



# Magma FinCorp

Relative to Sector: **Outperformer**

**BFSI**

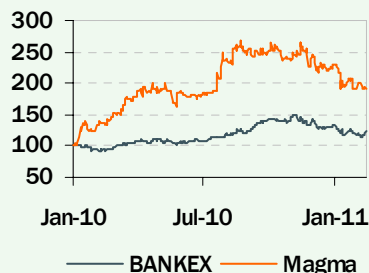
## Stock Data

No. of shares	: 130 mn
Market cap	: Rs 7.5 bn
52 week high/low	: Rs 88/ Rs 42
Avg. daily vol. (6mth)	: 750,300 shares
Bloomberg code	: MGMA IB
Reuters code	: MAGM.BO

## Shareholding (%)

	Dec-10	QoQ chg
Promoters	: 41.6	(0.1)
FIs	: 42.4	(0.0)
MFs / UTI	: 1.8	(0.3)
Banks / FIs	: 0.1	0.0
Others	: 14.1	0.4

## Relative Performance



Source: ENAM Research, Bloomberg

## On High Growth Trajectory

## Financial Summary

Y/E Mar	PAT (Rs mn)	FDEPS (Rs mn)	EPS Chg (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)
2009	390	3.6	(22)	16.2	27	27	2.1	2.1	13.7	1.3
2010	666	6.1	71	9.5	32	32	1.8	1.8	20.7	1.7
2011E	1,079	8.3	36	7.0	46	46	1.3	1.3	22.8	2.1
2012E	1,675	12.4	49	4.7	61	61	0.9	0.9	23.5	2.2

Source: Company, ENAM estimates

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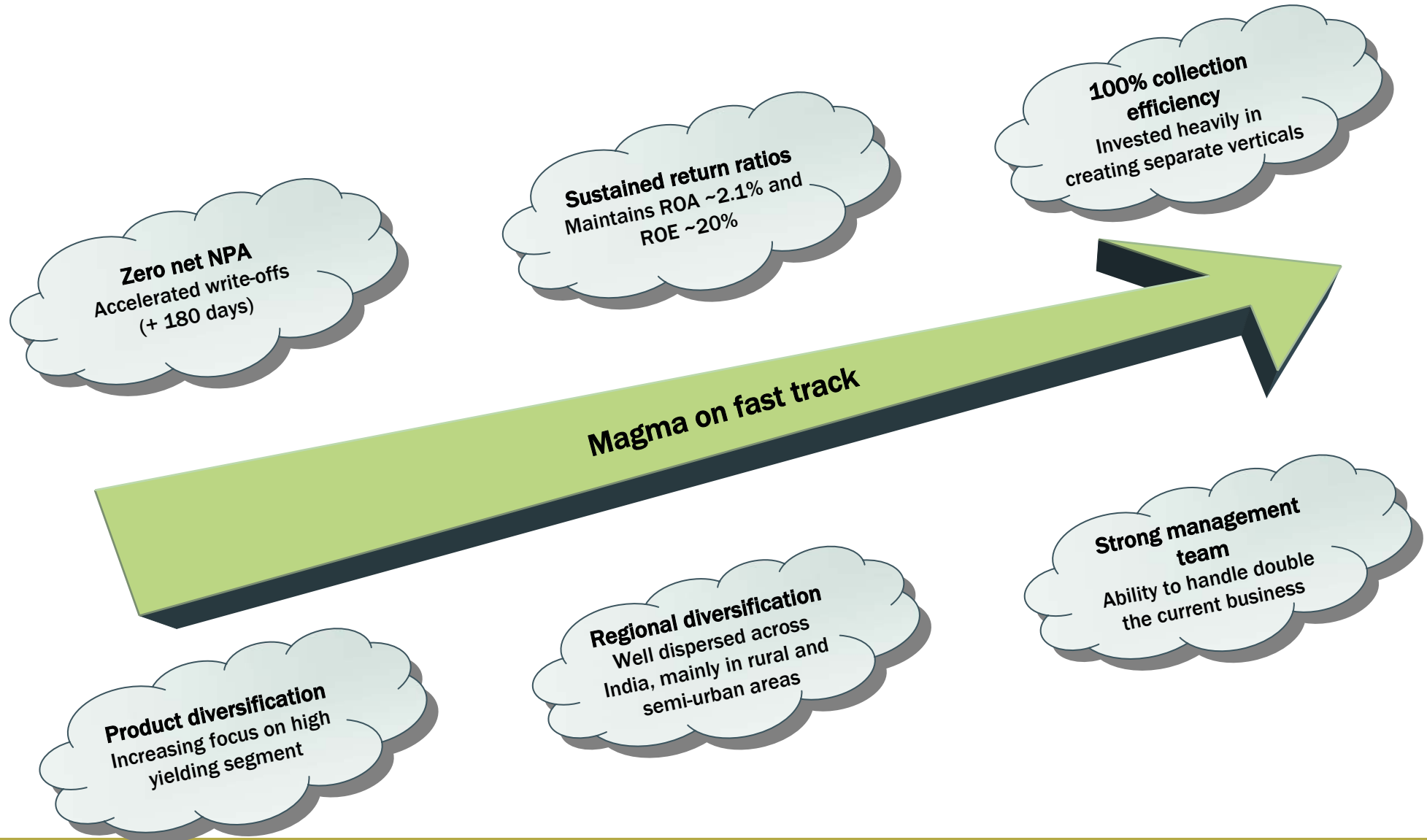
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# What makes Magma attractive

- ❖ Magma FinCorp (Magma) is a fast growing mid cap asset finance company with branches spread across 21 states and a strong management team. It expects disbursement growth of ~50% p.a. over next two years
- ❖ Magma's core products include CV, Car, CE & Strategic CE while Tractors, Used CV and SME are its key focus products (High yielding) for future growth
- ❖ Magma enjoys high management bandwidth to handle targeted growth over the next two years
- ❖ Its key strength lies in its diversified business mix (7 products) with no product specific / concentration risk
- ❖ Majority of the business (~80%) is concentrated in semi-urban and rural areas which are 'under-banked' and offer huge potential
- ❖ Magma is leveraging on its existing branches and employees which will lead to higher cost efficiency
- ❖ The company is increasing its focus on high yielding segment to support its margins going forward
- ❖ Magma maintains Zero Net NPA, as there is strong collection efficiency (more than 100%) and full write-off policy
- ❖ The company is looking at strong disbursement growth (~50% YoY) while sustaining incremental margins (above 5%) and stable return ratios (RoA above 2%)
- ❖ Magma is planning to reduce its off-book AUM (~30% by FY13E from 50% as on Dec -10) which will lead to higher B/S assets

# Magma on fast track



# Key investment highlights ...

## ❖ Running a de-risked business model since more than 2 decades

- ❑ In operation for **more than two decades** in the business of asset finance with a unique and de-risked business model
- ❑ CV, Car/UV and CE contribute 36%, 24%, and 21% respectively in the disbursement book while new high yield products' (tractors, used CV, SME financing) contribution has risen to 19% by 9MFY11
- ❑ Targets **semi-urban and rural areas**; currently present across 21 states, having equally distributed business across regions. North India enjoys the highest share of branches (31%).

