

Q2FY14 Result Update
Accumulate

| | |
|-------------------------|------------|
| Industry | NBFC - IFC |
| CMP (Rs) | 20 |
| FY15E Target Price (Rs) | 23 |
| 52 Week H/L (Rs) | 52 / 18 |
| Volumes (BSE+NSE)* | 816054 |
| Shares O/S (mn) | 503.2 |
| Market Cap (Rs mn) | 10140.3 |
| Free Float (%) | 74.9 |
| Bloomberg | SREI IN |
| Reuters | SREI.BO |

*Three Month Average

Share Holding Pattern (30/09/2013)

| Particulars | Shares (mn) | (%) Holding |
|--------------|--------------|--------------|
| Promoters | 126.4 | 25.1 |
| FII's | 58.8 | 11.7 |
| DII's | 0.2 | 0.1 |
| Others | 317.8 | 63.1 |
| Total | 503.2 | 100.0 |

Source : BSE

Financial Highlights

| (Rs bn) | FY13 | FY14E | FY15E |
|----------------|------|-------|-------|
| Op. Income | 3.5 | 3.6 | 4.0 |
| NIM (%) | 1.1 | 1.1 | 1.1 |
| Spread (%) | 1.5 | 1.7 | 2.0 |
| PAT | 1.0 | 0.8 | 1.1 |
| PAT Growth (%) | 63.8 | -14.6 | 33.6 |
| ABV (Rs) | 48.0 | 47.1 | 47.6 |
| P/ABV (x) | 0.4 | 0.4 | 0.4 |
| RoAE (%) | 3.6 | 3.0 | 3.9 |
| RoAA (%) | 0.7 | 0.5 | 0.6 |

Result Highlights

- SREI Infrastructure Finance Ltd's (SIFL) Q2FY14 net profit of Rs 110.9mn was lower than our expectation of Rs 246.5mn due to lower than estimated margins.
- Loans grew by 5% YoY to Rs 108bn. Disbursements declined to Rs 4940mn in Q2FY14 from Rs 9700mn in Q1FY14. Transportation and energy formed 66.3% of the loan book.
- Net Interest Income declined by 84.4% YoY to Rs 142.2mn due to decline in spreads from 2.9% in Q2FY13 to 2.3% in Q2FY14.
- Gross NPA levels remained stable at 2.4% in Q2FY14 as against 2.4% in Q1FY14.
- SIFL's equipment finance division's loans grew by 3.5% YoY to Rs 185.9bn. Gross NPA levels marginally increased on sequential basis from 3.1% in Q1FY14 to 3.4% in Q2FY14. PAT grew by 1.4% YoY to Rs 710mn.
- Viom Networks reported a positive PBT of Rs 780mn in FY13 for the first time. Its tenancy ratio stood high at 2.3x as against industry average of 1.7x. The management has indicated offloading part stake in Viom Networks whenever it comes out with an IPO.
- In case of Srei Sahaj around 26954 common service centers were rolled out till September 2013. It reported an operating loss of Rs 60mn in H1FY14.

Outlook and Valuations

The standalone business of SIFL is trading at 0.4x FY15E Adj. Book Value of Rs 47.6. After assigning a multiple of 0.4x to FY15E ABV to SREI's standalone business, multiple of 0.75x to FY15E ABV of equipment finance business, 1x multiple to the book value of road projects, 50% discount to the estimated EV of Viom Networks and deducting the cost of equity investments from value of investments in subsidiaries and JVs, we derive our FY15E target price at Rs 23 (as against Rs 24 mentioned in our quarterly preview dated October 10, 2013). We maintain an 'Accumulate' rating on SIFL.

