

Press Release

Magma Fincorp Limited (MFL)

December 28, 2018

Rating Assigned and Reaffirmed



Total facilities	Rs. 1300.00 Cr.
Instruments Rated*	Rs. 1000.00 Cr.
Long Term Rating	ACUITE AA/Stable (Assigned)
Instruments Rated*	Rs. 300.00 Cr.
Long Term Rating	ACUITE AA /Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of **ACUITE AA (read as ACUITE double A)** to the Rs. 1000 Cr. Proposed Secured non-convertible debentures of Magma Fincorp Limited (MFL). The outlook is **'Stable'**.

Acuité has reaffirmed its long term rating of **ACUITE AA (read as ACUITE double A)** on the Rs. 300.00 Cr. Unsecured Subordinated Redeemable Nonconvertible Debentures of MFL. The outlook is **'Stable'**. The outstanding issuance for these NCDs has been to the extent of Rs. 133 Cr. as on date.

About the group:

Magma group has been promoted by Mr. Mayank Poddar and Mr. Sanjay Chamria. The group commenced its retail financing operations through asset backed financing for new cars, commercial vehicles and construction equipment and over the years diversified its product profile into tractor financing, used vehicle financing, and SME lending. In February 2013, the group acquired GE Money Housing Finance (renamed as Magma Housing Finance and later converted into Magma Housing Finance Limited) and home equity loan portfolio of GE Money Financial Services Private Limited. The acquisition enabled the Magma group to diversify into mortgage financing with loan against property and housing finance. Further, Magma Group has presence in general insurance segment through a 74 percent joint venture with HDI-Gerling Industrie Versicherung AG in Magma HDI General Insurance Limited.

About the company:

Incorporated as Magma Leasing Ltd, Magma Fincorp Limited (MFL) commenced operations in 1989 and is RBI registered systemically important non-deposit taking non-banking financial company. Magma ITL Finance Limited, which was set up in joint venture with International Tractors Ltd (the manufacturer of Sonalika tractors) to finance tractors, has been merged with MFL in FY2018. The company is a leading retail financing NBFC in India with a focus on passenger car and utility vehicle finance, construction equipment and commercial vehicle loans, tractors financing, pre-owned vehicles financing, SME lending and mortgage finance. MFL has presence in 21 states in India and operates through a network of 306 branches as on September 30, 2018. The company's equity shares are listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). As on September 2018, the promoter and his family held 24.42 percent of the aggregate shareholding and the remaining 75.58 percent were held by foreign and domestic institutional investors and public.

Analytical approach:

Acuité has taken a consolidated view on MFL and its subsidiaries and joint venture companies namely Magma Housing Finance Limited (MHFL), Jaguar Advisory Services Private Limited (JASPL- engaged in providing manpower services) and Magma HDI General Insurance Company Limited (MHDI). The consolidation is in view of the shared brand, common managerial team along with strong operational and financial synergies among the group companies. Extent of consolidation: full.

Earlier, Acuité had taken a standalone approach to arrive at the rating on Magma Fincorp Ltd. The change in the stance is on account of the fact that mortgage finance segment has become a significant proportion of the overall AUM at 17 percent as on September 30, 2018 and has been identified as one of the key growth driver for the Magma group over the medium term.

Key Rating Drivers

Strengths

- **Established presence backed by strong managerial support:**

Magma group, through its flagship company Magma Fincorp Limited forayed into lending business in 2001 primarily focusing towards retail lending. Over the years the group has established its market presence by diversifying its geographical presence and product profile. The group's credit risk profile is supported by seasoned managerial team with experience of over 30 years in asset financing segment.

