

# Magma Fincorp

**OUTPERFORMER**
**Announces equity raising of Rs4.4bn**
**Rs75**
**Mkt Cap: Rs9.8bn; US\$217m**

## Event

Magma Fincorp announced a preferential allotment of shares to Kohlberg Kravis Roberts (KKR) and International Finance Corporation (IFC). It proposes to allot ~50m shares at Rs88 per share – a premium of 27% to the previous day's closing market price – amounting to a ~38% dilution on pre-money basis. The transaction would imply an equity infusion of Rs4.4bn in Magma. The two investors would take 28% stake in the company of which KKR would hold 14.95% and IFC 12.8%. Both the investors would be allotted a board seat each.

## Impact

The capital raising comes amid strong growth plans and consequently depleting Tier-I CRAR. The lender's Tier I capital adequacy ratio was 11.3% with total CAR of 18.2% as of March 2011 (minimum regulatory requirement of 15%). After the issuance, the Tier-I ratio is expected to increase to ~19%, with leverage coming off to 5.8x (as against 10x earlier). We believe this infusion would aid achievement of the management's stated intent of lowering dependence on securitization and also support loan growth.

## Our view

Our estimates have already factored in an equity dilution of Rs4bn in FY12, but at a lower price of Rs70 per share. Building in an injection of Rs4.4bn at Rs88 per share, our projected book value increases by 8% and 7% for FY12 and FY13 respectively. We expect Magma to scale up rapidly by leveraging the existing network and adding branches. Disbursements are expected to post a robust 38% CAGR, which, coupled with lower securitization, would lead to a 52% CAGR in advances over FY11-13E. This, and a rising share of high-yield products, would spur 39% CAGR in NII. At 1.2x FY12E BV, the stock trades at a deep discount of 25-55% to peers. Given Magma's high growth and profitability potential, we reiterate Outperformer with a revised 18-month price target of Rs130 (1.8x FY13E BV).

## Key financials

Year to 31 March	2009	2010	2011	2012E	2013E
Net profit (Rs m)	398	714	1,221	1,698	2,436
yoy growth (%)	(20.8)	79.3	71.1	39.0	43.5
Shares in issue (m)	108.9	108.9	130.0	190.0	190.0
EPS (Rs)	3.7	6.6	9.4	8.9	12.8
EPS growth (%)	(20.8)	79.3	43.3	(4.9)	43.5
PE (x)	20.5	11.4	8.0	8.4	5.9
Earlier Book value (Rs/share)	27.2	32.4	45.0	56.6	67.5
Revised Book value (Rs/share)	27.2	32.4	45.0	61.2	72.4
P / BV (x)	2.8	2.3	1.7	1.2	1.0
ROAE (%)	11.8	20.2	24.8	18.8	18.7

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2. Neutral: Within 0-5% to Index (upside or downside)
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