

**Q1FY13 Result Update**
**Buy**
**Financial Highlights**

Y/E March 31 <sup>st</sup> (Rs mn)	Operating Income	NIM (%)	PAT	Growth (%)	ABV (Rs)	P/ABV (x)	P/E (x)
FY10	2213.5	6.0	1114.9	121.4	67.9	0.3	2.4
FY11	2984.7	4.2	1343.0	20.5	50.7	0.5	8.6
FY12	2878.3	2.2	579.6	-56.8	49.8	0.5	19.8
FY13E	3432.2	1.9	890.2	53.6	50.4	0.5	12.9
FY14E	4505.3	2.1	1162.8	30.6	51.4	0.4	9.9

\*The above numbers are on a standalone basis.

Source: QS Research

**Result Highlights**

- Srei Infrastructure Finance Ltd's (SIFL) Q1FY13 net profit of Rs 95.4mn was better than our expectation of Rs 28.3mn, due to better than estimated NIM and lower than estimated provisions.
- Loans grew by 88.5% YoY to Rs 99.9bn. However disbursement growth was low at 18.9% YoY. At present, Energy and Transportation segments constitute 65.9% of SIFL's loan portfolio.
- Net Interest Income (NII) grew by 45.2% YoY to Rs 443.1mn on account of robust loan growth. Interest spreads remained stable at 3% on YoY basis in Q1FY13.
- Due to rapid growth in business during Q1FY13, Capital Adequacy Ratio declined from 20.2% as on March 31, 2012 to 17.6% on June 30, 2012
- Gross NPA levels improved to 0.8% in Q1FY13 from 0.9% in Q4FY12 due to rapid increase in loan book.
- SIFLs biggest business division, the equipment finance performed well, with Srei Equipment Finance Pvt. Ltd's (SEFPL) loans and NII growing by 34% and 25% YoY to Rs 178.6bn and Rs 1875mn respectively in Q1FY13. However asset quality deteriorated with 2 infrastructure company exposures of Rs 1bn each being referred to CDR. PAT increased by 15% YoY to Rs 676mn.
- Within strategic investments of Rs 20.3bn, investments in telecom infrastructure and transportation form the major chunk at Rs 16bn and Rs 4.1bn respectively.
- Viom Networks' revenues and EBITDA for Q1FY13 stood at Rs 12bn and Rs 4.5bn respectively. As on June 30, 2012 the tenancy ratio stood at 2.4x
- SIFL's subsidiaries Quippo Construction Equipment, Quippo Energy Rental and Quippo Oil & Gas reported a net loss of Rs 89mn, Rs 1mn and Rs 38mn respectively.
- In case of Srei Sahaj, around 24675 common service centres were rolled out by June 2012 end. With the company being in its initial stage of growth, it reported a loss of Rs 140mn for Q1FY13.

Industry	NBFC
Close Price (Rs)	23
FY14E Target Price (Rs)	32
52 Week H/L (Rs)	24 / 19
Volumes (BSE+NSE)*	816054
Shares O/S (mn)	503.1
Market Cap (Rs mn)	11473.9
Free Float (%)	52.7
Bloomberg	SREI IN
Reuters	SREI.BO

\*Three month average

Share Holding Pattern*		
Particulars	No. of Shares (mn)	% Holding
Promoters	237.7	47.3
MF/UTI/FI/ Banks	0.1	0.0
FII	62.9	12.5
Public and Others	202.4	40.2
<b>Total</b>	<b>503.1</b>	<b>100.0</b>

\*As on June 30, 2012

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## Forex Borrowings in Q1FY13

