



**(Investment Idea)**

**Sundaram Finance Ltd (SFL)**

Sundaram Finance, one of well established south based NBFCs in India, has come out with good numbers for Q4 FY 2007. Income from operations registered a growth of 51.2% to Rs.196.85 crore (Rs.130.22 crore). However, OPM% declined to 21.78% (27.21%) mainly due to rise in financial expenses to 56.50% of Income from operations (53.94%). Consequently, PBT (before extraordinary income) rose by 28% to Rs.50.4 crore. In Q4 FY2006, company had earned extraordinary income of Rs.88.13 crore on account of Profit on sales of shares in subsidiaries which was absent in Q4 FY2007. As a result, PAT declined to Rs.36.1 crore (Rs.117.65 crore).

During FY2007, Income from operations grew @32.4% to Rs.640.89 crore (Rs.483.98 crore). There was 28% growth in disbursements to Rs.4386 crore (Rs.3422 crore). OPM% declined to 20.91% (23.83%) mainly due to rise in financial expenses to 58.46% of Income from operations (54.12%). Consequently PBT (before extraordinary income) increased by 18.9% to Rs.143.43 crore (Rs.120.68 crore). Absence of extraordinary income (Rs.88.13 crore) and a higher tax rate of 30% (17.7%) led to fall in PAT to Rs.100.5 crore (Rs.170.6 crore).

During FY2007, on consolidated basis Income from operations grew @25% to Rs.1077.04 crore (Rs.861.78 crore) while PBT (before extraordinary income) rose by 28.9% to Rs.179.1 crore. SF's all key subsidiaries and JVs have reported strong performance.

SFL has entered into an agreement with BNP Paribas to sell 49.9% stake in Sundaram Home Finance (SHF) for about Rs.197 crore.

SFL's core business of CV and car financing is expected to grow on back of industrial and economic growth which in turn will lead to rise in demand of CVs and cars. Company's asset quality continues to be one of the best in the industry with Net NPA standing at 0.54% as on March 2007.

Though spreads in core business of CV and car financing are shrinking due to intense competition and rising interest rates, company's strategy to increase share from existing customers through a range of products at higher yield is expected to partially offset pressure on profitability.

While SFL's primary focus area continues to be CV and car financing, company has invested in several subsidiaries and associates in a bid to provide entire gamut of financial products and services including home loans, mutual funds, IT, BPO and insurance. Significant value is expected to be unlocked with growth in operations of its subsidiaries.

At CMP of Rs. 451/-, the share (Rs. 10/- paid up) is trading at 12.5 times FY 2007 expected standalone EPS of Rs. 36.2/-. With SOTP valuation, we arrive at target price of Rs.553, an upside of 23% over a 12 months time horizon. This price does not factor the profits from associates and premium on majority stake sale in SHF. We recommend to "BUY" the share at CMP.

**Disclosures:**

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