

Sundaram Finance (SUF)

HOLD

Robust AUM growth sustained; Asset quality improved

Summary

SUF's robust AUM growth sustained at 27% YoY (vs 26% YoY Q3FY24) led by all-time high disbursements (up 25% YoY FY24). Company has gained the market share in all asset classes and geographies of operations which resulted strong growth. Asset quality has improved further led by improvement in collections; continues to remain best-in-class asset quality. Collections have reverted to pre-Covid levels to 93%. NIMs have declined due to increase in cost of funds which resulted in lower NII growth (up 20% YoY). Adj. PAT grew by 18% YoY led by higher other income. Thus, RoA improved to 3.2% (FY24) vs 2.8% YoY. We have revised estimates upwards (up 11% BVFY26E). We downgraded to "HOLD" rating with revised TP of 4,940 (earlier 4,400) valuing the parent business at pre-Covid average 4.3x FY26E Core ABV as stock has run up by 18% post Q3 results.

Key Highlights and Investment Rationale

- **AUM growth improved further:** SUF AUM growth improved further to 27% YoY vs 26% YoY (Q3FY24) supported by all-time high disbursements (FY24 up 25% YoY). Strong growth traction was driven by focus on ensuring rightful market share in all the major segments as well as geographies of operations.
- **Asset quality improved further:** Asset quality improved with GNPA at 1.26% vs 1.77% QoQ. Restructured loan book declined further to 0.6% vs 0.8% (QoQ) of AUM as of FY24.
- **NIMs declined:** NIMs (Calculated) declined led by higher cost of funds (up 20bps QoQ) as compared to decline in yields (down 10bps QoQ).
- **Outlook:** Given the expected CV cycle upturn in FY24 led by infrastructure focus by the government, we believe SUF will continue to benefit from the same. Further, the diversification towards non-CV as well as strong performances by its subsidiaries is expected to continue to support SUF.

TP	Rs 4,940		Key Stock Data		
CMP	Rs4,440		Bloomberg / Reuters	SUF IN / SNFN.BO	
Potential upside/downside	+11%		Sector	NBFC	
Previous Rating	BUY		Shares o/s (mn)	111	
Price Performance (%)			Market cap. (Rs mn)	493,340	
	-1m	-3m	-12m	3-m daily avg Trd value (Rs mn)	
Absolute	(7.2)	6.0	77.0	16.8	
Rel to Sensex	(8.7)	2.9	55.1	52-week high / low	Rs4,992 / 2,211
V/s Consensus			Sensex / Nifty	75,410 / 22,957	
Shareholding Pattern (%)					
EPS (Rs)	FY25E	FY26E	Promoters	37.9	
IDBI Capital	153.6	181.3	FII	13.4	
Consensus	141.6	162.4	DII	12.0	
% difference	8.5	11.6	Public	36.7	
Financial snapshot (Rs mn)					
Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	16,944	16,950	19,504	23,816	27,623
Change (yoY, %)	18%	0%	15%	22%	16%
Net Profit	9,034	10,883	14,540	17,069	20,148
Change (yoY, %)	12%	20%	34%	17%	18%
EPS (Rs)	81.3	98.0	130.9	153.6	181.3
Change (yoY, %)	12%	20%	34%	17%	18%
ABV (Rs)	604.0	675.7	824.6	953.9	1,111.3
PER (x)	54.6	45.3	33.9	28.9	24.5
P/ABV (x)	7.4	6.6	5.4	4.7	4.0
ROE (%)	13.8	14.9	16.9	16.7	17.0
ROA (%)	2.6	2.9	3.2	3.1	3.3
GNPA (%)	2.2	1.7	1.6	1.6	1.6
NNPA (%)	1.1	0.9	0.9	0.9	0.9
CAR (%)	24.4	22.8	21.9	21.8	22.4