The group's business has started to see traction over the past two years after witnessing de-growth due to the asset quality and profitability challenges faced by the group. The disbursements grew by 30 percent to Rs. 4040 Cr. during the first half of FY2019 as against Rs. 3115 Cr during the corresponding period of the previous year. The overall asset under management (AUM) has grown to Rs.16623 Cr. as on September 30, 2018 from Rs. 15555 Cr. as on March 31, 2018 of which the own portfolio constituted 92 percent as on September 2018 as against 77 percent as on March 31, 2018. The strong growth in owned portfolio is a result of reclassification of PTC transactions to own portfolio as per IND AS classification. The group has diversified presence across three business segments namely asset backed financing, mortgage backed financing and lending to SMEs. The group is engaged in financing of car and utility vehicles, new and old SCVs and LCVs, construction equipment, loan against property, housing finance and SME financing. As on September 30, 2018, of the overall AUM Asset backed financing constituted 70 percent, SME financing constituted 13 percent and the remaining 17 percent were mortgage backed loans. Higher yielding segments such as used vehicles, light/small commercial vehicles, SMEs, and affordable housing are expected to drive the growth in loan AUM over the next few years.

Acuite believes that the Magma group's business profile will continue to benefit from the established presence in the retail finance segment backed by strong managerial support along with diversified product portfolio and strong presence in the rural and semi-urban areas.

- **Adequate capitalisation**

Magma group has adequate capitalisation underpinned by tangible networth of Rs. 2580.4 Cr as on September 30, 2018 as against Rs. 2319.5 Cr as on March 31, 2018. Magma group has over the years demonstrated its ability to raise capital through institutional investors. MFL raised Rs. 500 Cr. by way of Qualified Institutional Placement in the first quarter of FY2019 to support its growth plans over the medium term. However, the group's networth was impacted due to higher provision for NPAs under the IND-AS guidelines. The group reported gearing of 4.45 times as on September 30, 2018 as against 4.24 times as on March 31, 2018. The gearing has remained moderate over the past few years on account of the slower business growth of the group.

MFL's capitalization remained comfortable with overall capital adequacy ratio (CAR) of 22.1 percent as on September 30, 2018 as against 20.7 percent as on March 31, 2018. Further, Magma Housing Finance Limited's capital Adequacy stands comfortable at 29.6 percent as on September 30, 2018 (28.8 percent as on March 31, 2018).

Acuite believes that the Magma group is adequately capitalized to support its growth prospects for over near to medium term.

Weaknesses

- **Gradual improvement in asset quality and profitability but remains lower than peers**

Magma group's asset quality has been under pressure over the past few years because of deterioration across product segments and especially in the tractor financing segment. It was due to the economic downturn coupled with the group's focus on high risk-high yield customer segment. Additionally, events such as demonetization and two consecutive monsoon failures resulted in the continued pressure on asset quality, despite the group's enhanced focus on improving collections.

The group has undertaken various measures across origination, underwriting, and collections to support the improvement in its asset quality. The new portfolio originated over the past two years has relatively better asset quality. In addition to good monsoons, the sale of NPAs to asset reconstruction companies in March 2017 also supported improvement in the asset quality. The group reported gross NPA of 7.0 percent as on March 31, 2018 (90+ dpd basis) as against 6.7 percent as on March 31, 2017 (120+ dpd basis). The group's

consolidated gross NPAs was at 8.73 percent as on September 30, 2018 (as per IND-AS) as against 8.64 percent as on March 31, 2018 on a comparable basis. The car and tractor loans continue to dominate the overall delinquency levels. The group's strategy to take selective stance for future disbursements in tractor segment is likely to demonstrate positive impact on the asset quality and provisioning measures over the medium term. MFL's collection efficiency remained comfortable at 99.2 percent for the period April to October 2018. Magma Housing Finance Limited's collection efficiency also remained comfortable at 99.53 percent in this period.

The group's net NPAs improved to 3.99 percent as on September 30, 2018 as against 5.2 percent as on March 31, 2018. The provision coverage ratio has improved to 56.5 percent as on September 30, 2018 compared to 27.2 percent as on March 31, 2018 as the group made additional provisions for NPAs as it transitioned from IGAAP to IND AS.

The group's earning profile has improved gradually driven by the growth in net interest income supported by new business growth and decline in provision for NPAs. The group's return on average assets improved to 1.69 percent in FY2018 as against 0.09 percent in FY2017. The group's net interest margin increased to 9.61 percent in FY2018 as against 8.35 percent in FY2017. In FY2017 the group's profitability was subdued mainly because the group had incurred loss on sale of NPA accounts. However, the group's profitability remained lower than peers due to asset quality related issues and high operating expenses on account of investment in people, systems and processes.

