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Q4FY20 result review
and earnings revision

Financials

Target price: Rs22

Earnings revision

(%)	FY21E	FY22E
NII	↓ 5.0	↓ 6.9
PPoP	↓ 4.5	↓ 10.2
PAT	↑ 14.1	↓ 11.1

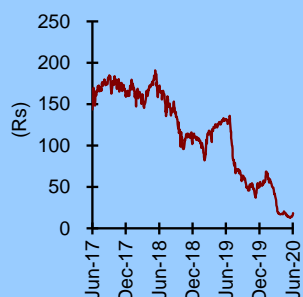
Target price revision

Rs22 from Rs15

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	24.4	24.4	24.4
Institutional investors	68.2	66.9	66.5
MFs and other	11.5	11.3	11.5
FIs/Banks	7.6	7.6	7.3
Insurance co.	0.0	0.0	0.0
FII	49.1	48.0	47.7
Others	7.4	8.7	9.1

Price chart



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INDIA

Magma Fincorp



HOLD

Maintained

Weakness will get amplified in a tough environment

Rs22

Magma Fincorp (Magma) reported a Q4FY20 loss of Rs355mn led by lower NII and higher effective tax rate. Magma ranks below its peers on many parameters – franchise strength, liquidity position, asset resilience, earnings/return stability and cost efficiency. This was evident from a relatively higher proportion of its AUM under moratorium. Moratorium in the vehicle finance, affordable housing (AHF) and SME book stood at 84%, 53% and 56% respectively. On the consolidated book, customers availing moratorium (by value) for April was ~64% and for May it was ~73% - suggesting that the moratorium was up MoM but the company is making earnest efforts to bring it down. High risk unsecured lending in its SME book (even though ~76% of this book is secured under CGT-MSE) and LAP (within AHF business) could mean asset quality would further deteriorate with consequent higher credit costs in FY21. Maintain HOLD.

- **Remains to be seen if Magma can deliver on the promised cost rationalization:** FY21 will be a lost year for any potential growth in AUM and Balance Sheet. Management guided that it will be looking to rationalize operating costs and that it targets to reduce absolute operating expenses by 10%-15% in FY21. Other peers have demonstrated cost efficiencies in the absence of growth.
- **While borrowings costs in FY21 could be lower than FY20, it will largely not get any benefit of recent repo-rate cut and MCLR cut of banks:** Magma had to rely extensively on bank term loans, WC/CC limits and direct assignments in FY20. Risk aversion in banks is at its peak and for the lower-rated credits among NBFCs, even if liquidity is available, it would come in at a significantly higher cost. Magma did not avail any moratorium on its bank loans in Morat 1.0 and does not plan to avail any moratorium in Morat 2.0.
- **COVID provisions of ~70bps might not be adequate given the economic dislocation:** Magma made COVID provisions of 90bps, 40bps and 30bps (% of AUM) in Vehicle Finance, AHF and SME segment respectively. In our view, Covid-related economic dislocation will have a severe impact on SMEs and the company could likely be staring at further asset quality deterioration in its high risk (SME + LAP) book. We have conservatively modelled credit cost of ~3.2% in FY21E.
- **Housing subsidiary:** Magma had pivoted towards affordable housing in the last fiscal and has successfully established its niche. Mortgage business (excluding LAP), in our view, will be least vulnerable in the current mayhem. Magma will be looking to grow its mortgage business even as other segments viz vehicle finance and SME remain more vulnerable.
- **Valuations and risks:** We expect the AUM to remain largely flat over FY21E. The stock is currently trading at 0.22x FY22E P/BV. We expect the liquidity to remain tight for the company in the current fiscal. Maintain **HOLD** with a revised target price of Rs22 (earlier: Rs15) basis target multiple of 0.2x Mar'22 P/BV. Liquidity, collections and recoveries will be very closely monitored.

Market Cap	Rs6bn/US\$79mn
Reuters/Bloomberg	MAGM.BO / MGMA IN
Shares Outstanding (mn)	269.5
52-week Range (Rs)	136/13
Free Float (%)	75.6
FII (%)	47.7
Daily Volume (US\$/000)	217
Absolute Return 3m (%)	7.2
Absolute Return 12m (%)	(82.6)
Sensex Return 3m (%)	18.8
Sensex Return 12m (%)	(11.5)

Year to March	2019	2020	2021E	2022E
NII (Rs mn)	13,336	11,226	10,648	9,972
Net Profit (Rs mn)	3,040	271	65	581
EPS (Rs)	11.3	1.0	0.2	2.2
% Chg YoY	12.9	(91.1)	(75.9)	791.7
P/E (x)	2.0	22.3	92.6	10.4
P/BV (x)	0.22	0.22	0.22	0.22
Net NPA (%)	3.1	4.1	5.9	5.4
Dividend Yield (%)	3.6	-	1.8	1.8
RoA (%)	1.9	0.2	0.0	0.4
RoE (%)	12.9	1.0	0.2	2.1

