

## Sundaram Finance (SUF)

BUY

AUM growth remain strong; Asset quality improved

## Summary

SUF's AUM growth remain strong at 26% YoY led by all-time high disbursements (up 27% YoY 9MFY24). 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 92%. NIMs have declined due to increase in cost of funds which resulted in lower NII growth (up 14% YoY). PAT grew by 24% YoY led by decline in provisions (down 42% YoY). Thus, RoA sustained at 2.8% (9MFY24) vs 2.8% YoY. We have moved to FY26E and maintain our "BUY" rating on SUF with revised TP of 4,400 (earlier 3,870) valuing the parent business at pre-Covid average 4.3x FY26E Core ABV as growth and profitability back to pre-Covid levels.

## Key Highlights and Investment Rationale

- **AUM growth improved further:** SUF AUM growth improved further to 26% YoY vs 25% YoY (Q2FY24) supported by all-time high disbursements (9MFY24 up 27% YoY). Strong growth traction was witnessed across all the major segments as well as focused geographies.
- **Asset quality improved further:** Asset quality improved with GNPA at 1.77% vs 1.86% QoQ. Restructured loan book declined further to 0.8% vs 1.1% (QoQ) of AUM as of Q3FY24.
- **NIMs declined:** NIMs (Calculated) declined led by higher cost of funds (up 39bps QoQ) as compared to increase in yields (up 26bps 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 4,400**  
CMP **Rs3,681**

Potential upside/downside +20%  
Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	1.6	14.3	59.6
Rel to Sensex	2.0	2.8	41.7

## V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	116.0	133.5	153.0
Consensus	115.8	138.7	158.3
% difference	0.2	(3.7)	(3.4)

## Key Stock Data

Bloomberg / Reuters	SUF IN / SNFN.BO
Sector	NBFC
Shares o/s (mn)	111
Market cap. (Rs mn)	408,973
3-m daily avg Trd value (Rs mn)	8.6
52-week high / low	Rs3,862 / 2,190
Sensex / Nifty	71,731 / 21,772

## Shareholding Pattern (%)

Promoters	37.9
FII	8.3
DII	16.5
Public	37.3

## Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E
NII	16,944	16,950	19,610	23,394	26,824
Change (yoy, %)	18%	0%	16%	19%	15%
Net Profit	9,034	10,883	12,891	14,837	17,003
Change (yoy, %)	12%	20%	18%	15%	15%
EPS (Rs)	81.3	98.0	116.0	133.5	153.0
Change (yoy, %)	12%	20%	18%	15%	15%
ABV (Rs)	604.0	675.7	764.4	874.3	1,002.8
PER (x)	32.0	26.5	22.4	19.5	17.0
P/ABV (x)	4.3	3.8	3.4	3.0	2.6
ROE (%)	13.8	14.9	15.6	15.7	15.7
ROA (%)	2.6	2.9	2.8	2.8	2.8
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	20.5	20.7	20.7

Source: IDBI Capital Research

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## Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Interest Income	11,948	8,968	10,979	33.2	8.8
Interest Expenses	6,938	4,573	6,123	51.7	13.3
<b>Net Interest Income</b>	<b>5,010</b>	<b>4,396</b>	<b>4,855</b>	<b>14.0</b>	<b>3.2</b>
<b>NIM (%)</b>	<b>4.9</b>	<b>5.4</b>	<b>5.0</b>	<b>-49 bps</b>	<b>-15 bps</b>
Non-Interest Income	1,569	1,142	2,802	37.3	-44.0
<b>Operating Income</b>	<b>6,579</b>	<b>5,538</b>	<b>7,658</b>	<b>18.8</b>	<b>-14.1</b>
Staff Cost	1,426	1,155	1,324	23.5	7.7
Other Op Exp	1,041	819	1,064	27.1	-2.1
Total Operating Expenses	2,467	1,974	2,388	25.0	3.3
<i>Cost to Income (%)</i>	37.5	35.6	31.2	186 bps	632 bps
<i>Cost to AUM (%)</i>	2.3	2.4	2.4	-1 bps	-4 bps
<b>Operating Profit</b>	<b>4,112</b>	<b>3,564</b>	<b>5,270</b>	<b>15.4</b>	<b>-22.0</b>
Provisions	215	373	512	-42.4	-58.0
<i>Credit Cost (%)</i>	0.2	0.4	0.5	-24 bps	-31 bps
<b>PBT</b>	<b>3,897</b>	<b>3,191</b>	<b>4,759</b>	<b>22.1</b>	<b>-18.1</b>
Tax	896	764	1,095	17.2	-18.1
<i>-effective tax rate</i>	23.0	24.0	23.0	-96 bps	-1 bps
<b>PAT</b>	<b>3,001</b>	<b>2,427</b>	<b>3,664</b>	<b>23.6</b>	<b>-18.1</b>
EPS (Rs)	27.0	20.3	32.9	33.1	-17.9
<b>AUM</b>	<b>4,21,720</b>	<b>3,35,580</b>	<b>4,01,060</b>	<b>25.7</b>	<b>5.2</b>

