

Sundaram Finance (SUF)

BUY

AUM growth slows down; Asset quality deteriorated

Summary

SUF's AUM growth slows down to 23% YoY vs 27% YoY (FY24) led by lower disbursements. Disbursements grew slowly by 7% YoY due to lower economic activity backed by general elections and an unusually hot summer. Asset quality deteriorated due to seasonality; however it continues to remain best-in-class asset quality. Collections have reverted to pre-Covid levels at 92%. NIMs have declined due to increase in cost of funds which resulted in lower NII growth (up 18.5% YoY). PAT grew by 9% YoY led by higher provisions. Thus, RoA declined to 2.4% vs 2.7% YoY. We have largely maintained estimates and upgraded to "BUY" rating with TP of 4,940 valuing the parent business at pre-Covid average 4.3x FY26E Core ABV as stock has corrected by 22% from 52-week high.

Key Highlights and Investment Rationale

- **AUM growth slows down:** SUF AUM growth slows down to 23% YoY vs 27% YoY (FY24) led by lower disbursements (up 7% YoY). Economic activity in the automotive sector was muted as nearly all asset classes witnessed a decline in sales on YoY basis (except ICVs).
- **Asset quality deteriorated QoQ due to seasonality:** Asset quality deteriorated with GNPA at 1.56% vs 1.26% QoQ. Improvement in collections and recovery activity supported decline in the credit cost at 0.6% vs 1.3% YoY.
- **NIMs declined:** NIMs (Calculated) declined led by higher cost of funds (up 10bps QoQ) while yields remain flat. NIMs stood at 4.73% vs 4.80% QoQ; we expect rate cut in H2FY25 should boost the NIMs going ahead.
- **Outlook:** The budgetary allocations towards infrastructure by the government should support CV cycle. 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

CMP Rs3,833

Potential upside/downside +29%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(16.6)	(19.1)	48.6
Rel to Sensex	(14.8)	(25.4)	29.0

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	148.9	173.9
Consensus	145.3	171.3
% difference	2.5	1.5

Key Stock Data

Bloomberg / Reuters	SUF IN / SNFN.BO
Sector	NBFC
Shares o/s (mn)	111
Market cap. (Rs mn)	425,883
3-m daily avg Trd value (Rs mn)	15.6
52-week high / low	Rs4,992 / 2,490
Sensex / Nifty	78,593 / 23,993

Shareholding Pattern (%)

Promoters	37.9
FII	17.3
DII	8.5
Public	36.3

Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	16,944	16,950	19,488	24,392	28,188
Change (yoy, %)	18%	0%	15%	25%	16%
Net Profit	9,034	10,883	14,540	16,543	19,318
Change (yoy, %)	12%	20%	34%	14%	17%
EPS (Rs)	81.3	98.0	130.9	148.9	173.9
Change (yoy, %)	12%	20%	34%	14%	17%
ABV (Rs)	604.0	675.7	834.3	959.5	1,122.3
PER (x)	47.8	39.6	29.7	26.1	22.3
P/ABV (x)	6.4	5.7	4.7	4.0	3.5
ROE (%)	13.8	14.9	16.9	16.1	16.2
ROA (%)	2.6	2.9	3.2	3.0	3.1
GNPA (%)	2.2	1.7	1.3	1.6	1.6
NNPA (%)	1.1	0.9	0.6	0.9	0.9
CAR (%)	24.4	22.8	20.5	21.9	22.5

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Interest Income	12,868	9,906	12,413	29.9	3.7
Interest Expenses	7,570	5,437	7,243	39.2	4.5
Net Interest Income	5,298	4,469	5,170	18.5	2.5
NIM (%)	4.7	5.0	4.8	-25 bps	-7 bps
Other Income	1,895	2,036	3,292	-6.9	-42.4
Operating Income	7,193	6,505	8,461	10.6	-15.0
Staff Cost	1,572	1,308	1,415	20.1	11.1
Other Op Exp	867	910	1,010	-4.8	-14.2
Total Operating Expenses	2,438	2,218	2,425	9.9	0.5
<i>Cost to Income (%)</i>	33.9	34.1	28.7	-21 bps	523 bps
<i>Cost to AUM (%)</i>	2.1	2.4	2.2	-25 bps	-7 bps
Operating Profit	4,755	4,287	6,036	10.9	-21.2
Provisions	734	634	1,378	15.8	-46.8
<i>Credit Cost (%)</i>	0.6	0.7	1.3	-4 bps	-61 bps
PBT	4,022	3,653	4,658	10.1	-13.7
Tax	945	841	934	12.4	1.2
<i>-effective tax rate</i>	23.5	23.0	20.0	49 bps	346 bps
PAT	3,077	2,813	5,063	9.4	-39.2
Exceptional item	0	0	1,339	NA	NA
Adjusted PAT	3,077	2,813	3,724	9.4	-17.4
EPS (Rs)	27.7	25.2	99.4	9.8	-72.2
AUM	4,56,710	3,72,550	4,39,870	22.6	3.8