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

Year-end: March	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Interest Income	12,413	9,211	11,948	34.8	3.9
Interest Expenses	7,243	4,902	6,938	47.8	4.4
Net Interest Income	5,170	4,308	5,010	20.0	3.2
<i>NIM (%)</i>	4.8	5.1	4.9	-26 bps	-7 bps
Other Income	3,292	1,842	1,569	78.7	109.8
Operating Income	8,461	6,151	6,579	37.6	28.6
Staff Cost	1,415	1,037	1,426	36.5	-0.8
Other Op Exp	1,010	896	1,041	12.7	-3.0
Total Operating Expenses	2,425	1,933	2,467	25.4	-1.7
<i>Cost to Income (%)</i>	28.7	31.4	37.5	-277 bps	-884 bps
<i>Cost to AUM (%)</i>	2.2	2.2	2.3	-3 bps	-14 bps
Operating Profit	6,036	4,217	4,112	43.1	46.8
Provisions	1,378	168	215	721.0	542.0
<i>Credit Cost (%)</i>	1.3	0.2	0.2	106 bps	105 bps
PBT	4,658	4,050	3,897	15.0	19.5
Tax	934	886	896	5.4	4.2
<i>-effective tax rate</i>	20.0	21.9	23.0	-183 bps	-295 bps
PAT	5,063	3,164	3,001	60.0	68.7
Exceptional item	1,339	0	0	NA	NA
Adjusted PAT	3,724	3,164	3,001	17.7	24.1
EPS (Rs)	99.4	20.3	27.0	389.8	267.9
AUM	4,39,870	3,45,520	4,21,720	27.3	4.3

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24	FY25E	FY26E
NII	4.8	4.4	4.2	4.4	4.5
Fees	1.4	1.5	1.8	1.7	1.7
Other Income	0.1	0.2	0.3	0.3	0.3
Net Revenue	6.2	6.1	6.3	6.4	6.5
Op.Exp	2.0	2.0	2.1	2.0	1.9
Op.Profit	4.3	4.1	4.3	4.4	4.6
Provisions	0.9	0.4	0.6	0.5	0.5
PBT	3.4	3.7	3.7	3.9	4.1
Tax	0.8	0.9	0.8	0.8	0.8
PAT	2.6	2.9	2.9	3.1	3.3
Leverage (x)	5.4	5.2	5.3	5.3	5.2
ROE	13.8	14.9	15.3	16.7	17.0

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)

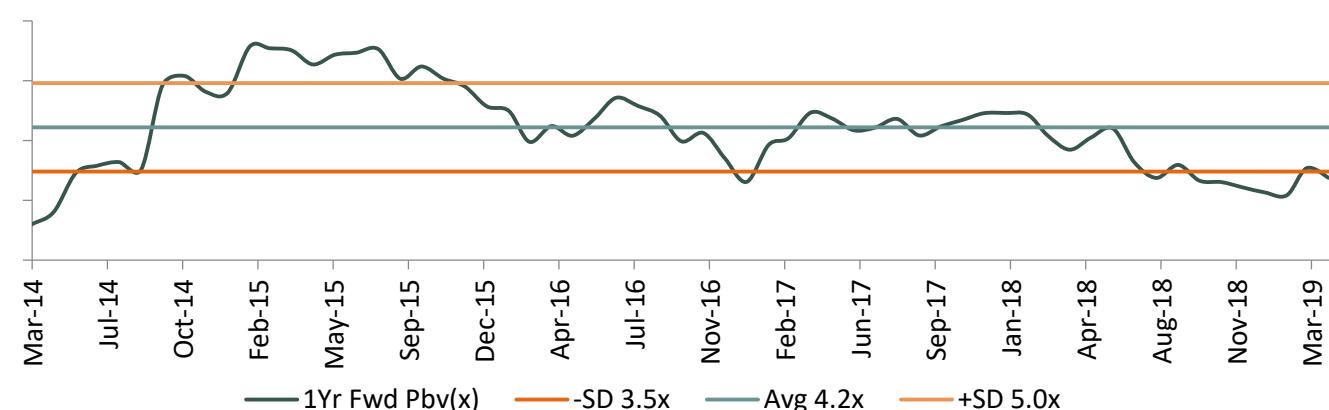
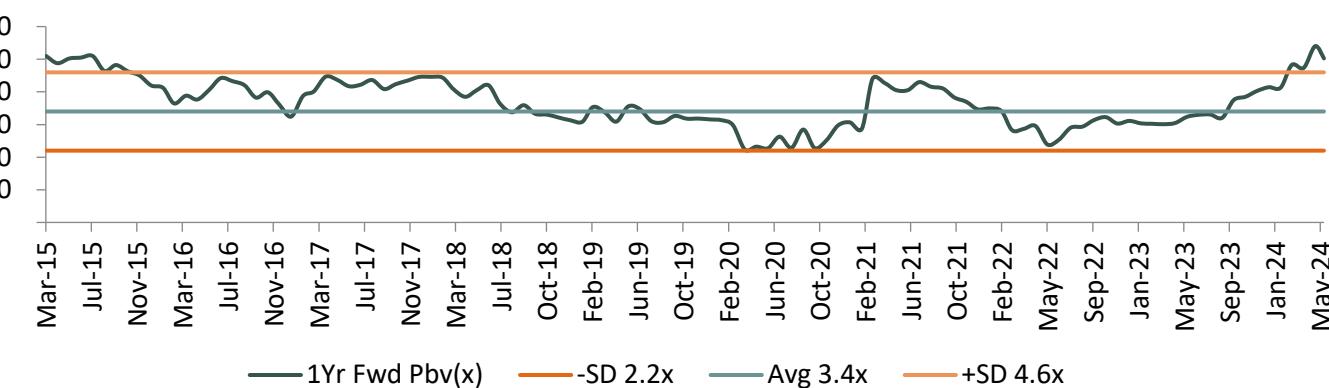


