

## Magma ITL Finance Limited

Instrument	Amount (In Rs crore )	Rating Action
Bank Lines	310.0 (enhanced from 80.0)	[ICRA]A+ (Stable); Assigned

ICRA has assigned a rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 310.0 crore<sup>1</sup> (enhanced from Rs. 80.0 crore) bank lines of Magma ITL Finance Limited (MITL)<sup>2</sup>. The outlook on the long-term rating is Stable.

The rating factors in MITL's parentage in the form of Magma Fincorp Limited (MFL, rated at [ICRA]AA-/Stable) which owns 74% in MITL and International Tractors Limited (ITL, rated at [ICRA]AA+/ Stable), which holds the balance 26%. The rating also factors in Magma group's well diversified branch network, its understanding of key asset segments and its established systems and processes which should help MITL in growing its loan book while maintaining moderate profitability. While arriving at MITL's rating, ICRA has taken a consolidated view on credit profile of MFL, MHF<sup>3</sup> and MITL (collectively referred to as Magma group) owing to common management, infrastructure sharing between the companies and the strategic importance of MHF and MITL to MFL.

ICRA has taken note of the current high level of delinquencies in Magma's<sup>4</sup> book (gross NPAs<sup>5</sup> relative to on balance sheet loan portfolio was 10.4% as on March 31, 2016 as compared with 7.2% as on March 31, 2015), which have impacted the overall profitability<sup>4</sup> (PAT/AMA<sup>6</sup> of 0.85% - 1% during FY15 and FY16) and solvency profile<sup>4</sup> (Net NPA in relation to net worth of 52.5% as on March 31, 2016). However, ICRA expects the risk adjusted returns to improve going forward as the management's efforts in focussed recoveries start yielding results and also as the proposed change in portfolio mix is achieved. The company's efforts should be supported by the expectations of a good monsoon this year. The group follows asset classification norms that are more stringent (classifies NPAs on 120+ dpd basis) than that prescribed by the regulator. While Magma's reported solvency profile (net NPAs in relation to net worth) on a consolidated basis is relatively weak at 53% as on March 31, 2016, considering the secured nature of the loans and assuming 25-30% haircut on NPAs, losses in relation to net worth are likely to be low at around 3 – 6%. Further, the management's plan to maintain Tier 1 capital at >12% are likely to mitigate the risk and ensure low credit risk profile for the group.

Magma group has a diversified borrowing profile<sup>4</sup> wherein it raises funds from banks/FIs<sup>7</sup> (~82% of total borrowings including assignment/securitisation funding); capital market instruments (NCD and CP, and capital instruments) and others were around 18% of total borrowings as on March 2016. A sizeable part of Magma's loan book qualifies for priority sector funding from banks, giving it the opportunity for raising off balance sheet funding, through either direct assignment (DA) or securitisation, at attractive costs. ICRA has also taken note of share of DA book (relatively high at ~15% as on March 31, 2016) in total credit portfolio of Magma<sup>4</sup>, where Magma does not bear credit risk. Increased proportion of direct assignments in the overall borrowing mix would help Magma in improving its earnings and capital efficiency. The group's liquidity profile is comfortable with access to a diversified set of institutional lenders, which helps it to bridge its ALM gaps.

On the standalone company level, MITL's capitalisation profile was moderate as reflected by net worth/ managed loan book of around ~17.4% as on March 31, 2016. MITL's asset quality remains weak and witnessed sharp deterioration (gross NPAs<sup>8</sup> relative to on balance sheet book was 22.2% as on March 31, 2016 as compared with 16.1% as on March 31, 2015). The company's solvency profile<sup>9</sup> also deteriorated with net NPAs to net worth being relatively high at 69.4% as on March 31, 2016 (compared to 49% as on Mar-15).

