



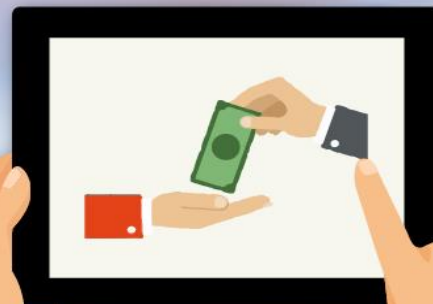
SYSTEMATIX GROUP™

Investments Re-defined

FUNDAMENTAL

CALL

Magma Fincorp Ltd.





Magma Fincorp Limited

NBFC

STOCK IDEA

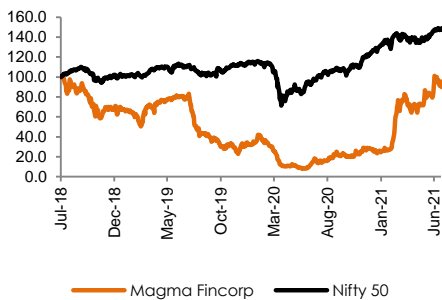
Rating: BUY

Date	06-July-21
CMP	INR 157
Target Price	INR 190
Potential Upside	22%

Market Data	
O/S Shares (In Cr)	76
Mkt Cap (INR Cr)	11,939
52 Wk H/L (INR)	174/22
3M Volume Avg ('000)	1,966
Face Value	2
Bloomberg Code	MGMA IN

BSE Sensex	52,880
NSE Nifty	15,834

Comparative Price Chart



Shareholding Pattern

Particulars	May 21	Mar 21	Dec 20
Promoters	73.3	24.4	24.4
FII	5.3	18.9	20.5
DII	9.9	29.8	34.6
Others	11.5	26.9	20.5

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Key Financials

Particulars (INR Cr)	Interest Income	Net Interest Inc	NIM (%)	PAT	EPS (INR)	P/BV (x)
FY23E	2,765	1,891	10.1%	721	9.4	1.66
FY22E	2,422	1,579	10.0%	616	8.1	1.85
FY21	2,319	1,218	8.0%	-559	-20.7	1.87
FY20	2,513	1,220	7.4%	27	1.0	1.49
FY19	2,455	1,332	8.1%	304	11.3	1.49

Magma Fincorp Limited (MFL), a Mumbai-based non-deposit taking NBFC is registered with the Reserve Bank of India (RBI). Magma Fincorp Limited (formally known as Magma Leasing Limited) was incorporated in 1988 by Mr. Mayank Poddar and Mr. Sanjay Chamria. The company is a financial conglomerate and offers a bouquet of financial products including commercial finance, agri finance, SME finance, mortgage finance and general insurance. MFL is focused on the rural and semi-urban sector with a widespread coverage and presence across 21 States 297 Branches. The company has strong presence in semi-urban (~43% share) and rural areas (25% share). This is a great mix to have for an NBFC, as the growth will be driven from the interiors areas. MFL's customer base stood at 5.4 million and manages a loan book of INR 14,225 crore as on 31st Mar 21. Subsequent to the capital raise of INR 3,456 Crore in May '21. Company is now part of Poonawalla Group with 60% shares owned by Rising Sun Holdings, a Company owned and controlled by Mr Adar Poonawalla. The process for rebranding of Magma Fincorp is underway and the Company would take on the Poonawalla brand upon receipt of all requisite approvals (RBI approval for name change has been received).

INVESTMENT RATIONALE

Strong Parentage and fund infusion has improved capital adequacy & credit rating

In May 21, Rising Sun Holdings, (a company owned and controlled by Mr. Adar Poonawalla) acquired 60% stake in Magma for a sum of INR 3,456 crore. With the equity infusion, MFL's net worth has sharply increased from INR 21.9 bn as on 31st Mar 21 to INR 56.5 bn on 15th May 21. This has resulted in capital adequacy ratio to substantially improve to 69.7% (vs 20.3% as on 31st Mar 21 with leverage standing at 1.3x. The fund infusion will allow the company to invest in Magma's housing finance unit and general insurance JV. With regard to the cost of funds, it is currently higher at 10% (vs 7% cost of funds incurred by the industry's best). The backing of a strong corporate group like Poonawalla along with higher capital adequacy and lower leverage is expected to have a positive effect on the credit rating of MFL and thereby reduce the cost of funds resulting in higher profitability.

