

## Mixed performance; growth, yields to be watched...

**About the stock:** Sundaram Finance (SFL) is a Chennai-based financial group with a presence in auto finance, home finance, asset management and general insurance.

- Major value is derived from its vehicle financing business with AUM of ₹ 30,552 crore as of June 2022
- SFL has 632 branches with a substantial presence (~51%) in southern India

**Q1FY23 Results:** Sundaram Finance reported a mixed performance.

- Disbursements grew ~2.3x YoY and 31% QoQ at ₹ 4895 crore
- Core NII up 2.9% YoY but down 0.4% QoQ, NIMs down 21 bps QoQ at 5.3%, C/I higher at 35%
- Decline in provision led to 17.8% YoY PAT growth at ₹ 225 crore (-24.5% QoQ)
- Stage-3 assets increased 32 bps QoQ to 2.51%

**What should investors do?** Sundaram Finance's share price has grown ~1.4x in the past five years. With improving outlook of vehicle finance segment, we believe Sundaram Finance is a play on the vehicle finance theme but would wait for a clear picture on competitive intensity and earnings trajectory.

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value the core business (vehicle finance) at ~2.3x FY24E ABV and revise our SOTP based target price at ₹ 2200 per share from ₹ 2450.

### Key triggers for future price performance:

- Improving industry outlook coupled with management confidence on gaining market share to aid business growth and earnings trajectory
- Peddling growth on disbursement remains a positive trend
- Await clarity on sustained performance amid intense competition and performance of subsidiaries (Home Finance, AMC & insurance)

**Alternate Stock Idea:** Apart from Sundaram Finance, in our coverage we also like Bajaj Finance.

- Bajaj Finance, with its digital transformation, is quickly moving from just consumer finance to multiple segments and harnessing its large franchise base digitally. Housing has grown to a significant size
- BUY with a target price of ₹ 8500



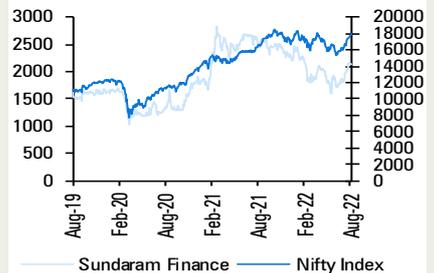
### Particulars

| Particulars           | Amount        |
|-----------------------|---------------|
| Market Capitalisation | ₹ 23710 crore |
| 52 week H/L           | 2699 / 1557   |
| Net Worth             | 7,122         |
| Face value            | ₹ 10          |

### Shareholding Pattern

| (in %)   | Dec-21 | Mar-22 | Jun-22 |
|----------|--------|--------|--------|
| Promoter | 35.9   | 38.5   | 38.5   |
| FII      | 12.8   | 10.2   | 8.2    |
| DII      | 11.4   | 14.0   | 15.9   |
| Others   | 39.9   | 37.3   | 37.4   |

### Price performance



### Key Highlights

- Stage-3 assets increased 32 bps QoQ to 2.51%
- Key Risk:** 1) Higher credit cost may impact earnings; 2) Better than expected growth

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### Key Financial Summary

| Rs crore | FY19  | FY20  | FY21  | FY22  | 3 Year CAGR (FY19-FY22) | FY23E | FY24E | 2 Year CAGR (FY22-24E) |
|----------|-------|-------|-------|-------|-------------------------|-------|-------|------------------------|
| NII      | 1555  | 1770  | 1923  | 2170  | 12%                     | 2207  | 2400  | 5%                     |
| PPP      | 1003  | 1232  | 1372  | 1495  | 14%                     | 1473  | 1603  | 4%                     |
| PAT      | 1126  | 724   | 809   | 903   | -7%                     | 943   | 1063  | 8%                     |
| ABV (Rs) | 433.4 | 457.0 | 511.0 | 569.8 |                         | 671.4 | 764.7 |                        |
| P/E      | 20.8  | 32.4  | 29.0  | 26.0  |                         | 24.9  | 22.1  |                        |
| P/ABV    | 4.9   | 4.6   | 4.1   | 3.7   |                         | 3.1   | 2.8   |                        |
| RoE (%)  | 22.3  | 13.1  | 13.1  | 13.1  |                         | 12.0  | 11.9  |                        |
| RoA (%)  | 3.8   | 2.2   | 2.4   | 2.6   |                         | 2.5   | 2.4   |                        |

