

ICICI Securities Limited
is the author and
distributor of this report

Q1FY23 result review,
earnings and TP revision

BFSI

Target price: Rs2,235

Earnings revision

(%)	FY23E	FY24E
AUM (SA)	↑ 1.2	↑ 3.9
PAT (cons.)	↓ 1.7	↑ 4.0
PAT (SA)	↓ 0.8	↑ 5.0

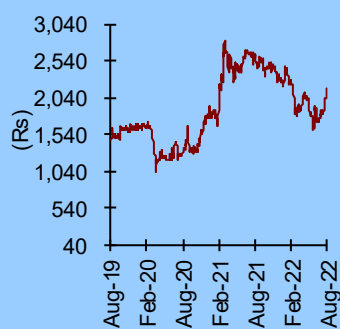
Target price revision:
Rs2,235 from Rs1,849

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	35.9	38.5	38.5
Institutional investors	24.2	24.2	24.1
MFs and others	7.6	10.1	11.9
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	3.8	3.9	4.0
FII	12.8	10.2	8.2
Others	39.9	37.3	37.4

Source: BSE

Price chart



Research Analysts:

Ansuman Deb

ansuman.deb@icicisecurities.com
+91 22 6807 7312

Kunal Shah

Kunal.shah@icicisecurities.com
+91 22 6807 7572

Vishal Singh

vishal.singh1@icicisecurities.com
+91 22 6807 7230

Sundaram Finance

ADD

Maintain

Growth returning is a positive, focus on market share gain complements the same

Rs2,113

Sundaram Finance's (Sundaram) Q1FY23 result was highlighted by growth returning in standalone business (31%/138% QoQ/YoY growth in disbursement). Commentary around market share gain and continuous focus in that direction are positives. Among subsidiaries, Sundaram Home reported strong 5%/2.5% QoQ growth in PPOP/AUM but MTM losses impacted insurance and 9% QoQ AUM decline led to muted AMC performance. Maintain ADD. Risks involve lower-than-anticipated growth and higher than expected credit cost leading to compression in RoEs.

- **Growth returning in Q1FY23 is a big positive.** Sundaram reported its highest-ever Q1 disbursements of Rs49bn (31% QoQ growth). Growth was seen across vehicle segments with CV/Car/CE/tractors/others constituting 51%/25%/11%/7%/5% in Q1FY23 vs 50%/24%/12%/7%/7% in Q4FY22, respectively. Consequently, AUM increased by 3.5%/2.4% QoQ/YoY to Rs306bn as of Mar'22. However, standalone pre-provisioning profit (PPOP) was flat QoQ as yields declined 26bps QoQ. PAT declined 25% QoQ as credit cost was negative in Q4FY22.
- **Industry data remains strong in categories which could particularly benefit Sundaram.** Annualised run-rate for MHCV comes out to 314k as per Jul-22 monthly sales vs 213k annualised sales as per Jul-19. We have arrived at MHCV sales by taking reference to reported monthly sales volumes by top companies which we believe constitute around 90% (based on historical sales trend) of the industry. Similarly, for tractors, assuming top companies represent 40% of industry sales, Jul-22 gives annualised sales of 792k vs 710k as per Jul-19. Q1FY23 annual run rate for MHCV/tractors has also been good at 317k/1,380k, respectively.
- **Maintain ADD** on the backdrop of decent sequential AUM growth with positive commentary on market share, good industrial sales trend in FY23TD and expectation of >14% RoE for main vehicle finance business in FY24E. We revise standalone AUM growth estimates upwards to 15%/18% in FY23E/FY24E. We factor in NIMs, opex, and credit cost of 5.2%/5.0%, 2.4%/2.4%, and 0.5%/0.4% for FY23E/FY24E, respectively. This should lead to standalone RoE of 13.7%/14.2% in FY23E/FY24E. We forecast consolidated RoA/RoE of 2.8%/12.3% in FY24E. Maintain ADD with a revised target price of Rs2,235 (earlier: Rs1,849) based on 2.5x/3.0x (earlier: 2.0x/3.0x) P/B on FY24E book value of NBFC+HFC / insurance business and 15x P/E on AMC's FY24E PAT. Lending / insurance / AMC / other businesses constitute value of Rs1,908/ Rs194 / Rs119/ Rs15 per share, respectively.
- **Sundaram Home's** AUM grew 2.5%/7.7% QoQ/YoY to Rs97.3bn as of Jun'22 with Q1FY23 PAT of Rs473mn (FY22 PAT of Rs1.7bn). The company is seeing increasing demand for home loans in tier 2/3 cities in the southern markets, a priority focus of the company.