Prudent provisioning and accelerated write offs to improve Asset quality

The company has adopted one of the most conservative policy in the industry for technical write-offs effective Q4FY21 by accelerating write-offs of INR 2.74bn and created Covid 2.0 contingency buffer of INR 6.2bn. ECL provisioning stands at 9.5% of AUM with net stage-3 at a mere 1.2% reflecting upfront provisioning of a larger part of the stress. It will also provide ability to have buffer provision cover as a prudent measure. As a result, in Q4FY21 the company reported consolidated loss of INR 6.5bn despite steady operating profit of INR 1.9bn. The prudent provisioning is in line with MFL vision 2025 to become a leading and most trusted NBFC for consumer and business financing

Realignment of product suite to focus on high yielding products

Magma will be realigning its product suite wherein, the riskier products such as used CE, CV, Auto lease funding will be discontinued while high yielding products such as affordable home loan, Small ticket LAP (Loan against property) will be continued. The fresh product suite would enable the company to focus on healthy IRR, Risk adjusted Return on Capital (RaRoC) and cross-sell opportunities. MFL will also be entering into segment such as Loans to professionals, Personal loans, Non-affordable housing loans & SME LAP by leveraging on Poonawalla Finance's strong experience in this segment.

Valuation and Outlook:

Magma Fincorp is well poised to embark on a journey of profitability on the back of robust capital adequacy and liquidity. Strong corporate backing of Poonawalla group led by its flagship company; Serum Institute of India Pvt Ltd (rated CARE AAA; Stable/CARE A1+) and substantial fund infusion is likely to have a positive effect on the credit rating of MFL. Higher CAR would enable the company to undertake more business and provide a cushion against delinquencies and other credit risks associated with the business. Realignment of Product Portfolio will ensure healthy return ratio and cross-sell opportunities. We expect NIM to expand by 207 bps over FY21-23E on the back of easing of cost of funds. The company is currently trading at a P/BV of 1.87x on FY21 BV. By applying a P/BV of 2.1x on FY23E BVPS, we arrive at a target price of INR 190 per share which is an upside of 22% to CMP. Hence, we recommend a 'BUY' on the shares of MFL.

Equity infusion has resulted in the Tier-1 capital adequacy ratio to increase to 66.8% vs 20.3% as on 31 Mar -21

Management is targeting to triple the AUM from current INR 14,225 Cr to ~INR 45,000 Cr by FY25.

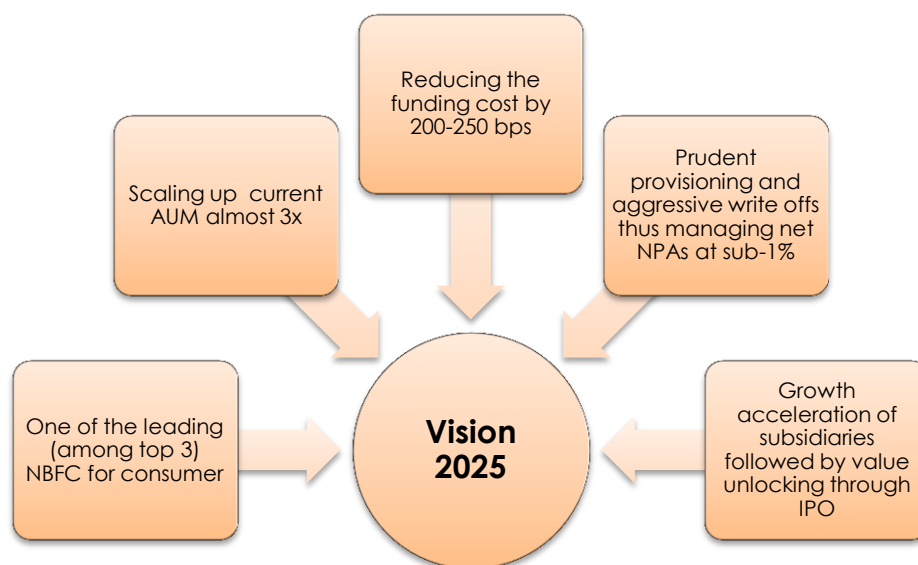
Through a new set of leadership team, the company is setting the foundation for a strong & stable organization in the future.