## Key takeaways of recent quarter

### Q1FY23 Results: NPA inches up sequentially

- NII grew 2.9% YoY and declined 0.4% QoQ, due to fall in NIMs. NIMs declined 21 bps QoQ, 2 bps YoY to 5.3%. Yields also declined 48 bps QoQ and 84 bps YoY at 10.6%
- Operating expenses increased 18.4% YoY and were flat QoQ. As a result, C/I ratio jumped to 35% from 32% in Q1FY22
- Provision declined both on a QoQ and YoY basis at ₹ 53 crore. Thus, PAT witnessed growth of 17.8% YoY at ₹ 225 crore (but de grew 24.5% QoQ). Consolidated PAT grew 5.8% YoY at ₹ 257 crore
- Asset quality deteriorated as gross stage 3 assets increased 32 bps QoQ to 2.51% and net stage 3 assets increased 23 bps QoQ to 1.30%
- AUM growth was slower at 2.4% YoY and 3.5% QoQ to ₹ 30552 crore while disbursements grew ~2.3x YoY and 31% QoQ at ₹ 4895 crore. Disbursement trend turned positive after a de-growth in past few quarters
- Asset management business reported AUM growth of 13.4% YoY while home finance segment grew 7.7% YoY and insurance segment 2.6% YoY. Disbursement in home finance segment increased by ~3x YoY

### Exhibit 1: Disbursements break up

| Disbursement (%)       | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| CV                     | 29.6   | 32.8   | 43.0   | 44.6   | 44.8   | 46.4   | 51.3   |
| Car                    | 27.9   | 27.5   | 29.7   | 29.9   | 29.8   | 28.1   | 25.1   |
| Construction equipment | 13.8   | 13.5   | 12.7   | 11.3   | 11.4   | 11.5   | 11.2   |
| Tractors               | 12.5   | 11.5   | 11.6   | 9.7    | 9.7    | 8.9    | 7.2    |
| Others                 | 16.2   | 14.7   | 3.0    | 4.5    | 4.3    | 5.1    | 5.2    |

Source: Company, ICICI Direct Research

### Exhibit 2: AUM break up

| AUM (%)                | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| CV                     | 48.2   | 47.4   | 46.9   | 46.2   | 45.7   | 45.6   | 46.4   |
| Car                    | 24.7   | 24.7   | 24.9   | 25.2   | 25.8   | 25.7   | 25.8   |
| Construction equipment | 11.2   | 11.2   | 11.3   | 11.1   | 11.1   | 11.1   | 11.1   |
| Tractors               | 7.2    | 7.5    | 7.7    | 7.9    | 8.1    | 8.1    | 7.9    |
| Others                 | 8.7    | 9.2    | 9.2    | 9.6    | 9.3    | 9.5    | 8.8    |

Source: Company, ICICI Direct Research

## Peer comparison

### Exhibit 3: Peer Comparison

| Sector / Company         | CMP    |        |        | M Cap<br>(₹ bn) | EPS (₹) |       |       |       | P/E (x) |       |       |       | P/ABV (x) |       |       |       | RoE (%) |       |       |       |
|--------------------------|--------|--------|--------|-----------------|---------|-------|-------|-------|---------|-------|-------|-------|-----------|-------|-------|-------|---------|-------|-------|-------|
|                          | ₹      | TP(₹)  | Rating |                 | FY21    | FY22E | FY23E | FY24E | FY21    | FY22E | FY23E | FY24E | FY21      | FY22E | FY23E | FY24E | FY21    | FY22E | FY23E | FY24E |
| Bajaj Finserv (BAFINS)   | 15,770 | 17,600 | Buy    | 2,511           | 176.2   | 263.5 | 431.0 | 565.1 | 89.5    | 59.9  | 36.6  | 27.9  | 7.2       | 6.2   | 5.3   | 4.5   | 8.3     | 11.1  | 15.7  | 17.4  |
| Bajaj Finance (BAJFI)    | 7,308  | 8,500  | Buy    | 4,424           | 73.6    | 116.7 | 168.5 | 221.7 | 99.3    | 62.6  | 43.4  | 33.0  | 12.2      | 10.3  | 8.7   | 6.5   | 12.8    | 17.4  | 21.0  | 21.6  |
| Muthoot Finance (MUTFIN) | 1,188  | 1,300  | Hold   | 476             | 92.8    | 98.5  | 106.2 | 134.0 | 12.8    | 12.1  | 11.2  | 8.9   | 3.2       | 2.8   | 2.4   | 2.0   | 27.8    | 23.5  | 21.5  | 23.2  |
| Sundaram Finance         | 2,111  | 2,200  | Hold   | 237             | 72.8    | 81.3  | 84.9  | 95.7  | 29.0    | 26.0  | 24.9  | 22.1  | 4.1       | 3.7   | 3.1   | 2.8   | 13.1    | 13.1  | 12.0  | 11.9  |

