

MAGMA FINCORP LIMITED

Industry
Bloomberg
BSE Code
NSE Code

FINANCIAL
MGMA IN
524000
MAGMA

Monday, September 10, 2018

RATING	BUY
CMP	145
Price Target	165
Previous Target	212
Potential Upside	14%

Stock Info

52wk Range H/L	193/133
Mkt Capital (Rs Cr)	3904
Free float (%)	47%
Avg. Vol 1M (,000)	454
No. of Shares (Crore)	27
Promoters Pledged %	-

Reverting to Growth Phase

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. AUM showed positive growth after series of decline. 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 commercial vehicle and used vehicle demand in the economy and MAGMA would be the key beneficiary of it.
- IND AS transition has negatively impacted net worth due to incremental ECL provision; the impact was approx. Rs 370 Cr in the opening balance of the net worth as at 1QFY18.
- Asset Quality has improved from 12% in 1QFY18 to 9.5% in 1QFY19, with a rise in provision to 56%. With the IND-AS transition, FY18 GNPA has increased to 9.3% from 7% as per I-GAAP.
- Management has guided for a ROA target is at 1.6-1.8% in the current year & ROE of 13.5-14.5%.in FY19.

1Q FY19 Result:

MAGMA reported improved 1QFY19 numbers with positive AUM growth of 0.7%(-0.1)% on YoY/QoQ basis. Net Interest Income (NII) grew by 9% yoy. NIM has increased to 8.6% from 7.6% YoY due to expansion in the yields. However opex grew by 15% yoy, total income grew by 11% YoY, which led to raise in the cost to income (C/I) ratio by 182 bps to 49% from 47.32%. Other income has increased by 51% YoY. PAT has registered a robust 76% YoY growth. Gross stage 3 GNPA marginally deteriorated to 9.50% from 9.30% QoQ while Net stage 3 NNPA has decreased to 4.40% from 4.50% QoQ. Stage 3 provision stands at is 56% as on 1QFY19.

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 IND AS application. Transition to the IND-AS norms has negatively affected the net worth by Rs 370 Cr due to higher ECL provisioning requirement. Going ahead we believe margin may be slightly in pressure due to rising share of lower yielding assets and continuously rising bond yield scenario. Management is optimistic of the growth and has guided for 25% disbursement growth and 15-16% AUM growth going ahead. Owing to expected margin pressure and reduced net worth, we reduce our target price to Rs 165 at 1.4x P/BV FY20e. We maintain BUY.

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	1206	1359
PPP	681	654	691	774	894
PAT	211	20	230	338	413
NIM %	6.0	6.4	7.3	7.3	7.3
EPS (Rs)	9	1	10	13	15
EPS growth (%)	-5.93	-90.35	1026.23	29.37	22.22
ROE (%)	11.1	0.9	10.2	13.2	13.9
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	1.4	1.2
P/E (x)	8.3	122.9	15.8	11.3	9.3

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1Q FY 19 Results Inline expectation

Improved performance

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	587	532	580	586	586	-0.1%	0.0%	2,230	2,131	-4.4%
Interest Exp.	292	228	221	267	265	-9.3%	-0.7%	1,125	906	-19.5%
NII	295	303	359	319	321	9.0%	0.7%	1,105	1,226	11.0%
Other Income	13	18	11	5	20	50.6%	291.0%	169	167	-1.4%
Total Income	308	322	370	325	341	10.8%	4.8%	1,274	1,393	9.3%
Ope Exp.	146	167	176	167	167	15.0%	0.2%	620	701	13.0%
PPP	162	155	194	158	173	6.9%	9.7%	654	692	5.8%
Provisions	150	75	102	33	85	-43.6%	156.3%	607	374	-38.4%
PBT	12	80	92	125	89	636.6%	-29.0%	47	318	579.6%
Tax	(27)	31	27	44	29	-207.3%	-35.1%	34	88	157.2%
Extraordinary	-	-	-	-	-					
Net Profit	39	49	65	80	68	76.0%	-15.0%	20	230	1028%