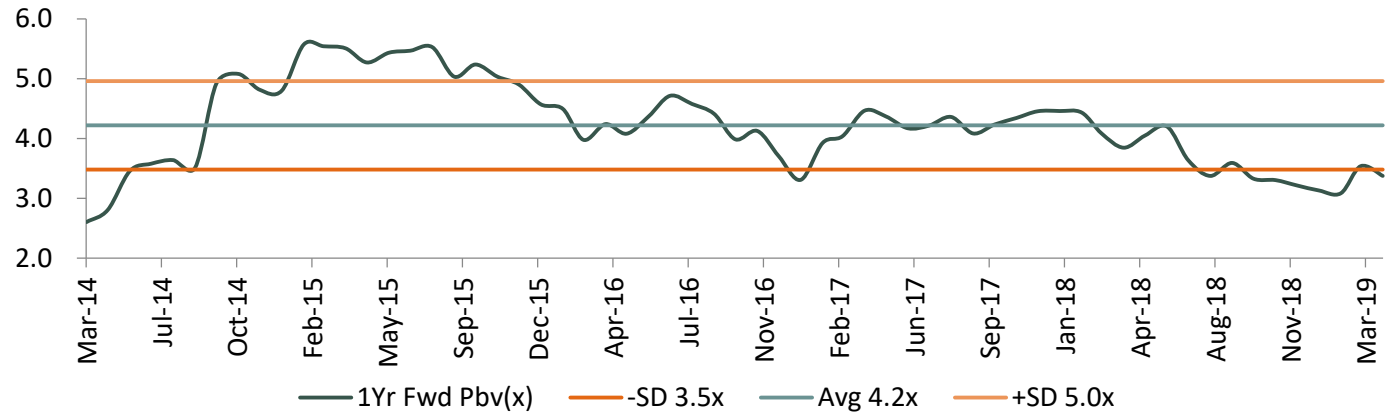
Source: Company; IDBI Capital Research

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	2.1	1.5	1.5
Other Income	0.1	0.2	0.0	0.3	0.3
Net Revenue	6.2	6.1	6.3	6.2	6.3
Op.Exp	2.0	2.0	2.1	2.0	1.9
Op.Profit	4.3	4.1	4.3	4.2	4.4
Provisions	0.9	0.4	0.6	0.5	0.5
PBT	3.4	3.7	3.7	3.8	3.9
Tax	0.8	0.9	0.8	0.8	0.8
PAT	2.6	2.9	2.9	3.0	3.1
Leverage (x)	5.4	5.2	5.3	5.4	5.2
ROE	13.8	14.9	15.3	16.1	16.2