Source: Company, ICICI Direct Research

**Exhibit 4: Variance Analysis**

|                          | Q1FY23   | Q1FY22   | YoY (%)  | Q4FY22   | QoQ (%) | Comments  |
|--------------------------|--|--|--|--|---------|---|
| NII                      | 409  | 397  | 2.9  | 410  | -0.4    | Moderate business growth led to muted operational performance |
| NIM (%)                  | 5.35   | 5.33  | 2 bps  | 5.55  | -21 bps | Yields declined QoQ and YoY                                   |
| Other Income             | 129  | 100  | 29.3   | 127  | 1.4     |   |
| Net Total Income         | 538  | 497   | 8.2  | 538  | 0.0     |   |
| Staff cost               | 114  | 103  | 10.3   | 102  | 11.5    |   |
| Other Operating Expenses | 188  | 159  | 18.4  | 188  | 0.0     |   |
| PPP                      | 350  | 338  | 3.4  | 350  | 0.1     |   |
| Provision                | 53   | 85   | -37.8  | -28  | -286.8  | Credit cost declined QoQ to 0.7%                              |
| PBT                      | 297  | 253   | 17.3   | 378  | -21.5   |   |
| Tax Outgo                | 71  | 62   | 15.4  | 79   | -10.2   |   |
| PAT                      | 226  | 192   | 17.9   | 299  | -24.4   | Weak topline resulted in PAT de-growth QoQ                    |
| <b>Key Metrics</b>       |  |  |  |  |         |   |
| Stage III assets (%)     | 2.51   | 4.25   | -40.9  | 2.19   | 14.6    |   |
| AUM                      | 30,552   | 29,823   | 2.4  | 29,532   | 3.5     |   |

Source: Company, ICICI Direct Research

**Exhibit 5: SOTP**

| Company                              | Value / share                    |
|--------------------------------------|----------------------------------|
| SUF NBFC                             | 2.3x FY24E Adj. Networth<br>1777 |
| HFC                                  | 1.3x FY24E Adj. Networth<br>180  |
| AMC                                  | 3% FY24E AUM<br>141              |
| Gen. Insurance                       | 10.3x FY24E PAT<br>176           |
| Total subsidiaries val @15% discount | 423                              |
| <b>SOTP target</b>                   | <b>2200</b>                      |

Source: Company, ICICI Direct Research

## Financial summary

| Exhibit 6: Profit and loss statement |             |             |             |             |             |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
|                                      | ₹ crore     |             |             |             |             |
| (Year end March)                     | FY20        | FY21        | FY22        | FY23E       | FY24E       |
| Interest earned                      | 3842        | 3954        | 3870        | 4453        | 4938        |
| Interest expensed                    | 2072        | 2031        | 1700        | 2246        | 2538        |
| <b>Net Interest Income</b>           | <b>1770</b> | <b>1923</b> | <b>2170</b> | <b>2207</b> | <b>2400</b> |
| Other Income                         | 85          | 60          | 20          | 23          | 26          |
| Total Income                         | 1855        | 1983        | 2190        | 2230        | 2426        |
| Operating expense                    | 192         | 159         | 208         | 224         | 242         |
| Employee cost                        | 359         | 382         | 414         | 452         | 492         |
| Depreciation                         | 73          | 70          | 73          | 80          | 88          |
| <b>Operating profit</b>              | <b>1232</b> | <b>1372</b> | <b>1495</b> | <b>1473</b> | <b>1603</b> |
| Provisions                           | 286         | 316         | 319         | 207         | 176         |
| Profit before tax                    | 945         | 1056        | 1177        | 1266        | 1427        |
| Tax                                  | 221         | 247         | 273         | 323         | 364         |
| <b>Net Profit</b>                    | <b>724</b>  | <b>809</b>  | <b>903</b>  | <b>943</b>  | <b>1063</b> |