Exhibit 4: One-year forward P/ABV (FY15-25)

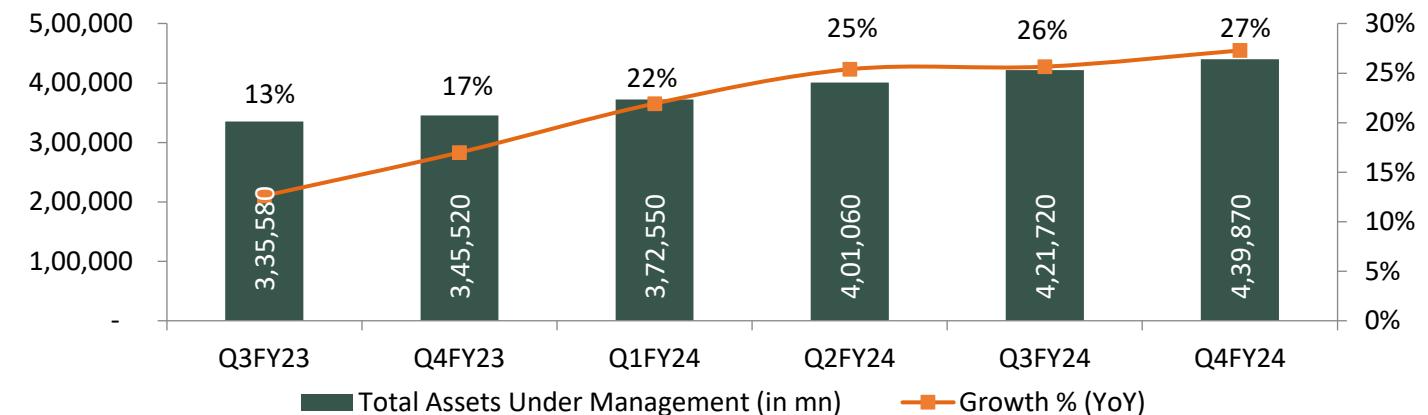


Source: Company; IDBI Capital Research

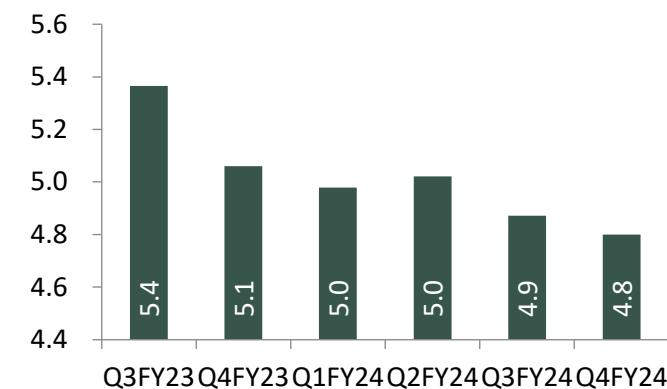
Exhibit 5: SOTP Valuation

Sundaram Finance & its Subsidiaries	Valuation	Val.	Eq. stake	Attributable	Value/ share
	Methodology				
		Rs.mn.	(%)	Val. (Rs.)	Rs.
Auto Finance Business	4.3x FY26E Core ABV	4,61,380	100.0%	4,61,380	4,153
Sundaram AMC	5% of FY24 AUM	28,353	100.0%	28,353	255
Sundaram Home Finance	2x FY24 BV	21,660	100.0%	21,660	271
Royal Insurance	1.4X FY24 GWP	21,420	50.0%	21,420	193
Sundaram Financial Holdings	Market Cap	7,659	21.6%	1,654	69
Total value of subsidiaries		79,092		73,087	985
less 20% holding discount		15,818		14,617	197
Net value of subsidiaries		63,274		58,470	788
Total value		5,24,654		5,19,850	4,940

