

MENTES
CAPITAL

Redefining your net worth



MAGMA FINCORP

MULTIBAGGER REPORT



Company Overview:

Magma Fincorp Limited is an India-based company which provides loans for cars and utility vehicles, commercial vehicles, construction equipment, tractors, used vehicles, SME businesses, mortgage finance. The Company also provides gold loan financing, housing finance and general insurance. The company operates approximately 235 branches. Magma Fincorp Limited was incorporated in 1978 and is headquartered in Kolkata, India.

As the Banks are growing the NBFC's are also growing and in 2015 the NBFC's have overtaken the state run banks.

Sector Overview:

Indian Leasing volumes touched an astonishing figure of \$41 Billion by 2011-12. Indian Leasing has reached 4%-5% of global leasing volume. India at the 14th largest place in world leasing. Sectors include: like consumer finance, small industry, heavy industry to automobiles, railways to electricity boards, roughly, annual leasing volume in India is estimated at about USD 3.67 billion

Indian, though being the 10th largest global economy, leasing industry is small in terms of the size of the economy. India ranks outside Top 50 while its BRICS peers are well within Top 20 ranking. Ample of scope to tap potential markets with an estimate growth level of 25%-30.

The data compiled by the Centre shows aggregate balance sheet value of leased and hired assets (though for balance sheet purposes, lease and hire-purchase transactions are distinguished, there is no material difference between the two- hence the volumes have been clubbed here) at about Rs. 261 billion (End March 1997). This is based on reporting by 226 companies, whereas hire purchase is spread amongst some 3000 large and small companies. Estimated outstanding business done by these firms is about Rs. 15 billion (at Rs. 5 million per such firm).

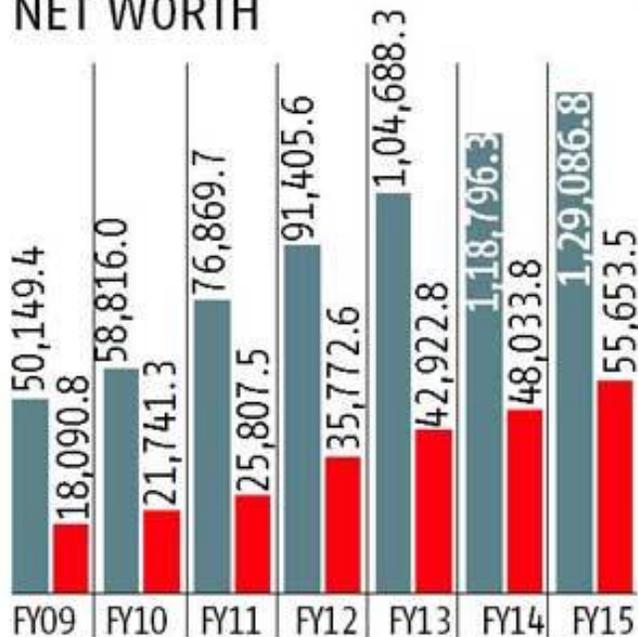
There was a 50% new business, over the volume outstanding at the beginning of the year. Relative to the business at the end of the year, the incremental volume should have been about 33% ($50/150$). Therefore the annual leasing volume in India is estimated at about USD 3.67 billion, on a rough and conservative estimate. In London Financial Group data, this should put India at 12-13th place, close to Hong Kong.

THE CHANGING ORDER

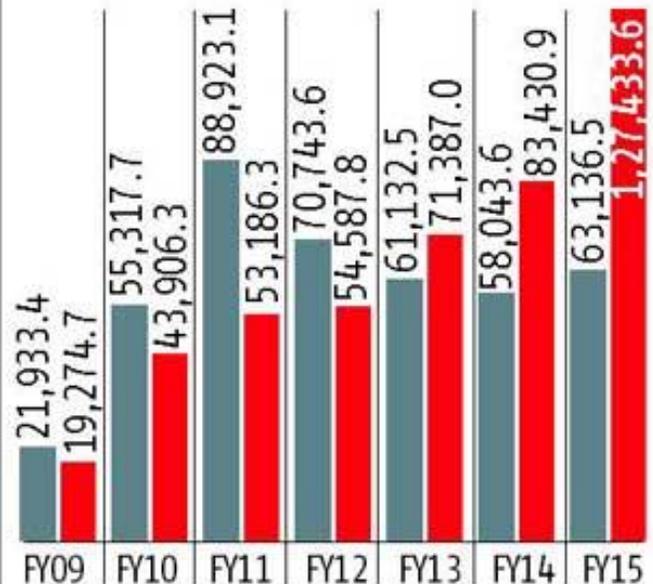
Net worth and market capitalisation of state-run banks and non-banking finance companies (₹ cr)

