

'Growth revives; assets quality improves'

**Magma Fincorp Ltd. (MGMA)** reported PAT of Rs853 mn in line with our estimate driven by healthy disbursement growth and decline in provisioning. Disbursement grew by 16.0% YoY and AUM by 8% YoY and keep ~Rs2 bn of liquidity surplus, thereby considered satisfactory given the sluggish scenario of industry. Meanwhile margin reduced sequentially by 30 bps to 8.1% due to increase in cost of borrowings. Assets quality has been witnessing secular improvement and in the quarter review GNPA/NNPA improved to 4.4%/2.8%. Credit cost also reduced significantly to 1.0% v/s previous 3 quarter avg. of 1.9%. We believe the new government will take responsible steps to improve the liquidity condition in the economy. Meanwhile, we cut our FY21E AUM growth to 12.6% YoY (16.2% YoY earlier forecast). MGMA is showing consistent performance across business parameters in line with mgmt renewed strategy and early warning indicators also showed reducing level of stress. Improving growth & cheap valuation also makes MGMA's stock attractive for investment. MGMA's stock at one year forward P/ABV(x) of 1.3 is currently trading at ~22% discount to 3 years average of 1.7. We maintain our **'Buy'** rating on stock with potential price of Rs174 per share (1.6 P/ABV(x) to FY21E Adj. BVPS of Rs108).

### Q4FY19 Result Analysis

NII grew by 2.1% YoY (13.2% YoY in Q3FY19) due to high cost of borrowings and pressure on yield. Interest income grew by 5.9% YoY (8.8% YoY in Q3FY19) and interest expanded by 10.5% YoY (4.1% YoY in preceding quarter). Thereby, NIM reduced 30 bps QoQ to 8.1% in Q4FY19. Total income grew by 5.2% YoY driven by strong other income. OPEX grew marginally by 1.5% YoY helped to contain C/I at 50.6% (50.4% in Q3FY19) despite weak NII growth. P&C increased by 41.4% YoY lower than previous three quarters reflecting improvement in assets quality. Net profit reported at Rs853 mn reporting 6.5% YoY growth.

### Business Growth

Disbursement grew by 15.8% YoY (9.9% YoY in Q3FY19) and AUM at 7.8% YoY (5.8% YoY in Q3FY19). Disbursement growth across segment include UV/Cars (-9.1% YoY), CV (-9.8%), CE (21%), used assets (35.6%), agri finance (-45.3%), SME (16.3% YoY) and mortgage (126.7% YoY). The slowdown in automobile industry was visible on disbursement growth, meanwhile the impact was offset by SME and mortgage segments. While MGMA continue to leverage its expertise in financing across segments, it is focusing more on used vehicles and LCV & SCV segments for business growth. As the company has adopted direct origination model for mortgage financing, direct sourcing share in incremental disbursement increased to 79% in Q4FY19 v/s 59% in Q3FY18. Mgmt articulated that it has implemented credit rule engine for all products (vehicle finance last year, SME – Apr'19 and mortgage – Q3FY20); the process has led to uniformity in decision making across branches, improvement in TAT and assets quality.

### Assets Quality likely to improve

Gross stage 3 assets (GNPA) reduced to Rs7.5 bn v/s Rs8.4 bn in Q3FY19 also driven by write-offs. Net gross stage 3 assets reported at Rs4.73 bn v/s Rs4.75 bn in Q3FY19. GNPA/NNPA (on AUM basis) improved to 4.4%/2.8% and credit cost also reduced significantly to 1.0% v/s previous 3 quarter avg. of 1.9%. EWI and CPMI, indicators used to assess stress, was reduced to 4.2%/4.1% v/s 7.4%/4.7% showing improvement in ABF portfolio. ID and ED trend for housing and SME also improved to 0.73%/0.39% v/s 1.8%/0.62%.

