

Asset quality improved

CMP: INR 2,480

Rating: Hold

Target Price: INR 2,607

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)	27,544
52w H/L (INR)	2,868 / 1,190
Avg Yearly Vol (in 000')	65

Shareholding Pattern %

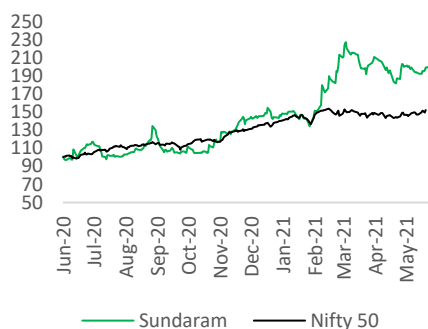
(As on December, 2020)

Promoter	35.91
FII	12.86
DII	10.40
Public & Others	40.83

Stock Performance (%)

	3m	6m	12m
Sundaram Finance	-5.3	38.1	99.6
Nifty 50	4.4	18.8	56.1

Sundaram Vs Nifty



Raju Barnawal

raju.b@arihantcapital.com

022 67114870

Sundaram Finance (SUF) reported good performance during Q4FY21 with sharp improvement in asset quality. Profit for the quarter came in at INR 209 cr vs. our estimates of INR 227 cr. The company has reported NII growth of 13% YoY to INR 483 cr led by AUM growth of 3% YoY. PPOP for the quarter grew by 31% YoY to INR 369 cr as compared to our estimate of INR 382 cr. Other income for the quarter stood at INR 50 cr as compared to INR 12 cr YoY. Cost to income ratio of the company increased by 309 bps QoQ to 30.8% due to modest NII growth and 10% QoQ increase in OPEX. Provision for the quarter stood at INR 106 cr as compared to INR 70 cr in the previous quarter. NIM (Calculated) decreased by 75bps QoQ to 6.2% due to 107 bps decline in yield on advances at 12.5% largely on account of change in segment mix. GNPA ratio of the company declined sharply by 63bps at 1.8% vs. proforma GNPA of 2.5%. Disbursements during the quarter grew by 13% YoY and de-grew by 24% QoQ which led to lower AUM growth. Company's restructured portfolio stood at 4.4% of AUM i.e INR 1,364 cr.

AUM growth remained low; Tractor portfolio continue to perform well

AUM during the quarter grew by 3% YoY/-1% QoQ to INR 30,882 cr (as compared to 2% YoY growth in Q3FY21). CV loan portfolio de-grew by 7% YoY/3% QoQ to INR 14,638 cr. Construction equipment (CE) segment witnessed a growth of 11% YoY. Tractor portfolio of the company continue to register strong growth of 25% YoY/3% QoQ. Passenger vehicle segment of the company grew by 2% on a YoY basis. 47.4% (vs. 52.5% in Q4FY20) 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%, 7.5% and 9.2% respectively.

Performance of Subsidiaries for FY21

SUF's home finance subsidiary, Sundaram Home Finance recorded AUM de-growth of 5% YoY to INR 9,173 cr as disbursements continue to remain slow. Asset quality in its housing finance segment sees slight deterioration which has led to higher provisions and thus impacted profitability. GNPA for the FY21 stood at 4.48% as compared to proforma GNPA of 4.23%. Sundaram AMC continues to see better traction in equity AUM which is improving yields and profitability. Sundaram AMC's reported average AUM increased by 36% YoY to INR 41,196 cr. Its equity segment inflow was good at 52% YoY and debt segment inflow was flat. Insurance arm of the company, Royal Sundaram has reported 22% YoY de-growth in gross written premium while profit was good at INR 313 cr vs. loss of INR 76 cr YoY.

Valuation & Outlook: Core operating performance of the company remained strong with strong improvement in GNPA. Company's conservative approach towards building quality book over growth has resulted in consistent performance and better asset quality than peers. SUF stands out best in CV financing space due to its diversified nature of loan book, strong capital position (CAR at 22.1%), better asset quality than peers and superior return profile (ROA/ROE of 2.8%/17% by FY23E). We marginally cut our FY22E estimates by 3% and introduced FY23 estimates. We maintain our Hold rating on the stock with a SOTP based target price of INR 2,607 (earlier INR 2,070).

