Below Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	560	586	601	601	563	0.5%	-6.2%	2,126	2,250	5.8%
Interest Exp.	287	295	329	342	310	8.2%	-9.3%	1,117	1,122	0.4%
NII	273	291	272	259	253	-7.5%	-2.3%	1,009	1,128	11.8%
Other Income	9	15	21	14	23	153.2%	65.7%	202	264	30.6%
Total Income	347	340	323	335	322	-7.3%	-3.8%	1,210	1,391	14.9%
Ope Exp.	175	172	177	175	174	-0.8%	-0.5%	605	684	13.0%
PPP	172	168	146	160	148	-13.8%	-7.5%	605	707	16.9%
Provisions	52	41	129	123	120	129.5%	-1.8%	316	265	-16.0%
PBT	120	127	17	38	28	-76.7%	-26.2%	289	442	52.8%
Tax	43	40	5	11	7	-83.3%	-36.3%	54	138	156.4%
Extra Items	-	-	-	-	-	-	-	-	-	-
Net Profit	74	85	11	30	22	-69.7%	-24.2%	237	304	28%

### Concall Highlights

- The board has appointed Mr. Deepak Patkar as CEO of ABF business w.r.t from 01-02-2020.
- The board has decided to infuse Rs 100 Cr in its subsidiary Magma Housing Finance Ltd taking total net worth to Rs 500 Cr by end of March 2020.
- The risk aversion for NBFCs softened in 3QFY20 leading to decline in incremental cost of funds.
- The focus of the company has been on long term sources of borrowing to chase the liquidity in earlier quarters. However the focus in 3QFY20 has shifted to cost of liquidity.
- OPEX ratio has been the focus management has tried to keep the OPEX numbers at check YoY. Growth in the AUM is expected to further bring operating efficiency.
- Cost of funds stands is at 10.2% currently which is expected to come down from 1QFY21. In next financial year it is expected to be lower by 30-35 bps. The incremental cost of borrowings stands in the range of 9.2 to sub 10% lower than earlier cost of funds.
- AUM in the end of the year is expected to at the same level as at the beginning of the year. The company continues to focus on product categories namely used assets, affordable housing and SME.
- Disbursal stands Rs 2000 Cr range in 3QFY20. Disbursal is more skewed towards used asset into existing customer. Used asset grew by 36% CAGR in the last 3 years.
- High yield products contribute 49% in ABF AUM Vs 44% in 3QFY19. The contribution to AUM is expected to increase to about 65% by the end of FY21. The company is also confident to restore the net spreads on the entire book by 3QFY21. The share of direct business has improved from 35% to 47% YoY on the back of cross sell volume.
- Up to 63% of the stage 3 were contributed by CV. Reduced cash flow has substantial impact on resolution of NPA account.
- MAGMA has taken sharp policy action to curtail CV disbursal in 5 states.
- 53% of the customer is new to credit.
- General insurance business registered a growth of 35% YoY. The investment portfolio stood at Rs 2115 Cr as at 3QFY20.
- Up to 75% of the exposure of the SME clients were secured through credit guarantee scheme. Thus it is ring fenced from future credit losses.
- The credit cost is already at peak level as stress is seen majorly in CV segment. It is expected to come down from 3QFY20. GNPA's are expected to come down in 4QFY20. Collection is improving in CV segment but for rolling they need to pay at least 3 instalments.
- UP, Bihar, Bengal, Maharashtra are the states where the company is having major stress in CV segment. The load utilisation is 50-60% & freight rates are lower as a result the earning capability of the customer is hampered. The release in the repossession of vehicles has dropped to 35% from 45% previously.
- The portfolio for CV is to the customers who are diverting to the owners. They are basically earned & pay customers.
- 60% of the incremental slippages in 3QFY20 came from CV segment itself.
- Infuse capital amounting to Rs 100 Cr which will take the net worth to Rs 500 Cr by Mar 2020 in the MAGMA Housing subsidiary.