Please refer to important disclosures at the end of this report

Table 1: Quarterly profit & loss*(Rs mn)*

	Q4FY19	Q3FY20	Q4FY20	QoQ (%)	YoY (%)
Interest Income	6,200	5,633	5,591	-0.8	-9.8
Interest Expense	2,951	3,103	3,127	0.8	5.9
Net Interest Income (NII)	3,249	2,530	2,464	-2.6	-24.2
Other Income	151	690	586	-15.1	288.0
Total Income	3,400	3,220	3,049	-5.3	-10.3
Employee Expenses	1,093	1,099	1,073	-2.4	-1.8
Other Operating Expenses (incl. depreciation)	629	638	674	5.6	7.2
Total Operating Expenses	1,721	1,738	1,747	0.5	1.5
Pre-Provisioning Operating Profit (PPoP)	1,679	1,482	1,303	-12.1	-22.4
Provisions and write offs	413	1,204	1,300	8.0	215.0
Profit Before Tax	1,249	296	-41	-113.9	-103.3
Tax Expenses	396	72	314	338.3	-20.8
<i>Tax Rate</i>	<i>31.7</i>	<i>24.2</i>	<i>-</i>	<i>-</i>	<i>-</i>
Minority	0	0	0	-	-
Profit / (Loss) - after minority	853	224	-355	-258.6	-141.6
EPS (Rs)	3.2	0.8	-1.3	-258.6	-141.6

Source: Company data, I-Sec research

Table 2: Key performance indicators*(Rs mn)*

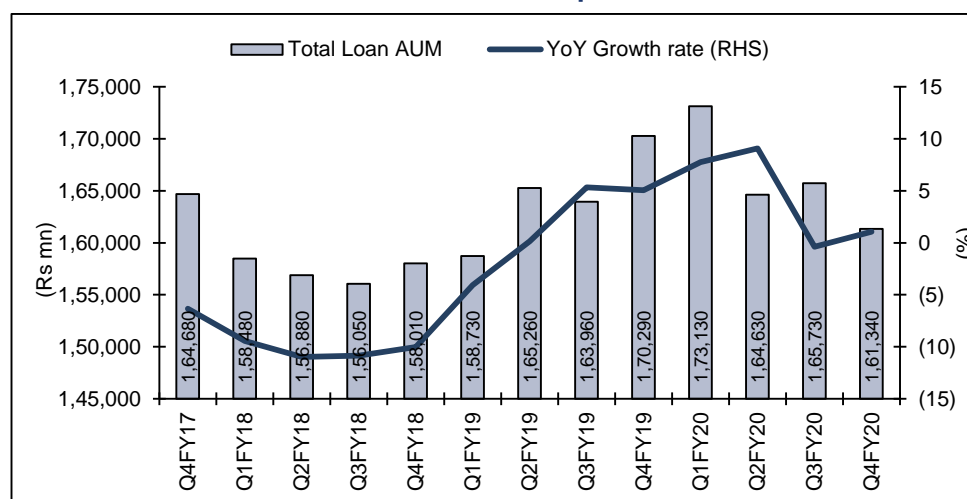
	Q4FY19	Q3FY20	Q4FY20	QoQ (%)	YoY (%)
Loan AUM	1,70,290	1,65,740	1,61,340	-2.7	-5.3
-UV/Cars/CV/CE	64,400	53,743	50,708	-5.6	-21.3
-Used Assets	32,560	38,120	40,335	5.8	23.9
-Agri Finance	18,950	14,917	12,907	-13.5	-31.9
-SME Finance	22,780	20,670	18,590	-10.1	-18.4
-House Loan/Mortgage Finance	31,600	38,280	38,800	1.4	22.8
Off-book as a % of loan AUM	8.1	10.8	11.7	85 bps	357 bps
Loan disbursements	25,860	20,140	13,120	-34.9	-49.3
Yields on AUM (calculated) (%)	14.8	13.6	13.7	3 bps	-117 bps
Cost of borrowings (calculated) (%)	9.3	9.8	10.1	34 bps	86 bps
NIM (calculated) (%)	8.1	7.8	7.5	-34 bps	-68 bps
Gross NPA - on-book AUM (%)	4.8	6.7	6.4	-26 bps	162 bps
Net NPA - on-book AUM (%)	3.1	4.5	4.2	-31 bps	107 bps
Provision coverage ratio (%)	36.7	34.4	36.5	209 bps	-14 bps
Cost to Income (%)	50.6	54.0	57.3	332 bps	666 bps
RoA (%) - annualised (reported)	2.0	0.6	-0.9	-145 bps	-290 bps
RoE (%) - annualised (reported)	12.7	3.2	-5.1	-838 bps	-1784 bps
CRAR (%)	24.9	26.9	25.9	-100 bps	100 bps
-Tier 1 (%)	20.7	23.8	23.0	-80 bps	230 bps
-Tier 2 (%)	4.2	3.1	2.9	-20 bps	-130 bps
Branches	310	326	327	1 nos.	17 nos.