	Foreign Borrowings (USD mn)				Foreign Borrowings (Rs mn)		
	31-Mar-12	30-Jun-12	Net Addition / Repayment	Change %	31-Mar-12	30-Jun-12	Change %
<b>Srei BNP JV</b>	280	326	46	16.4	14243.6	18138.6	27.3
Hedged	259	308	49	18.9	13175.3	17137.1	30.1
Unhedged	21	18	-3	-14.3	1068.3	1001.5	-6.2
<b>Standalone</b>	200	178	-22	-11.0	10174.0	9903.9	-2.7
Hedged	113	100	-13	-11.5	5748.3	5564.0	-3.2
Unhedged	87	78	-9	-10.3	4425.7	4339.9	-1.9
<b>Srei + JV</b>	<b>340</b>	<b>341</b>	<b>1</b>	<b>0.3</b>	<b>17295.8</b>	<b>18973.2</b>	<b>9.7</b>
Hedged	243	254	11.5	4.7	12336.0	14132.6	14.6
Unhedged	98	87	-10.5	-10.8	4959.8	4840.7	-2.4
Rs/\$ Rate					50.9	55.6	9.4

Source: Company, QS Research

## Calculation of Forex Gain in Different Exchange Rate Scenarios

Due to the Rupee depreciating by 8.6% during Q1FY13, SIFL reported a forex loss of Rs 515 mn at the standalone level and Rs 92mn forex loss in case of Srei BNP JV. As a result forex loss at the consolidated level was Rs 585mn in Q1FY13. Going ahead, we expect rupee to appreciate over the medium to long term at a gradual pace. In the table given below, we have presented 5 scenarios of different exchange rates and the resulting gain / loss on SIFL's present unhedged forex borrowings:

Particulars (Rs mn)	Reported Forex Loss for Q1FY13 on Unhedged Borrowings (Rs mn)	Calculated Forex Loss for Q1FY13 (Rs mn)	Estimated Forex Loss (+) / Gain (-) (Rs mn) from Q2FY13 onwards if Rupee ends up at any of the following levels as on March 31, 2013				
			Rs 56/\$	Rs 55/\$	Rs 54/\$	Rs 53/\$	Rs 52/\$
Srei BNP JV	92	86	6	-12	-30	-48	-66
Standalone	515	372	28	-50	-128	-206	-284
Srei + JV	585	415	31	-56	-143	-230	-317

Source: QS Research

In our projection, we have estimated an exchange rate of Rs 53/\$ at FY13E end and Rs 50/\$ at FY14E end. So we estimate the standalone entity to end FY13E with a reduced forex loss of Rs 166.1mn and with a forex profit of Rs 67.9mn in FY14E, due to gradual appreciation of rupee.

### Valuations

We have estimated SIFL's net profit to grow at a CAGR of 41.6% over FY12E-FY14E to Rs 1.2bn in FY14E. As the networth of SIFL had increased by 3x post the merger of Quippo Infrastructure Equipment Ltd (in FY11), it will take some time to deliver good RoEs.

The standalone business of SIFL is trading at 0.4x FY14E Adj. Book Value of Rs 51.4. We have valued SIFL's standalone business at 0.7x its FY14E ABV (post deducting FY14E estimated net NPA of Rs 1307.3mn), which gives us a standalone value per share of Rs 35.4 (see the table below for calculation of standalone value per share). In case of its investment in Viom Networks, we have given a 50% discount to its EV, net of debt, which gives us a value of Rs 18.5 per share. The equipment financing business is valued at 0.9x FY14E BV, which gives us Rs 10.3 per share. Value of road projects comes at Rs 8.1 per share, based on SIFL's 1x equity contribution in 13 road projects. For subsidiaries, due to losses in Srei Sahaj and Quippo companies, we do not ascribe any value to it as of now. We have deducted the cost of investments in subsidiaries and joint ventures from the subsidiary / strategic investment value per share, which gives us negative value of Rs 3.4 per share. By summing the standalone value and net value of investments, we derive a target price of Rs 32. We maintain a 'Buy' rating on the stock (as mentioned in our quarterly preview dated July 5, 2012).

