

**Weak operating performance**

**CMP: INR 2,279**

**Rating: Hold**

**Target Price: INR 2,373**

**Stock Info**

BSE	590071
NSE	SUNDARMFN
Bloomberg	SUF IN
Reuters	SNFN.BO
Sector	BFSI
Face Value (INR)	10
Equity Capital (INR Cr)	111
Mkt Cap (INR Cr)	25,325
52w H/L (INR)	2,884 / 1,856
Avg Yearly Vol (in 000')	48

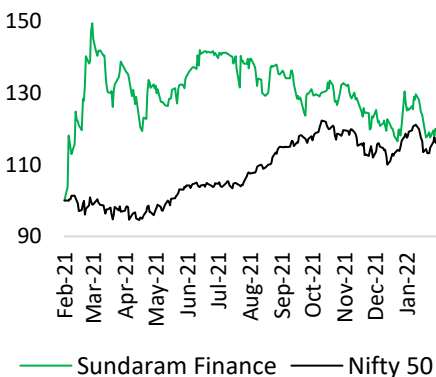
**Shareholding Pattern %**

(As on December, 2021)

Promoter	35.9
FII	12.4
DII	7.6
Public & Others	44.1

Stock Performance (%)	1m	3m	12m
Sundaram Finance	(3.2)	(8.7)	21.2
Nifty 50	(3.4)	(3.9)	15.3

**Sundaram Vs Nifty**



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*Sundaram Finance (SUF) reported weak operating performance during Q3FY22 with deterioration in asset quality. AUM growth of the company remained weak despite healthy sequential growth in disbursements. Profit for the quarter de-grew by 16% YoY/4% QoQ to INR 202 cr, was lower than our estimate of INR 288 cr due to low operating income growth. NII for the quarter increased marginally by 1% YoY and decreased by 11% on QoQ basis, due to decrease in yields and de-growth in AUM. Operating profit de-grew by 7% YoY/18% QoQ to INR 364 cr due to low operating income growth and higher OPEX. Provision for the quarter remained elevated at INR 96 cr vs. INR 165 cr in the previous quarter. Asset quality of the company deteriorated due to RBI's circular on NPA norms. GNPA of the company stood at 7.7% under RBI's new circular, of which 4.1% was below 90 dpd. Excluding this, GNPA would have been at 3.65% as against 3.85% QoQ. The total restructuring book (OTR 1&2) stood at INR 2,089 cr which is ~7.2% of AUM. NIM of the company decreased by 90bps QoQ at 7.3%.*

**Disbursements picked up strongly on a sequential basis**

AUM during the quarter declined by 5% YoY/flat QoQ at INR 29,796 cr. Disbursement during the quarter increased by 6% QoQ and declined by 11% on YoY basis. CV portfolio AUM de-grew by 10% YoY/1% QoQ. Passenger vehicle AUM increased by 7% YoY. CV share in the total AUM stood at 45.7% as on Dec'21.

**Performance of Subsidiaries for 9MFY22**

SUF's home finance subsidiary, Sundaram Home Finance recorded AUM de-growth of 1% YoY while it grew by 1% QoQ to INR 9,253 cr, as disbursements grew by 1.9x QoQ to INR 1,517 cr as on Q3FY22. GNPA in its housing finance segment stood at 5.06% vs. 4.95% QoQ. Sundaram AMC continues to see better traction in equity AUM which is improving yields and profitability. Sundaram AMC's reported average AUM increased by 16% YoY to INR 46,355 cr. Its equity segment inflow was good at 23% YoY while debt segment saw outflow of 5% YoY. Insurance arm of the company, Royal Sundaram has reported 3% YoY growth in gross written premium while profit was at INR 189 cr during Q3FY22.

