RATING RATIONALE

8 July 2020

Magma Fincorp Limited

**Brickwork Ratings revises Magma Fincorp Limited rating to "BWR AA-/A+"/Negative from "BWR AA/AA-"/Stable**

**Particulars:**

| Instruments / Facilities** | Amount (Rs. Crs.) | | Tenure | Rating* | |
|---|---|---|---|---|---|
| | Previous | Present | | Previous (Jan, 2020) | Present |
| Secured Non convertible debentures | 1000 | 1000 | Long Term | BWR AA Stable | BWR AA- Negative |
| Subordinated Non convertible debentures | 345 | 230 | | | |
| Innovative Perpetual debt instrument (IPDI) | 127.10 | 97.10 | | BWR AA- Stable | BWR A+ Negative |
| Total | 1,472.10 | 1,327.10 | Rs One Thousand Three Hundred Twenty Seven Crores and Ten lakhs Only | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of NCD/Bonds is provided in Annexure-I

## RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) revises the long-term rating of the non-convertible debentures/innovative perpetual debt instrument of Magma Fincorp Limited (MFL) to "BWR AA-/A+"/Negative from "BWR AA/AA-"/Stable, as tabulated above.

The rating revision factors in deterioration in the asset quality and earnings profile of MFL on a consolidated basis, slowdown in AUM growth and challenging funding environment for NBFCs in general. However, the rating continues to derive comfort from the experienced and professional management with an established track record, pan-India presence with a diversified portfolio, adequate capitalisation and adequate liquidity. BWR also takes comfort from MFL's conscious strategy to move off non-profitable product segments and increasingly focus on mortgage finance and used vehicle finance.

The revision in outlook from Stable to Negative is on account of the expected deterioration in asset quality, profitability and disbursements, given the uncertainty regarding the extent of impact of the COVID-19 pandemic on the domestic economy and thereby, on the credit profile of the underlying borrowers of the company and the resultant impact on MFL's portfolio performance and liquidity.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the consolidated financial profile of MFL, along with its wholly owned subsidiary Magma Housing Finance Ltd and joint venture Magma HDI General Insurance Company Ltd and applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

## KEY RATING DRIVERS

**Credit Strengths:**

- **Experienced promoters and management team with established track record**: MFL has been in the asset financing business for more than three decades and has an established track record. Chairman Emeritus and Whole Time Director Mr Mayank Poddar, who has more than 3 decades of experience in the financial services industry, and Vice Chairman & Managing Director Mr Sanjay Chamaria closely monitor business operations with a team of eminent and independent board of directors. They are well-supported by a qualified and experienced management team led by Mr Kailash Baheti, the CFO of MFL; Mr. Manish Jaiswal, the Managing Director & CEO of MHFL and Mr. Deepak Patkar, the CEO of ABF Business, who have more than 2 decades of experience in the finance sector.

- **Diversified product portfolio with pan-India presence**: MFL is present in 21 states and union territories across India, with a strong network of 327 branches with a well-diversified loan portfolio consisting of utility vehicles/cars, construction equipment, commercial vehicles, used assets, tractors, SME loans and mortgage finance. As on 31 March 2020, the consolidated AUM stood at Rs 16,134 Crs, with Cars/CV/CE contributing 32%, used assets contributing 25%, affordable housing contributing 24%, SME loans contributing 12% and tractors contributing 8% of the AUM. MHFL is headquartered in Kolkata, with a pan-India presence in 19 states with 105 branches.

  While the mortgage finance portfolio witnessed good growth of 35% in FY 20, the consolidated AUM for MFL degrew by 5% in FY20 to Rs 16,134 Crs, mainly due to a dip in disbursements by 27% in the new vehicle financing segments, mainly cars/CV/CE. Additionally, the company is increasingly focusing on growing its loan portfolio in profitable product segments, including affordable housing finance and used assets and plans to degrow non-profitable and highly competitive product segments such as cars, CV and CE in a phased manner. BWR expects growth in the AUM to be subdued in FY 21 due to the impact of Covid-19 on collections, resulting in curtailed disbursements as the company focuses more on conserving liquidity.

- **Comfortable capitalisation**: On a standalone basis, MFL had comfortable capitalisation with a total capital-to-risk weighted assets ratio (CRAR) of 25.90% as on 31 March 2020 against the regulatory requirement of 15%. The consolidated tangible networth stood at Rs 2,711 Crs as on 31 March 2020 with a moderate gearing of 4.42x. The networth to NNPA cover for FY20 stood at 4.67x. Going forward, the ability of the company to generate adequate internal accruals and maintain capital adequacy while pursuing growth and also sufficiently covering for asset side risk will be a key rating monitorable.