| Price Target Calculation | Basis of Calculation | Amount (Rs) |
|--------------------------------------|--|-------------|
| Standalone Value / Share (Rs) | 0.4x FY15E ABV | 14.1 |
| Viom Networks | 50% discount after comparison with Bharati Infratel Valuations | 28.6 |
| Srei Equipment Finance | 0.75x FY15E ABV | 12.8 |
| Road Projects | 1x BV | 8.0 |
| Value of Investments (Rs) | | 49.4 |
| Less: Cost of Equity Investments | | 40.5 |
| Net Value of Investments (Rs) | | 8.9 |
| Price Target | | 23.0 |

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Q2FY14 Results Summary

| Particulars (Rs mn) | Q2FY14 | Q2FY13 | % YoY Change | Q1FY14 | % QoQ Change | H1FY14 | H1FY13 | % YoY Change |
|------------------------------|---------------|---------------|--------------|---------------|--------------|---------------|---------------|--------------|
| Interest Income | 3890.0 | 3815.0 | 2.0 | 3840.0 | 1.3 | 7730.0 | 7402.0 | 4.4 |
| Other Income | 611.4 | 430.5 | 42.0 | 511.9 | 19.4 | 1123.3 | 937.2 | 19.9 |
| Total Income | 4501.4 | 4245.5 | 6.0 | 4351.9 | 3.4 | 8853.3 | 8339.2 | 6.2 |
| Financial Expenses | 3747.8 | 2905.2 | 29.0 | 3415.1 | 9.7 | 7162.9 | 6049.1 | 18.4 |
| Net Interest Income | 142.2 | 909.8 | -84.4 | 424.9 | -66.5 | 567.1 | 1352.9 | -58.1 |
| Operating Income | 753.6 | 1340.3 | -43.8 | 936.8 | -19.6 | 1690.4 | 2290.1 | -26.2 |
| Total Expenditure | 343.6 | 444.0 | -22.6 | 325.5 | 5.6 | 669.1 | 712.1 | -6.0 |
| Operating Profit | 410.0 | 896.3 | -54.3 | 611.3 | -32.9 | 1021.3 | 1578.0 | -35.3 |
| Provisions and Contingencies | 120.2 | 2.7 | 4351.9 | 15.2 | 690.8 | 135.4 | 26.0 | 420.8 |
| PBT Before M2M | 289.8 | 893.6 | -67.6 | 596.1 | -51.4 | 885.9 | 1552.0 | -42.9 |
| Forex M2M | 119.6 | 196.9 | -39.3 | 278.6 | -57.1 | 398.2 | 711.4 | -44.0 |
| Profit Before Tax | 170.2 | 696.7 | -75.6 | 317.5 | -46.4 | 487.7 | 840.6 | -42.0 |
| Tax | 59.3 | 205.3 | -71.1 | 110.2 | -46.2 | 169.5 | 253.8 | -33.2 |
| PAT | 110.9 | 491.4 | -77.4 | 207.3 | -46.5 | 318.2 | 586.8 | -45.8 |

Source: Company, QS Research

Forex Borrowings in Q2FY14

| | Foreign Borrowings (USD mn) | | | | Foreign Borrowings (Rs mn) | | |
|--------------------|-----------------------------|--------------|--------------------------|-------------|----------------------------|----------------|-------------|
| | 30-Jun-13 | 30-Sep-13 | Net Addition / Repayment | Change % | 30-Jun-13 | 30-Sep-13 | Change % |
| Srei BNP JV | 331.0 | 285.0 | -46.0 | -13.9 | 19703.1 | 17860.0 | -9.4 |
| Hedged | 331.0 | 285.0 | -46.0 | -13.9 | 19703.1 | 17860.0 | -9.4 |
| Unhedged | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Standalone | 162.0 | 157.0 | -5.0 | -3.1 | 9643.2 | 9840.0 | 2.0 |
| Hedged | 107.5 | 119.0 | 11.5 | 10.7 | 6399.0 | 7455.4 | 16.5 |
| Unhedged | 54.5 | 38.0 | -16.5 | -30.3 | 3244.2 | 2380.7 | -26.6 |
| Srei + JV | 327.5 | 299.5 | -28.0 | -8.5 | 19494.8 | 18763.7 | -3.8 |
| Hedged | 273.0 | 261.5 | -11.5 | -4.2 | 16250.6 | 16383.0 | 0.8 |
| Unhedged | 54.5 | 38.0 | -16.5 | -30.3 | 3244.2 | 2380.7 | -26.6 |
| Rs/\$ Rate | | | | | 59.5 | 62.7 | |

