

Healthy performance; growth catalyst visible

Sundaram Finance (SFL) is a Chennai-based NBFC with a presence in auto financing, home finance, asset management and general insurance business. Major value is derived from asset financing (vehicle financing) with AUM of ₹ 31226 crore as of December 2020. The company has 583 branches with a substantial presence (~55%) in southern India.

Steady performance; AUM growth to improve, going ahead

Net interest income was up 21.4% YoY to ₹ 537 crore on the back of improved margins and resilient asset quality. Net interest margin (calculated) for the quarter increased by ~70 bps QoQ to 6.9%. As a result of cost control, opex was down 4.2% YoY, 0.7% QoQ. Thus, C/I ratio was down to 27.7% vs. 30.8% QoQ. Provisions declined QoQ 13% to ₹ 69.7 crore. As a result of healthy topline, controlled costs and lower provisions, PAT jumped ~45% YoY and 26% QoQ to ₹ 242 crore.

AUM growth on a yearly basis remained muted at 2.4% YoY to ₹ 31226 crore. Share of CV segment in the overall mix has seen a decline in the past few quarters and is now at 48.2%, down from 52.6% YoY while share of tractors and construction equipment has increased to 7.2% and 11.2% vs. 5.8% and 10.1% YoY, respectively. Disbursement during the quarter has seen healthy growth of 36.5% QoQ and was at ₹ 4334 crore. Pick-up in disbursement was led by car and tractor segment, which were up 11% and 8% YoY, respectively. Asset quality performance was encouraging as proforma GNPA fell 4 bps QoQ to 2.47% while NNPA was marginally up 4 bps QoQ to 1.51%. Restructured account was at 2.47% in Q3FY21.

Performance of subsidiaries decent

Housing finance subsidiary saw a sequential pick-up in disbursement, up 1.4x QoQ, though YoY it was down 54%. Headline GNPA was at 3.52%, while proforma GNPA was slightly higher at 4.23%. PAT on 9MFY21 basis was up 14% YoY to ₹ 155 crore. General insurance business saw improved profitability with PAT of ₹ 289 crore vs. ₹ 12 crore loss YoY, led by improvement in combined ratio at 107% vs. 114% YoY. AMC saw slight decline in AUM YoY but higher proportion of equity AUM and cost control led earnings trend upwards by 52% YoY to ₹ 32 crore.

Valuation & Outlook

Consistent business growth, focus on asset quality and strong & conservative management has led SFL to command premium valuation compared to its peers. Going ahead, infrastructure push by government and scrappage policy could act as a catalyst to bolster business growth as well as earnings trajectory. Performance of subsidiaries is decent but unlocking value will take time. We expect healthy earning trajectory at 15-16% in FY21-23E and RoA to remain at 2.2-2.3%. Valuing the stock on an SOTP basis, we arrive at a target price of ₹ 2450 (₹ 1920 earlier) but due to recent run-up in stock price, we downgrade our recommendation from BUY to **HOLD**.



Particulars

Market Capitalisation	₹ 26766 crore
GNPA - calc (Q3FY21)	₹ 496 crore
NIM - calc (Q3FY21)	7.0%
52 week H/L	2388 / 1019
Face value	₹ 10
DII Holding (%)	10.4
FII Holding (%)	12.9

Key Highlights

- Improved margins, controlled cost aid bottomline growth
- Stable asset quality with proforma GNPA down 4 bps QoQ to 2.47%
- Downgrade from BUY to **HOLD** with revised target price of ₹ 2450/share

Risk to our call

- Higher-than-expected business growth
- Continued stress accretion as NPA or restructuring may impact future earnings trajectory

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key Financial Summary

	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-FY23E)
Nil (₹ crore)	1555	1770	1865	2040	2392	13%
PPP (₹ crore)	1003	1232	1348	1478	1780	15%
PAT (₹ crore)	1126	724	786	861	1063	16%
BV (₹)	454.0	499.3	570.1	647.6	743.3	
EPS (₹)	101.4	65.2	70.8	77.5	95.7	
P/E (x)	23.7	36.9	34.0	31.0	25.1	
P/BV (x)	5.3	4.8	4.2	3.7	3.2	
RoA (%)	3.8	2.2	2.2	2.2	2.3	
RoE (%)	22.3	13.1	12.4	12.0	12.9	

Source: Company, ICICI Direct Research

Exhibit 1: Disbursements show gradual pickup

Disbursement (₹ crore)	H2FY19	FY19	H1FY20	FY20	H1FY21	9MFY21
CV	4715	9220	4585	7861	1178	2497
Car	2013	4224	1938	3748	1034	2354
Construction equipment	1010	1923	882	1715	681	1164
Tractors	508	910	437	1062	656	1055
Others	550	893	404	789	554	1367
Total	8796	17170	8246	15175	4103	8437