## ❖ Catering to the niche segment in semi-urban and rural spheres

- ❑ More than 50% of its customers are first time vehicle buyers mainly **in under-penetrated market /un-banked regions**
- ❑ Deeper local presence and strong collection ability assist in maintaining high growth with healthy asset quality and strong margins
- ❑ High business **growth opportunity in CV, Car and CE and strategic CE** supported by healthy economic growth
- ❑ Currently, Magma's focus is on improving share of high yield products in its portfolio (Tractor, Used CV & SME) to ~30% by FY13E

## ❖ Robust return ratios driven by strong recoveries and improving margins

- ❑ Strong NIM (5.1% in 9MFY11) to be maintained with greater contribution from high yielding products and favorable ALM
- ❑ **Improving cost efficiencies** due to robust collection mechanism, leveraging its current infrastructure and employee base.
- ❑ High margins and healthy asset quality led to strong return ratios with ROA of 2.1% and ROE of 20.4% (9MFY11)

## ❖ Strong risk management mechanism in place

- ❑ Separate verticals for loan origination and loan collection within the organization ensures stable asset quality
- ❑ 100% write-off policy for any delayed payment beyond 180 days ensures zero Net NPA

# ... Key investment highlights

## ❖ Margins to remain protected

- ❑ Approx. 24% of total AUM (on book + off-book) is funded through working capital loans which are sensitive to interest rates. However, of its total borrowing, working capital loans contributes ~50%
- ❑ Around 70% of its assets are considered as priority sector loans, for which there is a strong demand from banks. Magma has reduced its securitized book from 75% in Mar-09 to ~50% in Dec-10 and the same is expected to come down to ~30% by Mar-13. This reduction will enhance Magma's balance sheet strength and capital augmentation capabilities

## ❖ Management team and Future Outlook

- ❑ Most of the board members in Magma are employed with the company for more than a decade
- ❑ Magma targets to maintain its ROA above 2%, NIM above 5%, Net NPA at zero levels with a AUM growth at ~ 35% YoY in FY12E

## ❖ Key risks

- ❑ Currently, Magma recognizes the entire securitization income and DSA (Direct Selling Agents) expenses upfront. Hence, any change in accounting policy or securitization norm may impact its profitability
- ❑ Greater delinquency from high yielding products may lead to higher credit costs going forward. (We have factored in 2x average delinquency rate for next two years)
- ❑ Any change in regulation on securitized portfolio may impact Magma's performance going forward.

## ❖ Valuations

- ❑ Magma will chart its new growth path in coming years with a robust strategy which ensures healthy asset quality, stable margins, improving cost efficiencies and high return ratios. Moreover, there exists **valuation differential from its peers** and we expect Magma to command a target FY12E P/ABV multiple of 1.4x implying a TP of Rs 86 per share. **We initiate coverage with a BUY rating on the stock.**

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# Magma on High Growth Trajectory

# Business momentum on an upswing...

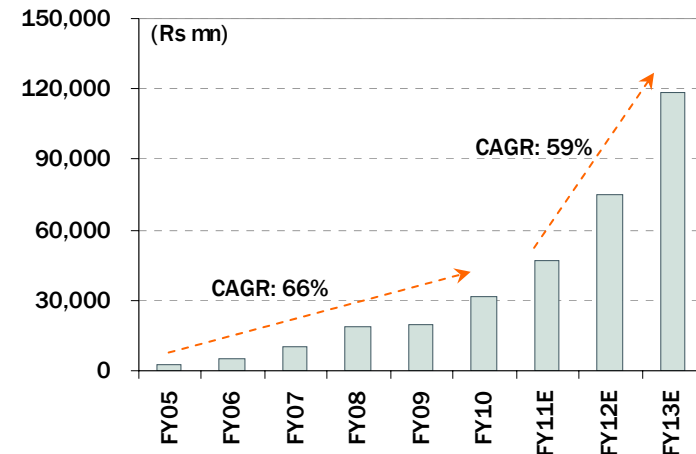
## ❖ Positive outlook on asset financing Industry

- ❑ Robust growth in Indian economy will continue to support asset financing industry growth
- ❑ Magma is eyeing a large share of Rs 1.1 trillion business opportunity in asset financing segment.

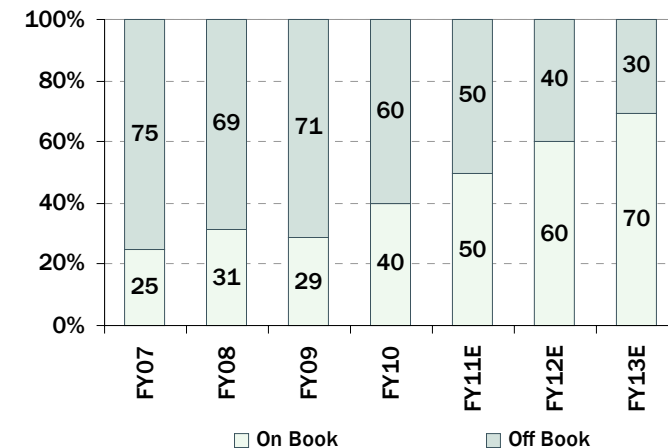
## ❖ Strong disbursement growth during the last five years

- ❑ Magma's disbursement grew 27% CAGR over FY05-FY10 to Rs 45.6 bn (which includes a lull period of FY09-FY10 when there was an economic slowdown)
- ❑ We expect the company's total disbursement to grow to Rs 111 bn by FY13E (2-yr CAGR of 44%)
- ❑ On books, AUM has quadrupled during FY07-FY10 to Rs 44.4 bn, despite non conducive economic environment in FY09

**Total AUM – On Book Growth**



**Reducing off book share**



Source: Company, ENAM Research

# ...Opportunity for high growth in all segments

- ❖ **In a rising interest rate scenario, we may see slight moderation in disbursement growth in CV from current levels**
  - ❑ Currently, CV segment contributes 36% of disbursement in 9MFY11 and generates a Net IRR\* of 11.4%
  - ❑ Car segment contributes 24% of total disbursement in 9MFY11 and generates a net IRR\* of 12.7%
  
- ❖ **Increasing focus on high yielding assets such as SME loans, used CV Financing and tractor loans will help in protecting margins in a rising interest rate scenario**
  - ❑ Blended net IRR\* of high yielding products is ~18%
  - ❑ Disbursement share of high yielding products is likely to increase to 30% by FY13E (from current 19%)
  
- ❖ **Management is planning to grow its SME business in a measured manner as it has not yet seen one complete economic cycle of SME lending**

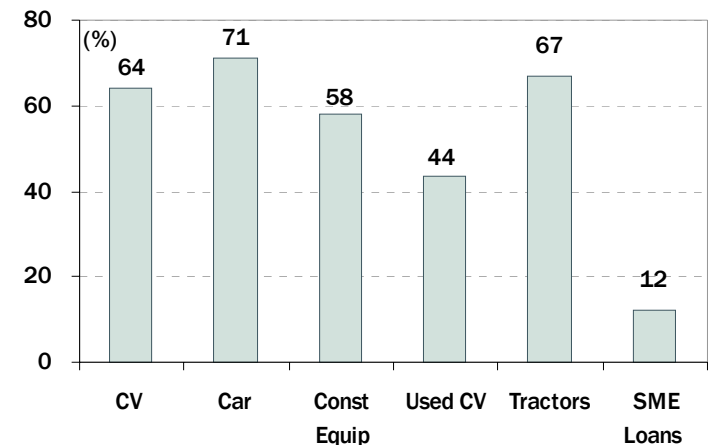
\* Net IRR – Lending rate on reducing balance basis, net of payouts and pay ins from manufacturers/dealers

## Significant opportunity lies ahead

Disbursement (Rs bn )	Industry	Magma	Mkt Share (%)	Addressable opportunity
CV	580	19	3.3	392
CE and SCE	128	12	9.4	70
Cars & UV	540	9	1.7	378
Used CV	360	1	0.3	180
Tractors	122	2	1.6	67
SME loans	60	2	3.4	54
<b>Total</b>	<b>1,790</b>	<b>46</b>	<b>2.5</b>	<b>1,141</b>