Capital Infusion through Rising Sun Holdings makes Magma highly capitalized NBFC

On 6th May 21, Rising Sun Holdings Private Limited (owned and controlled by Mr. Adar Poonawalla) acquired 60% stake in MFL through an equity infusion of INR 3,456 crore. With this, Magma Fincorp is now a subsidiary of Rising Sun Holdings. As part of the deal, MFL allotted 458 million shares to Rising Sun Holdings, and 35 million shares to Sanjay Chamria and Mayank Poddar (existing board members). MFL's total net worth as of Mar'21 stood at around Rs 2,194 crore, which increased to INR 5,650 crore. The fund infusion will allow the company to invest in Magma's housing finance unit and general insurance JV. Strong corporate backing and substantial fund infusion will have a positive effect on the credit rating of Magma. The rebranding of the Company as a Poonawalla Group firm is also underway and the Company would take on the Poonawalla brand upon receipt of all requisite approvals (RBI approval for name change has been received)

Poonawalla Finance is an existing finance company owned by the Poonawalla family, which owns and controls Serum Institute of India. The existing financial services business of Poonawalla Finance would be consolidated into MFL and the final financial entity will be called Poonawalla Finance.

Tripling AUM by FY25, to be among top 3 NBFC as per New management's 2025 vision



Source: Systematix Research, Company Filings

Accelerating growth in subsidiary business through capital infusion

Magma Fincorp has infused INR 5bn of equity into Magma HFC as of May 31, 2021, increasing net worth of the HFC to around INR 100bn. Capital infusion has improved Tier-1 ratio to ~53.3% with leverage standing at 2.5x. It has presence in affordable housing loans and is also planning to enter in non-affordable housing loan as cost of funds has been reduced. Management mentioned that the new capital will help the HFC grow faster and accelerate the timeline for listing of the company.

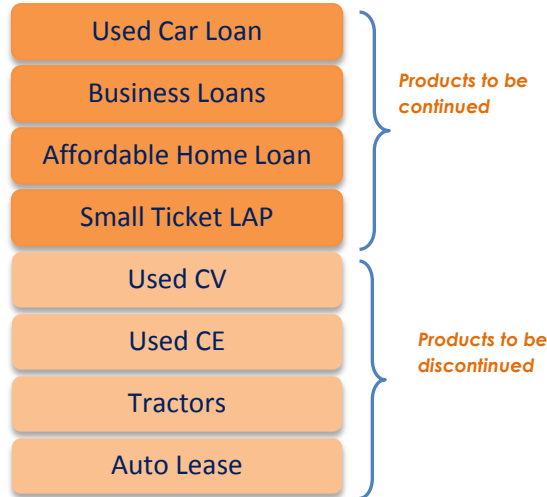
The franchise announced a fund-raising of INR 5.25bn. Fresh capital infusion of Rs.2.5bn by ICICI Ventures and Morgan Stanley PE Asia and secondary sale by existing promoter of INR 2.75bn. The infusion would be value-accretive and improve the solvency ratio.

High yielding products from the Magma product profile will be continued while riskier businesses such as Used CV/CE and tractors financing space to be discontinued.