Source: Company; IDBI Capital Research

Exhibit 6: AUM growth continued to remain strong sequentially


Source: Company; IDBI Capital Research

Exhibit 7: NIMs on AUM declined marginally on a sequential basis


Source: Company; IDBI Capital Research

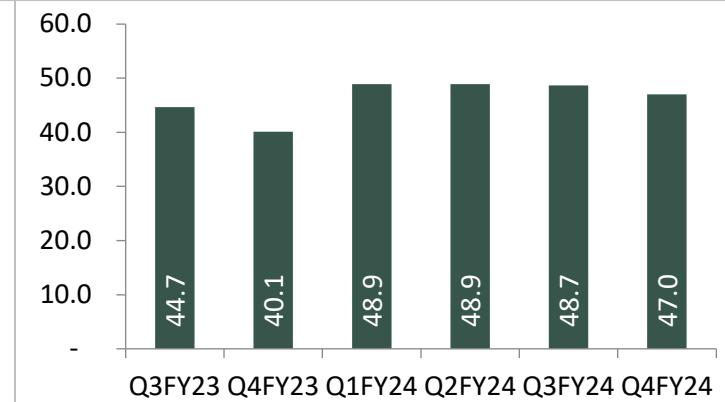
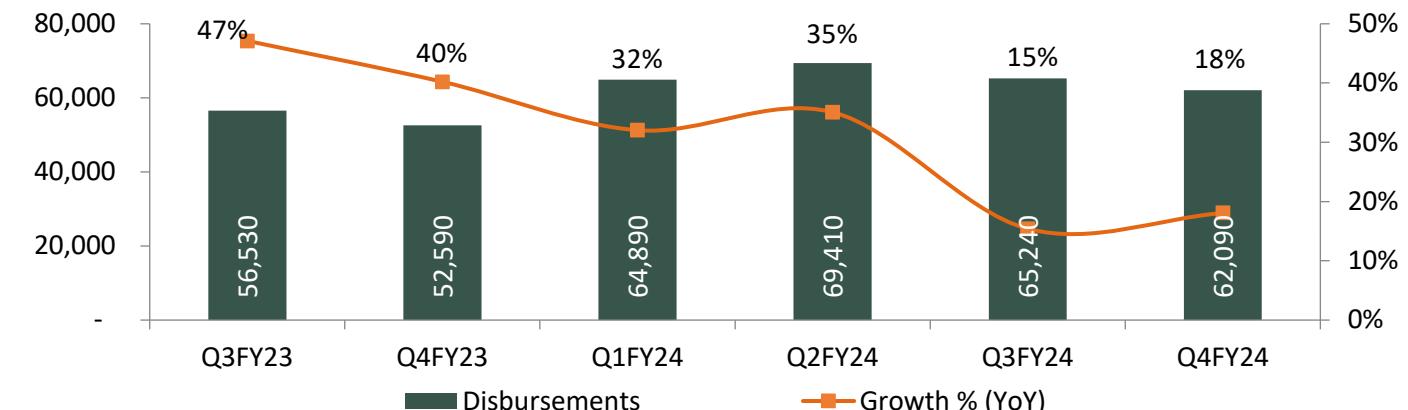
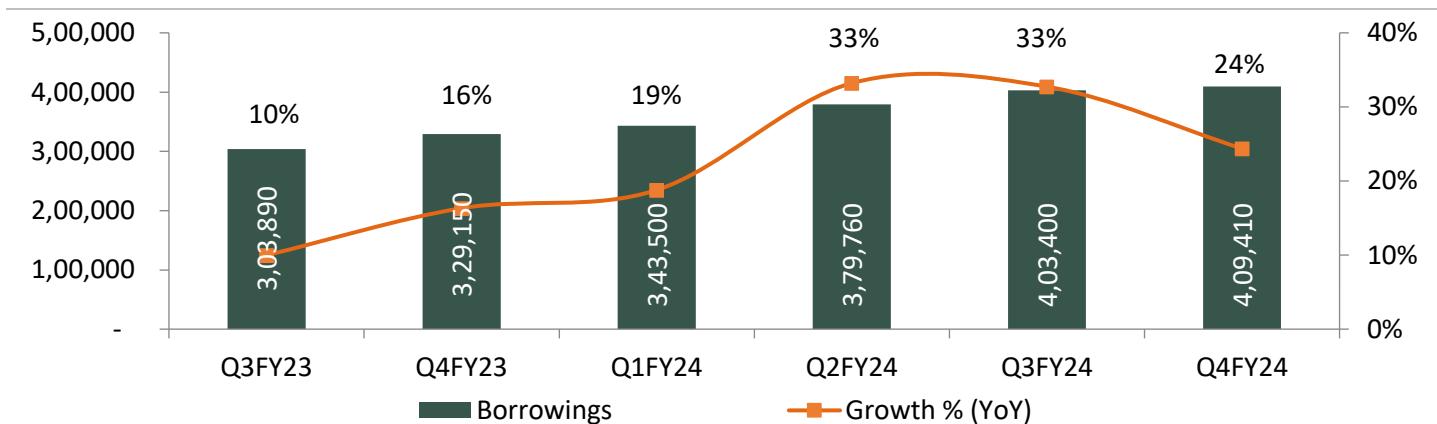
Exhibit 8: Cost to Income improved sequentially