NIM is under pressure

Operating parameters are showing improvements. NII has grown at a healthy pace at 9% YOY, backed by revival in AUM growth 0.7%/(-0.1%) YoY/QoQ. Overall NIM has increased to 8.6% from 7.6 % in 1QFY18. NIM expansion was largely driven by falling Cost of Fund. Management has guided the cost of fund to marginally increase by 10-20 bps going ahead with the rise in bond yield scenario, this rise would not affect NIM and it will remain in the range of 8.5% during the year.

Positive AUM growth

End of consolidation phase has led to revival in loan book growth. Loan Book stood at Rs15966 Cr with a positive growth of 0.7% YoY. Disbursement has shown improvement it has grown at the rate of 25% YoY. Growth in the vehicle-Finance portfolio is at positive 0.7% YoY after consecutive 3 year negative growth. Mortgage finance has de grown by 5% YoY, SME finance has grown at the rate 9% 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 1QFY19. Management has guided that in asset backed finance business it would increase the weight of Commercial vehicles and used vehicle in the portfolio while lowering weightage of tractors and cars. In SME portfolio, the incremental disbursement is mainly to Tier 2, Tier 3 & Tier 4 cities; increased economic activity in these cities will drive growth. Management has guided for disbursal growth of 25% yoy which will result in 15-16% yoy growth in the AUM.

Assets quality

Gross Stage 3 stands at 9.50% in 1QFY19 It has increased from 9.30% QoQ, Net stage 3 decreased to 4.40% in 1QFY19 from 4.50% QoQ. Stage 3 coverage stands at 56% in 1QFY19 up from 43% YoY. Management has guided average credit cost of the year will be 1.5% from the current run rate.

Operating Efficiency to increase going ahead

Cost to income ratio has increased by 182 bps to 49.14% YOY. Total income has grown at the rate of 11% YoY and operating expenses has grown at 15% yoy while operating profit has grown at 7%YoY. Fee income has grown at the rate of 51% yoy. Management is aiming at AUM growth of 15-16% during the year with OPEX growth of 14-15% during the year going ahead. Operational efficiency will kick in as operating expenditure growth is lower than AUM.

Concall Highlights

- ✓ Management has guided for disbursal growth of 25% yoy which will result in 15-16% yoy growth in the AUM.
- ✓ Management is aiming at AUM growth of 15-16% with OPEX growth of 14-15% going ahead.
- ✓ In home loan management is focusing on housing loan portfolio while reducing LAP & DSA business.
- ✓ ROA target is at 1.6-1.8% in the current year & ROE target for current year is 13.5-14.5%.
- ✓ Cost of fund will increase by 10-15 bps going ahead, NIM to remain in 8.50% level in FY19.
- ✓ Kerala is below 5% of the portfolio majorly consisting of ABF light commercial vehicle & Passenger vehicle.
- ✓ Cost of fund will increase by 10-15 bps going ahead, NIM to remain in 8.50% level in FY19.

Profitability Matrix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	50.0	47.1	47.3	52.0	47.5	51.4	49.1	1.82	-2.24
Empl. Cost/ Tot. Exp. %	23.9	21.0	28.7	27.7	25.6	29.9	32.2	3.54	2.35
Other Exp/Tot. Exp.%	13.5	13.1	14.5	13.1	12.0	17.6	27.2	12.74	9.64
Provision/PPP %	65.0	190.3	92.6	48.5	52.4	21.1	48.8	-43.76	27.75
Tax Rate %	35.3	19.6	(220.9)	38.7	29.6	35.7	32.2	253.07	-3.50
Int Exp./Int Inc. (%)	46.9	45.8	49.8	42.9	38.1	45.5	45.2	-4.57	-0.28
Other Inc./NII %	4.4	4.6	11.1	6.0	2.7	(63.4)	6.1	-5.01	69.49
PPP/ Net Income %	50.0	52.9	52.7	48.0	52.5	48.6	50.9	-1.82	2.26
PAT/ Net Income %	11.3	(38.5)	12.6	15.2	17.6	24.7	17.7	5.10	-7.04
NII Growth % (YoY)	(6.2)	(8.8)	(1.7)	(1.7)	16.6	5.2	9.0	10.70	3.80
PPP Growth YoY %	(7.1)	(16.2)	5.8	(10.0)	20.5	(5.9)	6.9	1.13	12.83
PAT Growth %	(30.3)	(284.8)	(17.6)	(3.5)	78.2	(170.2)	55.7	73.29	225.89