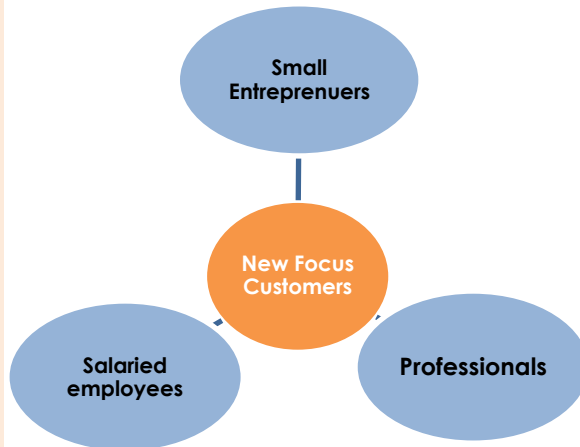
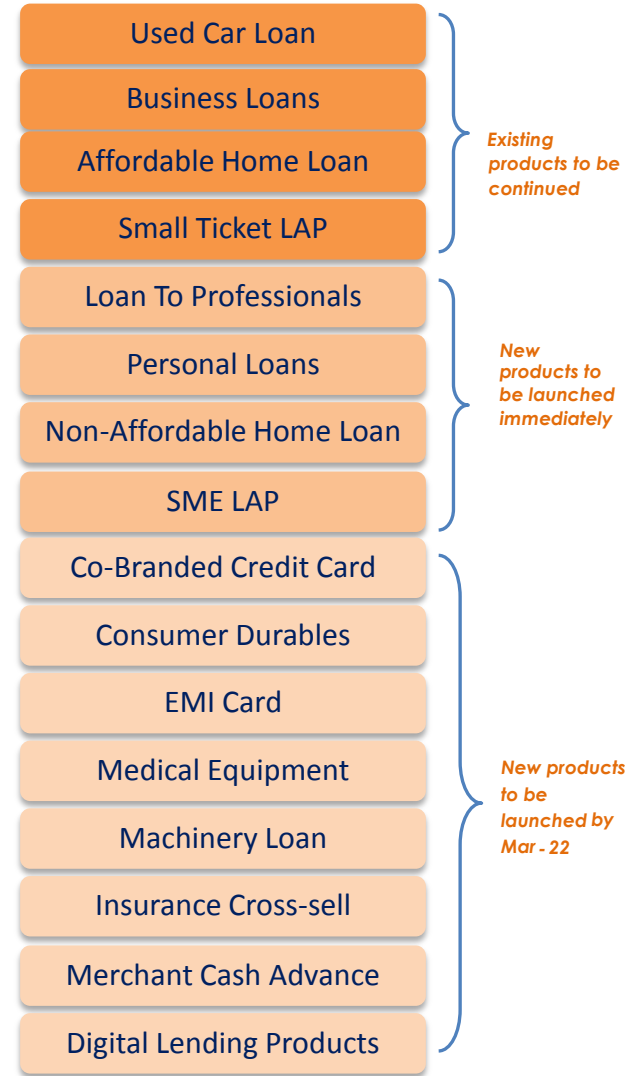
Poonawalla Finance Pvt. Ltd. is already experienced in loans to professionals and PL, and has a loan book of Rs12bn which will be merged with Magma Fincorp

Poonawalla Brand with lower cost of fund & high liquidity to provide benefits of a larger scale in order to accelerate growth & result in superior ROA/ROE

Existing Product Suite under Magma



Revised Product Suite under Poonawalla brand



Source: Systematix Research, Company Filings

Realignment of Product Portfolio With Focus On Healthy IRR and Cross-Sell Opportunities

Magma Fincorp Limited has a diversified product portfolio comprising utility vehicles/cars, Commercial Vehicles (CV), Construction Equipment (CE) & used assets, Agricultural Finance, SME loans, affordable housing, and loan against property (LAP). Post the acquisition by Poonawalla group, Magma has realigned its product and geographic strategy towards select consumer and small/medium business segments with focus on healthy IRR, Risk adjusted Return on Capital (RaRoC) and cross-sell opportunities. Loans to professionals, Personal loans, Non-affordable housing loans & SME LAP (ticket size between INR 25 lakhs to INR 2 crores) will be launched once technology integration is completed with Poonawala group finance company (which has already these type of loans in their product portfolio). By March 22, it will further look to venture into co-branded credit card, consumer durables financing, EMI card, medical equipment and insurance cross-sell.