## Profitability Matrix

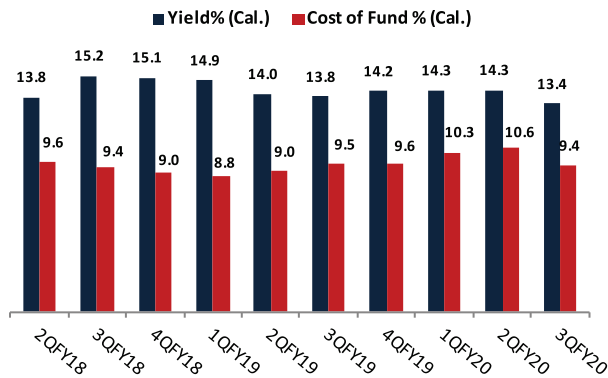
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	49.1	46.8	50.4	50.6	54.9	52.1	54.0	3.51	1.83
Empl. Cost/ Tot. Exp. %	32.2	29.2	32.0	30.0	37.1	33.1	34.1	2.11	1.04
Other Exp/Tot. Exp.%	13.4	14.2	14.9	14.2	12.0	13.2	13.7	-1.17	0.52
Provision/PPP %	48.8	45.0	30.5	24.6	88.3	76.5	81.2	50.72	4.77
Tax Rate %	32.2	25.6	35.8	32.0	29.0	29.8	25.7	-10.11	-4.05
Int Exp./Int Inc. (%)	45.2	44.0	45.9	50.4	54.7	56.9	55.1	3.89	-1.83
Other Inc./NII %	6.1	4.3	4.0	5.2	18.6	29.4	27.3	0.33	-2.09
PPP/ Net Income %	50.9	53.2	49.6	49.4	45.1	47.9	46.0	-3.51	-1.83
PAT/ Net Income %	17.7	21.8	22.1	25.6	3.7	7.9	6.4	-15.67	-1.49
NII Growth % (YoY)	9.0	12.2	13.2	10.1	(15.2)	(9.8)	(7.5)	0.88	2.26
PPP Growth YoY %	6.9	5.9	12.5	9.2	(15.9)	(17.4)	(13.8)	-26.27	3.57
PAT Growth %	76.3	4.8	65.0	6.6	(84.4)	(61.3)	(69.7)	-134.65	-8.39

## Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	14.9	14.0	13.8	14.2	14.3	14.3	13.4	-0.46	-0.90
Cost Of Funds	8.8	9.0	9.5	9.6	10.3	10.6	9.4	-0.07	-1.18
Spreads	6.1	5.0	4.3	4.6	4.0	3.7	4.0	-0.39	0.27
NIM	8.6	9.0	8.4	8.1	7.5	7.9	7.8	-0.60	-0.10