Source: Company data, I-Sec research

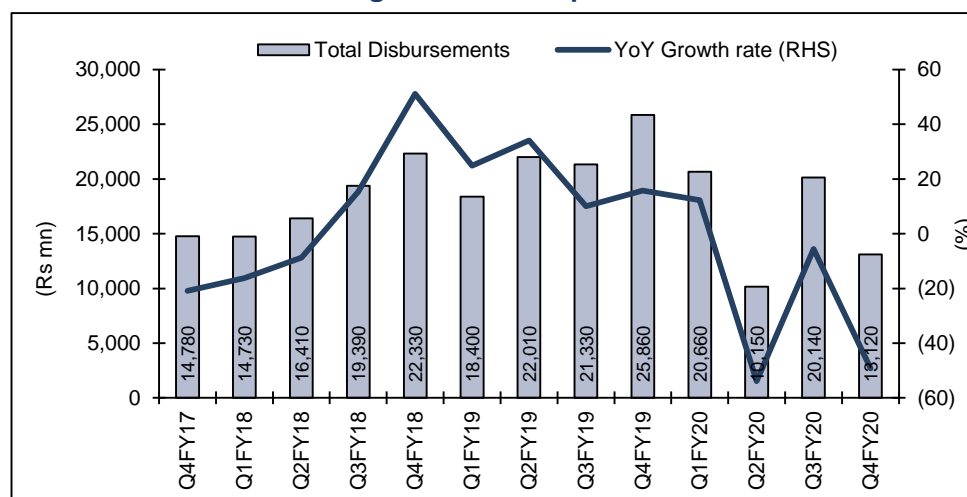
Table 3: Quarterly Du Pont analysis (annualised basis, on average loan AUM)

	Q4FY19	Q3FY20	Q4FY20	QoQ (%)	YoY (%)
Average AUM (Rs mn)	1,67,125	1,65,185	1,63,540	-1.0	-2.1
Interest earned	14.8	13.6	13.7	3 bps	-117 bps
Interest expended	7.1	7.5	7.6	13 bps	58 bps
Gross Interest Spread	7.8	6.1	6.0	-10 bps	-175 bps
Credit cost	1.0	2.9	3.2	26 bps	219 bps
Net Interest Spread	6.8	3.2	2.8	-37 bps	-394 bps
Operating cost	4.1	4.2	4.3	6 bps	15 bps
Lending spread	2.7	-1.0	-1.4	-43 bps	-410 bps
Non interest income	0.3	1.7	1.3	-39 bps	100 bps
Operating spread	3.0	0.7	-0.1	-82 bps	-309 bps
Tax	0.9	0.2	0.8	59 bps	-18 bps
ROAAUM	2.0	0.5	-0.9	-141 bps	-291 bps
Effective leverage (AAUM/ AE)	6.2	6.0	5.9	-6 bps	-26 bps
RoAE	12.6	3.2	-5.1	-838 bps	-1777 bps