Margin Performance

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	13.3	13.4	13.9	13.8	15.2	15.1	14.9	0.97	-0.21
Cost Of Funds	10.1	9.8	9.8	9.6	9.4	9.0	9.8	0.03	0.83
Spreads	3.2	3.6	4.2	4.2	5.8	6.1	5.1	0.94	-1.04
NIM	7.4	7.6	8.3	8.4	9.7	9.7	8.6	0.30	-1.10

Exhibit: Yield and Cost Growing Margins.

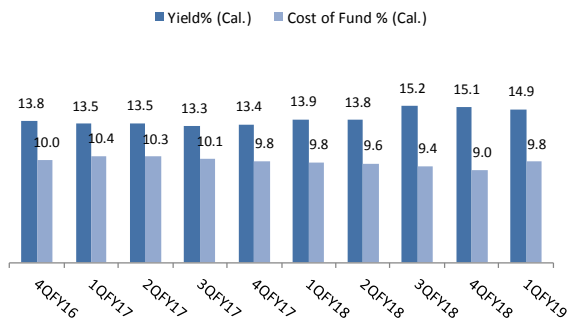
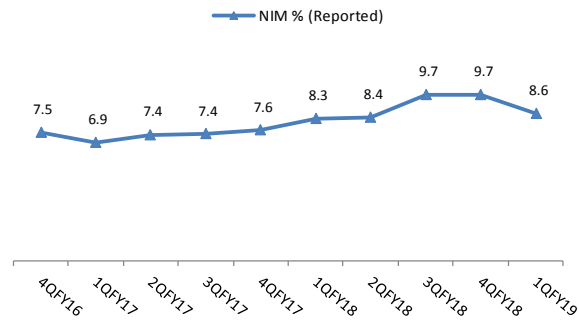


Exhibit: Net Interest Margin NIM has expanded.



Asset & Borrowings Growth Trend

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Disbursements	1757	1799	1682	1478	1473	1641	1939	2233	1840
Growth YoY %	2	-1	-5	-21	-16	-9	15	51	25
AUM	17796	17600	17345	16101	15483	15262	15252	15555	15966
Growth YoY %	-7	-6	-6	-11	-13	-13	-12	-3	3
Borrowings	11737	10807	10789	10096	9604	9347	9506	9829	11844
Growth YoY %	1	-7	-10	-15	-18	-14	-12	-3	23

Asset Composition %

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
UV/Cars	28	25	29	26	26	24	21	20	31
Tractor/Agri Finance	22	18	21	12	13	10	12	9	14
Commercial Vehicles (CV)	4	4	4	7	6	10	11	13	14
Construction Equipment	6	4	6	6	8	5	6	7	9
Used Assets	14	16	16	17	23	25	25	22	31
SME Finance/Loans	16	19	16	22	17	18	18	21	0
Mortgage Finance	11	14	9	10	9	8	8	8	0

