

Press Release

Magma Fincorp Limited (MFL)

March 22, 2017

Rating Reaffirmed & Assigned

Total Instruments Rated*	Rs.200.00 Cr
Long Term Rating	SMERA AA/Stable

**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.150.00 cr 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 (NBFC-ND-SI) asset financing company engaged in the financing of vehicles, tractors, construction equipment apart from lending to SMEs. 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 rating continues to be supported by the experienced management, pan-India presence and diversified loan portfolio 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.

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 cr as on 31 March, 2016 against Rs.16,921 cr as on 31 March, 2015. The AUM declined to Rs. 14,509 cr on 31st December, 2016. SMERA also believes that while MFL could face near term headwinds in expanding its loan portfolio considering its long track-record and pan-India presence it is expected to register a healthy growth in AUM over the medium term once key macroeconomic indicators show signs of economic recovery.

Comfortable profitability indicators despite near-term pressures: MFL's has been keen on changing its loan mix by focusing on high yielding segments such as SME and agri-lending. Consequently, the Net Interest Margin (NIM) improved to 8.43 per cent in FY2016 from 7.47 per cent in FY2014-15. The return on average assets (RoAA) was 1.48 per cent in FY2016 as against 1.26 per cent in the previous year. The company reported Profit After Tax (PAT) of Rs.187.15 cr on operating income of Rs.2,109.60 cr in FY2016 against PAT of Rs.149.10 cr on Rs.2,018.80 cr in

FY2015. MFL's PAT declined to Rs. 29.40 cr in Q3 FY17 as compared to Rs. 43.60 cr in Q3 FY16. MFL's PAT for FY2017 is expected to be significantly lower.

Going forward, SMERA expects the profitability to remain at healthy levels driven by the continued focus on high yielding segments, though some moderation may be expected over the near term on account of elevated asset quality pressures and sale of a portion of stressed assets to Asset Reconstruction Companies (ARC).

Diversified funding profile: MFL has a well-diversified funding profile which includes bank lines, capital market instruments and ability to raise funds via securitisation/Direct Assignment transactions. The company has sanctioned fund based facilities of Rs.6,500 cr from a consortium of banks. The total capital market borrowings stood at Rs.2,509.44 cr 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.

MFL has been able to raise funds in various forms such as commercial paper and Non-Convertible Debentures (including subordinated debt) from the capital market from time to time. SMERA believes that MFL will continue to benefit from its diversified funding profile resulting in lower cost of funds.

Comfortable capital adequacy ratio: MFL reported comfortable capital adequacy ratio (CAR) of 18.72 per cent as on 31 March, 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 19.50 percent on 31 December, 2016.

MFL will be adequately capitalised considering the expected growth in the AUM over the near to medium term.

Weaknesses:

Continuing asset quality pressures: MFL has been facing asset quality pressure which is reflected in the Gross NPA ratio (GNPA to Gross Advances) moving to 13.67 per cent on 31st December, 2016 from 10.74 per cent on 31st March, 2016 (7.52 per cent on 31st March, 2015). Most of the Gross NPAs are in the car and tractor loan accounts due to the challenging economic condition in the rural sector.

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 a sharp increase in Gross NPA ratio (GNPA to Gross Advances) to 13.67 per cent on 31st December, 2016 from 10.74 per cent on 31st March, 2016 (7.52 per cent on 31st March, 2015). The provision coverage ratio of the company stood at 21.26 percent on 31 March, 2016 as against 20.65 percent on 31 March, 2015.

The increase in GNPA ratio could be attributed to the demonetisation event, which affected the overall collections of MFL as also disbursements. While the GNPA's (absolute levels) have increased marginally, the GNPA ratio has increased substantially on account of degrowth in the AUM. SMERA expects some improvement in the GNPA ratio on account of increase in collection efficiency in January, 2017 and February, 2017. Any higher than expected stress in the asset quality can result in a downward bias in the rating.

Challenges faced in AUM 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 cr on 31 March, 2016 as compared to Rs.11,039.82 cr as on 31 March, 2015. The loan book was at Rs. 10,765 cr on 31 December, 2016. Apart from sluggish disbursements, the loan book de-growth is also attributable to securitisation transactions undertaken by MFL. SMERA notes that the AUM for MFL has also declined to Rs. 14509 cr on 31st December, 2016 from Rs. 15300 cr on 31st March, 2016. SMERA believes that the AUM growth could be subdued of the immediate future which may continue to have weigh down on its credit metrics.

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 the asset quality/profitability pressures are significantly higher than expected and challenges AUM growth continue over the near to medium term.

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 31 March, 2016).

MFL's subsidiary, Magma Housing Finance provides Loan Against Property (LAP) and housing finance. The company 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 cr on interest income of Rs.2026.72 cr in FY2016 as compared to profit after tax (PAT) of Rs.149.07 cr on interest income of Rs.1910.29 cr 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		FY2017		FY2016		FY2015	
	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)	03 Feb, 2017	SMERA AA/Stable (Reaffirmed)	24 Nov, 2016	SMERA AA/Stable (Assigned)	-	-	-	-
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	50.00	SMERA AA/Stable (Reaffirmed)	03 Feb, 2017	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)
Unsecured Subordinated Redeemable Non-Convertible Debenture	03/03/2017	10.25%	03/03/2027	15.00	SMERA AA/Stable (Reaffirmed)
Proposed Unsecured Subordinated Redeemable Non-Convertible Debenture	N.A.	N.A.	N.A.	37.00	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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