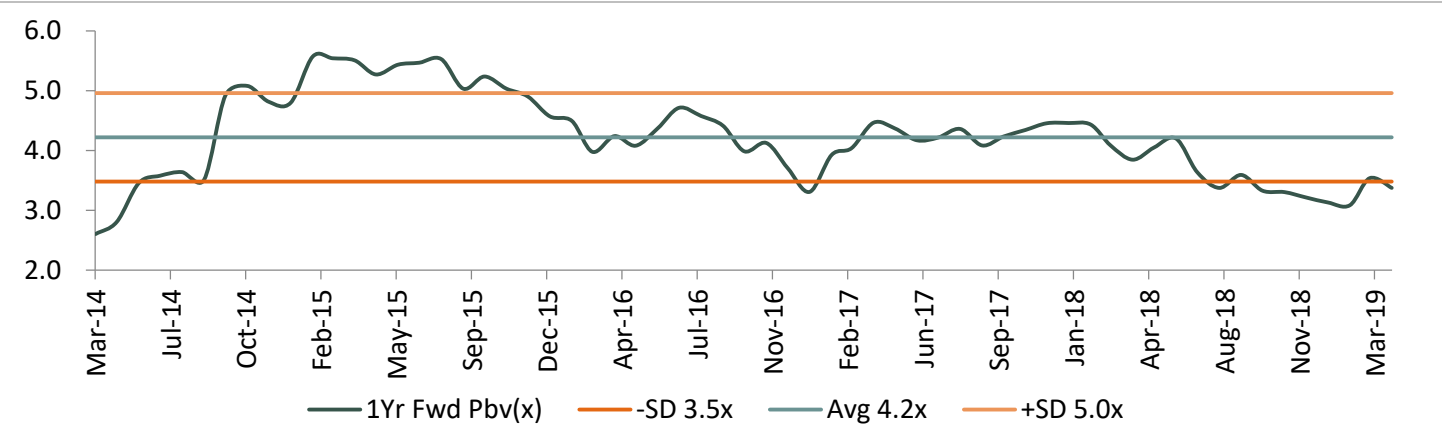
Source: Company; IDBI Capital Research

**Exhibit 2: ROE Decomposition**

(%)	FY22	FY23	FY24E	FY25E	FY26E
<b>NII</b>	<b>4.8</b>	<b>4.4</b>	<b>4.3</b>	<b>4.4</b>	<b>4.4</b>
Fees	1.4	1.5	1.5	1.5	1.5
Other Income	0.1	0.2	0.3	0.3	0.3
<b>Net Revenue</b>	<b>6.2</b>	<b>6.1</b>	<b>6.1</b>	<b>6.2</b>	<b>6.2</b>
Op.Exp	2.0	2.0	2.1	2.1	2.1
Op.Profit	4.3	4.1	4.0	4.1	4.2
Provisions	0.9	0.4	0.3	0.5	0.5
PBT	3.4	3.7	3.7	3.6	3.7
Tax	0.8	0.9	0.9	0.8	0.9
<b>PAT</b>	<b>2.6</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>
Leverage (x)	5.4	5.2	5.5	5.7	5.6
<b>ROE</b>	<b>13.8</b>	<b>14.9</b>	<b>15.6</b>	<b>15.7</b>	<b>15.7</b>