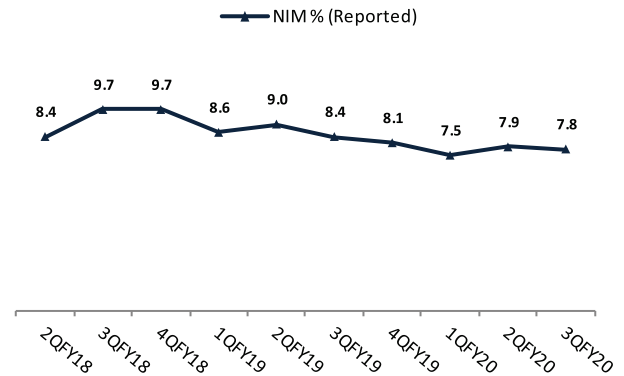
## Exhibit: Yield and Cost

Spreads has Improved Sequentially



## Exhibit: Net Interest Margin

NIM has Remained Stable Sequentially



## Asset & Borrowings Growth Trend

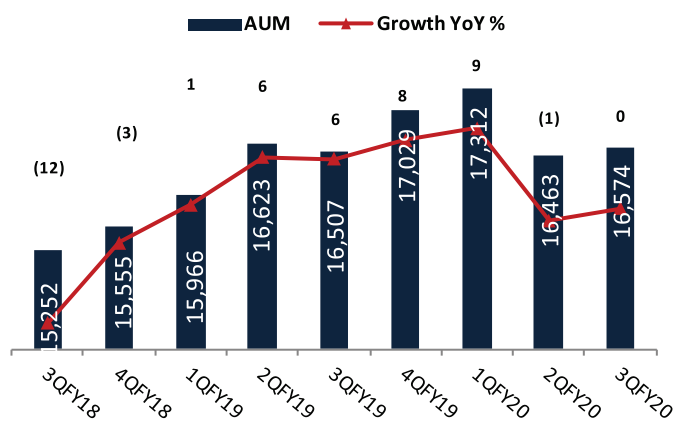
Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements	1939	2233	1840	2200	2133	2586	2066	1015	2014
Growth YoY %	15	51	25	34	10	16	12	-54	-6
AUM	15252	15555	15966	16623	16507	17029	17312	16463	16574
Growth YoY %	-12	-3	1	6	6	8	9	-1	0
Borrowings	9506	9829	11844	12165	12017	13401	13560	12658	13091
Growth YoY %	-12	-3	-3	1	0	9	14	4	9

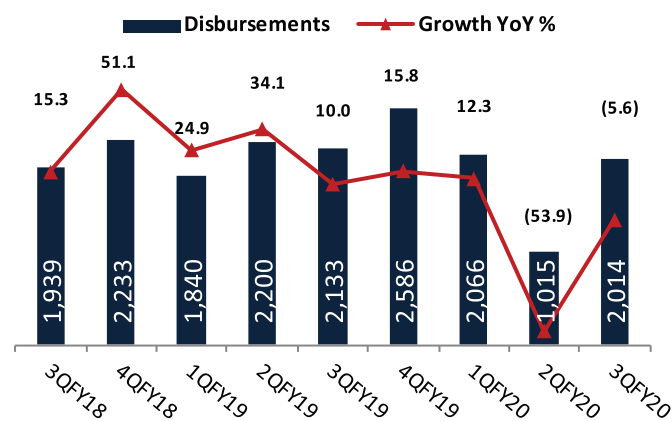
## Asset Composition %

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Vehicle Finance & CE	70	70	70	70	68	68	67	67	65
Mortgage Finance	18	18	17	17	18	19	20	22	23
SME Finance	12	13	13	13	14	13	13	12	12
Total	100	100	100	100	100	100	100	100	100

## Exhibit: AUM Growth %



## Exhibit: Provision % to AUM



## Asset Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
UV/Cars (%)	25	24	24	22	21	20	20	19	18
CV (%)	7	8	8	9	10	10	10	10	15
CE (%)	6	7	7	7	7	8	7	7	-
Used Assets (%)	15	16	17	17	18	19	20	21	23
Agri Finance/Tractor (%)	17	16	14	15	12	11	10	10	9
SME Finance (%)	12	12	13	13	14	13	13	12	12
Mortgage Finance (%)	18	17	17	17	18	19	20	22	23

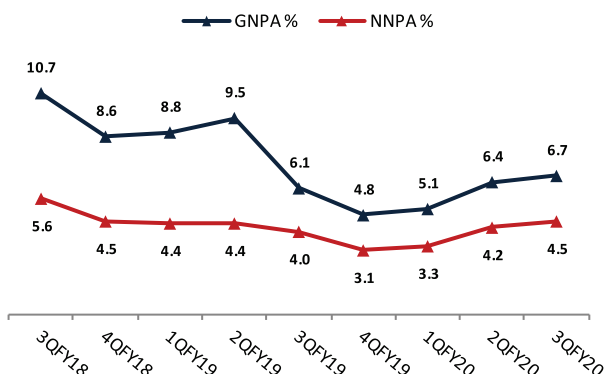
## Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA	1,302	1,326	946	747	814	928	987	0.04	0.06
GNPA %	8.8	9.5	6.1	4.8	5.1	6.4	6.7	0.10	0.05
NNPA	626	631	585	473	523	599	647	0.11	0.08
NNPA %	4.4	4.4	4.0	3.1	3.3	4.2	4.5	0.13	0.07
Total Specific PCR %	56	57	38	37	36	35	34	-0.10	-0.03