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> MHF: Magma Housing Finance (a public company with unlimited liability)

<sup>4</sup> On a consolidated basis; for MFL, MHF, and MITL

<sup>5</sup> 120+ dues past due (dpd), on a consolidated basis

<sup>6</sup> Profit after tax (PAT)/ Average Managed Assets (AMA), on a consolidated basis

<sup>7</sup> Consortium of 21 PSBs and private banks

<sup>8</sup> 120+ dues past due (dpd), on a standalone basis

<sup>9</sup> On a standalone basis - for MITLonly

However, overall solvency is expected to be supported by secured nature of the loans and the loss sharing arrangement between MITL, dealers and the OEM. MITL's borrowing profile<sup>9</sup> is largely concentrated towards funding from banks (80% of its total funding, including securitisation/assignment funding, as on March 31, 2016) and balance was primarily in the form of commercial paper borrowings and inter corporate deposits. The liquidity profile of the company<sup>9</sup> is comfortable with adequate unutilized working capital lines to cover repayment of shorter tenure commercial paper borrowings as well as financial flexibility arising from its parentage. As for profitability, MITL reported PAT/AMA<sup>9</sup> of 0.8% and return on net worth of 5.6% during FY16 (2.4% and 18.1% respectively during FY15), adversely impacted due to decline in NIMs and increased credit costs.

#### **About Magma ITL Finance Limited**

Magma ITL Finance Ltd. (MITL) is a 74:26 joint venture between MFL and ITL. ITL manufactures the Sonalika brand of tractors. The JV was set up with the objective of financing tractors manufactured by ITL. MITL started commercial operations in July 2008 and has since been engaged only in tractor financing. As on March 31, 2016, MITL accounted for ~28% of Magma group's tractor loan book (tractors of ITL make), with the balance being in MFL (tractors of other OEMs). Magma group offers tractor loans across 17 states and union territories, through the 175 branches of MFL.

During FY2016, MITL reported a PAT of Rs. 8.1 crore on a total asset base of Rs. 1,002 crore as on March 31, 2016 as against PAT of Rs. 25.4 crore on total asset base of Rs. 1,092 crore as on March 31, 2015. As on March 31, 2016, MITL's reported CRAR was 19.64% (entirely Tier I capital) and gross NPAs of 22.2% (gross NPA relative to on balance sheet book).

#### **About Magma Fincorp Limited**

Magma Fincorp Limited (Formerly known as Magma Leasing Limited and Magma Shrachi Finance Limited) was incorporated in 1989 and is registered with RBI as an Asset Financing NBFC. In early 2007, the Company acquired Shrachi Infrastructure Limited, an NBFC operating in the retail finance space. As on March 31, 2016, Magma group had loan book of Rs 18,183 crore composed of utility vehicles/ cars (24.9%), commercial vehicles (9.1%), construction equipments (8.0%), used assets (11.2%), Tractors (18.8%), SME loans (9.5%), mortgage (18.5%) and marginal share of gold loan book.

While Magma has a long track record in core product financing (CV, CE and Car), other high yielding assets like tractor and SME financing were started in 2008. The company entered in mortgage business in February 2013 and in General Insurance, through a joint venture, in October 2012. As at March 31, 2016, the company had a network of 234 branches, with more than 75% of the branches in rural and semi urban areas.

During FY2016, Magma recorded a consolidated profit after tax of Rs.213.5 crore on a total consolidated managed asset base of Rs. 19,608 crore compared to profit of Rs. 187.3 crore during FY2015 on a total managed asset base of Rs. 21,174 crore. MFL's tier I capital and CRAR (standalone) were 14.6% and 18.7% as on March 31, 2016, while its gross NPA relative to on balance sheet book was 10.4% (net NPA relative to on balance sheet book was 8.4%). Please refer to ICRA rating rationale on Magma Fincorp Limited for more information.

#### **About International Tractors Limited (ITL)**

International Tractors Limited (ITL), a part of the Sonalika Group, is one of the leading tractor manufacturers in India. The Sonalika group was established in 1969, and commenced with manufacturing of farm implements. Subsequently, ITL was incorporated in 1995 for the manufacture of tractors. The company manufactures tractors of Sonalika & Solis brand between 20 H.P to 120 H.P. ITL has a manufacturing facility located at Hoshiarpur (Punjab), with a current capacity of 84,000 tractors/annum. The company has already completed a project for enhancement of capacity and the total production capacity is expected to increase to 1,50,000 tractors/annum by August 2016.

As per provisional financial statements, ITL reported Profit after Tax (PAT) of Rs. 551.5 Crore on an Operating Income (OI) of Rs. 3606.6 Crore during 2015-16. Please refer to ICRA rating rationale on International Tractors Limited for more information.



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