Exhibit: AUM Growth %

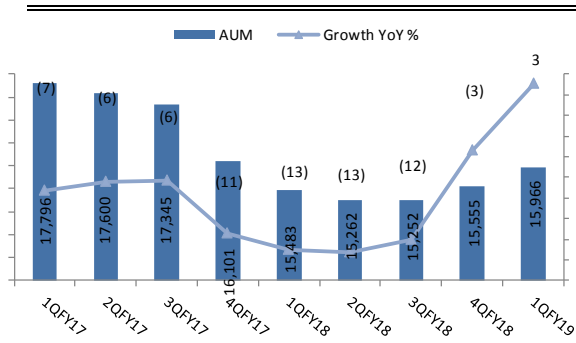
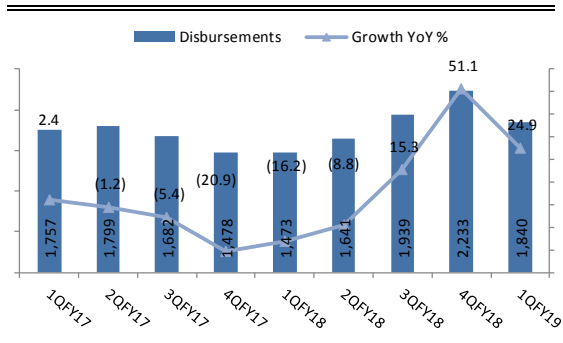


Exhibit: Disbursement Growth %



Asset Mix

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Vehicle Finance	72	71	71	70	69	70	70	70	71
Mortgage Finance	18	19	19	19	19	19	18	18	17
SME Finance	10	10	11	12	12	12	12	13	13

Borrowing Mix

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Deposit	68	66	67	65	68	70	68	68	66
NCDs/Market Borrowings	22	23	21	23	19	18	20	20	23
From Financial Institute	10	11	12	12	13	12	12	12	10

Asset Quality

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
GNPA	1,717	1,080	1,682	1,097	1,083	1,373	1,422	-260	49
GNPA %	9.9	6.7	11.7	7.2	7.1	9.3	9.5	-2.20	0.20
NNPA	1,271	889	962	836	795	625	626	-336.00	1.00
NNPA %	7.5	5.6	7.0	5.6	5.3	4.5	4.4	-2.60	-0.10
Total Specific PCR %	26.0	17.7	42.8	23.8	26.6	54.5	56.0	13.20	1.50

Exhibit: Asset Quality

Rise in Gross Stage 3 with IND AS application.

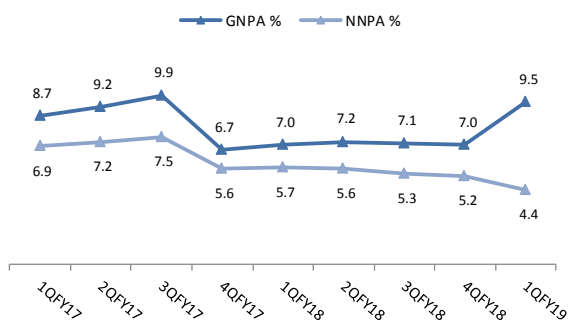
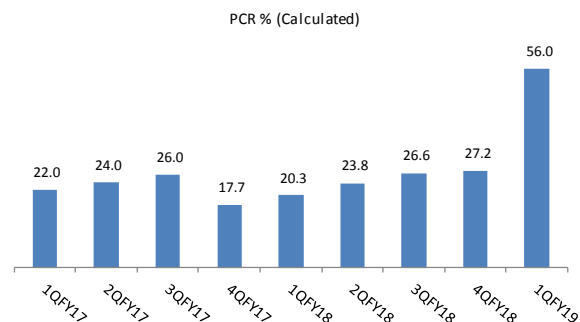


Exhibit: Provisions

PCR improvement.