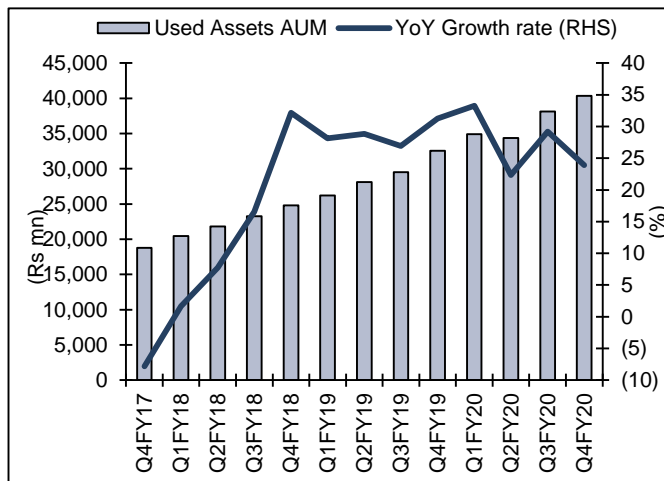
Source: Company data, I-Sec research

Chart 1: Loan AUM was down 5% YoY – expect it to remain flat at FY21-end

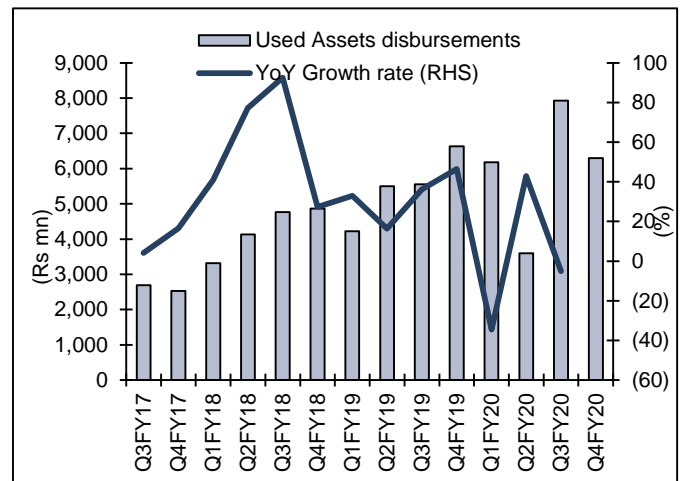
Source: Company data, I-Sec research

Chart 2: Disbursements stood at Rs13.1bn in Q4FY20, given the company's caution in SME and housing finance even prior to COVID lockdowns

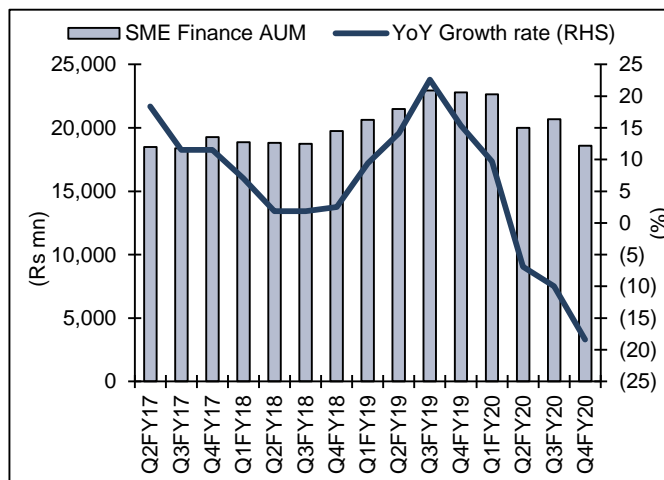
Source: Company data, I-Sec research

Chart 3: Used assets proportion in the AUM mix has been increasing steadily...

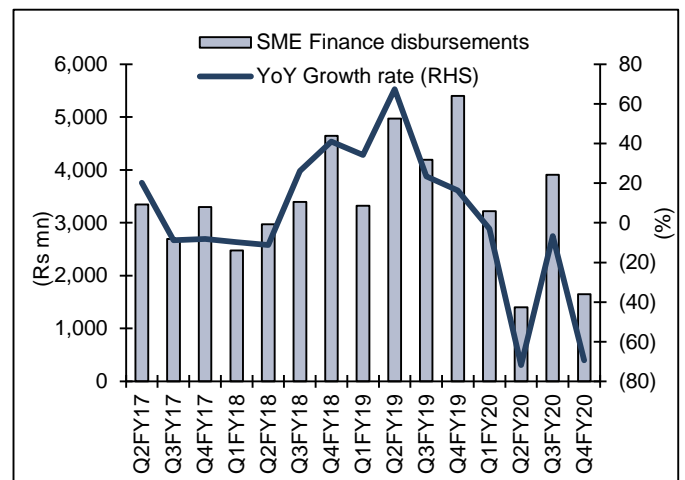
Source: Company data, I-Sec research

Chart 4: ...with strong focus of the company on used asset disbursements

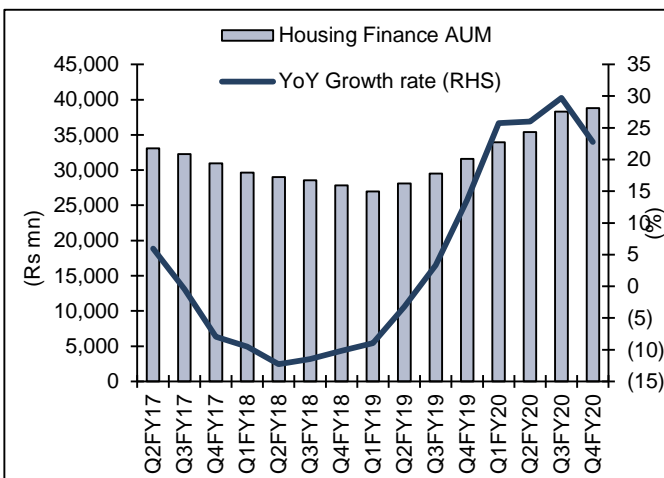
Source: Company data, I-Sec research

Chart 5: SME segment will witness a tapered growth trajectory...

