

February 17, 2021

Magma Housing Finance Limited: Rating placed on Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loans	1,122.11	1,122.11	[ICRA]AA- & Placed on Watch with Developing Implications
Total	1,122.11	1,122.11	

*Instrument details are provided in Annexure-1

Rationale

To arrive at Magma Housing Finance Limited's (MHFL) rating, ICRA has taken a consolidated view of the credit profiles of Magma Fincorp Limited (MFL) and its wholly-owned subsidiary, MHFL (together referred to as the Magma Group), owing to their common management and shared infrastructure.

Rising Sun Holdings Private Limited, a company controlled by Mr. Adar Poonawalla, and MFL announced the preferential issuance of equity shares of MFL on February 10, 2021, which will result in Rising Sun Holdings acquiring a 60.0% controlling stake in MFL, and an open offer as per a Public Announcement made under the Substantial Acquisition of Shares and Takeovers (SAST) guidelines. The preferential allotment is for an aggregate value of Rs. 3,456 crore, with 45.8 crore shares being issued to Rising Sun Holdings and 3.6 crore shares to Mr. Sanjay Chamria and Mr. Mayank Poddar collectively, subject to shareholders' and other regulatory approvals. Based on this, the existing promoter group's stake would decline to 13.3% post issuance from 24.4% as on December 31, 2020. Consequently, Rising Sun Holdings would also be classified as the promoter of the company, together with the existing promoter group (Mr. Chamria and Mr. Poddar). Magma's net worth shall increase to over Rs. 6,300 crore post the issuance and it will be renamed and rebranded as Poonawalla Finance. Also, the existing financial services business of Poonawalla Finance is proposed to be consolidated into Magma.

ICRA has taken note of the announcement made by Magma regarding the change in MFL's shareholding following the proposed capital infusion of Rs. 3,456 crore of equity through a preferential issue by the Adar Poonawalla-controlled Rising Sun Holdings, Mr. Chamria and Mr. Poddar. The proposed capital infusion would be a positive for the Group's capitalisation profile and would provide capital for absorbing losses as well as fund growth over the medium term. The transaction is subject to regulatory approvals and ICRA would monitor the developments on this transaction. ICRA would take suitable rating action once it has clarity on the proposed business model of the company, the likely impact on various credit metrics, and other organisation-related changes. Hence, the rating has been put on rating Watch with Developing Implications.

The [ICRA]AA- rating factors in the Group's strong presence in the retail asset finance business with a wide geographical presence through 297 branches across 21 states, mostly in semi-urban and rural areas. The rating also factors in the Group's comfortable capitalisation levels (CRAR of 28.0% and a consolidated net worth of Rs. 2,858 crore as on December 31, 2020), well-diversified portfolio mix and adequate liquidity buffers in the form of unutilised drawable bank lines and unencumbered cash and liquid investments. In ICRA's opinion, prudent capitalisation is a key mitigant against delinquencies and other credit risks associated with the Group's business. Magma also has adequate financial flexibility as reflected from its good banking relationships and diversified borrowing profile. Also, a sizeable part of its loan book qualifies for priority sector lending, thus making securitisation an additional funding option for the Group.

However, the credit strengths are partly offset by the Group's moderate profitability owing to rising delinquencies and hence elevated credit costs. The Group's portfolio has a high proportion of borrowers with relatively moderate credit profiles (first-time buyers, small entrepreneurs, self-employed and non-income proof category) and hence remains vulnerable, especially in

the current challenging operating environment. Customers, who have availed a moratorium and have not paid a single instalment till the end of December 2020, stood at ~Rs. 280 crore or 1.9% of the assets under management (AUM) as on December 30, 2020. The Group's ability to control fresh slippages, especially from the stressed pool, and recover from already delinquent accounts (gross stage 3 assets % of 6.9% as on December 31, 2020), especially in the current environment, would be a determinant of its credit profile over the medium term.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position and Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies ICRA's Credit Rating Methodology for Housing Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated view of the credit profiles of MFL and MHFL (together referred to as the Magma Group) owing to their common management and shared infrastructure

About the company

Magma Housing Finance Limited (MHFL) is registered with National Housing Bank as a non-deposit taking housing finance company. It was initially promoted as GE Money Housing Finance by GE Capital Corporation. Subsequently, in February 2013, the company was acquired by MFL through its subsidiary, Magma Advisory Limited. It commenced disbursements under the new management in June 2013. MHFL currently provides housing loans, loan against property (LAP) and construction finance.

On a standalone basis, MHFL reported a profit after tax of Rs. 42.6 crore on a total asset base of Rs. 2,583 crore in FY2020 against a profit after tax of Rs. 34.0 crore on a total asset base of Rs. 1,986 crore in FY2019. In 9M FY2021, MHFL reported a profit after tax of Rs. 31 crore on a total asset base of Rs. 3,188 crore. The company's managed portfolio stood at Rs. 3,709 crore, as on December 31, 2020, 55% of which was towards home loans and 45% towards LAP and construction finance. The company's reported gross and net stage 3 asset ratios stood at 1.9% and 1.3%, respectively, as on December 31, 2020.