■ State-run banks* ■ NBFCs

NET WORTH



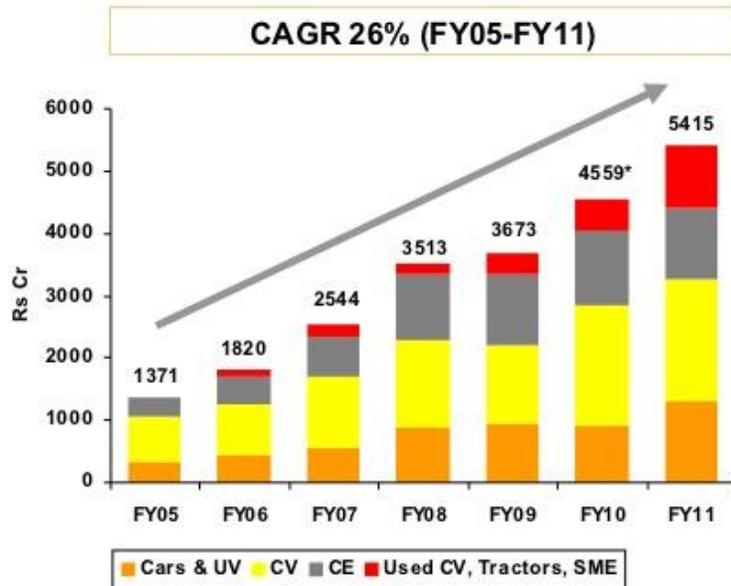
YEAR-END MARKET CAP



* Combined figure for mid- and small-sized government-owned banks; Source: Capitaline
Compiled by BS Research Bureau

And this company is growing too

Business on a high growth trajectory



* FY10 disbursements include bought out portfolio of Rs 494 Cr

Key Product Disbursement CAGR

Products	FY05-FY11
Construction Equipment	24%
Commercial vehicles	18%
Cars & Utility Vehicles	26%

New Product Introductions

Products	FY05-FY11
Used CV (Suvidha)	FY06
Tractors	FY08
SME Loans	FY09



Products:

- **SME Loans**

The micro, small and medium enterprises are the backbone of economic development in India. They are the incubators for talent, innovation and entrepreneurial spirit, which is essential for the country's development. Indian SME sector contributes 45% of the industrial output, 40% of the country's total exports, employs over 60 million people, creates 1.3 million jobs every year and produces more than 8,000 quality products for the domestic and international markets. With approximately 30 million SMEs in India, around 12 million people are expected to join the workforce in the next three years with the sector growing at a rate of 8% a year.

In case of the SMEs, the access to capital markets is very limited, and they largely depend on borrowed funds from banks and financial institutions. While investment credit is provided by financial institutions, commercial banks extend working capital. In the recent past, with growing demand for universal banking services, term loans and working capital are becoming available from the same source. Besides the traditional needs of finance for asset creation and working capital, the changing global environment has generated demand for introduction of new financial and support services.

- **Car Loans**

- Magma Car Loan Interest rates vary from 12% to 16%, depending on various factors. The car finance market in the India has witnessed growth in recent years on account of rising demand for cars fuelled by expansion in middle income population of the country and rising personal disposable income.
- The growth in this segment has been largely led by the factors such as increasing car sales accompanied with reduction in average ownership period. The car finance market in India is comprised of large finance providers such as HDFC Bank which provide highly competitive interest rates for both savings and financing options with a variety of internet banking and mobile banking services. The India car finance market loan disbursements have grown at a CAGR of 13.2% from FY; 2010-FY; 2015.
- According to the research report, the India car finance market in terms of loan disbursement will grow at a considerable CAGR rate thus exceeding INR 1,858 Billion by FY; 2020 due to the increasing number of car sales, ability of customers to utilize financing options, rising awareness about financial operations and advancement in data utilization and technology for reducing risk.

