

Magma Fincorp

Refer to important disclosures at the end of this report

Collections revive but asset-quality risks persist

CMP: Rs 42
as of (November 9, 2020)

TP: Rs 42 (▲)
12 months

Rating: HOLD (■)

Upside: 1.5 %

- Magma reported a PAT of Rs381mn (+28.9% yoy, 1% qoq), with a decline in AUM (-5.4% yoy) and disbursements (-18.2% yoy). However, a sequential revival was clearly visible. The company is fairly placed on the liquidity front, with Rs22bn of surplus liquidity. NIMs improved in Q2 by ~90bps due to stable yields and a decline in the cost of funds.
- The company has reported an improvement in collections to ~90% in Oct'20. However, customers who availed moratorium and have not paid September EMI stood at Rs14.98bn (9.6% of AUM), which remains a concern. Credit cost stood at ~338bps, including an additional Covid-19 provision of Rs0.5bn. Buffer Covid provision stands at ~1.5% of AUM.
- Magma Housing Finance, a 100% subsidiary, has initiated action for raising capital with the aim of exploring growth opportunities. The capital raising should improve the company's leverage and reduce cost of funds further. This is also in sync with the RBI's directive of reducing holding company ownership. We will await more updates about this.
- We believe that Magma will return to its growth path in FY22E, while asset-quality risks will persist. We increase FY21/FY22 EPS estimates by ~16.8/15.4%. We maintain our Hold rating on attractive valuations, with a TP of Rs42 (Rs31 earlier), corresponding to ~0.4x P/Adj. book Sep23E.

Disbursements/collections improve; AUM growth to remain subdued: Q2 was a recovery quarter with disbursements picking up in used assets and affordable housing. The company reported an improvement in collections to 85% in Sep'20 and 90% in Oct'20. It expects a 70bps reduction in its operating expenses in the year, of which 40bps is sustainable due to the structural changes undertaken, whereas 30bps is expected come back with the return to normalcy by Q4FY21.

Over 90% of morat customers paid Sep'20 EMIs and over 96% have paid at least one EMI in Sep/Oct'20.

We are confident about management's ability to grow the SME and mortgage businesses (the new business focus lines). We believe that the growth outlook in ABF is a bit uncertain following the departure of the CEO. Factoring in the run-down of cars/CV/CE book, slowing consumption and challenging liquidity conditions, we maintain low AUM growth expectations at ~3% CAGR over FY20-23E.

Outlook and valuations: In view of the uncertainties, we keep our loan growth expectations realistic despite attractive valuations. Considering the run-down of the traditional book, despite the normalization in demand, we believe that AUM growth pressure is here to stay. We increase FY21/22 EPS estimates by ~16.8/15.4%. We maintain Hold and UW position in EAP, with a TP of Rs42 (Rs31 earlier), corresponding to ~0.4x P/Adj. book FY23E. Key risk to our call is a positive surprise on the asset-quality front.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 6\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	13,912	12,804	11,712	11,781	12,059
Net profit	3,040	271	1,308	1,953	2,193
EPS (Rs)	11.3	1.0	4.9	7.3	8.2
ABV (Rs)	89.8	86.1	90.3	98.5	106.9
RoA (%)	1.9	0.2	0.8	1.2	1.4
RoE (%)	12.9	1.0	4.7	6.6	7.0
PE (x)	3.7	41.5	8.6	5.8	5.1
P/ABV	0.5	0.5	0.5	0.4	0.4

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	17/15
Target Price change (%)	35.4
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	4.9	7.3
Consensus	2.9	4.8
Mean Consensus TP (12M)	Rs 41	

Stock Details

Bloomberg Code	MGMA IN
Face Value (Rs)	2
Shares outstanding (mn)	270
52 Week H/L	71 / 13
M Cap (Rs bn/USD bn)	11 / 0.15
Daily Avg Volume (nos.)	14,20,376
Daily Avg Turnover (US\$ mn)	0.7