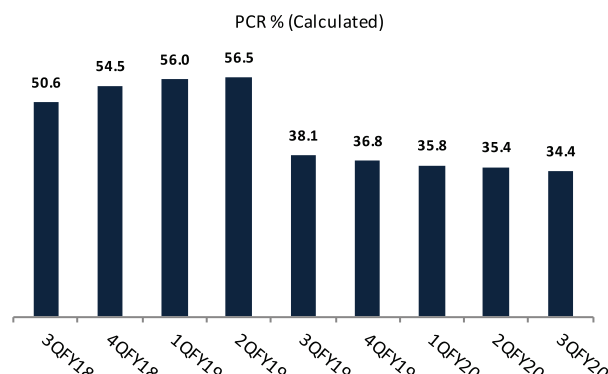
## Exhibit: Asset Quality

GNPA & NNPA has increased

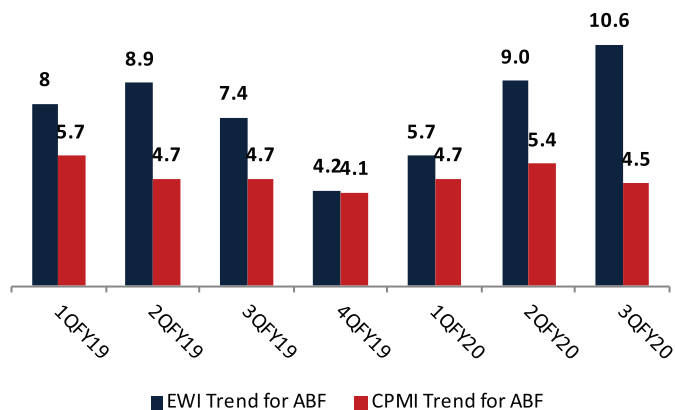


## Exhibit: Provisions

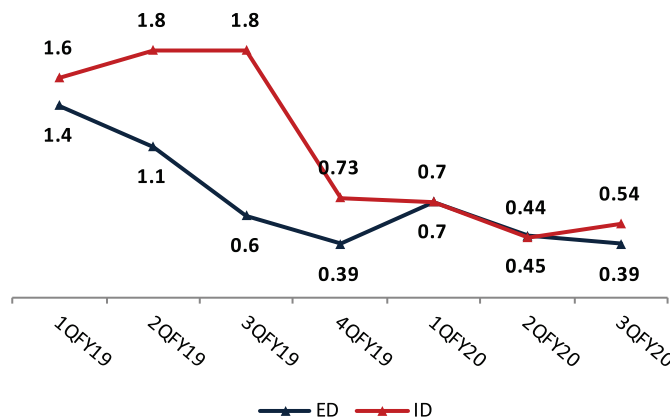
PCR has remained stable



## Exhibit: EWS & CPMI for Vehicle Loan



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



## Other Details

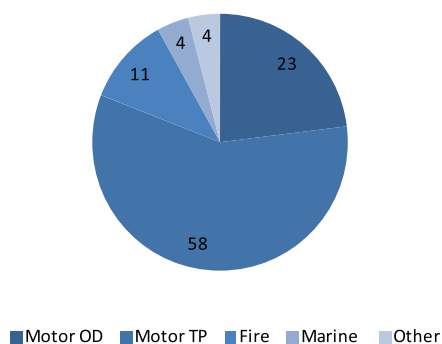
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
EWI Trend For ABF	6	8.0	8.9	7.4	4.2	5.7	9.0	10.6
CPMI Trend For ABF	7	5.7	4.7	4.7	4.1	4.7	5.4	4.5