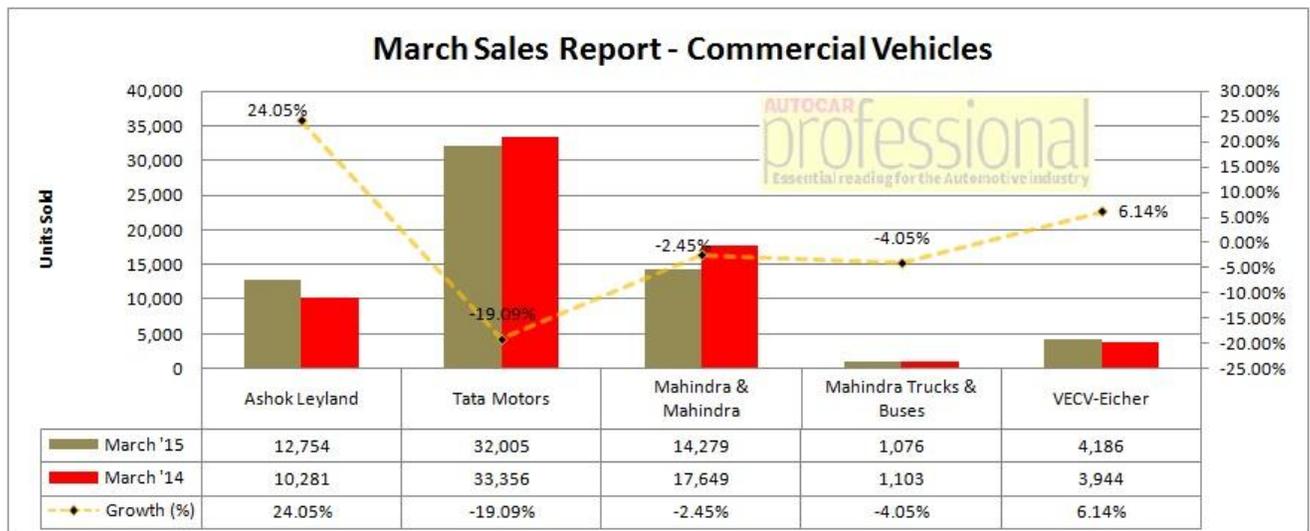
- **Construction Equipment Loans**

- Loans ranging from 80%-100% of the asset value depending on customer grading
- Loans to all profiles of customers including First Time users & First time buyers
- Loan up to 65% basis KYC documents on select assets
- Catering to customers in a radius of 200 Kms from our nearest location
- Reach and distribution allows us to cover entire length and breadth of the states and union territories that we are present in
- Flexibility in EMI payment structure

- **Commercial Vehicle Loans**

According to global research firm ICRA, the Medium & Heavy Commercial Vehicles (M&HCV -Truck) segment in India is likely to register a growth of 12-14% in FY 2016 driven by continuing trend towards replacement of ageing fleet and expectations of pick-up in demand from infrastructure and industrial sectors in view of reforms being initiated by the Government.

"Over the medium term, the demand for new CVs will also be driven by gradual acceptance of advance trucking platforms, progression to BS-V emission norms (possibly by 2017 onwards) and introduction of technologies such as Anti-Lock Braking System (ABS), which may lead to some advance purchases by fleet operators," ICRA maintained.



- **Tractor Loans In India – Magma Fincorp**

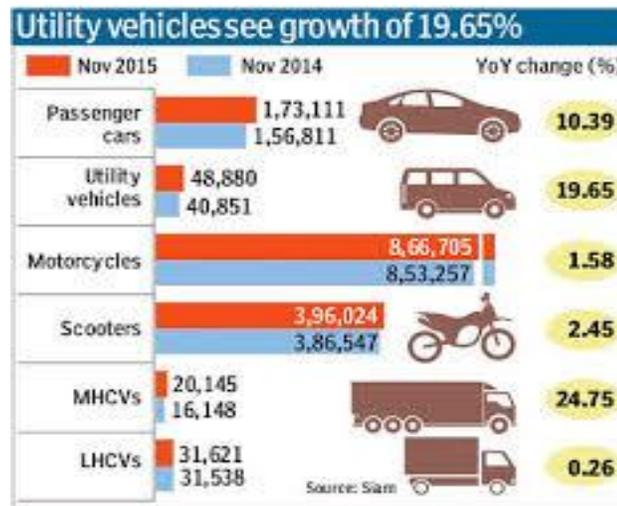
Growth momentum for the tractor industry is likely to continue. However, in 2HFY14, growth would moderate to 8-9% (v/s 24% in 1HFY14) due to upcoming elections in several key states. For FY14 as a whole, growth would be 16% (v/s de-growth of 1.5% in FY13). For FY15, growth is likely to be 6-8% and would be monsoon-dependent. Upcoming general elections in 1QFY15 (key period for tractor sales) could impact growth, as most of the administrative machinery would get involved with the elections.