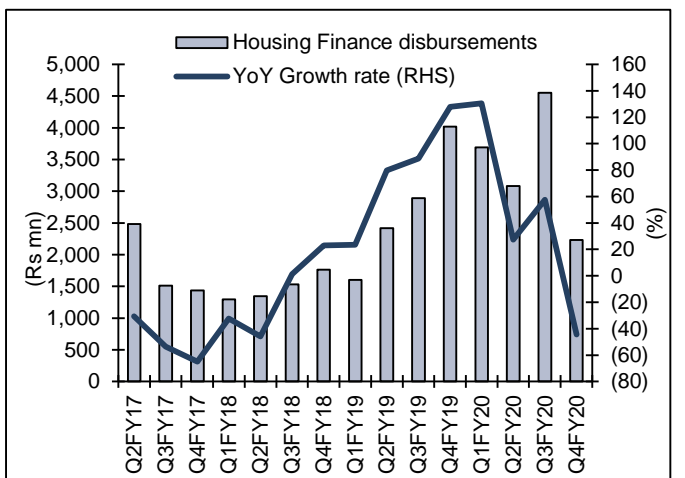
Source: Company data, I-Sec research

Chart 6: ...even as the company will look to moderate its disbursements in the SME segment

Source: Company data, I-Sec research

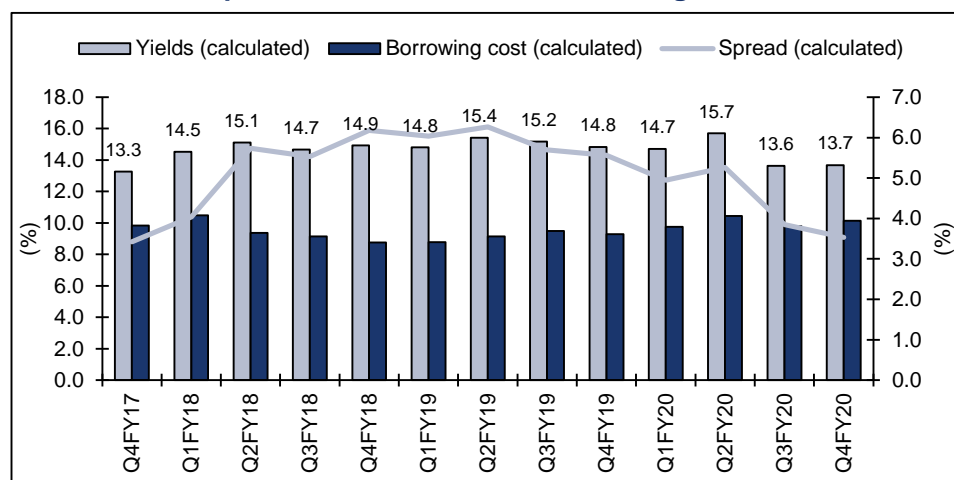
Chart 7: Housing finance AUM would continue to exhibit growth...

Source: Company data, I-Sec research

Chart 8: ...despite the caution adopted by the company in the space

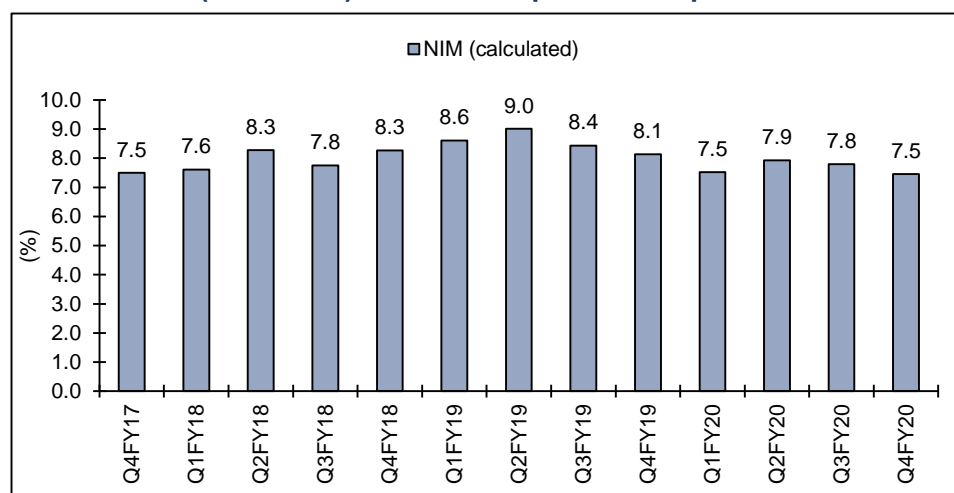
Source: Company data, I-Sec research

Chart 9: While yields on AUM were broadly flat, spreads saw compression because of sharp increase in the cost of borrowings