Source: Company, ENAM Research

## Branch utilization – product wise



Source: Company, ENAM Research

**Note:** Branch Utilization - Proportion of branches selling the respective products

# Industry: CV and Passenger Vehicle Outlook

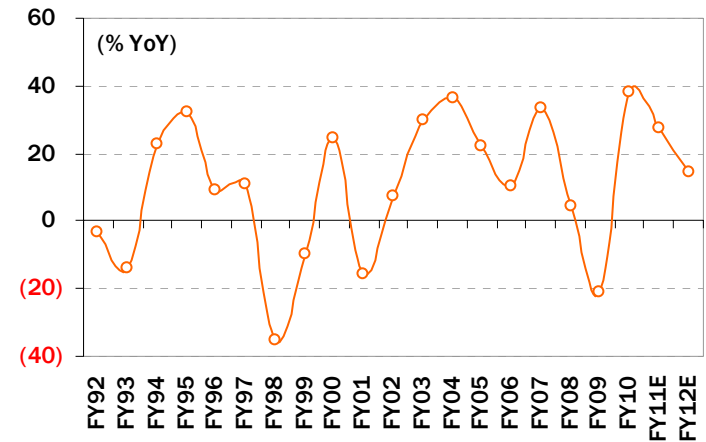
❖ **CV business, a cyclical business, is recording strong growth since the last 18 months. We maintain that CV industry will continue its growth path in FY12E as well**

- ❑ CV industry is expected to grow by 15% YoY in FY12E (ENAM estimates)
- ❑ 37% of total AUM is from the CV segment for Magma
- ❑ 85% of Magma's CV business consist of MCV and HCV
- ❑ The company plans to grow its CV business by 2x the industry growth
- ❑ It is eyeing the LCV segment wherein they find huge unearthed opportunity to grow
- ❑ First time buyers and strategic buyers are their key target customers

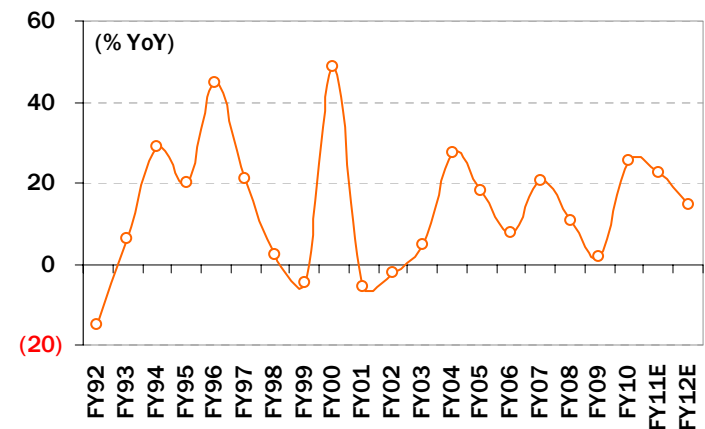
❖ **Passenger Vehicle segment is also likely to maintain its growth track**

- ❑ Magma is mainly focusing on rural and semi urban India which has strong demand for passenger vehicles
- ❑ We expect passenger vehicle industry to grow by 15% YoY in FY12E
- ❑ Car and Utility vehicle segment currently contributes ~21% of total AUM

**Industry wide Commercial Vehicle growth**



**Industry wide Passenger Vehicle growth**



Source: ENAM Research

# Factors supporting high business growth...

## ❖ We expect disbursement growth of ~40% YoY for next two years

- ❑ We anticipate Magma to enter high growth phase by leveraging its current manpower and un-utilized branch network. However, in this process, it will require capital to support its business growth
- ❑ **Region wise:** Broad-based business growth will be maintained, however, higher incremental growth is expected from **western and southern India** which currently contributes 22% and 23% respectively. Southern and western India, having ~35% and 30% of total national agriculture produce resp., have higher demand for mechanization

## ❖ Product wise growth targets and strategy

- ❑ **High Yielding products (HYP) (19% of disbursement):** Management expects its HYP share in total disbursement to rise from 19% (9MFY11) to 30% in FY13E. Among this, major impetus will be on tractors and Used CV financing which have higher scope for growth
  - ▶ Magma have contracts with almost all tractor manufacturing companies and majority of their lending is to the farmers with less than 6 acres of land
  - ▶ **SME loan share is likely to be maintained at ~ 5%**, as Magma does not want to go overboard on this segment before witnessing one complete economic cycle
- ❑ **CV segment (36% of disbursement)** for Magma is expected to grow at ~35% vs. estimated CV industry growth at 15%. Yields on CV segment is ~13.5% which is slightly lower than its peers
  - ▶ **Magma has a slender presence in the LCV segment.** LCV has ~50% share in the total CV market (in volume terms). Magma will target this segment for future growth . Magma maintains ~15% share of LCV in total CV portfolio.
- ❑ **Construction Equipment (21% of disbursement)** segment to grow at estimated rate of ~50% YoY as we expect more impetus on infrastructure in the upcoming budget
  - ▶ Magma had witnessed some slowdown in Construction Equipment business in past four quarters as there were attrition issues at some key positions in the segment. However, a new team has been formed which is well equipped to deliver robust growth
- ❑ In the **Car segment (24% of disbursement)**, Magma has tie ups with almost all car manufacturers. The management foresees an opportunity in maintaining their current growth in small car segment

# ...Factors supporting high business growth

## ❖ Do they have adequate manpower to support growth ?

- ❑ Existing management team, from middle management and upwards is **under utilized**. They have the bandwidth to handle **~Rs 90 bn disbursement (as against ~Rs 50 bn disbursement in FY11E )**
- ❑ However, Magma will continue to employ field officers at lower levels (current strength is 3,079 – 62% of existing employee base)

## ❖ Branch expansions and leveraging current branch network to spur business growth

- ❑ Management is planning to add ~65 branches by FY13 to reach 225 branches (adding ~40% of existing branch network)
- ❑ Currently, the existing branches which operate in 125 km radius do not capture the entire potential customer base. Hence, the branch expansions will offer Magma significant scope to grow
- ❑ The mgmt intends to introduce its entire product line in existing branch network which will support growth without incurring any significant cost. Moreover, additional branches will be mostly in the form of pocket offices which costs ~Rs 0.25 mn to start with
- ❑ Advertisement is done along with manufacturer and dealer networks in rural and semi-urban areas

## ❖ Do they have sufficient capital ?

- ❑ At present, the company maintains its CAR at 19.2% (15% is mandatory requirement) with a Tier 1 ratio of 11.7%
- ❑ There are promoters' warrants of Rs 500 mn which will be converted into equity in FY12 (~3.8% dilution )
- ❑ Further, we expect Magma to raise capital in FY12E in order to support its future growth targets

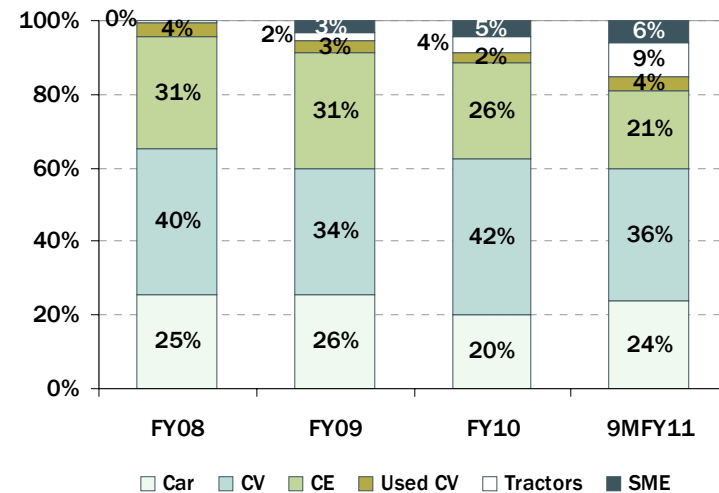


# Business Evaluation

# Well diversified product portfolio

- ❖ **AUM is well diversified across its product range which reduces seasonality risk**
  - ❑ Magma has a bouquet of seven products to offer and no individual product enjoys significant share
  - ❑ SME business, launched in FY09, has reached a total book size of Rs 2.9 bn (5% share) and is expected to maintain its current share going forward
  