- **Used Vehicle Loans**

Automobile manufacturers are getting into the ‘pre-owned’ cars (or used cars) business in a big way in India. The pre-owned car market is expected to overtake the new car business, as a growing number of Indians prefer buying used vehicles that are certified by the original vehicle manufacturer. General Motors is the latest to enter the pre-owned bandwagon. “As a part of the countrywide launch of our used car venture, we would roll out 10 outlets for used cars in select cities,” says P Balendran, vice president, GM India. According to him, the used-car market in India is largely unorganized, but offers a huge

potential for growth. For every new car, there are two used cars that are sold, he adds. GM would be offering a six-month guarantee on used cars sold through its outlets.

With many automakers setting up their own lending divisions, consumers can expect to get easy loans for used cars kept in the showrooms. Skoda, which has set up its Signature brand of outlets to market pre-owned cars, is also planning to set up a car exchange programmes under a new brand. Car owners can get their old cars – of any brand – exchanged for a new Skoda at its dealer outlets under this exchange programmes. Other carmakers too have branded their used-car business, including Maruti True Value, Mahindra First Choice, Hyundai Exchange, Honda Auto Terrace, Fort Assured and Toyota You Trust. All of them are reporting brisk sales of pre-owned cars. According to industry analysts, about a million used cars are sold in India every year, but 90 per cent of these are accounted for by the unorganized sector.



- **Auto Lease**

Magna auto lease provide one stop shop financial facility to small, medium to Large Businesses a need of fleet financing for their fleet acquisition for corporate requirement or employee benefits goals. Auto

Lease team combines a heritage of excellence and a true passion for the automotive world. Magma continuously invest in developing new technologies to make financing solution more efficient and cost effective. One of the fastest growing car leasing companies in India, Magma finances and manages over 5000 cars in India. As a preferred car leasing provider for multinational & large Indian companies, we serve over 140 large & medium company's fleets across 14 states.

According to auto analysts, dozens of new models – including the hugely popular sports utility vehicles (SUVs) – are likely to be launched this year, as carmakers go on the overdrive, wooing consumers with a wide range of vehicles. SUV sales shot up by 38 per cent last year over the previous year's figures.

- **Housing Finance**

Owning one's own home is more than just a basic need. It is sign of Pride, Freedom, Success, Security, and Achievement.

Deciding to buy a home is one of the biggest liability one takes in his/her life and it will be biggest investment decision one takes.

Each financial institution packages its housing loans differently. Pricing is just one consideration; other features like flexible repayment terms could balance the scale or even translate into greater loan savings. Financial institutions generally offer housing loan packages either in the form of a term loan, overdraft, or a combination of a term loan and overdraft.

