

CMP: Rs 1542

Rating: HOLD

Target Price: Rs 1712

Stock Info

INDEX	
BSE	590071
NSE	SUNDARMFIN
Bloomberg	SUF IN
Reuters	SNFN.BO
Sector	BFSI
Face Value (Rs)	10
Equity Capital (Rs cr.)	111
Mkt Cap (Rs cr.)	17,098
52w H/L (Rs)	1745/1320
Monthly Avg Vol (BSE+NSE)	38,240

Shareholding Pattern

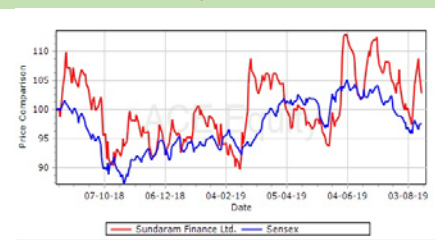
	%
(As on June, 2019)	
Promoters	36.7
DII	8.0
FII	11.0
Public & Others	44.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Sundaram Finance	9.9	12.9	3.9
SENSEX	-0.1	5.2	-0.8

Source: ACE Equity, Arihant Research

Sundaram Finance v/s SENSEX



Source: ACE Equity, Arihant Research

Sundaram Finance (SUF) reported stable set of numbers during Q1FY20 with a profit growth of 12% YoY to Rs 157 cr vs. our estimate of Rs 161 cr. Healthy advances growth at 16%, led to strong net income growth of 18% YoY to Rs 423 cr. Asset quality saw slight deterioration which led to increase in provisioning and relatively lower profitability. Despite weak traction in car segment, disbursement for the quarter grew by 8% YoY led by CV segment. Margins were stable despite higher cost of funds being offset by improved yields. We maintain our 'Hold' rating on the stock with a revised TP of Rs 1712.

AUM growth remained healthy despite challenges in CV segment

Advances during the quarter grew by 16% YoY/3% QoQ led by strong traction in construction equipment and tractor segment. CV loan book grew by 16% YoY/ 5% QoQ. Construction equipment portfolio grew by 29% YoY i.e. 9.9% of the total AUM.

Performance of Subsidiaries

SUF's home finance's subsidiary, Sundaram BNP Paribas Home Finance reported 8% loan growth during the quarter. Disbursement growth was flat at (-0.7% YoY) due to weak sentiments in housing segment while PAT stood at Rs 43 cr vs Rs 42 cr YoY. GNPA's in housing finance inched up by 48bps sequentially to 3.43% due to tough environment. Sundaram AMC reported muted performance on weak macro condition as its equity segment saw net inflows while its debt segment saw outflows.

Valuation & Outlook

Despite several challenges in Automobile segment with sluggish CV demand and liquidity issue, SUF reported consistent performance during the quarter. Subsidiaries have also reported decent numbers, thus aiding into profitability. We maintain our positive stance on the stock due to its diversified product portfolio, better asset quality than peers and healthy CAR ratio. We have revised our PAT estimates by -1.7% for FY20E and maintain our 'Hold' rating on the stock. We value stock with 11% upside, based on SOTP based target price at Rs 1712.

Key risks: Lower than expected AUM growth, weak macro environment and margins pressure.

Financial Performance - SUF (Standalone)

YE March (Rs Cr)	NII	Op. Profit	PAT	EPS (Rs)	NIM (%)	RoE (%)	ROA(%)
FY18	1460	935	563	50.7	5.9	14.3	2.2
FY19*	1635	1003	1126	101.4	7.0	24.5	3.7
FY20E	1818	1142	688	61.9	6.5	13.2	2.1
FY21E	2068	1316	828	74.5	6.4	14.1	2.3

*FY19 PAT include extraordinary income of Rs 592 cr. (gross)

SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,246
Sundaram BNP Paribas		Base case, justified P/B of 1x FY21E	
Home Finance	50%		147
Sundaram AMC	100%	5% FY21E AUM	186
Royal Insurance	50%	P/B of 2x FY21E - Market multiple	133
Target Price			1,712

Q1FY20 Result Snapshot:

