

SREI Infrastructure Finance (SREI IN)

Member of quant-based [HTI Portfolios](#): Growth

Target Price	Rs153.0
Current Price	Rs132.2
% Upside	16%

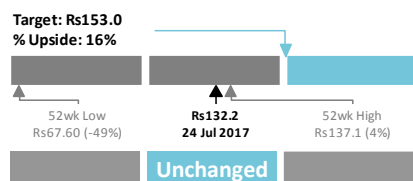
The Scoop: Construction Equipment Drives Strong Results

Diversified Financials

India

25 Jul 2017

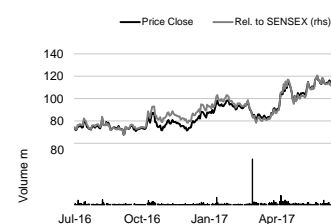
BUY



Basic Share Information

Market cap	Rs66.51b / US\$1.03b
Daily traded value (3mth)	US\$4.86m
Shares outstanding	503.00m
Free float	22%
1 yr high	Rs137.1
1 yr low	Rs67.60
Share Price Date	24 Jul 17

Price/Volume



Source: Bloomberg

Please vote for me!
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What event has happened?

SREI Infrastructure Finance (SREI) announced its Q1 FY3/18 results on 22 July 2017, where the company reported a 48% YoY growth in consolidated NP attributable to equity holders (after deducting for minority interest), mainly led by a 53% growth in NP for its construction equipment subsidiary. SREI also reported an improvement in gross non-performing assets (GNPA) in its project finance business (from 3.2% as of March 2017 to 1.8% as of June 2017) and the construction equipment subsidiary business (from 2.4% as of March 2017 to 2.3% as of June 2017).

Why is it significant?

SREI's construction equipment subsidiary saw a 44% YoY disbursement growth in Q1 FY3/18. While SREI continued to capitalize on the strong growth in the construction equipment segment, it also captured market share in the segment (according to management commentary, SREI's market share in this quarter increased to around 35% from 32–33% previously). Thus, we think that this uptrend in construction equipment would continue to benefit the company.

Implications for our earnings forecast?

We forecast a CAGR of 23% for disbursements from the construction equipment business in the three years to FY3/20. Our consolidated NP CAGR over FY3/18–20 is 50%.

How do valuations look now?

We increase our target price for SREI to Rs153 from Rs137, as we lower the cost of equity for the project finance business from 14.0% to 13.5% for the next 10 years and for the construction equipment business from 13.0% to 12% for the next 10 years, on account of the company managing to lower or maintain its cost of risk consistently for the last three to four quarters. Our revised target price of Rs153 is based on our sum-of-the-parts (SOTP) analysis, through which we derive a FY3/19 PBR value for the project finance business of 0.8x and for the construction equipment segment of 1.8x. On a consolidated basis, our implied fair FY3/19 PBR for SREI is 1.3x. In addition, we see the potential initial public offering (IPO) of its road asset portfolio (Bharat Road Network) and sale in Sahaj e-Village (unlisted) as potential value accretive options in the future.

What is distinctive about our stock view?

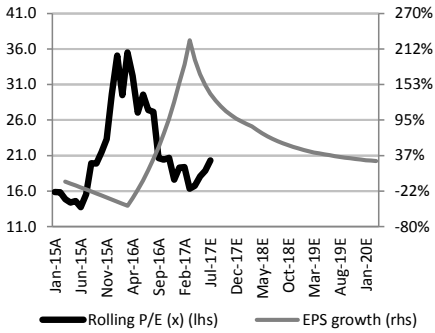
We expect SREI's ROE to rise through FY3/20 on the back of improvement in its net interest margin (NIM) accompanied by reduced borrowing levels. We see this as a key positive catalyst for the share price. We see the main risks to our rating and target price as a poor investment climate, lack of government reforms in the infrastructure domain, and a delay in SREI's monetization of its investments in Sahaj and in roads assets. Competition from banks in construction equipment financing may increase as the banks search for other avenues of growth on the corporate book front.

	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Mar-20E	Trend
Net interest income (Rsm)	7,980	12,437	17,279	21,267	25,605	▬ ▬ ▬ ▬ ▬
Pre-provisional operating profit (Rsm)	3,784	11,166	11,798	15,157	18,296	▬ ▬ ▬ ▬ ▬
Pre-tax profit (Rsm)	1,172	3,606	6,807	9,652	12,330	▬ ▬ ▬ ▬ ▬
Net income to ord equity (Rsm)	725	2,433	4,493	6,370	8,138	▬ ▬ ▬ ▬ ▬
Net profit growth	(44.2%)	235.4%	84.7%	41.8%	27.7%	▬ ▬ ▬ ▬ ▬
P/E (x)	84.99	26.06	14.11	9.95	7.79	▬ ▬ ▬ ▬ ▬
P/B (x)	1.75	1.30	1.18	1.06	0.93	▬ ▬ ▬ ▬ ▬
ROE	2.0%	5.7%	8.8%	11.2%	12.7%	▬ ▬ ▬ ▬ ▬
Dividend yield	0.5%	0.5%	0.5%	0.5%	0.5%	▬ ▬ ▬ ▬ ▬
EPS HTI old (Rs)	1.56	5.07	9.38	13.40	16.97	▬ ▬ ▬ ▬ ▬
EPS HTI New (Rs)	1.56	5.07	9.37	13.28	16.97	▬ ▬ ▬ ▬ ▬
Consensus EPS (Rs)		4.87	7.55	10.00	13.49	▬ ▬ ▬ ▬ ▬
HTI EPS vs Consensus	na	4.3%	24.2%	32.9%	25.8%	▬ ▬ ▬ ▬ ▬