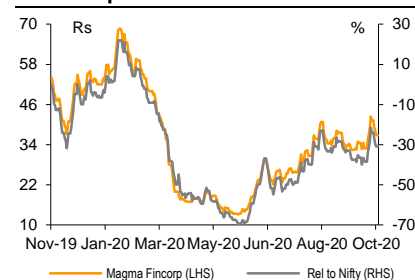
Shareholding Pattern Jun '20

Promoters	24.4%
FIIIs	32.3%
DIIIs	26.9%
Public and Others	16.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	28	34	159	(15)
Rel. to Nifty	22	23	96	(17)

Relative price chart



Source: Bloomberg

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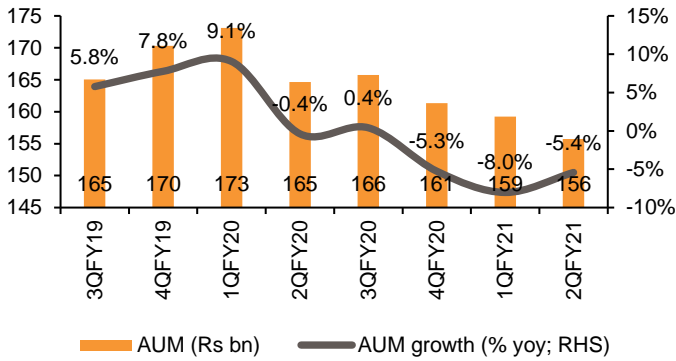
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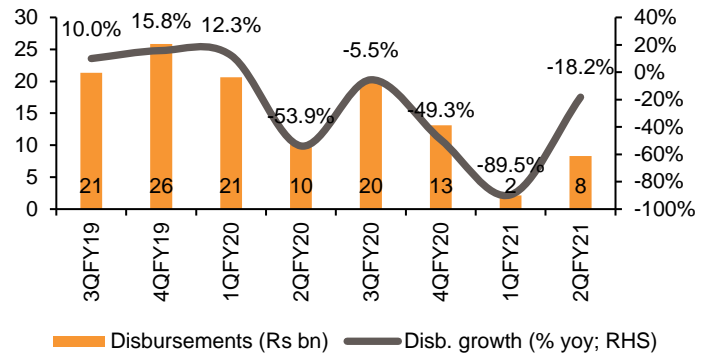
Story in Charts

