

CMP: Rs 1,360

Rating: Hold

Target Price: Rs 1,461

Stock Info

BSE	590071
NSE	SUNDARMFN
Bloomberg	SUF IN
Reuters	SNFN.BO
Sector	BFSI
Face Value (Rs)	10
Equity Capital (Rs Cr)	111
Mkt Cap (Rs Cr)	15,086
52w H/L (Rs)	1,785 / 982
Avg Yearly Vol (in 000')	48.61

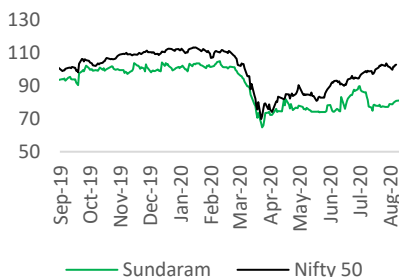
Shareholding Pattern %

(As on June, 2020)

Promoters	35.93
FII	11.10
DII	10.96
Public & Others	42.01

Stock Performance (%)	3m	6m	12m
Sundaram Finance	12.9	-17.2	-16.2
Nifty 50	23.8	-6.1	3.6

Sundaram Vs Nifty



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Sundaram Finance (SUF) reported stable operating performance during Q1FY21. NII growth was flat at Rs 426 cr. Pre-provisioning operating profit for the quarter de-grew by 1% YoY/QoQ to Rs 280 cr. Provision for the quarter was at Rs 61 cr, +32% YoY/-48% QoQ. Despite a flat growth in NII and de-growth in operating profit, Company has reported 5% YoY/27% QoQ growth in profit at Rs 166 cr. Profit growth was largely driven by lower tax and improvement in cost to income ratio. Cost to income ratio improved by 103 bps QoQ to 34.7%, due to 33% YoY decline in other operating expenses. NIM increased by 7bps QoQ to 5.7%, driven by 28bps QoQ increase in yield on advances at 12.7%. Asset quality was largely stable with GNPA at 2.44% vs. 2.47% in previous quarter. NNPA declined by 17bps QoQ to 1.48%. Disbursements during the quarter fell by 68% QoQ, owing to weak demand cycle and Covid related disruption. We downgrade our rating to Hold with a revised TP of Rs 1,461 (earlier Rs 1,482).

AUM witnessed de-growth due to weak demand cycle

AUM during the quarter de-grew by 1% YoY/QoQ to Rs 29,580 cr. CV loan portfolio de-grew by 3% YoY/1% QoQ to Rs 15,589 cr. Construction equipment segment witnessed a growth of 8% YoY. Car portfolio fell by 6% YoY. 52.7% of AUM of the company comprised of commercial vehicles, 24.5% towards car segment and the rest in construction equipment, tractor and others at 10.8%, 6.4% and 5.6% respectively.

Performance of Subsidiaries for Q1FY21

SUF's home finance subsidiary, Sundaram Home Finance recorded low single digit AUM growth of 2% YoY at Rs 9,412 cr. Disbursement during the quarter fell sharply by 84%, due to nationwide lockdown and weak sentiment in housing segment. It has reported 21% de-growth in net profit at Rs 34 cr. GNPA in its housing finance segment increased to 3.98% vs. 3.77% QoQ. 39% of the total number of accounts are under moratorium in housing segment. Sundaram AMC reported average AUM reduction by 8% YoY to Rs 32,212 cr. Its equity segment outflow was at 5% and debt segment outflow was at 15% YoY. Its insurance arm, Royal Sundaram recorded 17% de-growth in gross written premium. Royal Sundaram's reported PAT of Rs 157 cr vs. Rs 4 cr in Q1FY20.

Valuation & Outlook

We continue to believe near term business outlook of SUF will remain tepid due to CV cycle downturn and management's conservative approach. We may see pressure on growth and return metrics in the near to medium term. We cut our FY21 loan growth estimates to 2.8% from 3.4% earlier, on the back of Company's higher focus on recovery front, leading to fall in disbursements. Company's 39% of the core portfolio by number of accounts are under moratorium. However, we believe SUF's well diversified secured profile with better underwriting practices and comfortable capital position (CAR at 17.7%) to enable SUF to persist over the sectoral headwinds. We downgrade our rating to Hold from Buy with a revised target price of Rs 1,461 (based on SOTP valuation).

