

Magma Fincorp

Q4FY10 /Target price change

7 June 2010

Buy

Target Price: Rs579

CMP: Rs294*

Upside: 97%

*as on 4 June 2010

Growth momentum on track

Magma Fincorp (Magma) reported robust earnings growth in Q4 with consolidated PAT growing 48% QoQ to Rs265mn. Consolidated PAT for the full year FY10 at Rs713mn was broadly inline with our estimate. The bottomline expansion was driven by strong margin performance, superior collection efficiency and traction in business growth. However, operating costs were higher-than-expected and improvement in operating efficiency remains the thrust area for the company.

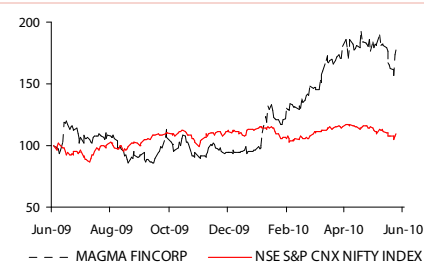
- **Margin up-tick drives robust earnings growth ...:** Superior NII performance and robust growth in other income resulted in strong bottomline growth. NII grew 39% QoQ largely on account of increased share of higher yielding assets that boosted margin. Q4 NIM stood at 5.5% and with the improving asset yields we expect NIMs at ~ 6% in FY12.
- **... supported by superior disbursement mix:** Disbursements increased to Rs45.6bn in FY10 vs 36.73bn in FY09, primarily due to superior growth in the construction equipment (30% CAGR over FY05-10), commercial vehicles (22%) and cars and UVs (23%). Higher yielding financing products viz; tractors, used vehicles and SMEs contributed 13% to the loan book in FY10 vs 9% in FY09. Going forward, this would be the key in achieving higher margins.
- **Up-tick in return ratios:** Easing funding costs and changing margin profile coupled with 99.8% collection efficiency drove the surge in return ratios with ROAs at 1.8% and ROEs at over 19%.
- **Maintain Buy:** Magma's steady growth, increased contribution of high yielding assets and expansion in return ratios makes us positive on the company. We reiterate our Buy recommendation and increase our target price to Rs579 (earlier Rs504) after incorporating the warrants conversion and the capital raise; valuing the company at 2.2x P/ABV FY12E.

Key Data

Bloomberg Code	MGMA IN
Reuters Code	MAGM.BO
Current Shares O/S (mn)	25.9
Diluted Shares O/S (mn)	25.9
Mkt Cap (Rsbn/USDmn)	7.6/161.3
52 Wk H / L (Rs)	324/137
Daily Vol. (3M NSE Avg.)	177,752
Face Value (Rs)	10

USD = Rs47.0

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Magma Fincorp	(2.8)	88.4	77.0
NIFTY	0.2	(0.7)	9.7

Source: Bloomberg, Centrum Research
*as on 4 June 2010

Shweta Mane
shweta.mane@centrum.co.in
+91 22 4215 9928

Y/E March (Rsmn)	Q4FY10	Q4FY09	YoY (%)	Q3FY10	QoQ (%)	Q4FY10E	Variance (%)
Interest Earned	2,165	1,799	20.3	1,811	19.6	1,947	11.2
Interest Expended	887	820	8.2	848	4.6	753	17.9
Net Interest Income	1,278	979	30.5	963	32.7	1,194	7.0
Other Income	8	7	12.8	9	(8.6)	(170.0)	(104.7)
Other income / Net Income	1	1	-	1	-	(33.1)	-
Total income	1,285	986	30.3	971	32.3	1024	25.5
Operating Expenses	863	867	(0.5)	699	23.4	674	28.0
Cost-income Ratio	67	88		72		63	
PBT	423	119	253.8	272	55.2	350	22.2
Provisions for Tax	158	45	250.1	93	69.2	116	36.7
Effective Tax Rate (%)	37	38	(1.1)	34	9.0	31	-
PAT (reported)	265	74	256.1	179	47.9	235	12.9