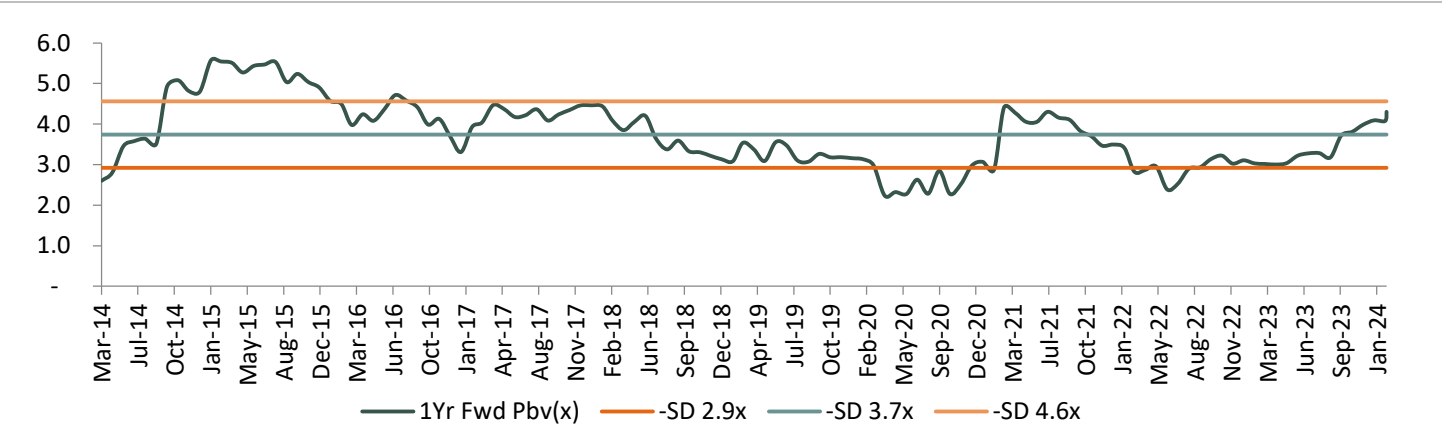
Source: Company; IDBI Capital Research

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



Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY14-24)



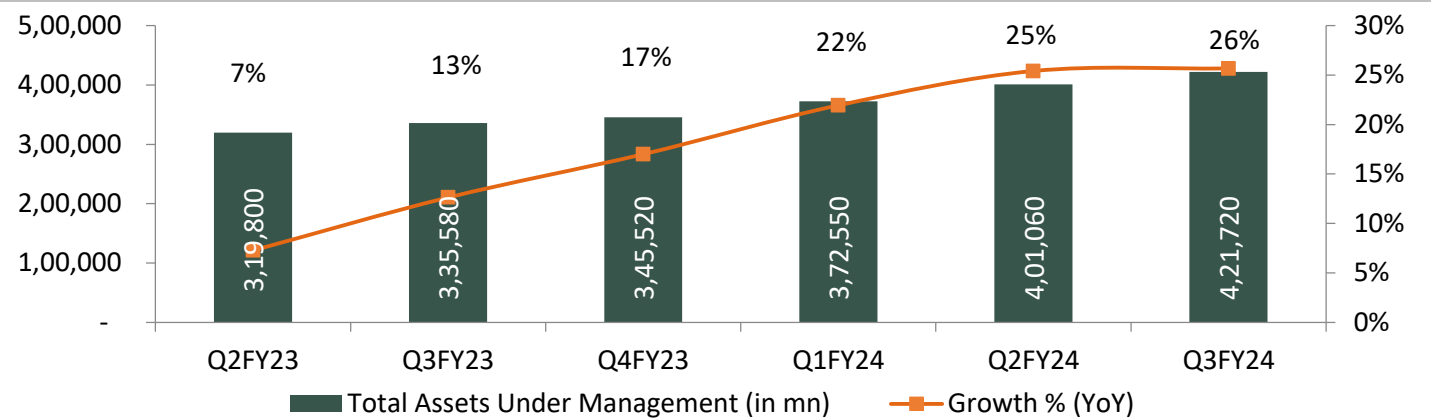
Source: Company; IDBI Capital Research

**Exhibit 5: SOTP Valuation**

Sundaram Finance & its Subsidiaries	Valuation	Val.	Eq. stake	Attributable	Value/
	Methodology	Rs.mn.	(%)	Val. (Rs.)	share Rs.
Auto Finance Business	4.3x FY26E Core ABV	4,04,949	100.0%	4,04,949	3,645
Sundaram AMC	5% of 9MFY24 AUM	26,909	100.0%	26,909	303
Sundaram Home Finance	2x 9MFY24 BV	21,660	100.0%	21,660	339
Royal Insurance	1.4X 9MFY24 GWP	20,847	50.0%	10,423	235
Sundaram Financial Holdings	Market Cap	6,017	21.6%	1,300	68
<b>Total value of subsidiaries</b>		<b>75,433</b>		<b>60,292</b>	<b>944</b>
less 20% holding discount		15,087		12,058	189
<b>Net value of subsidiaries</b>		<b>60,346</b>		<b>48,234</b>	<b>755</b>
<b>Total value</b>		<b>4,65,295</b>		<b>4,53,182</b>	<b>4,400</b>

