



Magma Fincorp Ltd (MFL)

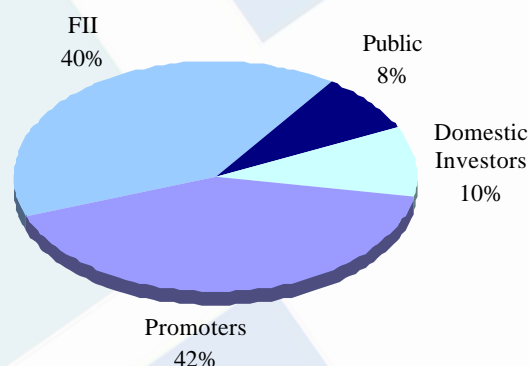
Information

CMP (Rs)	71
Target Price (Rs)	97
Upside (%)	37

Key data

Bloomberg	MGMA IS
BSE	524000
NSE	Magma
Mcap (in Cr)	921
52 week High	80
52 week Low	56

Shareholding (Mar 31, 2010)



Income Statement (Rs Cr)

	FY10	FY11	FY12E	FY13E
Interest Income	648	795	1013	1277
Interest Expenses	325	352	419	518
Net Interest Income	323	443	594	759
Non Interest Income	75	79	83	87
Net Income	398	522	677	846
Total Expenditure	247	304	377	465
Provisions	41	36	46	62
PBT	111	182	254	319
Tax	39	60	85	108
PAT	72	122	169	210
Adj EPS (Rs)	5.8	8.4	9.4	12.3
Book Value (Rs)	34	44	69	84

Yogesh Hotwani

yogesh.hotwani@padmakshi.com
+91 22 66540502

Results beat expectation.....

MFL reported a robust growth in operating profit of 44% yoy and Net profit of 71% yoy in FY11 which is better than expected backed by better than expected growth in disbursement, Net interest income and improved asset quality resulting lesser write offs. We expect company to continue to grow at this pace.

Business growth continues.....

MFL has witnessed a strong growth in disbursement of 33% yoy in FY11 and 41% yoy in FY10 with CAGR growth of 26% over FY05-11. We expect MFL to continue to grow at 30% for FY12 with a CAGR of 29% in FY11-13E.

NIMs remain stable

NIMs for FY11 stood at 5% as compared to 5.1% in FY10. This is due to increase in interest rates in last fiscal. We expect further rise in interest rates in the current quarter and to stabilize in 2HFY11. NIMs to remain at 5.1% for FY12E and 5.2% in FY13E.

Highest efficiency till date resulting in lower write offs

Collection efficiency has touched historic high at 102% in FY11 as compared to 100% in FY10 and 98% in FY11 and improvement in asset quality with write offs at 0.24% for FY11 vs 0.46% in FY11.

Improved return profile

ROAA has improved to 2.3% in FY11 and ROAE to 26% as compared to 1.8% and 22% in FY11. This is due to strong growth in bottom line of 71% yoy in FY11 and 70% in 4QFY11.

Adequately capitalized

Capital adequacy stood at 18.2% in FY11 which is above the norms of RBI. We expect the company to raise capital in FY12 to support the targeted growth.

Valuation and Outlook

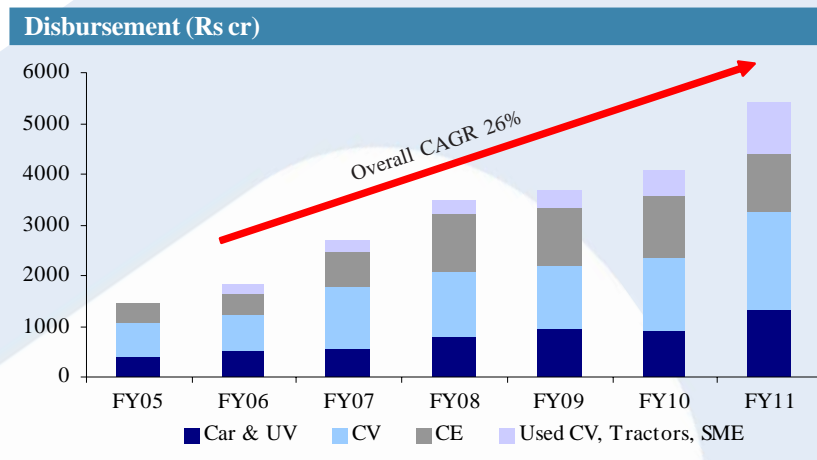
After factoring an overall consistent performance in terms of disbursements, collection efficiency, stable margins and asset quality, we believe MFL to continue to grow at 30% yoy in FY12 with CAGR of 28% in FY11-13E. At CMP of Rs 71, the stock is trading at 1x its FY12E book value of Rs 69 and 7.6x its FY12E diluted EPS of Rs 9.4, we expect the stock to trade at 1.4x its FY12E BV. **Hence we recommend to BUY the stock with the target of Rs 97.**