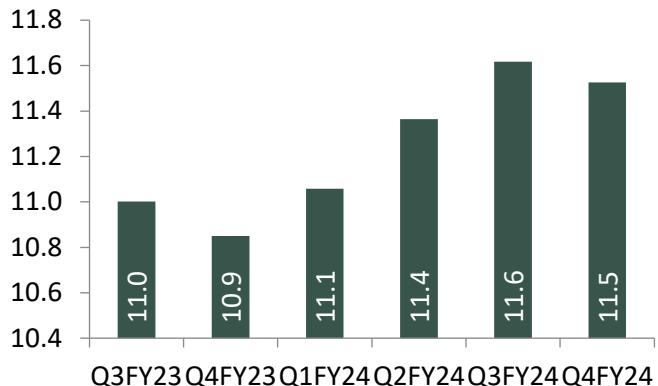
Exhibit 9: Disbursements growth continued to moderate sequentially


Source: Company; IDBI Capital Research

Exhibit 10: Borrowings growth remained strong sequentially


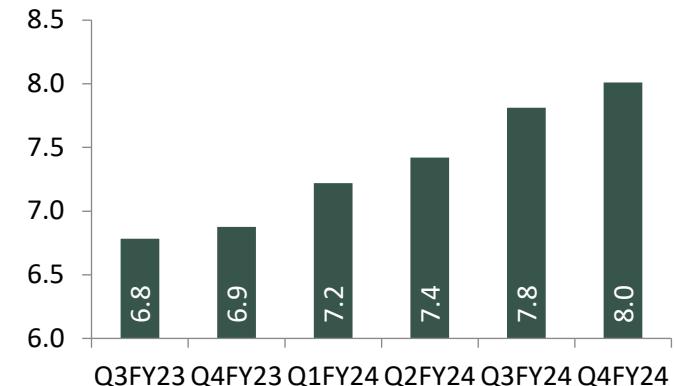
Source: Company; IDBI Capital Research

Exhibit 11: Yield on AUM declined marginally sequentially



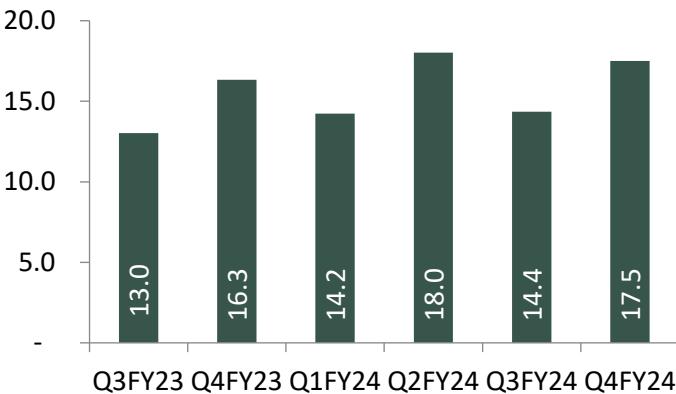