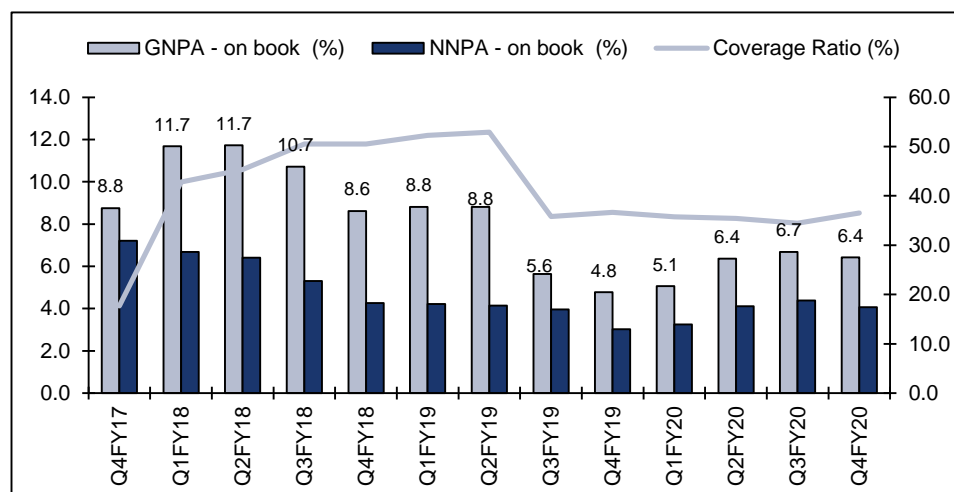
Source: Company data, I-Sec research

Chart 10: NIM (calculated) declined 60bps YoY/30 bps QoQ



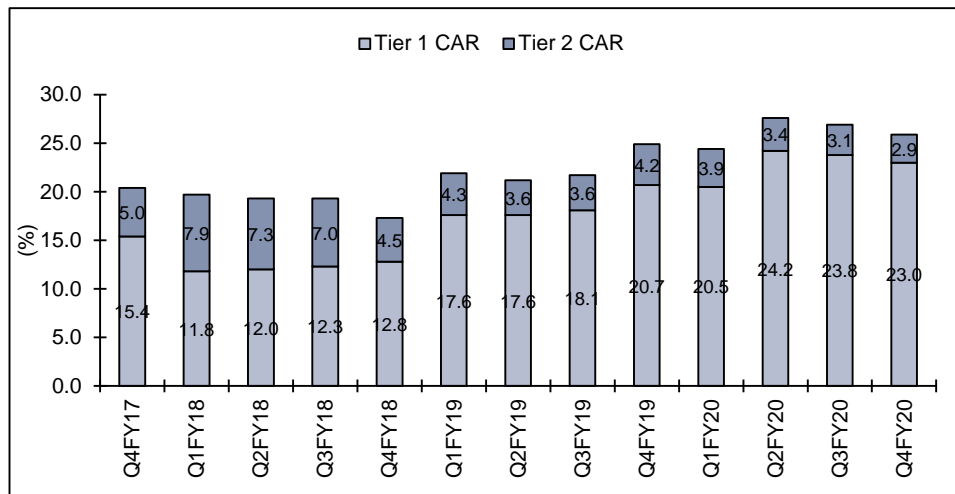
Source: Company data, I-Sec research

Chart 11: Asset quality improved with GNPA down 30bps QoQ; this includes asset classification benefit taken on assets which were extended moratorium



