

**Asset quality improved; Loan growth momentum remained lower**

**CMP: INR 1,655**

**Rating: Accumulate**

**Target Price: INR 1,927**

**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)	18,388
52w H/L (INR)	2,706 / 1,636
Avg Yearly Vol (in 000')	48

**Shareholding Pattern %**

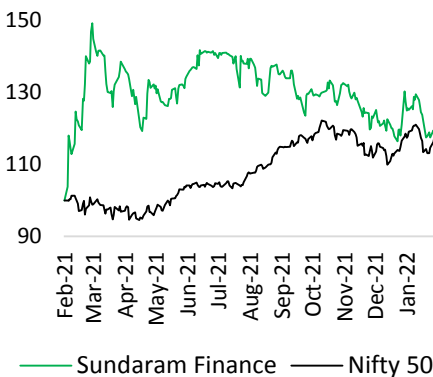
(As on March, 2022)

Promoter	38.5
FII	9.9
DII	14.3
Public & Others	37.3

**Stock Performance (%)**

	1m	3m	12m
Sundaram Finance	-19.8	-10.7	-31.1
Nifty 50	-6.0	-2.9	5.7

**Sundaram Vs Nifty**



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*Sundaram Finance (SUF) reported mix performance during Q4FY22 with weak operating profit growth and asset quality improvement. AUM continued to be on declining path with disbursements remained lower than the pre-covid level. Profit increased by 43% YoY/48% QoQ to INR 299 cr was higher than our estimate of INR 247 cr, supported by provisions write-back. NII for the quarter increased by 10% YoY/2% QoQ to INR 529 cr which was below our expectation due to slower growth and margin compression. NIM for the quarter decreased by 13bps QoQ at 7.1%. Operating profit de-grew by 5% YoY/4% QoQ to INR 350 cr, was 26% lower than our estimate, impacted due to low operating income growth and higher cost ratio. Cost income ratio increased from 33% in Q3FY22 to 35% during Q4FY22. Provision write-back for the quarter was at INR 28 cr as compared to provision expense of INR 106 cr in Q4FY21 and INR 96 cr in Q3FY22. Asset quality witnessed strong improvement as GS3 assets declined by 120bps QoQ at 2.2% while NS3 assets declined by 102bps QoQ at 1.1%. GNPA as per RBI norms decreased from 7.7% to 5.9% QoQ. Restructuring book (OTR 1&2) declined by 32% QoQ to INR 1,417 cr or 4.9% of AUM.*

**Disbursements growth remained lower**

Disbursements during the quarter increased by 13.5% YoY but declined by 2.4% QoQ to INR 3,751 cr which has resulted 4.4% YoY decline in AUM at INR 29,532 cr. Growth in disbursements was driven by economic recovery however, supply remained challenge across asset classes. CV portfolio AUM de-grew by 8% YoY/1% QoQ. Passenger vehicle AUM declined marginally by 0.5% YoY/1.3% QoQ. CV share in the total AUM stood at 45.6%, Car (PV) portfolio at 25.7% and CE at 11.1%.

**Performance of Subsidiaries for FY22**

SUF's home finance subsidiary, Sundaram Home Finance recorded AUM growth of 3.5% YoY/2.6% QoQ to INR 9,495 cr, as disbursements grew by 1.8x YoY to INR 2,311 cr as on FY22. GNPA in its housing finance segment declined from 5.1% to 3% on a sequential basis. Company remained well capitalized with CAR at 25.7%. Sundaram AMC continues to see better traction in equity AUM which is improving yields and profitability. Sundaram AMC's reported average AUM increased by 31% YoY/16% QoQ to INR 53,860 cr. Its equity segment inflow was good at 45% YoY/22% QoQ to INR 46,073 cr. Insurance arm of the company, Royal Sundaram has reported 3% YoY growth in gross written premium while profit was at INR 172 cr during FY22.

**Valuation & Outlook:** Overall, Q4FY22 operating performance of the company was below our expectations with continued decline in AUM growth. However, it has reported strong improvement in asset quality with higher profitability. We have lowered our earnings estimates by 8% and 7% for FY23E/FY24E to factor in cut in AUM growth and higher cost ratio. We lower our target multiple for standalone business from 2.4x to 1.8x due to increase in CoE. We value SUF standalone business at INR 1,433 (1.8x FY24E ABV) and assign a value of INR 494 to subsidiaries to arrive at a TP of INR 1,927 (INR 2,373 earlier). We revise our rating on the stock to Accumulate from Hold.