**Valuation & Outlook:** Q3FY22 performance of the company got impacted due to decline in AUM growth and RBI's revised norm on NPA which has resulted into asset quality deterioration. Restructuring book remained stable on QoQ basis. Overall economic activity improved in Q3FY22. However, supply chain issue has impacted the industry volumes. Company expect broad based recovery across all the segment in Q4FY22. We cut our FY22/23/24E PAT estimate by 13%/1% and 5% respectively to factor in lower growth. We revise our rating on the stock to Hold with a revised SOTP based target price of INR 2,373 (earlier 2,592).

**Financial Summary**

(in Cr.)	NII	PPoP	PAT	Advances	ROE (%)	RoA (%)	P/ABV (x)
<b>FY20</b>	1770	1232	724	28045	13.7%	2.2%	4.7
<b>FY21</b>	1923	1372	809	29404	13.8%	2.3%	4.3
<b>FY22E</b>	2222	1617	852	29838	13.1%	2.1%	3.9
<b>FY23E</b>	2458	1787	1194	32432	16.3%	2.7%	3.4
<b>FY24E</b>	2686	1952	1276	35197	15.5%	2.7%	3.0

### SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,879
Sundaram BNP Paribas Home Finance	100%	Base case, justified P/B of 1x FY24E	215
Sundaram AMC	100%	5% FY24E AUM	219
Royal Insurance	50%	P/B of 1.5x FY23E - Market multiple	147
Holding co. discount (%)			15%
<b>Value of subs (INR per share)</b>			<b>494</b>
<b>Target Price (INR per share)</b>			<b>2,373</b>

### Q3FY22 result snapshot

Particulars (in Cr.)	Q3FY22	Q2FY22	Q3FY21	QoQ	YoY
Interest Income	958	1022	1045	-6%	-8%
Interest Expended	417	413	507	1%	-18%
<b>Net Interest Income</b>	<b>541</b>	<b>608</b>	<b>538</b>	<b>-11%</b>	<b>1%</b>
Other Income	3	3	2	-12%	96%
<b>Total Operating Income</b>	<b>544</b>	<b>612</b>	<b>539</b>	<b>-11%</b>	<b>1%</b>
<b>Expenses</b>					
Employee cost	104	105	94	-1%	11%
Administrative and other expenses	57	45	38	27%	51%
Depreciation and Amortisation	19	18	18	6%	6%
Total Operating Expenses	180	168	149	7%	21%
<b>Pre-Provisioning Profit</b>	<b>364</b>	<b>444</b>	<b>390</b>	<b>-18%</b>	<b>-7%</b>
Impairment on financial instruments	96	165	70	-42%	38%
<b>Profit Before exceptional Items</b>	<b>267</b>	<b>278</b>	<b>320</b>	<b>-4%</b>	<b>-16%</b>
Exceptional Items	0	0	0		
<b>Profit After Exceptional items</b>	<b>267</b>	<b>278</b>	<b>320</b>	<b>-4%</b>	<b>-16%</b>
Tax Expenses	65	68	78	-4%	-17%
<i>Effective Tax Rate</i>	24%	24%	24%		
<b>Profit After Tax</b>	<b>202</b>	<b>211</b>	<b>242</b>	<b>-4%</b>	<b>-16%</b>
Cost-Income Ratio	33.1%	27.5%	27.7%	565bps	541bps
<b>Asset Quality</b>					
GNPA(%)	3.39%	3.45%	1.59%	-6bps	180bps
NNPA(%)	2.09%	2.12%	0.83%	-3bps	126bps
<b>Business Performance</b>					
<b>Total AUM (cr.)</b>	<b>29796</b>	<b>29811</b>	<b>31226</b>	<b>0%</b>	<b>-5%</b>
<b>AUM Break up (Cr.)</b>					
<i>CVs</i>	13617	13773	15051	-1%	-10%
<i>Cars</i>	7687	7512	7713	2%	0%
<i>Construction equipment</i>	3307	3309	3497	0%	-5%
<i>Tractors</i>	2413	2355	2248	2%	7%
<i>Others</i>	2771	2862	2717	-3%	2%
<b>Disbursements during the quarter</b>	<b>3843</b>	<b>3621</b>	<b>4334</b>	<b>6%</b>	<b>-11%</b>
<b>Borrowings</b>	<b>27635</b>	<b>27562</b>	<b>30886</b>	<b>0%</b>	<b>-11%</b>
<b>Calculated Ratios</b>					
NIM	7.3%	8.2%	7.0%	-90bps	30bps
Borrowing Cost	6.0%	6.0%	6.6%	8bps	-59bps
Yield	12.9%	13.7%	13.5%	-85bps	-67bps