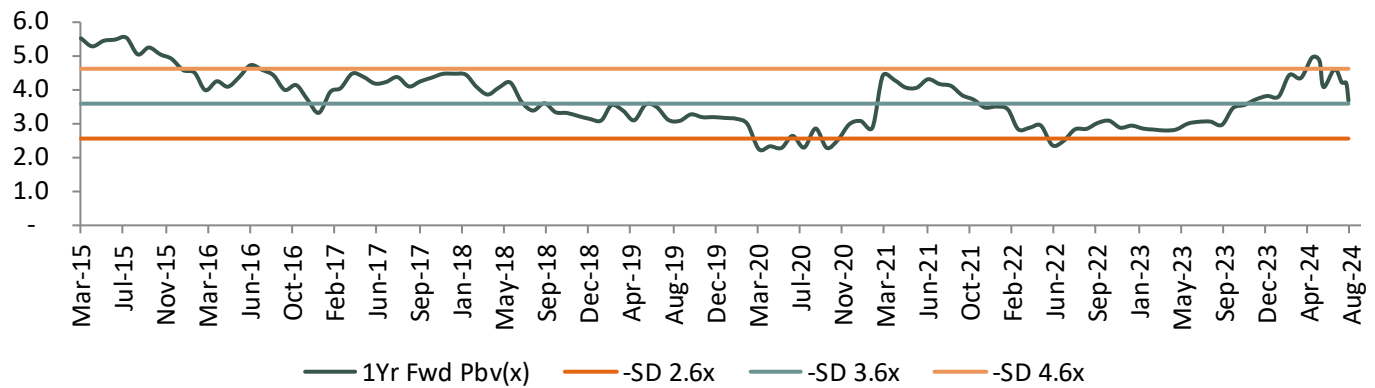
Source: Company; IDBI Capital Research

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



Source: Company; IDBI Capital Research

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



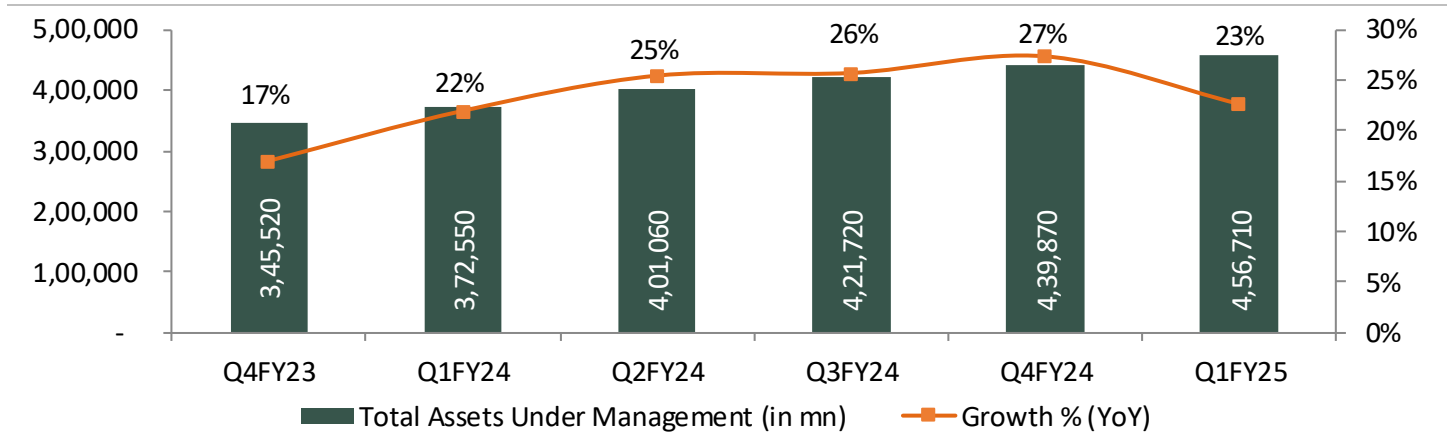
Source: Company; IDBI Capital Research

Exhibit 5: SOTP Valuation

Sundaram Finance & its Subsidiaries	Valuation Methodology	Val. Rs.mn.	Eq. stake (%)	Attributable Val. (Rs.)	Value/share Rs.
Auto Finance Business	4.3x FY26E Core ABV	4,61,291	100.0%	4,61,291	4,152
Sundaram AMC	5% of FY24 AUM	28,353	100.0%	28,353	319
Sundaram Home Finance	2x FY24 BV	21,660	100.0%	21,660	338
Royal Insurance	1.4X FY23E GWP	21,420	50.0%	10,710	241
Sundaram Financial Holdings	Market Cap	7,659	21.6%	1,654	86
Total value of subsidiaries		79,093		62,378	985
less 20% holding discount		15,819		12,476	197
Net value of subsidiaries		63,274		49,902	788
Total value		5,24,565		5,11,194	4,940