**Financial Summary**

(in Cr.)	NII	PPoP	PAT	Advances	ROE (%)	RoA (%)	P/ABV (x)
<b>FY20</b>	1770	1232	724	28045	13.7%	2.2%	4.7
<b>FY21</b>	1923	1372	809	29404	13.8%	2.3%	4.3
<b>FY22E</b>	2170	1495	903	28400	13.8%	2.6%	3.9
<b>FY23E</b>	2415	1683	1105	32609	15.1%	2.5%	3.4
<b>FY24E</b>	2685	1870	1184	35339	14.5%	2.5%	3.0

### SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,433
Sundaram BNP Paribas Home Finance	100%	Base case, justified P/B of 1x FY24E	215
Sundaram AMC	100%	5% FY24E AUM	219
Royal Insurance	50%	P/B of 1.5x FY23E - Market multiple	147
Holding co. discount (%)			15%
<b>Value of subs (INR per share)</b>			<b>494</b>
<b>Target Price (INR per share)</b>			<b>1,927</b>

### Q4FY22 result snapshot

Particulars (in Cr.)	Q4FY22	Q3FY22	Q4FY21	QoQ	YoY
Interest Income	940	958	967	-2%	-3%
Interest Expended	411	417	485	-2%	-15%
<b>Net Interest Income</b>	<b>529</b>	<b>541</b>	<b>483</b>	<b>-2%</b>	<b>10%</b>
Other Income	9	3	50	194%	-83%
<b>Total Operating Income</b>	<b>538</b>	<b>544</b>	<b>533</b>	<b>-1%</b>	<b>1%</b>
<b>Expenses</b>					
Employee cost	102	104	102	-2%	0%
Administrative and other expenses	66	57	44	15%	51%
Depreciation and Amortisation	20	19	19	7%	8%
Total Operating Expenses	188	180	164	4%	14%
<b>Pre-Provisioning Profit</b>	<b>350</b>	<b>364</b>	<b>369</b>	<b>-4%</b>	<b>-5%</b>
Impairment on financial instruments	-28	96	106	-129%	-127%
<b>Profit Before exceptional Items</b>	<b>378</b>	<b>267</b>	<b>263</b>	<b>41%</b>	<b>44%</b>
Exceptional Items	0	0	0		
<b>Profit After Exceptional items</b>	<b>378</b>	<b>267</b>	<b>263</b>	<b>41%</b>	<b>44%</b>
Tax Expenses	79	65	54	22%	46%
<i>Effective Tax Rate</i>	21%	24%	21%		
<b>Profit After Tax</b>	<b>299</b>	<b>202</b>	<b>209</b>	<b>48%</b>	<b>43%</b>
Cost-Income Ratio	35.0%	33.1%	30.8%	185bps	416bps
<b>Asset Quality</b>					
GNPA(%)	2.19%	3.39%	1.84%	-120bps	35bps
NNPA(%)	1.07%	2.09%	1.01%	-102bps	6bps
<b>Business Performance</b>					
<b>Total AUM (cr.)</b>	<b>29532</b>	<b>29796</b>	<b>30882</b>	<b>-1%</b>	<b>-4%</b>
<b>AUM Break up (Cr.)</b>					
CVs	13467	13617	14638	-1%	-8%
Cars	7590	7687	7628	-1%	0%
Construction equipment	3278	3307	3459	-1%	-5%
Tractors	2392	2413	2316	-1%	3%
Others	2806	2771	2841	1%	-1%
<b>Disbursements during the quarter</b>	<b>3751</b>	<b>3843</b>	<b>3305</b>	<b>-2%</b>	<b>13%</b>
<b>Borrowings</b>	<b>28297</b>	<b>27635</b>	<b>29251</b>	<b>2%</b>	<b>-3%</b>
<b>Calculated Ratios</b>					
NIM	7.1%	7.3%	6.2%	-13bps	91bps
Borrowing Cost	5.9%	6.0%	6.4%	-17bps	-57bps
Yield	12.7%	12.9%	12.5%	-19bps	21bps



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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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