Magma Fincorp Ltd (MFL)

Disbursement growth continues...

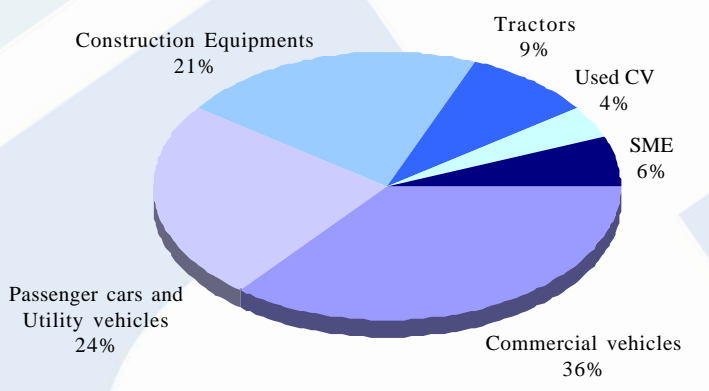
MFL has witnessed a strong growth in disbursement of 33% yoy in FY11 and 41% yoy in 4QFY11 with CAGR growth of 26% over FY05-11. In FY11, Car and UV segment has registered a growth of 43% yoy followed by commercial vehicles at 36%, High yield segment at 97% whereas CE disbursements was down by 5%. We believe MFL to continue to grow at 30% for FY12 with a CAGR of 29% in FY11-13E as the consumer spending will continue to grow and given the government spending in infrastructure, CE segment is also likely to get benefit of it.



Source: company

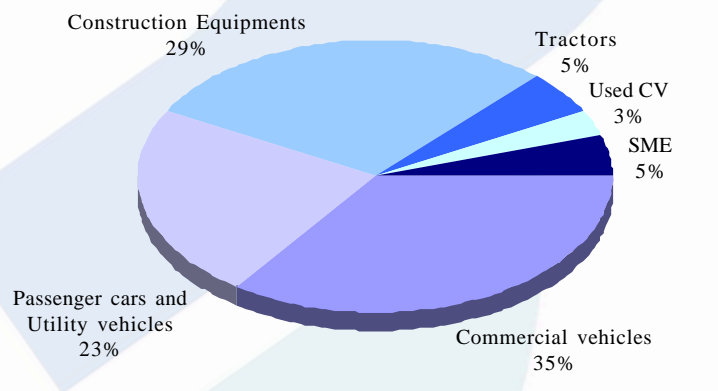
Share of high yield segments has gone up from 13% in FY10 to 19% in FY11 and the company will continue to focus on high yield segment. We expect the share of high yield segments to stabilize at 24% in FY12.

Product wise Disbursement % (FY11)



Source: Company

Product wise Disbursement % (FY10)



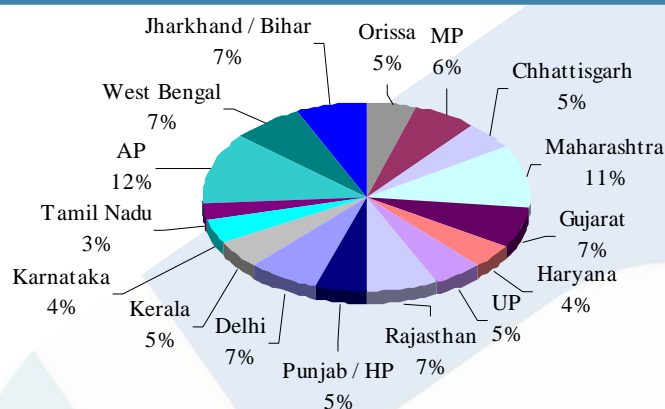
Source: Company



Magma Fincorp Ltd (MFL)