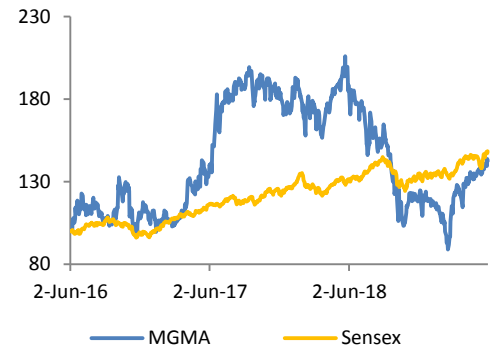
### Rating Matrix

CMP	Rs130
Rating	Buy
Potential Price	Rs174
Holding Period	12-18 Months
Upside Potential	33.8%
52 week H/L	Rs177/81
Face value	Rs2
Mar. Cap.	Rs35,550 mn
Category	Mid Cap.
Sector	NBFC

### Shareholding Pattern

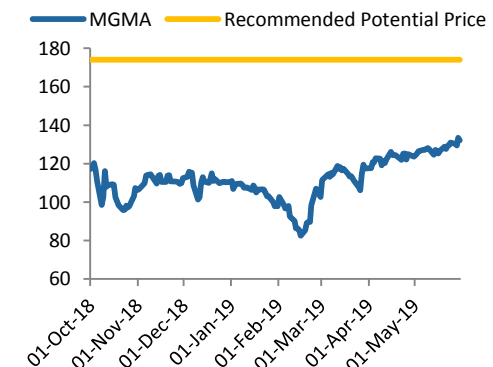
Particulars	Mar'19	Dec'18	Sep'18	Jun'18	Mar'18
Promoters	24.4%	24.4%	24.4%	24.4%	27.7%
FPIs	26.4%	26.1%	25.9%	25.1%	18.0%
Insti.	62.9%	62.4%	67.2%	64.1%	51.8%
Non. Inst.	12.7%	13.2%	8.4%	11.5%	20.5%

### Relative Capital Market Strength



### Key Financials (Rs bn)

Particulars	FY17	FY18	FY19	FY20E	FY21E
NII	11.2	10.6	13.3	13.9	15.7
Gr. (%)	-4.1%	-7.5%	18.3%	11.7%	14.7%
NIM	6.2%	6.3%	7.6%	7.1%	7.2%
PPOP	6.5	6.2	7.1	8.4	10.0
A.PAT	0.2	2.2	3.0	3.7	4.3
AUM	161.0	155.6	173.6	195.4	223.3
RoE (%)	0.1%	9.7%	12.0%	12.9%	13.4%
RoA (%)	0.1%	1.6%	2.0%	2.1%	2.2%
C/I (%)	48.7%	50.9%	49.2%	46.7%	43.8%
P/ABV (x)			1.6	1.4	1.2



### Five Quarters at a Glance

Particulars (Rs mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY	QoQ
Interest Income	5,852.4	5,861.8	6,242.9	6,247.3	6,200.3	5.9%	-0.8%
Interest Expended	2,670.2	2,650.7	2,745.1	2,869.2	2,951.4	10.5%	2.9%
<b>NII</b>	<b>3,182.2</b>	<b>3,211.2</b>	<b>3,497.7</b>	<b>3,378.1</b>	<b>3,248.9</b>	<b>2.1%</b>	<b>-3.8%</b>
Other Income	50.9	195.5	150.2	91.9	150.9	196.6%	64.2%
<b>Total Income</b>	<b>3,233.1</b>	<b>3,406.7</b>	<b>3,647.9</b>	<b>3,470.0</b>	<b>3,399.8</b>	<b>5.2%</b>	<b>-2.0%</b>
Operating Expenditures	1,695.7	1,674.0	1,705.5	1,749.0	1,721.1	1.5%	-1.6%
<b>Pre- Prov Operating Profi</b>	<b>1,537.5</b>	<b>1,732.7</b>	<b>1,942.4</b>	<b>1,721.0</b>	<b>1,678.7</b>	<b>9.2%</b>	<b>-2.5%</b>
P&C	291.9	845.7	874.1	525.2	412.8	41.4%	-21.4%
PBT	1,245.6	887.0	1,068.3	1,195.8	1,265.9	1.6%	5.9%
Tax	444.5	285.4	273.2	428.6	396.4	-10.8%	-7.5%
<b>Net Profit</b>	<b>801.1</b>	<b>681.2</b>	<b>766.1</b>	<b>739.9</b>	<b>853.0</b>	<b>6.5%</b>	<b>15.3%</b>
Dil. EPS	3.0	2.5	2.8	2.8	3.2	5.2%	15.2%
NIM (Reported)	8.2%	8.6%	9.0%	8.4%	8.1%		
C/I (%)	52.4%	49.1%	46.8%	50.4%	50.6%		
Credit cost (%)	0.7%	2.1%	2.2%	1.3%	1.0%		