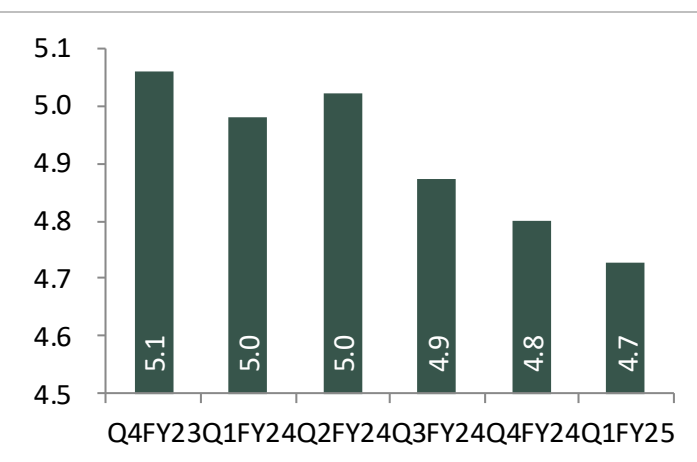
Source: Company; IDBI Capital Research

Exhibit 6: YoY AUM growth slowed down sequentially during the quarter



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

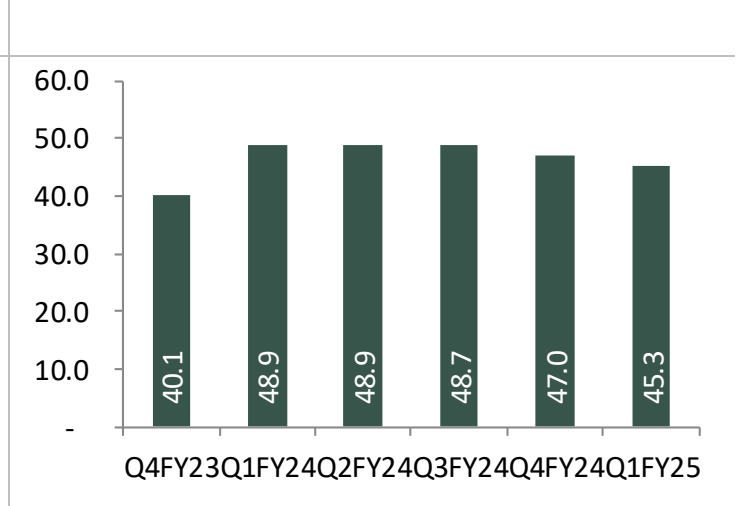
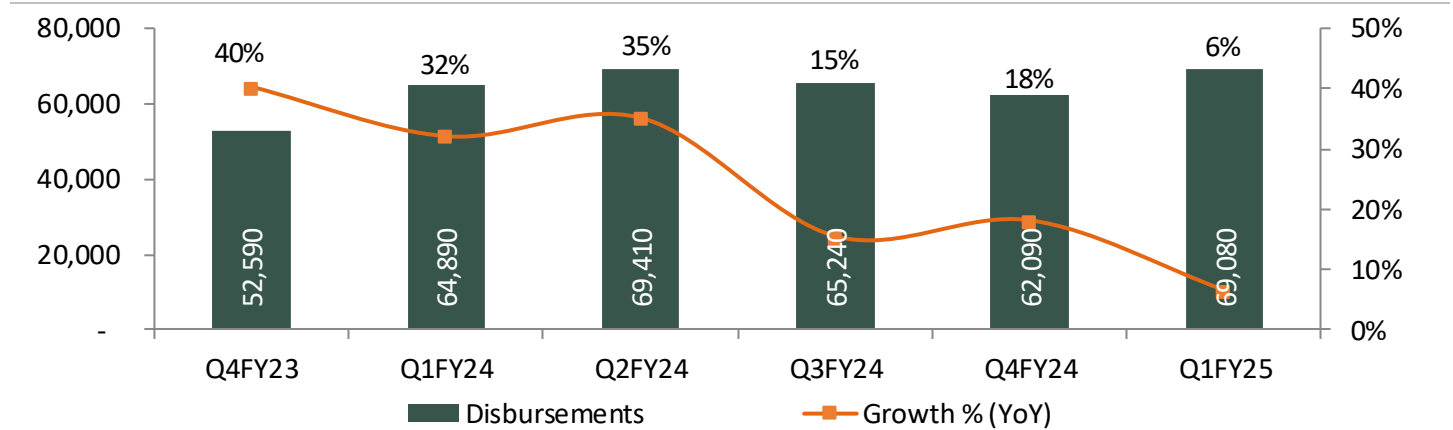
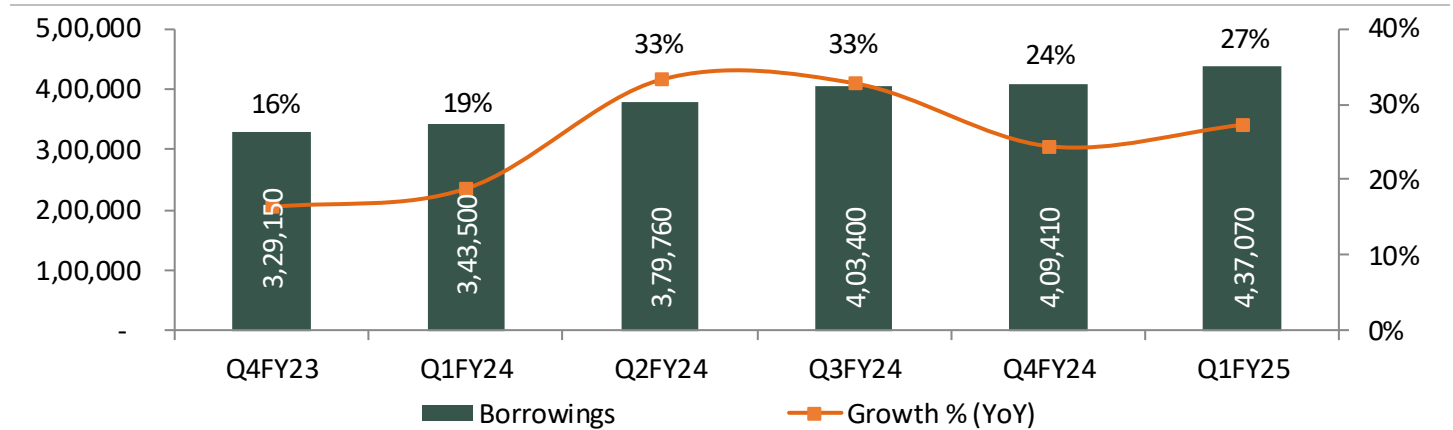


