

Press Release

Magma Fincorp Limited (MFL)

February 02, 2018

Rating Reaffirmed & Assigned



Total Instruments Rated*	Rs. 300.00 Cr.
Long Term Rating	SMERA AA/Stable

Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of **SMERA AA (read as SMERA double A)** to the Rs.100.00 Cr. Unsecured Subordinated Redeemable Non-Convertible Debenture (NCD) issue of Magma Fincorp Limited (MFL) and reaffirmed the ratings outstanding on rated NCDs aggregating to Rs. 200 Cr. The outlook is 'Stable'.

MFL is a non-deposit taking systemically important (NBFC-ND-SI) asset financing company engaged in the business of financing new and pre-owned vehicles, tractors, construction equipment, SME loans 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.

The rating continues to be supported by the experience of MFL's management, pan-India presence and well diversified loan portfolio with presence across various product categories and geographical regions. The rating also derives comfort from the steady recovery and improving collection in the asset finance segment post demonetization, MFL's adequate capitalisation level and its strong financial flexibility. MFL enjoys strong relationships with a diverse set of banks and financial institutions and has also a demonstrated ability to raise funds from the capital market and through securitisation transactions.

Key rating drivers

Strengths

- Long track-record of operations and diversified loan portfolio:**

The rating is supported by the experienced management, pan-India presence and the diversified loan portfolio with presence in both retail and SME financing and across both new and pre-owned assets. MFL has operations widely spread with 301 branches as on 30 September, 2017. While the company's AUM is well spread across asset classes, its primary focus is to cater to increased demand in the rural segment. MFL reported AUM of Rs.12903 crore as on 30 September, 2017, against Rs.13046 crore as on 30 June, 2017. However, there has been a pick-up in disbursements in the third quarter of FY 18. With the recovery in the economy post demonetisation and GST implementation, SMERA expects a healthy growth in AUM over the medium term.

- Improving profitability indicators despite higher provisioning charges:** MFL's has been focusing 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 8.19 per cent in FY2017 from 8.43 per cent in FY2016. The return on average assets (RoAA) was 0.05 per cent in FY2017 as against 1.48 per cent in the previous year. The company reported Profit After Tax (PAT) of Rs.6.09 crore against PAT of Rs.187.15 crore.

Going forward, SMERA expects the profitability to remain at healthy levels driven by the continued focus on high yielding segments, despite the elevated provisioning charges in the current year.

- **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.

MFL has been able to raise funds in various forms such as commercial papers and Non-Convertible Debentures (including subordinated debt) from the capital markets 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 20.3 per cent as on 30 September, 2017 as against 20.4 per cent as on 30 June, 2017. MFL raised Rs.1625 crore of Tier I Capital as on 30 September, 2017. Given the projected growth in AUM over the medium term, SMERA expects MFL to raise additional equity capital in the near term. This will ensure that MFL's capital position remains comfortable over the next 2-3 years.

Weaknesses

- **Asset quality improving but continues to be a monitorable:** MFL has been facing asset quality pressures which is reflected in the Gross NPA ratio (GNPA to Gross Advances) of 7.0 per cent on 30 September, 2017. 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. The provision coverage ratio of the company stood at 23.8 percent on 30 September, 2017 as against 20.3 percent on 30 June, 2017. Any higher than expected stress in the asset quality can result in a downward bias in the rating.

Analytical approach:

SMERA has taken a standalone view of the above entity.

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

About the Rated Entity – Key Financials

Particulars	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	11391.95	12311.75	11317.99
Total Income	Rs. Cr.	1084.16	1141.10	984.51
PAT	Rs. Cr.	6.09	187.15	149.07
Net Worth	Rs. Cr.	2037.89	2031.41	1383.55
Return on Average Assets (RoAA)	(%)	0.05	1.48	1.26
Return on Average Net Worth (RoNW)	(%)	0.30	10.96	11.26
Total Debt/Tangible Net Worth (Gearing)	Times	4.17	4.84	7.03
Gross NPA	(%)	9.06	10.74	7.52
Net NPA	(%)	7.46	8.65	6.06

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities-<https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

None

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Name of Instruments	FY 2018 (Current)			FY2017		FY2017		FY2017		FY2016	
	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 (Assigned)	-	-	-	-	-	-	-	-
Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	100.00	SMERA AA/Stable (Reaffirmed)	22 Mar, 2017	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)	22 Mar, 2017	SMERA AA/Stable (Reaffirmed)	03 Feb, 2017	SMERA AA/Stable (Assigned)	-	-	-	-
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	50.00	SMERA AA/Stable (Reaffirmed)	22 Mar, 2017	SMERA AA/Stable (Assigned)	-	-	-	-	-	-

*Annexure – Details of instruments rated

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059
CIN: U74999MH2005PLC155683 | SEBI Permanent Registration No.: IN / CRA / 006 / 2011

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	18-May-17	10.10%	18-May-27	10.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	03-Mar-17	10.25%	03-Mar-27	15.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	24-Jan-17	10.40%	24-Jan-27	25.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	06-Jan-17	10.30%	06-Oct-22	5.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	06-Jan-17	10.40%	06-Jan-27	15.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	03-Jan-17	10.30%	03-Oct-22	5.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	28-Dec-16	10.30%	28-Sep-22	3.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	14-Dec-16	10.30%	14-Sep-22	10.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated	07-Dec-16	10.40%	07-Dec-26	35.00	SMERA AA/Stable (Reaffirmed)

	Redeemable Non-Convertible Debentures (Tier II)						
	Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	NA	NA	NA	27.00	SMERA AA/Stable (Reaffirmed)	
	Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	NA	NA	NA	50.00	SMERA AA/Stable (Reaffirmed)	
	Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures (Tier II)	NA	NA	NA	100.00	SMERA AA/Stable (Assigned)	

Contacts

Analytical	Rating Desk
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ABOUT SMERA

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