



## Magma Fincorp Ltd. Q4 FY17 Result Update

### MARKET DATA

Networth (₹Cr)	2,172
P/BV Ratio (FY17) (x)	1.15
EPS (FY17) (₹)	0.5
Market Price (₹)	131
P/E Ratio (FY17) (x)	197
52 Week High (12/05/2017)	137
52 Week Low (9/11/2016)	87
Market Capitalisation (₹Cr)	3,096

### AVERAGE MONTHLY VOLUME ('000)

BSE	111
NSE	691

### SHAREHOLDING PATTERN (Mar-17)

Promoters	Institutions	Others
27.8%	49.3%	22.9%

### INDEXED PRICE CHARTS (3 years)



RETURN	3M	6M	12M
Stock	33	37	44
Sensex	8	17	19

In Q4 FY17, Magma Fincorp reported a loss of Rs. 122crs (Rs. 67crs profit y-o-y) largely due to higher provisions (223% y-o-y) and lower AUM growth (11.5% y-o-y). However, the company reported good operating performance with higher sequential NIMs and tight leash on opex despite a fall in AUM.

**Asset Quality improves excluding sales to ARC:** Most of the reduction in NPAs during the quarter is attributed towards sales to ARC which is ~Rs. 680crs at a net loss of Rs. 145crs. However, GNPA (ex- ARC sale) has improved q-o-q despite withdrawal from RBI dispensation of Rs. 100crs on the tractor portfolio last quarter. GNPA as a % of AUM dropped sharply to 6.71% from ~9.9% in Q3 FY17 despite AUM dipping by 7% on q-o-q basis (GNPA (%) on 90dpd is 2% higher).

**AUM continues to dip, however opex cost has been controlled:** Disbursements de-grew by 21% y-o-y and 12% q-o-q to Rs. 1478crs this quarter. Management guided that this is due to lagged impact of demonetization and risk aversion on management's part. AUM de-grew by 11.5% y-o-y and 7% q-o-q to Rs. 16,101crs. Management has guided AUM to marginally decline in the 1<sup>st</sup> half of FY18 and ~6% growth for FY18E. Opex to loan assets declined to 3.6x from 3.7x in Q3 FY17 despite a shrinking AUM. Management expects a marginal increase in this ratio for FY18E.

### Key Quarterly Updates & Conference Call Highlights

1. Collection efficiency improved to 102% in Q4 FY17 (99% in Q4 FY16 and 90% in Q3 FY17) due to good collection from the tractor portfolio.
2. In the longer term, management expects ~80% of the loan book to come from the focused assets (Used assets, Agri, SME & Mortgage) which are currently ~45%.
3. NIMs at 7.57% vs. 7.37% Q3 FY17 and 7.50% in Q4 FY16.
4. Credit cost (%) at 7.9% (annualized) because of Rs. 212crs of pre-tax loss on sales to ARC and ~Rs. 24crs of additional provision as migration to 90dpd NPA. Management expects credit cost to improve in FY18E despite change in the status to 90dpb NPA. GNPA in absolute terms was Rs. 1850crs in Q3 FY17 which has gone down to Rs. 1080crs in Q4 FY17.
5. Management has guided that they don't have any NPAs in the book which are more than 2 years. Average age of NPA is ~8 months after the sales of NPAs
6. Management expects to achieve an ROA of ~1.5% in the next 2 years.
7. Average ticket size of SME loans is ~Rs. 19-20 lacs and is not secured.

### Outlook and Valuation

Magma has been reeling under the asset quality pressure for the last 2-3 years. Management's conscious decision to de-grow the book has resulted in an AUM de-growth of ~18% over the last 2 years. We believe Magma is on the path of recovery and expect asset quality trends to improve going ahead with the expectation of good monsoon. However, any uptick in growth may take a little longer. For FY18E, Magma has guided a below normal AUM growth of ~6%. The stock is currently trading at TTM P/Adj. BV of 2.3x

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### Quarterly Performance:

Particulars Rs. Crs	Q4 FY17	Q4 FY16	% YoY	Q3 FY17	%QoQ	FY17	FY16	% YoY
NII	303	309	-2%	335	-10%	1281	1219	-4.8%
Other Income	13.9	13.5	3%	9.2	51%	55	34	61.3%
Operating Expense	149.2	160.9	-7%	144.1	4%	620	634	-2.1%
Pre-provisioning Profits	167.7	161.1	4%	200.1	-16%	654	681	-4.0%
Total Provisions	319.3	104.7	205%	98.6	224%	607	375	61.8%
PBT	-151.6	56.4	-369%	101.5	-249%	47	306	40.3%
Taxes	-29.6	19.9	-249%	35.6	-183%	34	92	-63.1%
PAT	-122	36.5	-434%	65.9	-285%	12.7	214	-94.1%



**Key Financials**

**Profit & Loss**

(Rs. Cr.)	FY15	FY16	FY17
Interest Earned	2,354	2,472	2,345
Interest expended	1,233	1,192	1,125
Net Interest Income	1,121	1,281	1,219
Other Income	32	34	55
Net Total Income	1,153	1,315	1,274
Operating Expenses	685	634	620
Pre-provisioning Profits	468	681	654
Provisions	244	375	607
PBT	223	306	47
Taxes	36	92	34
PAT	187	214	13

**Key Ratios**

Particulars	FY15	FY16	FY17
EPS	9.0	8.7	0.5
BV	87	91	92
Adj. BV	66	50	57
<b>Key Ratios</b>			
NIMs (%)	6.2	6.97	7.43
Opex to Loan Assets (%)	3.7	3.36	3.62
Credit cost (%)	2.0	2.7	4.7
ROA (%)	1.3	1.4	0.1
ROE (%)	12.3	11.2	0.6
<b>Asset Quality</b>			
G.NPA %	3.9*	8.1	6.7
N.NPA %	3.0*	6.4	5.6
<b>Valuation Ratios</b>			
P/E (x)	10.48	8.49	197
P/BV	1.08	0.82	1.15
P/ABV	1.43	1.49	1.85

\*Note – GNPA of FY15 on 180dpd, For FY16 & FY17, it is 120dpd

**Balance Sheet**

(Rs. Cr.)	FY15	FY16	FY17
<b>LIABILITIES</b>			
Share Capital	38	47	47
Reserves and Surplus	1,617	2,104	2,125
Net Worth	1655	2,151	2,172
Minority Interest	40	42	34
Preference Capital	133	13	-
Borrowings	11,714	11,889	10,096
Other Liabilities	1,341	1,428	1,293
<b>Total</b>	<b>14,883</b>	<b>15,523</b>	<b>13,595</b>
<b>ASSETS</b>			
Loan Assets	13,274	14,099	11,968
Fixed Assets	198	234	218
Other Assets	774	762	961
Cash & Bank Balance	636	429	448
<b>Total</b>	<b>14,882</b>	<b>15,524</b>	<b>13,595</b>



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