Magma Housing Finance Limited
June 22, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Proposed NCDs	100.00 (Rs One Hundred crore only)	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Assigned

Details of instruments in Annexure I

Detailed Rationale & Key Rating Drivers

The rating assigned to Magma Housing Finance Limited (MHFL) draws strength from the operational, managerial and financial support it derives from its parent - Magma Fincorp Ltd (MFL) (rated CARE AA-; Negative/CARE A1+). The rating factors in the experienced management team, wide branch network, geographically and product-wise diversified asset portfolio, comfortable Capital Adequacy Ratio (CAR) and adequate liquidity profile of the group.

The rating, however, is constrained by the moderate return indicators and moderately diversified resource profile.

The rating takes into account the substantial decline in consolidated profitability of MFL in 9MFY20 (refers to the period April 1 to December 31) on account of increase in finance cost and credit cost with moderation in asset quality during the period. The asset quality deteriorated as on December 31, 2019 as compared to March 31, 2019 with Gross stage III assets as a percentage of advances at 6.68% (4.79% as on March 31, 2019) and Net stage III assets as a percentage of advances at 4.48% (3.08% as on March 31, 2019).

Though the advances of MHFL increased, the consolidated loan Assets under Management (loan AUM) of MFL witnessed de-growth as on December 31, 2019 with disbursements lower by 18% y-o-y in 9MFY20 on account of deliberate efforts to create adequate liquidity during H1FY20.

The rating also takes note of the growth in loan book with relatively stable asset quality and return indicators of MHFL on a standalone basis as per published results for FY20 (refers to the period April 1 to March 31). The profitability remained moderate inspite of substantial increase in credit cost due to additional provisions for likely impact of Covid-19 outbreak on asset quality.

Outlook: Negative

The outlook is 'Negative' on the expectation of continued pressure on consolidated profitability and asset quality of the group in the near term. The profitability and asset quality were expected to improve from Q4FY20 after witnessing decline in 9MFY20. However, with operational challenges in terms of disbursements and collections associated with outbreak of Covid-19 and expected provisions on account of the same, the profitability is likely to remain subdued. Further, the ability to grow the loan book and control credit costs remains to be seen considering the nationwide outbreak and uncertainty with respect to the time expected to be taken in achieving normalcy. The disbursements are likely to remain impacted due to both operational challenges along with cautious approach to manage asset quality and liquidity. Whereas, credit cost is expected to remain high due to probable impact on collections even after moratorium available to customers is over as the group has major presence in segments like CV/CE, SME and used assets in rural and semi-urban locations with marginal profile of borrowers.

The outlook may be revised to stable if there is improvement in profitability and asset quality while maintaining liquidity on a consolidated basis.

Rating Sensitivities

Positive Factors: Factors that could lead to positive rating action/upgrade

- Substantial improvement in profitability by reducing cost of borrowings, credit cost and opex on a sustained basis.
- Reduction in consolidated Net stage III assets as a percentage of networth to below 10% on a sustained basis.

Negative factors: Factors that could lead to negative rating action/downgrade

- Further decline in profitability and return indicators.
- Gross stage III assets going above 8% of advances.
- Overall CAR going below 18% on a sustained basis.
- Deterioration in liquidity profile.

Detailed description of the key rating drivers

Key Rating Strengths

Promoter support and integrated operations

MHFL is a wholly owned subsidiary of MFL and derives significant amount of support from MFL in terms of financial, managerial and operational synergies. MHFL uses the existing branch network, technology platform and collection team of MFL for its operations. Currently, Mr. Sanjay Chamria, the Vice-Chairman and Managing Director of MFL is acting as non-executive director on the Board of MHFL. While broad policy matters and strategic decisions are taken by the Board, the day-to-day affairs of the company are managed by Mr. Manish Jaiswal as Managing Director & CEO who has over 25 years of experience in retail finance sector.

MFL has been in asset financing business for more than three decades and Mr. Mayank Poddar and Mr. Sanjay Chamria have over three decades of business experience in the financial sector.

Pan-India presence with wide branch network

The portfolio of MHFL has a diversified presence with northern and western part of India contributing around 34% and 33% of the total portfolio respectively followed by southern region with 26% concentration and balance in eastern region (7%) as on March 31, 2020.

MFL has a network of 326 branches (as on December 31, 2019) spread across 21 States/Union Territories which MHFL also uses. The group primarily caters to clients in rural and semi-rural markets and approximately 70% of the branches are located in these areas. The consolidated loan book of the company was also diversified geographically with north contributing about 36%, east about 17%, south about 25% and west contributing about 22% as on December 31, 2019.

Well-diversified product portfolio of the group

MFL, on a consolidated basis, has a well-diversified asset portfolio with presence in utility vehicles/cars (18% share of AUM as on December 31, 2019), construction equipment (CE)/commercial vehicles (CV) (15% of AUM), used assets (23% of AUM), tractors (9% of AUM), SME loan (12% of AUM) and housing loans and loan against property (LAP) (23% of AUM). The consolidated loan AUM stood at Rs.16,574 crore as on December 31, 2019.