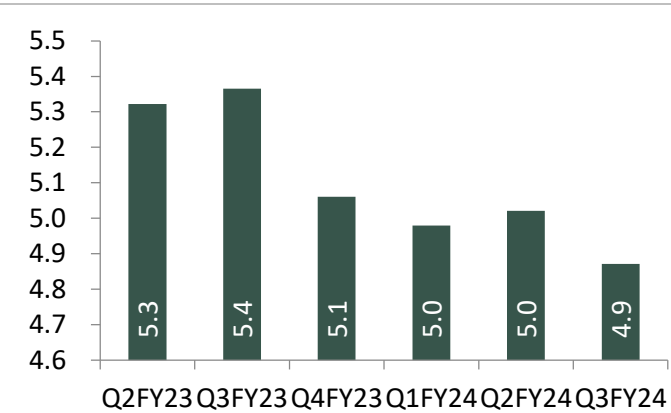
Source: Company; IDBI Capital Research

Exhibit 6: AUM growth continued to remain strong sequentially



Source: Company; IDBI Capital Research

Exhibit 7: NIMs on AUM remained stable



Source: Company; IDBI Capital Research

Exhibit 8: Cost to Income improved marginally sequentially

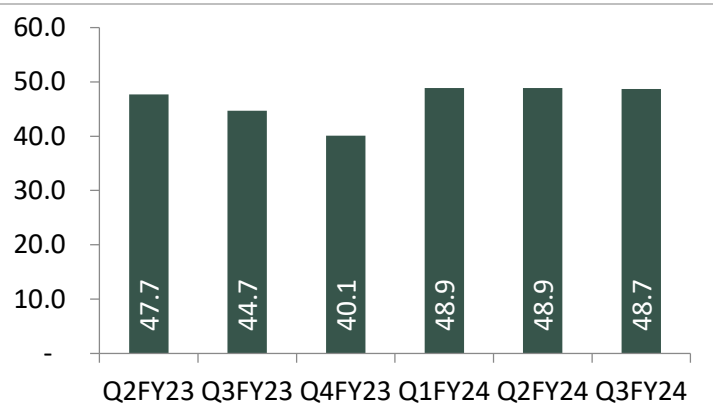
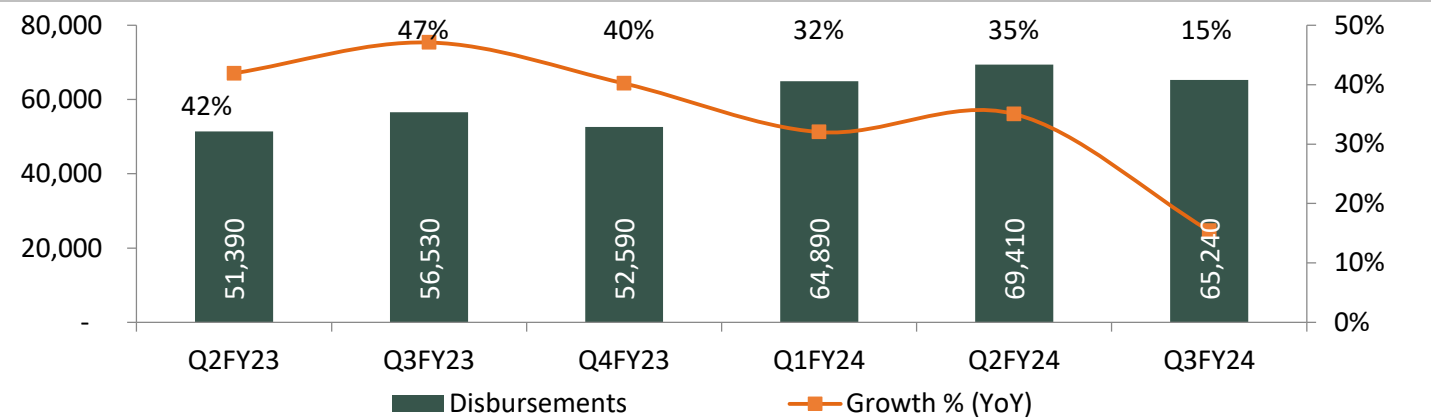
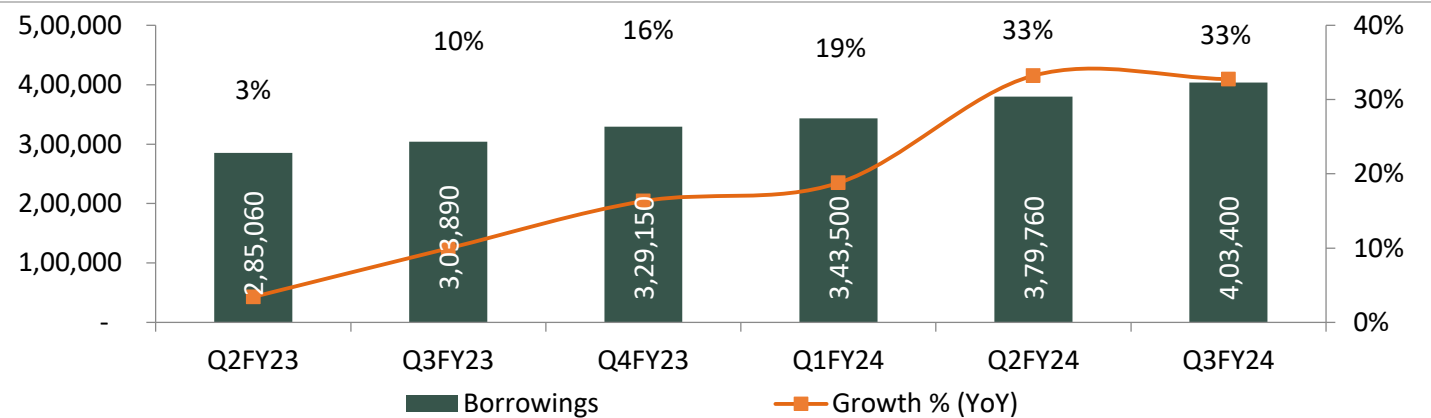