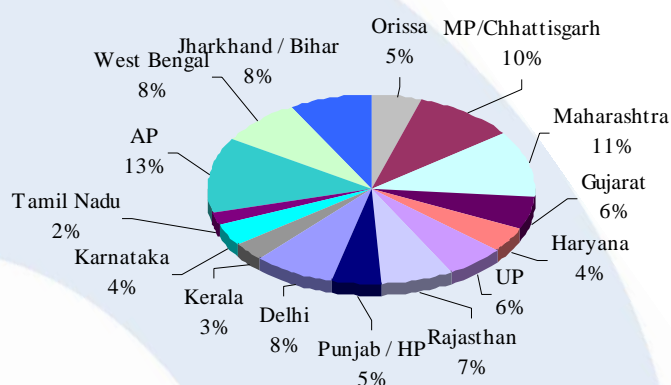
Portfolio remains well diverse with no state holding more than 12% of share. The company is targeting to increase its presence in Tamilnadu and Karnataka which holds 3% and 4% respectively.

Geographic Disbursement % (FY11)



Source: company

Geographic Disbursement % (FY10)



Source: company

Product mix remain stable, ATS of 6.8 lacs and LTV of 79% with average tenure of 40 months.

Product Profile

Products	FY10				FY11			
	ATS (Rs Lacs)	LTV %	Tenure Months	Net IRR %	ATS (Rs Lacs)	LTV %	Tenure Months	Net IRR %
CAR	2.8	67	43	13.3	3.2	67	44	13.0
CV	13.0	88	43	12.9	16.5	91	44	11.6
CE	18.3	78	35	13.6	19.3	79	36	11.9
Strategic CE	116.5	86	41	11.3	102.8	90	42	10.2
Used CV	4.0	72	33	19.7	4.7	72	32	18.2
SME Loans	17.8	NA	31	17.0	23.7	NA	33	16.2
Tractor	3.1	65	49	21.5	3.0	62	46	19.6
Total	6.8	79	40	13.8	6.8	78	41	13.2

Source: company

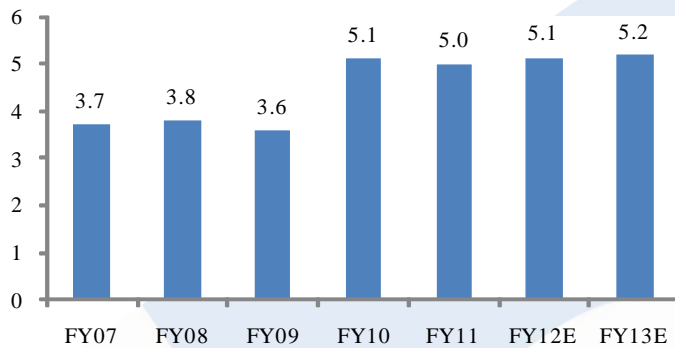
NIMs remain stable

NIMs for FY11 stood at 5% as compared to 5.1% in FY10. This is due to increase in interest rates in last fiscal. Net interest income has grown at 37% yoy in FY11 with interest expense growing at 9%. We expect interest rates to rise in the current quarter and stabilize in 2HFY11. This increase in cost will offset by increasing share of high yield segment resulting NIMs at 5.1% for FY12 and 5.2% in FY13.