Market Cap	Rs235bn/US\$2.9bn
Reuters/Bloomberg	SNFN.BO/SUF IN
Shares Outstanding (mn)	111.1
52-week Range (Rs)	2604/1604
Free Float (%)	61.5
FII (%)	8.2
Daily Volume (US\$'000)	2,084
Absolute Return 3m (%)	10.8
Absolute Return 12m (%)	(18.8)
Sensex Return 3m (%)	8.2
Sensex Return 12m (%)	9.7

Year to Mar (SA)	FY21	FY22	FY23E	FY24E
NII (Rs bn)	14	17	16	19
Net Profit (Rs bn)	8	9	10	12
EPS (Rs)	72.8	81.3	89.6	104.2
%change YoY	11.8%	11.7%	10.2%	16.3%
P/E (x)	29.0	26.0	23.6	20.3
P/BV (Rs)	3.8	3.4	3.1	2.7
Credit Cost (%)	1.0%	1.1%	0.5%	0.4%
GS3 (NBFC) (%)	1.8%	2.2%	1.7%	1.4%
RoA (%)	2.4%	2.6%	2.7%	2.7%
RoE (%)	13.8%	13.8%	13.7%	14.2%

- ▶ **Sundaram AMC's** average AUM stood at Rs488bn as of Jun'22, down from Rs539bn in Mar'22. This led to 16% QoQ decline in consolidated other operating income.
- ▶ **Royal Sundaram's** GWP declined 3% QoQ but increased 20% YoY to Rs8.0bn. Combined ratio was constant at 117% QoQ, however, MTM losses led to loss of Rs340mn in Q1FY23 for Royal Sundaram.
- ▶ **Asset quality metrics as measured by gross stage 3 (GS-3) and credit cost declined YoY, although increased QoQ due to seasonality.** Standalone GS3/NS3 improved to 2.5%/1.3% in Jun'22, down from 4.3%/3.1% in Jun'21, but up from 2.2%/1.1% in Mar'22. GNPA as per IRAC norms/restructured assets reduced to 5.2%/4.0% from 5.9%/4.8% in Mar'22. Consequently, credit cost was 0.7% (annualised) in Q1FY23 vs -0.4%/1.1% in Q4FY22/Q1FY22. Sundaram Home's GS-3/NS-3 improved to 3.3%/1.9% from 7.6%/4.8% in Q1FY22, however increased from 3.0%/1.6% in Q4FY22 and its credit cost was 0.8% (annualised) in Q1FY23 vs 0.1%/1.1% in Q4FY22/Q1FY22, respectively. Consolidated credit cost (down 34% YoY) was Rs0.7bn vs negative credit cost in Q4FY22.
- ▶ **Flat QoQ standalone PPOP due to lower yields and sequential increase in credit cost led to 25% QoQ decline in PAT. However, it increased by 18% YoY driven by higher NIMs and lower credit cost.**
 - Standalone NIMs decreased sequentially to 5.4% (annualised) in Q1FY23 vs 5.5% Q4FY22 on account of reduction in yields by 26bps despite improvement in funding cost. Opex to AUM was flat QoQ at 2.5%, while it increased from 2.2% in Q1FY22 which was covid affected leading to reduction in opex due to lower growth. Consequently, standalone RoA/RoE declined to 2.5%/12.9% in Q1FY23 from 3.4%/17.6% in Q4FY22 due to sequential increase in credit cost. However, it was higher than 2.2%/12.2% in Q1FY22.
 - Sundaram Home's PAT declined 11% QoQ mainly due to >700% QoQ increase in credit cost as Q4FY22 was a lower credit cost quarter. However, it increased by 18% YoY. NIM remained flat at 4.1% QoQ, however, declined from 4.3% in Q1FY22. Opex declined to 1.5% in Q1FY23 from 1.8% in Q4FY22, however, it was higher than 1.2% in Q1FY22. Consequently, RoA/RoE was 1.8%/11.3% in Q1FY23 vs 2.1%/13.0% in Q4FY22 and 1.6%/10.1% in Q1FY22, respectively.
 - Sundaram AMC reported PAT of Rs180mn in Q1FY23 vs PAT of Rs190mn in Q1FY22.
 - Royal Sundaram reported a loss of Rs340mn (as per IND-AS) during Q1FY23 due to net loss of Rs1.06bn on fair value of equity investments.
 - Consolidated income other than interest income (income from other services, fee & commission income, dividend income, etc.) was lower by 16% QoQ due to lower AMC topline. However, 0.4% QoQ increase in interest income and 14% QoQ decrease in operating expenses led to 2% increase in consolidated PPOP. However, it was down 2% YoY on higher opex.
 - **Consolidated PAT declined 30% QoQ on higher credit cost and lower profit from JV/associate. While consolidated PAT (before JV/associate income) was up 6% YoY, final consolidated PAT was lower by 11% YoY due to decline in profit share in JV/associates.**