Financial Summary

Year (in Cr.)	NII	PAT	Advances	ROE (%)	RoA (%)	ABV (Rs.)	P/ABV (x)
FY20	1,770	724	28,045	13.7%	2.2%	479	2.8
FY21E	1,904	667	28,837	11.5%	1.9%	510	2.7
FY22E	2,005	859	30,021	13.5%	2.3%	577	2.4

SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,066
Sundaram BNP Paribas Home Finance	100%	Base case, justified P/B of 0.9x FY22E	152
Sundaram AMC	100%	5% FY22E AUM	176
Royal Insurance	50%	P/B of 1.8x FY22E - Market multiple	137
Holding co. discount (%)			15%
Value of subs (INR per share)			395
Target Price (INR per share)			1,461

Quarterly Result

Particulars (in Cr.)	Q1FY21	Q4FY20	Q1FY20	QoQ	YoY
Interest Income	948	942	923	1%	3%
Interest Expended	523	516	500	2%	5%
Net Interest Income	425	426	423	0%	0%
Other Income	4	12	23	-69%	-84%
Total Operating Income	429	438	446	-2%	-4%
Expenses					
Employee cost	93	93	88	0%	5%
Administrative and other expenses	40	44	59	-10%	-33%
Depreciation and Amortisation	16	20	16	-18%	0%
Total Operating Expenses	149	157	164	-5%	-9%
Pre-Provisioning Profit	280	281	282	-1%	-1%
Impairment on financial instruments	61	116	46	-48%	32%
Profit Before exceptional Items	219	166	236	32%	-7%
Exceptional Items	0	0	0	-	-
Profit After Exceptional items	219	166	236	32%	-7%
Tax Expenses	53	35	79	54%	-33%
<i>Effective Tax Rate</i>	24%	21%	33%		
Profit After Tax	166	131	157	27%	5%
Cost-Income Ratio	34.7%	35.8%	36.7%	-103bps	-199bps
Asset Quality					
GNPA(%)	2.44%	2.47%	2.20%	-3 bps	24 bps
NNPA(%)	1.48%	1.65%	1.63%	-17 bps	-15 bps
Business Performance					
Total AUM (cr.)	29580	29936	29977	-1%	-1%
AUM Break up (Cr.)					
<i>CVs</i>	15588.7	15716.4	16007.7	-1%	-3%
<i>Cars</i>	7247.1	7454.1	7704.1	-3%	-6%
<i>Construction equipment</i>	3194.6	3113.3	2967.7	3%	8%
<i>Tractors</i>	1893.1	1856.0	1558.8	2%	21%
<i>Others</i>	1656.5	1796.2	1738.7	-8%	-5%
Disbursements during the quarter	929	2929	4414	-68%	-79%
Borrowings	29887	29007	28586	3%	5%
Calculated Ratios					
NIM	5.7%	5.6%	5.7%	7 bps	-3 bps
Borrowing Cost	7.1%	7.1%	7.2%	2 bps	-13 bps
Yield	12.7%	12.5%	12.5%	28 bps	22 bps

Key Financials

Financials - Standalone

Particulars	2019A	2020A	2021E	2022E	Particulars	2019A	2020A	2021E	2022E
Interest Income	3398	3842	3413	3611	Assets				
(-) Interest Expense	-1763	-2072	-1510	-1607	Cash and Balances	839	630	1534	1633
Total Net Interest Income	1635	1770	1904	2005	Deferred Tax Assets	198	283	141	150
Other Income	21	85	87	90	Investments	1946	4017	4017	5151
Total Income	1656	1855	1990	2095	Advances	27271	28045	28837	30021
Operating Expenses	653	623	713	793	Fixed Assets	225	281	282	301
Operating Profit	1003	1232	1277	1302	Other Assets	169	165	579	616
Provisions and Write Off	107	290	385	153	Total Assets	30649	33420	35390	37872
Profit before Exceptional Item	895	945	892	1148	Liabilities				
Exceptional Item	592	0	0	0	Capital Reserves and Surplus	111	111	111	111
Profit before tax	1488	945	892	1148	Borrowings	4933	5436	5940	6589
Provision for Tax	361	221	224	289	Trade Payables	20217	21428	21918	23328
Profit after Tax	1126	724	667	859	Other Liabilities	104	70	141	150
					Total Liabilities	30649	33420	35390	37872
	2019A	2020A	2021E	2022E					
Per Share Ratio					Spread Analysis				
EPS	101.4	65.2	60.1	77.3	Yield Earned	12.2%	12.5%	10.4%	10.3%
BVPS	454.0	499.3	544.6	603.0	Cost of funds	8.4%	7.5%	6.9%	6.9%
Adjusted BVPS	439.9	479.0	510.0	577.4	Growth				
					Advances growth	23.9%	2.8%	2.8%	4.1%
Asset Quality					Net Profit growth	-5.2%	-35.7%	-7.8%	28.8%
Gross NPAs	1.3%	2.5%	3.4%	3.3%	Liquidity				
Net NPAs	0.8%	1.7%	1.2%	0.9%	CET 1 Ratio	16.8%	14.1%	14.3%	14.3%
Profitability Ratio					Efficiency				
RoAE	24.5%	13.7%	11.5%	13.5%	Cost-to-Income	39.4%	33.6%	35.8%	37.9%
RoAA	3.7%	2.2%	1.9%	2.3%					
NIMs	7.0%	6.4%	6.0%	5.9%					
Valuation (x)									
P/E	13.4	20.9	22.6	17.6					
P/BV	3.0	2.7	2.5	2.3					
P/ABV	3.1	2.8	2.7	2.4					

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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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