The share of high yield assets (i.e., used assets, Tractors and SME loan) as a percentage of gross loan Assets Under Management (AUM), remained high at 44% as on December 31, 2019.

The loan AUM of MHFL stood at Rs.3,283 crore as on March 31, 2020 (Rs.2,429.5 crore as on March 31, 2019).

Comfortable CAR

Overall CAR of MHFL remained comfortable at 36% respectively as on March 31, 2020 as against 34.98% as on March 31, 2019. Higher CAR would aid the company to undertake additional business and also act as a mitigant against delinquencies and other credit risk associated with the business.

Key Rating Weaknesses

Decrease in group disbursements in 9MFY20

MHFL is a relatively smaller player in the housing finance industry with AUM of Rs.3,283 crore as on March 31, 2020. However, the portfolio size has been gradually increasing.

The consolidated disbursement of MFL had witnessed significant growth in the last two years after de-growing in FY16 & FY17. The disbursements increased by 20% from Rs.7,287 crore in FY18 to Rs.8,757 crore in FY19, mainly contributed from CV, CE, Used assets, mortgage and SME loans.

With growth in disbursements, MFL's Loan AUM increased by about 8% to Rs.17,028.65 crore as on March 31, 2019 from Rs.15,800.79 crore as on March 31, 2018.

The disbursements decreased by 18% y-o-y from Rs.6,171 crore in 9MFY19 to Rs.5,095 crore in 9MFY20 on account of deliberate efforts to create adequate liquidity during H1FY20. The disbursements was mainly in focused products with higher yield viz. used assets, SME and affordable housing. Whereas, the disbursements in CV/CE, tractors and cars were significantly lower due to asset quality issues. Hence, the consolidated loan AUM was lower at Rs.16,574 crore as on December 31, 2019 as against loan AUM of Rs.17,028 crore as on March 31, 2019.

Decline in profitability during 9MFY20

MFL's consolidated total income increased by about 4% from Rs.1,881 crore in 9MFY19 to Rs.1,964 crore in 9MFY20 with increase in loan book during FY19 and increase in average yield during 9MFY20. However, the interest cost increased significantly due to increase in cost of funds on account of subdued resource mobilisation scenario along with retiring low cost short term funds and raising long term borrowings. Accordingly, net interest income reduced from Rs.837 crore in 9MFY19 to Rs.784 crore in 9MFY20. The provisions/write-offs for the period increased significantly in 9MFY20. With the combined effect of increase in cost of borrowings and credit cost, the consolidated PAT decreased significantly from Rs.219 crore in 9MFY19 to Rs.63 crore in 9MFY20 resulting in deterioration in return indicators.

The profitability is expected to remain subdued in the ensuing quarters due to likely impact of Covid-19.

MHFL on a standalone basis reported PAT of Rs.42.65 crore on total income of Rs.356.36 crore in FY20 vis-à-vis PAT of Rs.34.02 crore on total income of Rs.245.51 crore in FY19. The increase in profitability, despite increase in credit costs, was mainly on account of increase in interest income with growth in loan book along with increase in other income.

NIM deteriorated from 6.25% in FY19 to 5.68% in FY20 due to increase in cost of funds during the year. The profitability of MHFL on a standalone basis was impacted during Q4FY20 primarily on account of increase in credit costs with additional provisions of Rs.7.35 crore for expected impact of Covid-19. ROTA, however, remained largely stable at 1.88% in FY20 as against 1.93% in FY19.

Moderation in consolidated asset quality during 9MFY20

The consolidated asset quality of MFL witnessed moderation as on December 31, 2019 as compared to March 31, 2019 with decrease in advances outstanding and increase in stage III assets. The Gross Stage III Assets and Net Stage III Assets as a percentage of advances stood at 6.68% and 4.48% respectively as on December 31, 2019 as against 4.79% and 3.08% respectively as on March 31, 2019. Net NPA to networth increased to 23.32% as on December 31, 2019 from 17.47% as on March 31, 2019.

The asset quality is expected to remain under pressure in the near term due to the likely impact of Covid-19 considering the borrower profile of asset classes the group has presence in.

The company plans to manage asset quality and credit costs by focusing on collections and ring fencing the portfolio quality through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and incentivising customers through interest subvention under Pradhan Mantri Awas Yojana (PMAY) schemes for the eligible portfolio.

On a standalone basis for MHFL, the asset quality witnessed marginal improvement during FY20 with relatively stable gross stage III assets and net stage III assets along with increase in loan book. The gross stage III assets as a percentage of Advances and net stage III assets as a percentage of Advances stood at 1.62% and 0.96% respectively as on March 31, 2020 as compared to 1.78% and 1.18% respectively as on March 31, 2019. Net stage III as a percentage of Networth stood at 4.78% as on March 31, 2020 as compared to 6.50% as on March 31, 2019.

Moderate resource profile

MHFL has a moderate resource profile with a mix of equity, long term loans, bank borrowings, short term loans, NCDs, PTCs and commercial paper issuances.

