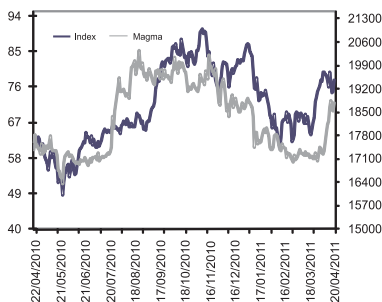


Result Update

CMP : INR 70
Rating : Buy
Target : INR 90
KEY DATA

Market Cap (INR bn)	9.1
Market Cap (USD mn)	206.4
52 WK High / Low	88 / 50
Avg Daily Volume (BSE)	205587
Face Value (INR)	2
BSE Sensex	19602
Nifty	5885
BSE Code	524000
NSE Code	MAGMA
Reuters Code	MAGM.BO
Bloomberg Code	MGMA IN

Shareholding %	2Q	3Q	4Q
Promoters	42.0	42.0	42.0
MF/Banks/Indian FIs	2.0	2.0	2.0
FII/ NRIs/ OCBs	42.0	43.0	41.0
Indian Public	14.0	13.0	15.0

Performance Chart

Price Performance (%)

	3 M	6 M	12 M
Absolute	2.2	(2.0)	11.5
Relative	(9.1)	1.9	(8.5)

Financials (INR mn)	FY11UA	FY12E	FY13E
NII	2,892	3,812	5,777
PPP	2,273	3,022	4,425
PAT	1,205	1,572	2,269
Abv per sh	43.5	54.1	68.9

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Magma Fincorp Ltd.

Magma has reported PAT of INR 449 mn clocking 70% YoY growth and 38% QoQ growth in Q4FY11. Disbursement stood at INR 19.6 bn growing by 40.7% YoY and 53.5% QoQ in Q4FY11 (INR 12.7 bn in Q3FY11 and INR 13.9 bn in Q4FY10). Out of fresh disbursements, proportion of high yielding assets stood at 18.4% in Q4FY11. Income from operation stood at INR 2.7 bn growing by 24.4% YoY in Q4FY11. NIM stood at 4.3% in Q4FY11 (5.5% in Q4FY10) as cost of funds has increased by 180 bps YoY while IRR on assets improved only by 60 bps YoY. Operating expenses have grown by 31.2% YoY as staff cost and DSA cost increased by 51.5% YoY and 44.6% YoY in Q4FY11 respectively. As ~40% of staff salary is variable, increase in business has led to increased staff cost. DSA cost is increasing as there has been increase in commission charges. At present Magma has 172 branches across India and have plans to roll out 25 new branches in FY12E. Expansion would mainly focus in Southern and Western India.

Business trend

Magma has achieved 33% YoY growth in disbursements in FY11 (adjusting for bought out portfolio of INR 4.9 bn in FY10). Total AUM as on March 2011 was INR 109 bn registering growth of 15% YoY. Proportion of high yielding assets has improved to 19% in FY11 as against 13% in FY10. Securitization done during FY11 stood at 52% as against 54% in FY10. The company plans to reduce its securitization up to 30% by FY13E. Going forward, we expect disbursements to grow at CAGR of 41.5% over FY11E-FY13E.

Margins and profitability

Reported NIM was 5% in FY11 (5.1% in FY10). NIM reduced due to increasing cost of funds from 7.4% in Q1FY11 to 9.1% in Q4FY11. For the whole year, cost of funds reduced by 50 bps YoY lower than 60 bps YoY contraction in IRR on assets in FY11. We expect margins to remain under pressure as cost of funds will hover above cost of fund of Q4FY11 (~9.1%) in FY12E. Cost to income ratio was 56.6% in FY11 as against 62% in FY10. CI ratio improved as operating income improved by 31.5% YoY higher than growth of 20% YoY in operating expenses in FY11E. RoE and RoAA stood at 23.6% and 2.3% in FY11 respectively. Going forward, we expect NIM to be 5.2% in both FY12E and FY13E and PAT to grow at CAGR of 37% over FY11E-FY13E.

Asset quality

Write offs as % to AAUM has decreased to 0.35% in FY11 as against 0.44% in FY10. Magma has provided provision for standard asset as per RBI guidelines in FY11. Collection efficiency ratio has improved to 101.7% in FY11 (99.8% in FY10). CAR stood at 18.2% (out of this tier I capital was 11.3%) in FY11E. We have reduced our write off estimates as Magma's collection efficiency has improved and recent trend in asset delinquency shows improving performance. Going forward, we expect write offs to increase to 0.5% and ~0.6% of AAUM in FY12E and FY13E respectively as proportion of high yielding assets is growing.

Insurance JV

Magma has a JV with HDI Gerling International Holding AG to enter General Insurance Business. This JV has received the initial 'R1' approval from the Insurance Regulatory and Development Authority (IRDA) to launch its general insurance business. We expect insurance JV to launch its first product in 2HFY12E. This will help Magma to expand its product portfolio and fee income.

