



Magma Fincorp

 Relative to sector: **Outperformer**
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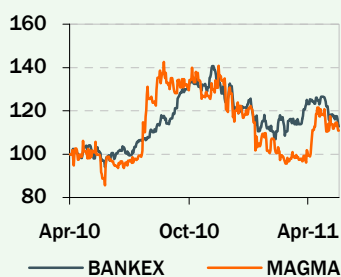
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 130 mn
Market cap	: Rs 9.7 bn
52 week high/low	: Rs 88/Rs 51
Avg. daily vol.(6mth)	: 464,400 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 (Rs mn)	FDEPS (Rs)	Change (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)
2010	666	6.1	71	12.3	32	32	2.3	2.3	21	1.7
2011	1,144	8.8	44	8.5	43	43	1.7	1.7	25	2.2
2012E	1,752	9.2	5	8.1	66	66	1.1	1.1	19	2.5
2013E	2,502	13.2	43	5.7	81	81	0.9	0.9	18	2.5

Source: Company, ENAM estimates; Note: Considered warrant exercise (Rs 500 mn) and preferential infusion (Rs 4.4 bn) in FY12

STRATEGIC INFUSION SOLIDIFIES CREDIBILITY

Magma Fincorp (Magma) today announced fresh issue of equity shares on preferential basis to Zend Mauritius VC Investments Ltd. (a fund within the private equity division of KKR) and International Finance Corporation (IFC) subject to approval from shareholders and regulatory bodies.

Details of the proposed preferential allotment

Name of the Investor	No. of share issued (mn)	Issue price (Rs)	Consideration (Rs bn)
Zend Mauritius VC Investments (KKR)	26.85	88	2.36
International Finance Corporation	23.00	88	2.03

Source: Company, ENAM Research

Maintain BUY with revised TP of Rs 93 (Vs Rs 86 earlier)

With the planned preferential issue, Magma has strengthened its positioning in terms of capital adequacy ratio and getting in quality investors which will increase the faith in the company's operational performance and future outlook. We believe the large capital infusion will help Magma tide over the concerns of over-leveraged balance sheet and the regulatory overhang on securitization norms. Moreover, the large capital base will support margins in the short-term.

On the back of lower ROEs due to dilution, we reduce our FY12E target P/ABV multiple to 1.4x (from 1.5x earlier). However, the FY12 ABV has increased to Rs 66 (from Rs 58 earlier) after incorporating dilution. At CMP of Rs 75, it is trading at 8x FY12E EPS of Rs 9.2 and 6x FY13E EPS of Rs 13.2. On P/ABV it is trading at 1.1x FY12E ABV of Rs 66 and 0.9x FY13E ABV of Rs 81. On the back of its consistent improving performance we reiterate our **BUY rating** with revised target price of Rs 93 (1.4x FY12E ABV).

Key Highlights:

- The capital infusion will be used to support Magma's growth plans in existing businesses in addition to diversification into newer areas. CAR, post infusion, will be ~24% (calculated) from current 18%.
- The company plans to bring down dependence on securitization from current over 50% in FY11 to ~20% over the next couple of years.
- Management has indicated that there has been an increase in the cost of funds post the rate hikes by RBI in the monetary policy. Current cost of borrowing is ~9.4% and the company is finding it difficult to pass-on the full increase in cost of funds to end borrowers which would lead to margins compression. However, the large capital infusion will help in supporting margins in the short term.
- Magma plans to grow its disbursements by ~50%, add 20-25 branches and increase the contribution of high yielding products from 19% in FY11 to ~25% in FY12E. This will support margins in a rising interest rate scenario.
- Promoters stake post the equity infusion will come down to ~30% (from 42% at present).

Dilution details

		FY12
Issue Price	Rs	88
Face Value	Rs	2
Existing equity base (incl. warrant exercise in FY12)	mn shares	140
Amount raised	Rs	4,387
No of shares issued	mn shares	50
<i>KKR</i>	<i>mn shares</i>	27
<i>IFC</i>	<i>mn shares</i>	23
New equity base	mn shares	190
Dilution on existing equity	%	36
Dilution on new equity (fully diluted)	%	26
Share premium	Rs mn	4,287
Equity capital	Rs mn	100
Amount raised	Rs mn	4,387

Source: Company, ENAM Research

Comparative Analysis

Pre-Dilution

Y/E Mar	PAT (Rs mn)	FDEPS (Rs mn)	EPS Chg (%)	P/E (x)	Adj. BV (Rs)	P/Adj. BV (x)	RoE (%)	RoA (%)
2011	1,144	8.8	44	8.5	43	1.7	25	2.2
2012E	1,556	11.5	31	6.5	58	1.3	23	2.3
2013E	2,313	17.1	49	4.4	78	1.0	25	2.3

Source: Company, ENAM Research

Post-Dilution

Y/E Mar	PAT (Rs mn)	FDEPS (Rs mn)	EPS Chg (%)	P/E (x)	Adj. BV (Rs)	P/Adj. BV (x)	RoE (%)	RoA (%)
2011	1,144	8.8	44	8.5	43	1.7	25	2.2
2012E	1,752	9.2	5	8.1	66	1.1	19	2.5
2013E	2,502	13.2	43	5.7	81	0.9	18	2.5

Source: Company, ENAM Research

Shareholding pattern

	Pre-dilution		Post-dilution	
	(mn shares)	%	(mn shares)	%
Promoters	54	42	54	30
KKR	-	-	27	15
IFC	-	-	23	13
FII	52	40	52	29
Domestic	3	2	3	1
Public	21	16	21	12
	130	100	180	100

Source: BSE, ENAM estimates; Note: Warrant exercise by promoters not considered in post dilution numbers

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