Calculation of Standalone Value / Share	
RoE - P/ABV based Multiple (x)	0.7
Projected Market Capitalization (Rs mn)	19122.3
Less: Net NPA FY13E (Rs mn)	1307.3
Adj. Market Capitalization (Rs mn)	17815.1
<b>Standalone Value per Share (Rs)</b>	<b>35.4</b>

Source: QS Research

Price Target Calculation	Basis of Calculation	Amount (Rs)	
<b>Standalone Value / Share (Rs)</b>	<b>0.7x FY14E ABV</b>		<b>35.4</b>
Viom Networks 11% Stake Value / Share (Rs)	50% discount to EV indicated by Management	18.5	
Srei Equipment Finance / Share (Rs)	0.9x FY14E Book Value	10.3	
Road Projects Value / Share (Rs)	1x Equity Contribution by SIFL	8.1	
<b>Subsidiary / Strategic Investments Value per share (Rs)</b>		<b>36.9</b>	
Less: Cost per share of Investments in Subsidiaries / Joint Ventures / Strategic Investments (Rs)		40.3	
<b>Net Value per share of Investments in Subsidiaries, Joint Ventures and other Strategic Investments (Rs)</b>			<b>-3.4</b>
<b>Target Price (Rs)</b>			<b>32.0</b>

Source: QS Research

## Standalone Quarterly Income Statement

Particulars (Rs mn)	Q1FY13	Q1FY12	Var (% YoY)	Q4FY12	Var (% QoQ)
Interest Income	3587.0	1803.0	98.9	3358.0	6.8
Other Income	506.7	451.4	12.3	123.5	310.3
<b>Total Income</b>	<b>4093.7</b>	<b>2254.4</b>	<b>81.6</b>	<b>3481.5</b>	<b>17.6</b>
Financial Expenses	3143.9	1497.8	109.9	2996.1	4.9
<b>Net Interest Income</b>	<b>443.1</b>	<b>305.2</b>	<b>45.2</b>	<b>361.9</b>	<b>22.4</b>
Operating Income	949.8	756.6	25.5	485.4	95.7
Total Expenditure	268.1	274.7	-2.4	273.2	-1.9
<b>Operating Profit</b>	<b>681.7</b>	<b>481.9</b>	<b>41.5</b>	<b>212.2</b>	<b>221.3</b>
Provision and Contingencies	23.3	5.2	348.1	139.2	-83.3
<b>PBT Before M2M</b>	<b>658.4</b>	<b>476.7</b>	<b>38.1</b>	<b>73.0</b>	<b>801.9</b>
Forex M2M	514.5	6.0	8475.0	-424.6	-221.2
<b>Profit Before Tax</b>	<b>143.9</b>	<b>470.7</b>	<b>-69.4</b>	<b>497.6</b>	<b>-71.1</b>
Tax	48.5	137.8	-64.8	331.7	-85.4
<b>PAT</b>	<b>95.4</b>	<b>332.9</b>	<b>-71.3</b>	<b>165.9</b>	<b>-42.5</b>

## Standalone Income Statement

Particulars (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Interest Income	4083.7	6292.3	10510.0	14673.9	19079.1
Other Income	617.6	1170.1	1296.9	1427.1	1757.4
<b>Total Income</b>	<b>4701.3</b>	<b>7462.4</b>	<b>11806.9</b>	<b>16101.0</b>	<b>20836.5</b>
Financial Expenses	2487.8	4477.7	8928.6	12668.9	16331.2
<b>Net Interest Income</b>	<b>1595.9</b>	<b>1814.6</b>	<b>1581.4</b>	<b>2005.1</b>	<b>2747.9</b>
% Change YoY	209.3	13.7	-12.9	26.8	37.0
<b>Operating Income</b>	<b>2213.5</b>	<b>2984.7</b>	<b>2878.3</b>	<b>3432.2</b>	<b>4505.3</b>
Total Expenditure	694.5	870.8	1021.7	1288.2	1803.8
<b>Operating Profit</b>	<b>1519.0</b>	<b>2113.9</b>	<b>1856.6</b>	<b>2143.9</b>	<b>2701.4</b>
Provisions and Write offs	37.7	128.5	217.3	313.9	616.0
<b>PBT Before M2M</b>	<b>1481.3</b>	<b>1985.4</b>	<b>1639.3</b>	<b>1830.0</b>	<b>2085.5</b>
Forex M2M Gain (-) / Loss (+)	-	-136.0	551.4	166.1	-67.9
<b>PBT</b>	<b>1481.3</b>	<b>2121.4</b>	<b>1087.9</b>	<b>1663.9</b>	<b>2153.3</b>
Tax	366.4	778.4	508.3	773.7	990.5
<b>PAT</b>	<b>1114.9</b>	<b>1343.0</b>	<b>579.6</b>	<b>890.2</b>	<b>1162.8</b>
% Change YoY	121.4	20.5	-56.8	53.6	30.6