Exhibit 1: AUM declines ~5.4% in Q2 on improvement in collections



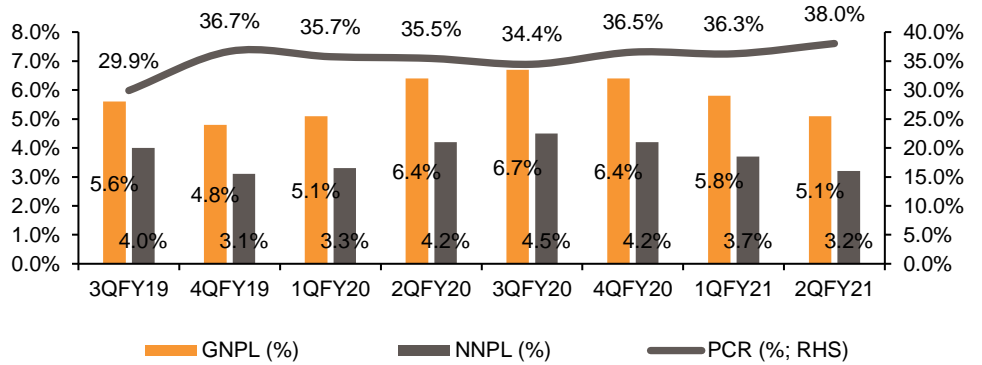
Source: Company, Emkay Research

Exhibit 2: Disbursements recover sequentially



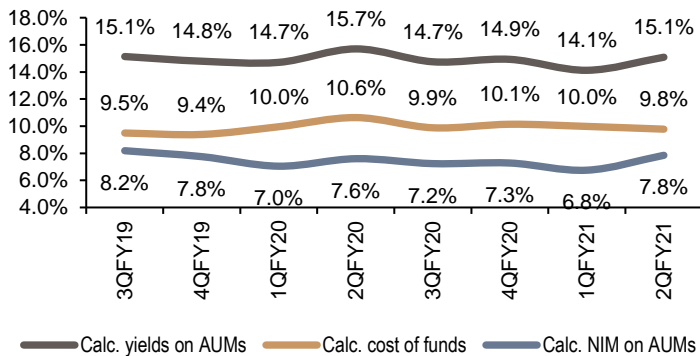
Source: Company, Emkay Research

Exhibit 3: Asset standstill keep GNPLs under check



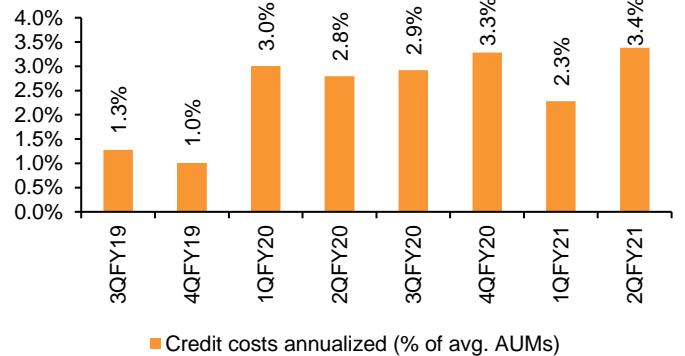
Source: Company, Emkay Research

Exhibit 4: Yields and NIMs expand with reduction in cost of funds



Source: Company, Emkay Research

Exhibit 5: Credit costs increase by 110bps



Source: Company, Emkay Research

Exhibit 6: Actual vs. Estimates (Q2FY21)

Rs mn	Actual	Estimate		% variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	3,090	2,689	2,845	14.9%	8.6%	Better spreads than anticipated
PPOP	1,797	1,192	1,384	50.8%	NA	Better cost controls than expected
PAT	381	177	313	115.2%	21.6%	Higher provisioning than expectation

Source: Company, Emkay Research

Exhibit 7: Quarterly financials

Particulars (Rs mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	% yoy	% qoq	FY20	FY21E	% yoy
Operating Income	6,628	6,091	6,103	5,659	5,939	-10.4%	4.9%	25,742	23,274	-9.6%
Interest Expenses	3,420	3,103	3,127	2,954	2,849	-16.7%	-3.5%	12,938	11,562	-10.6%
Net Operating Income	3,208	2,987	2,976	2,705	3,090	-3.7%	14.2%	12,804	11,712	-8.5%
Operating Expenses	1,746	1,736	1,705	1,391	1,380	-21.0%	-0.8%	6,959	6,093	-12.4%
Operating Profit	1,558	1,485	1,344	1,354	1,797	15.4%	32.7%	5,845	5,619	-3.9%
Provisions	1,181	1,206	1,342	914	1,330	12.7%	45.5%	5,018	4,091	-18.5%
% of operating profit	75.8%	81.2%	99.8%	67.5%	74.0%	-2.4%	9.6%	85.8%	72.8%	
Profit Before Tax from core biz	377	278	2	440	468	23.9%	6.2%	828	1,528	84.6%
Op. results from Gen. Ins. Biz	30	17	-43	30	37	21.0%	23.3%	-10	160	-1688.6%
Profit Before Tax	408	296	-41	470	504	23.7%	7.2%	818	1,688	106.4%
Tax	112	72	314	93	124	10.1%	33.0%	547	380	-30.6%
Reported PAT (after MI)	295	224	-355	377	381	28.9%	0.9%	271	1,308	383.6%
Gross NPA (%)	6.4%	6.7%	6.4%	5.8%	5.1%			6.4%	7.1%	
Net NPA (%)	4.2%	4.5%	4.2%	3.7%	3.2%			4.2%	3.5%	
Provision coverage ratio (%)	35%	34%	37%	36%	38%			37%	67%	
AUM (Rs mn)	1,64,630	1,65,740	1,61,340	1,59,220	1,55,710	-5.4%	-2.2%	1,61,340	1,57,787	-2.2%