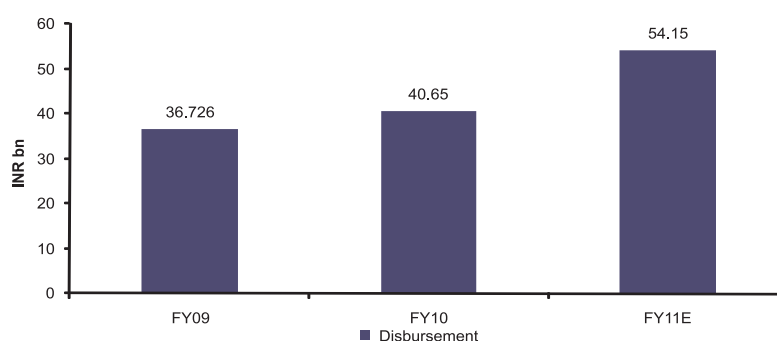
Valuation

Magma has depended heavily on securitization for funding requirements. The firm plans to reduce this up to 30% by FY13E in line with industry trend. At CMP the stock is trading at 1.3x and 1.0x ABV FY12E and FY13E respectively. We recommend BUY on the stock with TP of INR 90 (1.3x ABV FY13E).

Q4FY11 Results

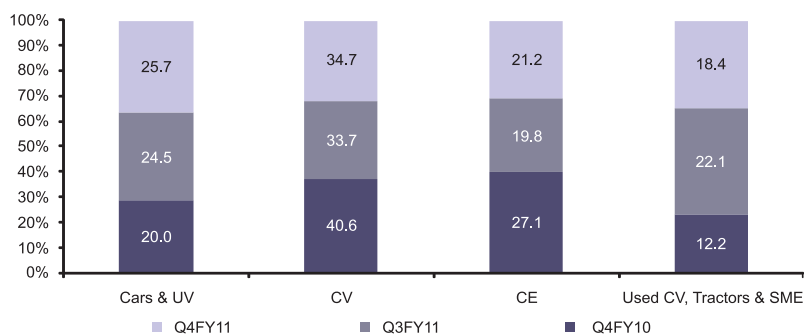
	Q4FY11	Q4FY10	%ch YoY	Q3FY11	%ch QoQ
Income from financing operation	2430.0	1996.0	21.7	2093.0	16.1
Income from cash collaterals	94.0	118.0	(20.3)	103.0	(8.7)
Other Income	169.0	51.0	231.4	57.0	196.5
Income from operations	2693.0	2165.0	24.4	2253.0	19.5
Interest Expenses	952.0	887.0	7.3	968.0	(1.7)
Net operating cost	1741.0	1278.0	36.2	1285.0	35.5
Other Income	4.0	8.0	(50.0)	4.0	0.0
Operating income	1745.0	1286.0	35.7	1289.0	35.4
Operational expenses	947.0	722.0	31.2	731.0	29.5
Staff cost	397.0	262.0	51.5	319.0	24.5
DSA cost	240.0	166.0	44.6	167.0	43.7
Other exp	310.0	294.0	5.4	245.0	26.5
Operating profit	798.0	564.0	41.5	558.0	43.0
Write offs for bad debts	139.0	142.0	(2.1)	70.0	98.6
PBT	659.0	422.0	56.2	488.0	35.0
Tax	210.0	158.0	32.9	163.0	28.8
PAT	449.0	264.0	70.1	325.0	38.2
Disbursement (INR mn)	19550.0	13890.0	40.7	12740.0	53.5
(%)			bps ch YoY		bps ch QoQ
IRR on assets	13.4	12.8	0.6	13.2	0.2
Cost of funds	9.1	7.3	1.8	8.5	0.6
NIM	4.3	5.5	(1.2)	4.7	(0.4)
RoAA	3.2	2.4	0.8	2.5	0.7
Collection efficiency	104.4	103.4	1.0	100.9	3.5
Cost to income ratio	54.3	56.1		56.7	

Business trend



Source : Company, FQ Research

Disbursement break up

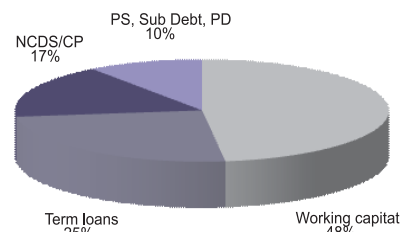
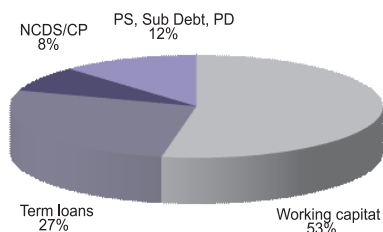


