Sundaram Finance (SUF) reported stable operating performance during Q1FY21. NII growth was flat at Rs 426 cr. Pre-provisioning operating profit for the quarter de-grew by 1% YoY/QoQ to Rs 280 cr. Provision for the quarter was at Rs 61 cr, +32% YoY/-48% QoQ. Despite a flat growth in NII and de-growth in operating profit, the company has reported 5% YoY/27% QoQ growth in profit at Rs 166 cr. Profit growth was largely driven by lower tax and improvement in cost to income ratio. Cost to income ratio improved by 103 bps QoQ to 34.7%, due to a 33% YoY decline in other operating expenses.

NIIM increased by 7bps QoQ to 5.7%, driven by 28bps QoQ increase in yield on advances at 12.7%. Asset quality was largely stable with GNPA at 2.44% vs. 2.47% in the previous quarter. NNPA declined by 17bps QoQ to 1.48%. Disbursements during the quarter fell by 68% QoQ, owing to weak demand cycle and Covid related disruption. We downgrade our rating to Hold with a revised TP of Rs 1,461 (earlier Rs 1,482).

AUM witnessed de-growth due to weak demand cycle
AUM during the quarter de-grew by 1% YoY/QoQ to Rs 29,580 cr. CV loan portfolio de-grew by 3% YoY/1% QoQ to Rs 15,589 cr. Construction equipment segment witnessed a growth of 8% YoY. The portfolio fell by 6% YoY. 52.7% of AUM of the company comprised of commercial vehicles, 24.5% towards car segment and the rest in construction equipment, tractor and others at 10.8%, 6.4% and 5.6% respectively.

Performance of Subsidiaries for Q1FY21
SUF’s home finance subsidiary, Sundaram Home Finance recorded low single digit AUM growth of 2% YoY at Rs 9,412 cr. Disbursement during the quarter fell sharply by 84%, due to nationwide lockdown and weak sentiment in housing segment. It has reported 21% de-growth in net profit at Rs 34 cr. GNPA in its housing finance segment increased to 3.98% vs. 3.77% QoQ. 39% of the total number of accounts are under moratorium in housing segment. Sundaram AMC reported average AUM reduction by 8% YoY to Rs 32,212 cr. Its equity segment outflow was at 5% and debt segment outflow was at 15% YoY. Its insurance arm, Royal Sundaram recorded 17% de-growth in gross written premium. Royal Sundaram’s reported PAT of Rs 157 cr vs. Rs 4 cr in Q1FY20.

Valuation & Outlook
We continue to believe near term business outlook of SUF will remain tepid due to CV cycle downturn and management’s conservative approach. We may see pressure on growth and return metrics in the near to medium term. We cut our FY21 loan growth estimates to 2.8% from 3.4% earlier, on the back of Company’s higher focus on recovery front, leading to fall in disbursements. Company’s 39% of the core portfolio by number of accounts are under moratorium. However, we believe SUF’s well diversified secured profile with better underwriting practices and comfortable capital position (CAR at 17.7%) to enable SUF to persist over the sectoral headwinds. We downgrade our rating to Hold from Buy with a revised target price of Rs 1,461 (based on SOTP valuation).

Financial Summary

<table>
<thead>
<tr>
<th>Year (in Cr.)</th>
<th>NII</th>
<th>PAT</th>
<th>Advances</th>
<th>ROE (%)</th>
<th>RoA (%)</th>
<th>ABV (Rs.)</th>
<th>P/ABV (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY20</td>
<td>1,770</td>
<td>724</td>
<td>28,045</td>
<td>13.7%</td>
<td>2.2%</td>
<td>479</td>
<td>2.8</td>
</tr>
<tr>
<td>FY21E</td>
<td>1,904</td>
<td>667</td>
<td>28,837</td>
<td>11.5%</td>
<td>1.9%</td>
<td>510</td>
<td>2.7</td>
</tr>
<tr>
<td>FY22E</td>
<td>2,005</td>
<td>859</td>
<td>30,021</td>
<td>13.5%</td>
<td>2.3%</td>
<td>577</td>
<td>2.4</td>
</tr>
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</table>
### Quarterly Result