- **Adequate liquidity:** On a consolidated basis, MFL had adequate liquidity of Rs 1,792 Crs as on 30 June 2020, which includes Rs 320 crs of cash and bank balances and Rs 1,472 Crs of undrawn working capital lines. In addition to this, the company also has undrawn sanctions of Rs.1375 crore under various schemes, viz., NCDs under TLTRO, securitisation, PCG and special financial assistance. Against this, the company has a total debt repayment of Rs 1,061 Crs upto 31 March 2021. Since the company has offered a moratorium to the majority of its customers and did not avail any moratorium from its lenders, as per the ALM profile dated 31 March 2020, since the company has considered entire working capital facility as repayable in the 6-12 months time bucket, there is a small mismatch in the 6-12 months time bucket, well within the generally accepted mismatch in this bucket. BWR expects that the company will maintain adequate liquidity over the near to medium term with an expected improvement in the collection efficiency.

**Credit Risks:**

- **Weakening asset quality** : Consolidated asset quality indicators deteriorated, with the gross NPA and net NPA ratios increasing to 6.40% and 4.20%, respectively, as on 31 March 2020 from 4.8% and 3.10%, respectively, as on 31 March 2019 mainly due to higher delinquencies in cars, CV and CE segments as these segments were severely impacted by the economic slowdown. However, mortgage finance portfolio performance has consistently improved with the gross NPA and net NPA decreasing to 1.61% and 0.97% in FY20 from 5.40% and 2.60% respectively for FY18, given that the company has substantially reduced its exposure to construction finance, where delinquencies are higher. However, BWR expects overall asset quality to moderate further during FY 21 due to the impact of the COVID-19 pandemic on the domestic economy in general and resultant impact on the credit profile of MFL's borrowers, especially in the vehicle finance segment. The company had given a loan moratorium to the majority of its customers in phase I of the moratorium announced by the RBI. While the proportion of loan under the moratorium is expected to decrease in phase II of the moratorium between June and August 2020, the ability of the company to improve collections during and after the moratorium period will be a key monitorable.

- **Weakening profitability**: The earnings profile of MFL on a consolidated basis weakened in FY 20, with the Return on Assets and Return on Equity dipping to 0.20% and 1.00%, respectively, from 1.9% and 13.0% a year ago. This was mainly due to higher provisions costs incurred by the company due to the deterioration in asset quality. It also included provisioning towards COVID-19 amounting to Rs 117 crore in Q4FY20 and a Rs 40 Crs reduction due to the re-measurement of tax rates. Nevertheless, net interest margins remained high at 7.7% for FY 20 although these reduced from 8.4% in FY 19 mainly due to an increasing share of mortgage finance portfolio in the overall AUM and also higher borrowing costs. The consolidated PAT substantially decreased from Rs 304 Crs in FY19 to Rs 27 Crs in FY20. While the company is working towards decreasing its borrowing and operating costs in FY 21, profitability could remain under pressure mainly due to the increase in provisioning costs on account of the impact of the COVD-19 crisis on MFL's asset quality in the near term.

- **Challenging funding environment for NBFCs:** Currently, the NBFC sector, including HFCs in India, are facing liquidity and funding challenges, resulting in subdued growth/degrowth and potential ALM mismatches in the short term. This is also expected to adversely affect the borrowing profile and profitability of NBFCs. The COVID-19 pandemic has aggravated the liquidity issues of NBFCs, with the loan moratorium announced by the RBI affecting the collection efficiency of NBFCs and the resultant impact on asset quality and profitability. Furthermore, MFL operates in a highly competitive retail financing environment, thereby its ability to demonstrate sustained and profitable growth while maintaining asset quality over the medium term will be critical. However, MFL has been able to raise long-term funds in the recent past and going forward, the ability of the company to raise long term funds at competitive rates will be a key monitorable.

## RATING SENSITIVITIES

**Positive:** MFL's ability to showcase good growth in its AUM, and improve its asset quality and profitability on a consolidated basis will be key rating positives.

**Negative:** Any further deterioration in the asset quality and profitability on a consolidated basis will be key rating monitorables.

**LIQUIDITY POSITION: Adequate**
On a consolidated basis, MFL had adequate liquidity of Rs 1,792 Crs as on 30 June 2020, which includes Rs 320 crs of cash and bank balances and Rs 1,472 Crs of undrawn working capital lines. In addition to this, the company also has undrawn sanctions of Rs.1375 crore under various schemes, viz., NCDs under TLTRO, securitisation, PCG and special financial assistance. Against this, the company has a total debt repayment of Rs 1,061 Crs upto 31 March 2021. Since the company has offered a moratorium to the majority of its customers and did not avail any moratorium from its lenders, as per the ALM profile dated 31 March 2020, since the company has considered the entire working capital facility as repayable in the 6-12 months time bucket, there is a small mismatch in the 6-12 months time bucket, well within the generally accepted mismatch in this bucket. BWR expects that the company will maintain adequate liquidity over the near to medium term with expected improvement in collection efficiency.