- ❖ **Low concentration risk with diversified customer base – Serving to ~500,000 customers in rural and semi urban regions**
  
- ❖ **Magma is maintaining its focus on improving on-book AUM assets with target to grow its high yielding businesses. The company aims to increase its share of high yielding products (in disbursement) to ~30% in FY13E (vs. 19% in 9MFY11)**

**Disbursement mix**



## Small ticket loans with adequate collateral and higher yields

	ATS (Rs mn) *	LTV* (%)	Tenure (months)	Net IRR (%)
CAR	0.31	67	44	12.7
CV	1.59	75	43	11.4
CE	1.89	79	36	11.8
Strategic CE	8.53	89	39	9.8
Used CV	0.45	72	32	18.2
SME Loan	2.21	-	33	16.1
Tractors	0.31	63	47	19.6
<b>Total</b>	<b>0.67</b>	<b>79</b>	<b>41</b>	<b>13</b>

Source: Company, \* ATS- Average ticket Size, LTV-Loan to value ratio, IRR – Internal rate of return

# De-risked business model

**Diversified business model**

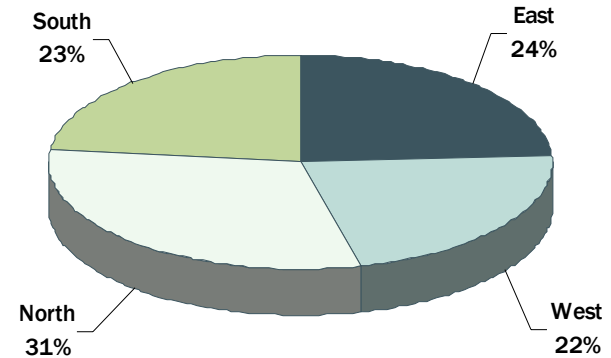
**Region wise:**

- ❑ 172 branches across 21 states
- ❑ ~80% of the branches in Rural and semi urban market
- ❑ Maximum contribution by any state is 11% of total business

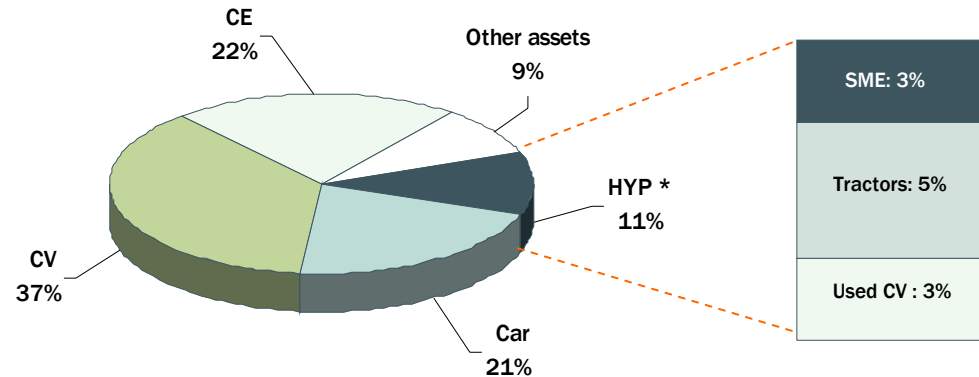
**Product wise:**

- ❑ Currently, having seven product portfolios
- ❑ CV, Cars /UV and CE contribute 37%, 21% and 22% resp of total AUM in 9MFY11
- ❑ Contribution from high yielding products growing to 11% of total AUM by Dec-10 (7% - Mar 10)
- ❑ Expects high yield product contribution to reach 30% by FY13E

**No region specific risks**



**No Product specific risks – AUM Break Up**

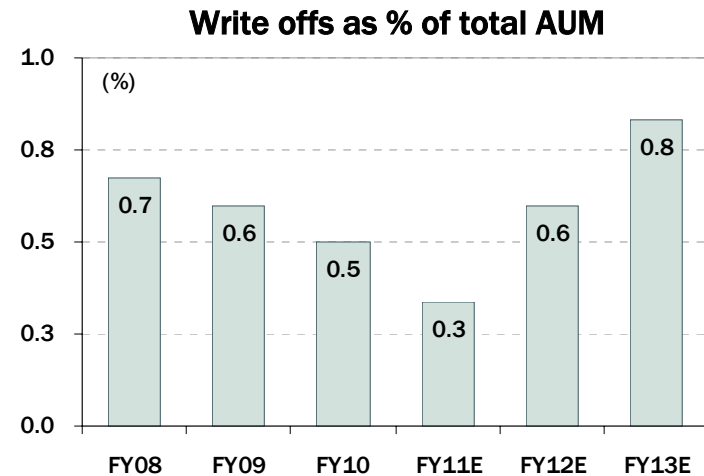
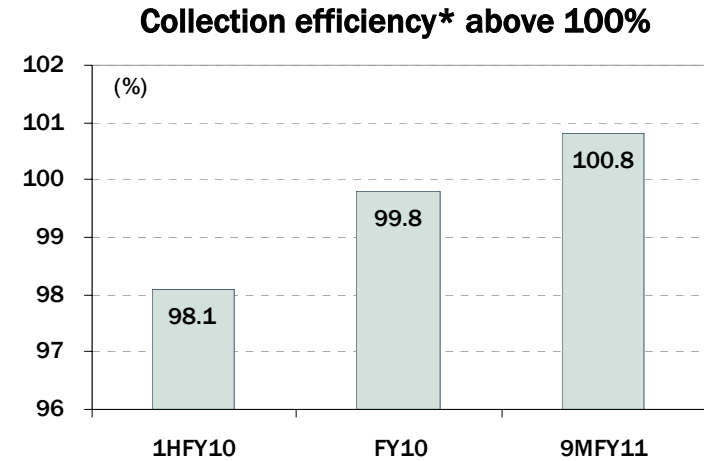


\* High Yielding Products;  
 Note: Total AUM of Rs 98.7 bn

Source: Company, ENAM Research

# Zero net NPA with high collection efficiency

- ❖ **Magma – the only NBFC to maintain zero NPA; due to:**
  - ❑ Its stringent policy of writing-off all the overdue payments over 180 days
  - ❑ Its primary focus on improving collection efficiencies\* – has crossed 100% in recent past
  
- ❖ **However, we have factored in higher NPAs in ensuing years as the company may witness higher delinquency from the high yielding product segment**
  
- ❖ **Management is always keen on improving its collection efficiencies**
  - ❑ Magma has created a separate vertical both for collection and origination which was clearly reflected in its improved performance in 9MFY11
  - ❑ Write-offs, as a % of total assets, have moderated to 0.3% in 9MFY11 from 0.46% in FY10
  - ❑ 50% of the employee base i.e, ~2,400 employees are in the collection department, ensuring strong collection efficiency



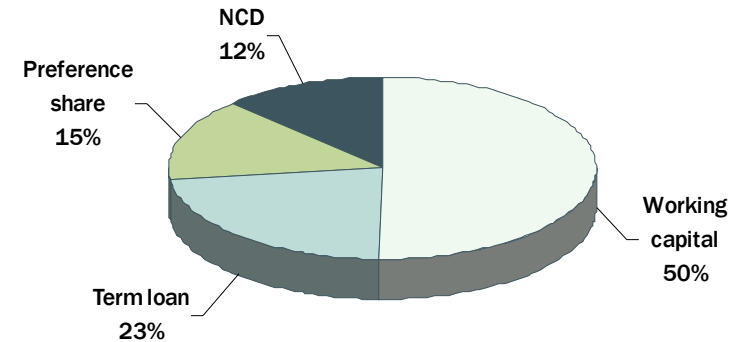
Source: Company, ENAM Research; Company

\* **Collection efficiency (%) = Installment collections made during the period / Installments billed during the period**