Exhibit 9: Disbursements YoY growth moderated sequentially; increased QoQ



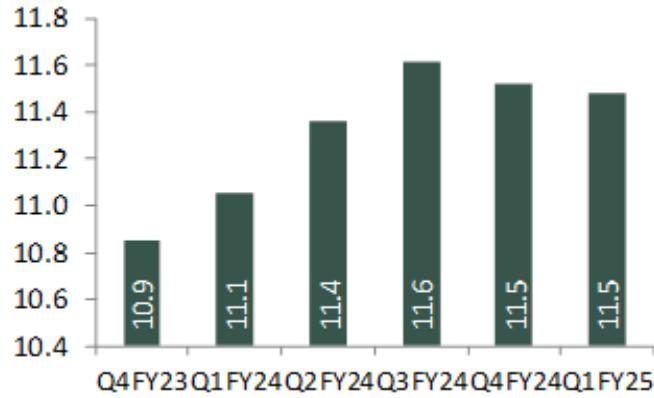
Source: Company; IDBI Capital Research

Exhibit 10: Borrowings growth remained strong sequentially



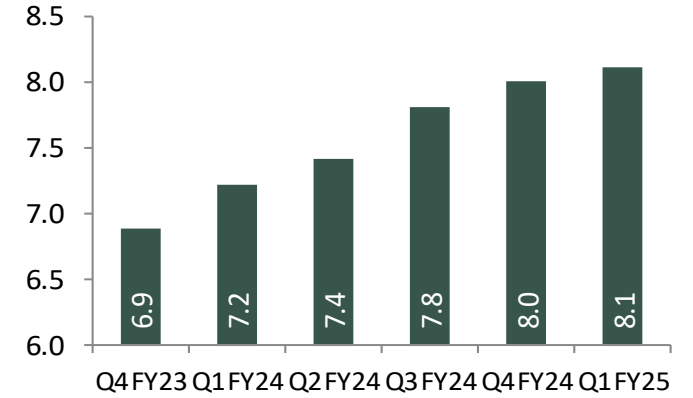
Source: Company; IDBI Capital Research

Exhibit 11: Yield on AUM remained stable sequentially



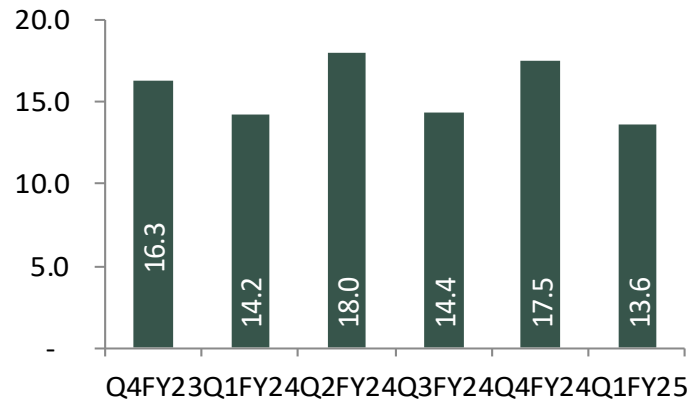
Source: Company; IDBI Capital Research

Exhibit 12: Cost of Fund inched up QoQ



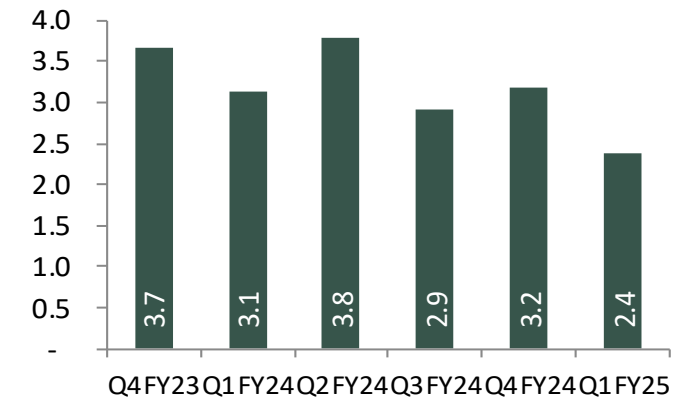
Source: Company; IDBI Capital Research

Exhibit 13: RoE declined sequentially



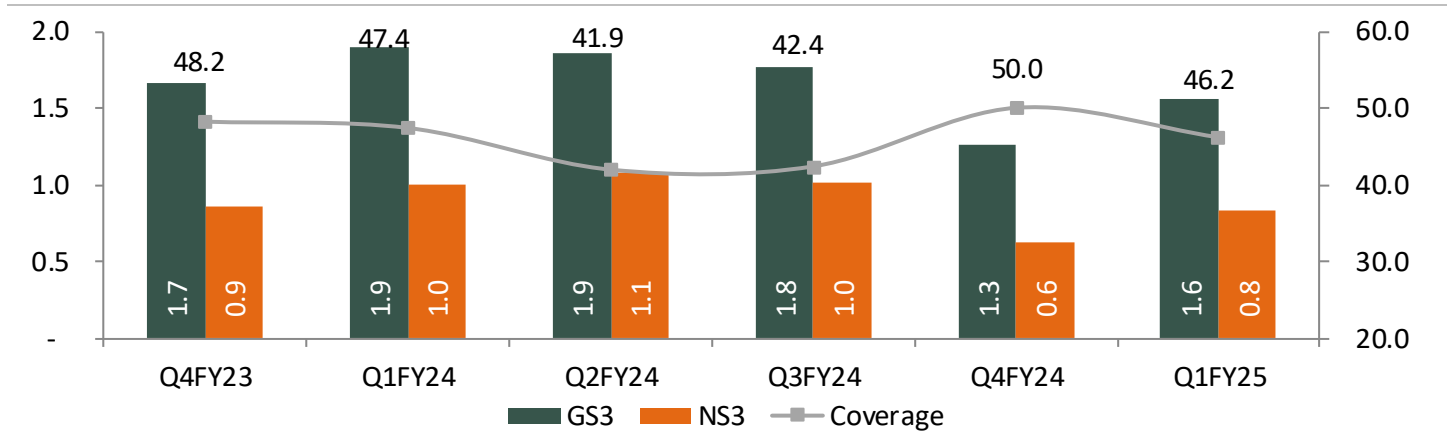
Source: Company; IDBI Capital Research

Exhibit 14: RoA too declined on a sequential basis



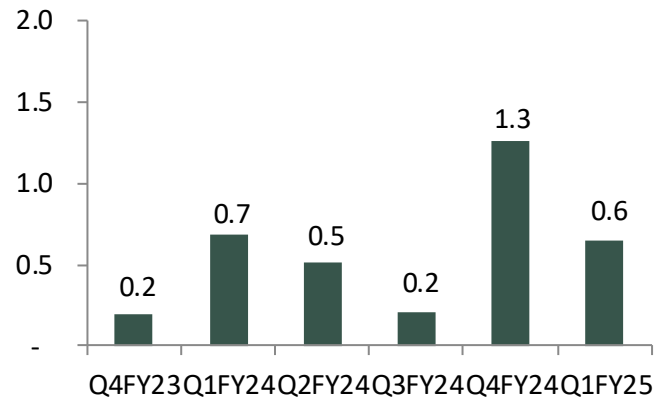
Source: Company; IDBI Capital Research

Exhibit 15: Asset Quality deteriorated on a sequential basis



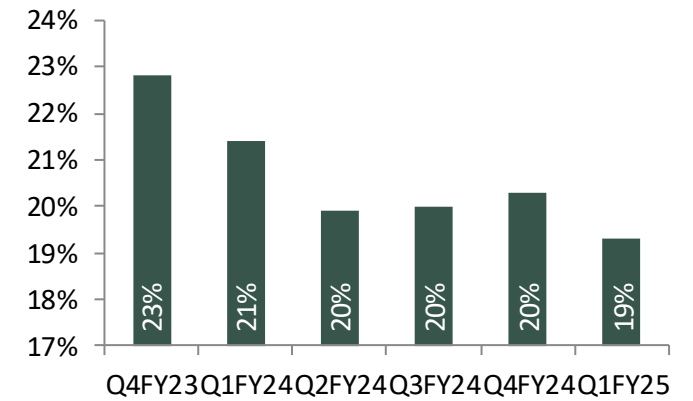
Source: Company; IDBI Capital Research

Exhibit 16: Credit Cost declined QoQ due to decrease in provisions



Source: Company; IDBI Capital Research