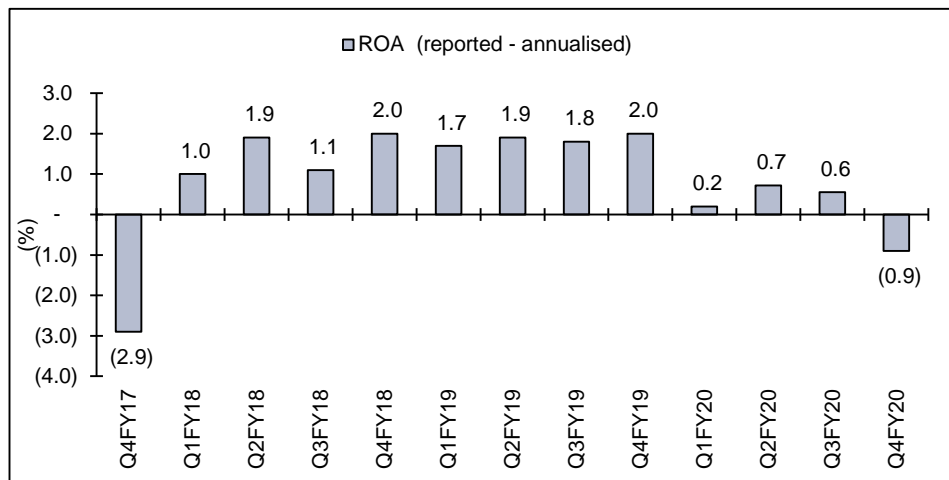
Source: Company data, I-Sec research

Chart 12: Tier-1 capital remains relatively strong at 23%; direct assignments in the quarter again lead to release of some capital which was partly offset by losses reported in the quarter



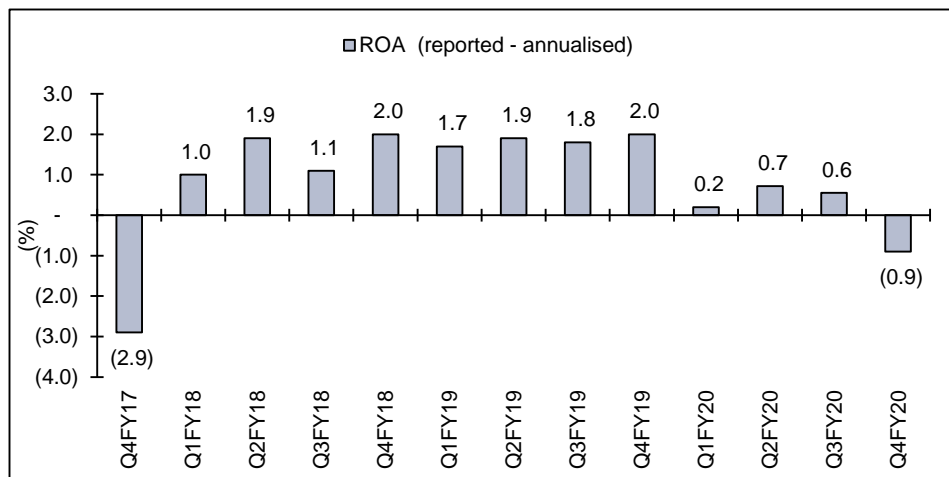
Source: Company data, I-Sec research

Chart 13: Magma reported a quarterly loss after 12 quarters leading to a Q4FY20 RoA of -0.9%



Source: Company data, I-Sec research

Chart 14: Expect RoE of ~2% in FY22



Source: Company data, I-Sec research

Financials

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

Particulars	FY18	FY19	FY20	FY21E	FY22E
Interest earned	23,423	24,552	24,164	23,277	22,426
Interest expended	11,181	11,216	12,938	12,630	12,454
Net interest income	12,242	13,336	11,226	10,648	9,972
Other income	375	589	1,623	1,164	1,121
Staff cost	3,680	4,366	4,479	4,255	4,298
Depreciation	492	505	752	794	896
Other operating expenses	1,882	1,979	1,773	1,507	1,522
Total operating cost	6,055	6,850	7,005	6,556	6,716
Pre-provisioning op profit	6,563	7,075	5,844	5,255	4,377
Provisions & contingencies	3,673	2,658	5,016	5,160	3,528
Share of profit of associates	19	7	(10)	-	-
Profit before tax	2,908	4,424	818	95	849
Income taxes	540	1,384	547	30	267
Minority	-	-	-	-	-
PAT	2,369	3,040	271	65	581

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

Particulars	FY18	FY19	FY20	FY21E	FY22E
Capital	474	539	539	539	539
Reserves & surplus	19,250	26,900	26,941	26,898	27,372
Preference Capital	-	-	-	-	-
Networth	19,724	27,439	27,480	27,437	27,911
Minority Interest	-	-	-	-	-
Total borrowings	1,23,270	1,34,010	1,19,870	1,27,771	1,29,874
Other Liabilities & Provisions	5,946	6,441	5,050	5,243	5,063
Total liabilities & stockholders' equity	1,48,940	1,67,890	1,52,400	1,60,451	1,62,848
Loans & advances	1,35,700	1,50,070	1,35,550	1,40,725	1,35,910
Cash and Balance	4,070	9,570	7,080	6,308	8,033
Fixed Assets	1,930	1,890	1,930	1940	2099
Current & other assets	7,240	6,360	7,840	11479	16806
Total Assets	1,48,940	1,67,890	1,52,400	1,60,451	1,62,848

