

CMP: Rs 1626

Rating: Accumulate

Target Price: Rs 1884

Stock Info

INDEX	
BSE	590071
NSE	SUNDARFIN
Bloomberg	SUF IN
Reuters	SNFN.BO
Sector	BFSI
Face Value (Rs)	10
Equity Capital (Rs cr.)	111
Mkt Cap (Rs cr.)	17,753
52w H/L (Rs)	1745/1320
Monthly Avg Vol (BSE+NSE)	25,690

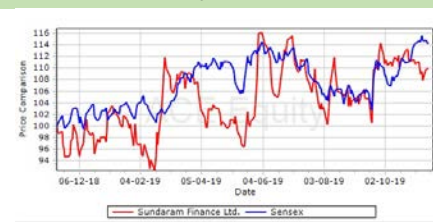
Shareholding Pattern	%
(As on June, 2019)	
Promoters	36.7
DII	8.0
FII	11.0
Public & Others	44.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Sundaram Finance	-1.7	12.3	11.4
SENSEX	8.5	8.2	14.1

Source: ACE Equity, Arihant Research

Sundaram Finance v/s SENSEX



Source: ACE Equity, Arihant Research

Sundaram Finance (SUF) reported good operating performance during Q2FY20. The company has clocked steady AUM growth of 11% YoY/1% QoQ. NII for the quarter grew by 20% YoY to Rs 467 cr vs. our estimate of Rs 465 cr. Operating profit for the quarter grew by 48% YoY to Rs 375 cr vs. our estimate of Rs 287 cr, largely due to higher other income growth. PAT witnessed a robust growth of 74% YoY/71% QoQ to Rs 269 cr, which was far above our estimate of Rs 177 cr. The sharp growth in PAT was seen on account of lower tax rate and higher operating profit growth. Margins were improved by 5bps on QoQ basis to 6.2% largely due to improved yields. Asset quality was stable with GNPA/NNPA at 2.2%/1.6%. Due to the general slowdown in consumption cycle across the economy and weak CV demand, disbursements for the quarter fell by 13% QoQ/10% YoY. CVs disbursement has come down to 55.6% from 57.4% QoQ while car disbursement has gone up to 23.5% from 23%. We upgrade our rating to 'Accumulate' from 'Hold' with a revised TP of Rs 1884 (from 1712 earlier).

Despite economic slowdown, AUM growth was decent

AUM during the quarter grew by 1% QoQ/11% YoY, led by strong traction in construction equipment and tractor segment. CV loan book growth was muted on a sequential basis while it has grown by 11% YoY. Construction equipment portfolio grew by 21% YoY and it formed ~10% of the total AUM. ~53% AUM of the company comprises of commercial vehicles, 25.2% is in car segment and the rest is construction equipment/ Tractor and others at 9.9%/5.4% and 6.1% respectively.

Performance of Subsidiaries

SUF's home finance subsidiary, Sundaram BNP Paribas Home Finance recorded AUM growth of 4% YoY during H1FY20. Disbursement during the quarter fell by 4.3% due to weak sentiment in housing segment. It has reported 16% jump in net profit at Rs 95 cr. Sharp improvement was seen in asset quality with 29bps improvement in GNPA at 3.14% in housing finance business. Sundaram AMC reported muted performance due to weak macro condition as its equity segment saw net inflows while its debt segment saw outflows.

Valuation & Outlook

Despite subdued CV demand cycle, SUF has reported good operating performance. Though, AUM growth of the company has moderated as compared to previous quarter, it remains fairly stable during Q2FY20. Company's conservative approach to achieve healthy growth in vehicle finance book while maintaining asset quality, resulted SUF being one of the consistent performer. Its subsidiaries have also reported decent numbers, thus aiding profitability. We maintain our positive stance on the stock due to its diversified product mix portfolio, better asset quality than its peers and healthy CAR ratio. We have revised our PAT estimates by +17% for FY20/21E to build the revised tax rate. We upgrade the stock rating to 'Accumulate' from 'Hold' with a revised target price of Rs 1884 (based on SOTP valuation), giving a potential upside of 16%.

SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,418
Sundaram BNP Paribas Home Finance	50%	Base case, justified P/B of 1x FY21E	147
Sundaram AMC	100%	5% FY21E AUM	186
Royal Insurance	50%	P/B of 2x FY21E - Market multiple	133
Target Price			1,884

Q2FY20 Result Snapshot:

Particulars	Q2FY20	Q1FY20	Q2FY19	QoQ	YoY
Interest Income	994	923	815	8%	22%
Interest Expended	527	500	427	5%	23%
Net Interest Income	467	423	388	10%	20%
Other Income	64	23	4		
Total Operating Income	531	446	392	19%	35%
Expenses					
Employee cost	89	88	80	0%	11%
Administrative and other expenses	50	59	46	-16%	7%
Depreciation and Amortization	18	16	13	10%	38%
Total Operating Expenses	156	164	139	-5%	13%
Pre-Provisioning Profit	375	282	253	33%	48%
Impairment on financial instruments	53	46	21	16%	153%
Profit Before exceptional Items	322	236	232	36%	39%
Exceptional Items	0	0	0		
Profit After Exceptional items	322	236	232	36%	39%
Tax Expenses	53	79	78	-33%	-32%
Effective Tax Rate	16%	33%	34%		
Profit After Tax	269	157	154	71%	74%
Asset Quality					
GNPA(%)	2.20%	2.20%	1.79%		
NNPA(%)	1.64%	1.63%	1.20%		
Cost-Income Ratio	29%	37%	35%		
Business Performance					
Total AUM (cr.)	30256	29977	27223	1%	11%
AUM Break up (%)					
CVs	53.40%	53.40%	53.30%		
Cars	25.20%	25.70%	28.60%		
Construction equipment	9.90%	9.90%	9.10%		
Tractors	5.40%	5.20%	5.40%		
Others	6.10%	5.80%	3.60%		
Disbursements during the quarter (in Cr.)	3832	4414	4267	-13%	-10%
Borrowings (Cr.)	29925	28586	26184	5%	14%
Borrowings Mix (%)					
Debentures	40.20%	40.70%	39.30%		
Securitisation	20.10%	19.20%	21.40%		
Banks	18.60%	23.20%	20.60%		
Deposits	11.90%	11.50%	10.50%		
CP	9.20%	5.40%	8.20%		

Financials - Standalone

Particulars	2018A	2019A	2020E	2021E
Interest Income	2806	3398	3514	3792
(-) Interest Expense	-1346	-1763	-1757	-1784
Total Net Interest Income	1460	1635	1758	2009
Other Income	49	21	114	92
Total Income	1509	1656	1872	2101
Operating Expenses	574	653	700	795
Operating Profit	935	1003	1171	1306
Provisions and Write Off	101	107	139	56
Profit before Exceptional Item	850	895	1032	1250
Exceptional Item	0	592	0	0
Profit before tax	850	1488	1032	1250
Provision for Tax	286	361	260	315
Profit after Tax	563	1126	772	935

	2018A	2019A	2020E	2021E
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Basic Ratio

EPS	50.7	101.4	69.5	84.2
BVPS	372.1	454.0	506.5	571.4
Adjusted BVPS	363.4	439.9	492.5	562.3

Asset Quality

Gross NPAs	1.3%	1.4%	1.6%	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%	14.5%	15.6%
RoAA	2.2%	3.7%	2.3%	2.6%
NIMs	5.9%	7.0%	6.3%	6.2%

Valuation (x)

P/E	32.1	16.0	23.4	19.3
P/BV	4.4	3.6	3.2	2.8
P/ABV	4.5	3.7	3.3	2.9

Particulars	2018A	2019A	2020E	2021E
Assets				
Cash and Balances	982	839	1551	1710
Deferred Tax Assets	227	198	141	155
Investments	2278	1946	2716	2981
Advances	22003	27271	28497	30721
Fixed Assets	223	225	282	311
Other Assets	98	169	332	364
Total Assets	25811	30649	33519	36242
Liabilities				
Capital	111	111	111	111
Reserves and Surplus	4023	4933	5516	6237
Borrowings	16935	20217	22152	24427
Trade Payables	87	104	141	155
Other Liabilities	4655	5285	5599	5311
Total Liabilities	25811	30649	33519	36242

	2018A	2019A	2020E	2021E
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Spread Analysis

Yield Earned	12.2%	12.2%	11.3%	11.3%
Cost of funds	9.3%	9.5%	9.5%	9.5%
Spread	2.8%	2.7%	1.8%	1.8%

Growth

Advances growth	20.4%	16.1%	10.4%	10.3%
Deposit growth	9.7%	15.2%	9.7%	9.4%
Net Profit growth	13.7%	-5.2%	-31.4%	21.1%

Liquidity

CET 1 Ratio	12.2%	16.8%	14.2%	14.0%
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Efficiency

Cost-to-Income	38.0%	39.4%	37.4%	37.8%
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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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