Insurance

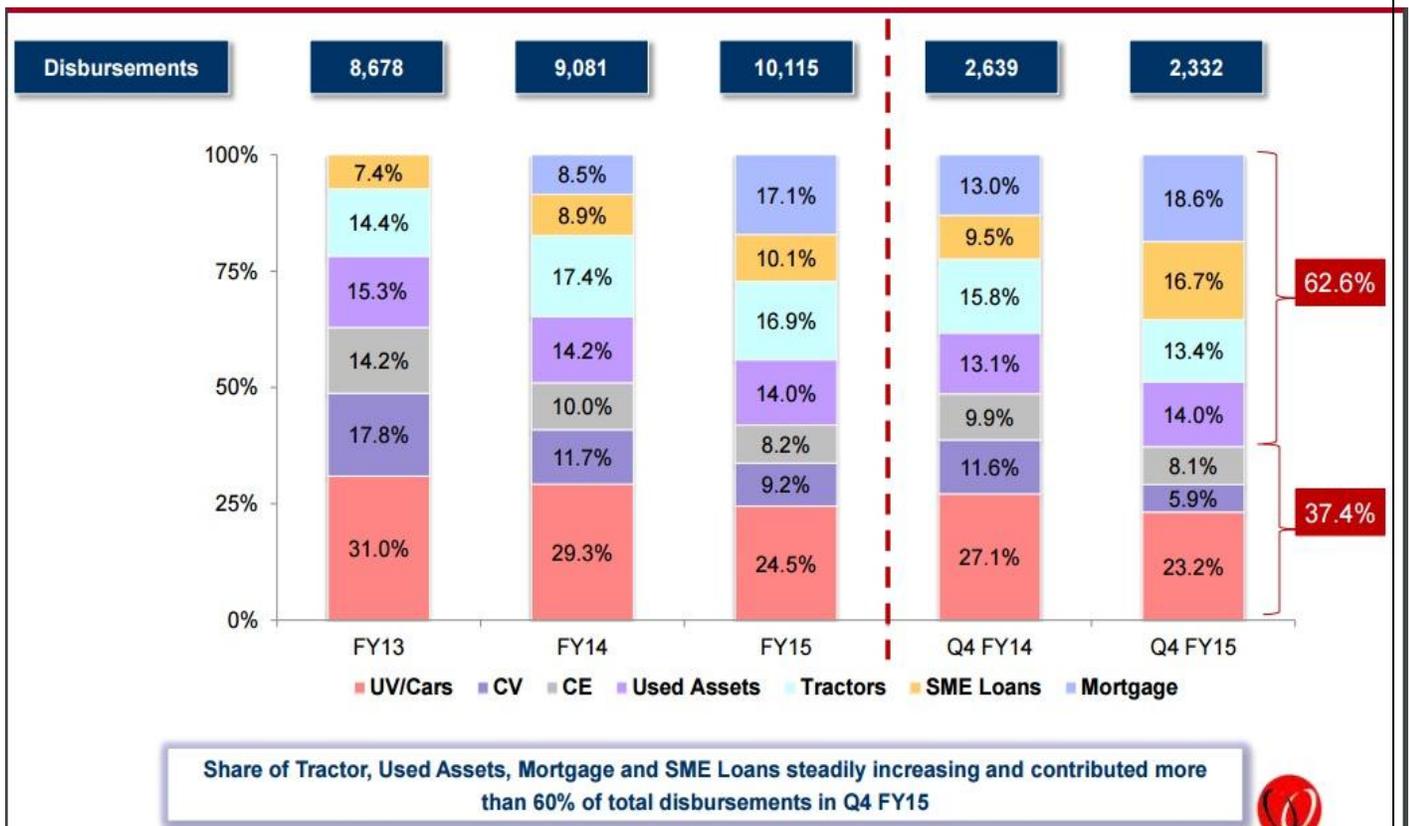
Magma HDI General Insurance Company has turned profitable in the seventh quarter of its existence beating its own guidance of achieving break-even in the fourth quarter of this financial year. The insurer, which commenced business in October, 2012, made a net profit of Rs 1.7 crore in April-June period.

The insurance company is a joint venture between Kolkata-based financial services firm Magma Fincorp and German insurer HDI-Gerling Industrie Versicherung. Magma Fincorp currently holds 74 per cent stake in the company, while the remaining 26 per cent share is with HDI-Gerling.

