



# Magma Fincorp

 Relative to sector: **Outperformer**
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**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

|                       |                  |
|-----------------------|------------------|
| No. of shares         | : 130 mn         |
| Market cap            | : Rs 9.1 bn      |
| 52 week high/low      | : Rs 88/Rs 51    |
| Avg. daily vol.(6mth) | : 438,900 shares |
| Bloomberg code        | : MGMA IB        |
| Reuters code          | : MAGM.BO        |

**Shareholding (%) Mar-11 QoQ chg**

|             |        |       |
|-------------|--------|-------|
| Promoters   | : 41.6 | 0.0   |
| FIs         | : 40.4 | (2.0) |
| MFs / UTI   | : 1.8  | 0.0   |
| Banks / FIs | : 0.1  | 0.0   |
| Others      | : 16.0 | 2.0   |

**Financial summary**

| Y/E Mar | PAT<br>(Rs mn) | EPS<br>(Rs) | Change<br>(%) | P/E<br>(x) | BV<br>(Rs) | Adj. BV<br>(Rs) | P/BV<br>(x) | P/Adj. BV<br>(x) | RoE<br>(%) | RoA<br>(%) |
|---------|----------------|-------------|---------------|------------|------------|-----------------|-------------|------------------|------------|------------|
| 2010    | 666            | 6.1         | 71            | 11.5       | 32         | 32              | 2.2         | 2.2              | 20.7       | 1.7        |
| 2011    | 1,144          | 8.8         | 44            | 8.0        | 43         | 43              | 1.6         | 1.6              | 25.1       | 2.2        |
| 2012E   | 1,703          | 12.6        | 43            | 5.6        | 60         | 60              | 1.2         | 1.2              | 24.8       | 2.4        |
| 2013E   | 2,358          | 17.4        | 38            | 4.0        | 79         | 79              | 0.9         | 0.9              | 25.1       | 2.3        |

Source: Company, ENAM estimates

**STRONG PROFIT GROWTH**

Magma FinCorp (Magma) maintained its strong growth trajectory in 4QFY11 driven by robust growth in interest income (25% QoQ to Rs 2.5 bn) and lower write-offs (Rs 246 mn in 4QFY11 vs. Rs 400 mn in 4QFY10). PAT rose 69% YoY and 39% QoQ to Rs 429 mn which includes Rs 109 mn of provision for standard assets. On-book AUM grew 35% YoY to Rs 42.8 bn as on March 11 which now comprise 46% of total AUM (40% in March 10). Going forward, management expects similar growth trend (50% disbursement growth) with focus on high yielding products (HYP) which will keep their NIMs at above 5%.

**Key highlights**

- Disbursement grew 41% YoY and 53% QoQ to Rs 19.5 bn mainly driven by Cars & UV (80% YoY growth and 26% share) and HYP segment (111% YoY growth and 18% share).
- NIM (on incremental biz) maintained at 5% and mgmt has guided for 5.25% in FY12. However, mgmt does not expect its cost of funds to come down (9.1% in 4QFY11) from current levels.
- Magma maintains a capital adequacy ratio of 18.2% (Tier 1 ratio of 11.3%), which is above the regulatory requirement of 15%.

**Valuations**

Magma continues to impress with robust business growth, lower write-offs (0.24% of AUM), sustained NIMs (5%) and healthy PAT growth. Magma, in-line with its guidance, is consistently reducing its share of securitized portfolio (~54%) and is aiming to bring it down to ~30% by FY13E. Keeping this in mind, we expect that the company may need to raise capital in near term in order to grow its On-book AUM. At CMP of Rs 70, it is trading at 5.6x FY12E EPS of Rs 12.6 and 4.0x FY13E EPS of Rs 17.4. On P/ABV it is trading at 1.2x FY12E ABV of Rs 60 and 0.9x FY12E ABV of Rs 79. On the back of its consistent improving performance we reiterate our **BUY** rating with a target price of Rs 86 (1.4x FY12E ABV).

