Magma Fincorp: 3QFY12 Results - Loan growth and asset quality hold well, margins disappoint
(MGMA IN, mcap US$208mn, TP: Under Review)

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Our view on the results: Magma's 3QFY12 results were a mixed bag as YoY loan growth at 23% (6% QoQ) was in line with expectations, credit costs at 0.22% were much better than our expectations and the 100bps QoQ decline in NIMs was sharper than our expectations. Overall, Magma's net profits were down 36% QoQ and 47% below our estimates driven primarily by ~100bps decline in NIMs including 30bps impact from mark to market forex losses of ~₹50mn on outstanding preferential shares of US$15mn.

Where do we go from here? Whilst loan growth and asset quality are holding up well, NIMs have declined sharply by ~170bps over the last two quarters leading to RoAs declining to ~0.7%. We had initiated with a BUY stance on the stock as we expected RoA improvement over the next two years due to higher proportion of higher yield loans, decrease in cost of funds and an increase in operational efficiency. However, given the sharp decline in NIMs despite increasing proportion of higher yield assets, we need to revisit our stance and target price on the stock.

Key takeaways from the results and earnings call

- **Robust growth in disbursals:** Despite a slowdown in the product categories that Magma finances, the YoY loan disbursal growth for Magma was robust at 50% YoY growth. Used CVs grew by 108% on a lower base followed by 91% growth in tractors. The YoY growth in cars, CVs and CEs was 84%, 20% and 37% respectively. The share of high yield assets increased 25% in the overall disbursals v/s 23% last quarter. The management maintained its earlier guidance of 50% YoY growth in disbursals in FY12.
- **Sharp contraction in NIM:** In the second consecutive quarter, there was a sharp decline in NIMs with ~100bps decline in 3QFY12 v/s 2QFY12. The 100bps QoQ contraction in NIMs was driven by 30bps decline in yields and ~70bps increase in cost of funds.Out of 70bps increase in cost of funds ~30bps was driven by the ~₹50mn mark to market hit on forex exposure (US$15mn of preferential shares).
- **Credit quality holds up well:** The company maintained its superior credit quality trends with credit costs being 0.22% of average AUM (v/s 0.27% in 2QFY12 and 0.33% in 3QFY11). There was a marginal improvement in the collection efficiency to 100.4% (v/s 99.5%% in 2QFY12 and 100.9% in 3QFY11).
- **Slight improvement in operational efficiency:** The opex to AUM ratio at 0.68% in 3QFY12 was flat v/s 2QFY12; however better than 0.85% in 3QFY11.

Exhibit 1: Quarterly snapshot

Rs mn	3QFY12	2QFY12	QoQ growth (%)	3QFY11	YoY growth (%)	3QFY12 Ambit Estimates	Divergence from estimates
Interest Income	2,655	2,371		2,108		2,761	
Interest Expense	1,758	1,447		968		1,658	
NII	**897**	**924**		**1,140**		**1,102**	
Other Income	**127**	**149**		**149**		**151**	
Total Income	**1,024**	**1,073**	**-5%**	**1,289**	**-21%**	**1,253**	**-18%**
Employee Cost	344	357		319		369	
Opex	211	191		173		191	
brokerage commission	108	73		167		156	
Depreciation	63	62		72		65	
Operating Profit	**298**	**390**	**-24%**	**558**	**-47%**	**473**	**-37%**
Write-offs	67	67		70		92	
Provisions for std assets	25	20				12	
PBT	**206**	**303**	**-32%**	**488**	**-58%**	**368**	**-44%**
Tax	67	90		163		109	
PAT	**139**	**213**	**-35%**	**325**	**-57%**	**259**	**-46%**
Minortiy interest	7	7				**9**	
Net profits	**133**	**206**	**-36%**	**325**	**-59%**	**251**	**-47%**
Diluted EPS	0.51	0.98		2.19			
BVPS	59	60		44			
Total AUM	**109,219**	**102,855**	**6%**	**88,507**	**23%**		
On books	67%	62%		47%			
Off books	33%	38%		53%			
AUM breakup (Rs mn)	**109,219**	**102,855**	**6%**	**88,507**	**23%**		
Cars & UV	28,397	25,744		20,351			
CV	39,319	38,267		36,022			
CE	20,752	21,534		21,529			
Used CV	5,461	4,199		2,800			
Tractors	10,922	8,639		4,781			
SME	4,369	4,333		3,024			
Disbursements (Rs mn)	**19,150**	**15,580**	**23%**	**12,740**	**50%**		
Cars & UV	5,745	4,577	26%	3,123	84%		
CV	5,171	4,471	16%	4,291	20%		
CE	3,447	2,934	17%	2,518	37%		
Used CV	1,341	1,003	34%	645	108%		
Tractors	2,490	1,647	51%	1,301	91%		
SME	958	948	1%	864	11%		
Yield on advances-On book assets	15.5%	15.8%					
Cost of funds	11.4%	10.7%					
Spread	4.1%	5.1%					
NIM- On book assets	4.1%	6.2%					
Cost to average AUM	0.68%	0.68%		0.85%			
Write-Offs as a % of AUM	0.22%	0.27%		0.33%			

Source: Company, Ambit Capital research

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Explanation of Investment Rating

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