Source: Company, Emkay Research

Exhibit 8: Revision in earnings estimates

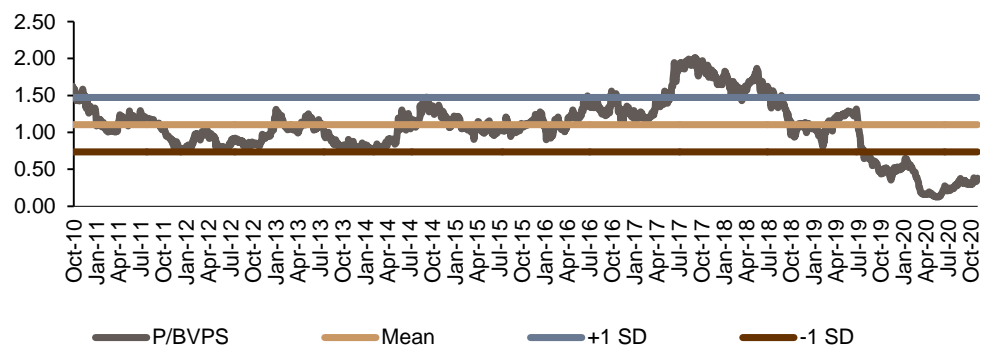
Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	10,476	11,165	6.6%	10,261	11,179	9.0%	11,177	11,397	2.0%
PPOP	5,018	5,619	12.0%	4,859	5,384	10.8%	5,183	5,212	0.6%
PAT	1,120	1,308	16.8%	1,691	1,953	15.4%	1,943	2,193	12.8%
EPS (Rs)	4.2	4.9	16.5%	6.3	7.3	15.0%	7.2	8.2	12.7%
BV (Rs)	104	107	2.1%	110	113	2.9%	118	120	1.3%

Source: Company, Emkay Research

Exhibit 9: Key assumptions

(in %)	FY20	FY21E	FY22E	FY23E
Loans growth	-9.7%	1.3%	0.3%	5.2%
Borrowings growth	-8.7%	3.1%	-2.0%	2.8%
Yield on average loans	16.8%	16.5%	16.0%	15.5%
Cost of average int. liabilities	10.3%	9.5%	9.0%	8.7%

Source: Company, Emkay Research

Exhibit 10: The stock currently trades at 0.4x 1 year forward P/B

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	11,275	12,196	11,165	11,179	11,397
Other income	2,636	608	547	602	662
Net income	13,912	12,804	11,712	11,781	12,059
Operating expenses	6,834	6,969	5,933	6,237	6,687
Pre provision profit	7,078	5,835	5,779	5,544	5,372
Provisions	2,654	5,018	4,091	3,024	2,543
Profit before tax	4,424	818	1,688	2,520	2,829
Tax	1,384	547	380	567	637
Tax rate	31	67	23	23	23
Profit after tax	3,040	271	1,308	1,953	2,193

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	539	539	539	539	539
Reserves	26,900	26,941	28,087	29,796	31,664
Net worth	27,439	27,480	28,626	30,335	32,203
Borrowings	1,31,331	1,19,870	1,23,547	1,21,135	1,24,581
Total liabilities	1,67,893	1,52,397	1,57,473	1,57,035	1,62,627
Cash and bank	9,568	7,083	10,231	9,025	6,934
Investments	1,411	1,506	1,235	1,211	1,246
Loans	1,50,176	1,35,465	1,37,275	1,37,654	1,44,862
Others	4,850	6,002	6,226	6,464	6,717
Total assets	1,67,893	1,52,397	1,57,473	1,57,035	1,62,627

