

Sundaram Finance

Sustained pivot to drive next leg of business outcomes

SUF's earnings were ahead of our estimates, driven by higher other income and lower credit costs (20bps), despite prudent provisioning in early-delinquency buckets. Business momentum stayed strong on the back of sustained traction in economic activity and pre-buying (BS VI norms phase II implementation), driving 17% YoY AUM growth. Margins were broadly steady on the back of an optimised liability mix, despite pressure on yields and the rising cost of funds. Asset quality was robust, with GS-III/NS-III at 1.7%/0.9% (IRAC GNPA/NNPA at 3%/2.1%), while the restructured portfolio improved further to 1.8% (FY22: 4.9%). Although the M&HCV segment is expected to witness soft growth in FY24, SUF's sustained efforts at portfolio diversification across geographies (non-south at 43.5% of AUM vs. 36.7% in Q1FY21), segments (non-M&HCV) and vintage (used vehicles at 22% of disbursements) are likely to cushion portfolio growth. We tweak our FY24/FY25 earnings to factor in better-than-expected AUM growth and lower credit costs and maintain BUY with a revised SoTP-based target price of INR2,715 (standalone entity at 2.6x Mar-25 ABVPS).

- **Strong business momentum; FY24 outlook key monitorable:** SUF reported healthy AUM growth (+17% YoY) on the back of sustained strong disbursements (+40% YoY). P&L outcomes were broadly steady (NII/PPoP growth of 5%/21% YoY), driven by higher other income and the company's efforts to optimise funding costs. While the past two years (FY22 and FY23) witnessed a strong revival in the M&HCV segment, the softer outlook in this segment is likely to shift focus towards SUF's diversification strategy (non-M&HCV segments in non-south regions), which is likely to support NIMs. Asset quality continued to remain robust with subdued credit costs (40bps—FY23).
- **Subsidiaries—mixed performance:** SUF's HFC subsidiary has been gradually gaining traction in disbursements, with disbursements/AUM growth of 52%/18% YoY, driven by the non-housing portfolio. Investments in branches during H2 (12 branches added) are likely to sustain the growth momentum. However, the AMC and insurance subsidiary performance was muted, largely on account of regulatory headwinds.

Financial summary

(INR bn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	4.3	4.1	5.1	4.4	(2.0)	16.9	16.9	19.9	22.6
PPoP	4.2	3.5	20.7	3.6	18.3	15.0	15.5	17.4	20.2
PAT	3.2	3.0	5.9	2.4	30.4	9.0	10.9	11.7	13.4
EPS (INR)	28.5	26.9	5.9	21.8	30.4	81.3	98.0	105.4	120.9
ROAE (%)						13.8	14.9	14.3	14.6
ROAA (%)						2.6	2.9	2.7	2.7
ABVPS (INR)						587.7	668.6	744.9	836.0
P/ABV (x)						3.4	3.0	2.7	2.4
P/E (x)						24.4	20.2	18.8	16.4

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
AUM	384	394	2.6%	438	450	2.7%
NIM (%)	5.4	5.4	0 bps	5.4	5.3	-4 bps
NII	19.4	19.9	2.6%	22.2	22.6	1.9%
PPoP	16.8	17.4	3.6%	19.5	20.2	3.6%
PAT	11.1	11.7	5.7%	12.8	13.4	4.6%
Adj. BVPS (INR)	737	745	1.1%	829	836	0.9%

Source: Company, HSIE Research

BUY

CMP (as on 26 May 23) INR 2,512

Target Price INR 2,715

NIFTY 18,499

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2635	INR 2715
	FY24E	FY25E
EPS %	5.7%	4.6%

KEY STOCK DATA

Bloomberg code	SUF IN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	279/3,412
6m avg traded value (INR mn)	82
52 Week high / low	INR 2,553/1,555

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.1	11.4	52.0
Relative (%)	4.0	11.1	36.8

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	38.5	38.5
FIs & Local MFs	13.0	13.2
FPIs	12.4	12.5
Public & Others	36.1	35.8
Pledged Shares		0.0

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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