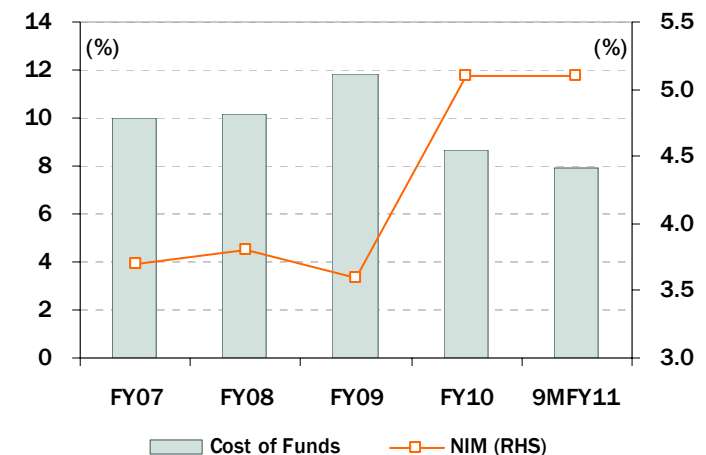
# Funding analysis

- ❖ **Main source of funding is through high cost working capital loan (viz. cash credit and demand loans)**
  - ❑ ~50% of total borrowing is through working capital loans which is ~24% of total AUM (excluding other assets)
  - ❑ Existing relationship with a consortium of 20 banks and institutions from where it sources loans – majority of its assets (~70%) are eligible for priority sector classification
- ❖ **Swiftly substituting high cost loans with a judicious mix of lower cost debt instrument (NCDs/commercial papers) to reduce its overall cost of funds (declined 140 bps YoY to 7.9% in 9MFY11)**
- ❖ **More focus on raising fixed rate loans to fund its asset book, in order to better the ALM match**
- ❖ **In 1QFY11, Magma raised capital of Rs 1.2 bn through QIP by issuing 4.07 mn shares (18.7% dilution)**
- ❖ **Magma has also allotted warrants of ~Rs 500 mn to its promoters which will be converted into equity in FY12E**
- ❖ **We expect Magma to raise further capital in FY12 to fund its future business growth**

**Total Borrowing – Rs 41 bn (Dec 10)**



**Reduction in cost of funds support NIM**



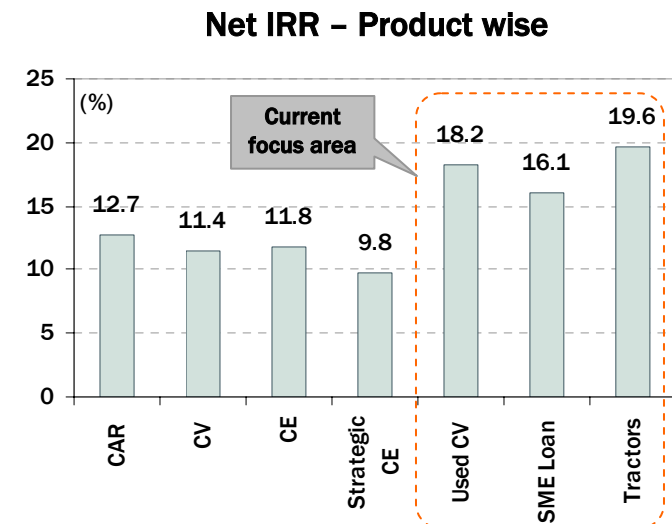
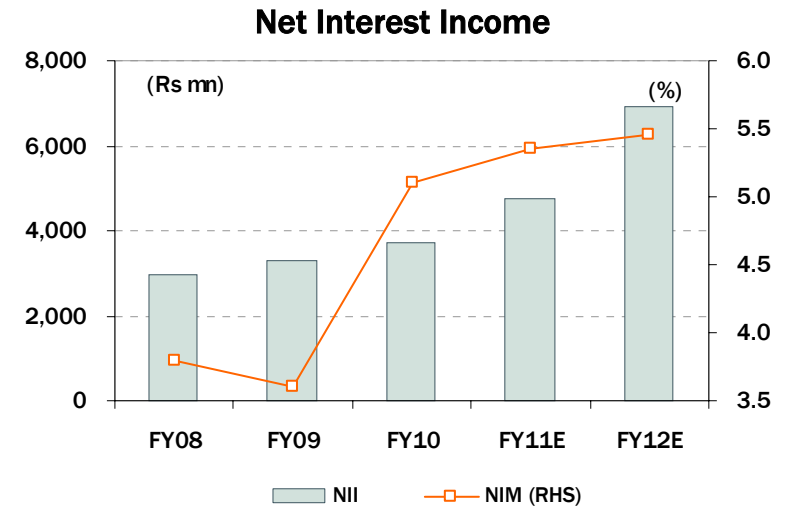
Source: Company, ENAM Research; Company



# Financial Evaluation

# Improving core business performance

- ❖ **Net interest income (NII) grew at a CAGR of ~39% between FY05-FY10**
  - ❑ Better interest cost management and increased share of high yield products supported high growth
  - ❑ We expect NII to grow at a 43% CAGR for FY11E-FY13E
  - ❑ Magma includes entire securitization income upfront and the same is included in interest income
  - ❑ There was a reduction in share of interest income from securitization to 16% of total income in 9MFY11 (29% in FY08)
  
- ❖ **Improved NIM of 5.1% in 9MFY11 as a result of better ALM management and improved collection efficiency**
  - ❑ We expect NIM to be maintained as rising cost of funds will be off-set by higher yields. Higher proportion of fixed rate funding and rising proportion of HYP ensure stable margins
  - ❑ Reported NIM is on incremental disburseals and Magma targets NIM above 5% going forward
  - ❑ There is a lag of ~75 days in passing Magma's increased cost to its existing customers
  - ❑ Collection efficiency improved to 100.8% in 9MFY11. We expect it to remain at ~99% level in FY12E