Particulars	Q1FY20	Q4FY19	Q1FY19	QoQ	YoY
Interest Income	923	882	753	5%	23%
Interest Expended	500	475	395	5%	27%
Net Income	423	407	359	4%	18%
Other Income	23	7	14		
Total Operating Income	446	414	372	8%	20%
Expenses					
Employee cost	88	83	80	7%	10%
Administrative and other expenses	59	51	49	15%	21%
Depreciation and Amortization	16	14	13	15%	29%
Total Operating Expenses	164	148	142	11%	16%
Pre-Provisioning Profit	282	266	231	6%	22%
Impairment on financial instruments	46	43	19	8%	145%
Profit Before exceptional Items	236	224	212	6%	12%
Exceptional Items	0	592	0		
Profit After Exceptional items	236	816	212	-71%	12%
Tax Expenses	79	141	71	-44%	11%
<i>Effective Tax Rate</i>	33%	17%	34%	93%	-1%
Profit After Tax	157	675	141	-77%	12%
Asset Quality					
GNPA(%)	2.20%	1.33%	1.72%		
NNPA(%)	1.63%	0.83%	1.14%		
Cost-Income Ratio	37%	36%	38%		
Total AUM (cr.)	29977	28984	25930	3%	16%
AUM Break up (%)					
CVs	53.40%	52.50%	53.10%		
Cars	25.70%	25.90%	28.80%		
Construction equipment	9.90%	9.70%	8.90%		
Tractors	5.20%	5.30%	4.80%		
Others	5.80%	6.60%	4.40%		

Peer -Comparison (Financials as on Q1FY20)

Company	CMP	Loan Book (Rs in Cr)	GNPA	NIM	CAR	Book Value (Rs)	P/BV(x)
M&M Finance	319.9	62,396	7.4%	7%	19%	178	1.8
STFC	1032.15	104,401	8.5%	7%	20%	717	1.4
Chola	265.35	57,494	3.0%	7%	17%	84	3.2
SUF	1542.4	29,977	2.2%	6%	20%	468	3.3

Financials - Standalone

Particulars	2018A	2019A	2020E	2021E
Interest Income	2806	3398	3698	3981
(-) Interest Expense	-1346	-1763	-1880	-1913
Total Net Interest Income	1460	1635	1818	2068
Other Income	49	21	37	61
Total Income	1509	1656	1856	2129
Operating Expenses	574	653	713	814
Operating Profit	935	1003	1142	1316
Provisions and Write Off	101	107	116	80
Profit before Exceptional Item	850	895	1027	1236
Exceptional Item	0	592	0	0
Profit before tax	850	1488	1027	1236
Provision for Tax	286	361	339	408
Profit after Tax	563	1126	688	828

	2018A	2019A	2020E	2021E
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Basic Ratio

EPS	50.7	101.4	61.9	74.5
BVPS	372.1	454.0	500.7	556.3
Adjusted BVPS	363.4	439.9	487.6	547.1

Asset Quality

Gross NPAs	1.3%	1.4%	1.5%	1.4%
Net NPAs	0.5%	0.5%	0.5%	0.3%
PCR	61.8%	60.0%	70.0%	80.0%

Profitability Ratio

RoAE	14.3%	24.5%	13.0%	14.1%
RoAA	2.2%	3.7%	2.1%	2.3%
NIMs	5.9%	7.0%	6.5%	6.4%

Valuation (x)

P/E	30.4	15.2	24.9	20.7
P/BV	4.1	3.4	3.1	2.8
P/ABV	4.2	3.5	3.2	2.8

Particulars	2018A	2019A	2020E	2021E
Assets				
Cash and Balances	982	839	1552	1710
Deferred Tax Assets	227	198	141	155
Investments	2278	1946	2645	2814
Advances	22003	27271	28517	30721
Fixed Assets	223	225	282	311
Other Assets	98	169	333	364
Total Assets	25811	30649	33469	36074
Liabilities				
Capital	111	111	111	111
Reserves and Surplus	4023	4933	5452	6069
Borrowings	16935	20217	22168	24427
Trade Payables	87	104	141	155
Other Liabilities	4655	5285	5596	5312
Total Liabilities	25811	30649	33469	36074

	2018A	2019A	2020E	2021E
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Spread Analysis

Yield Earned	12.2%	12.2%	11.9%	11.9%
Cost of funds	9.3%	9.5%	9.5%	9.5%
Spread	2.8%	2.8%	2.4%	2.4%

Growth

Advances growth	20.4%	16.1%	10.4%	10.3%
Deposit growth	9.7%	15.2%	9.8%	9.4%
Net Profit growth*	13.7%	-5.2%	28.8%	20.4%

Liquidity

CET 1 Ratio	12.2%	16.8%	13.9%	14.0%
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Efficiency

Cost-to-Income	38.0%	39.4%	38.4%	38.2%
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* Excluding exceptional items

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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%

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