The group's net interest margin and return on assets ratio were at 9.4 percent (annualized) and 1.9 percent (annualized) respectively during the first half of FY2019. The steady growth in loan portfolio coupled with declining trend in cost of borrowing (9.09 percent in FY2018 as against 10.29 percent in the earlier year) supported the group's earnings profile. The group profitability matrix is likely to remain moderated in the near term mainly on account of hardening interest rate scenario in capital markets and costlier bank funding leading to compression in net interest margins.

Acuite believes that the Magma group's ability to manage its asset quality while increasing the scale of operations will remain a key rating sensitivity, especially given the focus on high risk- high yield customer segment. Any sharp deterioration in asset quality will result in increase in provisioning cost and will adversely impact the overall earnings profile. Furthermore its ability to maintain competitive borrowing cost to support its profitability will remain a key rating monitorable.

Liquidity Position:

MFL had negative cumulative mismatches across maturity buckets of up to one year as on 30 September 2018 primarily due to the then upcoming maturity of commercial papers (CPs) and bank loan repayments. The company securitized a large proportion of its (both priority and non-priority sector eligible) advances portfolio which supported its liquidity profile. While the company has a sizeable proportion of debt repayments till March 2019, the company has adequate sanctioned but unutilized working capital lines (Rs. 1571 Cr as on 20 December 2018), which along with its ability to securitize its loan portfolio will help manage the liquidity profile. The company has additional bank limits under tie up to support business needs or in case of any future mismatch. Additionally, the gradual improvement in the short-term funding outlook for NBFCs may enable the group to roll over upcoming CP maturities. However, any excessive reliance on short-term debt could lead to asset-liability mismatch and thus could lead to a refinancing risk, and will remain a key monitorable.

Outlook: Stable

Acuite believes that Magma group's asset quality is expected to remain 'Stable' over the medium term owing to its established presence, diversified product and geographical profile and adequate capitalization. The outlook may be revised to 'Positive' in case of significant and higher than expected growth in scale of operations and improvement in profitability while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in its asset quality or profitability margins

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY18 (Audited)	FY17 (Audited)	FY16 (Audited)
Total Assets	Rs. Cr.	13671	13602	15486
Total Income*	Rs. Cr.	1392	1259	1299
PAT	Rs. Cr.	230	13	213
Net Worth	Rs. Cr.	2320	2206	2193
Return on Average Assets (RoAA)	(%)	1.7	0.1	1.4
Return on Average Net Worth (RoNW)	(%)	10.2	0.6	11.0
Total Debt/Tangible Net Worth (Gearing)	Times	4.2	4.6	5.4
Gross NPA	(%)	7.0	6.7	8.1
Net NPA	(%)	5.2	5.6	6.4

* Total income equals to Net interest income plus other income

About the Rated Entity - Key Financials (Standalone)

	Unit	FY18 (Audited)	FY17 (Audited)	FY16 (Audited)
Total Assets	Rs. Cr.	11927	11400	12881
Total Income*	Rs. Cr.	1234	1071	1132
PAT	Rs. Cr.	202	6	187
Net Worth	Rs. Cr.	2196	2038	2031
Return on Average Assets (RoAA)	(%)	1.7	0.1	1.5
Return on Average Net Worth (RoNW)	(%)	9.6	0.3	11.0
Total Debt/Tangible Net Worth (Gearing)	Times	4.0	4.2	4.9
Gross NPA	(%)	7.4	7.1	8.6
Net NPA	(%)	5.5	5.9	6.9

* Total income equals to Net interest income plus other income

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

None

Any other information

None

Applicable Criteria

- Criteria for Rating of Non-Banking Financing Entities - <https://acuite.in/view-rating-criteria-10.htm>
- Consolidation of companies: <https://www.acuite.in/view-rating-criteria-22.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
February 02, 2018	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	10.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	15.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	25.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	5.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	15.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	5.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	3.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	10.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	35.00	ACUITE AA/Stable (Reaffirmed)
	Proposed Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	27.00	ACUITE AA/Stable (Reaffirmed)
	Proposed Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	50.00	ACUITE AA/Stable (Reaffirmed)
	Proposed Unsecured Subordinated Redeemable Nonconvertible Debentures (Tier II)	Long Term	100.00	ACUITE AA/Stable (Assigned)
	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	25.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	5.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	15.00	ACUITE AA/Stable (Reaffirmed)

