

**Good operating performance; Asset quality under control**

**CMP: INR 1,889**

**Rating: Hold**

**Target Price: INR 2,070**

**Stock Info**

BSE	590071
NSE	SUNDARFIN
Bloomberg	SUF IN
Reuters	SNFN.BO
Sector	BFSI
Face Value (INR)	10
Equity Capital (INR Cr)	111
Mkt Cap (INR Cr)	20,987
52w H/L (INR)	1,928 / 982
Avg Yearly Vol (in 000')	72.54

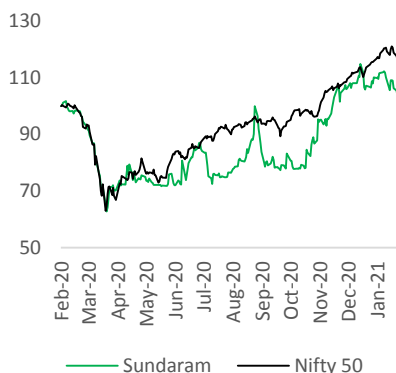
**Shareholding Pattern %**

(As on December, 2020)

Promotee	35.91
FII	12.86
DII	10.40
Public & Other	40.83

Stock Performance (%)	3m	6m	12m
Sundaram Finance	18.9	45.5	13.2
Nifty 50	22.8	34.3	24.5

**Sundaram Vs Nifty**



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*Sundaram Finance's (SUF) Q3FY21 result was ahead of our estimates with profit growth of 45% YoY/26% QoQ at INR 242 cr (our estimate was INR 171 cr). The company has reported strong NII growth of 21% YoY/13% QoQ at INR 538 cr, largely due to margin expansion. PPOP for the quarter grew by 33% YoY to INR 390 cr as compared to our estimate of INR 356 cr. Cost to income ratio of the company declined further by 306 bps QoQ at 27.7% due to reduction in other OPEX. Provision for the quarter stood at INR 70 cr as compared to INR 80 cr in the previous quarter. NIM of the company increased by 61bps QoQ to 7%, driven by 32bps QoQ increase in yield on advances at 13.5% and 22bps cut in borrowing cost. Due to SC's stay order on NPA classification, GNPA/NNPA ratio declined by 55bps/34bps QoQ at 1.59%/0.83%. Proforma GNPA ratio of the company decreased by 4bps QoQ at 2.47%. Disbursements during the quarter grew strongly by 37% QoQ at INR 4,334 cr, as vehicle sales bounced back from its low of June quarter.*

**AUM growth remained low; Tractor portfolio continue to perform well**

AUM during the quarter grew by 2% YoY/2% QoQ to INR 31,226 cr (as compared to 1% YoY growth in Q2FY21). CV loan portfolio de-grew by 6% YoY/3% QoQ to INR 15,051 cr. Construction equipment (CE) segment witnessed healthy growth at 14% YoY/2% QoQ. Tractor portfolio of the company continue to register strong growth of 27% YoY/4% QoQ. Passenger vehicle segment of the company grew strongly by 5% on a QoQ basis. 48.2% of AUM of the company comprised of commercial vehicles, 24.7% towards car segment and the rest in construction equipment, tractor and others at 11.2%, 7.2% and 8.7% respectively.

**Performance of Subsidiaries for 9MFY21**

SUF's home finance subsidiary, Sundaram Home Finance recorded AUM de-growth of 4% YoY to INR 9,109 cr. Company has reported 14% growth in its net profit at INR 155 cr. GNPA in its housing finance segment declined from 3.67% to 3.52% QoQ. On proforma basis, GNPA stood higher at 4.23%. Sundaram AMC's reported average AUM increased by 5% QoQ to INR 35,512 cr. Its equity segment inflow was at 6% and debt segment inflow was at 2% QoQ. Insurance arm of the company, Royal Sundaram has reported 26% YoY de-growth in gross written premium while profit was good at INR 289 cr vs. loss of INR 12 cr.

**Valuation & Outlook:** Core operating performance of the company remained strong with marginal improvement in proforma GNPA. With improvement in proforma GNPA and better underwriting practices, we believe, covid impact on asset quality is very much under control. We continue to like SUF's business model due to its diversified nature of loan book, strong capital position (CAR at 19.7%) and operational cost control which enable SUF to perform well. With increased visibility around its business segment, reduction in OPEX, improved margins and manageable asset quality, we have increased our PAT estimates by 20%/27% for FY21/22E. We maintain our Hold rating on the stock with a SOTP based target price of INR 2,070 (earlier INR 1,706).

**Important update:** As Sri T. T. Srinivasaraghavan's tenure (Current MD) ends on Mar'21, Mr. Rajiv C. Lochan will take a charge as a MD of the company.