Profitability Matrix

Gross AUM	1QFY19	4QFY18	1QFY18	YoY (+/-)	QoQ (+/-)
Gross stage 3	1,422.0	1,373.0	1,682.0	(260.0)	49.0
(%) of gross AUM	9.5	9.3	11.7	(2.2)	0.2
Gross stage 1 and 2	13,542.0	13,384.0	12,723.0	819.0	158.0
(%) of gross AUM	90.5	90.7	88.3	2.2	(0.2)
Gross AUM	14,964.0	14,757.0	14,405.0	559.0	207.0
ECL provisions	1QFY19	4QFY18	1QFY18	YoY (+/-)	QoQ (+/-)
Stage 3	796.0	748.0	720.0	76.0	48.0
Stage 1 and 2	359.0	388.0	400.0	(41.0)	(29.0)
Total ECL Provisions	1,155.0	1,136.0	1,120.0	35.0	19.0
Net stage 3	626.0	625.0	962.0	(336.0)	1.0
(%) of net AUM	4.5	4.6	7.2	(2.7)	(0.1)
Net Stage 1 and 2	13,183.0	12,996.0	12,323.0	860.0	187.0
(%) of net AUM	95.5	95.4	92.8	2.7	0.1
Net AUM	13,809.0	13,621.0	13,285.0	524.0	188.0
Stage 3	56.0	54.5	42.8	13.2	1.5
Stage 1 and 2	2.7	2.9	3.1	(0.4)	(0.2)
Overall PCR (%)	7.7	7.7	7.8	(0.1)	-

Exhibit: Collection Efficiency

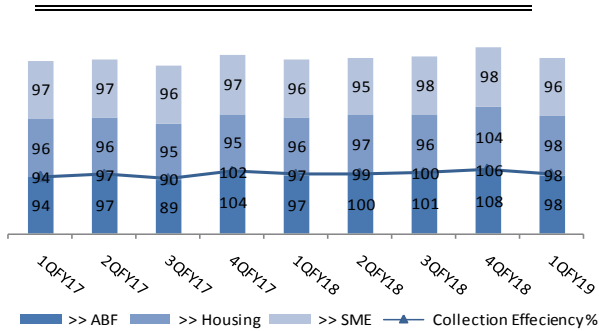


Exhibit: Early warning Indicators and Continuous Portfolio Monitoring Indicators

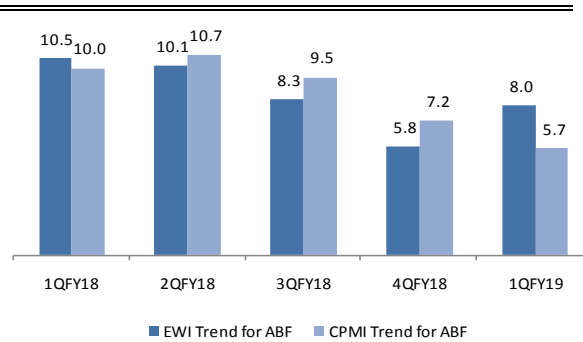


Exhibit: ID & ED Trend for Home Loan / Mortgage

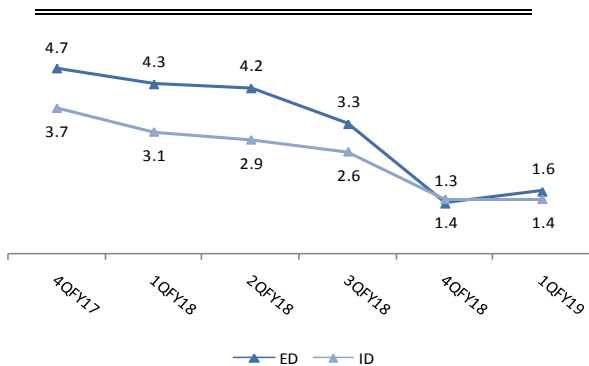
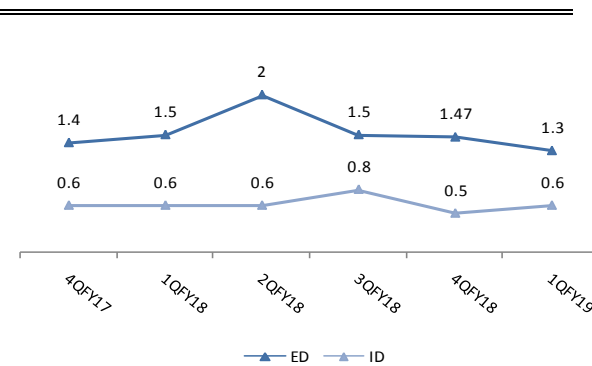