March 22, 2017	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	5.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	3.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	10.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	35.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Nonconvertible Debentures	Long Term	15.00	ACUITE AA/Stable (Reaffirmed)
	Proposed Unsecured Subordinated Redeemable Nonconvertible Debenture	Long Term	37.00	ACUITE AA/Stable (Reaffirmed)
	Proposed Unsecured Subordinated Redeemable Nonconvertible Debenture	Long Term	50.00	ACUITE AA/Stable (Reaffirmed)
February 3, 2017	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	25.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	15.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	5.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	3.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	10.00	ACUITE AA/Stable (Reaffirmed)
	Unsecured Subordinated Redeemable Non-Convertible Debentures	Long Term	35.00	ACUITE AA/Stable (Reaffirmed)
	Proposed Unsecured Subordinated Redeemable Nonconvertible Debenture	Long Term	2.00	ACUITE AA/Stable (Reaffirmed)

	Proposed Unsecured Subordinated Redeemable Nonconvertible Debenture	Long Term	50.00	ACUITE AA/Stable (Assigned)
November 24, 2016	Proposed Unsecured Subordinated Redeemable Nonconvertible Debenture	Long Term	100.00	ACUITE AA/Stable (Assigned)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Rs. 1000.00 Cr.						
-	Proposed Secured Redeemable Non-Convertible Debentures	-	-	-	1000.00	ACUITE AA/Stable (Assigned)
Rs. 300.00 Cr.						
INE511C08985	Unsecured Subordinated Redeemable Non-Convertible Debentures	06-Dec-16	10.40%	07-Dec-26	10.00	ACUITE AA/Stable (Reaffirmed)
INE511C08985	Unsecured Subordinated Redeemable Non-Convertible Debentures	07-Dec-16	10.40%	07-Dec-26	25.00	ACUITE AA/Stable (Reaffirmed)
INE511C08993	Unsecured Subordinated Redeemable Non-Convertible Debentures	14-Dec-16	10.30%	14-Sep-22	10.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AA9	Unsecured Subordinated Redeemable Non-Convertible Debentures	28-Dec-16	10.30%	28-Sep-22	3.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AB7	Unsecured Subordinated Redeemable Non-Convertible Debentures	03-Jan-17	10.30%	03-Oct-22	5.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AD3	Unsecured Subordinated Redeemable Non-Convertible Debentures	06-Jan-17	10.40%	06-Jan-27	15.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AC5	Unsecured Subordinated Redeemable Non-Convertible Debentures	06-Jan-17	10.30%	06-Oct-22	2.00	ACUITE AA/Stable (Reaffirmed)

INE511C08AC5	Unsecured Subordinated Redeemable Non-Convertible Debentures	06-Jan-17	10.30%	06-Oct-22	3.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AE1	Unsecured Subordinated Redeemable Non-Convertible Debentures	24-Jan-17	10.40%	24-Jan-27	25.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AG6	Unsecured Subordinated Redeemable Non-Convertible Debentures	03-Mar-17	10.25%	03-Mar-27	15.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AI2	Unsecured Subordinated Redeemable Non-Convertible Debentures	18-May-17	10.10%	18-May-27	10.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AK8	Unsecured Subordinated Redeemable Non-Convertible Debentures	07-Mar-18	10.20%	06-Jun-25	5.00	ACUITE AA/Stable (Reaffirmed)
INE511C08AL6	Unsecured Subordinated Redeemable Non-Convertible Debentures	28-Mar-18	10.00%	28-Mar-28	5.00	ACUITE AA/Stable (Reaffirmed)
-	Proposed Unsecured Subordinated Redeemable Nonconvertible Debenture	-	-	-	167.00	ACUITE AA/Stable (Reaffirmed)

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