Source: Company data, Bloomberg, HTI estimates

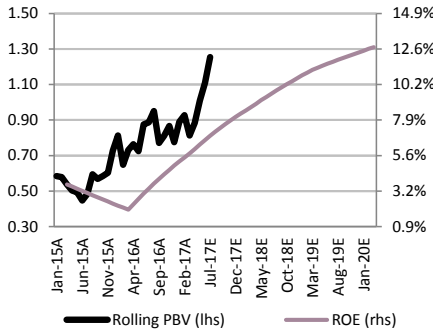
Click [here](#) to download the working model

P/E (x) vs EPS Growth (%)



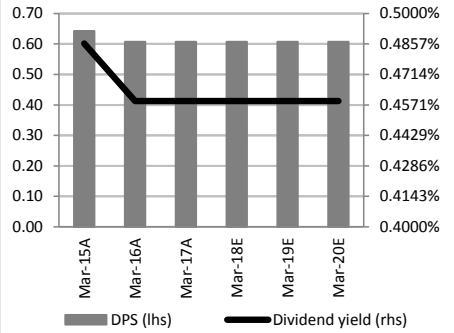
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



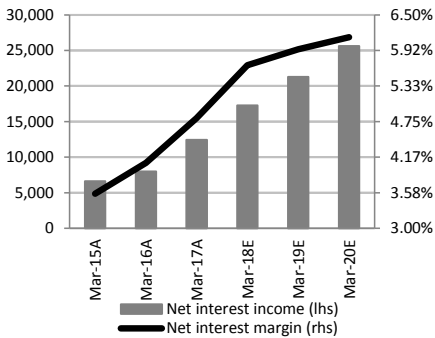
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield



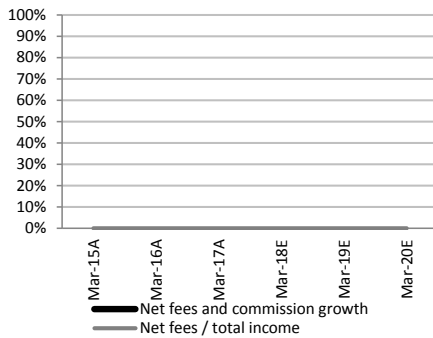
Source: Company data, Bloomberg, HTI estimates

Net Interest Income and Margin



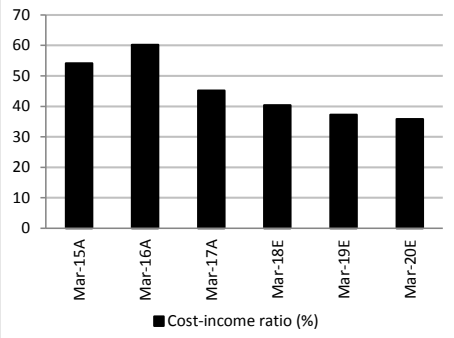
Source: Company data, Bloomberg, HTI estimates

Fees Income Growth vs Contribution



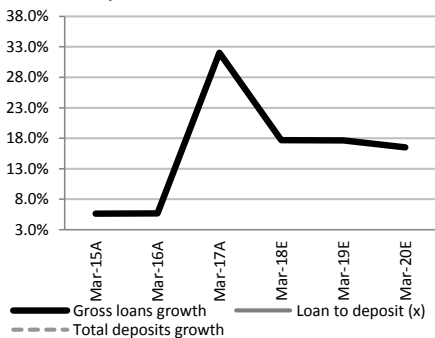
Source: Company data, Bloomberg, HTI estimates

Cost-income ratio (%)



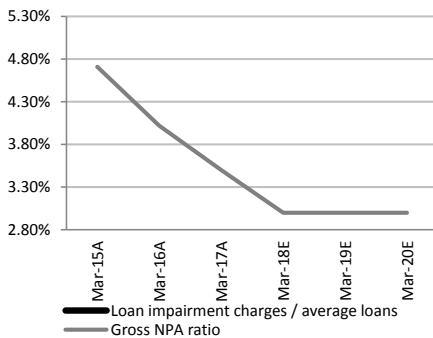
Source: Company data, Bloomberg, HTI estimates