## Key Financials

Particulars	2021A	2022E	2023E	2024E	Particulars	2021A	2022E	2023E	2024E
Interest Income	3954	4006	4398	4792	<b>Assets</b>				
(-) Interest Expense	-2031	-1784	-1940	-2105	Cash and Balances	693	1814	1972	2140
<b>Total Net Interest Income</b>	<b>1923</b>	<b>2222</b>	<b>2458</b>	<b>2686</b>	Deferred Tax Assets	382	146	158	171
Other Income	60	90	97	106	Investments	4124	7094	8433	9465
<b>Total Income</b>	<b>1983</b>	<b>2311</b>	<b>2555</b>	<b>2792</b>	Advances	29404	29838	32432	35197
Operating Expenses	611	694	768	839	Fixed Assets	259	292	316	343
<b>Operating Profit</b>	<b>1372</b>	<b>1617</b>	<b>1787</b>	<b>1952</b>	Other Assets	90	684	744	807
Provisions and Write Off	324	479	192	247	<b>Total Assets</b>	<b>34952</b>	<b>39868</b>	<b>44054</b>	<b>48123</b>
<b>Profit before Exceptional Item</b>	<b>1056</b>	<b>1138</b>	<b>1595</b>	<b>1705</b>	<b>Liabilities</b>				
<b>Profit before tax</b>	<b>1056</b>	<b>1138</b>	<b>1595</b>	<b>1705</b>	Capital	111	111	111	111
Provision for Tax	247	286	401	429	Reserves and Surplus	6068	6724	7653	8630
<b>Profit after Tax</b>	<b>809</b>	<b>852</b>	<b>1194</b>	<b>1276</b>	Borrowings	21553	25907	28167	30571
					Trade Payables	63	146	158	171
					Other Liabilities	7157	6979	7965	8640
					<b>Total Liabilities</b>	<b>34952</b>	<b>39868</b>	<b>44054</b>	<b>48123</b>
	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>					
<b>Basic Ratio</b>									
EPS	72.8	76.6	107.4	114.8					
BVPS	556.2	615.2	698.8	786.8		<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Adjusted BVPS	520.9	565.2	653.8	741.3	<b>Spread Analysis</b>				
<b>Asset Quality</b>					Yield Earned	12.1%	10.8%	10.8%	10.7%
Gross NPAs	1.8%	4.2%	3.5%	3.2%	Cost of funds	6.9%	6.9%	6.9%	6.9%
Net NPAs	1.0%	1.7%	1.4%	1.3%	<b>Growth</b>				
<b>Profitability Ratio</b>					Advances growth	4.8%	1.5%	8.7%	8.5%
RoAE	13.8%	13.1%	16.3%	15.5%	Net Profit growth	11.8%	5.3%	40.1%	6.9%
RoAA	2.3%	2.1%	2.7%	2.7%	<b>Liquidity</b>				
NIMs	6.1%	6.4%	6.3%	6.3%	CET 1 Ratio	22.0%	22.2%	22.3%	25.5%
<b>Valuation (x)</b>					<b>Efficiency</b>				
P/E	30.6	29.1	20.8	19.4	Cost-to-Income	30.8%	30.0%	30.1%	30.1%
P/BV	4.0	3.6	3.2	2.8					
P/ABV	4.3	3.9	3.4	3.0					

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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