<table>
<thead>
<tr>
<th>Particulars (in Cr.)</th>
<th>Q1FY21</th>
<th>Q4FY20</th>
<th>Q1FY20</th>
<th>QoQ</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>948</td>
<td>942</td>
<td>923</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Interest Expended</td>
<td>523</td>
<td>516</td>
<td>500</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Net Interest Income</strong></td>
<td>425</td>
<td>426</td>
<td>423</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other Income</td>
<td>4</td>
<td>12</td>
<td>23</td>
<td>-69%</td>
<td>-84%</td>
</tr>
<tr>
<td><strong>Total Operating Income</strong></td>
<td>429</td>
<td>438</td>
<td>446</td>
<td>-2%</td>
<td>-4%</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee cost</td>
<td>93</td>
<td>93</td>
<td>88</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Administrative and other expenses</td>
<td>40</td>
<td>44</td>
<td>59</td>
<td>-10%</td>
<td>-33%</td>
</tr>
<tr>
<td>Depreciation and Amortisation</td>
<td>16</td>
<td>20</td>
<td>16</td>
<td>-18%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>149</td>
<td>157</td>
<td>164</td>
<td>-5%</td>
<td>-9%</td>
</tr>
<tr>
<td>Pre-Provisioning Profit</td>
<td>280</td>
<td>281</td>
<td>282</td>
<td>-1%</td>
<td>-1%</td>
</tr>
<tr>
<td>Impairment on financial instruments</td>
<td>61</td>
<td>116</td>
<td>46</td>
<td>-48%</td>
<td>32%</td>
</tr>
<tr>
<td>Profit Before exceptional Items</td>
<td>219</td>
<td>166</td>
<td>236</td>
<td>32%</td>
<td>-7%</td>
</tr>
<tr>
<td>Exceptional Items</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Profit After Exceptional items</strong></td>
<td>219</td>
<td>166</td>
<td>236</td>
<td>32%</td>
<td>-7%</td>
</tr>
<tr>
<td>Tax Expenses</td>
<td>53</td>
<td>35</td>
<td>79</td>
<td>54%</td>
<td>-33%</td>
</tr>
<tr>
<td><strong>Effective Tax Rate</strong></td>
<td>24%</td>
<td>21%</td>
<td>33%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit After Tax</strong></td>
<td>166</td>
<td>131</td>
<td>157</td>
<td>27%</td>
<td>5%</td>
</tr>
<tr>
<td>Cost-Income Ratio</td>
<td>34.7%</td>
<td>35.8%</td>
<td>36.7%</td>
<td>-103bps</td>
<td>-199bps</td>
</tr>
<tr>
<td>Asset Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GNPA(%)</td>
<td>2.44%</td>
<td>2.47%</td>
<td>2.20%</td>
<td>-3 bps</td>
<td>24 bps</td>
</tr>
<tr>
<td>NNPA(%)</td>
<td>1.48%</td>
<td>1.65%</td>
<td>1.63%</td>
<td>-17 bps</td>
<td>-15 bps</td>
</tr>
<tr>
<td>Business Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total AUM (cr.)</td>
<td>29580</td>
<td>29936</td>
<td>29977</td>
<td>-1%</td>
<td>-1%</td>
</tr>
<tr>
<td>AUM Break up (Cr.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CVs</strong></td>
<td>15588.7</td>
<td>15716.4</td>
<td>16007.7</td>
<td>-1%</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>Cars</strong></td>
<td>7247.1</td>
<td>7454.1</td>
<td>7704.1</td>
<td>-3%</td>
<td>-6%</td>
</tr>
<tr>
<td><strong>Construction equipment</strong></td>
<td>3194.6</td>
<td>3113.3</td>
<td>2967.7</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Tractors</strong></td>
<td>1893.1</td>
<td>1856.0</td>
<td>1558.8</td>
<td>2%</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>1656.5</td>
<td>1796.2</td>
<td>1738.7</td>
<td>-8%</td>
<td>-5%</td>
</tr>
<tr>
<td>Disbursements during the quarter</td>
<td>929</td>
<td>2929</td>
<td>4414</td>
<td>-68%</td>
<td>-79%</td>
</tr>
<tr>
<td>Borrowings</td>
<td>29887</td>
<td>29007</td>
<td>28586</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Calculated Ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NIM</strong></td>
<td>5.7%</td>
<td>5.6%</td>
<td>5.7%</td>
<td>7 bps</td>
<td>-3 bps</td>
</tr>
<tr>
<td><strong>Borrowing Cost</strong></td>
<td>7.1%</td>
<td>7.1%</td>
<td>7.2%</td>
<td>2 bps</td>
<td>-13 bps</td>
</tr>
<tr>
<td><strong>Yield</strong></td>
<td>12.7%</td>
<td>12.5%</td>
<td>12.5%</td>
<td>28 bps</td>
<td>22 bps</td>
</tr>
</tbody>
</table>
### Key Financials