Source: Company; IDBI Capital Research

Exhibit 12: Cost of Fund inched up QoQ



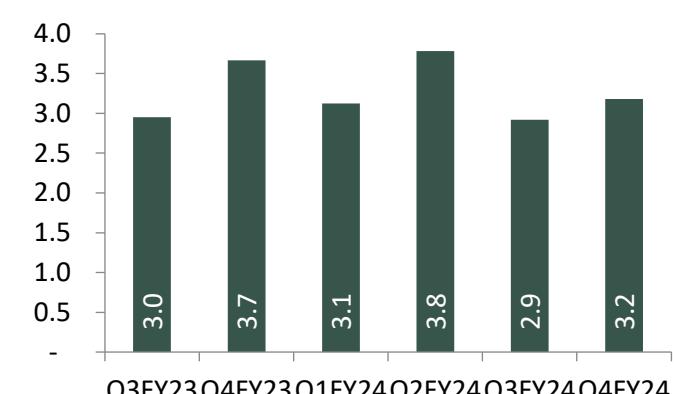
Source: Company; IDBI Capital Research

Exhibit 13: RoE improved sequentially

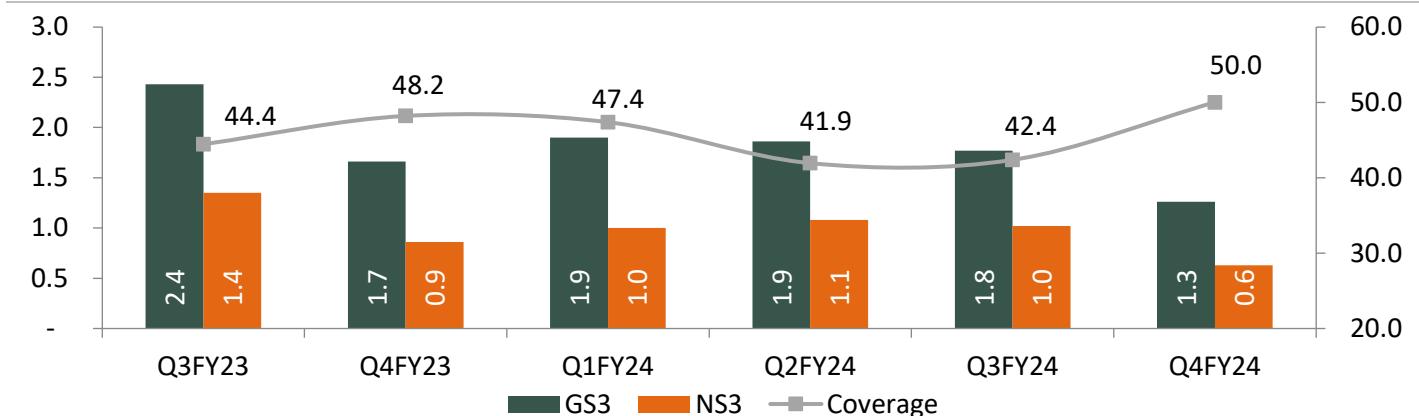


Source: Company; IDBI Capital Research

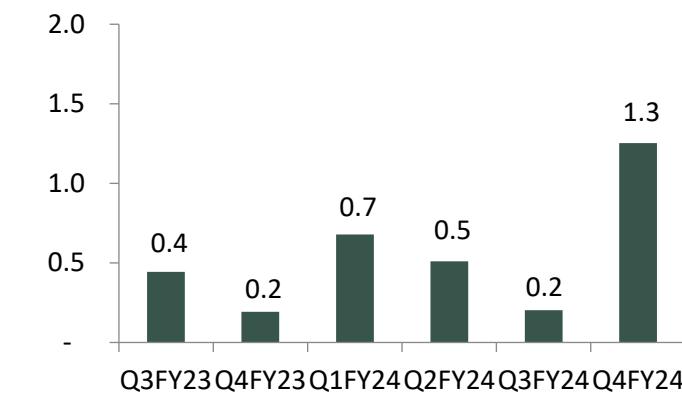
Exhibit 14: RoA too witnessed an improvement sequentially



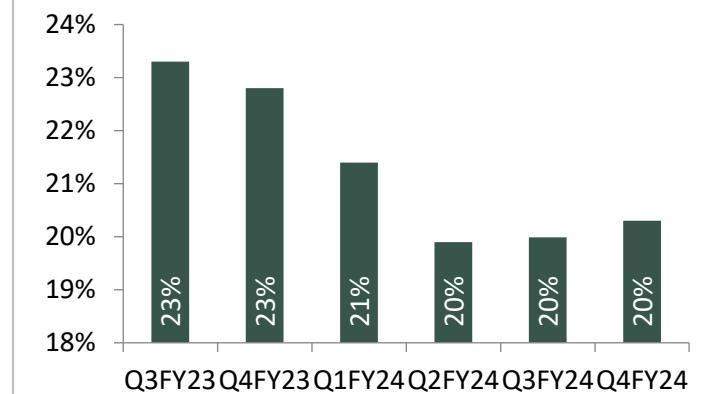
Source: Company; IDBI Capital Research

Exhibit 15: Asset Quality improved on a sequential basis


Source: Company; IDBI Capital Research

Exhibit 16: Credit Cost increased QoQ due to spike in provisions


Source: Company; IDBI Capital Research

Exhibit 17: Capital Adequacy remained stable QoQ


Source: Company; IDBI Capital Research

Exhibit 18: Composition of AUM-In Mn

Product Wise AUM (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
CVs	2,01,021	1,61,703	1,94,835	24.3	3.2
Cars	1,05,569	86,380	1,04,165	22.2	1.3
CEs	46,626	36,971	44,702	26.1	4.3
Tractors	32,990	27,642	32,051	19.4	2.9
Others	53,664	32,824	45,967	63.5	16.7
Total	4,39,870	3,45,520	4,21,720	27.3	4.3

Source: Company; IDBI Capital Research

Exhibit 19: Composition of AUM-In %

Product Wise AUM (In %)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
CVs	45.7	46.8	46.2	-110 bps	-50 bps
Cars	24.0	25.0	24.7	-100 bps	-70 bps
CEs	10.6	10.7	10.6	-10 bps	0 bps
Tractors	7.5	8.0	7.6	-50 bps	-10 bps
Others	12.2	9.5	10.9	270 bps	130 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 20: Composition of Disbursements-In Mn

Product Wise Disbursement (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
CVs	29,395	25,664	28,859	14.5	1.9
Cars	12,995	12,727	16,793	2.1	(22.6)
CEs	6,755	5,680	7,641	18.9	(11.6)
Tractors	4,196	4,049	5,630	3.6	(25.5)
Others	8,750	4,470	6,317	95.7	38.5
Total	62,090	52,590	65,240	18.1	(4.8)

Source: Company; IDBI Capital Research

Exhibit 21: Composition Disbursement-In %

Product Wise Disbursement (In %)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
CVs	47.3	48.8	44.2	-146 bps	311 bps
Cars	20.9	24.2	25.7	-327 bps	-481 bps
CEs	10.9	10.8	11.7	8 bps	-83 bps
Tractors	6.8	7.7	8.6	-94 bps	-187 bps
Others	14.1	8.5	9.7	559 bps	441 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 22: Composition of Borrowing-In Mn

Product Wise Borrowing (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Debentures	1,38,381	1,35,281	1,20,213	2.3	15.1
Bank Borrowing	1,46,569	85,250	1,40,383	71.9	4.4
Securitisation	47,082	37,523	42,357	25.5	11.2
Deposit	58,136	48,714	56,073	19.3	3.7
Commercial Paper	19,242	22,382	44,374	(14.0)	(56.6)
Total	4,09,410	3,29,150	4,03,400	24.4	1.5

