RATING RATIONALE

8 July 2020

Magma Housing Finance Limited

Brickwork Ratings Revises Magma Housing Finance Limited rating to “BWR AA-”/Negative from “BWR AA”/Stable

Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Jan 2020)	Present
Secured NCD	100	100	Long Term	BWR AA Stable	BWR AA- Negative
Total	100	100	Rs One Hundred Crores Only		

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

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) revises the long-term rating of the secured non-convertible debenture of Magma Housing Finance Limited (MHFL) to “BWR AA-”/Negative from “BWR AA”/Stable, as tabulated above.

The rating revision factors the deterioration in the asset quality and earnings profile of MFL on a consolidated basis, the slowdown in AUM growth and challenging funding environment for NBFCs, including that for MFL. However, the rating continues to derive comfort from the strong support from the parent, 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 an expected deterioration in asset quality, profitability and disbursements, given the uncertainty regarding the extent of the 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 MHFL 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:

- **Strong articulation of support from parent and experienced management team with proven track record**: MHFL is a wholly owned subsidiary of Magma Fincorp Ltd (MFL) and derives significant support from MFL, both in terms of financial and operational synergies. MHFL uses the existing branch network, technology platform and collection team of MFL for its operations. MFL has articulated a strong commitment towards its ownership of MHFL and also towards providing the financial and operational support required by MHFL. Mr. Sanjay Chamria, the vice chairman and MD of MFL, is a non-executive director on the board of MHFL. The company has professional management, led by Mr. Manish Jaiswal, the managing director and CEO of MHFL, who has over 25 years of experience in the retail finance sector, to take care of different aspects of the business.

- **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% and on a standalone basis, MHFL is adequately capitalised with a total CRAR of 35.99% against the regulatory requirement of 12%. 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 risks 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 lenders, as per the ALM profile dated 31 Mar 2020, since the company has considered the entire working capital facility as repayable in a 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, the mortgage finance portfolio performance consistently improved, with the gross NPA and net NPA decreasing to 1.61% and 0.97%, respectively, 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 the 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% from 1.9% and 13.0%, respectively, 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. Nevertheless, net interest margins remained high at 7.7% for FY 20 although these reduced from 8.4% in FY 19 mainly due to the increasing share of the 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, the profitability could remain under pressure mainly due to an 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, and 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 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 an expected improvement in the 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 Housing Finance Ltd

MHFL was initially promoted as GE Money Housing Finance (GEMHF) by GE Capital Corporation, a 100% subsidiary of General Electric Company, the US. Subsequently, on 11 February 2013, the company was acquired by MFL, through its wholly owned subsidiary Magma Advisory Services Ltd (MASL). MASL has merged with MFL (appointed date of 1 April 2017), post which, MHFL became a direct subsidiary of MFL. MHFL is engaged in providing housing loans, home equity loans (loans against property) to individuals and construction finance. The company is registered with National Housing Bank (NHB) as a non-deposit-taking housing finance company. The company commenced disbursements under the new management from June 2013.

COMPANY PROFILE: Magma Fincorp Ltd

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 had an AUM of ₹ 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%.

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. It also undertakes housing finance and general insurance through its subsidiaries and joint ventures. The company undertakes its operations through 327 branches across 21 states and union territories in the country.

KEY FINANCIAL INDICATORS: Magma Housing Finance Ltd (standalone)

Key Parameters	Units	FY18	FY19	FY20
Result Type		**Audited**	**Audited**	**Audited**
AUM	Rs in Crs	1,809	2,430	3,283
Net interest income	Rs in Crs	89	110	129
PAT	Rs in Crs	34	34	43
Tangible Networth	Rs in Crs	311	340	479
Gross NPA	%	5.40	1.80	1.60
Net NPA	%	2.60	1.20	0.97
Total CRAR	%	30.90	34.98	35.99
Return on Assets	%	1.90	1.60	1.50

KEY FINANCIAL INDICATORS: Magma Fincorp Ltd (Consolidated)

Key Parameters	Units	FY18	FY19	FY20
Result Type		**Audited**	**Audited**	**Audited**
AUM	Rs in Crs	15,801	17,029	16,134
Net Revenues 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 Stage III Assets	%	8.60	4.80	6.40
Total CRAR	%	17.30	24.90	25.90
Return on Assets	%	1.50	1.90	0.20

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]

S.No	Instrument	Current Rating (July 2020)			Rating History			
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	24 Jan 2020	25 Feb 2019	2018	2017
1	**Secured NCD**	Long Term	100	**BWR AA- (Negative) Downgraded**	**BWR AA (Stable) Reaffirmed**	**BWR AA (Stable) Assigned**	**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
Vydinathan Ramaswamy Chief Analytical Officer & Head - Financial Sector Ratings B :+91 22 2831 1426, +91 22 2831 1439 vydianathan.r@brickworkratings.com **Sree Harsha** Manager - Ratings B :+91 80 4040 9940 Ext :361 sreeharsha@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

Magma Housing Finance Ltd

ANNEXURE I: INSTRUMENT (NCD) DETAILS

Instrument	Issue Date	Amount (Rs in Cr)	Coupon Rate (%)	Maturity Date	ISIN Particulars
Secured NCD	29 Mar 2019	25	10.87	29 Sep 2020	INE055I07081

ANNEXURE II: List of entities consolidated

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