

Mixed Performance during the quarter; Challenges to remain high going forward

CMP: Rs 1,231

Rating: Buy

Target Price: Rs 1,482

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)	13,705
52w H/L (Rs)	1,785 / 982
Avg Yearly Vol (in 000')	47.68

Shareholding Pattern %

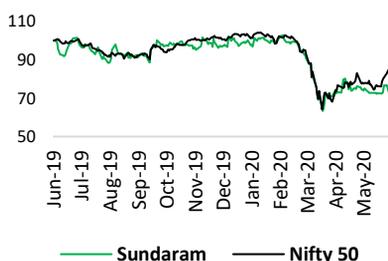
(As on March, 2020)

Promoters	35.9
FII	8.4
DII	12.5
Public & Others	43.2

Stock Performance (%)

	3m	6m	12m
Sundaram Finance	-15.1	-23.0	-25.3
Nifty 50	-2.8	-15.1	-14.7

Sundaram Vs Nifty



Anmol Das

anmol.das@arihantcapital.com

022 67114865

Raju Barnawal

raju.b@arihantcapital.com

022 67114870

Sundaram Finance (SUF) reported mixed performance during Q4FY20. Operating performance of the company was in-line with our estimates while profit was impacted due to higher provisioning. NII for the quarter grew by 5% YoY to Rs 426 cr vs. exact match of our NII estimate. Operating profit growth was at 6% YoY to Rs 281 cr vs. our estimate of Rs 222 cr. Profit for the quarter stood at Rs 131 cr was impacted due to higher provisioning at 172% YoY (Arihant Estimate: Rs 196 cr). Net profit figure for Q4FY19 included an exceptional one-time income of Rs 592 cr on account of sale of shares in Royal Sundaram and hence annually PAT numbers are not comparable on a like to like basis. NIM declined by 19bps QoQ to 5.6% due to fall in portfolio yield. Asset quality witnessed an improvement as GNPA/NNPA ratio fell by 32bps/44bps QoQ to 2.47%/1.65% respectively. Disbursements during the quarter decreased by 27% QoQ due to weak demand in CV cycle and slowdown in consumption space. We maintain our 'Buy' rating on the stock with a revised TP of Rs 1,482 (earlier Rs 1,541).

AUM growth was moderated due to weak demand cycle

AUM during the quarter grew marginally by 3% YoY while on QoQ basis it de-grew by 2%. CV loan book growth was weak at 3% YoY while on a sequential basis it fell by 2%. Construction equipment witnessed healthy growth at 11% YoY. 52.5% of AUM of the company comprised of commercial vehicles, 24.9% towards car segment and the rest in construction equipment, tractor and others at 10.4%, 6.2% and 6% respectively.

Performance of Subsidiaries for FY20

SUF's home finance subsidiary, Sundaram Home Finance recorded low single digit AUM growth of 4% YoY during FY20. Disbursement during FY20 fell by 14% due to weak sentiments in housing segment. It has reported 49% growth in net profit to Rs 218 cr (including exceptional income of Rs 60 cr on tax reversal). GNPA in its housing finance segment stood at 3.77% vs. 3.97% QoQ. Sundaram AMC reported average AUM decreased by 1% YoY to Rs 33,927 cr. Its equity segment saw inflow of 5% while debt segment outflow was at 11% YoY. Its insurance arm Royal Sundaram recorded 16% growth in gross written premium. Royal Sundaram's reported loss of Rs 76 cr because company has provided Rs 164 cr towards impairment in respect of debt exposure and MTM on equity investments.

Valuation & Outlook

We believe near term business outlook of SUF will remain tepid due to CV cycle downturn since pre Covid-19 which increases challenges for the company to grow its business. Company's large part of the book is under moratorium (currently at 64% of the loan book), so there will be a high chance of deterioration in asset quality. We see pressure on growth and return metrics in the near to medium term. Hence, we have cut our EPS estimates by 23%/22% respectively for FY21E/22E to build space for higher NPA and cut our loan book estimates by 3%/8% for FY21E/22E due to lower growth. However, we believe SUF's well diversified secured profile with better underwriting practices and high CAR ratio to enable SUF to persist over the sectoral headwinds. Hence, we maintain our 'Buy' rating on the stock with revised target price of Rs 1,482 (based on SOTP valuation). We are positive on the stock from longer term perspective.

SOTP Valuation

Company	Stake (%)	Valuation Basis	Value/Share
SUF	100%	Base case, derived from residual income (RI) valuation model	1,017
Sundaram BNP Paribas Home Finance	100%	Base case, justified P/B of 0.9x FY22E	152
Sundaram AMC	100%	5% FY22E AUM	176
Royal Insurance	50%	P/B of 1.8x FY22E - Market multiple	137
Target Price			1,482

Quarterly Result

Particulars (in Cr.)	Q4FY20	Q3FY20	Q4FY19	QoQ	YoY
Interest Income	942	976	882	-4%	7%
Interest Expended	516	533	475	-3%	9%
Net Interest Income	426	443	407	-4%	5%
Other Income	12	6	7		
Total Operating Income	438	449	414	-2%	6%
Expenses					
Employee cost	93	89	83	4%	12%
Administrative and other expenses	44	48	51	-9%	-14%
Depreciation and Amortisation	20	19	14	6%	41%
Total Operating Expenses	157	156	148	0%	6%
Pre-Provisioning Profit	281	293	266	-4%	6%
Impairment on financial instruments	116	72	43	61%	172%
Profit Before exceptional Items	166	221	224	-25%	-26%
Exceptional Items	0	0	592		
Profit After Exceptional items	166	221	816	-25%	-80%
Tax Expenses	35	54	141	-36%	-75%
<i>Effective Tax Rate</i>	21%	25%	17%		
Profit After Tax	131	167	675	-21%	-81%
Cost-Income Ratio	36%	35%	36%		
Asset Quality					
GNPA(%)	2.47%	2.79%	1.33%	-32 bps	114 bps
NNPA(%)	1.65%	2.09%	0.83%	-44 bps	82 bps
Business Performance					
Total AUM (cr.)	29936	30502	28984	-2%	3%
AUM Break up (%)					
<i>CVs</i>	52.50%	52.60%	52.50%		
<i>Cars</i>	24.90%	25.60%	25.90%		
<i>Construction equipment</i>	10.40%	10.10%	9.70%		
<i>Tractors</i>	6.20%	5.80%	5.30%		
<i>Others</i>	6.00%	5.90%	6.60%		
Disbursements during the quarter (in Cr.)	2929	4000	4486	-27%	-35%
Borrowings (Cr.)	29007	29206	26673	-1%	9%
Calculated Ratios					
NIM	5.6%	5.8%	5.7%	-19 bps	-6 bps
Borrowing Cost	7.1%	7.2%	7.1%	-13 bps	-2 bps
Yield	12.5%	12.9%	12.4%	-39 bps	+11 bps

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