**Financials - Standalone**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2019A</th>
<th>2020A</th>
<th>2021E</th>
<th>2022E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>3398</td>
<td>3842</td>
<td>3413</td>
<td>3611</td>
</tr>
<tr>
<td>(-) Interest Expense</td>
<td>-1763</td>
<td>-2072</td>
<td>-1510</td>
<td>-1607</td>
</tr>
<tr>
<td><strong>Total Net Interest Income</strong></td>
<td><strong>1635</strong></td>
<td><strong>1770</strong></td>
<td><strong>1904</strong></td>
<td><strong>2005</strong></td>
</tr>
<tr>
<td>Other Income</td>
<td>21</td>
<td>85</td>
<td>87</td>
<td>90</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>1656</td>
<td>1855</td>
<td>1990</td>
<td>2095</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>653</td>
<td>623</td>
<td>713</td>
<td>793</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>1003</td>
<td>1232</td>
<td>1277</td>
<td>1302</td>
</tr>
<tr>
<td>Provisions and Write Off</td>
<td>107</td>
<td>290</td>
<td>385</td>
<td>153</td>
</tr>
<tr>
<td><strong>Profit before Exceptional Item</strong></td>
<td><strong>895</strong></td>
<td><strong>945</strong></td>
<td><strong>892</strong></td>
<td><strong>1148</strong></td>
</tr>
<tr>
<td>Exceptional Item</td>
<td>592</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>1488</td>
<td>945</td>
<td>892</td>
<td>1148</td>
</tr>
<tr>
<td>Provision for Tax</td>
<td>361</td>
<td>221</td>
<td>224</td>
<td>289</td>
</tr>
<tr>
<td><strong>Profit after Tax</strong></td>
<td><strong>1126</strong></td>
<td><strong>724</strong></td>
<td><strong>667</strong></td>
<td><strong>859</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2019A</th>
<th>2020A</th>
<th>2021E</th>
<th>2022E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>101.4</td>
<td>65.2</td>
<td>60.1</td>
</tr>
<tr>
<td>BVPS</td>
<td>454.0</td>
<td>499.3</td>
<td>544.6</td>
</tr>
<tr>
<td>Adjusted BVPS</td>
<td>439.9</td>
<td>479.0</td>
<td>510.0</td>
</tr>
</tbody>
</table>

#### Asset Quality

| Gross NPAs | 1.3% | 2.5% | 3.4% | 3.3% |
| Net NPAs   | 0.8% | 1.7% | 1.2% | 0.9% |

#### Profitability Ratio

| RoAE       | 24.5% | 13.7% | 11.5% | 13.5% |
| RoAA       | 3.7%  | 2.2%  | 1.9%  | 2.3%  |
| NIMs       | 7.0%  | 6.4%  | 6.0%  | 5.9%  |

#### Valuation (x)

| P/E       | 13.4  | 20.9  | 22.6  | 17.6  |
| P/BV      | 3.0   | 2.7   | 2.5   | 2.3   |
| P/ABV     | 3.1   | 2.8   | 2.7   | 2.4   |

#### Spread Analysis

- Yield Earned: 12.2% 12.5% 10.4% 10.3%
- Cost of funds: 8.4% 7.5% 6.9% 6.9%

#### Growth

- Advances growth: 23.9% 2.8% 2.8% 4.1%
- Net Profit growth: -5.2% -35.7% -7.8% 28.8%

#### Liquidity

- CET 1 Ratio: 16.8% 14.1% 14.3% 14.3%

#### Efficiency

- Cost-to-Income: 39.4% 33.6% 35.8% 37.9%
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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%

Research Analyst Registration No.
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