Source: Company, Centrum Research Estimates

Y/E Mar (Rsmn)	NII	Non Int. Inc.	PAT	YoY gr (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY08	2,947	63	505	27.2	17.8	16.3	121.5	2.4	2.1	21.7
FY09	3,410	21	398	(21.2)	15.0	19.3	138.1	2.1	1.3	13.8
FY10	3,943	37	713	79.2	29.1	10.0	164.0	1.8	1.8	21.7
FY11E	5,138	59	950	33.2	31.3	9.3	219.5	1.3	1.9	19.6
FY12E	6,730	77	1,390	46.3	47.1	6.2	263.2	1.1	2.1	20.7

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Financials

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY08	FY09	FY10	FY11E	FY12E
Interest Income	4,655	6,291	7,194	9,101	11,861
Interest Expense	1,708	2,880	3,250	3,962	5,131
Net Interest Income	2,947	3,410	3,943	5,138	6,730
YoY Growth (%)	52	16	16	30	31
Non Interest Income	63	21	37	59	77
YoY Growth (%)	165	(67)	79	60	30
Total Income	3,010	3,431	3,980	5,198	6,807
Total Operating Expenses	1,840	2,406	2,467	3,482	4,519
YoY Growth (%)	46.9	30.7	2.6	41.1	29.8
Pre-provision Profit	1,170	1,026	1,513	1,715	2,289
Provisions	404	415	408	367	331
Profit Before Tax	766	610	1,105	1,348	1,958
Taxes	261	212	391	398	568
Net Profit	505	398	713	950	1,390

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY08	FY09	FY10	FY11E	FY12E
Share capital	218	218	218	278	278
Preference cap.-10-12% (cum & non cum)	1,161	1,180	1,161	1,511	1,511
Reserves & Surplus	2,428	2,789	3,357	5,824	7,039
Shareholders' fund	3,807	4,187	4,736	7,613	8,828
Borrowings	19,108	25,066	36,543	41,164	58,234
Current liabilities	5,962	4,273	5,350	6,850	10,584
Total Liabilities	28,876	33,526	46,629	55,628	77,645
Net block	2,244	2,382	2,080	2,205	2,293
Stock on Hire	18,670	20,459	33,014	40,607	55,632
Investments	776	290	191	227	249
Debtors	82	-	-	-	-
Cash & Bank	5,980	9,025	9,709	10,558	15,021
Loans & Advances	1,124	1,369	1,636	2,030	4,451
Total Assets	28,876	33,525	46,630	55,628	77,645

Source: Company, Centrum Research Estimates

Exhibit 3: Key Ratios

Y/E March	FY08	FY09	FY10	FY11E	FY12E
Balance Sheet Structure Ratios (%)					
Loan Growth	90.1	33.5	35.4	36.8	32.9
Assets Growth	70.5	29.7	28.5	27.6	30.3
Funds Growth	92.3	45.8	37.5	25.7	27.4
Operating Ratios (%)					
NIM	4.1	3.6	4.7	5.3	5.7
Non-interest income/Net income	2.1	0.6	0.9	1.1	1.1
Cost/Income	61.1	70.1	62.0	67.0	66.4
Operating cost growth	46.9	30.7	2.6	41.1	29.8
Total prov as % of avg. loans	2.6	2.0	1.4	1.0	0.6
Tax Rate (%)	34.0	34.8	35.4	29.5	29.0
Capital Adequacy Ratios (%)					
Total CAR	15.3	17.3	14.9	16.0	17.0
Tier 1 CAR	8.9	9.2	8.6	8.3	8.3
Profitability Ratios (%)					
RoAE	21.7	13.8	21.7	19.6	20.7
RoAA	2.1	1.3	1.8	1.9	2.1
Valuations Ratios					
BVPS (Rs)	121.5	138.1	164.0	219.5	263.2
Price/BV (x)	2.4	2.1	1.8	1.3	1.1
EPS (Rs)	17.8	15.0	29.1	31.3	47.1
P/E (x)	16.3	19.3	10.0	9.3	6.2

Note:

1. The growth assumptions are based on average numbers.

2. The numbers for the period FY08 are standalone numbers, whereas from FY09 onwards the numbers both for Income Statement and the Balance sheet stand Consolidated as per the Company disclosures.