Source: Company, ICICI Direct Research

| Exhibit 7: Key Ratios           |       |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|-------|
| (Year end March)                | FY20  | FY21  | FY22  | FY23E | FY24E |
| <b>Valuation</b>                |       |       |       |       |       |
| No of equity shares             | 11.1  | 11.1  | 11.1  | 11.1  | 11.1  |
| EPS (₹)                         | 65.2  | 72.8  | 81.3  | 84.9  | 95.7  |
| BV (₹)                          | 499.3 | 556.2 | 620.4 | 705.3 | 801.0 |
| ABV (₹)                         | 457.0 | 511.0 | 569.8 | 671.4 | 764.7 |
| P/E                             | 32.4  | 29.0  | 26.0  | 24.9  | 22.1  |
| P/BV                            | 4.2   | 3.8   | 3.4   | 3.0   | 2.6   |
| P/ABV                           | 4.6   | 4.1   | 3.7   | 3.1   | 2.8   |
| gearing                         | 6.0   | 5.7   | 5.1   | 5.1   | 5.1   |
| <b>Margins (%)</b>              |       |       |       |       |       |
| NIM                             | 6.4   | 6.7   | 7.5   | 7.3   | 7.0   |
| Yield on loans                  | 13.9  | 13.8  | 13.4  | 14.8  | 14.4  |
| Cost of funds                   | 7.9   | 7.3   | 6.1   | 7.6   | 7.6   |
| <b>Quality &amp; efficiency</b> |       |       |       |       |       |
| Cost /Total net income          | 33.6  | 30.8  | 31.7  | 33.9  | 33.9  |
| GNPA(%)                         | 2.47  | 1.84  | 2.19  | 2.03  | 1.92  |
| NNPA (%)                        | 1.65  | 1.01  | 1.07  | 1.19  | 1.10  |
| RoE (%)                         | 13.1  | 13.1  | 13.1  | 12.0  | 11.9  |
| RoA (%)                         | 2.2   | 2.4   | 2.6   | 2.5   | 2.4   |

Source: Company, ICICI Direct Research

| Exhibit 8: Balance sheet    |              |              |              |              |              |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
|                             | ₹ crore      |              |              |              |              |
| (Year end March)            | FY20         | FY21         | FY22         | FY23E        | FY24E        |
| <b>Source of Funds</b>      |              |              |              |              |              |
| Share Capital               | 111          | 111          | 111          | 111          | 111          |
| Reserves & Surplus          | 5436         | 6068         | 6782         | 7725         | 8789         |
| <b>Networth</b>             | <b>5547</b>  | <b>6179</b>  | <b>6893</b>  | <b>7837</b>  | <b>8900</b>  |
| Borrowing                   | 23568        | 24059        | 23616        | 26686        | 30422        |
| Deposit                     | 3769         | 4155         | 4220         | 4515         | 4831         |
| Other Liability             | 535          | 527          | 559          | 671          | 805          |
| <b>Total</b>                | <b>33420</b> | <b>34920</b> | <b>35288</b> | <b>39708</b> | <b>44958</b> |
| <b>Application of funds</b> |              |              |              |              |              |
| Fixed Asset                 | 359          | 331          | 360          | 396          | 436          |
| Loans                       | 28045        | 29342        | 28400        | 31808        | 36579        |
| Investment                  | 3938         | 4052         | 5319         | 5851         | 6436         |
| Cash                        | 630          | 693          | 617          | 648          | 680          |
| Other Asset                 | 448          | 501          | 591          | 1005         | 826          |
| <b>Total</b>                | <b>33420</b> | <b>34920</b> | <b>35288</b> | <b>39708</b> | <b>44958</b> |

Source: Company, ICICI Direct Research

| Exhibit 9: Growth % |       |       |      |       |       |
|---------------------|-------|-------|------|-------|-------|
| (Year end March)    | FY20  | FY21  | FY22 | FY23E | FY24E |
| Total Assets        | 9.0   | 4.5   | 1.1  | 12.5  | 13.2  |
| Loans               | 2.8   | 4.6   | -3.2 | 12.0  | 15.0  |
| Net Interest Income | 13.8  | 8.6   | 12.8 | 1.7   | 8.8   |
| Operating Expenses  | -2.4  | -17.3 | 31.0 | 8.0   | 8.0   |
| Operating Profit    | 22.8  | 11.4  | 9.0  | -1.5  | 8.8   |
| Net Profit          | -35.7 | 11.8  | 11.7 | 4.4   | 12.7  |
| Net worth           | 10.0  | 11.4  | 11.5 | 13.7  | 13.6  |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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