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	6.9	7.4	7.0	7.0	6.8
RoA	1.9	0.2	0.8	1.2	1.4
RoAE	12.9	1.0	4.7	6.6	7.0
GNPA (%)	5.0	6.7	8.1	9.3	9.8
NNPA (%)	3.2	4.3	4.1	3.6	3.1

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	11.3	1.0	4.9	7.3	8.2
BVPS	102.1	102.3	106.5	112.9	119.9
ABVPS	89.8	86.1	90.3	98.5	106.9
DPS	0.8	0.0	0.5	0.8	1.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	3.7	41.5	8.6	5.8	5.1
P/BV	0.4	0.4	0.4	0.4	0.3
P/ABV	0.5	0.5	0.5	0.4	0.4
Dividend Yield (%)	1.9	0.0	1.2	1.8	2.4

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	11.8	8.2	(8.5)	0.1	1.9
PPOP	16.6	(17.6)	(1.0)	(4.1)	(3.1)
PAT	28.3	(91.1)	383.6	49.2	12.3
Loans	10.6	(9.8)	1.3	0.3	5.2

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
NII	3,208	2,987	2,976	2,705	3,090
NIM(%)	7.6	7.2	7.3	6.8	7.8
PPOP	1,588	1,502	1,301	1,384	1,834
PAT	295	224	(355)	377	380
EPS (Rs)	1.10	0.83	(1.32)	1.40	1.41

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	24.4	24.4	24.4	24.4	24.4
FII	38.9	38.5	37.3	37.1	32.3
DII	25.3	29.7	29.6	29.5	26.9
Public and Others	11.4	7.4	8.7	9.1	16.4

Source: Capitaline

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	7.98	7.98	0%	0	100.00
Bajaj Finance	1.48	1.48	0%	0	18.53
Cholamandalam Investment	0.18	0.18	5%	1	2.31
Edelweiss Financial Services	0.04	0.00	-100%	-4	0.00
HDFC	5.67	5.79	2%	12	72.56
L&T Finance Holdings	0.06	0.06	0%	0	0.80
LIC Housing Finance	0.14	0.14	0%	0	1.70
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.11	0.00	-100%	-11	0.00
Nippon Life	0.06	0.07	21%	1	0.94
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.23	0.25	8%	2	3.17
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

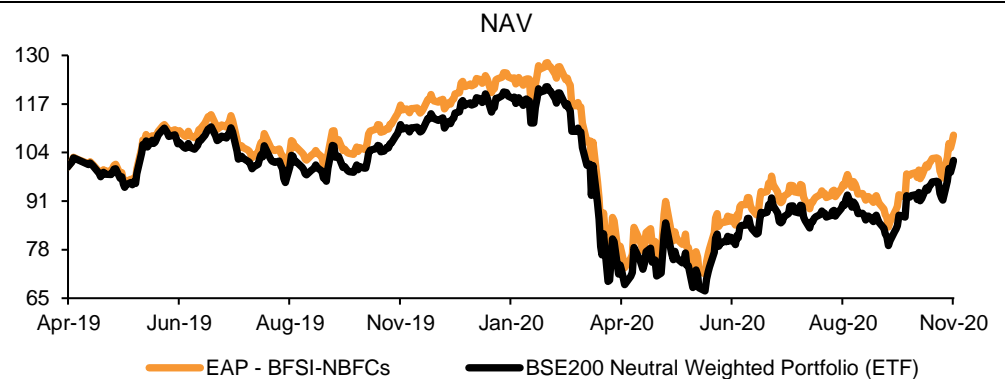
Sector portfolio NAV

	Base					Latest
	01-Apr-19	07-Feb-20	08-May-20	07-Aug-20	07-Oct-20	06-Nov-20
EAP - BFSI-NBFCs	100.0	126.3	80.6	92.0	97.9	108.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	120.2	75.5	86.8	92.0	101.9

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 10 Nov 2020 01:40:28 (SGT)

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