Calculation of Forex Gain / Loss in Different Exchange Rate Scenarios

Due to sharp rupee depreciation in Q2FY14, SIFL reported a forex loss of Rs 119.6mn on the standalone front, as it had an open position of \$38mn within its forex borrowings as on September 30, 2013 (down from \$54.5mn as on June 30, 2013). Going ahead, though the near term outlook of the rupee is uncertain, we expect a gradual appreciation of rupee in the long term once the economy starts recovering. We have calculated the forex loss attributable to SIFL under different exchange rate scenarios over the next 6 months.

| Particulars (Rs mn) | Reported Forex Loss for Q2FY14 on Unhedged Borrowings (Rs mn) | Calculated Forex Loss for Q2FY14 (Rs mn) | Estimated Forex Loss (+) / Gain (-) (Rs mn) from Q2FY14 onwards if Rupee ends up at any of the following levels as on March 31, 2014 | | | | |
|---------------------|---|--|--|----------|----------|----------|----------|
| | | | Rs 65/\$ | Rs 63/\$ | Rs 61/\$ | Rs 59/\$ | Rs 57/\$ |
| Srei BNP JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Standalone | 119.6 | 118.7 | 89.3 | 13.3 | -62.7 | -138.7 | -214.7 |
| Srei + JV | 119.6 | 118.7 | 89.3 | 13.3 | -62.7 | -138.7 | -214.7 |

Income Statement - Standalone

| Particulars (Rs mn) - Y/E March | FY11 | FY12 | FY13 | FY14E | FY15E |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Interest Income | 6292.3 | 10510.0 | 14269.0 | 15699.5 | 17350.1 |
| Other Income | 1170.1 | 1296.9 | 2395.7 | 2390.3 | 2714.9 |
| Total Income | 7462.4 | 11806.9 | 16664.7 | 18089.8 | 20065.0 |
| Financial Expenses | 4477.7 | 8928.6 | 13182.1 | 14521.4 | 16048.2 |
| Net Interest Income | 1814.6 | 1581.4 | 1086.9 | 1178.1 | 1301.9 |
| % Change YoY | 13.7 | -12.9 | -31.3 | 8.4 | 10.5 |
| Operating Income | 2984.7 | 2878.3 | 3482.6 | 3568.4 | 4016.7 |
| Total Expenditure | 870.8 | 1021.7 | 1429.1 | 1475.6 | 1680.3 |
| Operating Profit | 2113.9 | 1856.6 | 2053.5 | 2092.8 | 2336.5 |
| Provisions and Write Off | 128.5 | 217.3 | 307.4 | 597.9 | 871.1 |
| PBT Before M2M | 1985.4 | 1639.3 | 1746.1 | 1494.9 | 1465.4 |
| Forex M2M Gain (-) / Loss (+) | (136.0) | 551.4 | 392.0 | 297.5 | -200.0 |
| PBT | 2121.4 | 1087.9 | 1354.1 | 1197.4 | 1665.4 |
| Tax | 778.4 | 508.3 | 404.5 | 386.9 | 582.9 |
| PAT | 1343.0 | 579.6 | 949.6 | 810.5 | 1082.5 |
| % Change YoY | 20.5 | -56.8 | 63.8 | -14.6 | 33.6 |

