Magma Fincorp Ltd

IIFL Investment Ideas

CMP: Rs 115 1 year Target: Rs 139

Sector: Finance-NBFC

BUY

Upside: 20.9%

Stock Data

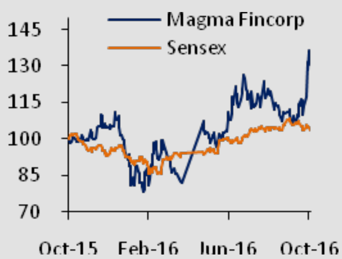
Sensex:	27,643
52 Week h/l (Rs):	126/ 67
Market cap (Rs Cr) :	2,725
BSE code:	524000
NSE code:	MAGMA
FV (Rs):	2
Div yield (%):	0.7

Shareholding Pattern

	Mar-16	Jun-16	Sep-16
Promoters	27.0	27.0	26.9
DII+FII	64.6	63.9	62.5
Individuals	8.4	9.1	10.6

Source: www.bseindia.com

Share Price Trend



Prices as on 13/10/2016

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Magma Fincorp is one of the leading non-banking financial companies operating ~275 branches in India. It provides loans for asset finance and SMEs.

Realignment of portfolio mix to improvise NIM's

Magma Fincorp has realigned its product portfolio towards higher margin products. Now it is focused on mortgages, SME, used assets and tractors while reducing its weightage on CV/CEs. Higher margin product contribution is expected to increase to ~70% of loan book in FY18E from ~58% in FY16. As a consequence, we expect NIM's to improve to ~7.5% for FY18E against ~7% in FY16. This will be supported by lower cost of funds and improved product mix. We believe mortgage and SME segment loan growth to be higher than used assets & tractor segment.

Expanding loan book & yields to contribute to NII improvement

We expect the company's Net Interest Income (NII) to grow ~8% CAGR over FY16-18E to ~Rs 1500 cr. This growth will be propelled by ~6% loan book growth (Rs 18183 cr) and ~22 bps gross yields improvement to ~16.6% by FY18E. Improved product mix, boost in rural income, cross selling opportunities, increasing customer reach and branch expansion will contribute to loan book growth.

Stabilizing asset quality and lowering credit cost to support RoA growth

Magma's efforts in FY16 were on improving its delinquency scenario, especially in CV, CE & Tractor segments. The specific emphasis on better collections has helped the company to lower its delinquencies. Magma is currently adopting 120-dpd NPL recognition and the management has guided to migrate to 90-dpd NPL recognition by FY18. The rising GNPA however will be restricted by improving loan book, better recovery & upgradation due to improving rural income. We expect the recoveries to flow in from Q3 FY17 onwards as a result of the company's better collection efforts. Moreover, we expect the credit cost to decline in FY18E to ~1.7% from >2% in FY16. The falling credit cost and stabilizing asset quality will contribute towards rising RoA. We forecast RoA improvement of ~40 bps to ~1.8 over FY16-18E. This improvement will be the result of NIM expansion, declining operating expenses (opex) & credit costs.

Outlook & Valuation

We recommend BUY on the stock due to following reasons 1) changing portfolio mix towards high margin products will led to NIM's expansion 2) growth potential in loan book 3) asset quality stabilization due to improving rural economy outlook 4) declining credit cost as a result of better recovery efforts and 5) improving operational efficiency. The stock trades attractive at 1.0x P/BV on FY18E BVPS. We value the stock at 1.25x FY18E BVPS to arrive at the target price of Rs 139.

Financial Summary

Rs Cr	FY15	FY16	FY17E	FY18E
Net interest income	1,121	1,286	1,406	1,502
Total operating income	1,152	1,315	1,435	1,531
Pre- provision profit	501	720	807	883
Net profit	179	211	253	274
P/E (x)	12.2	12.9	10.8	9.9
P/BVPS (x)	1.2	1.3	1.1	1.0
ROE (%)	10.0	9.8	10.6	10.4
ROA (%)	1.2	1.4	1.6	1.8

Recommendation Parameters for Fundamental Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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