Key takeaways from FY22 annual report

- **Segment-wise asset quality was broadly uniform** with FY22 GNPA of 2.6%/1.7%/1.9%/2.8% for truck operators, auto, infrastructure and agriculture, respectively. Others which mainly constitute working capital SME loans to truck operators such as tyre, fuel, insurance loans etc. had a GNPA of 2.6% in FY22 (refer Table 12).
- **Well balanced asset liability profile in terms of fixed vs floating rate.** At consolidated level, by virtue of having home finance book, contribution of variable-rated financial assets is 22%, higher than 13% of variable-rated liabilities. This would lead to a benefit of Rs559mn (0.5% of net worth) in case of 100bps rise in interest rates (refer Tables 10 & 11).
- **Key subsidiaries/JVs' (in terms of capital deployed) FY22 performance other than lending companies:**
 - Sundaram Finance Holdings: Majority portion of income is dividend flows from portfolio companies that are engaged in automotive sector. Furthermore, it has BPO business through shared service business provided to Sundaram's group entities and Sundaram Business Services which is a global outsourcing company. The company reported 222% increase in standalone PAT to Rs469mn in FY22 driven by 189% increase in revenue from portfolio companies. Consolidated PAT, which includes income from Sundaram Business Services and associates, reported 118% increase to Rs1,607mn in FY22. The company raised ~Rs3.5bn in FY22 through rights issue wherein Sundaram Finance also invested to acquire additional stake in Brakes India Pvt. Ltd.
 - Sundaram AMC: Overall average assets under management during FY22 were Rs466bn vs Rs369bn in FY21, of which Rs357bn pertains to mutual funds and remaining to AIF, PMS and international operations. The company acquired 100% equity share in Principal Asset Management Private Ltd. and its affiliates during FY22. Consolidated PAT/gross income grew 30%/20% to Rs716mn/Rs3,450mn, respectively, in FY22.
 - Royal Sundaram: Royal Sundaram reported a gross written premium (GWP) of Rs29.67bn, growing marginally by 2.8% due to sluggishness in automobile sector wherein the company has higher dependency. It sold over 2.4mn policies and settled over 360k claims during FY22. Market share, however, dropped to 1.3% during FY22 from 1.42% in FY21. The company reported PAT (as per IND-AS) of Rs1.72bn in FY22 vs Rs3.13bn in FY21 majorly due to higher loss ratios because of covid pandemic and lower mark to market gain (net of tax) on equity investments compared to previous year.

Table 1: Q1FY23 result review (standalone)

(Rs mn)	Q1 FY23	Q1 FY22	% Change YoY	Q4 FY22	% Change QoQ
Income statement					
Net interest Income	4,086	3,972	2.9%	4,101	-0.4%
Add: Other Income	1,292	1,000	29.3%	1,274	1.4%
Total Net income	5,378	4,971	8.2%	5,375	0.0%
Less: Operating expenses	1,880	1,588	18.4%	1,880	0.0%
-Employee benefit expense	1,137	1,031	10.3%	1,020	11.5%
-Depreciation & amortization	186	156	19.0%	202	-7.9%
-Other expense	557	401	39.0%	658	-15.3%
Pre-provisioning profit	3,498	3,383	3.4%	3,495	0.1%
Less: Provisions & write-offs	530	852	-37.8%	-284	-286.8%
PBT	2,968	2,531	17.2%	3,779	-21.5%
Less: Taxes	710	616	15.4%	791	-10.2%
PAT	2,257	1,916	17.8%	2,988	-24.5%
Balance sheet key items					
AUM	3,05,520	2,98,230	2.4%	2,95,320	3.5%
Networth	71,221	63,725	11.8%	68,931	3.3%
Borrowings	2,86,756	2,71,202	5.7%	2,78,353	3.0%
Asset Quality					
Gross stage 3	2.5%	4.3%	-174 bps	2.2%	32 bps
Net stage 3	1.3%	3.1%	-182 bps	1.1%	23 bps
Credit cost (annualised)	0.7%	1.1%	-42 bps	-0.4%	108 bps
Key ratios (annualised)					
Yield on AUM	10.8%	11.3%	-46 bps	11.1%	-26 bps
Cost of funds	5.7%	6.6%	-91 bps	6.0%	-26 bps
NIMs on AUM	5.4%	5.2%	20 bps	5.5%	-9 bps
Other income on AUM	1.7%	1.3%	40 bps	1.7%	0 bps
Cost to income	35.0%	31.9%	302 bps	35.0%	-1 bps
Opex to AUM	2.5%	2.1%	41 bps	2.5%	-4 bps
RoA	2.5%	2.2%	29 bps	3.4%	-91 bps
RoE	12.9%	12.2%	67 bps	17.6%	-469 bps
Debt to Equity (times)	4.0	4.3	-5.4%	4.0	-0.3%
CAR	24.1%	23.5%	62 bps	24.2%	-8 bps

Source: Company data, I-Sec research

Table 2: Q1FY23 result review (consolidated)

Income statement (Rs mn)	Q1 FY23	Q1 FY22	% Change YoY	Q4 FY22	% Change QoQ
Net interest Income	5,073	4,937	2.8%	5,051	0.4%
Add: Other Income	2,049	1,759	16.5%	2,438	-16.0%
Total Net income	7,122	6,695	6.4%	7,489	-4.9%
Less: Operating expenses	2,869	2,347	22.3%	3,322	-13.6%
-Employee benefit expense	1,665	1,469	13.3%	1,690	-1.5%
-Depreciation & amortization	287	201	43.0%	339	-15.3%
-Other expense	917	676	35.5%	1,293	-29.1%
Pre-provisioning profit	4,253	4,349	-2.2%	4,168	2.0%
Less: Provisions & write-offs	727	1,102	-34.0%	-242	-400.2%
PBT	3,526	3,247	8.6%	4,410	-20.0%
Less: Taxes	951	813	17.0%	947	0.4%
PAT	2,575	2,434	5.8%	3,463	-25.6%
Add: Profit from JV/Associate	197	669	-70.6%	515	-61.8%
Final PAT	2,771	3,102	-10.7%	3,977	-30.3%

Source: Company data, I-Sec research.

Table 3: 31% QoQ increase in vehicle finance disbursement; CV proportion continues to remain high

(Rsbn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Total Disbursements	9.3	31.7	43.3	33.1	20.6	36.2	38.4	37.5	49.0
CV	26%	29%	30%	41%	43%	46%	45%	50%	51%
Car	25%	25%	30%	26%	30%	30%	30%	24%	25%
CE	22%	15%	11%	13%	13%	11%	12%	12%	11%
Tractor	24%	14%	9%	9%	12%	9%	10%	7%	7%
Other	3%	17%	19%	11%	3%	5%	4%	7%	5%

Source: Company data, I-Sec research

Table 4: Strong growth in disbursements lead to 3.5% QoQ growth in vehicle finance AUM; segmental proportion remains almost same

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Total AUM (Rsbn)	295.8	305.7	312.3	308.8	298.2	298.1	298.0	295.3	305.5
CV	53%	51%	48%	47%	47%	46%	46%	46%	46%
Car	25%	24%	25%	25%	25%	25%	26%	26%	26%
CE	11%	11%	11%	11%	11%	11%	11%	11%	11%
Tractor	6%	7%	7%	8%	8%	8%	8%	8%	8%
Other	6%	7%	9%	9%	9%	10%	9%	10%	9%

Source: Company data, I-Sec research.

Table 5: Sundaram Home QoQ performance

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
AUM (Rsmn)	90,380	91,340	92,530	94,950	97,300
Networth (Rsmn)	15,990	15,826	16,170	16,550	17,020
GNPA	7.6%	5.0%	5.1%	3.0%	3.3%
NNPA	4.8%	2.6%	3.1%	1.6%	1.9%
Net interest income (Rsmn)	968	972	960	963	997
Other income (Rsmn)	74	103	73	132	184
Total net income (Rsmn)	1,042	1,075	1,033	1,096	1,181
Opex (Rsmn)	271	309	309	420	370
PPOP (Rsmn)	771	766	723	676	811
Provisions and write-offs (Rsmn)	250	250	285	24	197
PBT (Rsmn)	521	516	438	652	614
Tax (Rsmn)	120	119	89	121	142
PAT (Rsmn)	400	397	349	531	473
Yield on AUM	10.1%	10.1%	9.9%	9.8%	9.8%
Cost of funding	6.6%	6.6%	6.5%	6.5%	6.1%
NIMs to AUM	4.3%	4.3%	4.2%	4.1%	4.1%
Other income to AUM	0.3%	0.5%	0.3%	0.6%	0.8%
Cost to income	26.0%	28.7%	29.9%	38.3%	31.3%
Opex to AUM	1.2%	1.4%	1.3%	1.8%	1.5%
Credit cost to AUM	1.1%	1.1%	1.2%	0.1%	0.8%
RoA	1.6%	1.6%	1.4%	2.1%	1.8%
RoE	10.1%	10.0%	8.7%	13.0%	11.3%

Source: Company data, I-Sec research. Note: Quarterly ratios are annualised.

Table 6: Sundaram AMC QoQ performance

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Equity AUM	2,25,010	2,42,180	2,56,270	3,17,090	3,42,140	3,42,360	3,76,790	4,60,730	4,16,530
Debt AUM	97,110	96,500	98,850	94,870	84,070	88,210	86,760	77,870	71,570
Average AUM	3,22,120	3,38,680	3,55,120	4,11,960	4,26,210	4,30,570	4,63,550	5,38,600	4,88,100
PAT	90	100	120	240	190	290	250	-10	180
Networth	2,050	2,170	2,310	2,540	2,580	2,860	3,620	3,640	3,430
Employees	386	389	367	359	359	354	343	346	369
Retail Investors (nos)	10,86,976	10,37,143	10,54,488	10,24,674	10,20,766	11,70,996	10,38,211	13,09,851	13,02,529
Branch	NA	NA	NA	NA	85	85	85	85	85

Source: Company data, I-Sec research.

Table 7: Royal Sundaram QoQ performance (as per IND-AS)

Rsmn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Gross written Premium	6,100	6,470	8,240	8,020	6,650	7,550	7,270	8,190	7,980
PAT	1,570	840	480	240	830	690	370	-170	-340
Networth	13,300	14,020	15,070	14,290	15,030	16,070	15,890	15,470	13,750
Cumulative Combined Ratio (%)	102.0	103.0	107.0	110.0	118.0	118.0	117.5	117.0	117.0
Employees	2,389	2,333	2,306	2,323	2,320	2,374	2,362	2,413	2,424

Source: Company data, I-Sec research.

Table 8: Capital allocation within group

	FY19	FY20	FY21	FY22	Q1FY23
Sundaram Finance	63%	68%	65%	62%	63%
Subsidiaries:					
<i>Sundaram Finance Holdings (Conso)</i>	8%	5%	5%	6%	6%
<i>Sundaram AMC (Conso)</i>	2%	3%	3%	3%	3%
<i>Sundaram Home</i>	0%	17%	16%	15%	15%
<i>Sundaram Funds Services</i>	0%	0%	0%	0%	0%
<i>Sundaram Trustees</i>	0%	0%	0%	0%	0%
<i>LGF Services</i>	0%	0%	0%	0%	0%
<i>Sundaram Finance Employees</i>	0%	0%	0%	0%	0%
<i>Non-Controlling interest in subsidiaries</i>	22%	18%	18%	21%	21%*
Joint Control in entities					
<i>Royal Sundaram General Insurance</i>	7%	7%	8%	7%	6%
<i>Sundaram Home</i>	8%	0%	0%	0%	0%
<i>Sundaram Funds Services</i>	0%	0%	0%	0%	0%
Total	110%	119%	116%	115%	115%
Adjustment arising out of consolidation	-10%	-19%	-16%	-15%	-15%
Total Networth including Minority Interest	100%	100%	100%	100%	100%

Source: Company data, I-Sec research. *Estimated

Table 9: PAT contribution within group

	FY19	FY20	FY21	FY22	Q1FY23
Sundaram Finance	89%	86%	66%	70%	81%
Subsidiaries:					
<i>Sundaram Finance Holdings (Conso)</i>	3%	2%	1%	3%	3%
<i>Sundaram AMC (Conso)</i>	2%	4%	5%	6%	7%
<i>Sundaram Home</i>	0%	20%	16%	13%	17%
<i>Sundaram Funds Services</i>	0%	2%	0%	0%	0%
<i>Sundaram Trustees</i>	0%	0%	0%	0%	0%
<i>LGF Services</i>	0%	0%	0%	0%	0%
<i>Sundaram Finance Employees</i>	0%	0%	0%	0%	0%
<i>Non-Controlling interest in subsidiaries</i>	8%	6%	5%	9%	11%
Joint Control in entities					
<i>Royal Sundaram General Insurance</i>	4%	-5%	13%	7%	-6%
<i>Sundaram Home</i>	6%	0%	0%	0%	0%
<i>Sundaram Funds Services</i>	0%	0%	0%	0%	0%
Total	113%	116%	105%	108%	114%
Adjustment arising out of consolidation	-13%	-16%	-5%	-8%	-14%
Total	100%	100%	100%	100%	100%

Source: Company data, I-Sec research

Table 10: Sundaram seems well-poised to tackle rising interest rate environment on evenly matched assets and liabilities in terms of fixed vs floating rates

	FY22	
	Standalone	Consolidated
Financial Assets		
Fixed-rate instruments	99%	78%
Loans	94%	73%
Investments	3%	3%
Bank Balances	2%	1%
Variable-rate instruments	1%	22%
Lease assets	1%	0%
Loans	0%	22%
Total	100%	100%
Financial Liabilities		
Fixed-rate instruments	94%	87%
Debt securities	58%	52%
Borrowings (Other than debt securities)	20%	17%
Deposits	15%	17%
Variable-rate instruments	6%	13%
Financial liabilities with floating interest rate	6%	13%
Total	100%	100%

Source: Company data, I-Sec research

Table 11: Impact equivalent to ~0.5% of net worth to PAT/net worth due to 100bps rise in rates

	Standalone		Consolidated	
	100bps increase	100bps decrease	100bps increase	100bps decrease
Absolute (Rs mn)				
Variable rate instruments	-186.6	186.6	554.5	-554.5
Cross currency Interest Rate Swap	-4.7	4.7	-4.7	4.7
Change in Profit or Loss/Equity	-181.9	181.9	559.2	-559.2
As a %age of net worth				
Variable rate instruments	-0.3%	0.3%	0.5%	-0.5%
Cross currency Interest Rate Swap	0.0%	0.0%	0.0%	0.0%
Change in Profit or Loss/Equity	-0.3%	0.3%	0.5%	-0.5%

Source: Company data, I-Sec research

Table 12: Segment-wise standalone NPAs as per existing IRAC norms

	FY21	FY22
Truck operators	2.6%	2.6%
Auto Loans	1.7%	1.7%
Infrastructure loans	2.2%	1.9%
Agriculture	2.7%	2.8%
Others	1.8%	2.6%
Total	2.3%	2.4%

Source: Company data, I-Sec research

Table 13: Sundaram Finance Holdings: FY22 performance key highlights

Sundaram Finance Holdings	FY21	FY22	YoY growth
Standalone Network	14,251	21,061	48%
Consolidated Network	21,950	30,021	37%
Revenue from portfolio companies	141	409	189%
Operating revenue	236	372	58%
Other Income	21	20	-5%
Total Revenue	398	801	101%
Less: Total expense	221	297	34%
Profit before tax	177	504	186%
Profit after tax	146	469	222%
RoE	1.1%	2.7%	157bps
Consolidated PAT	739	1,607	118%
Consolidated RoE	3.4%	6.2%	282bps

Source: Company data, I-Sec research

Table 14: Sundaram AMC AUM Mix trend

(Rs bn)

AUM trend	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Jun-22
Equity	51	89	93	124	183	199	176	230	338	318
Debt	78	73	84	94	77	52	45	48	43	38
Liquid	28	51	55	78	59	53	57	40	38	26
Passive	0	0	0	0	0	0	0	1	1	1
Total	158	213	233	295	319	304	278	319	420	383

(%)

AUM Mix	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Jun-22
Equity	33%	42%	40%	42%	57%	66%	63%	72%	80%	83%
Debt	49%	34%	36%	32%	24%	17%	16%	15%	10%	10%
Liquid	18%	24%	24%	26%	19%	17%	20%	13%	9%	7%
Passive	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: AMFI, I-Sec research

Table 15: Royal Sundaram: FY22 performance key highlights (as per I-GAAP)

Rs mn (as per I-GAAP)	FY21	FY22
GDPI	28,225	28,670
NWP	21,386	21,920
% of GDPI	76%	76%
NEP	21,152	21,710
% of GDPI	75%	76%
Claims	17,006	18,280
Expenses	6,370	7,130
Underwriting P/L	-2,224	-3,700
Investment income	4,780	5,390
Others	450	-60
PBT	2,106	1,750
Tax	530	440
PAT	1,576	1,310
Expenses Ratio	30%	33%
Loss Ratio	80%	84%
Combined Ratio	110%	117%
Solvency (x)	187	210
ROE	11.90%	9%
Investment Leverage	4.81	4.78

Source: Company data, I-Sec research

Table 16: Royal Sundaram: GDPI break up from annual report (as per I-GAAP)

	FY21	FY22	Growth	Mix	
				FY21	FY22
Fire	2.7	2.9	6.6%	9.7%	10.1%
Motor Total	19.8	20.3	2.4%	70.1%	70.7%
Total Health	3.4	3.8	10.5%	12.2%	13.2%
<i>Health retail</i>	2.0	2.0	4.0%	6.9%	7.1%
<i>Health group</i>	1.5	1.8	19.1%	5.2%	6.1%
Marine total	0.4	0.5	30.3%	1.2%	1.6%
Engg	0.6	0.5	-11.4%	2.2%	1.9%
Liability	0.1	0.1	23.4%	0.4%	0.5%
Personal Accident	0.5	0.5	-11.4%	1.8%	1.6%
Crop	0.6	-		2.0%	0.0%
Misc	0.1	0.1	-7.2%	0.3%	0.3%
Total	28.2	28.7	1.6%	100.0%	100.0%

Source: Company data, I-Sec research

Financial summary (standalone)

Table 17: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	23,636	28,929	33,510	34,375	33,755	34,775	41,682
Interest expense	13,460	17,665	20,720	20,307	17,001	18,320	23,000
Net interest income	10,175	11,264	12,789	14,067	16,754	16,455	18,682
Non-Interest income	4,918	4,492	5,760	5,767	5,149	6,034	7,040
Total net income	15,094	15,756	18,549	19,835	21,904	22,489	25,722
Operating expenses	5,742	5,730	6,234	6,111	6,949	7,539	8,763
PPOP	9,352	10,026	12,315	13,724	14,954	14,949	16,959
Provisions	855	1,073	2,864	3,161	3,185	1,673	1,522
PBT	8,497	8,953	9,451	10,563	11,769	13,277	15,437
Tax	2,863	3,614	2,212	2,473	2,735	3,319	3,859
PAT	5,634	5,339	7,239	8,090	9,034	9,958	11,578
EPS	50.7	101.4	65.2	72.8	81.3	89.6	104.2
DPS	7	20	26	15	16	18	21

Source: Company data, I-Sec research

Table 18: Balance sheet

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Liabilities							
Share capital	1,111	1,111	1,111	1,111	1,111	1,111	1,111
Reserves and surplus	40,225	49,327	54,363	60,683	67,820	75,818	85,117
Networth	41,336	50,438	55,474	61,795	68,931	76,929	86,228
Borrowings	2,11,092	2,50,058	2,73,367	2,82,134	2,78,353	312,630	358,892
Other liabilities	5,679	5,996	5,354	5,596	5,592	6,039	6,522
Total Liabilites	2,58,107	3,06,492	3,34,195	3,49,525	3,52,875	395,598	451,642
Assets							
Net Block	2,941	3,051	3,596	3,309	3,604	3,965	4,361
Loans	2,20,030	2,72,715	2,80,447	2,94,039	2,84,002	326,271	385,994
Other assets	35,136	30,726	50,152	52,177	65,269	65,363	61,287
Total Assets	2,58,107	3,06,492	3,34,195	3,49,525	3,52,875	395,598	451,642