Exhibit 9: Disbursements growth moderated sequentially



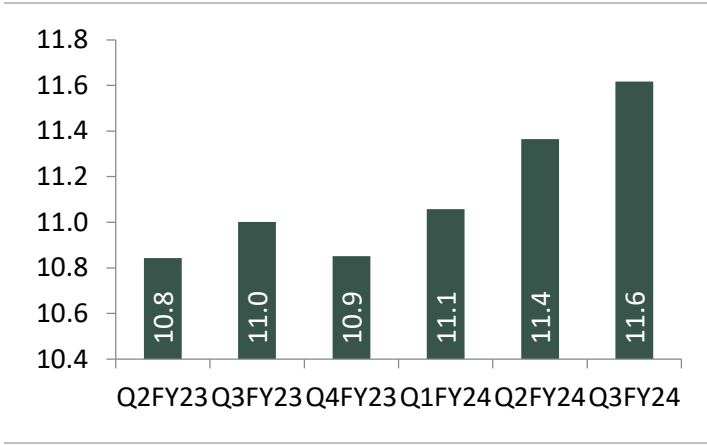
Source: Company; IDBI Capital Research

Exhibit 10: Borrowings growth remained strong sequentially



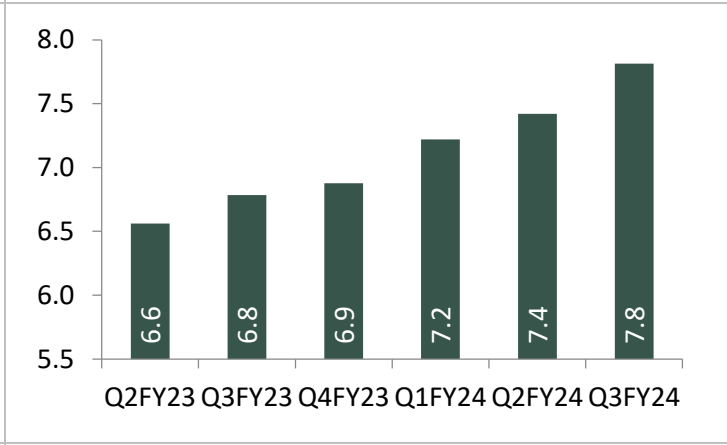
Source: Company; IDBI Capital Research

**Exhibit 11: Yield on AUM witnessed uptick sequentially**



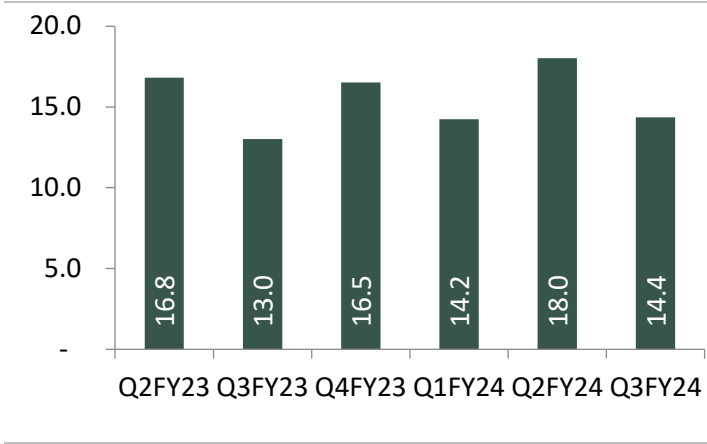
