

23/05/2016

Sector: Financials

## Company Synopsis:

Magma Fincorp, established in 1989, is one of the India's largest retail-finance companies. The company is having a total asset under management of more than INR 18000 crore (\$3 bn approx). The magma family comprises of over 7000 Magmites working across different functional verticals across Country. The company is having a diversified product portfolio comprising of commercial vehicles, construction equipment, passenger car and utility vehicles, tractor, used vehicles, and SME loans. In addition company has also started Gold Loans and Affordable Housing Loans in FY'13. The company has signed a Joint Venture with HDI Gerling of Germany to start a general insurance company, which has since received R2 license from the regulator. The company has a wide operating footprint in country with over 275 branches across 21 states in the country. The company provides a one-stop-shop financing facility to its dedicated customer base of more than 300000 customers.

## Insight:

- Product mix strategy under execution, AUM shrinks marginally.
- Better monsoon hopes, AUM may rise over next couple of years.
- Improved NIM, operating leverage on for play.
- Stable asset quality, additional benefits with NPL recovery expected.
- Conditions in favor, profitability to improve.

## Key Financials:

PARTICULAR	FY15	FY16	FY17E	FY18E
Total Operating Income	1,153	1,315	1,420	1,672
YoY growth (%)	22.6	14.0	8.0	17.7
Operating profit	468	681	780	952
Net profit	181	211	280	389
YoY growth (%)	18.8	17.0	32.4	38.8
EPS (Rs)	9.5	8.9	11.8	16.4
Adj.BVPS (Rs)	66.8	56.9	64.9	77.0
P/E (x)	9.3	9.9	7.4	5.4
P/adj. BV (x)	1.3	1.5	1.4	1.2
ROE (%)	10.5	10.7	12.2	15.0
ROA (%)	1.3	1.4	1.7	2.1
Dividend yield (%)	1.1	0.9	1.1	1.7
CAR (%)	16.5	18.4	17.9	17.0

## Stock Summary:

Particular	
CMP	88.20
Target Price	120
Potential Upside	36%
O/S no of Shares (cr.)	23.68
Market Cap. (cr.)	2156.46
Equity Cap. (cr.)	135.09
52 Week High (INR)	107.90
52 Week Low (INR)	63.30
Face Value (INR)	2
NSE Code	MAGMA
BSE Code	52400

## Share Holding Pattern:

Particular	March-16
Promoters	27%
Public (FII+DII)	64.6%
Others	8.4%
<b>TOTAL</b>	<b>100%</b>

## Stock Price Trend:



### Product mix strategy under execution, AUM shrinks marginally:

The company is under execution of product mix strategy under which it is de-focusing on low RoA products which includes Car/UV, CV, and CE financing and increasing the contribution of high RoA products which includes Mortgage, SME, and Tractors & Used Assets Finance. As a result of which sharp moderation in asset growth during FY15 & a 7% decline in AUM during FY16. This strategy will help bolster RoA profile as the focus is on products having higher risk adjusted margin. In FY16, where disbursement were stood at 29% yoy, the share of high RoA products stood higher to 67% against 58% in FY15. The major gainer of which are Mortgages & SME financing. Within AUM, the share of high RoA products has improved to 58% against 51% in FY15. The combined share of Mortgage & SME financing has increased to 28% against 22% a year back.

### Better monsoon hopes, AUM may rise over next couple of years:

Keeping in mind the sustained execution of product mix strategy, AUM is expected to grow from H2 FY17, which will be aided by higher government spending & a likely stronger monsoon. The consecutively increasing rural income will increase the consumption & micro activities, which will derive the demand for Used Vehicles, Tractors, and Car/UVs & CV/CE. Mortgage & SME financing growth would get additional boost from distribution expansion. Management is expecting a strong revival in disbursement growth in current fiscal which should give a 12-14% AUM growth. Asset growth in FY18 should be much stronger which may stand at around 18-20%. The company expects the share of high RoA products to reach 70% in next couple of years.