Loan and Deposit Growth and LDR



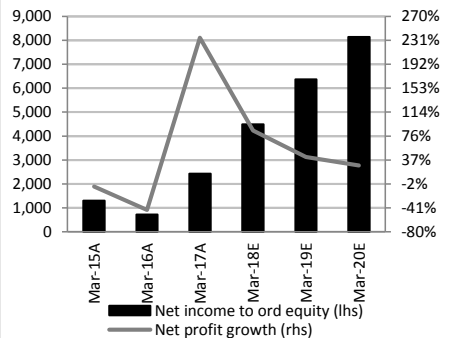
Source: Company data, Bloomberg, HTI estimates

Credit Costs vs Net NPA Ratio



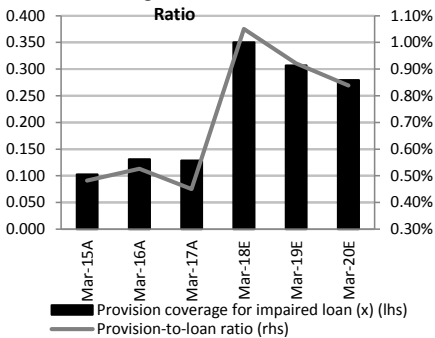
Source: Company data, Bloomberg, HTI estimates

Net Income To Ord Equity and Growth (Rsm)



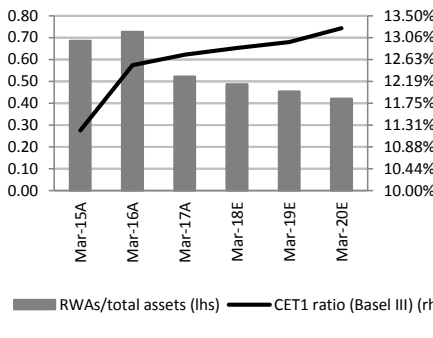
Source: Company data, Bloomberg, HTI estimates

Provision Coverage and Provision to Loan Ratio



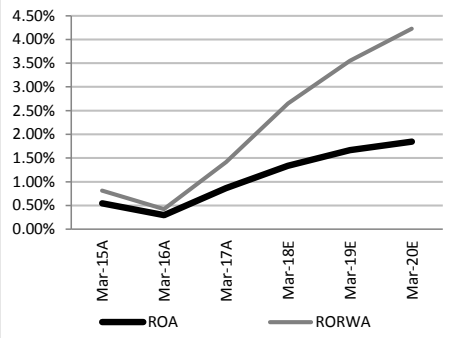
Source: Company data, Bloomberg, HTI estimates

CET1 CAR vs RWAs/total assets



Source: Company data, Bloomberg, HTI estimates

ROA vs RORWA



Source: Company data, Bloomberg, HTI estimates

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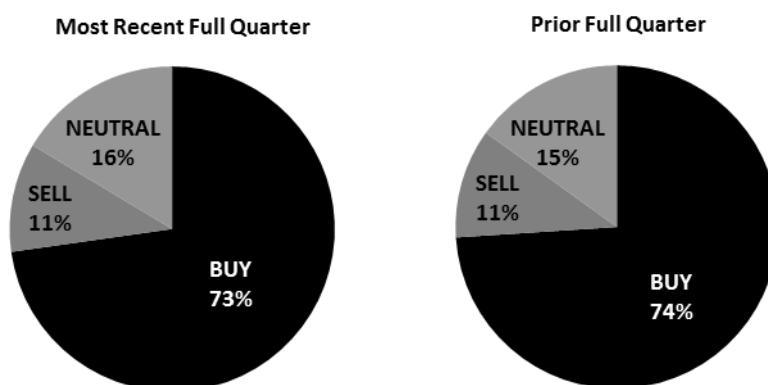
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*Percentage of investment banking clients in each rating category.

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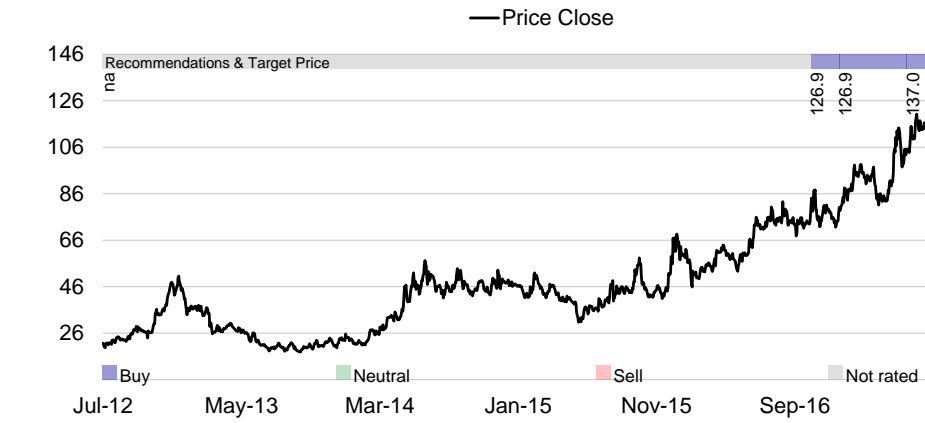
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Recommendation Chart



Date	Recommendation	Target (Rs)	Price (Rs)
2017-06-02	Buy	137.0	105.1
2016-11-02	Buy	126.9	83.9

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity