

# HSIE Results Daily

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- **Sundaram Finance:** Sundaram Finance's (SUF) Q2FY25 earnings were lower than our estimates, largely due to lower other income, while other P&L outcomes remained broadly steady. AUM growth moderated further to +20% YoY (FY24: +27% YoY), driven by moderation in disbursements growth (-1% YoY). The muted CV and PV cycle are reflected in muted disbursements across vehicle financing segments, while commercial lending (7.6% of AUM) aided disbursement growth (+29% YoY). We expect moderation in loan growth during FY25-FY26E (17% CAGR vs. 22% CAGR during FY23-FY24). Further, the rising cost of funds will likely sustain the pressure on NIMs. While SUF remains a pristine franchise with steady growth and profitability metrics (core RoE of ~17-18%), current valuations provide limited upside amidst industry headwinds. We revise our FY25E/FY26E earnings estimates downwards by 2%/3% to factor in lower loan growth and higher cost of funds and maintain REDUCE with a revised SoTP-based TP of INR4,125 (standalone entity at 3.5x Sep-26 ABVPS).

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# Sundaram Finance

## Growth continues to moderate

Sundaram Finance's (SUF) Q2FY25 earnings were lower than our estimates, largely due to lower other income, while other P&L outcomes remained broadly steady. AUM growth moderated further to +20% YoY (FY24: +27% YoY), driven by moderation in disbursements growth (-1% YoY). The muted CV and PV cycle are reflected in muted disbursements across vehicle financing segments, while commercial lending (7.6% of AUM) aided disbursement growth (+29% YoY). We expect moderation in loan growth during FY25-FY26E (17% CAGR vs. 22% CAGR during FY23-FY24). Further, the rising cost of funds will likely sustain the pressure on NIMs. While SUF remains a pristine franchise with steady growth and profitability metrics (core RoE of ~17-18%), current valuations provide limited upside amidst industry headwinds. We revise our FY25E/FY26E earnings estimates downwards by 2%/3% to factor in lower loan growth and higher cost of funds and maintain REDUCE with a revised SoTP-based TP of INR4,125 (standalone entity at 3.5x Sep-26 ABVPS).

- **Moderation in loan growth; in line with industry trends:** SUF's loan growth moderated further to +20% YoY, driven by moderation in disbursements across segments - core M&HCV (-9.4% YoY), retail CV (-5% YoY), cars (-3% YoY) CE (-8% YoY) and tractors (-5% YoY). SUF's product diversification into non-CV segments such as Commercial lending (SME, NBFCs, etc.) aided disbursements growth in Q2 and has driven strong AUM growth during FY23-FY24.
- **Steady NIMs during the quarter; asset quality-marginal deterioration:** NIMs (calculated) improved sequentially to 4% (+9bps QoQ) due to reflation in asset yields, while the cost of funds continued to inch up (7.4%). While SUF's cost of funds remains best-in-class, the upward pressure on funding costs will likely weigh on margins. However, a shift in loan mix beyond core segments is likely to offset NIM compression partially. Asset quality deteriorated marginally with GS-III/NS-III at 1.6%/0.9% (Q1FY25: 1.6%/0.8%) and a steady credit cost of 67bps (annualised).
- **Robust franchise, although priced to perfection:** SUF remains a robust franchise with strong profitability (core RoE of ~17-18%) and pristine asset quality (cross-cycle credit costs of ~50bps). The company's diversification strategy has further helped SUF solve for growth, which is witnessing some signs of moderation. However, most of these positives are factored into the current stock price, driving our REDUCE rating.

### Financial summary (Standalone)

(INR bn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ(%)	FY24	FY25E	FY26E	FY27E
NII	5.6	4.9	15.8	5.3	6.2	19.5	23.2	27.6	32.5
PPOP	5.4	5.3	3.1	4.8	14.3	19.7	22.7	26.8	31.6
PAT	3.4	3.7	(7.2)	3.1	10.6	13.2	15.3	18.2	21.4
EPS (INR)	30.6	33.0	(7.2)	27.7	10.5	130.9	138.1	163.4	192.7
ROAE (%)						16.9	15.2	15.9	16.4
ROAA (%)						3.2	2.7	2.8	2.8
ABVPS (INR)						648	745	868	1,021
P/ABV (x)						6.5	5.6	4.8	4.1
P/E (x)						32.1	30.4	25.7	21.8

### Change in estimates

INR bn	FY25E			FY26E		
	Old	New	Chg	Old	New	Chg
AUM	522	514	-1.5%	609	597	-2.0%
NIM (%)	4.3	4.2	-12 bps	4.4	4.3	-12 bps
NII	24.1	23.2	-3.5%	28.8	27.6	-4.1%
PPOP	22.9	22.7	-1.1%	27.4	26.8	-2.2%
PAT	15.6	15.3	-1.9%	18.7	18.2	-2.8%
ABVPS (INR)	748	745	-0.5%	873	868	-0.6%

Source: Company, HSIE Research

## REDUCE

CMP (as on 4 Nov 2024)	INR 4,972
Target Price	INR 4,125
NIFTY	23,995

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 4050	INR 4125
EPS %	FY25E	FY26E
	-1.9%	-2.8%

### KEY STOCK DATA

Bloomberg code	SUF IN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	552/6,567
6m avg traded value (INR mn)	926
52 Week high / low	INR 5,536/3,101

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.7	2.9	54.3
Relative (%)	20.4	(3.7)	31.9

### SHAREHOLDING PATTERNS (%)

	Jun-24	Sep-24
Promoters	37.9	37.2
FIs & Local MFs	8.9	8.0
FPIs	20.8	22.0
Public & Others	32.4	32.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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**Rating Criteria**

BUY: >+15% return potential

ADD: +5% to +15% return potential

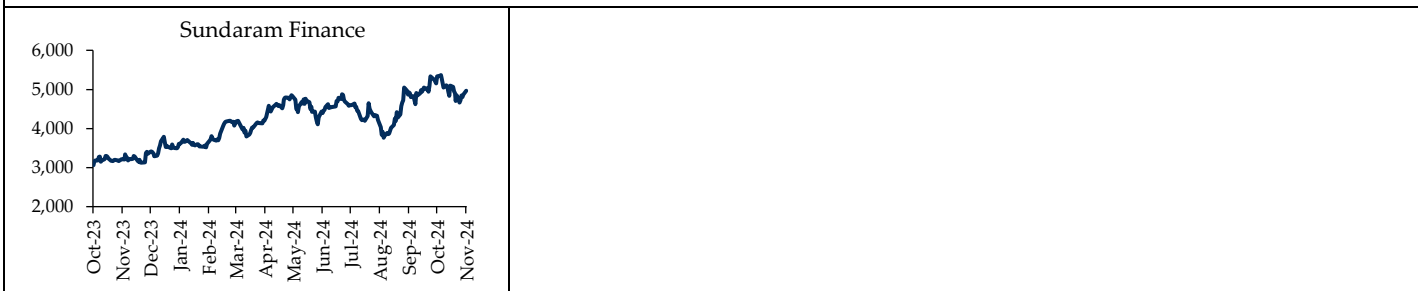
REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

**Disclosure:**

Analyst	Company Covered	Qualification	Any holding in the stock
Deepak Shinde	Sundaram Finance	PGDM	NO
Krishnan ASV	Sundaram Finance	PGDM	NO
Keshav Maheshwari	Sundaram Finance	CA	NO

**1 Yr Price movement**



**Disclosure:**

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