MHDI GENERAL INSURANCE PRODUCTS & SERVICES

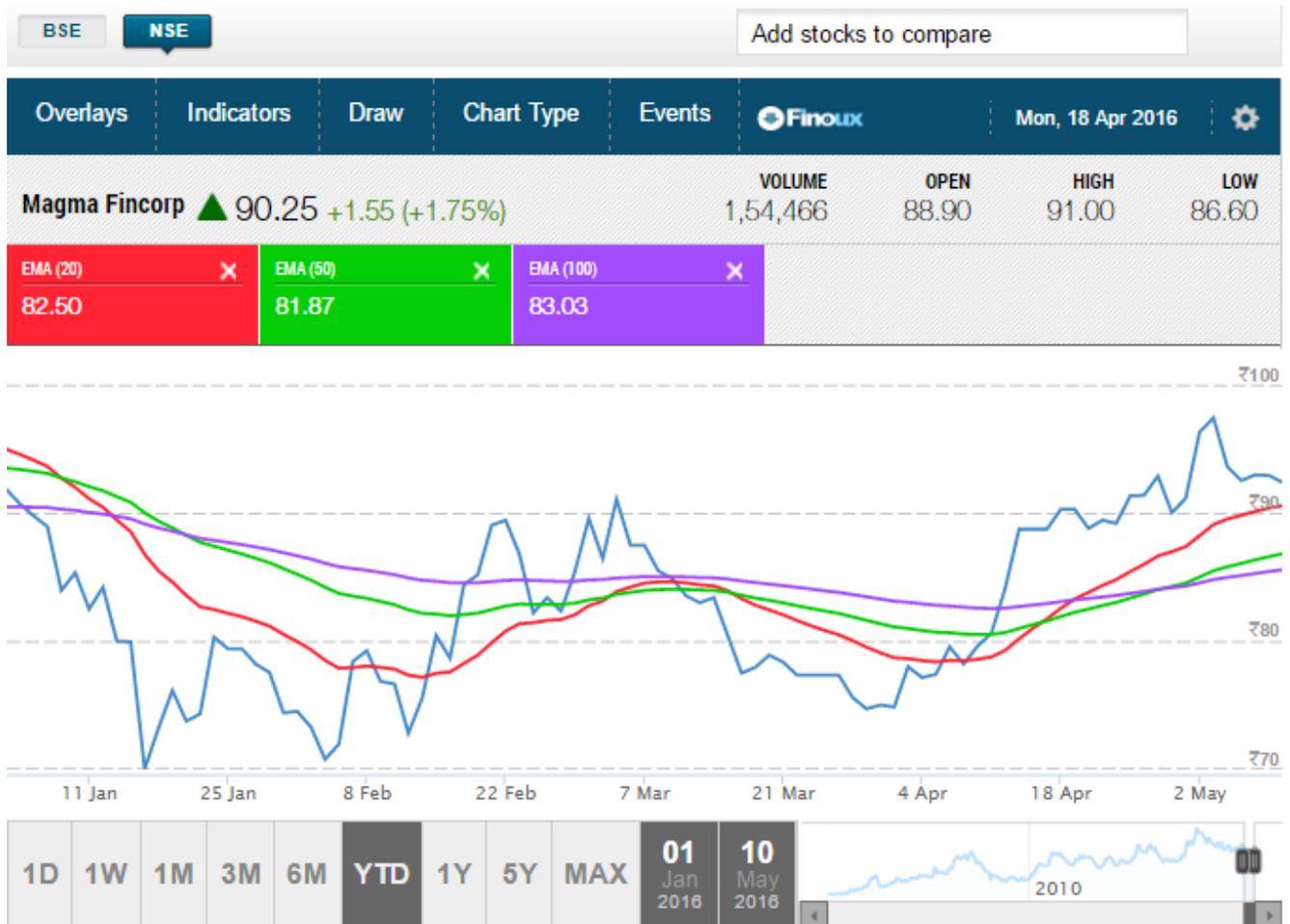
MOTOR INSURANCE
 LIABILITY INSURANCE
 FIRE INSURANCE
 ENGINEERING INSURANCE
 MARINE INSURANCE
 MISCELLANEOUS INSURANCE

Disbursement mix:-



Overall Financials:-

Beta:	0.66
Market Cap (Mil.):	Rs21,872.51
Shares Outstanding (Mil.):	236.84
Dividend:	0.80
Yield (%):	0.87