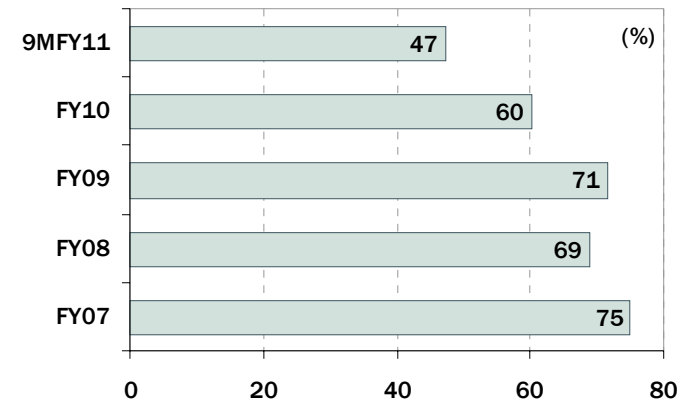


Source: Company, ENAM Research

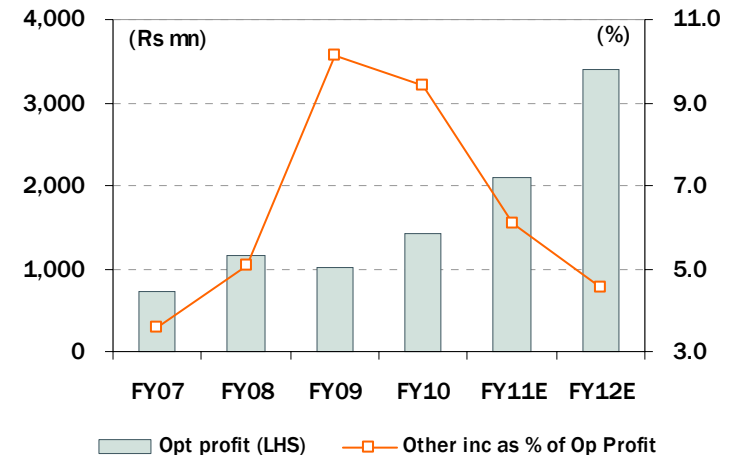
# Reduction in securitized book

- ❖ **Magma undertakes securitization through an assignment route for transferring risk to the banks. The co. usually securitizes the book after seasoning it for 3 months**
- ❖ **Reduction in securitized book also contributed in margin improvement**
  - ❑ Share of securitized book reduced to ~47% in 9MFY11 from 71% in FY09 (Targeting 30% by FY13E)
  - ❑ Currently, ~16% of total income comes through interest from securitized income (reduced from ~29% in FY08)
  - ❑ Higher on-book assets signify improving balance sheet strength which will assist in further capital expansion
- ❖ **Exploring avenues for other income**
  - ❑ Magma has a wind power generation plant (of 17.5 MW) which is one of its main source of earning fees income
  - ❑ Management fees, discount by manufacturer and penal charges are included in interest income / finance income
  - ❑ The company also generates fees income from its insurance distribution business and cross selling opportunity (~2% of disbursement)
  - ❑ We expect the other income proportion in operating profits to moderate as NII is expected to maintain higher growth

**Reduced share of securitized assets**



**Other income proportion to moderate**

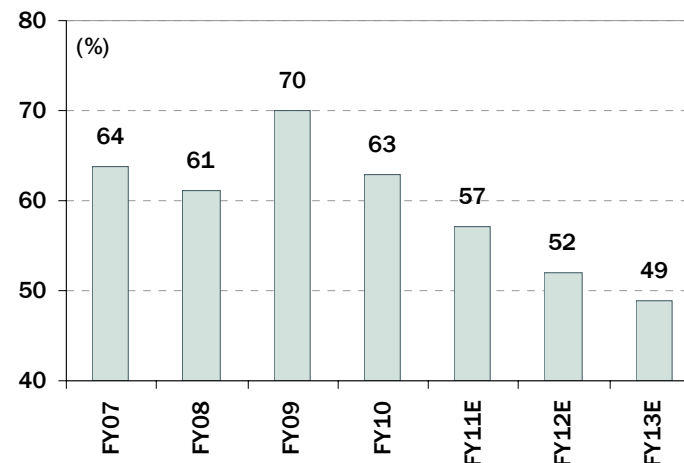


Source: Company, ENAM Research

# Improving cost efficiencies...

- ❖ **Consistently improving cost efficiencies due to technological development and collection efficacy**
  - ❑ Cost-to-income ratio has improved by 700 bps YoY to 63% in FY10. We expect it to further decline to 52% by FY12E
  - ❑ Several cost rationalization measures and improved technological platform resulted in better cost efficiency
  
- ❖ **Focus on human capital**
  - ❑ Magma has ~4,800 employees on its payrolls as on Dec-10 – 62% are on-field employees & major part of their salaries are variable
  - ❑ ~18% is the average attrition rate mainly at field level (sales)
  - ❑ Lower level average fixed salary is at ~Rs 8,000 per month
  - ❑ There is roughly 3 months cooling-off period for any new employee, wherein there are no targets for him
  - ❑ Employee expenses and brokerage expenses are taken upfront and forms a major portion of their operating expenses (64% of total operating expense)
  - ❑ There are no significant recruitments expected in the middle management and above cadres till FY12E as Magma believes that the current team is under-utilized and can handle disbursement of ~Rs 90 bn (Rs 35 bn in 9MFY11)

**Declining cost to income ratio**



Source: Company, ENAM Research

**Branch Utilisation**

Branch Utilisation	No	AUM (Rs mn)	AUM per branch (Rs mn)
CV	110	36,535	332
Car	122	20,736	170
Const Equip	100	21,723	217
Used CV	75	2,962	39
Tractors	115	4,937	43
SME Loans	21	2,962	141
<b>Total</b>	<b>172</b>	<b>89,855</b>	<b>522</b>

Source: Company, ENAM Research

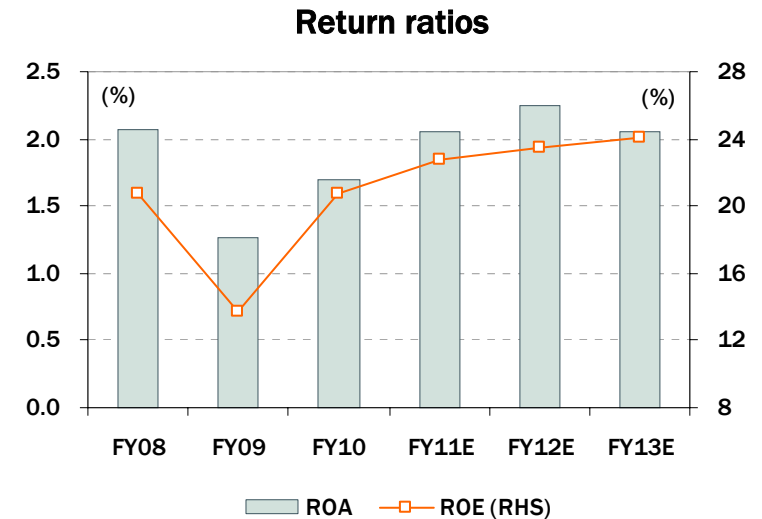
# ...Return ratios remain robust

## ❖ Consistently improving return ratios

- ❑ Improved NIMs and lower credit cost provided traction to the return ratios
- ❑ Going forward, we expect cost efficiency to improve as the company will improve leverage of its existing branches
- ❑ Provisioning expenses are estimated at a higher end as Magma is targeting high yielding products
- ❑ We expect ROA and ROE to improve to ~2.2% and ~23% in FY12E respectively (ROA moderated in FY09 due to sluggishness in economic activity)
- ❑ We expect the capital raising in FY12E to lead to dilution on ROE

## ❖ The bank's PAT grew at a CAGR of 28% between FY07-FY10 despite sluggishness in FY09

- ❑ Higher margins to support robust profit growth in FY11E
- ❑ We expect profits to grow to Rs 1.7 bn by FY12E (up 62% YoY) supported by lower cost to income ratio and higher margins.



## ROA decomposition

% of average assets	FY09	FY10	FY11E	FY12E
Interest income	19.8	17.5	15.7	16.3
Interest expenses	9.2	8.0	6.6	7.0
Other income	0.3	0.3	0.2	0.2
Staff expenses	3.2	2.7	2.4	2.4
Operating expenses	4.5	3.5	2.9	2.5
Provision and Contingencies	1.3	1.0	0.8	1.1
Tax Expenses	0.7	0.9	1.1	1.2
<b>ROAA</b>	<b>1.3</b>	<b>1.7</b>	<b>2.1</b>	<b>2.2</b>

Source: Company, ENAM Research

# Need capital in FY12 to fund growth

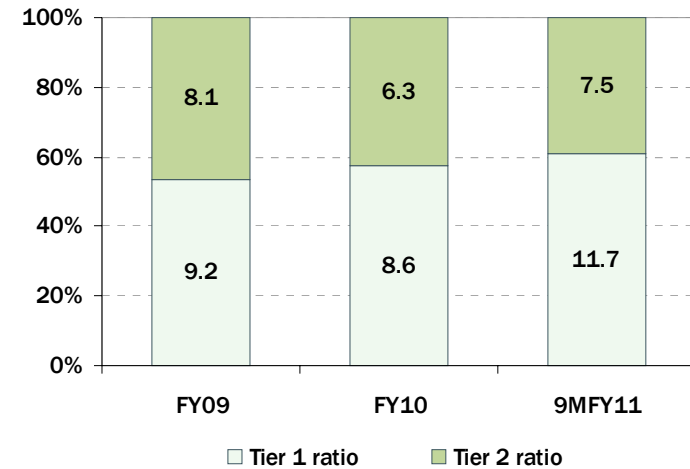
## ❖ Despite current adequate CAR it would need capital to fund its business growth