Balance Sheet - Standalone

| Particulars (Rs mn) - Y/E March | FY11 | FY12 | FY13 | FY14E | FY15E |
|----------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| SOURCES OF FUNDS | | | | | |
| Shareholders Funds | 25531.3 | 25820.1 | 26475.4 | 27035.6 | 27779.6 |
| Loan Funds | 53613.5 | 99635.2 | 111784.0 | 125757.0 | 143363.0 |
| Other Liabilities and Provisions | 1433.0 | 1577.4 | 3998.5 | 4398.4 | 4838.2 |
| Capital Employed | 80577.8 | 127032.7 | 142257.9 | 157191.0 | 175980.7 |
| APPLICATION OF FUNDS | | | | | |
| Fixed Assets | 4016.7 | 4987.1 | 5550.0 | 5827.5 | 6118.9 |
| Investments | 25055.1 | 26441.3 | 26981.0 | 26990.0 | 28339.5 |
| Loans and Advances | 49977.4 | 93138.7 | 104571.0 | 113982.4 | 127660.3 |
| Other Assets | 1528.6 | 2465.6 | 5155.9 | 10391.1 | 13862.1 |
| Total Assets | 80577.8 | 127032.7 | 142257.9 | 157191.0 | 175980.7 |

Ratios - Standalone

| Key Ratios - Y/E March | FY11 | FY12 | FY13 | FY14E | FY15E |
|--------------------------------------|-------|-------|-------|-------|-------|
| Valuation | | | | | |
| EPS (Rs) | 2.7 | 1.2 | 1.9 | 1.6 | 2.2 |
| BVPS (Rs) | 50.7 | 51.3 | 52.6 | 53.7 | 55.2 |
| Adj BVPS (Rs) | 50.7 | 49.8 | 48.0 | 47.1 | 47.6 |
| P/E (x) | 7.6 | 17.5 | 10.7 | 12.5 | 9.4 |
| P/BV (x) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| P/ABV (x) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Dividend Yield (%) | 3.7 | 2.5 | 2.5 | 2.1 | 2.9 |
| Payout (%) | 32.8 | 50.8 | 31.0 | 30.9 | 31.3 |
| Growth (%) | | | | | |
| Borrowings | 51.5 | 85.8 | 12.2 | 12.5 | 14.0 |
| Loans and Advances | 39.1 | 86.4 | 12.3 | 9.0 | 12.0 |
| Net Interest Income | 13.7 | -12.9 | -31.3 | 8.4 | 10.5 |
| Operating Income | 34.8 | -3.6 | 21.0 | 2.5 | 12.6 |
| Operating Profit | 39.2 | -12.2 | 10.6 | 1.9 | 11.6 |
| Net Profit | 20.5 | -56.8 | 63.8 | -14.6 | 33.6 |
| Profitability (%) | | | | | |
| Yield on Assets | 14.7 | 14.7 | 14.4 | 14.4 | 14.4 |
| Cost of Funds | 10.1 | 11.7 | 12.5 | 12.2 | 11.9 |
| Spread | 4.0 | 2.5 | 1.5 | 1.7 | 2.0 |
| NIM | 4.2 | 2.2 | 1.1 | 1.1 | 1.1 |
| RoAE | 8.0 | 2.3 | 3.6 | 3.0 | 3.9 |
| RoAA | 2.1 | 0.6 | 0.7 | 0.5 | 0.6 |
| Cost/Income | 29.2 | 35.5 | 41.0 | 41.4 | 41.8 |
| Balance Sheet Ratios | | | | | |
| Leverage (Total Assets/Networth) (x) | 3.2 | 4.9 | 5.4 | 5.8 | 6.3 |
| Borrowings / Loans and Advances (%) | 107.3 | 107.0 | 106.9 | 110.3 | 112.3 |
| Asset Quality (%) | | | | | |
| Gross NPA | - | 0.9 | 2.5 | 3.4 | 3.8 |
| Net NPA | - | 0.8 | 2.2 | 2.9 | 3.0 |
| Provision Coverage | - | 11.1 | 11.7 | 15.0 | 22.0 |
| Capital Adequacy (%) | | | | | |
| Capital Adequacy Ratio | 29.4 | 19.6 | 21.7 | 21.0 | 20.5 |

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