The new product profile will be designed in such a way wherein those products yielding low RoA such as Used CVs/Ces, tractors and Auto lease will be discontinued. Thus, the transformed product suite would enable the company to enter an arena of select, higher quality customers, catapulting the company towards enhanced growth and superior RoE accretion.

MFL holds cumulative provisions of Rs11.92bn (11.4% of AUM) as of Q4FY21, which provides comfort for future uncertainty.

Collection efficiency (CE) of 101.8% in Mar'21 vs 84% in Sept 20

Coverage ratio for both Stage 1 and 2 assets and Stage 3 assets stands robust at 7.2% vs 2.2% in Mar-20 and 68.6% vs 36.5% respectively

Revised write-off policy

Product segment	Product(s)	Earlier write-off policy	Revised write-off policy
Asset Backed Finance (ABF)	Cars, CV, CE, Auto Lease, Used Assets, Agri	730+ DPD	180+ DPD
SME	Unsecured loan	450+ DPD	90+ DPD
Mortgage	Affordable Housing Finance	Case to case basis	730+ DPD

*DPD-Days Past Due

Source: Systematix Research, Company Filings

Acceleration of write offs and prudent policy to improve asset quality

Company has accelerated the write-offs adopting a conservative policy effective Q4FY21 where write-offs for asset-backed finances (car, CV, CE, used assets etc.) loans was done to accounts getting 180+dpd from earlier 730+dpd, for SME unsecured loans at 90+dpd vs earlier 450+DPD and affordable home loans at 730+ dpd. This has resulted in one time write off of INR. 2.75 bn (1.9% of AUM) in Q4FY21. The company has created management overlay provision of INR 6.2bn (4.4% of AUM) in Q4FY21 on account of Covid-19 second wave with a provision coverage of 68.6%, which is expected to normalize in FY22. The company also holds cumulative provisions of Rs11.92bn (11.4% of AUM) as of Q4FY21, which provides comfort for future uncertainty.

Focus on efficient collections resulted in Collection efficiency (CE) of 101.8% in Mar'21 vs 84% in Sept 20. Q4FY21 CE neared normalization at 99%. However, the trend slowed with April recording 84% CE due to Covid second wave. Currently 40-50% of customers collection is done in cash. With digitisation, company is looking at 100% digital collection which will help reduce operating cost.

Upfront provisioning resulted in higher coverage ratio

Particulars	Mar-20	Dec-20	Mar-21
Gross Stage 1 and Stage 2 Assets (Cr)	13,333	12,446	12,140
Stage 1 & 2 Coverage Ratio (%)	2.2%	3.0%	7.2%
Gross Stage 3 Assets (Cr)	914	927	465
Net Stage 3 Assets (Cr)	580	586	146
Gross Stage 3 Assets (%)	6.4%	6.9%	3.7%
Net Stage 3 Assets (%)	4.2%	4.5%	1.2%
Stage 3 Coverage Ratio (%)	36.5%	36.8%	68.6%
ECL Provision -Total loan book	4.4%	5.3%	9.5%