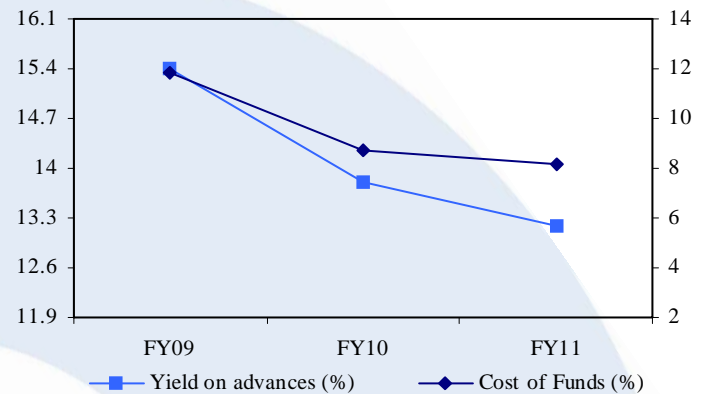
Magma Fincorp Ltd (MFL)

NIM (%)



Source: Company, Padmakshi Research.

Yield on advances and Cost of Funds (%)

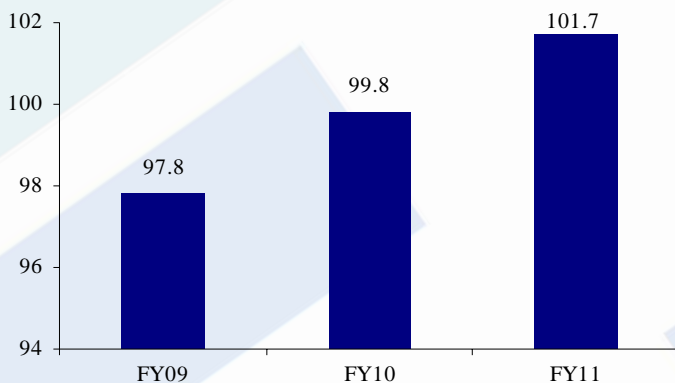


Source: Company

Highest efficiency till date resulting in lower write offs

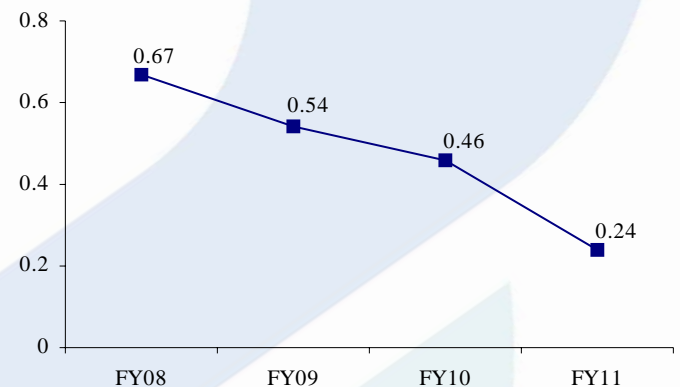
Collection efficiency has touched historic high at 102% in FY11 as compared to 100% in FY10 and 98% in FY09. As the company has strong collection system at place, we expect remain at 99%. Also MFL has shown improvement in asset quality with write offs at 0.24% for FY11 vs 0.46% in FY10.

Collection Efficiency (%)



Source: Company

Write offs (%)



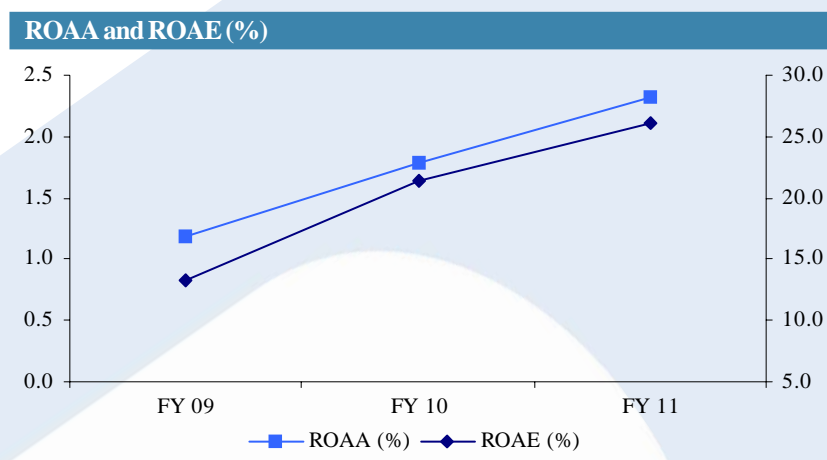
Source: Company



Magma Fincorp Ltd (MFL)

Improved return profile

ROAA has improved to 2.3% in FY11 and ROAE to 26% as compared to 1.8% and 22% in FY10. This is due to strong growth in bottom line of 71% yoy in FY11 and 70% in 4QFY11.