Source: Company; IDBI Capital Research

**Exhibit 12: Cost of Fund inched up QoQ**



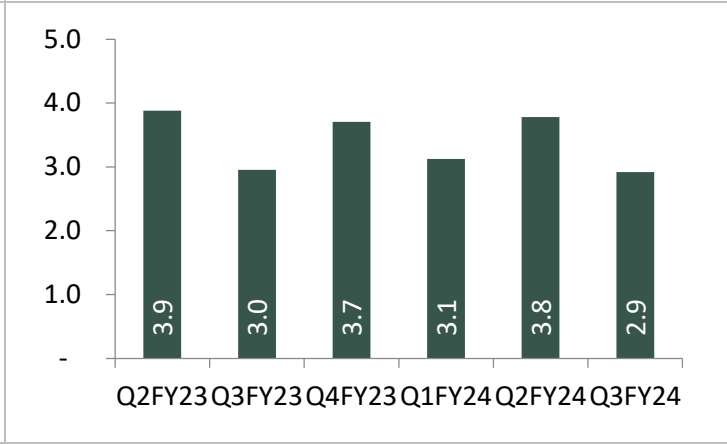
Source: Company; IDBI Capital Research

**Exhibit 13: RoE declined QoQ**



Source: Company; IDBI Capital Research

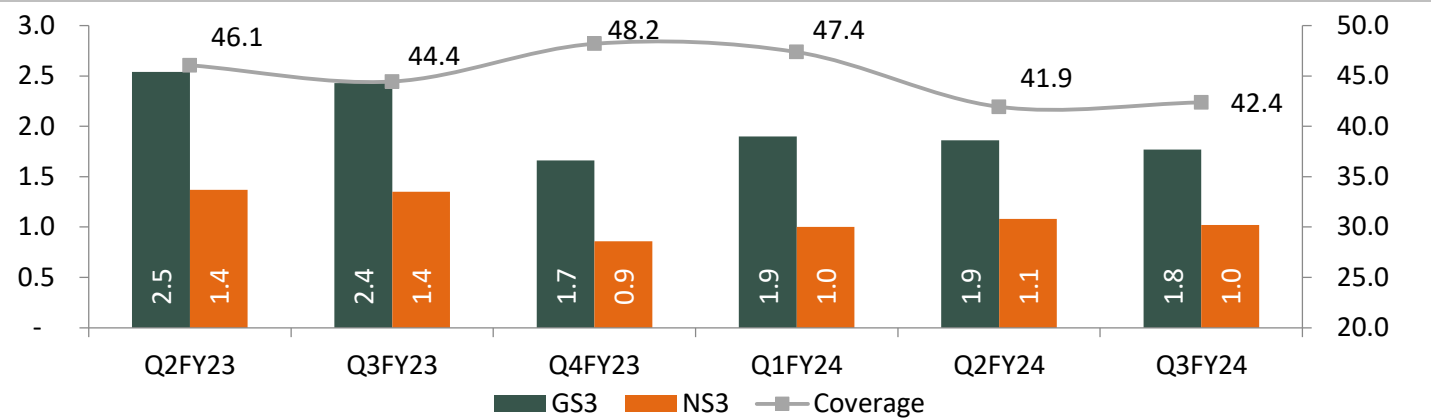
**Exhibit 14: RoA too witnessed a decline sequentially**