## Standalone Balance Sheet

Particulars (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
<b>SOURCES OF FUNDS</b>					
Shareholders' Funds	7901.0	25531.3	25820.1	26415.9	27166.5
Loan Funds	35382.2	53613.5	99635.2	124544.0	161907.2
Other Liabilities and Provisions	1114.4	1433.0	1577.4	1735.1	1908.7
<b>Capital Employed</b>	<b>44397.6</b>	<b>80577.8</b>	<b>127032.7</b>	<b>152695.0</b>	<b>190982.4</b>
<b>APPLICATION OF FUNDS</b>					
Fixed Assets	831.1	4016.7	4987.1	5236.5	5498.3
Investments	7073.3	25055.1	26441.3	28027.8	30830.6
Loans and Advances	35921.7	49977.4	93138.7	116423.4	151350.4
Other Assets	571.5	1528.6	2465.6	3007.4	3303.2
<b>Total Assets</b>	<b>44397.6</b>	<b>80577.8</b>	<b>127032.7</b>	<b>152695.0</b>	<b>190982.4</b>

## Key Ratios - Standalone

Key Ratios	FY10	FY11	FY12	FY13E	FY14E
<b>Valuation</b>					
EPS (Rs)	9.6	2.7	1.2	1.8	2.3
BVPS (Rs)	67.9	50.7	51.3	52.5	54.0
Adj BVPS (Rs)	67.9	50.7	49.8	50.4	51.4
P/E (x)	2.4	8.6	19.8	12.9	9.9
P/BV (x)	0.3	0.5	0.4	0.4	0.4
P/ABV (x)	0.3	0.5	0.5	0.5	0.4
Dividend Yield (%)	5.3	3.3	2.2	2.2	3.1
Payout (%)	14.6	32.8	50.8	33.1	35.4
<b>Growth (%)</b>					
Borrowings	163.5	51.5	85.8	25.0	30.0
Loans and Advances	196.7	39.1	86.4	25.0	30.0
Net Interest Income	209.3	13.7	-12.9	26.8	37.0
Operating Income	67.1	34.8	-3.6	19.2	31.3
Operating Profit	191.7	39.2	-12.2	15.5	26.0
Net Profit	121.4	20.5	-56.8	53.6	30.6
<b>Profitability (%)</b>					
Yield on Assets	17.0	14.7	14.7	14.0	14.3
Cost of Funds	10.2	10.1	11.7	11.3	11.4
Spread	5.9	4.0	2.5	2.3	2.5
NIM	6.0	4.2	2.2	1.9	2.1
RoAE	15.0	8.0	2.3	3.4	4.3
RoAA	3.4	2.1	0.6	0.6	0.7
Cost/Income	31.4	29.2	35.5	37.5	40.0
<b>Balance Sheet Ratios</b>					
Leverage (Total Assets/Networth) (x)	5.6	3.2	4.9	5.8	7.0
Borrowings / Loans and Advances (%)	98.5	107.3	107.0	107.0	107.0
<b>Asset Quality (%)</b>					
Gross NPA	-	-	0.9	1.1	1.1
Net NPA	-	-	0.8	0.9	0.9
Provision Coverage	-	-	11.1	15.0	20.0
<b>Capital Adequacy (%)</b>					
Capital Adequacy Ratio	22.0	29.4	19.6	18.5	17.0

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