Source: Company

Adequately capitalized

Capital adequacy stood at 18.2% in FY11 which is above the norms of RBI. We expect the company to raise capital in FY12 to support the targeted growth.

Financial Highlights (FY11)

Financial Highlights (Rs cr)						
	Q4FY11	Q4FY10	YoY(%)	FY11	FY10	YoY(%)
Interest Income	243	200	21.7	795	648	22.8
Interest Expense	95	89	7.3	352	325	8.4
Net Interest Income	148	111	33.3	443	323	37.2
Other Income	27	18	50.8	79	75	4.5
Net Income	175	129	35.7	522	398	31.0
Total Income	270	217	24.1	874	723	20.9
Total Expenses	95	72	31.2	304	247	23.2
Pre Provision Profit	80	56	41.5	218	151	43.9
Provisions	14	14	-2.1	36	41	-12.7
Profit Before Tax	66	42	56.2	182	111	64.7
Tax	21	16	32.9	60	39	53.7
Profit After Tax	45	26	70.1	122	72	70.8
EPS	3	2	38.6	8	6	44.8



Magma Fincorp Ltd (MFL)

Valuation and Outlook

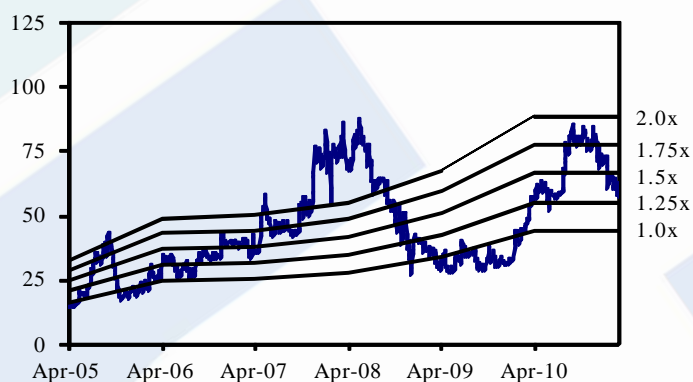
After factoring an overall consistent performance in terms of disbursements, collection efficiency, stable margins and asset quality, we believe MFL to continue to grow at 30% yoy in FY12 with CAGR of 28% in FY11-13E. We expect the further rise in interest rates and which will get normalized by increase in share of high income segment. At CMP of Rs 71, the stock is trading at 1x its FY12E book value of Rs 69 and 7.6x its FY12E EPS of Rs 9.4, we expect the stock to trade at 1.4x its FY12E BV. **Hence we recommend to BUY the stock with the target of 97.**

Peer Comparison

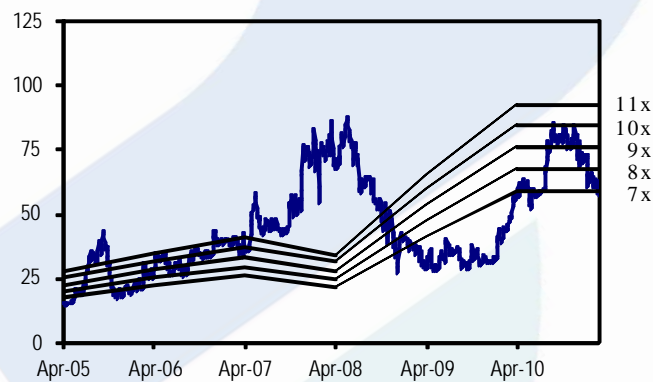
Company	CMP	Book Value		P/BV		EPS		P/E	
		FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Magma Fincorp	71	69	84	1.0	0.8	9.4	12.3	7.6	5.8
Mahindra Finance*	802	306	365	2.6	2.2	60.0	73.0	13.4	11.0
Shriram Transport*	813	255	319	3.2	2.5	66.0	84.0	12.3	9.7
Shriram City Union*	598	292	360	2.0	1.7	61.0	77.0	9.8	7.8

Source: *Bloomberg estimates, Padmakshi Research.