Source: Company; IDBI Capital Research

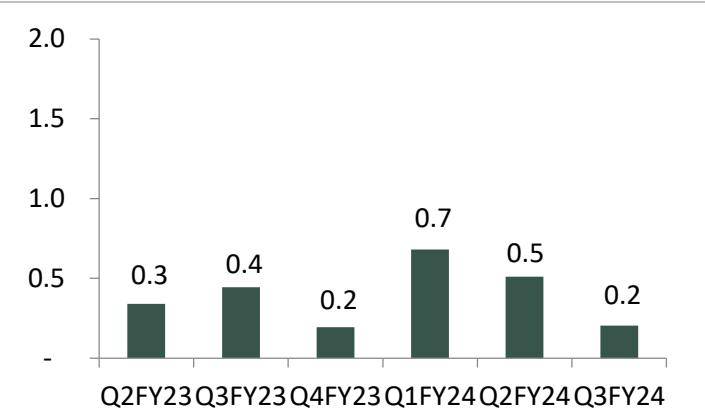


Exhibit 15: Asset Quality improved on a sequential basis



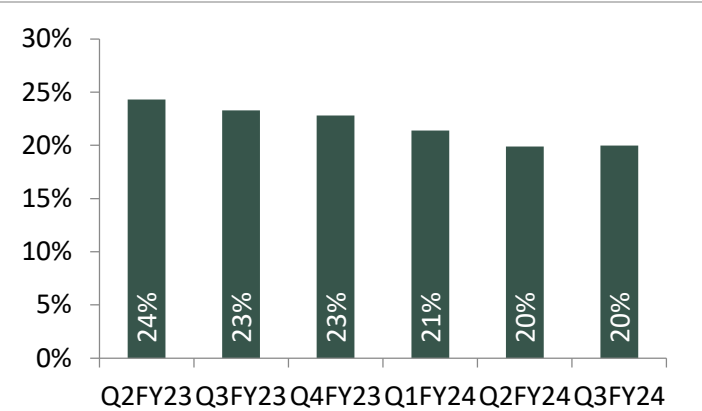
Source: Company; IDBI Capital Research

Exhibit 16: Credit Cost witnessed a downtick QoQ



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)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
CVs	1,94,835	1,55,374	1,86,092	25.4	4.7
Cars	1,04,165	88,258	97,859	18.0	6.4
CEs	44,702	36,243	42,512	23.3	5.2
Tractors	32,051	26,846	30,481	19.4	5.2
Others	45,967	28,860	44,117	59.3	4.2
<b>Total</b>	<b>4,21,720</b>	<b>3,35,580</b>	<b>4,01,060</b>	<b>25.7</b>	<b>5.2</b>

Source: Company; IDBI Capital Research

**Exhibit 19: Composition of AUM-In %**

Product Wise AUM (In %)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
CVs	46.2	46.3	46.4	-10 bps	-20 bps
Cars	24.7	26.3	24.4	-160 bps	30 bps
CEs	10.6	10.8	10.6	-20 bps	0 bps
Tractors	7.6	8.0	7.6	-40 bps	0 bps
Others	10.9	8.6	11.0	230 bps	-10 bps
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company; IDBI Capital Research

**Exhibit 20: Composition of Disbursements-In Mn**

Product Wise Disbursement (In Mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
CVs	30,337	27,530	33,039	10.2	(8.2)
Cars	15,853	15,150	16,381	4.6	(3.2)
CEs	7,372	6,162	7,705	19.6	(4.3)
Tractors	4,958	4,522	4,928	9.6	0.6
Others	6,720	3,166	7,357	112.3	(8.7)
<b>Total</b>	<b>65,240</b>	<b>56,530</b>	<b>69,410</b>	<b>15.4</b>	<b>(6.0)</b>

Source: Company; IDBI Capital Research

**Exhibit 21: Composition Disbursement-In %**

Product Wise Disbursement (In %)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
CVs	46.5	48.7	47.6	-220 bps	-110 bps
Cars	24.3	26.8	23.6	-250 bps	70 bps
CEs	11.3	10.9	11.1	40 bps	20 bps
Tractors	7.6	8.0	7.1	-40 bps	50 bps
Others	10.3	5.6	10.6	470 bps	-30 bps
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company; IDBI Capital Research

**Exhibit 22: Composition of Borrowing-In Mn**

Product Wise Borrowing (In Mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Debentures	1,20,213	1,37,966	1,24,561	(12.9)	(3.5)
Bank Borrowing	1,40,383	67,160	1,29,498	109.0	8.4
Securitisation	42,357	25,223	30,381	67.9	39.4
Deposit	56,073	46,191	53,926	21.4	4.0
Commercial Paper	44,374	27,350	41,394	62.2	7.2
<b>Total</b>	<b>4,03,400</b>	<b>3,03,890</b>	<b>3,79,760</b>	<b>32.7</b>	<b>6.2</b>