### Balance sheet items (Rs bn)

AUM	158.0	158.7	165.3	164.0	170.3	7.8%	3.9%
Disbursements	22.3	18.4	22.0	21.3	25.9	15.8%	21.2%
Net worth (NW) (Rs mn)	23,194.3	25,838.6	25,803.6	26,543.4	27,438.9	18.3%	3.4%

### AUM Break-out (Rs bn)

UV/ Cars	37.9	36.5	38.0	35.8	34.1	-10.2%	-4.8%
CV	12.6	12.7	14.9	17.0	17.0	34.7%	0.0%
CE	11.1	11.1	9.9	11.9	13.6	23.2%	14.3%
Used Assets	25.3	25.4	28.1	30.7	32.4	28.0%	5.6%
Agri Finance/ Tractors	25.3	25.4	24.8	20.4	18.7	-25.9%	-8.3%
SME	19.0	20.6	21.5	23.8	22.1	16.8%	-7.1%
Mortgage	26.9	27.0	28.1	30.7	32.4	20.5%	5.6%

### Disbursements (Rs bn)

UV/ Cars	4.4	4.2	4.0	4.2	4.0	-9.1%	-3.6%
CV	3.0	2.0	2.6	2.1	2.7	-9.8%	27.4%
CE	1.7	1.3	1.1	1.2	2.0	21.0%	72.4%
Used Assets	4.9	4.2	5.5	4.8	6.6	35.6%	38.4%
Agri Finance/ Tractors	2.0	1.8	1.5	2.3	1.1	-45.3%	-51.3%
SME	4.6	3.3	5.1	4.2	5.4	16.3%	28.9%
Mortgage	1.8	1.5	2.2	2.9	4.0	126.7%	38.4%

### Assets Quality (Rs mn)

<b>Assets Quality (Rs mn)</b>	<b>5,150.0</b>	<b>5,150.0</b>	<b>5,200.0</b>	<b>4,750.0</b>	<b>4,730.0</b>		
Gross Stage 1 and Stage 2 Assets	133,840.0	135,420.0	138,660.0	139,880.0	148,980.0	11.3%	6.5%
ECL Provision – Stage 1 and 2	3,880.0	3,590.0	3,480.0	3,330.0	2,930.0	-24.5%	-12.0%
Stage 1 and Stage 2 Coverage Ratio (%)	2.9%	2.7%	2.5%	2.4%	2.0%	-32.2%	-17.4%
Gross Stage 3 Assets	12,630.0	13,110.0	13,410.0	8,360.0	7,470.0	-40.9%	-10.6%
Gross Stage 3 Assets (%) (~ GNPA/AUM)	8.0%	8.3%	8.1%	5.1%	4.4%	-45.1%	-14.0%
ECL Provision – Stage 3	7,480.0	7,960.0	8,210.0	3,610.0	2,740.0	-63.4%	-24.1%
Net Stage 3 Assets (%) (~NNPA/AUM)	3.3%	3.2%	3.1%	2.9%	2.8%	-14.8%	-4.1%
Stage 3 Coverage Ratio (%)	59.2%	60.7%	61.2%	43.2%	36.7%	-38.1%	-15.1%