Exhibit: ID & ED Trend for SME



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	2,733	3,113
Networth	1,397	1,504	1,655	2,151	2,172	2,319	2,786	3,167
Change (%)	27	8	10	30	1	7	20	14
Total Borrowings	10,599	10,375	11,847	11,902	10,096	9,829	12,905	14,712
Change (%)	69.3	(2.1)	14.2	0.5	(15.2)	(2.6)	31.3	14.0
Provisions	164	283	357	480	315	441	418	491
Other Liabilities	953	1,017	1,023	990	1,012	1,112	1,742	1,986
Total Liabilities	13,114	13,178	14,882	15,523	13,595	13,701	17,852	20,356
Investments	267	402	414	400	546	649	610	695
Loans	10,976.0	11,352.0	13,274.1	14,098.9	11,968.0	12,039.6	16,289.2	18,569.7
Change (%)	58	3	17	6	(15)	1	35	14
Fixed Assets	176	184	206	217	224	200	226	238
Other Assets	478	414	362	399	503	395	418	457
Cash Balances	1,218	827	627	408	353	418	308	396
Total Assets	13,114	13,178	14,882	15,523	13,595	13,701	17,852	20,356

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	2,273	2,567
Interest expended	926	1,177	1,233	1,192	1,125	906	1,067	1,208
Net Interest Income	678	813	977	1,141	1,105	1,162	1,206	1,359
Change (%)	73.3	19.9	20.2	16.8	(3.2)	5.2	3.8	12.7
Other Income	98	128	176	174	169	230	293	331
Change (%)	53.7	30.9	37.8	(1.3)	(2.6)	35.8	27.3	12.9
Total Net Income	775	941	1,153	1,315	1,274	1,392	1,499	1,690
Change (%)	71	21	23	14	(3)	9	8	13
Operating Expenses	466	559	685	634	620	701	725	795
Change (%)	54	20	23	(7)	(2)	13	3	10
>> Employee Expenses	204	243	362	317	293	369	481	541
Change (%)	36.9	19.1	48.9	(12.3)	(7.5)	25.6	30.4	12.5
>> Other Expenses	262	316	323	317	327	333	244	255
Pre-provisioning Profit	309	382	468	681	654	691	774	894
Change (%)	104.0	23.5	22.5	45.5	(4.0)	5.8	12.0	15.5
Provisions	97	184	244	375	607	374	271	278
Change (%)	102.1	90.6	32.7	53.4	61.8	(38.4)	(27.4)	2.4
PBT	212	198	223	306	47	317	503	616
Tax	67.5	38.1	36.2	92.3	34.1	87.6	165.3	203.4
Profit After Tax	145	160	187	213	13	230	338	413
Change (%)	86.3	10.1	17.3	14.0	(94.1)	1,712.3	47.0	22.2
Adjusted Profit After Tax	138	152	181	211	20	230	338	413
Change (%)	86.8	9.8	19.0	17.0	(90.3)	1,026.6	47.0	22.2

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	17,422	19,861
>> Off-Book AUM	5,264	6,525	6,293	4,084	4,133	3,515	1,132	1,291
AUM Growth (%)	34.9	10.1	9.5	(7.1)	(11.5)	(3.4)	12.0	14.0
Borrowing Growth (%)	69.3	(2.1)	14.2	0.5	(15.2)	(2.6)	31.3	14.0
Loan/Borrowing Ratio	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3
Disbursement (Rs Cr)	2,057	2,639	2,332	1,868	1,478	2,233	2,439	3,376
Disbursement Growth (%)	20	20	20	20	(21)	51	9	38
CRAR (%)	16.6	16.6	16.3	18.7	20.4	20.7	21.6	21.3
>> Tier 1 (%)	11.5	11.5	11.1	14.6	15.4	17.3	18.1	17.8
>> 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	4.6	4.6