PBV



PE





Magma Fincorp Ltd (MFL)

Balance Sheet (Rs Cr)				
	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	22	26	32	32
Reserves	345	545	868	1058
Shareholders Funds	367	571	900	1090
Loan Funds	3770	4743	5994	7249
Current Liabilities	535	558	604	659
Total Liabilities	4663	5892	7499	8998
Assets				
Net Fixed Assets	208	187	191	208
Investments	19	11	27	43
Assets On Finance	3301	4514	5920	7183
Cash & Bank Balance	971	1008	1159	1332
Loans & Advances	164	171	201	231
Total Assets	4663	5892	7499	8998

Income Statement (Rs Cr)				
	FY10	FY11	FY12E	FY13E
Interest Income	648	795	1013	1277
Interest Expenses	325	352	419	518
Net Interest Income	323	443	594	759
Non Interest Income	75	79	83	87
Net Income	398	522	677	846
Total Income	723	874	1096	1364
Total Expenditure	247	304	377	465
Provisions	41	36	46	62
PBT	111	182	254	319
Tax	39	60	85	108
% Tax Rate	0	0	0	0
PAT	72	122	169	210



Magma Fincorp Ltd (MFL)

Valuation Ratios				
	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	5.8	8.4	9.4	12.3
Book Value (Rs)	34	44	69	84
P/E (x)	9.7	8.5	7.6	5.8
P/BV (x)	1.7	1.6	1.0	0.8
Mcap/Total Income (x)	0.9	1.1	0.8	0.7
Growth Y-o-Y (%)				
Disbursement	11	33	30	27
Assets	44	26	27	20
Net Interest Income	15	37	34	28
Net Profit	79	71	38	25
Return Ratios (%)				
ROA	1.8	2.3	2.5	2.6
ROE	21.4	26.0	23.0	21.1
Yield / Margin (%)				
Yield on Funds	13.8	13.2	13.1	13.3
Cost of Funds	8.7	8.2	8.0	8.1
Net Interest Margin	5.1	5.0	5.1	5.2
Net Profit Margin	9.9	14.0	15.4	15.4
Other Ratios (%)				
CAR	15.0	18.2	17.3	15.5
Cost / Income	62	58	56	55
Interest Expense / Interest Income	50	44	41	41
Net Interest Income / Net Income	81	85	88	90



Magma Fincorp Ltd (MFL)

TEAM

Rohit Chothani	Chairman	rohit@padmakshi.com
Chetan Thakkar	Managing Director	chetan@padmakshi.com
Sailav Kaji	Director Institutional Equities & Chief Strategist	Sailavk@padmakshi.com
Amal Tanna	Director Institutional Sales	amal.tanna@padmakshi.com

RESEARCH

Anand Kuchelan	Vice President - Research	anandk@padmakshi.com
Kusal Kansara, CMT	Chief Technical Analyst	kusal.kansara@padmakshi.com
Rishabh Bagaria	Senior Research Analyst	rishabh@padmakshi.com
Vishal Narnolia	Research Analyst	vishal.narnolia@padmakshi.com
Yogesh Hotwani	Research Analyst	yogesh.hotwani@padmakshi.com
Punita Thakker	Research Analyst	punita.thakker@padmakshi.com

DEALING

Hemali Thakker	Senior Dealer	hemali@padmakshi.com
Jaiprakash Purohit	Senior Dealer	jaiprakash@padmakshi.com
Darshana Siddhapura	Dealer	darshana@padmakshi.com

DISCLAIMER

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report. This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Padmakshi. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance. This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed herein reflect judgments at this date and are subject to change without notice. Padmakshi and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, Padmakshi has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Padmakshi nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Padmakshi prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Padmakshi recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser.

Padmakshi shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations



Padmakshi

Financial Services

36/96/98, Maker Towers F, 9th Floor, Cuffe Parade, Mumbai 400 005.
Tel : +91 22 40020964 Email : research@padmakshi.com