## Results Update

| (Rs mn)                         | Quarter ended |               |           |               |           | Y/E            |               |             |
|---------------------------------|---------------|---------------|-----------|---------------|-----------|----------------|---------------|-------------|
|                                 | Mar-11        | Mar-10        | % Chg     | Dec-10        | % Chg     | Mar-12E        | Mar-11        | % Chg       |
| Interest Earned                 | 2,532         | 1,956         | 29        | 2,030         | 25        | 11,710         | 7,900         | 48          |
| Interest Expended               | 916           | 860           | 6         | 925           | (1)       | 5,169          | 3,381         | 53          |
| <b>Net Interest Income</b>      | <b>1,616</b>  | <b>1,095</b>  | <b>48</b> | <b>1,105</b>  | <b>46</b> | <b>6,541</b>   | <b>4,519</b>  | <b>45</b>   |
| Other Income                    | 136           | 157           | (13)      | 138           | (2)       | 705            | 573           | 23          |
| Total Income                    | 2,668         | 2,112         | 26        | 2,168         | 23        | 12,415         | 8,473         | 47          |
| <b>Total Net Income</b>         | <b>1,752</b>  | <b>1,252</b>  | <b>40</b> | <b>1,243</b>  | <b>41</b> | <b>7,246</b>   | <b>5,092</b>  | <b>42</b>   |
| Staff Expenses                  | 397           | 262           | 51        | 319           | 24        | 4,050          | 3,032         | 34          |
| <b>Operating Profit</b>         | <b>771</b>    | <b>540</b>    | <b>43</b> | <b>530</b>    | <b>45</b> | <b>3,196</b>   | <b>2,060</b>  | <b>55</b>   |
| Provision & Contingencies       | 144           | 136           | 6         | 68            | 110       | 576            | 355           | 62          |
| Provision for tax               | 199           | 152           | 31        | 154           | 29        | 917            | 561           | 64          |
| <b>Reported Profit</b>          | <b>429</b>    | <b>253</b>    | <b>69</b> | <b>308</b>    | <b>39</b> | <b>1,703</b>   | <b>1,144</b>  | <b>49</b>   |
| EPS - Rs per share              | 3.3           | 2.3           | 98 bps    | 2.4           | 94 bps    | 13             | 9             | 381 bps     |
| <b>Cost / Return ratios (%)</b> |               |               |           |               |           |                |               |             |
| Cost to income ratio            | 55.99         | 56.83         | (84) bps  | 57.34         | (136) bps | 55.9           | 59.5          | (364) bps   |
| Return on Avg. Assets           | 3.20          | 2.40          | 80 bps    | 2.50          | 70 bps    | 2.4            | 2.2           | 20 bps      |
| <b>Asset quality (%)</b>        |               |               |           |               |           |                |               |             |
| Write off as % of Total Assets  | 0.2           | 0.5           | (22) bps  | 0.3           | (6) bps   | 0.4            | 0.3           | 16 bps      |
| <b>Business growth</b>          |               |               |           |               |           |                |               |             |
| <b>Disbursements</b>            | <b>19,550</b> | <b>13,890</b> | <b>41</b> | <b>12,740</b> | <b>53</b> | <b>77,864</b>  | <b>54,150</b> | <b>44</b>   |
| CV                              | 6,790         | 5,640         | 20        | 4,291         | 58        | 31,504         | 23,336        | 35          |
| HYP                             | 5,290         | 1,698         | 212       | 2,810         | 88        | 17,094         | 111           | 15,276      |
| <b>AUM</b>                      | <b>93,837</b> | <b>79,999</b> | <b>17</b> | <b>91,410</b> | <b>3</b>  | <b>121,029</b> | <b>93,837</b> | <b>29</b>   |
| On books                        | 46            | 40            | 588 bps   | 45            | 35 bps    | 56             | 46            | 1,010 bps   |
| Off books                       | 54            | 60            | (588) bps | 55            | (35) bps  | 44             | 54            | (1,010) bps |

Source: Company, ENAM Research; Note: Full year ratios (FY11 and FY12E) are on calculated basis and may differ from reported number

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