**Financial Summary**

Year (in Cr.)	NII	PAT	Advances	ROE (%)	RoA (%)	ABV	P/ABV (x)
FY20	1770	724	28045	13.7%	2.2%	479	3.9
FY21E	1976	839	29756	14.3%	2.1%	520	3.6
FY22E	2522	1195	32099	18.0%	2.7%	607	3.1

## SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,663
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>2,070</b>

## Quarterly Result

Particulars (in Cr.)	Q3FY21	Q2FY21	Q3FY20	QoQ	YoY
Interest Income	1045	993	976	5%	7%
Interest Expended	507	515	533	-2%	-5%
<b>Net Interest Income</b>	<b>538</b>	<b>478</b>	<b>443</b>	<b>13%</b>	<b>21%</b>
Other Income	2	5	6	-69%	-75%
<b>Total Operating Income</b>	<b>539</b>	<b>482</b>	<b>449</b>	<b>12%</b>	<b>20%</b>
<b>Expenses</b>					
Employee cost	94	93	89	0%	6%
Administrative and other expenses	38	38	48	0%	-22%
Depreciation and Amortisation	18	17	19	3%	-5%
Total Operating Expenses	149	148	156	1%	-4%
<b>Pre-Provisioning Profit</b>	<b>390</b>	<b>334</b>	<b>293</b>	<b>17%</b>	<b>33%</b>
Impairment on financial instruments	70	80	72	-13%	-3%
<b>Profit Before Tax</b>	<b>320</b>	<b>254</b>	<b>221</b>	<b>26%</b>	<b>45%</b>
Tax Expenses	78	62	54	26%	43%
<i>Effective Tax Rate</i>	24%	24%	25%		
<b>Profit After Tax</b>	<b>242</b>	<b>192</b>	<b>167</b>	<b>26%</b>	<b>45%</b>
Cost-Income Ratio	27.7%	30.8%	34.8%	-306bps	-705bps
<b>Asset Quality</b>					
GNPA(%)	1.59%	2.14%	2.79%	-55bps	-120bps
NNPA(%)	0.83%	1.17%	2.09%	-34bps	-126bps
<b>Business Performance</b>					
<b>Total AUM (cr.)</b>	<b>31226</b>	<b>30572</b>	<b>30502</b>	<b>2%</b>	<b>2%</b>
<b>AUM Break up (Cr.)</b>					
CVs	15051	15531	16044	-3%	-6%
CaINR	7713	7337	7808	5%	-1%
Construction equipment	3497	3424	3081	2%	14%
TractoINR	2248	2171	1769	4%	27%
OtheINR	2717	2109	1800	29%	51%
<b>DisbuINRements during the quarter</b>	<b>4334</b>	<b>3174</b>	<b>4000</b>	<b>37%</b>	<b>8%</b>
<b>Borrowings</b>	<b>30886</b>	<b>30208</b>	<b>29206</b>	<b>2%</b>	<b>6%</b>
<b>Calculated Ratios</b>					
NIM	7.0%	6.4%	5.8%	61bps	113bps
Borrowing Cost	6.6%	6.9%	7.2%	-22bps	-58bps
Yield	13.5%	13.2%	12.9%	32bps	67bps

## Key Financials

## Financials - Standalone

Particulars	2019A	2020A	2021E	2022E	Particulars	2019A	2020A	2021E	2022E
Interest Income	3398	3842	3937	4443	<b>Assets</b>				
(-) Interest Expense	-1763	-2072	-1960	-1921	Cash and Balances	839	630	1993	1952
<b>Total Net Interest Income</b>	<b>1635</b>	<b>1770</b>	<b>1976</b>	<b>2522</b>	Deferred Tax Assets	198	283	142	156
					Investments	1946	4017	6102	8244
Other Income	21	85	89	96	Advances	27271	28045	29756	32099
<b>Total Income</b>	<b>1656</b>	<b>1855</b>	<b>2066</b>	<b>2619</b>	Fixed Assets	225	281	284	313
Operating Expenses	653	623	638	891	Other Assets	169	165	751	736
<b>Operating Profit</b>	<b>1003</b>	<b>1232</b>	<b>1427</b>	<b>1728</b>	<b>Total Assets</b>	<b>30649</b>	<b>33420</b>	<b>39028</b>	<b>43500</b>
Provisions and Write Off	107	290	307	131					
<b>Profit before Exceptional Item</b>	<b>895</b>	<b>945</b>	<b>1121</b>	<b>1597</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>1121</b>	<b>1597</b>	Reserves and Surplus	4933	5436	6082	7002
Provision for Tax	361	221	282	402	Borrowings	20217	21428	28466	27886
<b>Profit after Tax</b>	<b>1126</b>	<b>724</b>	<b>839</b>	<b>1195</b>	Trade Payables	104	70	142	156
					Other Liabilities	5285	6375	4227	8344
					<b>Total Liabilities</b>	<b>30649</b>	<b>33420</b>	<b>39028</b>	<b>43500</b>

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

EPS	101.4	65.2	75.5	107.5
BVPS	454.0	499.3	557.4	640.2
Adjusted BVPS	439.9	479.0	519.8	606.7

## Asset Quality

Gross NPAs	1.3%	2.5%	3.2%	3.0%
Net NPAs	0.8%	1.7%	1.3%	1.1%

## Profitability Ratio

RoAE	24.5%	13.7%	14.3%	18.0%
RoAA	3.7%	2.2%	2.1%	2.7%
NIMs	7.0%	6.4%	5.9%	6.6%

## Valuation (x)

P/E	18.6	29.0	25.0	17.6
P/BV	4.2	3.8	3.4	3.0
P/ABV	4.3	3.9	3.6	3.1

## Spread Analysis

	2019A	2020A	2021E	2022E
Yield Earned	12.2%	12.5%	11.0%	11.0%
Cost of funds	8.4%	7.5%	6.9%	6.9%

## Growth

Advances growth	23.9%	2.8%	6.1%	7.9%
Net Profit growth	-5.2%	-35.7%	15.8%	42.5%

## Liquidity

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

Cost-to-Income	39.4%	33.6%	30.9%	34.0%
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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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