Exhibit 17: Capital Adequacy declined marginally QoQ



Source: Company; IDBI Capital Research

Exhibit 18: Composition of AUM-In Mn

Product Wise AUM (In Mn)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
CVs	2,11,913	1,75,099	2,01,021	21.0	5.4
Cars	1,09,610	91,275	1,05,569	20.1	3.8
CEs	48,868	40,235	46,626	21.5	4.8
Tractors	33,340	29,059	32,990	14.7	1.1
Others	30,143	17,882	31,671	68.6	(4.8)
Commercial lending	22,836	19,000	21,994	20.2	3.8
Total	4,56,710	3,72,550	4,39,870	22.6	3.8

Source: Company; IDBI Capital Research

Exhibit 19: Composition of AUM-In %

Product Wise AUM (In %)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
CVs	46.4	47.0	45.7	-60 bps	70 bps
Cars	24.0	24.5	24.0	-50 bps	0 bps
CEs	10.7	10.8	10.6	-10 bps	10 bps
Tractors	7.3	7.8	7.5	-50 bps	-20 bps
Others	6.6	4.8	7.2	180 bps	-60 bps
	5.0	5.1	5.0		
Total	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 20: Composition of Disbursements-In Mn

Product Wise Disbursement (In Mn)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
CVs	32,329	32,575	29,395	(0.8)	10.0