Around 75% of MHFL's total borrowings as on December 31, 2019 (vis-à-vis 68% as on March 31, 2019) was in the form of cash credit/term loans (from banks). In terms of borrowings from debt capital markets, 6% (vis-à-vis 15% as on March 31, 2019) were in the form of NCDs. Whereas, commercial papers (6% as on March 31, 2019), was nil as on December 31, 2019. Securitisation through Pass Through Certificates formed the balance 19% (vis-à-vis 11% as on March 31, 2019) of the borrowings as on December 31, 2019.

MFL has further invested Rs.100 crore of equity in MHFL in March'20 to further augment the lending business of MHFL.

MHFL has raised Rs.273 crore in April and May 2020 in the form of term loans.

Further diversification of resource profile and reduced dependence on bank borrowings is a key rating sensitivity.

Liquidity: Adequate

The Asset Liability Maturity statement as on March 31, 2020 submitted by the company reflects positive cumulative mismatches in all time buckets after including undrawn sanctioned lines of about Rs.269 crore in inflows. However, if the undrawn lines are not considered, there would be a mismatch of Rs.23.69 crore in the 0-30 days bucket and a cumulative mismatch of about Rs.236 crore in the upto one year bucket. The cumulative deficit is primarily due to considering repayment of cash credit in upto one year brackets. However, considering that working capital facilities from banks are renewed on a year to year basis and therefore are revolving in nature; the liquidity profile is adequate.

The company had not availed for the moratorium from banks as per the RBI circular after spread of Covid-19. However, the moratorium till May 31, 2020 had been offered to the customers and collections have remained impacted. About 49% of the customers of MHFL had availed moratorium in the first phase.

MHFL had free cash and liquid investments of Rs.67 crore and un-drawn cash credit limits of Rs.141 crore as on May 31, 2020 as against repayment obligations of about Rs.212 crore from the period beginning May 2020 to end of September 2020. The company also has presence in securitization markets with available securitization pools of Rs.200 crore as on April 30, 2020.

MFL (on consolidated basis) had free cash of about Rs.111 crore (fixed deposits/current account balances/cash in hand) and unutilized lines of credit of about Rs.1,488 crore as on April 30, 2020. The company also had securitization lines of Rs.558 crore as on April 30, 2020.

Analytical approach: Standalone along with factoring in the significant operational, managerial and financial linkages with parent (MFL).

Applicable Criteria

[CARE's Policy on Default Recognition]
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[Rating Methodology – Housing Finance Companies]
[Financial ratios –Financial Sector]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

About the Company

MHFL, (erstwhile Magma Housing Finance, an unlimited liability company) was initially promoted as GE Money Housing Finance (GEMHF) by GE Capital Corporation which is a 100% subsidiary of General Electric Company, USA. Subsequently, on February 11, 2013, the company was acquired by MFL, through its wholly owned subsidiary Magma Advisory Services Ltd (MASL). MASL merged with MFL (appointed date of Apr.01, 2017), post which, MHFL has become a direct subsidiary of MFL. MHFL is engaged in providing housing loans, home equity loans (Loan against Property) to individuals and also provides construction finance. The company is registered with National Housing Bank (NHB) as a non-deposit taking Housing Finance Company. The company commenced disbursements under MFL from June 2013. MHFL is head quartered in Kolkata with its operations from 103 branches of the existing network of MFL as on March 31, 2020 spread across 19 states/Union Territories in India.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Abridged)
Total operating income	246.77	356.36
PAT	34.02	42.65
Interest coverage (times) (after provision)	1.42	1.31
Total Assets	1985.78	2553.67
Net NPA (%)	1.18	0.96
ROTA (%)	1.93	1.88

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Non Convertible Debentures	-	-	-	100.00	CARE AA-; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	-
2.	Short Term Instruments-STD	ST	-	-	-	-	-	-
3.	Fund-based - LT-Term Loan	LT	325.00	CARE AA-; Negative	1)CARE AA-; Negative (10-Jun-20) 2)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Negative (14-Jul-17)
4.	Fund-based - LT-Cash Credit	LT	450.00	CARE AA-; Negative	1)CARE AA-; Negative (10-Jun-20) 2)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Negative (14-Jul-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (06-Jul-18)	1)CARE AA-; Negative (14-Jul-17)
6.	Debentures-Non Convertible	LT	20.00	CARE AA-; Negative	1)CARE AA-; Negative	1)CARE AA-; Stable	1)CARE AA-; Stable	1)CARE AA-; Negative

	Debentures				(10-Jun-20) 2)CARE AA-; Negative (28-Apr-20)	(05-Jul-19)	(06-Jul-18)	(14-Jul-17)
7.	Debentures-Non Convertible Debentures	LT	65.00	CARE AA-; Negative	1)CARE AA-; Negative (10-Jun-20) 2)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Negative (14-Jul-17)
8.	Debentures-Non Convertible Debentures	LT	35.00	CARE AA-; Negative	1)CARE AA-; Negative (10-Jun-20) 2)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Negative (14-Jul-17)
9.	Debentures-Non Convertible Debentures	LT	10.00	CARE AA-; Negative	1)CARE AA-; Negative (10-Jun-20) 2)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	-	-
10.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	-	-
11.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Negative	-	-	-	-

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.