Source : Company, FQ Research

Funding pattern

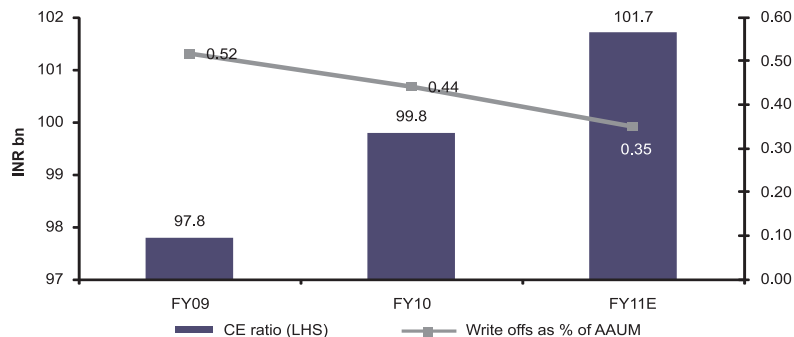
FY11E

FY10



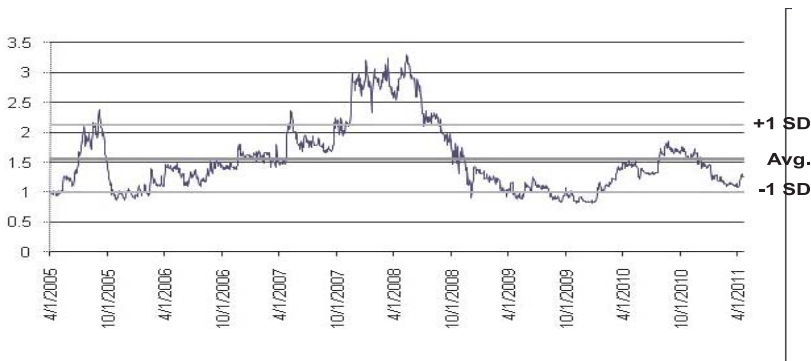
Source : Company, FQ Research

Asset quality trend



Source : Company, FQ Research

One Year forward Price to ABV trend.



Source : Company, FQ Research

Consolidated Financials

Profit and Loss statement

FYE March, INR mn	FY10	FY11E	FY12E	FY13E
Interest earned	5,056	6,405	9,780	15,312
Interest expended	3,250	3,513	5,968	9,535
Net interest income	1,805	2,892	3,812	5,777
Non-interest income	2,175	2,368	2,967	3,622
Operating expenses	2,471	2,987	3,758	4,974
Pre-provisioning profits	1,509	2,273	3,022	4,425
Provisions/ write offs	404	391	643	998
PBT	1,105	1,882	2,379	3,427
Income tax	391	659	785	1,131
Net profit	701	1,205	1,572	2,269

Balance Sheet

FYE March, INR mn	FY10	FY11E	FY12E	FY13E
Capital	1,379	1,429	1,376	1,880
Reserves	3,305	5,509	7,411	9,480
Networth	4,684	6,937	8,787	11,360
Loans	36,543	46,982	67,059	106,915
Current liab, provisions & others	5,403	5,002	5,616	5,825
Total	46,630	58,921	81,463	124,100
Fixed Assets	2,081	1,871	2,113	2,412
Investments	191	114	240	273
Loans	33,014	45,143	63,903	101,494
Current assets & others	11,343	11,793	15,207	19,922
Total	46,630	58,921	81,463	124,100

Per share data

FYE March, INR mn	FY10	FY11E	FY12E	FY13E
Shares outstanding (mn)	108.9	129.8	139.8	139.8
FDEPS (Rs)	5.9	8.7	10.7	15.3
DPS (Rs)	0.5	0.6	0.6	0.6
Book value (Rs)	31.2	43.5	54.1	68.9
Adjusted book value (Rs)	31.2	43.5	54.1	68.9

Ratios

FYE March, INR mn	FY10	FY11E	FY12E	FY13E
Valuation Ratios				
P/E (x)	11.9	8.1	6.5	4.6
P/BV (x)	2.2	1.6	1.3	1.0
P/ABV (x)	2.2	1.6	1.3	1.0
Margin Ratios (%)				
Yield on funds	13.7	13.1	14.0	14.0
Cost of funds	8.5	8.0	8.8	8.8
Spread	5.2	5.0	5.2	5.2
Cost/Income%	62.1	56.8	55.4	52.9
Opertaing Profit Margin	20.9	25.9	23.7	23.4
Return Ratios (%)				
RoE	20.5	24.9	22.7	24.9
RoA	1.8	2.3	2.3	2.2
Growth ratios (%)				
Interest Income	22	27	53	57
Interest Expended	13	8	70	60
Net interest Income	44	60	32	52
Other Income	(0)	9	25	22
Total Income	15	21	45	49
Operating Profit	47	51	33	46
Net Profit	77	72	30	44
EPS	91	48	23	43
AUM	9	15	26	34
ABV	19	39	24	27
Leverage				
Debt Equity ratio	7.8	6.8	7.6	9.4
Leverage (x)	9.1	9.1	8.9	10.2
Asset quality (%)				
Write off % of AUM	0.4	0.3	0.5	0.6
CAR	14.9	18.1	17.0	16.2

Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	30-03-2011	57	Buy	80
Result Update (Q4F11)	21-04-2011	70	Buy	90

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BUY

More than 10% return

HOLD

Between 5-10% return

SELL

Less than 5% return