Press Release

Magma Fincorp Limited (MFL)

03 February, 2017

Rating Reaffirmed & Assigned

Total Instruments Rated*	Rs.150.00 Cr
Long Term Rating	SMERA AA/Stable (Reaffirmed & Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of **SMERA AA (read as SMERA double A)** assigned to the Rs.100.00 crore Unsecured Subordinated Redeemable Non-Convertible Debenture issue of Magma Fincorp Limited (MFL). SMERA has also assigned a long term rating of **SMERA AA (read as SMERA double A)** to the Rs. 50.00 crore Proposed Unsecured Subordinated Redeemable Non-Convertible Debenture issue of MFL. The outlook is '**Stable**'.

MFL is a non-deposit taking systemically important asset financing company engaged in the business of financing vehicles, tractors, construction equipments among others. The company was promoted by Mr. Mayank Poddar and Mr. Sanjay Chamria who possess experience of over three decades in the financial services sector.

List of key rating drivers and their detailed description

Strengths:

Long track-record of operations and diversified loan portfolio: 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. MFL has operations spread across 22 states and 268 branches as on 30 September, 2016. The company's AUM is well diversified across asset classes and is primarily in the rural segment . MFL reported AUM of Rs.15,300.45 crore as on 31 March, 2016 against Rs.16,921.21 as on 31 March, 2015.

Comfortable profitability indicators: The company reported Profit After Tax (PAT) of Rs.187.15 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 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 NIMs, the profitability 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 per cent 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.

Diversified funding profile: 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.6,500 crore from a consortium of banks. The total capital market borrowings stood at Rs.2,509.44 crore on 31 March, 2016 (Rs.2,995.62 crore on 31 March, 2015) and comprised 25.54 per cent of the total borrowings of the company. MFL reported average bank limit utilisation of 82.96 per cent for the six months ended December, 2016.

Comfortable capital adequacy ratio: MFL reported comfortable capital adequacy ratio (CAR) of 18.72 per cent as on 31March, 2016 as against 16.30 per cent as on 31 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.

Weaknesses:

Asset quality pressures: 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 31March, 2016 against 7.52 per cent on 31 March, 2015. Over 50 percent of the Gross NPAs are in the car and agriculture loan accounts due to the challenging economic condition 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 31March, 2016 as against 20.65 percent on 31st March, 2015. The existing coverage continues to be in line with the regulatory norms.

Challenges faced in loan book growth: The challenging economic environment has impacted the disbursements of MFL. The outstanding on-balance sheet loan book remained stagnant at Rs.11,649.88 crore on 31 March, 2016 as compared to Rs.11,039.82 crore on 31 March, 2015. The loan book was at Rs. 10,673.80 crore on 30 September, 2016. SMERA expects the loan portfolio growth to remain muted over the next two to three quarters.

Analytical approach: SMERA has taken a standalone view of the above entity.

Applicable Criteria

- Default Recognition: https://www.smera.in/criteria-default.htm
- Non-Banking Finance Entities: https://www.smera.in/criteria-nbfc.htm

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.

About the Rated Entity
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.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instruments	FY2017 (Current)			FY2017		FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	100.00	SMERA AA/Stable (Reaffirmed)	24 Nov, 2016	SMERA AA/Stable (Assigned)	-	-	-	-	-	-
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	50.00	SMERA AA/Stable (Assigned)	-	-	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Unsecured Subordinated Redeemable Non-Convertible Debentures	24/01/2017	10.40%	24/01/2027	25.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debenture	06/01/2017	10.30%	06/10/2022	5.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debenture	06/01/2017	10.40%	06/01/2027	15.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debenture	03/01/2017	10.30%	03/10/2022	5.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debenture	28/12/2016	10.30%	28/09/2022	3.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debenture	14/12/2016	10.30%	14/09/2022	10.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debenture	07/12/2016	10.40%	07/12/2026	35.00	SMERA AA/Stable (Reaffirmed)
Proposed Unsecured Subordinated Redeemable Non-Convertible Debenture	N.A.	N.A.	N.A.	2.00	SMERA AA/Stable (Reaffirmed)
Proposed Unsecured Subordinated Redeemable Non-Convertible Debenture	N.A.	N.A.	N.A.	50.00	SMERA AA/Stable (Assigned)

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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