Source: Company data, I-Sec research

Table 19: RoE DuPont analysis*(Rs mn, year ending Mar 31)*

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Gross AUM (Rs mn)	2,49,640	2,89,840	2,99,360	3,08,820	2,95,320	339,842	401,172
Interest Income	10.5%	10.2%	10.5%	10.1%	9.6%	9.3%	9.8%
Interest Expense	6.0%	6.3%	6.5%	5.9%	4.8%	4.9%	5.4%
Net Interest Income	4.5%	4.0%	4.0%	4.1%	4.8%	4.4%	4.4%
Other Income	2.2%	1.6%	1.8%	1.7%	1.5%	1.6%	1.7%
Total Net Income	6.7%	5.6%	5.8%	5.8%	6.2%	6.0%	6.1%
Operating Expenses	2.6%	2.0%	1.9%	1.8%	2.0%	2.0%	2.1%
Pre Provision Operating Profit	4.2%	3.6%	3.8%	4.0%	4.3%	4.0%	4.0%
Provisions	0.4%	0.4%	0.9%	0.9%	0.9%	0.4%	0.4%
PBT	3.8%	3.2%	3.0%	3.1%	3.4%	3.5%	3.6%
Tax	1.3%	1.3%	0.7%	0.7%	0.8%	0.9%	0.9%
Reported PAT	2.5%	1.9%	2.3%	2.4%	2.6%	2.7%	2.7%
Extraordinary items	0.0%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Reported PAT after extraordinary items	2.5%	4.0%	2.3%	2.4%	2.6%	2.7%	2.7%
Leverage (average assets/average equity)	5.7	6.2	6.0	5.8	5.4	5.1	5.2
RoE	14.3%	24.5%	13.7%	13.8%	13.8%	13.7%	14.2%

Source: Company data, I-Sec research

Table 20: Key ratios*(Year ending Mar 31)*

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuations							
EPS	50.7	101.4	65.2	72.8	81.3	89.6	104.2
BVPS	372.1	454.0	499.3	556.2	620.4	692.4	776.1
Yields, Interest income & spreads							
Yield on AUM	10.3%	10.7%	11.4%	11.3%	11.2%	11.0%	11.3%
Cost of funding	7.7%	7.7%	7.9%	7.3%	6.1%	6.2%	6.9%
NIM on AUM	4.5%	4.2%	4.3%	4.6%	5.5%	5.2%	5.0%
Operating efficiency							
Cost to income	38.0%	36.4%	33.6%	30.8%	31.7%	33.5%	34.1%
Opex to AUM	2.5%	2.1%	2.1%	2.0%	2.3%	2.4%	2.4%
AUM per branch (Rs Mn)	401.4	440.5	490.8	525.2	477.9	511.3	562.4
Asset Quality							
GS-3	1.3%	1.3%	2.5%	1.8%	2.2%	1.7%	1.4%
NS-3	0.7%	0.8%	1.9%	1.3%	4.6%	2.4%	1.1%
Credit cost on AUM	0.4%	0.4%	1.0%	1.0%	1.1%	0.5%	0.4%
Profitability							
ROAA	2.5%	4.0%	2.3%	2.4%	2.6%	2.7%	2.7%
ROE	14.3%	24.5%	13.7%	13.8%	13.8%	13.7%	14.2%
Capital							
Tier 1	12.5%	14.6%	13.2%	15.2%	17.5%	17.8%	17.5%
Tier 2	5.6%	4.8%	5.2%	6.9%	6.9%		
RWA/ Total Assets	0.9	0.9	0.8	0.8	0.8	0.9	0.9

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 21: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	23,630	28,926	38,588	44,081	42,675	45,067	54,004
Interest expense	13,444	17,664	24,275	26,594	22,362	24,728	30,984
Net interest income	10,186	11,262	14,314	17,487	20,313	20,339	23,020
Non-Interest income	39,810	8,956	8,637	9,087	8,782	10,165	11,790
Total net income	49,996	20,219	22,951	26,574	29,095	30,504	34,810
Operating expenses	38,983	9,667	9,654	9,595	10,829	11,687	13,102
PPOP	11,013	10,552	13,297	16,979	18,266	18,817	21,708
Provisions	869	1,033	3,301	3,683	4,099	2,352	2,279
PBT	10,144	9,519	9,996	13,296	14,166	16,465	19,429
Tax	3,479	3,880	2,105	3,275	3,500	4,320	5,186
PAT	6,665	5,640	7,891	10,020	10,666	12,145	14,243
Extraordinary item/Associate /JV share	1,768	6,945	563	2,210	2,296	1,600	1,850
PAT	8,433	12,585	8,454	12,230	12,963	13,745	16,093
EPS	65.7	104.5	71.2	104.9	105.6	112.0	131.1

