SMERA RATINGS LIMITED

Magma Fincorp Limited: Assigned

Instrument	Amount (Rs. Crore)	Rating/Outlook
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	100.00	SMERA AA/Stable (Assigned)

SMERA has assigned rating of '**SMERA AA' (read as SMERA double A)** to the Rs.100 crore Proposed Unsecured Subordinated Redeemable Non-Convertible Debenture Issue of Magma Fincorp Limited (MFL). The outlook is **'Stable'**.

The rating is supported by the experienced management, pan-India presence and diversified loan portfolio with presence across segments such as vehicle financing, tractor financing, SME lending among others. The rating also derives comfort from the healthy profitability margins, comfortable capitalisation level and MFL's substantial financial flexibility. This is due to its relationships with banks, financial institutions and its ability to raise funds from the capital market and through securitisation transactions.

The rating is constrained by the asset quality pressures, modest provision coverage and challenges faced by MFL in achieving growth in loan portfolio over the recent past. SMERA expects GNPA levels to moderate over the near term on account of lower slippages from fresh disbursements coupled with increased focus of MFL on recoveries from stressed assets. SMERA notes that the company may continue to face challenges in growing its loan book over the medium term, due to subdued domestic economic environment.

MFL is a non-deposit taking systemically important asset financing company engaged in the business of financing vehicles, tractors, construction equipment, SMEs and loans against property. The company was promoted by Mr. Mayank Poddar and Mr. Sanjay Chamria who possess experience of over three decades in the financial services sector. The board of directors of MFL includes nominee directors from International Finance Corporation and KKR. MFL has presence across 22 states and operates across 268 branches as on 30 September, 2016. The company's AUM is well diversified across asset classes and has presence primarily in the rural segment of the country.

MFL reported AUM of Rs.15,300.36 crore as on 31 March, 2016 against Rs.16,921.21 as on 31 March, 2015. The company reported Profit After Tax (PAT) of Rs.187.10 crore on operating income of Rs.2,109.60 crore in FY2016 against PAT of Rs.149.10 crore on Rs.2,018.80 crore in FY2015. For the half year ended September, 2016, MFL reported PAT of Rs.79.15 crore on operating income of Rs.1013.30 crore. MFL's recent focus has been largely on high yielding segments such as SME lending and agri-lending. The Net Interest Margin (NIM) improved to 8.43 per cent in FY2016 from 7.47 per cent in the previous year.

Going forward, while SMERA expects some moderation in MFL's NIMs, the profitability of the company is expected to be at healthy levels driven by the continued focus on high yielding segments which constitute 42 per cent of the total loan portfolio on 30 June, 2016.

The return on average assets (RoAA) also improved to 1.48 per cent in FY2016 as against 1.26 percent in the previous year. The improvement in RoAA is due to improvement in NIMs coupled with rationalisation in MFL's operating costs. In December 2015, the company changed its organisational structure from vertical to horizontal to improve overall operating efficiency.

MFL has a well-diversified funding profile which includes capital market instruments, bank lines and securitisation transactions. The company has sanctioned fund based facilities of Rs.6500 crore from a consortium of banks. The total capital market borrowings stood at Rs.2,509.44 crore on 31 March, 2016 (Rs. 2995.62 crore on 31st March, 2015) and comprised 25.54 per cent of the total borrowings of the company. MFL reported average bank limit utilisation of 74 per cent for the six months ended October, 2016.

MFL reported comfortable capital adequacy ratio (CAR) of 18.72 per cent as on 31st March, 2016 as against 16.30 per cent as on 31st March, 2015. MFL raised Rs.500 crore of Tier I Capital from India Capital Fund, LeapFrog Investments and KKR Private Equity in May, 2015 which also contributed to improvement in CAR. The company's CAR stood at 20.02 percent on 30 September, 2016.

The rating is constrained by the asset quality pressure faced by MFL which is reflected in the high level of delinquencies in the loan portfolio. MFL reported Gross NPA ratio (GNPA to Gross Advances) of 10.74 per cent on 31st March, 2016 against 7.52 per cent on 31st March, 2015. Over 50 percent of the Gross NPAs are in the car and agriculture loan accounts due to the challenging economic conditions in the rural sector. The GNPA ratio is expected to increase marginally primarily on account of the muted loan book growth and possibility of further slippages over the next one to two quarters. Approximately 70 percent of MFL's exposure is in the rural segment hence the performance of the rural economy will be crucial to the maintenance of the overall asset quality.

The rating also factors in the modest provision coverage ratio of the company which stood at 21.26 percent on 31st March, 2016 as against 20.65 percent on 31st March, 2015. The existing coverage continues to be in line with the regulatory norms.

The challenging economic environment has impacted the disbursements of MFL. The outstanding on-balance sheet loan book remained stagnant at Rs.11678.67 crore on 31 March, 2016 as compared to Rs.11102.34 crore on 31 March, 2015. The loan book was at Rs. 10673.80 crore on 30th September, 2016.

Outlook: Stable

SMERA believes that MFL will maintain a Stable outlook on account of its established pan-India presence across diverse loan segments and comfortable profitability margins. The outlook may be revised to 'Positive' in case of healthy growth in AUM while improving its asset quality and maintaining profitability indicators. Conversely, the outlook may be revised to Negative in case MFL's asset quality continues to remain stressed or the company registers decline in profitability indicators and headwinds to loan book growth.

Rating Sensitivity Factors

- Improvement in asset quality
- Movement in profitability indicators
- Sustained increase in AUM
- Movement in CRAR
- Changes in the regulatory framework

Criteria applied to arrive at the rating:

- Non-Banking Finance Companies

About the Company

The Kolkata-based MFL, incorporated in 1978, is a public limited company that provides retail financing through its 257 branches (as on 31March, 2016).

MFL's subsidiary, Magma Housing Finance provides Loan Against Property (LAP) and housing finance. MFL also has two joint ventures – Magma ITL Finance Limited (MIFL) and Magma HDI General Insurance Limited (MHGIL).

MFL (Standalone) reported profit after tax (PAT) of Rs.187.15 crore on interest income of Rs.2026.72 crore in FY2016 as compared to profit after tax (PAT) of Rs.149.07 crore on interest income of Rs.1910.29 crore in FY2015.

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

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