

**CMP: Rs 1,571**

**Rating: Hold**

**Target Price: Rs 1,706**

**Stock Info**

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)	17,457
52w H/L (Rs)	1,785 / 982
Avg Yearly Vol (in 000')	62.48

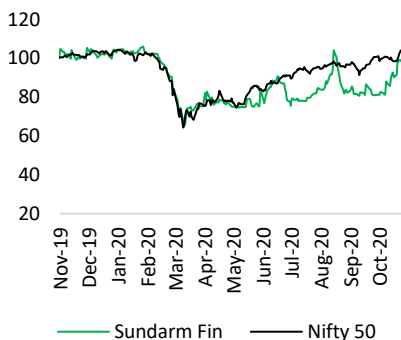
**Shareholding Pattern %**

(As on September, 2020)

Promoters	35.93
FII	11.42
DII	10.87
Public & Others	41.78

Stock Performance (%)	3m	6m	12m
Sundaram Finance	19.6	26.5	-0.1
Nifty 50	12.1	36.5	6.1

**Sundaram Vs Nifty**



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*Sundaram Finance's (SUF) Q2FY21 result was ahead of our estimates with profit at Rs 192 cr (+16% QoQ) vs. our estimate of Rs 167 cr. The company has reported NII growth of 2% YoY/12% QoQ to Rs 478 cr, largely due to margin expansion. PPOP for the quarter de-grew by 11% YoY to Rs 334 cr. Other income figure for Q2FY20 includes a profit of Rs 60 cr, representing a one-time benefit on profit on sales of shares in Sundaram Holdings Ltd. Hence, YoY PPOP figure is not comparable. However, on a sequential basis PPOP grew by 19% due to lower cost. Cost to income ratio declined by 397 bps QoQ to 30.8%, primarily, due to 24% YoY/5% QoQ decline in other operating expenses. Provision during the quarter remained elevated at Rs 80 cr, +51% YoY/+32% QoQ. NIM increased by 64bps QoQ to 6.4%, driven by 25bps QoQ reduction in borrowing cost and 46bps QoQ increase in yield on advances at 13.2%. Due to SC's stay order on NPA classification, GNPA/NNPA ratio declined by 30bps/31bps QoQ at 2.14%/1.17%. However, without considering SC order, GNPA ratio would have been higher at 2.51%. Disbursements during the quarter picked up sharply at Rs 3,174 cr vs. Rs 929 cr QoQ, as vehicle sales bounced back from the low levels of June quarter.*

**AUM growth remained low; Tractor and CE portfolio performed well**

AUM during the quarter grew by 1% YoY/3% QoQ to Rs 30,572 cr. CV loan portfolio de-grew by 4% YoY/flat QoQ to Rs 15,531 cr. Construction equipment (CE) segment witnessed healthy growth at 14% YoY/7% QoQ. Tractor portfolio of the company registered strong growth of 33% YoY/15% QoQ while Car segment grew marginally by 1% QoQ. 50.8% of AUM of the company comprised of commercial vehicles, 24% towards car segment and the rest in construction equipment, tractor and others at 11.2%, 7.1% and 6.9% respectively.

**Performance of Subsidiaries for H1FY21**

SUF's home finance subsidiary, Sundaram Home Finance recorded low single digit AUM de-growth of 1% YoY to Rs 9,294 cr. Disbursement during the quarter fell sharply by 68%. It has reported 4% growth in net profit at Rs 99 cr. GNPA in its housing finance segment declined from 3.98% to 3.67% QoQ. Sundaram AMC's reported average AUM decreased by 3% YoY to Rs 33,868 cr. Its equity segment inflow was at 5% and debt segment outflow was at 17% YoY. Insurance arm of the company, Royal Sundaram has reported 31% de-growth in gross written premium while profit was good at Rs 241 cr vs. loss of Rs 16 cr.

**Valuation & Outlook**

SUF has reported improvement in core operating performance with expansion in margins (better asset mix) and improved cost ratio which was impressive. We continue to like SUF's business model due to its diversified nature of loan book, better underwriting practices, strong capital position (CAR at 19.3%) and operational cost control which enable SUF to bounce back once economy normalize. With increased visibility around its business segment and reduction in OPEX, we have increased our PAT estimates by 5%/9% for FY21/22E. We maintain our Hold rating on the stock with a SOTP based target price of Rs 1,706 (earlier Rs 1,461).

**Financial Summary**

Year (in Cr.)	NII	PAT	Advances	ROE (%)	RoA (%)	ABV	P/ABV (x)
FY20	1770	724	28045	13.7%	2.2%	479	3.3
FY21E	1916	700	29045	12.0%	2.0%	513	3.1
FY22E	2028	939	30354	14.6%	2.5%	584	2.7

## SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,299
Sundaram BNP Paribas Home Finance	100%	Base case, justified P/B of 1x FY22E	166
Sundaram AMC	100%	5% FY22E AUM	176
Royal Insurance	50%	P/B of 1.8x FY22E - Market multiple	137
Holding co. discount (%)			15%
<b>Value of subs (INR per share)</b>			<b>407</b>
<b>Target Price (INR per share)</b>			<b>1,706</b>