Source: Company data, I-Sec research

Table 22: Balance sheet

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share capital	1,101	1,101	1,102	1,102	1,102	1,102	1,102
Reserves and surplus	55,391	61,492	65,667	76,201	86,846	96,835	108,448
Networth	56,492	62,593	66,768	77,303	87,948	97,937	109,550
Minority Interest	23,071	17,389	14,555	17,203	22,941	25,402	28,263
Borrowings	2,10,686	2,50,129	3,59,393	3,64,611	3,63,616	408,883	469,079
Other liabilities	49,220	6,388	6,493	6,810	7,035	7,652	8,326
Total Liabilities	3,39,469	3,36,499	4,47,209	4,65,925	4,81,540	539,874	615,219
Assets							
Net Block	3,325	3,138	4,292	3,906	6,409	7,050	7,755
Loans	2,20,039	2,72,723	3,72,218	3,81,509	3,74,764	428,700	503,802
Other assets	1,16,106	60,638	70,700	80,511	1,00,368	104,124	103,663
Total Assets	3,39,469	3,36,499	4,47,209	4,65,925	4,81,540	539,874	615,219

Source: Company data, I-Sec research

Table 23: RoE DuPont analysis*(Rs mn, year ending Mar 31)*

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Gross AUM (Rs mn)	2,49,640	2,89,840	3,95,740	4,00,550	3,90,270	446,186	523,467
Interest Income	7.3%	8.6%	9.8%	9.7%	9.0%	8.8%	9.4%
Interest Expense	4.2%	5.2%	6.2%	5.8%	4.7%	4.8%	5.4%
Net Interest Income	3.1%	3.3%	3.7%	3.8%	4.3%	4.0%	4.0%
Other Income	12.3%	2.6%	2.2%	2.0%	1.9%	2.0%	2.0%
Total Net Income	15.5%	6.0%	5.9%	5.8%	6.1%	6.0%	6.0%
Operating Expenses	12.0%	2.9%	2.5%	2.1%	2.3%	2.3%	2.3%
Pre Provision Operating Profit	3.4%	3.1%	3.4%	3.7%	3.9%	3.7%	3.8%
Provisions	0.3%	0.3%	0.8%	0.8%	0.9%	0.5%	0.4%
PBT	3.1%	2.8%	2.6%	2.9%	3.0%	3.2%	3.4%
Tax	1.1%	1.1%	0.5%	0.7%	0.7%	0.8%	0.9%
Reported PAT	2.1%	1.7%	2.0%	2.2%	2.3%	2.4%	2.5%
Extraordinary items*	0.5%	2.1%	0.1%	0.5%	0.5%	0.3%	0.3%
Reported PAT after extraordinary items	2.6%	3.7%	2.2%	2.7%	2.7%	2.7%	2.8%
Leverage (average assets/average equity)	4.8	4.2	4.9	5.2	4.6	4.4	4.4
RoE	12.5%	15.8%	10.5%	13.9%	12.6%	11.7%	12.3%

Source: Company data, I-Sec research. *Includes profit share in JV/associates

Table 24: Key ratios*(Year ending Mar 31)*

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuations							
EPS	65.7	104.5	71.2	104.9	105.6	112.0	131.1
BVPS	508.5	563.4	601.0	695.8	791.6	881.5	986.1
Yields, Interest income & spreads							
Yield on AUM	8.9%	10.7%	11.3%	11.1%	10.8%	10.8%	11.1%
Cost of funding	6.5%	7.7%	8.0%	7.3%	6.1%	6.4%	7.1%
NIM on AUM	3.8%	4.2%	4.2%	4.4%	5.1%	4.9%	4.7%
Operating efficiency							
Cost to income	78.0%	47.8%	42.1%	36.1%	37.2%	38.3%	37.6%
Opex to AUM	14.6%	3.6%	2.8%	2.4%	2.7%	2.8%	2.7%
Asset Quality							
GS-3 (NBFC)	1.3%	1.3%	2.5%	1.8%	2.2%	1.7%	1.4%
NS-3 (NBFC)	0.7%	0.8%	1.9%	1.3%	4.6%	2.4%	1.1%
GS-3 (HFC)	3.3%	3.0%	4.8%	4.5%	3.0%	3.0%	2.9%
NS-3 (HFC)	1.1%	1.6%	1.6%	1.1%	1.6%	1.4%	1.2%
Credit cost on AUM	0.3%	0.4%	1.0%	0.9%	1.0%	0.6%	0.5%
Profitability							
ROAA	2.6%	3.7%	2.2%	2.7%	2.7%	2.7%	2.8%
ROE	12.5%	15.8%	10.5%	13.9%	12.6%	11.7%	12.3%

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, Ansuman Deb, MBA, BE; Kunal Shah, CA; Vishal Singh, MBA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.