Particulars	Q4FY19 Estimated	Q4FY19 Actual	Var. (%)	
Interest Earned	6,165.7	6,200.3	0.6%	In line with our estimate
Interest Expended	2,895.1	2,951.4	1.9%	In line with our estimate
NII	3,270.6	3,248.9	-0.7%	In line with our estimate
OPEX	1,855.3	1,721.1	-7.2%	Stronger operating efficiency
P&C	630.3	412.8	-34.5%	Lower than expected credit cost due to improvement in assets quality
PAT	879.4	853.0	-3.0%	
GNPA	9,171.1	7,470.0	-18.5%	Also driven by higher write-offs
Disbursement	21,632.6	25,860.0	19.5%	Showing lower impact of sector crises

Interest income grew by 5.9% YoY (8.8% YoY in Q3FY19) and interest expanded by 10.5% YoY (4.1% YoY in preceding quarter).

OPEX grew marginally by 1.5% YoY helped to contain C/I at 50.6% (50.4% in Q3FY19) despite weak NII growth.

P&C increased by 41.4% YoY lower than previous three quarters reflecting improvement in assets quality. Net profit reported at Rs853 mn reporting 6.5% YoY growth.

Disbursement grew by 15.8% YoY (9.9% YoY in Q3FY19) and AUM at 7.8% YoY (5.8% YoY in Q3FY19).

Gross stage 3 assets (GNPA) reduced to Rs7.5 bn v/s Rs8.4 bn in Q3FY19 also driven by write-offs.

## Financial statements (Consolidated, Rs mn)

### Profit And Loss Statement

Particulars	FY17	FY18	FY19	FY20E	FY21E
Interest Earned	22,433.8	20,752.7	24,549.8	27,414.9	31,458.0
Growth (%)	-4.1%	-7.5%	18.3%	11.7%	14.7%
Interest Expended	11,268.8	10,108.4	11,216.4	13,485.1	15,724.3
Growth (%)	-5.4%	-10.3%	11.0%	20.2%	16.6%
<b>Net Interest Income (adj.)</b>	<b>11,164.9</b>	<b>10,644.3</b>	<b>13,333.4</b>	<b>13,929.8</b>	<b>15,733.7</b>
Net Interest Margin	6.2%	6.3%	7.6%	7.1%	7.2%
Other Income	1,575.2	2,233.2	588.6	1,832.2	2,044.4
% of Interest Income	7.0%	10.8%	2.4%	6.7%	6.5%
Total Income	12,740.1	12,877.5	13,922.0	15,762.0	17,778.1
Growth (%)	-3.1%	1.1%	8.1%	13.2%	12.8%
Operating & Other expenses	6,203.6	6,557.7	6,849.6	7,353.7	7,790.9
<b>Pre-Prov. Operating Profit</b>	<b>6,536.5</b>	<b>6,206.6</b>	<b>7,072.4</b>	<b>8,408.3</b>	<b>9,987.2</b>
Provisions and contingencies (ir	6,068.6	2,893.9	2,657.8	3,087.1	3,616.8
P&C % of Advances	5.0%	2.4%	1.7%	1.8%	1.8%
Operating Profit before Tax	467.9	3,320.3	4,414.5	5,321.2	6,370.4
Growth (%)	-84.7%	609.6%	33.0%	20.5%	19.7%
Pre-tax Margin %	3.7%	25.8%	31.7%	33.8%	35.8%
Tax	340.6	1,131.5	1,383.5	1,596.4	2,038.5
% of PBT	72.8%	34.1%	31.3%	30.0%	32.0%
<b>Adjusted PAT</b>	<b>204.5</b>	<b>2,188.0</b>	<b>3,031.0</b>	<b>3,724.8</b>	<b>4,331.9</b>