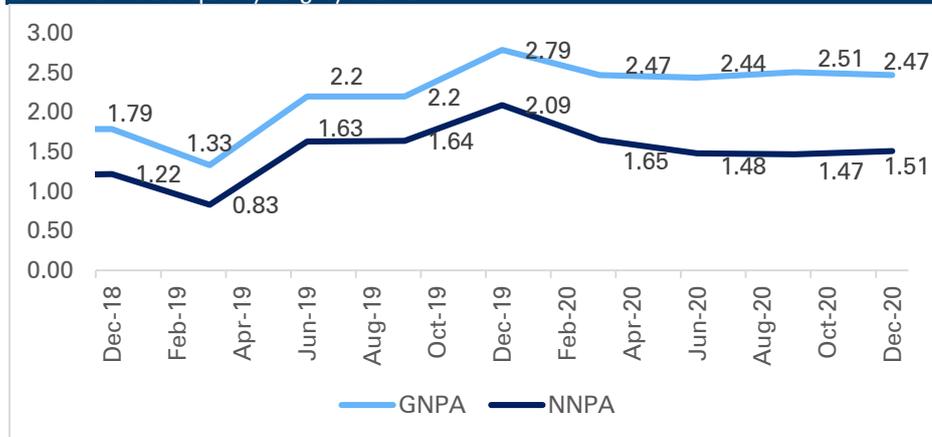
Source: Company, ICICI Direct Research

Exhibit 2: AUM break-up

AUM (₹ crore)	H1FY19	FY19	H1FY20	FY20	H1FY21	9MFY21
CV	13306	15217	16157	15716	15531	15051
Car	7140	7507	7625	7454	7337	7713
Construction equipment	2272	2811	2995	3113	3424	3497
Tractors	1348	1536	1634	1856	2171	2248
Others	899	1913	1846	1796	2109	2717
Total	24964	28984	30256	29936	30572	31226

Source: Company, ICICI Direct Research

Exhibit 3: Asset quality largely stable



Source: Company, ICICI Direct Research

Exhibit 4: Income Statement

	FY19	FY20	FY21E	FY22E	FY23E
Interest earned	3322	3842	3957	4449	5117
Interest expensed	1766	2072	2093	2409	2724
Net Interest Income	1555	1770	1865	2040	2392
Other Income	21	85	13	15	16
Total Income	1576	1855	1878	2055	2409
Operating expense	197	192	163	176	190
Employee cost	322	359	287	313	341
Depreciation	54	73	80	88	97
Operating profit	1003	1232	1348	1478	1780
Provisions	107	286	292	321	353
Profit before tax	1488	945	1056	1156	1427
Tax	361	221	269	295	364
Net Profit	1126	724	786	861	1063

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

	FY19	FY20	FY21E	FY22E	FY23E
Source of Funds					
Share Capital	111	111	111	111	111
Reserves & Surplus	4933	5436	6223	7084	8147
Networth	5044	5547	6334	7195	8258
Borrowing	21942	23568	25689	29028	33092
Deposit	3064	3769	4146	4436	4747
Other Liability	600	535	642	771	925
Total	30650	33420	36811	41431	47022
Application of funds					
Fixed Asset	305	359	395	435	478
Loans	27271	28045	30288	34226	39360
Investment	1866	3938	4332	4765	5241
Cash	839	630	661	694	729
Other Asset	368	448	1135	1311	1214
Total	30650	33420	36811	41431	47022

Source: Company, ICICI Direct Research

Exhibit 6: Ratios

	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No of equity shares	11.1	11.1	11.1	11.1	11.1
EPS (₹)	101.4	65.2	70.8	77.5	95.7
BV (₹)	454.0	499.3	570.1	647.6	743.3
ABV (₹)	433.4	457.0	524.9	597.0	687.6
P/E	23.7	36.9	34.0	31.0	25.1
P/BV	5.3	4.8	4.2	3.7	3.2
P/ABV	5.5	5.3	4.6	4.0	3.5
gearing	6.1	6.0	5.8	5.8	5.7
Margins (%)					
NIM	6.3	6.4	6.4	6.3	6.5
Yield on loans	13.5	13.9	13.6	13.8	13.9
Cost of funds	7.7	7.9	7.3	7.6	7.6
Quality & efficiency					
Cost/Total net income	36.4	33.6	28.2	28.1	26.1
GNPA(%)	1.35	2.23	2.47	2.52	2.45
NNPA (%)	0.84	1.67	1.66	1.64	1.57
RoE (%)	22.3	13.1	12.4	12.0	12.9
RoA (%)	3.8	2.2	2.2	2.2	2.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Narnolia, MBA and Sameer Sawant, MBA Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.