Assets Quality Metrics

Gross NPA (Rs)	264	642	830	1,464	1,080	1,089	1,220	1,311
Gross NPA (%)	-	-	-	8.1	6.7	7.0	7.0	6.6
Net NPA (Rs)	209	514	659	1,151	889	793	537	577
Net NPA (%)	-	-	-	6.4	5.6	5.2	3.2	3.0
Provision Coverage (%)	-	-	-	21.0	17.7	27.2	56.0	56.0
Provision/Average Advances (%)	31.3	48.2	52.2	55.1	92.8	54.1	35.0	31.1

Margin Metrics

Yield On Advances (%)	11.3	11.7	11.8	12.4	13.0	13.1	13.8	13.8
Cost Of Funds (%)	8.4	7.2	7.0	7.0	7.4	6.6	7.8	8.0
Spread (%)	3.0	4.5	4.8	5.4	5.6	6.5	6.0	5.7
NIM on AUM (%)	4.8	4.8	5.2	6.0	6.4	7.3	7.3	7.3

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	58	59	56	51	50	44	47	47
Other Income/Nil (%)	14	16	18	15	15	20	24	24
Operating Profit/ Net Income (%)	40	41	41	52	51	50	52	53
Net Profit/Net Income (%)	18	16	16	16	2	17	23	24
Cost to Income (%)	60	59	59	48	49	50	48	47
Employee Exp/ Net Income (%)	26	26	31	24	23	26	32	32
Cost on Average Assets (%)	3	3	4	3	4	4	4	4
Provisions/PPP (%)	31	48	52	55	93	54	35	31
Tax Rate (%)	32	19	16	30	73	28	33	33

Valuation Ratio Metrics

EPS (Rs)	7	8	9	9	1	10	13	15
Change (%)	86.6	9.7	18.8	(5.9)	(90.4)	1,026.2	29.4	22.2
ROAE (%)	11.1	10.5	11.4	11.1	0.9	10.2	13.2	13.9
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	9.4
Dividend yield (%)	0.7	1.1	0.9	1.1	0.8	0.5	0.7	0.8
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	13.7
P/B (X)	1.1	0.9	1.1	0.8	1.2	1.6	1.4	1.2
P/E (X)	11.3	9.0	9.9	8.3	122.9	15.8	11.3	9.3

Financial Details
Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	15.1	15.7	15.3	15.3	15.2	14.4	13.4
Interest expended	9.0	8.8	7.8	7.7	6.6	6.8	6.3
Net Interest Income	6.2	7.0	7.5	7.6	8.5	7.6	7.1
Non-Fund Based Income	1.0	1.3	1.1	1.2	1.7	1.9	1.7
Total Income	7.2	8.2	8.6	8.8	10.2	9.5	8.8
Total Operating Expenses	4.3	4.9	4.2	4.3	5.1	4.6	4.2
>> Employee Expenses	1.8	2.6	2.1	2.0	2.7	3.0	2.8
>> Other Expenses	2.4	2.3	2.1	2.2	2.4	1.5	1.3
Operating Profit	2.9	3.3	4.5	4.5	5.1	4.9	4.7
Provisions	1.4	1.7	2.5	4.2	2.7	1.7	1.5
Others	-	-	-	-	-	-	-
PBT	1.5	1.6	2.0	0.3	2.3	3.2	3.2
Tax	0.3	0.3	0.6	0.2	0.6	1.0	1.1
PAT/RoAA	1.2	1.3	1.4	0.1	1.7	2.1	2.2
Equity Multiplier (x)	9.1	8.9	8.0	6.7	6.1	6.2	6.4
ROAE	10.5	11.4	11.1	0.9	10.2	13.2	13.9

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