ENAM Securities
India Research

CMP: Rs 57
Target Price: Rs 69
Potential Upside: 20%
Absolute Rating: BUY

Magma Fincorp

Relative to sector: Neutral

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Relative Performance

Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 180 mn
Market cap	: Rs 10.9 bn
52 week high/low	: Rs 87/Rs 48
Avg. daily vol.(6mth)	: 157,600 shares
Bloomberg code	: MGMA IB
Reuters code	: MAGM.BO

Shareholding (%)		Dec-11	QoQ chg
Promoters	:	33.7	3.7
FIIs	:	29.2	(1.6)
MFs / UTI	:	1.5	(0.1)
Banks / FIs	:	0.1	0.0
Others	:	35.5	(2.0)

FUNDING COST IMPACTS PROFIT

Stressed P&L: Magma FinCorp's (Magma) Q3FY12 PAT declined 39% QoQ to Rs 113 mn (our estimate Rs 295 mn), despite 50% YoY disbursement growth. Lower than expected PAT was on account of: 1) significant increase in cost of funds (up ~30 bps QoQ); 2) Rs 50 mn of forex MTM hit due to its ~US$ 15 mn exposure in preference shares and 3) rise in brokerage & commission expenses (up 47% QoQ to Rs 108 mn). Increase in cost of funds and lower reliance on securitization led to ~10 bps QoQ decline in NIM (4.2%).

Business growth momentum to continue: Magma maintained its business momentum in Q3 (50% YoY disbursement growth) with zero NPA and 100% collection efficiency. Over next few years, mgmt maintains its disbursement growth target at 50% YoY, while retaining its product portfolio.

Maintain BUY with revised TP of Rs 69 (upside of 20%)

We have revised our EPS estimates downwards to Rs 4 (Rs 6 earlier) in FY12 and Rs 7.8 (Rs 10 earlier) in FY13 to factor in lower securitization and increase in funding costs. However, business growth is likely to remain impressive with high growth in on-book AUM (77% YoY growth) and lower credit costs (write-off at 0.2% of total AUM). Moreover, Magma is likely to be a major beneficiary of reversal in interest rates as majority of the loan book is on fixed rate.

Valuation attractive

At **CMP of Rs 57**, the stock trades at 1x FY12E ABV of Rs 59 (earlier Rs 63) and 0.8x FY13E ABV of Rs 69 (earlier Rs 75). While we have revised our EPS estimates downwards, Maintain **BUY** with revised TP of Rs 69 (1x FY13E ABV) given healthy business growth, zero net NPAs, and likely benefits from reversal in interest rate cycle.

Financial summary

Y/E Mar	PAT (Rs mn)	EPS (Rs)	Change (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)
2010	665	6.1	70	9.4	32	32	1.8	1.8	21	1.7
2011	1,144	8.8	44	6.5	43	43	1.3	1.3	25	2.2
2012E	755	4.0	(55)	14.4	59	59	1.0	1.0	9	1.0
2013E	1,488	7.8	97	7.3	69	69	0.8	0.8	12	1.2

Source: Company, ENAM estimates

...Key highlights

- **Car and tractor segments drive growth:** Disbursement grew 50% YoY to Rs 19.2 bn mainly driven by cars (up ~84% YoY; contributing 30% of disbursement) and tractors (up ~91% YoY; contributing 13% of disbursement). Going forward, we expect disbursement growth at ~35% YoY for FY13 with high yielding products' (HYP) share at ~25% (vs. 22% in Q3FY11).
- **Increasing proportion of on-book AUM:** In FY12, Magma has reduced its dependence on securitization /assignment transaction which also led to lower PAT in 9MFY12 (~ by Rs 1.4 bn). We expect increase in on-book AUM share (67% in Dec-11 vs. 47% in Dec-10) to support NIM in coming quarters due to re-pricing benefits.
- **Spreads contract:** Increase in cost of funds by ~30 bps QoQ to 10.9% and lower reliance on securitized asset has led to a fall in Magma's net interest spread (declined 10 bps QoQ to ~4.2%). Going forward, with increasing proportion of on-book AUM and expected decline in interest cost, we expect NIM to improve in FY13E.
- **Healthy asset quality:** Magma maintains zero Net NPA policy. Collection efficiency remained above 100% and write-off as % of AUM stood at 0.22% despite higher growth in disbursement. We have built in higher write-offs % in our estimate to factor in higher slippage due to increase in interest rates.

Results Update

	Quarter ended					Y/E		
(Rs mn)	Dec-11	Dec-10	% Chg	Sep-11	% Chg	Mar-12E	Mar-11	% Chg
Interest Earned	2,529	2,030	25	2,256	12	9,614	7,900	22
Interest Expended	1,686	925	82	1,379	22	5,896	3,381	74
Net Interest Income	**843**	**1,105**	**(24)**	**878**	**(4)**	**3,718**	**4,519**	**(18)**
Other Income	142	138	3	158	(10)	620	573	8
Total Income	**2,670**	**2,168**	**23**	**2,414**	**11**	**10,234**	**8,473**	**21**
Total Net Income	**985**	**1,243**	**(21)**	**1,035**	**(5)**	**4,338**	**5,092**	**(15)**
Staff Expenses	344	319	8	357	(4)	2,825	3,032	(7)
Other operating expenses	381	394	(3)	324	18	1,384	1,685	(18)
Operating Profit	**260**	**530**	**(51)**	**355**	**(27)**	**1,513**	**2,060**	**(27)**
Provision & Contingencies	93	68	36	92	0	386	355	9
Provision for tax	54	154	(65)	76	(29)	372	561	(34)
Reported Profit	**113**	**308**	**(63)**	**186**	**(39)**	**755**	**1,144**	**(34)**
Cost / Return ratios (%)								
Interest Spreads	4.2	4.7	(50) bps	4.3	(10) bps	3.8	5.8	(192) bps
Cost to income ratio	73.6	57.3	1,626 bps	65.8	785 bps	65.1	59.5	558 bps
Asset quality (%)								
Write off as % of Total Asset s	0.2	0.3	(8) bps	0.2	2 bps	0.3	0.3	4 bps

Continued..

(Rs mn)	Quarter ended Dec-11	Dec-10	% Chg	Sep-11	% Chg	Y/E Mar-12E	Mar-11	% Chg
Business growth (Rs mn)								
Disbursements	19,150	12,740	50	15,580	23	77,457	52,615	47
AUM	105,465	91,410	15	102,820	3	125,661	92,839	35
On book share (%)	67	47	2,028 bps	62	539 bps	66	46	2,004 bps
Off book share (%)	33	53	(2,028) bps	38	(539) bps	34	54	(2,004) bps
CAR (%)								
CAR	20	19	110 bps	20	30 bps	19	18	121 bps
Tier 1	14	12	220 bps	15	(110) bps	12	11	102 bps

Source: Company, ENAM Research; Note: Full year ratios (FY11 and FY12E) are on calculated basis and may differ from reported number; YoY numbers are not comparable due to change in accounting policy by the company