Source: Systematix Research, Company Filings

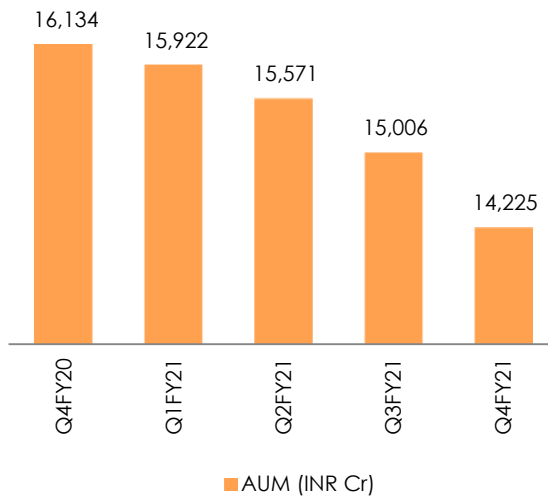
As of Mar-21, The Company holds cumulative provisions to the tune of ₹1,192 Cr as of Mar-21 to counter COVID related impact on future profitability. Such provision buffer has resulted in extremely robust coverage ratio for both Stage 1 and 2 and Stage 3 assets. The one-time provisions and write offs have also resulted in an uptick in asset quality of the remaining book, standing as one of the best in industry with Net Stage 3 assets (as of Mar-21) at 1.2% and overall ECL provisions at 9.5% of the total loan book. As of Dec-20, Magma had built adequate provisions in line with the industry to absorb any shocks from first wave of COVID, pursuant to which the coverage ratios stood healthy at 3.0% for Stage 1 and 2 assets and 36.8% for Stage 3 assets with overall ECL provisions at 5.3% of the total loan book.

Significant reduction in debt leads to leverage in May 21 at a mere 1.3x vs 4.8x in Mar-21

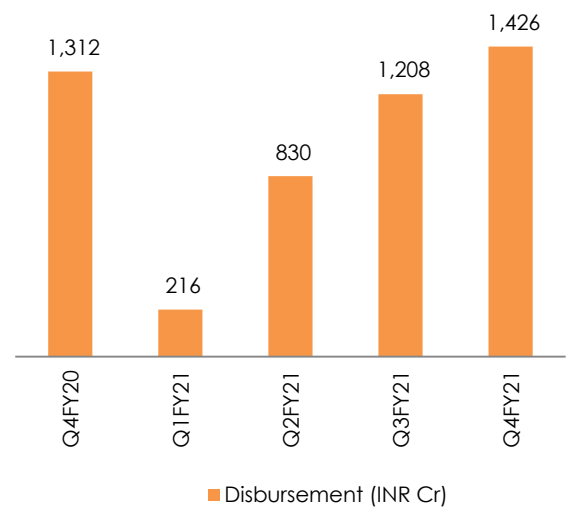
Disbursement grew 9% YoY and 18% QoQ on the back of sufficient adequacy

Substantial reduction in debt by INR 3,294 Cr and stood at INR 7,139 Cr in May 21 as a result of fund infusion

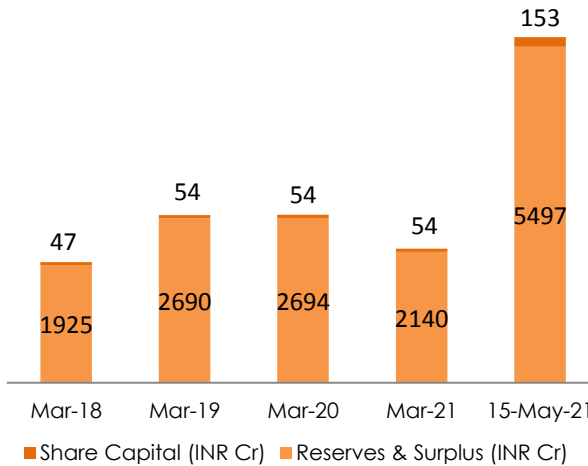
MFL is targetting to triple AUM to INR 45000 Cr by FY25