Source: Company; IDBI Capital Research

Exhibit 23: Composition of Borrowing-In %

Product Wise Borrowing (In %)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Debentures	33.8	41.1	29.8	-730 bps	400 bps
Bank Borrowing	35.8	25.9	34.8	990 bps	100 bps
Securitisation	11.5	11.4	10.5	10 bps	100 bps
Deposit	14.2	14.8	13.9	-60 bps	30 bps
Commercial Paper	4.7	6.8	11.0	-210 bps	-630 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net interest income	14,406	16,944	16,950	19,504	23,816	27,623
<i>Change (yoY, %)</i>	<i>8%</i>	<i>18%</i>	<i>0%</i>	<i>15%</i>	<i>22%</i>	<i>16%</i>
Fees	4,824	4,756	5,744	8,182	9,326	10,636
Other Income	605	204	637	1,517	1,817	2,072
Net Revenue	19,835	21,904	23,331	29,203	34,959	40,331
Operating expenses	6,111	6,949	7,789	9,498	10,682	11,924
Employee expenses	3,822	4,145	4,451	5,474	6,245	7,016
Other expenses	2,289	2,805	3,338	4,025	4,437	4,908
Pre-Provision Profit	13,724	14,954	15,542	19,705	24,276	28,407
<i>Change (yoY, %)</i>	<i>11%</i>	<i>9%</i>	<i>4%</i>	<i>27%</i>	<i>23%</i>	<i>17%</i>
Provision	3,161	3,185	1,343	2,738	2,787	3,041
PBT	10,563	11,769	14,200	16,967	21,489	25,366
Taxes	2,473	2,735	3,317	3,765	4,420	5,217
<i>Effective tax rate (%)</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>	<i>22%</i>	<i>21%</i>	<i>21%</i>
Net profit	8,090	9,034	10,883	13,202	17,069	20,148
<i>Change (yoY, %)</i>	<i>12%</i>	<i>12%</i>	<i>20%</i>	<i>21%</i>	<i>29%</i>	<i>18%</i>
EPS	72.8	81.3	98.0	130.9	153.6	181.3
<i>Return on Equity (%)</i>	<i>13.8</i>	<i>13.8</i>	<i>14.9</i>	<i>16.9</i>	<i>16.7</i>	<i>17.0</i>
<i>Return on Assets (%)</i>	<i>2.4</i>	<i>2.6</i>	<i>2.9</i>	<i>3.2</i>	<i>3.1</i>	<i>3.3</i>

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Capital	1,111	1,111	1,111	1,111	1,111	1,111	1,111
Reserves	60,683	67,820	76,263	93,606	1,08,455	1,26,384	
Networth	61,794	68,931	77,374	94,717	1,09,566	1,27,495	
Borrowings	2,57,075	2,53,286	3,05,141	3,84,293	4,43,707	4,93,545	
Sub-ordinated debt	25,059	25,012	22,409	24,476	24,720	24,967	
Other liabilities	5,270	5,646	5,664	6,392	4,327	3,166	
Total Liab. & Equity	3,49,198	3,52,875	4,10,587	5,09,878	5,82,320	6,49,173	
Cash	6,932	6,171	10,703	14,184	15,602	17,163	
Investments	40,524	53,187	50,628	63,829	67,021	70,372	
Advances	2,93,416	2,84,002	3,37,552	4,20,768	4,87,590	5,48,383	
Fixed Assets	2,178	2,482	3,536	4,893	4,991	5,090	
Other Assets	6,148	7,034	8,169	6,204	7,116	8,165	
Total assets	3,49,198	3,52,875	4,10,587	5,09,878	5,82,320	6,49,173	

Financial Ratios (%)						
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth						
Advances	4.6	(3.2)	18.9	24.7	15.9	12.5
NII	8.0	17.6	0.0	15.1	22.1	16.0
Pre-Provision Profit	11.4	9.0	3.9	26.8	23.2	17.0
Net Profit	11.8	11.7	20.5	33.6	17.4	18.0
Spreads						
Yield on AAUM	11.4	11.5	11.2	11.9	11.9	11.9
Cost of Borrowing	7.3	6.1	5.9	7.0	6.9	6.9
NIM	4.7	5.7	5.5	5.1	5.2	5.3
Spread	3.3	4.0	3.7	3.4	3.5	3.6
Operating Efficiency						
Cost-to-Income	30.8	31.7	33.4	32.5	30.6	29.6
Cost-to-Assets	1.8	2.0	2.0	2.1	2.0	1.9
Asset Quality						
GNPA	1.9	2.2	1.7	1.6	1.6	1.6
NNPA	1.1	1.1	0.9	0.9	0.9	0.9
Provision Coverage	45.8	52.0	48.6	43.0	43.0	43.0
Credit Cost	1.0	1.1	0.4	0.7	0.6	0.6
Capital Adequacy						
CAR	22.1	24.4	22.8	21.9	21.8	22.4
Tier I	15.2	17.5	17.7	16.6	16.6	17.2
Valuation						
EPS	72.8	81.3	98.0	130.9	153.6	181.3
ABV	537.4	604.0	675.7	824.6	953.9	1,111.3
P/E	61.0	54.6	45.3	33.9	28.9	24.5
P/ABV	8.3	7.4	6.6	5.4	4.7	4.0
ROE	13.8	13.8	14.9	16.9	16.7	17.0
ROA	2.4	2.6	2.9	3.2	3.1	3.3

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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