Cars	14,990	14,665	12,995	2.2	15.4
CEs	7,806	7,527	6,755	3.7	15.6
Tractors	4,974	5,061	4,196	(1.7)	18.5
Others	2,349	1,168	(106)	101.1	N.A.
Commercial lending	6,632	3,893	8,856	70.3	(25.1)
Total	69,080	64,890	62,090	6.5	11.3

Source: Company; IDBI Capital Research

Exhibit 21: Composition Disbursement-In %

Product Wise Disbursement (In %)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
CVs	46.8	50.2	46.7	-340 bps	10 bps
Cars	21.7	22.6	23.5	-90 bps	-180 bps
CEs	11.3	11.6	11.2	-30 bps	10 bps
Tractors	7.2	7.8	7.4	-60 bps	-20 bps
Others	3.4	1.8	2.4	160 bps	100 bps
Commercial lending	9.6	6.0	8.8	360 bps	80 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 22: Composition of Borrowing-In Mn

Product Wise Borrowing (In Mn)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Debentures	1,40,737	1,20,225	1,38,381	17.1	1.7
Bank Borrowing	1,57,782	1,04,424	1,46,569	51.1	7.7
Securitisation	52,885	32,633	47,082	62.1	12.3
Deposit	59,879	51,525	58,136	16.2	3.0
Commercial Paper	25,787	34,694	19,242	(25.7)	34.0
Total	4,37,070	3,43,500	4,09,410	27.2	6.8