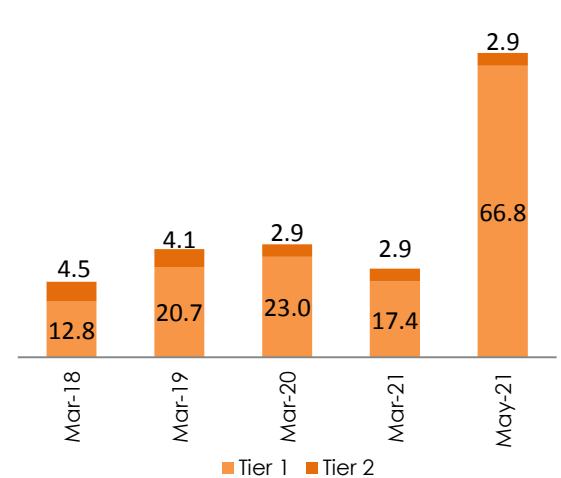
Disbursement trend improved with growth of 18% QoQ



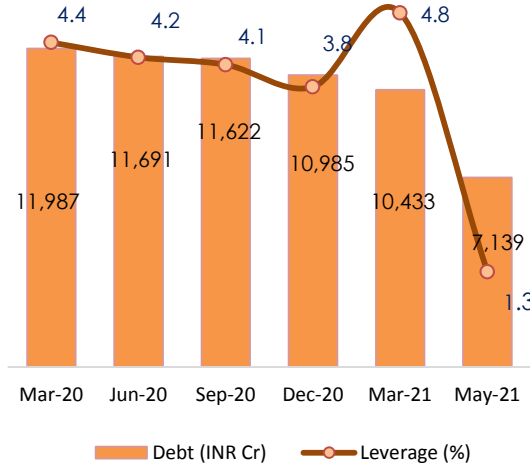
Capital infusion leads to substantial increase in net worth



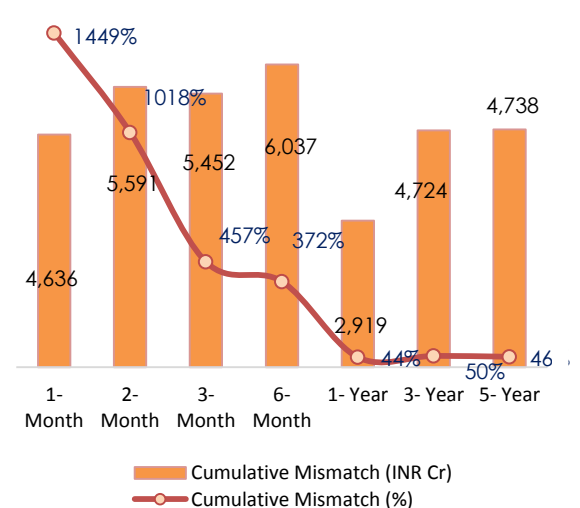
Improvement in Capital Adequacy will lead to lower cost of funds



Significant deleveraging on robust equist base and debt reduction



Structural Liquidity for MFL



Magma will be professionally run organisation under new leadership supported by existing leadership

Rising Sun Holdings, (a company owned and controlled by Mr. Adar Poonawalla) holds 60% stake in Magma Fincorp

Reliance Mutual Fund and Amansa Holdings Pvt Ltd holds 2.5% and 2.7% stake in Magma Fincorp respectively

Peer Comparison

Key Parameters FY21	Magma Fincorp	Bajaj Finance	Chola	Aditya Birla Capital	L&T Finance
AUM (INR Cr)	14,225	152,947	69,996	340,000	72,874
NIM (%)	8.0%	13.9%	7.2%	5.4%	6.9%
GNPA (%)	3.7%	1.8%	4.0%	1.8%	5.2%
NNPA (%)	1.2%	0.8%	2.2%	1.1%	1.7%
CAR (%)	69.8%	28.3%	19.1%	22.8%	23.8%
PCR (%)	68.6%	58.0%	44.3%	37.2%	69.0%
P/BV (x)	1.9	9.9	4.5	2.1	1.3