Source: Company; IDBI Capital Research

**Exhibit 23: Composition of Borrowing-In %**

Product Wise Borrowing (In %)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Debentures	29.8	45.4	32.8	-1560 bps	-300 bps
Bank Borrowing	34.8	22.1	34.1	1270 bps	70 bps
Securitisation	10.5	8.3	8.0	220 bps	250 bps
Deposit	13.9	15.2	14.2	-130 bps	-30 bps
Commercial Paper	11.0	9.0	10.9	200 bps	10 bps
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net interest income</b>	<b>14,406</b>	<b>16,944</b>	<b>16,950</b>	<b>19,610</b>	<b>23,394</b>	<b>26,824</b>
<i>Change (yoy, %)</i>	8%	18%	0%	16%	19%	15%
Fees	4,824	4,756	5,744	6,935	7,901	8,981
Other Income	605	204	637	1,524	1,810	2,058
Net Revenue	19,835	21,904	23,331	28,070	33,105	37,863
Operating expenses	6,111	6,949	7,789	9,665	11,063	12,583
Employee expenses	3,822	4,145	4,451	5,557	6,329	7,100
Other expenses	2,289	2,805	3,338	4,108	4,735	5,483
<b>Pre-Provision Profit</b>	<b>13,724</b>	<b>14,954</b>	<b>15,542</b>	<b>18,405</b>	<b>22,042</b>	<b>25,280</b>
<i>Change (yoy, %)</i>	11%	9%	4%	18%	20%	15%
Provision	3,161	3,185	1,343	1,585	2,683	3,096
PBT	10,563	11,769	14,200	16,820	19,359	22,184
Taxes	2,473	2,735	3,317	3,928	4,521	5,181
<i>Effective tax rate (%)</i>	23%	23%	23%	23%	23%	23%
<b>Net profit</b>	<b>8,090</b>	<b>9,034</b>	<b>10,883</b>	<b>12,891</b>	<b>14,837</b>	<b>17,003</b>
<i>Change (yoy, %)</i>	12%	12%	20%	18%	15%	15%
EPS	72.8	81.3	98.0	116.0	133.5	153.0
<i>Return on Equity (%)</i>	13.8	13.8	14.9	15.6	15.7	15.7
<i>Return on Assets (%)</i>	2.4	2.6	2.9	2.8	2.8	2.8

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	1,111	1,111	1,111	1,111	1,111	1,111
Reserves	60,683	67,820	76,263	86,934	99,551	1,14,335
<b>Networth</b>	<b>61,794</b>	<b>68,931</b>	<b>77,374</b>	<b>88,045</b>	<b>1,00,662</b>	<b>1,15,446</b>
Borrowings	2,57,075	2,53,286	3,05,141	3,83,907	4,34,306	4,95,801
Sub-ordinated debt	25,059	25,012	22,409	25,770	26,028	26,288
Other liabilities	5,270	5,646	5,664	6,441	7,030	7,503
<b>Total Liab. &amp; Equity</b>	<b>3,49,198</b>	<b>3,52,875</b>	<b>4,10,587</b>	<b>5,04,163</b>	<b>5,68,026</b>	<b>6,45,037</b>
Cash	6,932	6,171	10,703	10,810	11,890	13,080
Investments	40,524	53,187	50,628	55,691	61,260	67,386
Advances	2,93,416	2,84,002	3,37,552	4,24,685	4,80,437	5,48,463
Fixed Assets	2,178	2,482	3,536	3,606	3,679	3,752
Other Assets	6,148	7,034	8,169	9,371	10,760	12,356
<b>Total assets</b>	<b>3,49,198</b>	<b>3,52,875</b>	<b>4,10,587</b>	<b>5,04,163</b>	<b>5,68,026</b>	<b>6,45,037</b>

## Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth</b>						
Advances	4.6	(3.2)	18.9	25.8	13.1	14.2
NII	8.0	17.6	0.0	15.7	19.3	14.7
Pre-Provision Profit	11.4	9.0	3.9	18.4	19.8	14.7
Net Profit	11.8	11.7	20.5	18.5	15.1	14.6
<b>Spreads</b>						
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	7.0	7.0
NIM	4.7	5.7	5.5	5.1	5.2	5.2
Spread	3.3	4.0	3.7	3.5	3.5	3.6
<b>Operating Efficiency</b>						
Cost-to-Income	30.8	31.7	33.4	34.4	33.4	33.2
Cost-to-Assets	1.8	2.0	2.0	2.1	2.1	2.1
<b>Asset Quality</b>						
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	0.4	0.6	0.6
<b>Capital Adequacy</b>						
CAR	22.1	24.4	22.8	20.5	20.7	20.7
Tier I	15.2	17.5	17.7	15.3	15.5	15.6
<b>Valuation</b>						
EPS	72.8	81.3	98.0	116.0	133.5	153.0
ABV	537.4	604.0	675.7	764.4	874.3	1,002.8
P/E	35.7	32.0	26.5	22.4	19.5	17.0
P/ABV	4.8	4.3	3.8	3.4	3.0	2.6
ROE	13.8	13.8	14.9	15.6	15.7	15.7
ROA	2.4	2.6	2.9	2.8	2.8	2.8

Source: Company; IDBI Capital Research



# Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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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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