## Quarterly Result

Particulars (in Cr.)	Q2FY21	Q1FY21	Q2FY20	QoQ	YoY
Interest Income	993	948	994	5%	0%
Interest Expended	515	523	527	-2%	-2%
<b>Net Interest Income</b>	<b>478</b>	<b>425</b>	<b>467</b>	<b>12%</b>	<b>2%</b>
Other Income	5	4	64	35%	-92%
<b>Total Operating Income</b>	<b>482</b>	<b>429</b>	<b>531</b>	<b>13%</b>	<b>-9%</b>
<b>Expenses</b>					
Employee cost	93	93	89	1%	5%
Administrative and other expenses	38	40	50	-5%	-24%
Depreciation and Amortisation	17	16	18	5%	-4%
Total Operating Expenses	148	149	156	0%	-5%
<b>Pre-Provisioning Profit</b>	<b>334</b>	<b>280</b>	<b>375</b>	<b>19%</b>	<b>-11%</b>
Impairment on financial instruments	80	61	53	32%	51%
Profit Before exceptional Items	254	219	322	16%	-21%
Exceptional Items	0	0	0		
<b>Profit After Exceptional items</b>	<b>254</b>	<b>219</b>	<b>322</b>	<b>16%</b>	<b>-21%</b>
Tax Expenses	62	53	53	16%	17%
<i>Effective Tax Rate</i>	24%	24%	16%		
<b>Profit After Tax</b>	<b>192</b>	<b>166</b>	<b>269</b>	<b>16%</b>	<b>-29%</b>
Cost-Income Ratio	30.8%	34.7%	29.4%	-397 bps	136 bps
<b>Asset Quality</b>					
GNPA(%)	2.14%	2.44%	2.20%	-30 bps	-6 bps
NNPA(%)	1.17%	1.48%	1.64%	-31 bps	-47 bps
<b>Business Performance</b>					
<b>Total AUM (cr.)</b>	<b>30572</b>	<b>29580</b>	<b>30256</b>	<b>3%</b>	<b>1%</b>
<b>AUM Break up (Cr.)</b>					
CVs	15530.6	15588.7	16156.7	0%	-4%
Cars	7337.3	7247.1	7624.5	1%	-4%
Construction equipment	3424.1	3194.6	2995.3	7%	14%
Tractors	2170.6	1893.1	1633.8	15%	33%
Others	2109.5	1656.5	1845.6	27%	14%
<b>Disbursements during the quarter</b>	<b>3174</b>	<b>929</b>	<b>3832</b>	<b>242%</b>	<b>-17%</b>
<b>Borrowings</b>	<b>30208</b>	<b>29887</b>	<b>29925</b>	<b>3%</b>	<b>5%</b>
<b>Calculated Ratios</b>					
NIM	6.4%	5.7%	6.2%	64 bps	15 bps
Borrowing Cost	6.9%	7.1%	7.2%	-25 bps	-34 bps
Yield	13.2%	12.7%	13.2%	46 bps	1 bps

## Key Financials

Particulars	2019A	2020A	2021E	2022E	Particulars	2019A	2020A	2021E	2022E
Interest Income	3398	3842	3436	3652	<b>Assets</b>				
(-) Interest Expense	-1763	-2072	-1520	-1624	Cash and Balances	839	630	1545	1651
<b>Total Net Interest Income</b>	<b>1635</b>	<b>1770</b>	<b>1916</b>	<b>2028</b>	Deferred Tax Assets	198	283	142	152
					Investments	1946	4017	4017	5219
Other Income	21	85	87	91	Advances	27271	28045	29045	30354
<b>Total Income</b>	<b>1656</b>	<b>1855</b>	<b>2003</b>	<b>2119</b>	Fixed Assets	225	281	284	304
Operating Expenses	653	623	678	739	Other Assets	169	165	583	623
<b>Operating Profit</b>	<b>1003</b>	<b>1232</b>	<b>1325</b>	<b>1380</b>	<b>Total Assets</b>	<b>30649</b>	<b>33420</b>	<b>35615</b>	<b>38302</b>
Provisions and Write Off	107	290	389	126					
<b>Profit before Exceptional Item</b>	<b>895</b>	<b>945</b>	<b>936</b>	<b>1254</b>	<b>Liabilities</b>				
Exceptional Item	592	0	0	0	Capital	111	111	111	111
<b>Profit before tax</b>	<b>1488</b>	<b>945</b>	<b>936</b>	<b>1254</b>	Reserves and Surplus	4933	5436	5975	6698
Provision for Tax	361	221	235	316	Borrowings	20217	21428	22076	23584
<b>Profit after Tax</b>	<b>1126</b>	<b>724</b>	<b>700</b>	<b>939</b>	Trade Payables	104	70	142	152
					Other Liabilities	5285	6375	7311	7757
					<b>Total Liabilities</b>	<b>30649</b>	<b>33420</b>	<b>35615</b>	<b>38302</b>

	2019A	2020A	2021E	2022E		2019A	2020A	2021E	2022E
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### Basic Ratio

EPS	101.4	65.2	63.0	84.5
BVPS	454.0	499.3	547.8	612.9
Adjusted BVPS	439.9	479.0	513.0	583.8

### Asset Quality

Gross NPAs	1.3%	2.5%	3.4%	3.3%
Net NPAs	0.8%	1.7%	1.2%	1.0%

### Profitability Ratio

RoAE	24.5%	13.7%	12.0%	14.6%
RoAA	3.7%	2.2%	2.0%	2.5%
NIMs	7.0%	6.4%	6.0%	5.9%

### Valuation (x)

P/E	15.5	24.1	24.9	18.6
P/BV	3.5	3.1	2.9	2.6
P/ABV	3.6	3.3	3.1	2.7

### Spread Analysis

Yield Earned	12.2%	12.5%	10.4%	10.3%
Cost of funds	8.4%	7.5%	6.9%	6.9%

### Growth

Advances growth	23.9%	2.8%	3.6%	4.5%
Net Profit growth	-5.2%	-35.7%	-3.3%	34.1%

### Liquidity

CET 1 Ratio	16.8%	14.1%	14.3%	14.3%
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### Efficiency

Cost-to-Income	39.4%	33.6%	33.8%	34.9%
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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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