

CMP : Rs 1408

Rating : ACCUMULATE

Target : Rs 1613

STOCK INFO

INDEX	
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)	15,653
52w H/L (Rs)	1888 / 1340
Avg Yearly Vol (BSE+NSE)	47,410

SHAREHOLDING PATTERN

(As of Sept, 2018)	%
Promoters	36.5
DII	11.4
FII	6.5
Public & Others	45.5

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
SUNDARMFN	-3.9	-5.9	-15.4
SENSEX	4.7	-2.9	5.3

Source: ACE Equity, Arihant Research

SUNDARMFN v/s SENSEX



Source: ACE Equity, Arihant Research

Sundaram Finance (SUF) reported 3% YoY drop in net profit during Q3FY19 at Rs. 157 cr vs Rs. 161 cr in Q3FY18, primarily due to sharp rise in interest expense. Net Interest income for the quarter stood at Rs. 389 cr, registering a growth of 7% YoY and stood almost flat on QoQ basis. OPEX for the quarter grew by 18% at Rs. 149 cr vs Rs. 126 cr YoY taking the cost-income ratio at 38% against 33% YoY. In a light of liquidity issue in NBFCs and weak CV sales, there was 11% YoY fall in disbursements at Rs. 4355 cr. During the quarter there was 3%qoq / 14%YoY jump in its AUM at Rs. 28102 cr. Though GNPA's/NNPA's for the quarter stood at 1.79%/1.22% broadly stable, we believe SUF's assets quality will remain best in the industry as compared to M&M Finance and Shriram Transport Finance. We have an ACCUMULATE rating on the stock with revised TP of Rs. 1613.

Business Performance

Current challenges led to marginal de-growth in SUF's business. The CV & Car financing portfolio of the company declined from 53.3% and 28.6% QoQ to 52.7% and 27.7% of loan respectively. Construction equipment portfolio continues to exhibit strong growth of 19% YoY i.e. 9.3% of total AUM. Total AUM grew by 14% YoY at Rs. 28102 cr. Disbursements during the quarter fell by 11% on YoY basis mainly in its Car portfolio which is 26.3% of total disbursements. CV forms 53% of total disbursements as on Q3FY19 (54% as on H1FY19).

Comfortable Liquidity position; asset quality stable

Asset quality remained stable in Q3FY19. GNPA stood at 1.79% at similar level and NNPA stood at 1.22% against 1.20% in Q2FY19. SUF's total borrowings (including securitization) of Rs. 26788cr consist of only 5.5% funding from CPs which is 13.3% as on Q3FY18. SUF remained comfortable on liquidity front.

Subsidiary Performance

SUF's home finance's subsidiary, Sundaram BNP Paribas Home Finance had weak performance during 9MFY19 with 9.5% AUM growth led by weak disbursements (-3.4% YoY). Cumulative PAT of its home finance business as on 9MFY19 stood at Rs. 120 cr vs Rs. 129 cr in 9MFY18. Sundaram AMC has an average AUM of Rs. 34499 cr as on Dec 18 vs Rs. 35545 cr in H1FY19.

Valuation (SOTP)

SUF has a diversified product portfolio, best in class asset quality and healthy CAR ratio which are its key strengths. We expect CV demand likely to pickup going ahead and have a 15% upside for SUF based on SOTP valuations. Our revised target for SUF is Rs 1613 from Rs. 1601 earlier. **Key risks:** Lower than expected AUM growth, pressure on NIMs, rising borrowing cost and NPAs.

Web Link of our IC:

<http://www.arihantcapital.co.in/research/Sundaram%20Finance%20Initiating%20Coverage.pdf>

Financial Performance - SUF (Standalone)

YE March (Rs Cr)	Net Interest Income	Operating Profit	PAT	EPS (Rs)	EPS Growth	NIMs	RoE	RoA	Yield Earned
FY18	1336	869	533	48	8%	5.91%	13.8%	2.27%	12.29%
FY19E	1544	996	606	55	14%	6.38%	14.4%	2.08%	12.32%
FY20E	1705	1106	676	61	12%	5.92%	14.5%	2.07%	12.18%

Source: Company, Arihant Research

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,016
Sundaram BNP Paribas Home Finance	50%	Base case, justified P/B of 1.6x FY20E	215
Sundaram AMC	100%	5% FY20E AUM	216
Royal Insurance	50%	P/B of 2x FY20E - multiple	117
Other Investments	100%	P/B of 2.1x of share in net worth	49
Target Price			1,613

Q3FY19 Result Snapshot:

Particulars	Q3FY19	Q2FY19	Q3FY18	YoY	QoQ
Interest Income	855	815	712	20%	5%
Interest Expended	466	427	349	33%	9%
Net Interest Income	389	388	362	7%	0%
Other Income	6	4	22		
Total Operating Income	394	392	384	3%	1%
Expenses					
Employee cost	80	80	68	17%	1%
Administrative and other expenses	55	46	43	28%	18%
Depreciation and Amortisation	14	13	15	-8%	8%
Total Operating Expenses	149	139	126	18%	7%
Pre-Provisioning Profit	246	253	258	-5%	-3%
Impairment on financial instruments	18	21	15	21%	-12%
Profit Before tax	227	232	243	-6%	-2%
Tax Expenses	71	78	82	-14%	-10%
<i>Effective Tax Rate</i>	31%	34%	34%		
Profit After Tax	157	154	161	-3%	1%
Asset Quality					
GNPA(%)	1.79%	1.79%	1.73%		
NNPA(%)	1.22%	1.20%	0.98%		
Business Performance					
Total AUM (cr.)	28102	27223	24555	14%	3%
AUM Break up (%)					
CVs	52.70%	53.30%	53.00%	-1%	-1%
Cars	27.70%	28.60%	30.10%	-8%	-3%
Construction equipment	9.30%	9.10%	7.80%	19%	2%
Tractors	5.30%	5.40%	4.70%	13%	-2%
Others	5.00%	3.60%	4.40%	14%	39%
Disbursements (in Cr.)	4355	4267	4875	-11%	2%
Borrowings (Cr.)	26788	26184	23176	16%	2%
Borrowings Mix (%)					
Debentures	39.30%	39.30%	35.70%		
Securitisation	20.10%	21.40%	22.20%		
Banks	24.10%	20.60%	17.70%		
Deposits	11.00%	10.50%	11.10%		
CP	5.50%	8.20%	13.30%		
CRAR (%)	17.00%	16.00%	15.40%		

Financials – Standalone

Particulars	2018A	2019E	2020E
Interest Income	2618.3	3343.3	3712.5
(-) Interest Expense	-1282.6	-1798.7	-2007.3
Total Net Interest Income	1335.7	1544.6	1705.2
Other			
Income	78.0	100.2	112.0
Total Income	1413.7	1644.8	1817.2
Operating Expenses	544.4	648.5	711.2
Provisions and Write Off	62.6	92.5	97.1
Profit before Tax	806.8	903.8	1008.9
Provision for Tax	273.8	298.2	332.9
Profit after Tax	533.0	605.5	675.9

	2018A	2019E	2020E
Basic Ratio			
EPS	47.97	54.50	60.84
BVPS	357.40	398.27	443.89
Adjusted BVPS	261.72	242.24	307.07
Asset Quality			
Gross NPAs	1.3%	1.4%	1.5%
Net NPAs	0.5%	0.6%	0.4%
PCR	61.8%	60.0%	70.0%
Profitability Ratio			
RoAE	13.8%	14.4%	14.4%
RoAA	2.3%	2.1%	2.1%
NIMs	5.9%	6.4%	5.9%
Valuation			
P/E (x)	29.4	25.8	23.1
P/BV (x)	3.9	3.5	3.2
P/ABV (x)	5.4	5.8	4.6

Particulars	2018A	2019E	2020E
Assets			
Cash and Balances	981.4	1261.6	1428.0
Deferred Tax Assets	116.4	123.3	136.5
Investments	2258.2	4873.2	5594.8
Advances	19617.3	22266.3	24887.8
Fixed Assets	222.8	246.6	272.9
Other Assets	250.8	302.8	342.8
Total Assets	23446.9	29073.8	32662.7
Liabilities			
Capital	111.1	111.1	111.1
Reserves and Surplus	3859.7	4313.8	4820.6
Borrowings	17735.8	18023.1	20399.6
Trade Payables	97.8	123.3	136.5
Other Liabilities	1349.6	6166.1	6822.8
Provisions	292.8	336.3	372.2
Total Liabilities	23446.9	29073.8	32662.7

	2018A	2019E	2020E
Spread Analysis			
Yield Earned	12.3%	12.3%	12.2%
Cost of funds	9.3%	9.5%	9.5%
Spread	3.0%	2.8%	2.7%
Growth			
Advances growth	19.3%	13.3%	10.7%
Deposit growth	9.7%	15.2%	13.2%
Net Profit growth	7.6%	13.6%	11.6%
Liquidity			
CET 1 Ratio	12.2%	14.2%	11.8%
Efficiency			
Cost-to-Income	38.5%	39.4%	39.1%

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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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