Source: Company data, I-Sec research

Table 6: Key ratios*(Year ending March 31)*

Particulars	FY18	FY19	FY20	FY21E	FY22E
Growth (%):					
AUM	(4.1)	7.8	(5.3)	0.3	(1.7)
Disbursements	8	20	(27)	(24)	27
Loan book (on balance sheet)	1,35,700	1,50,070	1,35,550	1,40,725	1,35,910
Net Interest Income (NII)	0.3	8.9	(15.8)	(5.2)	(6.3)
Non-interest income	(30.3)	56.8	175.8	(28.3)	(3.7)
Pre provisioning operating profits (PPoP)	0.4	7.8	(17.4)	(10.1)	(16.7)
PAT	1,058.2	28.3	(91.1)	(75.9)	791.7
EPS	1,061.5	12.9	(91.1)	(75.9)	791.7
Yields, interest costs and spreads (%)					
NIM on AUM	7.6	8.1	6.8	6.6	6.2
Yield on loan assets (on -book)	14.5	15.0	14.6	14.4	14.0
Average cost of funds	10.0	8.7	10.2	10.2	9.7
Interest Spread on loan assets (on -book)	4.5	6.2	4.4	4.2	4.3
Operating efficiencies					
Non interest income as % of net income	3.0	4.2	12.6	9.9	10.1
Cost to income ratio (%)	48.0	49.2	54.5	55.5	60.5
Op.costs/avg AUM (%)	3.8	4.2	4.2	4.1	4.2
No of employees (including off rolls)	9,338	9,911	10,467	11,110	11,791
Average annual salary (Rsmn)	0.4	0.4	0.4	0.4	0.4
Annual inflation in average salary(%)	20.9	11.8	(2.9)	(10.5)	(4.8)
Salaries as % of non-int.costs (%)	60.8	63.7	63.9	64.9	64.0
NII /employee (Rsmn)	1.3	1.3	1.1	1.0	0.8
AUM/employee(Rsmn)	16.9	17.2	15.4	14.6	13.5
Capital Structure					
Debt-Equity ratio	6.2	4.9	4.4	4.7	4.7
Leverage (x)	7.6	6.1	5.5	5.8	5.8
CAR (%)	17.3	24.9	25.9	24.3	24.1
Tier 1 CAR (%)	12.8	20.7	23.0	21.6	21.6
Tier 2 CAR (%)	4.5	4.2	2.9	2.7	2.5
Asset quality and provisioning					
GNPA (% of AUM)	8.6	4.8	6.4	9.5	8.8
NNPA (% of AUM)	4.5	3.1	4.1	5.9	5.4
GNPA (Rsmn)	12,630	7,470	9,140	13,369	11,960
NNPA (Rsmn)	6,250	4,730	5,800	8,289	7,355
Coverage ratio (%)	50.5	36.7	36.5	38.0	38.5
Credit costs as % of average AUM (bps)	228	162	303	319	220
Return ratios & capital management					
RoAA (%)	1.7	1.9	0.2	0.0	0.4
RoAE (%)	11.4	12.9	1.0	0.2	2.1
Payout ratio (%)	8.0	7.1	-	165.4	18.5
Valuation Ratios					
EPS (Rs)	10.0	11.3	1.0	0.2	2.2
Price to Earnings	2.2	2.0	22.3	92.6	10.4
BVPS (Rs)	83.0	101.7	101.8	101.6	103.4
Price to Book	0.27	0.22	0.22	0.22	0.22
Dividend yield (%)	3.6	3.6	-	1.8	1.8

Source: Company data, I-Sec research

Table 7: Du pont analysis

Particulars	FY18	FY19	FY20	FY21E	FY22E
Interest earned	14.5	15.0	14.6	14.4	14.0
Interest expended	6.9	6.8	7.8	7.8	7.8
Gross Interest Spread	7.6	8.1	6.8	6.6	6.2
Credit cost	2.3	1.6	3.0	3.2	2.2
Net Interest Spread	5.3	6.5	3.7	3.4	4.0
Operating cost	3.8	4.2	4.2	4.1	4.2
Lending spread	1.6	2.3	(0.5)	(0.7)	(0.2)
Non interest income	0.2	0.4	1.0	0.7	0.7
Minority	-	-	-	-	-
Final spread	1.8	2.7	0.5	0.1	0.5
<i>Tax rate (%)</i>	18.6	31.3	66.9	31.5	31.5
ROAAUM	1.5	1.8	0.2	0.0	0.4
Effective leverage (AAUM/ AE)	7.8	7.0	6.0	5.9	5.8
RoAE	11.4	12.9	1.0	0.2	2.1

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

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