

CMP: Rs 1666

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.)	18,574
52w H/L (Rs)	1781/1320
Monthly Avg Vol (BSE+NSE)	42,500

Shareholding Pattern

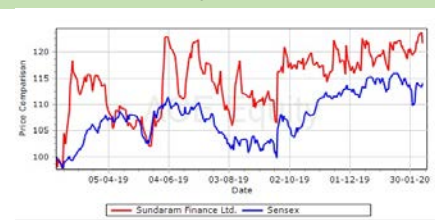
Shareholding Pattern	%
(As on December, 2019)	
Promoters	36.3
DII	21.2
FII	Nil
Public & Others	42.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Sundaram Finance	4.8	7.1	21.3
SENSEX	2.2	11.5	13.2

Source: ACE Equity, Arihant Research

Sundaram Finance v/s SENSEX



Source: ACE Equity, Arihant Research

Sundaram Finance (SUF) reported mixed performance during Q3FY20. Operating performance of the NBFC was in-line with our estimates. SUF has clocked single digit AUM growth of 9% YoY/1% QoQ. NII for the quarter grew by 14% YoY to Rs 443 cr vs. our estimate of Rs 434 cr. Operating profit for the quarter grew by 19% YoY to Rs 293 cr vs. our estimates of Rs 257 cr. Profit growth was muted at 6% YoY to Rs 167 cr (Arihant Estimate: Rs 173 cr) impacted due to higher provisioning. Provisions grew sharply by 35% on a sequential basis due to increase in GNPA. NIM declined marginally by 4bps QoQ to 5.8% due to marginal fall in portfolio yield. Asset quality witnessed deterioration as GNPA/NNPA higher by 59bps/45bps QoQ but it remained under control (better than peers). Despite slowdown in the consumption space and weak CV demand, disbursements for the quarter increased by 4% QoQ. CVs disbursement has come down to 52% from 56% QoQ while car disbursement has gone up to 26% from 24%. We maintain our rating 'Accumulate' rating on the stock with TP of Rs 1884 (unchanged).

AUM growth was moderated due to weak demand cycle

AUM during the quarter grew marginally by 1% QoQ while on YoY basis it was grew by 9% YoY. AUM growth was led by growth in construction equipment, tractors and other segment. CV loan book growth was weak at 8% YoY while on a sequential basis it de-grew by 1%. Construction equipment portfolio grew by 18% YoY. 52.6% AUM of the company comprises of commercial vehicles, 25.6% is in car segment and the rest is construction equipment/ Tractor and others at 10.1%/5.8% and 5.9% respectively.

Performance of Subsidiaries

SUF's home finance subsidiary, Sundaram Home Finance recorded AUM growth of 7% YoY during 9MFY20. Disbursement during 9MFY20 fell by 5% due to weak sentiments in housing segment. It has reported 13% growth in net profit at Rs 136 cr. GNPA in its housing finance segment stood at 3.97% vs. 3.14% QOQ. Sundaram AMC reported healthy performance as average AUM of the company grew by 8% QoQ to Rs 36,222 cr. Its equity segment saw a good inflow of 12% while debt segment recorded flat growth QoQ.

Valuation & Outlook

Despite weak CV demand cycle and slowdown, SUF's operating performance remained fairly well in Q3FY20. Asset quality saw a blip during the quarter which is expected to improve over a time. Over the past year, SUF has managed to deliver healthy AUM and disbursement growth despite the tough economic environment. However, the near to medium term outlook will remain challenging. We believe SUF's well diversified secured profile with easier access of cost of funds coupled with better underwriting practices and high CAR ratio to enable SUF to persist with sector headwinds. Hence, we remain positive on the stock and maintain our 'Accumulate' rating with the target price of Rs 1884 (based on SOTP valuation).

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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

Q3FY20 Result Snapshot:

Particulars	Q3FY20	Q2FY20	Q3FY19	QoQ	YoY
Interest Income	976	994	855	-2%	14%
Interest Expended	533	527	466	1%	14%
Net Interest Income	443	467	389	-5%	14%
Other Income	6	64	6		
Total Operating Income	449	531	394	-16%	14%
Expenses					
Employee cost	89	89	80	0%	11%
Administrative and other expenses	48	50	55	-2%	-11%
Depreciation and Amortization	19	18	14	4%	33%
Total Operating Expenses	156	156	149	0%	5%
Pre-Provisioning Profit	293	375	246	-22%	19%
Impairment on financial instruments	72	53	18	35%	291%
Profit Before exceptional Items	221	322	227	-31%	-3%
Exceptional Items	0	0	0		
Profit After Exceptional items	221	322	227	-31%	-3%
Tax Expenses	54	53	71	3%	-23%
<i>Effective Tax Rate</i>	25%	16%	31%		
Profit After Tax	167	269	157	-38%	6%
Cost-Income Ratio	35%	29%	38%		
Asset Quality					
GNPA(%)	2.79%	2.20%	1.79%		
NNPA(%)	2.09%	1.64%	1.22%		
Business Performance					
Total AUM (cr.)	30502	30256	28102	1%	9%
AUM Break up (%)					
<i>CVs</i>	52.60%	53.40%	52.70%		
<i>Cars</i>	25.60%	25.20%	27.70%		
<i>Construction equipment</i>	10.10%	9.90%	9.30%		
<i>Tractors</i>	5.80%	5.40%	5.30%		
<i>Others</i>	5.90%	6.10%	5.00%		
Disbursements during the quarter (in Cr.)	4000	3832	4355	4%	-8%
Borrowings (Cr.)	29206	29925	26788	-2%	9%
Calculated Ratios					
NIM	5.8%	6.2%	5.6%		
Borrowing Cost	7.2%	7.2%	7.0%		
Yield	12.9%	13.2%	12.4%		

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	32.8	16.4	24.0	19.8
P/BV	4.5	3.7	3.3	2.9
P/ABV	4.6	3.8	3.4	3.0

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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