About the Group

Magma Fincorp Limited (formerly MFL Leasing Limited and MFL Shrachi Finance Limited) was incorporated in 1988 and is registered with the Reserve Bank of India (RBI) as an asset-financing non-banking financial company (NBFC). MFL primarily provides finance for commercial vehicles (CVs), construction equipment (CE), passenger cars, used assets, tractors, SME and mortgage assets. While MFL has a long track record in asset-based product financing (CVs, CE, cars, tractors), its SME business gained volume only from FY2014. The company entered mortgage financing in February 2013 and general insurance through a joint venture in October 2012.

In FY2020, MFL recorded a consolidated profit after tax of Rs. 27 crore on a total consolidated asset base of Rs. 15,852 crore compared with a consolidated profit after tax of Rs. 304 crore on a total consolidated asset base of Rs. 17,346 crore in FY2019. In 9M FY2021, Magma reported a consolidated profit after tax of Rs. 89 crore on a total consolidated asset base of Rs. 15,117 crore. Magma reported assets under management of Rs. 15,006 crore as on December 31, 2020. Vehicle loans continued to dominate the portfolio mix at 62% followed by mortgage (28%) and SME (10%). The gross stage 3 asset ratio stood at 6.9% as on December 31, 2020 (vs. 6.4% as on March 31, 2020) and the net stage 3 asset ratio at 4.5% as on December 31, 2020 (vs. 4.2% as on March 31, 2020).

Key financial indicators (audited; consolidated)

Magma Group	FY2019	FY2020	9M FY2021
Total income	2,495	2562	1,179
Profit after tax	304	27	89
Net worth	2,744	2,748	2,858
Total assets under management	17,028	16,134	15,006
Total assets	17,346	15,852	15,117
Return on average assets	1.8%	0.2%	0.8%
Return on average equity	12.9%	1.0%	4.2%
Gearing (times)	4.8	4.4	3.8
% CRAR (standalone)	24.9%	25.9%	28.0%
% Gross stage 3 assets (on-book)	4.8%	6.4%	6.9%
% Net stage 3 assets (on-book)	3.1%	4.2%	4.5%
% Net stage 3 assets/ Net worth	17.2%	21.1%	20.5%
% Gross NPA	4.8%	6.4%	3.7%
% Net NPA	3.1%	4.2%	2.4%

Source: Company, ICRA research; All ratios as per ICRA calculations; Amount in Rs. crore

Key financial indicators (audited; standalone)

MHFL	FY2019	FY2020
Total income	244	354
Profit after tax	34	43
Net worth	341	481
Assets under management	2,430	3,283
Total assets	1,986	2,583
Return on average assets	1.9%	1.9%
Return on average equity	10.4%	10.4%
Gearing (times)	4.7	4.2
% CRAR (standalone)	35.0%	36.0%
% Gross stage 3 assets (on-book)	1.8%	1.6%
% Net stage 3 assets (on-book)	1.2%	1.0%
% Net stage 3 assets/ Net worth	6.5%	4.8%
% Gross NPA	1.8%	1.6%
% Net NPA	1.2%	1.0%

Source: Company, ICRA research; All ratios as per ICRA calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)						Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (Rs. crore)	Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)		Feb 17, 2021	Dec 8, 2020	Apr 13, 2020	Dec 16, 2019	Jul 22, 2019, Aug 6, 2019, Oct 4, 2019	Apr 23, 2018	Jul 24, 2017
1	Term Loans (banks)	Long Term	1,122.11	979.69*	[ICRA]AA-&	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)
2	NCD	Long Term	-	-			Rating Withdrawn	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)

&: Under Watch with Developing Implications; * Proposed bank limits: Rs. 142.42 crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	04-May-16	NA	FY2021	6.25	[ICRA]AA- &
NA	Term Loan-II	22-Mar-18	NA	FY2023	42.19	[ICRA]AA- &
NA	Term Loan-III	30-Mar-19	NA	FY2024	75.00	[ICRA]AA- &
NA	Term Loan-IV	06-Aug-19	NA	FY2025	93.75	[ICRA]AA- &
NA	Term Loan-V	11-Sep-19	NA	FY2024	112.50	[ICRA]AA- &
NA	Term Loan-VI	17-Dec-19	NA	FY2030	300.00	[ICRA]AA- &
NA	Term Loan-VII	30-Mar-19	NA	FY2026	100.00	[ICRA]AA- &
NA	Term Loan-VIII	15-Dec-20	NA	FY2025	100.00	[ICRA]AA- &
NA	Term Loan-IX	31-Dec-20	NA	FY2029	150.00	[ICRA]AA- &
NA	Proposed Term Loans	NA	NA	NA	142.42	[ICRA]AA- &

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Magma Fincorp Limited	100.00%	Full Consolidation
Magma Housing Finance Limited	100.00%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (MFL) and its subsidiaries while assigning the rating

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