- ❑ The total capital adequacy ratio (CAR) stood at 19.2% as on Dec-10, of which Tier-I capital was 11.7%. The co. is required to maintain 15% CAR as per RBI norms

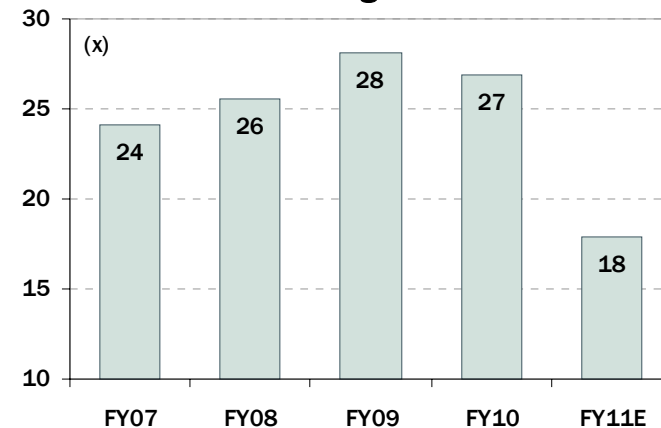
## ❖ Working on high leverage (based on net worth)

- ❑ Currently, Magma maintains leverage ratio at ~6x and management is confident of maintaining the same going forward. Calculation of leverage is based on RBI formula, according to which it includes both tier 1 and tier 2 capital for calculating purpose
- ❑ On the basis of its current net worth, leverage ratio stands at 7.4x (excluding off-book AUM) as on Dec 10
- ❑ Including off-book AUM, the total leverage ratio is at 17.8x which is on a higher side. However, Magma considers 100% risk weightage for its securitized book which reduces the risk arising from high leverage. (cash balance ~18% of total assets)

Capital adequacy ratio



Leverage ratio



Source: Company, ENAM Research;

Note: Leverage ratio = (Total Assets + off Book AUM) / Net Worth



## Peer comparison & Valuation

# How Magma differs?

## ❖ How is it different from other NBFCs

Differential profile	Magma	STFC	MMFS	SCUF	Comments
Product profile	Portfolio of 7 products : CV, Used CV, CE, Strategic CE, SME, Tractor	Mainly into used CV financing (80% of portfolio).	Tractor and Car Financing	2 wheelers, 3 wheelers, gold jewellery and consumer durable financing	Bouquet of products abates concentration risk in Magma
Presence	Well spread across India and not concentrated on single product	Market leader in CV and Used CV. Market share at ~60% in CV and Used CV market	~50% of business is in-house product financing	No significant presence in northern belt of India	Magma is well spread across product and region which signifies higher growth probability
Asset Quality	Zero Net NPAs	Net NPAs 0.49%	Net NPA at ~1%	Net NPA ratio at 0.74%	Best performer in asset quality among its peers

## ❖ How is Magma different from Banks in the same area?

- ❑ Banks have access to low cost funds in form of CASA deposits while Magma's main financing source is working capital loans
- ❑ Magma has deeper penetration in rural and semi-urban areas where banking facility is limited and ~70% of its loans are considered as priority sector loans for bank
- ❑ Magma enjoys better collection efficiency than banks as it is in direct contact with its customers
- ❑ Stringent capital adequacy requirement for Magma as compared to banks

## ❖ How is Magma different from the MFI Model?

- ❑ Magma does not provide any small ticket personal loan (the end use of which is not productive)
- ❑ More than 95% of its loans are collateralized and the management is categorical on end use of funds

# Peer Comparison

## ❖ Diversified product portfolio

- ❑ STFC's core portfolio is in Used CV and CV segment
- ❑ MMFS' main portfolio comprises Auto, UV and Car financing of which ~ 50% is in-house
- ❑ Cholamandalam Finance's (Chola Fin) primary portfolio comprises LCV and Mini LCV where Magma is looking for incremental growth.

## ❖ Higher proportion of securitized portfolio

- ❑ Lead to higher leverage, however, Magma follows proper credit enhancement and assign 100% risk weights to its securitized portfolio
- ❑ Management plans to reduce its securitized book proportion to ~30% by FY13E and bring it in line with its peers

## ❖ Better asset quality than its peers

- ❑ Maintains Zero Net NPA level

## ❖ Comparable return ratios

- ❑ Consistent improvement in return ratios as the operating performance improves – warrants higher multiple for Magma

## Peer Comparison

Peer Comparison (Dec 2010)	Unit	Magma	STFC	MMFS	Chola fin
<b>Business size</b>					
AUM Size	Rs bn	99	338	124	83
Off book AUM share	%	47	34	14	12
PAT (9MFY11)	Rs mn	716	8,892	3,280	487
<b>Network</b>					
Branches	Nos	172	487	537	216
States	Nos	21	NA	24	19
Employees	Nos	4,950	15,947	4,425	5,225
AUM per employee	Rs mn	20	21	28	16
AUM per branch	Rs mn	576	694	231	384
<b>Asset Quality and Margins</b>					
Net NPA ratio	%	0	0	1	NA
NIM /Spread (9M'11)	%	5.1	6.8	5.6	3.7
Total CAR	%	19.2	24.6	17.4	18.8
<b>Growth (CAGR :FY05-FY10)</b>					
On Book AUM	%	66	63	30	36
Disbursement	%	27	44	22	28
Borrowings	%	60	66	18	32
PAT	%	43	78	33	(15)
<b>Return ratios (9M FY11)</b>					
ROA	%	2.1	4.0	3.7	1.8
ROE	%	20.4	27.9	20.9	12.1

Source: Company, ENAM Research

# Attractive valuations

- ❖ Magma is expected to register over 22% ROE and over 2.1% ROA in the next couple of years, supported by high margins and zero NPA
- ❖ Other NBFCs with identical return ratios and comparable financials are trading at 1.6-2.8x FY12E BV while Magma is trading at 0.9x FY12E BV – a steep discount of more than 60%
- ❖ On the basis of its consistently improving operating performance and steep discount, we expect some re-rating in the stock. We assign **BUY rating** with a target price of Rs 86 (1.4x FY12E BV and 6.9x FY12E EPS)

## Peer group - Valuation comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	P/E (x)		P/BV (x)		RoE (%)	
			FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
<b>Asset Financing NBFCs</b>								
Shriram Transport Finance	751	170	14.0	12.0	3.5	2.8	27.9	26.1
Mahindra & Mahindra Finance	717	68	15.0	12.0	3.1	2.4	22.5	22.2
Sundaram Finance	499	28	10.0	8.7	1.8	1.6	20.5	20.8
Magma Fincorp	58	8	7.0	4.7	1.3	0.9	22.8	23.5
<b>Infra Financing NBFCs</b>								
Power Finance Corp Ltd	259	297	11.0	10.2	1.9	1.5	18.7	17.2
Rural Electrification Corp	245	238	9.6	7.8	1.9	1.6	21.9	22.6
I D F C	146	205	12.5	10.8	2.0	1.7	14.5	13.5
SREI Infrastructure Finance	45	9	6.1	4.4	0.6	0.5	15.2	19.0