### Balance Sheet

Particulars	FY17	FY18	FY19	FY20E	FY21E
Investments	5,464.9	6,485.2	5,901.0	3,979.2	3,742.7
Loans	120,894.6	121,691.8	156,460.0	173,934.8	198,692.8
Fixed assets	2,852.8	2,003.9	1,597.0	2,273.3	2,776.9
Other assets	7,010.2	6,832.0	3,934.8	7,621.9	8,483.5
<b>TOTAL ASSETS</b>	<b>136,222.5</b>	<b>137,013.0</b>	<b>167,892.8</b>	<b>187,809.2</b>	<b>213,696.0</b>
Capital	473.9	474.1	538.6	538.6	538.6
Reserves and Surplus	21,247.4	22,720.9	26,900.2	29,978.7	33,664.3
Minority Interest	342.0	0.0	0.0	0.0	0.0
Borrowings	100,753.2	97,697.4	116,273.0	136,802.6	156,275.2
Other liabilities and provisions	13,405.8	16,120.3	24,181.0	20,489.3	23,217.9
<b>TOTAL CAPITAL AND LIABIL</b>	<b>136,222.3</b>	<b>137,012.7</b>	<b>167,892.8</b>	<b>187,809.2</b>	<b>213,696.0</b>

### Financial Ratios

Particulars	FY17	FY18	FY19	FY20E	FY21E
<b>Return / Profitability Ratios (%)</b>					
NIM (our cal.)	6.2%	6.3%	7.6%	7.1%	7.2%
Yield on advances (YoA)	16.1%	15.6%	16.5%	15.9%	16.1%
Cost of funds (CoF)	10.3%	10.2%	10.5%	10.7%	10.7%
Spread	5.8%	5.4%	6.0%	5.2%	5.4%
RoA	0.1%	1.6%	2.0%	2.1%	2.2%
RoE	0.9%	9.7%	12.0%	12.9%	13.4%
<b>Operating ratios (%)</b>					
Borrowings/ AUM (%)	62.6%	62.8%	70.0%	70.0%	70.0%
Cost-to-Income (C/I)	48.7%	50.9%	49.2%	46.7%	43.8%
Investment / Borrowings	5.4%	6.6%	5.1%	2.9%	2.4%
Non interest income / Total inc	12.4%	17.3%	4.2%	11.6%	11.5%
<b>Capitalisation ratios (%)</b>					
Total capital adequacy ratio (B	20.4%	20.7%	20.1%	19.9%	19.6%
Equity / Assets	15.9%	16.9%	16.3%	16.2%	16.0%
Loans / Assets	88.7%	88.8%	93.2%	92.6%	93.0%
Investments / Assets	4.0%	4.7%	3.5%	2.1%	1.8%
<b>Asset Quality ratios (%)</b>					
Gross NPA	6.9%	7.2%	5.5%	4.9%	4.7%
Net NPA	5.6%	5.2%	3.3%	2.7%	2.3%
Coverage Ratio	17.7%	27.2%	39.0%	45.2%	51.3%
<b>Per Share Data (Rs)</b>					
EPS (Diluted)	1.4	8.9	11.3	13.8	16.1
DPS	0.0	0.7	1.0	2.0	2.0
BVPS	149.7	87.1	101.9	113.3	127.0
Adjusted BVPS	87.1	56.7	80.4	94.0	108.0
<b>Valuation ratios (x)</b>					
P/E (x)	92.2	14.7	11.6	9.4	8.1
P/BV (x)	0.9	1.5	1.3	1.1	1.0
P/ABV (x)	1.5	2.3	1.6	1.4	1.2
<b>Growth ratios (%)</b>					
AUM	-11.5%	-3.4%	11.6%	12.6%	14.2%
Net interest income	-2.7%	-4.7%	25.3%	4.5%	12.9%
Interest earned	-4.1%	-7.5%	18.3%	11.7%	14.7%
PAT	-90.3%	969.7%	38.5%	22.9%	16.3%
Borrowings	-14.9%	-3.0%	19.0%	17.7%	14.2%
<b>Business ratios</b>					
AUM/Branch (Rs mn)	566.9	510.0	542.4	583.4	611.6

Source: Choice Broking Research

### Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral.

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