

Press Release

Magma Housing Finance Limited (MHFL)

July 10, 2019

Rating Assigned



Total Instruments Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE AA/Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of **ACUITE AA (read as ACUITE double A)** on the Rs. 100 Cr. Proposed Secured non-convertible debentures of Magma Housing Finance Limited (MHFL). The outlook is '**Stable**'.

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: MHFL

Initially incorporated as GE Money Housing Finance, MHFL was acquired by MFL in 2013, through its wholly owned subsidiary Magma Advisory Services Ltd (MASL). MASL was merged with MFL, effective FY2018, post which MHFL has become a wholly owned subsidiary of Magma Fincorp Limited. MHFL is a non-deposit taking housing finance company registered with National Housing Bank (NHB). The company is engaged in extending housing loans, Loan against Property and construction finance.

Magma Group has presence in 21 states in India and operates through a network of 310 branches as on March 31, 2019. The Group's flagship company MFL's equity shares are listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). As on March 31, 2019, the promoter and his family held 24.4 percent of the aggregate shareholding and the remaining 75.6 percent were held by foreign and domestic institutional investors and public.

Analytical approach:

Acuite 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 (MHDIL). 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.

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 20 percent to Rs. 8757 Cr. in FY2019 as against Rs. 7287 Cr. in FY2018. The overall asset under management (AUM) has grown to Rs. 17029 Cr. as on March 31, 2019 from Rs.15801Cr. as on March 31, 2018 of which the own portfolio constituted 92 percent as on March 31, 2019 as against 93 percent as on March 31, 2018.

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 March 31, 2019, of the overall AUM Asset backed financing constituted 68 percent, SME financing constituted 13 percent and the remaining 19 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.

Acuité believes that 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 net worth of Rs. 2743.9 Cr as on March 31, 2019 as against Rs. 1972.02 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. The group reported gearing of 4.86 times as on March 31, 2019 as against 6.22 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 capitalisation remained comfortable with overall capital adequacy ratio (CAR) of 24.9 percent as on March 31, 2019 as against 20.7 percent as on March 31, 2018. Further, Magma Housing Finance Limited's capital Adequacy stood comfortable at 35 percent as on March 31, 2019 (29 percent as on March 31, 2018).

Acuité believes that Magma group is adequately capitalised to support its growth prospects for over near to medium term.

Weaknesses

• **Gradual improvement in asset quality and profitability:**

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 demonetisation 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. The group reported gross NPA of 4.4 percent as on March 31, 2019 as against 8.0 percent (as per IND AS classification) as on March 31, 2018. Magma Housing Finance Limited, the mortgage arm of the group's asset quality remains healthy with gross NPA of 1.4 percent as on March 31, 2019 (as per IND-AS) as against 4.36 percent as on March 31, 2018. The car and tractor loans continue to dominate the overall delinquency levels. The group's strategy of curtailing its dependence in tractor segment is likely to result in positive impact on the asset quality and provisioning measures over the medium term. The group's disbursements to the tractor segment has reduced from 11 percent in FY2018 to 7 percent in FY2019. MFL and MHFL's collection efficiency remained comfortable for the period April to March 2019.

MFL's Net NPA improved to 3.14 percent as on March 31, 2019 as against 4.32 percent as on March 31, 2018. The provision coverage ratio stood at 36.9 percent as on March 31, 2019. MHFL's Net NPA improved to 0.92 percent as on March 31, 2019 as against 2.6 percent as on March 31, 2018. This is on account of write offs of Rs. 10 Cr. in FY2019 along with improved collection efforts.

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 1.9 percent in FY2019 as against 1.7 percent in FY2018. The group has maintained its net interest margins at 7.8

percent in FY2019 as against 7.7 percent in FY2018. Despite the flattish NIM's, lower credit costs have supported the improvement in ROAA. The Group has benefitted significantly from its ability to raise funds through banks and financial institutions both through direct business and through the securitization route.

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:

MHFL's liquidity profile remains adequate. The company had negative cumulative mismatch of Rs. 414 Cr. as on March 31, 2019 across maturity buckets of up to one year, primarily as the company has treated working capital facilities (which is generally revolving in nature), of Rs. 306 Cr. being repaid within one year. The company's liquidity profile will continue to be supported by its ability to securitise its portfolio (both priority and non-priority sector eligible). The company has working bank limits under tie up to support business needs or in case of any future mismatch. 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 capitalisation. 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 (MFL-Consolidated)

	Unit	FY19 (Audited)	FY18 (Audited)	FY17 (Audited)
Total Assets	Rs. Cr.	16651.7	14656.1	14778.4
Total Income*	Rs. Cr.	1373.13	1191.81	1259.15
PAT	Rs. Cr.	304.0	236.9	12.7
Net Worth	Rs. Cr.	2743.9	1972.0	1753.5
Return on Average Assets (RoAA)	(%)	1.94	1.61	0.08
Return on Average Net Worth (RoNW)	(%)	12.89	12.72	0.65
Total Debt/Tangible Net Worth (Gearing)	Times	4.86	6.22	7.14
Gross NPA	(%)	4.4	8.0^	6.7
Net NPA	(%)	2.8	4.1^	5.6

* Total income equals to Net interest income plus other income

^restated as per IND AS

About the Rated Entity - Key Financials (MHFL-Standalone)

	Unit	FY19 (Audited)	FY18 (Audited)	FY17 (Audited)
Total Assets	Rs. Cr.	1963	1484	1586
Total Income*	Rs. Cr.	133	123	108
PAT	Rs. Cr.	34	34	34
Net Worth	Rs. Cr.	341	312	273
Return on Average Assets (RoAA)	(%)	2.0	2.2	1.9
Return on Average Net Worth (RoNW)	(%)	10.4	11.5	13.1
Total Debt/Tangible Net Worth (Gearing)	Times	4.6	3.5	4.6
Gross NPA	(%)	1.4	4.4	3.8
Net NPA	(%)	0.9	2.6	3.2

* 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) - None

*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
-	Proposed Secured Non-Convertible Debentures	NA	NA	NA	100.00	ACUITE AA/Stable (Assigned)

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About Acuité Ratings & Research:

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