Source: ENAM Research, Bloomberg



# Magma Financials

# Company financials

## Profit & Loss (Rs. mn)

Y/E March	2009	2010	2011E	2012E
Interest earned	5,693	6,365	7,689	11,482
Interest expended	2,854	3,162	3,484	5,251
<b>Net interest income</b>	<b>2,839</b>	<b>3,203</b>	<b>4,205</b>	<b>6,231</b>
Non interest income	562	665	684	822
<b>Net income</b>	<b>3,401</b>	<b>3,868</b>	<b>4,889</b>	<b>7,053</b>
<b>Operating expenses</b>	<b>2,382</b>	<b>2,436</b>	<b>2,794</b>	<b>3,661</b>
Staff expenses	999	1,053	1,264	1,770
<b>Operating profit</b>	<b>1,019</b>	<b>1,432</b>	<b>2,095</b>	<b>3,392</b>
<b>Provisions &amp; contingencies</b>	<b>418</b>	<b>400</b>	<b>435</b>	<b>815</b>
Bad debts write off	415	400	318	745
<b>Pre-tax profit</b>	<b>601</b>	<b>1,032</b>	<b>1,660</b>	<b>2,577</b>
Tax expense	211	366	581	902
<b>Profit after tax</b>	<b>390</b>	<b>666</b>	<b>1,079</b>	<b>1,675</b>
<b>PAT after minority &amp; associates</b>	<b>390</b>	<b>666</b>	<b>1,079</b>	<b>1,675</b>

## Balance sheet (Rs. mn)

Y/E March	2009	2010	2011E	2012E
<b>Total assets</b>	<b>32,540</b>	<b>45,103</b>	<b>59,672</b>	<b>89,291</b>
Cash & Balances	8,990	9,685	8,972	10,011
Investments	421	302	363	435
Advances	19,803	31,816	46,538	74,690
Fixed assets	2,382	2,080	2,166	2,426
Other assets	944	1,221	1,634	1,730
<b>Total liabilities</b>	<b>32,540</b>	<b>45,103</b>	<b>59,672</b>	<b>89,291</b>
Equity capital	218	218	260	270
Preference capital	1,161	1,161	1,511	1,511
Reserves & surplus	2,728	3,267	5,722	8,026
Borrowings	24,714	35,671	46,221	70,901
Other liabilities & prov.	3,719	4,787	5,959	8,583

## Key ratios (%)

Y/E March	2009	2010	2011E	2012E
<b>Valuations</b>				
EPS (Rs.)	4	6	8	12
FDEPS (Rs.)	4	6	8	12
BV (Rs.)	27	32	46	61
Adj. BV (Rs.)	27	32	46	61
DPS (Rs.)	0.2	0.5	0.8	1.2
Dividend payout (%)	6	8	10	10
<b>Yields &amp; Margins (%)</b>				
Spreads	3.6	5.1	5.3	5.5
<b>Asset quality (%)</b>				
Net NPAs	0.0	0.0	0.0	0.0
Write offs	415	400	318	745
Write off as % of AUM	0.60	0.50	0.34	0.60
<b>Capital (%)</b>				
Tier-I	9.2	8.6	11.8	9.8
CAR	17.3	14.9	19.1	16.6
<b>Efficiency (%)</b>				
ROA	1.3	1.7	2.1	2.2
ROE	13.7	20.7	22.8	23.5
Cost to income	70	63	57	52
Effective tax rate	35	35	35	35
<b>Growth (%)</b>				
Net interest income	7	13	31	48
Operating expenses	29	2	15	31
Profit after tax	(22)	71	62	55
AUM	16	15	17	33
Disbursement	5	24	18	45



# Appendix

## Rich in history and experience

- ❖ **Magma, a two decade old NBFC based in Kolkata, is engaged in providing diversified range of asset financing products primarily in semi-urban and rural areas across India:**
  - ❑ It offers a wide array of services such as Vehicle financing, Equipment financing and SME lending
  - ❑ Spread across 21 states of India, serving ~5,00,000 customers which safeguards it from concentration risk
  - ❑ Focus on high yielding segment like Tractors, Used CV financing and SME lending– may protect its margin in a rising interest rate scenario

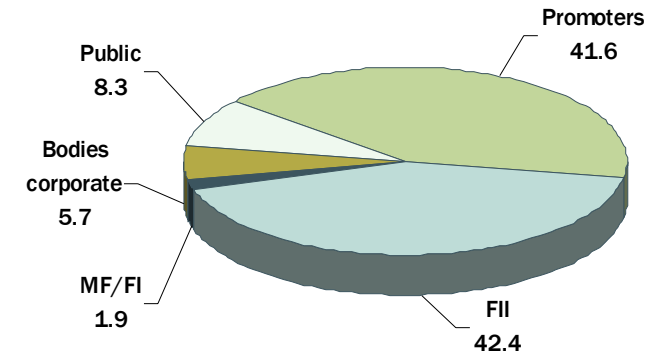
### Magma Fin Corp Evolution

1978	Incorporated as ARM Group Enterprise
1980	Fresh certificate of incorporation and converted into Public sector company
1989	Commenced financing business operation
1992	Magma Leasing established as a result of amalgamation with ARM Leasing
1993	Listed on BSE
1995	Entered Retail Finance
2001	Acquired Consortium Finance first footprints in North India
2003	Listed on NSE
2007	Amalgamation with SIFL, name changed to Magma Shrachhi Finance Ltd
2008	Launched tractor business
2009	Name changed to Magma Fincorp; Started SME Loan Business
2010	General Insurance joint venture with HDI-Gerling

# Key management

- ❖ All key management people are employed in the company for more than a decade.
- ❖ **Mr. Mayank Poddar (Chairman & Promoter)** : He contributes to the policy formulation and provides overall guidance to the management team.
- ❖ **Mr. Sanjay Chamaria (Vice Chairman & MD)**: He is a Promoter of Magma Fincorp Ltd and has been its Vice Chairman and Joint MD since April 2007. He also serves as an Independent Non-Executive Director of SKP Securities Limited. Further, he is a member of the managing committee of Equipment Leasing Association
- ❖ **Mr. Ashutosh Shukla (COO)**: Has over 26 years experience in the field. He joined Magma in 1992 and has handled several responsibilities including National Recovery Head, Business Head – North etc. His last assignment was as Head of the Magma Asset Reconstruction Division
- ❖ **Mr. V Lakshmi Narasimhan, (CFO)**- He joined Magma in 1990, and is now handling Treasury, Accounts, Taxation, Budgeting, MIS and Secretarial functions. He also has experience in varied fields – his last role was that of Group Business Head. Previously, he has held senior positions including National Credit Head and Head-Fee-based Business
- ❖ **Mr. G P Pattanaik, (Chief - Receivables Management)** - He has over 30 years experience and is handling collections for 0-180 buckets and Asset Reconstruction Division. Prior to this, he was the Business Head-East and National Head - Recovery.

**Shareholding Pattern - Dec 2010 (%)**



**Major non-promoter shareholders**

Shareholder	(% holding)
Citigroup Global Markets Mauritius	7.4
India Capital Fund Ltd	8.1
India Capital Opportunities I Ltd	1.5
India Institutional Fund Ltd	2.5
Merrill Lynch Capital Markets Espana S. A	1.0
Namokar Commercial Pvt Ltd	1.4
Sundaram BNP Paribas Mutual Fund A/c Sun	1.7
The Royal Bank of Scotland N V London	2.3
Wellington Management Company LLP A/c B	3.2
Wellington Management Company LLP A/c B	6.6
<b>Total</b>	<b>38.4</b>

Source: BSE

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#### **Disclosure of interest statement (As of February 14, 2011)**

1. Analyst ownership of the stock	No
2. Firm ownership of the stock	No
3. Directors ownership of the stock	Yes
4. Investment Banking mandate	Yes
5. Broking relationship	No

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