Year (in Cr.)	NII	PAT	Advances	ROE (%)	RoA (%)	ABV	P/ABV (x)
FY20	1770	724	28045	13.7%	2.2%	479	5.2
FY21	1923	809	29404	13.8%	2.3%	521	4.8
FY22E	2446	1158	32064	17.5%	2.7%	612	4.1
FY23E	2748	1320	35184	17.4%	2.8%	703	3.5

SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	2,138
Sundaram BNP Paribas Home Finance	100%	Base case, justified P/B of 1.1x FY23E	202
Sundaram AMC	100%	5% FY23E AUM	194
Royal Insurance	50%	P/B of 1.8x FY23E - Market multiple	155
Holding co. discount (%)			15%
Value of subs (INR per share)			468
Target Price (INR per share)			2,607

Quarterly Result

Particulars (in Cr.)	Q4FY21	Q3FY21	Q4FY20	QoQ	YoY
Interest Income	967	1045	942	-7%	3%
Interest Expended	485	507	516	-4%	-6%
Net Interest Income	483	538	426	-10%	13%
Other Income	50	2	12	3256%	334%
Total Operating Income	533	539	438	-1%	22%
Expenses					
Employee cost	102	94	93	9%	10%
Administrative and other expenses	44	38	44	16%	-1%
Depreciation and Amortisation	19	18	20	5%	-6%
Total Operating Expenses	164	149	157	10%	5%
Pre-Provisioning Profit	369	390	281	-5%	31%
Impairment on financial instruments	106	70	116	51%	-9%
Profit Before exceptional Items	263	320	166	-18%	59%
Exceptional Items	0	0	0		
Profit After Exceptional items	263	320	166	-18%	59%
Tax Expenses	54	78	35	-31%	56%
<i>Effective Tax Rate</i>	21%	24%	21%		
Profit After Tax	209	242	131	-14%	60%
Cost-Income Ratio	30.8%	27.7%	35.8%	309bps	-496bps
Asset Quality					
GNPA(%)	1.84%	1.59%	2.47%	25bps	-63bps
NNPA(%)	1.01%	0.83%	1.65%	18bps	-64bps
Business Performance					
Total AUM (cr.)	30882	31226	29936	-1%	3%
AUM Break up (Cr.)					
<i>CVs</i>	14638	15051	15716	-3%	-7%
<i>Cars</i>	7628	7713	7454	-1%	2%
<i>Construction equipment</i>	3459	3497	3113	-1%	11%
<i>Tractors</i>	2316	2248	1856	3%	25%
<i>Others</i>	2841	2717	1796	5%	58%
Disbursements during the quarter	3305	4334	2929	-24%	13%
Borrowings	29251	30886	29007	-5%	1%
Calculated Ratios					
NIM	6.2%	7.0%	5.6%	-75bps	57bps
Borrowing Cost	6.4%	6.6%	7.1%	-19bps	-64bps
Yield	12.5%	13.5%	12.5%	-107bps	-1bps

Key Financials

Financials - Standalone

Particulars	2020A	2021A	2022E	2023E	Particulars	2020A	2021A	2022E	2023E
Interest Income	3842	3954	4365	4853	Assets				
(-) Interest Expense	-2072	-2031	-1919	-2106	Cash and Balances	630	693	1950	2140
Total Net Interest Income	1770	1923	2446	2748	Deferred Tax Assets	283	382	155	171
Other Income	85	60	96	106	Investments	4017	4124	7017	8764
Total Income	1855	1983	2542	2853	Advances	28045	29404	32064	35184
Operating Expenses	623	611	764	858	Fixed Assets	281	259	311	341
Operating Profit	1232	1372	1778	1995	Other Assets	165	90	736	807
Provisions and Write Off	290	324	230	231	Total Assets	33420	34952	42233	47407
Profit before Exceptional Item	945	1056	1548	1764	Liabilities				
Exceptional Item	0	0	0	0	Capital	111	111	111	111
Profit before tax	945	1056	1548	1764	Reserves and Surplus	5436	6068	6960	8007
Provision for Tax	221	247	390	444	Borrowings	21428	21553	27862	30573
Profit after Tax	724	809	1158	1320	Trade Payables	70	63	155	171
					Other Liabilities	6375	7157	7144	8545
					Total Liabilities	33420	34952	42233	47407

2020A 2021A 2022E 2023E

Basic Ratio

EPS	65.2	72.8	104.3	118.8
BVPS	499.3	556.2	636.5	730.7
Adjusted BVPS	479.4	520.9	611.9	703.3

Asset Quality

Gross NPAs	2.5%	1.8%	2.2%	2.2%
Net NPAs	1.7%	1.0%	0.8%	0.8%

Profitability Ratio

RoAE	13.7%	13.8%	17.5%	17.4%
RoAA	2.2%	2.3%	2.7%	2.8%
NIMs	6.4%	6.1%	6.8%	6.6%

Valuation (x)

P/E	38.1	34.1	23.8	20.9
P/BV	5.0	4.5	3.9	3.4
P/ABV	5.2	4.8	4.1	3.5

2020A 2021A 2022E 2023E

Spread Analysis

Yield Earned	12.5%	12.1%	11.2%	11.0%
Cost of funds	7.5%	6.9%	6.9%	6.9%

Growth

Advances growth	2.8%	4.8%	9.0%	9.7%
Net Profit growth	-35.7%	11.8%	43.2%	14.0%

Liquidity

CET 1 Ratio	14.1%	22.0%	21.7%	21.7%
-------------	-------	-------	-------	-------

Efficiency

Cost-to-Income	33.6%	30.8%	30.1%	30.1%
----------------	-------	-------	-------	-------

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880