Source: Company; IDBI Capital Research

Exhibit 23: Composition of Borrowing-In %

Product Wise Borrowing (In %)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Debentures	32.2	35.0	33.8	-280 bps	-160 bps
Bank Borrowing	36.1	30.4	35.8	570 bps	30 bps
Securitisation	12.1	9.5	11.5	260 bps	60 bps
Deposit	13.7	15.0	14.2	-130 bps	-50 bps
Commercial Paper	5.9	10.1	4.7	-420 bps	120 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	19,488	24,392	28,188
<i>Change (yoy, %)</i>	8%	18%	0%	15%	25%	16%
Fees	4,824	4,756	5,744	9,554	8,006	9,137
Other Income	605	204	637	144	1,817	2,073
Net Revenue	19,835	21,904	23,331	29,186	34,215	39,398
Operating expenses	6,111	6,949	7,789	9,481	10,835	12,100
Employee expenses	3,822	4,145	4,451	5,485	6,258	7,030
Other expenses	2,289	2,805	3,338	3,996	4,577	5,069
Pre-Provision Profit	13,724	14,954	15,542	19,705	23,380	27,298
<i>Change (yoy, %)</i>	11%	9%	4%	27%	19%	17%
Provision	3,161	3,185	1,343	2,738	2,553	2,978
PBT	10,563	11,769	14,200	16,967	20,826	24,320
Taxes	2,473	2,735	3,317	3,765	4,284	5,002
<i>Effective tax rate (%)</i>	23%	23%	23%	22%	21%	21%
Net profit	8,090	9,034	10,883	13,202	16,543	19,318
<i>Change (yoy, %)</i>	12%	12%	20%	21%	25%	17%
EPS	72.8	81.3	98.0	130.9	148.9	173.9
<i>Return on Equity (%)</i>	13.8	13.8	14.9	16.9	16.1	16.2
<i>Return on Assets (%)</i>	2.4	2.6	2.9	3.2	3.0	3.1

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
Reserves	60,683	67,820	76,263	93,606	1,09,134	1,27,678
Networth	61,794	68,931	77,374	94,717	1,10,245	1,28,789
Borrowings	2,57,075	2,53,286	3,05,141	3,84,293	4,43,688	4,94,129
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	13,446	12,716
Total Liab. & Equity	3,49,198	3,52,875	4,10,587	5,09,878	5,92,099	6,60,601
Cash	6,932	6,171	10,703	14,184	25,402	27,942
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	4,87,569	5,49,032
Fixed Assets	2,178	2,482	3,536	4,893	4,991	5,090
Other Assets	6,148	7,034	8,169	6,204	7,117	8,166
Total assets	3,49,198	3,52,875	4,10,587	5,09,878	5,92,099	6,60,601

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth						
Advances	4.6	(3.2)	18.9	24.7	15.9	12.6
NII	8.0	17.6	0.0	15.0	25.2	15.6
Pre-Provision Profit	11.4	9.0	3.9	26.8	18.7	16.8
Net Profit	11.8	11.7	20.5	33.6	13.8	16.8
Spreads						
Yield on AAUM	11.4	11.5	11.2	11.9	11.9	11.8
Cost of Borrowing	7.3	6.1	5.9	7.0	6.7	6.7
NIM	4.7	5.7	5.5	5.1	5.4	5.4
Spread	3.3	4.0	3.7	3.4	3.6	3.7
Operating Efficiency						
Cost-to-Income	30.8	31.7	33.4	32.5	31.7	30.7
Cost-to-Assets	1.8	2.0	2.0	2.1	2.0	1.9
Asset Quality						
GNPA	1.9	2.2	1.7	1.3	1.6	1.6
NNPA	1.1	1.1	0.9	0.6	0.9	0.9
Provision Coverage	45.8	52.0	48.6	50.2	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	20.5	21.9	22.5
Tier I	15.2	17.5	17.7	16.8	16.7	17.3
Valuation						
EPS	72.8	81.3	98.0	130.9	148.9	173.9
ABV	537.4	604.0	675.7	834.3	959.5	1,122.3
P/E	53.3	47.8	39.6	29.7	26.1	22.3
P/ABV	7.2	6.4	5.7	4.7	4.0	3.5
ROE	13.8	13.8	14.9	16.9	16.1	16.2
ROA	2.4	2.6	2.9	3.2	3.0	3.1

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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