Peer Group Evaluation

Name	Last Price	Market Cap. (Rs Cr)	Sales (TO)	Net Profit	Total Assets	No of Sh o/s	EPS	P/E	NP Margin	ROA	Mcap/Sales	Mcap/Assets	Relative Value	K ratio
Bajaj Finance	7,482.85	40,311.75	5,381.80	897.87	27,387.22	5.39	166.67	44.90	16.68%	3.28%	7.49	1.472	24,997.23	1.61
Shriram Trans	1,084.40	24,603.16	10,238.90	1,178.20	43,470.14	22.69	51.93	20.88	11.51%	2.71%	2.40	0.566	32,902.97	0.75
M&M Financial	300.00	17,062.95	5,853.16	672.60	25,327.54	56.88	11.83	25.37	11.49%	2.66%	2.92	0.674	18,644.27	0.92
Sundaram Fin	1,374.85	15,277.59	2,254.66	454.14	11,690.43	11.11	40.87	33.64	20.14%	3.88%	6.78	1.307	12,483.36	1.22
Cholamandalam	900.20	14,056.23	4,192.47	568.45	22,648.58	15.61	36.41	24.73	13.56%	2.51%	3.35	0.621	15,707.07	0.89
Shriram City	1,641.85	10,824.72	3,834.87	529.78	13,011.47	6.59	80.35	20.43	13.81%	4.07%	2.82	0.832	14,616.52	0.74
Manappuram Fin	41.60	3,499.42	1,975.73	270.73	9,477.44	84.12	3.22	12.93	13.70%	2.86%	1.77	0.369	7,310.91	0.48
SREI Infra	57.90	2,912.87	1,894.20	90.93	16,434.02	50.31	1.81	32.03	4.80%	0.55%	1.54	0.177	2,240.27	1.30
Magma Fincorp	90.90	2,152.91	2,018.77	149.07	9,806.34	23.68	6.29	14.44	7.38%	1.52%	1.07	0.220	3,879.91	0.55
VLS Finance	37.00	143.05	4,623.48	6.48	210.99	3.87	1.68	22.08	0.14%	3.07%	0.03	0.678	(141.35)	(1.01)
Sakthi Finance	18.90	94.50	146.79	15.85	823.64	5.00	3.17	5.96	10.80%	1.92%	0.64	0.115	122.90	0.77
Motor and Gen F	42.45	82.20	11.60	(0.96)	136.70	1.94	(0.50)	(85.63)	-8.28%	-0.70%	7.09	0.601	(351.17)	(0.23)
Hb Stockhol	7.60	18.49	8.13	5.00	135.17	2.43	2.06	3.70	61.50%	3.70%	2.27	0.137	(183.09)	(0.10)
Times Guaranty	19.20	17.27	0.57	0.19	24.26	0.90	0.21	90.89	33.33%	0.78%	30.30	0.712	(318.74)	(0.05)
Guj Lease Fin	2.25	6.10		(0.07)	3.84	2.71	(0.03)	(87.14)		-1.82%		1.589	(326.07)	(0.02)
Lloyds Finance	0.75	2.81		(6.91)	(5.09)	3.75	(1.84)	(0.41)		135.76%		(0.552)	(518.97)	(0.01)

Correlation (R)	0.72	0.91	0.83	Mcap= a+b*Net Prof alpha	(324.10)
Coefficient of Determination R^2	51%	83%	68%	Beta	28.20

Magma Fincorp is trading at 55% of Its Intrinsic Value which means it is available at 45% discount.

Methodology of Sectorial Analysis

Step 1: Select Stocks based on ROC and Rank them in the following trenches

ROC > 20% Top Category

ROC > 15% but less than 20% Second Category

ROC > 10% but less than 15% Third Category

ROC > 5% but less than 10% Forth Category

ROC is Positive Fifth Category

ROC is Negative Reject.

Stocks we have rejected because of Negative ROC

Step 2: Within Category Pick lowest P/E ratio stocks as they are likely to be undervalued

Withing Category Pick highest P/E ratio Stocks as they are likely to be overvalued

Step 3: Pick firms with highest M Cap Share, highest Market Share and highest Profit Shares as they are likely to be existing larg cap stocks within the sector.

Step 4: Using the Regreassion Characteristic line Value all the firm on a comparable companies basis , call it Value or Intrinsic Value on Comparables.

Correlation between M Cap and Total Assets 0.72

Correlation between M Cap and Net Profit 0.91

Correlation between M Cap and ROC 0.83

Pick the highest which is Total Assets since it explains the M Cap the best .

Regression Characteristic Line Mcap = a+b*Total Assets

Alpha -324.1

Beta 28.2

Mcap = (324.1) plus 28.2 * Total Assets

Step 5: Calculate the K - Ratio which is Value/Mcap. Higher this ratio larger the undervaluation and better it is.

MENTES CAPITAL

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