## Asset Quality

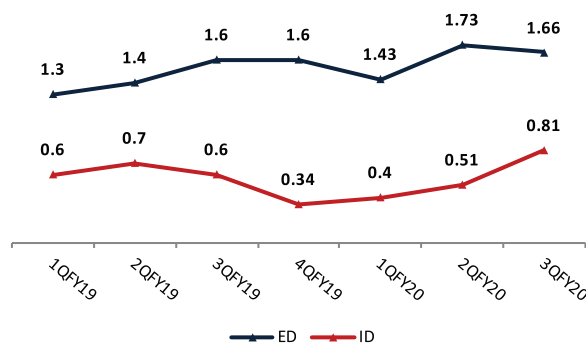
Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gross Stage 1 and Stage 2 Assets	13,401	13,569	13,895	13,988	14,898	15,282	13,653	13,790
ECL Provision – Stage 1 and 2	388	359	348	333	293	300	286	277
Stage 1 and 2 Coverage Ratio (%)	2.90%	2.60%	2.50%	2.40%	2.00%	2.00%	2.10%	2.00%
Gross Stage 3 Assets	1,263	1,302	1,326	946	747	814	928	987
ECL Provision – Stage 3	638	676	695	361	274	291	329	340
Gross Stage 3 Assets (%) (~GNPA)	9%	9%	9%	6%	5%	5%	6%	7%
Net Stage 3 Assets (%) (~NNPA)	5%	4%	4%	4%	3%	3%	4%	5%
Stage 3 Coverage Ratio (%)	51%	52%	52%	38%	37%	36%	35%	34%

## 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
<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	2,759	3,004
<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>2,813</b>	<b>3,058</b>
Change (%)	8	10	30	1	(9)	39	3	9
Borrowings	10375	11847	11902	10096	9829	12185	13437	14333
Change (%)	(2)	14	0	(15)	(3)	24	10	7
Provisions	283	357	480	315	13	13	28	31
<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>1,639</b>	<b>1,749</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>17,918</b>	<b>19,170</b>
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	839	1,237
<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>17,918</b>	<b>19,170</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	2,366	2,449
Interest expended	1,177	1,233	1,192	1,125	1,117	1,122	1,325	1,403
Net Interest Income	813	977	1,141	1,105	1,009	1,128	1,041	1,046
Change (%)	20	20	17	(3)	(9)	12	(8)	0
Other Income	128	176	174	169	202	264	260	222
Change (%)	31	38	(1)	(3)	19	31	(1)	(15)
Total Net Income	941	1,153	1,315	1,274	1,210	1,391	1,301	1,268
Change (%)	21	23	14	(3)	(5)	15	(6)	(3)
Operating Expenses	559	685	634	620	605	684	685	629
Change (%)	20	23	(7)	(2)	(2)	13	0	(8)
Employee Expenses	243	362	317	293	368	437	447	419
Change (%)	19	49	(12)	(8)	25	19	2	(6)
Other Expenses	316	323	317	327	237	247	239	211
Pre-provisioning Profit	382	468	681	654	605	707	616	639
Change (%)	24	23	46	(4)	(7)	17	(13)	4
Provisions	184	244	375	607	316	265	490	261
Change (%)	91	33	53	62	(48)	(16)	85	(47)
PBT	198	223	306	47	289	442	126	379
Tax	38	36	92	34	54	138	34	95
Profit After Tax	160	187	213	13	235	303	92	284
Change (%)	10	17	14	(94)	1,753	29	(70)	209
Adjusted PAT	152	181	211	20	237	304	95	284
Change (%)	10	19	17	(90)	1,061	28	(69)	198