Source: Systematix Research, Company Filings

Name & Designation	Brief profile of Board of Directors
Adar Poonawalla Non-Executive Chairman & Promoter Director	Adar Poonawalla educated at University of Westminster. He joined Serum Institute of India in 2001 & in 2011, he became the CEO. As of 2015, he has helped the company export its products to over 140 countries. Poonawalla is a board member of the GAVI Alliance, the global vaccine alliance. In 2014, he initiated and launched Serum Institute's oral polio vaccine, which became a bestseller for the company.
Abhay Bhutada Managing Director	CA Abhay Bhutada is a seasoned finance professional with over 15 years of diversified experience in financial services and has been instrumental in setting up the lending the domain of commercial and retail lending. He is passionate about the use of technology business for Poonawalla group. Abhay is a qualified Chartered Accountant. Most recently has been felicitated by Asia One as "40 under 40 Most influential leader for 2020-21".
Mr. Sanjay Chamria Executive Vice Chairman	Mr. Sanjay Chamria, is the Executive Vice Chairman of the company, which he co-founded in 1988. Mr. Chamria is a thought leader in the BFSI sector having held senior positions in the industry bodies and provided inputs to issues concerning development of the industry to the Government, Regulators and other statutory bodies. He regularly presents his thoughts at large industry forums too.
Ms. Vijayalakshmi R Iyer Non-Executive Independent Director	Vijayalakshmi Rajaram Iyer, aged 63 years, is an Additional Director in the capacity of Independent Director on Board. She holds a master's degree in commerce from University of Mumbai. She has previously served as an Executive Director of Central Bank of India and the Chairperson and Managing Director of Bank of India. She was also a Whole Time Member (Finance and Investment) in the IRDAI. She has been associated with Magma since January 31, 2019.

Source: Company Filings

Income Statement

Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	2,455	2,513	2,319	2,422	2,765
Interest Expended	1,122	1,294	1,100	842	874
Net Interest Income (NII)	1,332	1,220	1,218	1,579	1,891
Non Interest Income	40	49	34	37	42
Total Income	1,372	1,269	1,252	1,616	1,933
Total expenditure	634	626	502	545	601
Employee cost	437	448	382	422	474
Other expenses	197	178	121	123	126
Profit before Provision (PPOP)	688	569	694	1,022	1,276
Provision (Impairment on FI)	247	486	1,448	406	314
Profit before Tax	442	83	-754	616	962
Tax expense/(credit)	138	55	-190	0	240
PAT	304	27	-559	616	721
EPS	11.3	1.0	-20.7	8.1	9.4

Source: Systematix Research, Company Filings

Balance sheet

Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
EQUITY AND LIABILITIES					
Equity	54	54	54	153	153
Reserves & Surplus	2,690	2,694	2,140	6,114	6,835
Net Worth	2,744	2,748	2,194	6,267	6,988
Total Borrowings	13,133	11,987	10,433	8,878	9,944
Other liabilities & Provisions	912	504	585	584	585
TOTAL EQUITY AND LIABILITIES	16,789	15,240	13,212	15,729	17,516
Loans & Advances	15,007	13,546	11,361	13,521	15,719
Cash and Bank Balance	957	708	775	1,199	679
Fixed Assets	189	178	145	131	116
Current and other assets	637	807	932	878	1,002
TOTAL ASSETS	16,789	15,240	13,213	15,729	17,516

Source: Systematix Research, Company Filings

Key Ratios

Particulars	FY19	FY20	FY21E	FY22E	FY23E
NIM (%)	8.1%	7.4%	8.0%	10.0%	10.1%
GNPA (%)	4.8%	6.4%	3.7%	4.5%	4.3%
NNPA (%)	3.1%	4.2%	1.2%	1.6%	1.5%
BVPS (INR)	101.9	102.0	81.4	82.1	91.5
P/BV (x)	1.49	1.49	1.87	1.85	1.66
RoE (%)	11.1%	1.0%	-25.5%	9.8%	10.3%

Source: Systematix Research, Company Filings

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Disclosure of Interest Statement	Update
Analyst holding in the stock (%)	None
Served as an officer, director or employee	No

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EXPLANATION TO RATINGS: BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -15%<TP<-5%; SELL: TP<-15%

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