**Coronavirus disease (COVID-19),** declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

**COMPANY PROFILE**
Magma Fincorp Limited (MFL) is a systemically important non-deposit-taking NBFC. The company started its operations in 1989 and as of 31 March 2020, it has an Asset under Management (AUM) of Rs 16,134 Crores. The company is promoted by Mr. Sanjay Chamria and Mr. Mayank Poddar. It is a BSE/NSE-listed company and as of 31 March 2020, promoters held a 24.40% stake, financial institutions held 27.62%, foreign institutions held 27.39%, NBFCs and mutual funds held 11.52%, public held 6.18% and others held 2.89%.

MFL is also present in mortgage finance through its wholly owned subsidiary Magma Housing Finance Ltd (MHFL) and in general insurance business through its joint venture Magma HDI General Insurance Company Ltd. As on 31 March 2020, MHFL’s AUM stood at Rs 3,283 Crs and Magma HDI had an investment corpus of Rs 2,285 Crs.

Mr. Mayank Poddar is the Chairman Emeritus; Mr. Narayan K Seshadri is the Independent Non-Executive Chairman and Mr. Sanjay Chamria is the Vice Chairman and Managing Director of MFL. The company also has well-qualified and experienced professionals looking after credit, collection, risk, marketing, audit and other support functions. Magma Fincorp has a diversified product offering that includes loans for cars and utility vehicles, commercial vehicles (CV), construction equipment (CE), agri-finance, used vehicles, SME businesses and mortgage finance. The company undertakes its operations through 327 branches across 21 states and union territories in the country.

**KEY FINANCIAL INDICATORS (Consolidated)**

| Key Parameters | Units | FY18 | FY19 | FY20 |
|---|---|---|---|---|
| **Result Type** | | **Audited** | **Audited** | **Audited** |
| AUM | Rs in Crs | 15,801 | 17,029 | 16,134 |
| Net Income from operations | Rs in Crs | 1,173 | 1,332 | 1,220 |
| PAT | Rs in Crs | 237 | 304 | 27 |
| Tangible Networth | Rs in Crs | 1,928 | 2,702 | 2,711 |
| Gross NPA | % | 8.60 | 4.80 | 6.40 |
| Total CRAR | % | 17.30 | 24.90 | 25.90 |
| Return on Assets | % | 1.50 | 1.90 | 0.20 |

**KEY FINANCIAL INDICATORS (Standalone)**

| Key Parameters | Units | FY18 | FY19 | FY20 |
|---|---|---|---|---|
| **Result Type** | | **Audited** | **Audited** | **Audited** |
| On book Loan Portfolio | Rs in Crs | 13,993 | 14,599 | 11,839 |
| Net Income from operations | Rs in Crs | 1,051 | 1,213 | 1,054 |
| PAT | Rs in Crs | 201 | 275 | (10) |
| Tangible Networth | Rs in Crs | 1,782 | 2,529 | 2,515 |
| Gross NPA | % | 9.0 | 5.2 | 7.7 |
| Return on Assets | % | 1.6 | 1.9 | -0.1 |

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil**

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

| Sl. No. | Instrument | Current Rating (July 2020) | | | Rating History | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 24-Jan-2020 | 27 -Dec -2018 | 12 -Jun -2018 | 06-Feb-2018 | 21-Mar-2017 |
| 1 | Subordinated NCD | Long Term | 345 | BWR AA- Negative | BWR AA Stable | BWR AA Stable | BWR AA Stable | BWR AA Negative | NA |
| 2 | IPDI | | 127.10 | BWR A+ Negative | BWR AA- Stable | BWR AA- Stable | BWR AA- Stable | BWR AA- Negative | BWR AA- Negative |
| 3 | Secured NCD | | 1000 | BWR AA- Negative | BWR AA Stable | BWR AA Stable | NA | NA | NA |

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Banks and Financial Institutions**

| Analytical Contacts | Investor Contacts |
|---|---|
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| | |