## 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	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	10.3	6.7
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	20	21
Tier 1 (%)	12	11	15	15	17	21	16	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	4.7
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	642	830	1,464	1,080	1,089	747	1,290	903
Gross NPA (%)	-	-	8.1	6.7	7.0	4.8	7.5	5.0
Net NPA (Rs)	514	659	1,151	889	793	473	813	569
Net NPA (%)	-	-	6.4	5.6	5.2	3.1	4.9	3.2
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	79.6	40.8
<b>Margin Metrics</b>								
Yield On Advances (%)	11.7	11.8	12.4	13.0	13.4	13.8	13.8	13.9
Cost Of Funds (%)	7.2	7.0	7.0	7.4	8.1	8.0	9.0	9.2
Spread (%)	4.5	4.8	5.4	5.6	5.3	5.8	4.9	4.7
NIM on AUM (%)	4.8	5.2	6.0	6.4	6.4	6.9	6.1	5.9
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expended/Int.Earned (%)	59.2	55.8	51.1	50.5	52.6	49.9	56.0	57.3
Other Income/NII (%)	15.7	18.0	15.2	15.3	20.0	23.4	25.0	21.2
Operating Profit/ Net Income (%)	40.6	40.6	51.8	51.3	50.0	50.8	47.3	50.4
Net Profit/Net Income (%)	16.1	15.7	16.1	1.6	19.6	21.9	7.3	22.4
Cost to Income (%)	59.4	59.4	48.2	48.7	50.0	49.2	52.7	49.6
Employee Exp/ Net Income (%)	25.8	31.4	24.1	23.0	30.4	31.4	34.3	33.0
Cost on Average Assets (%)	3.3	3.7	3.4	3.6	3.8	4.2	4.0	3.6
Provisions/PPP (%)	48.2	52.2	55.1	92.8	52.2	37.5	79.6	40.8
Tax Rate (%)	19.2	16.2	30.2	72.9	18.7	31.3	27.1	25.1
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	8.0	9.5	8.9	0.9	10.0	11.3	3.5	10.5
Change (%)	9.7	18.8	(5.9)	(90.4)	1,061	13	(68.7)	198.2
ROAE (%)	10.5	11.4	11.1	0.9	11.4	12.9	3.4	9.7
ROAA (%)	0.9	1.0	1.1	0.1	1.5	1.9	0.6	1.6
Dividend Payout (%)	11.7	10.1	10.8	111.5	9.6	8.5	40.8	13.7
Dividend yield (%)	1.1	0.9	1.1	0.8	0.5	1.6	2.0	2.0
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	104	114
Change (%)	7.5	9.9	4.5	0.9	(9.2)	22.5	2.5	8.7
P/B (X)	0.9	1.1	0.8	1.2	1.8	0.5	0.6	0.5
P/E (X)	9.0	9.9	8.3	122.9	15.3	4.3	17.0	5.7

## 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	13.6	13.2
Interest expended	9.0	8.8	7.8	7.7	7.8	7.1	7.6	7.6
<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>6.0</b>	<b>5.6</b>
Non-Fund Based Income	1.0	1.3	1.1	1.2	1.4	1.7	1.5	1.2
Total Income	7.2	8.2	8.6	8.8	8.5	8.8	7.5	6.8
<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>3.9</b>	<b>3.4</b>
Employee Expenses	1.8	2.6	2.1	2.0	2.6	2.8	2.6	2.3
Other Expenses	2.4	2.3	2.1	2.2	1.7	1.6	1.4	1.1
Operating Profit	2.9	3.3	4.5	4.5	4.2	4.5	3.5	3.4
Provisions	1.4	1.7	2.5	4.2	2.2	1.7	2.8	1.4
Others	-	-	-	-	-	-	-	-
PBT	1.5	1.6	2.0	0.3	2.0	2.8	0.7	2.0
Tax	0.3	0.3	0.6	0.2	0.4	0.9	0.2	0.5
PAT/RoAA	1.2	1.3	1.4	0.1	1.7	1.9	0.5	1.5
Equity Multiplier (x)	9.1	8.9	8.0	6.7	6.9	6.7	6.2	6.3
ROAE	10.5	11.4	11.1	0.9	11.4	12.9	3.4	9.7



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