Source: Company, Centrum Research Estimates

Appendix A

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T. S. Baskaran	Managing Director & CEO		ts.baskaran@centrum.co.in	91-22-4215 9620/87
Research				
Girish Pai	Head–Equity Research	Strategy & IT Services	girish.pai@centrum.co.in	91-22-4215 9699
Dhananjay Sinha	Economist	Economy & Strategy	dhananjay.sinha@centrum.co.in	91-22-4215 9619
Abhishek Anand	Analyst	Telecom, Education	a.anand@centrum.co.in	91-22-4215 9853
Adhidev Chattopadhyay	Analyst	Real Estate	adhidev@centrum.co.in	91-22-4215 9632
Ankit Kedia	Analyst	Media, FMCG	ankit.kedia@centrum.co.in	91-22-4215 9634
Ajay Shethiya	Analyst	Automobiles/Auto Ancillaries	ajay.shethiya@centrum.co.in	91-22-4215 9855
Ashutosh Kumar	Economist	Economy & Strategy	ashutosh.kumar@centrum.co.in	91 22-4215-9620
Madanagopal R	Analyst	Infra, Power, Capital Goods	r.madanagopal@centrum.co.in	91-22-4215 9684
Manish Kayal	Analyst	Infrastructure	manish.kayal@centrum.co.in	91-22-4215 9313
Pranshu Mittal	Analyst	Sugar & Retail	p.mittal@centrum.co.in	91-22-4215 9854
Rajan Kumar	Analyst	Cement	rajan.kumar@centrum.co.in	91-22-4215 9640
Rohit Ahuja	Analyst	Oil & Gas	rohit.ahuja@centrum.co.in	91-22-4215 9636
Siddhartha Khemka	Analyst	Logistics, Shipping	siddhartha.khemka@centrum.co.in	91-22-4215 9857
Sriram Rathi	Analyst	Pharmaceuticals	s.rathi@centrum.co.in	91-22-4215 9643
Abhishek Kumar	Associate	IT Services	abhishekkumar@centrum.co.in	91 22-4215-9644
Janhavi Prabhu	Associate	Sugar, Retail	janhavi.prabhu@centrum.co.in	91-22-4215 9864
Rahul Gaggar	Associate	Hotels, Healthcare	rahul.gaggar@centrum.co.in	91-22-4215 9683
Rishabh Saraogi	Associate	Oil & Gas	rishabh.saraogi@centrum.co.in	91-22-4215 9927
Sarika Dumbre	Associate	Telecom	sarika.dumbre@centrum.co.in	91-22-4215 9194
Shweta Mane	Associate	Banking & Financial Services	shweta.mane@centrum.co.in	91-22-4215 9928
Vishal Desai	Associate	IT Services	vishal.desai@centrum.co.in	91-22-4215 9930
Sales				
V. Krishnan		+91-22-4215 9658	v.krishnan@centrum.co.in	+91 98216 23870
Rajagopal Ramanathan		+91-22-4215 9675	rajagopal.ramanathan@centrum.co.in	+91 98193 99031
Siddharth Batra		+91-22-4215 9863	s.batra@centrum.co.in	+91 99202 63525
Centrum Securities (Europe) Ltd., UK				
Dan Harwood	CEO	+44-7830-134859	dan.harwood@centrum.co.in	
Centrum Securities LLC, USA				
Melrick D'Souza		+1-646-701-4465	melrick.dsouza@centrumsecurities.com	

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Investor Grievance Email ID: investor.grievances@centrum.co.in

REGD. OFFICE Address

Bombay Mutual Bldg., 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001

Correspondence Address

Centrum House, 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098.
 Tel: (022) 4215 9000