## Magma Fincorp Ltd

### ANNEXURE I: INSTRUMENT (NCD) DETAILS

| Instrument | Issue Date | Amount (Rs in Cr) | Coupon Rate (%) | Maturity Date | ISIN Particulars |
|---|---|---|---|---|---|
| Secured NCD (Public Issue) | 6-May-2019 | 106.77 | 10.25 | 06-May-2022 | INE511C07656 |
| | 6-May-2019 | 4.75 | Zero Coupon | 06-May-2022 | INE511C07664 |
| | 6-May-2019 | 6.17 | 10.04 | 06-May-2024 | INE511C07672 |
| | 6-May-2019 | 77.82 | 10.5 | 06-May-2024 | INE511C07680 |
| | 6-May-2019 | 1.19 | Zero Coupon | 06-May-2024 | INE511C07698 |
| | 6-May-2019 | 2.67 | 10.27 | 06-May-2029 | INE511C07706 |
| | 6-May-2019 | 2.03 | 10.75 | 06-May-2029 | INE511C07714 |
| | **Total** | **201.4** | | | |
| Subordinated NCD (Tier II) | 06-Sep-2012 | 10 | 11.5 | 06-Sep-2022 | INE511C08803 |
| | 06-Sep-2012 | 10 | 11.5 | 06-Sep-2022 | INE511C08803 |
| | 06-Sep-2012 | 1 | 11.5 | 06-Sep-2022 | INE511C08803 |
| | 06-Sep-2012 | 2 | 11.5 | 06-Sep-2022 | INE511C08803 |
| | 06-Sep-2012 | 2 | 11.5 | 06-Sep-2022 | INE511C08803 |
| | 17-Jan-2013 | 10 | 11 | 17-Jan-2023 | INE511C08829 |
| | 23-Apr-2013 | 48 | 10.7 | 21-Apr-2023 | INE511C08860 |
| | 26-Sep-2013 | 14 | 10.9 | 26-Sep-2023 | INE511C08886 |
| | 07-Dec-2016 | 10 | 10.4 | 07-Dec-2026 | INE511C08985 |
| | 07-Dec-2016 | 25 | 10.4 | 07-Dec-2026 | INE511C08985 |
| | 14-Dec-2016 | 10 | 10.3 | 14-Sep-2022 | INE511C08993 |
| | 28-Dec-2016 | 3 | 10.3 | 28-Sep-2022 | INE511C08AA9 |
| | 03-Jan-2017 | 5 | 10.3 | 03-Oct-2022 | INE511C08AB7 |
| | 06-Jan-2017 | 15 | 10.4 | 06-Jan-2027 | INE511C08AD3 |
| | 06-Jan-2017 | 2 | 10.3 | 06-Oct-2022 | INE511C08AC5 |
| | 06-Jan-2017 | 3 | 10.3 | 06-Oct-2022 | INE511C08AC5 |
| | 24-Jan-2017 | 25 | 10.4 | 24-Jan-2027 | INE511C08AE1 |
| | 03-Mar-2017 | 15 | 10.25 | 03-Mar-2027 | INE511C08AG6 |
| | 18-May-2017 | 10 | 10.1 | 18-May-2027 | INE511C08AI2 |
| | 07-Mar-2018 | 5 | 10.2 | 06-Jun-2025 | INE511C08AK8 |
| | 28-Mar-2018 | 5 | 10 | 28-Mar-2028 | INE511C08AL6 |
| | **Total** | **230** | | | |
| IPDI | 9-Dec-10 | 10 | 12.5 | Perpetual | INE511C08704 |

| | | | | | |
|---|---|---|---|---|---|
| | 7-Jan-11 | 4 | 12.5 | Perpetual | INE511C08712 |
| | 7-Jan-11 | 11 | 12.5 | Perpetual | INE511C08712 |
| | 20-May-13 | 1 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 2 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.05 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.05 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.05 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.1 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.1 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.1 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.4 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.1 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.25 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.35 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.05 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.1 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.05 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.5 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 0.3 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 1 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 1.45 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 6 | 12.1 | Perpetual | INE511C08878 |
| | 20-May-13 | 11.5 | 12.1 | Perpetual | INE511C08878 |
| | 26-Sep-13 | 25 | 12 | Perpetual | INE511C08894 |
| | 14-Jun-16 | 3 | 12.1 | Perpetual | INE511C08944 |
| | 5-Jul-16 | 1.7 | 12.1 | Perpetual | INE511C08951 |
| | 1-Aug-16 | 10 | 12.1 | Perpetual | INE511C08969 |
| | 9-Sep-16 | 3 | 12.1 | Perpetual | INE511C08977 |
| | 3-Feb-17 | 1.9 | 11.5 | Perpetual | INE511C08AF8 |
| | 7-Mar-17 | 1 | 11.5 | Perpetual | INE511C08AH4 |
| | 4-Aug-17 | 1 | 11 | Perpetual | INE511C08AJ0 |
| | **Total** | **97.1** | | | |

**Magma Fincorp Ltd**
**ANNEXURE II: List of entities consolidated**

| Name of Entity | % ownership | Extent of consolidation | Rationale for consolidation |
|---|---|---|---|
| Magma Housing Finance Ltd | 100% | Full | Wholly owned Subsidiary |
| Magma HDI General Insurance Company Ltd | 35% | Partial | Associate Company |

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