### Improved NIM, operating leverage on for play:

The NIM in Q4FY16 stood at 7.5%, which is higher by 30 bps qoq & 110 bps yoy. The expansion in margin is solely driven by improvement in portfolio yield on the back of ongoing product mix, as the funding cost remained unstable. As this improvement will continue over the medium term, the NIM will continue the trend in coming quarter. The modernization in funding cost with bank borrowings which comprised of 74% of total borrowings is another driver for increase in NIM. The material decline in Opex/AUM ratio of 3.1% qoq is again a positive factor.

### Stable asset quality, additional benefits with NPL recovery expected:

The gross NPL ratio stands still at 7.5% on a declining asset base, which means that there is no incremental pressure on asset quality in Q4FY16. As a result of which credit cost was stable at annualized 215 bps qoq. The company pursues the policy of 120 dps, the credit cost in FY17 is expected to be lower than 200 bps incurred in FY16. While the shift to 90 dps NPL recognition and provisioning policy would impact credit cost in FY18, likely pick-up in NPL recoveries and lower delinquencies should drive a net moderation.

### Conditions in favor, profitability to improve:

The RoA & RoE of company stood at 2.1% & 15% respectively by FY18, which will be driven by,

- a. Sustained NIM expansion,
- b. Improving cost productivity, &
- c. Moderation in Credit cost.

While the asset would grow at healthy 15-18% over FY16-18, earnings will grow much faster by 35% pa. As we know that the inherent improvement in franchise profitability would manifest in coming years, current stock valuation at 1.1x FY18 P/ABV appears attractive.

# MAGMA FINCORP

## Result Table:

PARTICULAR	Q4FY16	Q3FY16	QoQ	Q4FY15	YoY
Total Interest Income	633	621	1.9	620	2.1
Interest expended	(298)	(294)	1.5	(314)	(5.2)
<b>Net Interest Income</b>	<b>335</b>	<b>328</b>	<b>2.2</b>	<b>306</b>	<b>9.6</b>
Other income	9	7	27.4	7	27.4
<b>Total Income</b>	<b>344</b>	<b>335</b>	<b>2.8</b>	<b>313</b>	<b>10.0</b>
Operating expenses	(144)	(161)	(10.8)	(190)	(24.1)
Provisions	(99)	(99)	(0.9)	(53)	85.5
<b>PBT</b>	<b>102</b>	<b>74</b>	<b>37.1</b>	<b>70</b>	<b>45.2</b>
Tax	(36)	(22)	64.0	(16)	125.7
Minority Interest	(1)	(0)	622.2	(1)	(30.0)
Reported PAT	<b>65</b>	<b>52</b>	<b>25.0</b>	<b>51</b>	<b>27.1</b>

## Segmental Revenue:

PARTICULAR	Q4FY16	Q3FY16	QoQ	Q4FY15	YoY
<b>AUM</b>	<b>18,183</b>	<b>18,521</b>	<b>(1.8)</b>	<b>19,567</b>	<b>(7.1)</b>
Cars/UVs	4,528	4,649	(2.6)	4,990	(9.3)
CV	1,655	1,834	(9.8)	2,602	(36.4)
CE	1,455	1,537	(5.4)	1,918	(24.1)
Tractors	3,418	3,463	(1.3)	3,483	(1.9)
Used CV	2,036	2,148	(5.2)	2,328	(12.5)
SME	1,727	1,648	4.8	1,389	24.3
Mortgages	3,364	3,241	3.8	2,857	17.7
Disbursements	1,868	1,778	5.1	2,332	(19.9)

## Ratios:

PARTICULAR	Q4FY16	Q3FY16	QoQ	Q4FY15	YoY
NIM (%)	7.5	7.2	0.3	6.4	1.1
Cost to Income (%)	41.9	48.2	(6.3)	60.7	(18.8)
Prov/Avg AUM (%)	2.15	2.13	0.0	1.09	1.1
Gross NPA (%)	7.4	7.3	0.1	3.9	3.5
Net NPA (%)	5.7	5.7	-	3.0	2.7

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