

SREI Infrastructure Finance (SREI IN)

CE Leading The Charge

BUY

Share Price INR 81
 12m Price Target INR 150 (+85%)
 Previous Price Target INR 160

4Q18 beat; maintain BUY

4Q18 PAT is 30% ahead of our estimate on account of a substantial fall in NPL provisioning. Consolidated AUM growth of 25% YoY was fuelled by commercial-equipment growth of 35% YoY. Project financing grew a slower 10% YoY. Asset quality improved, as reflected in lower credit costs. That said, we lower our EPS by 5% to reflect a 30-40bp NIM compression expected in FY19-20E as cost of funds has climbed. Maintain BUY with a lower TP of INR150, based on 1.3x FY20E P/BV, (ROE 10.4%). Catalysts are still expected from further CE improvements and potential value-unlocking at its CE subsidiary.

CE business continued to shine

CE loan growth was 35% YoY. Fresh disbursement growth of 24% came mainly from a spurt in demand for equipment for irrigation, infrastructure and road-construction projects. CE asset quality was stable, with gross NPLs of around 2%. While we remain positive on volume, we see some margin pressure as cost of funds inched up in the last three months because of rising bond yields.

Cautious on project financing

Management remains selective in funding large infrastructure projects, given risks of project execution. FY18 project loans were up 10% YoY. Overall loans were up 25% YoY to INR471b. CE loans made up 70% and project financing, 30%. We raise our loan-growth forecasts by 2-3pts for FY19-21E to 22% on the back of an improving CE.

Value-unlocking potential

SREI trades at an 11% discount to its 5-year P/BV average of 0.9x. Improving demand for CE and potential value-unlocking at this subsidiary are expected to provide catalysts. Its CE subsidiary has filed for an IPO, which is expected to be completed in the next 1-2 months. SREI's 25% stake sale could potentially raise INR18-20b to fund its growth in the next 2-3 years. Risks to our call include higher-than-expected NIM compression from rising costs.

Company Description

SREI Infrastructure Finance is a non-banking finance company, which is engaged in equipment financing and project financing.

Statistics

52w high/low (INR)	137/73
3m avg turnover (USDm)	2.7
Free float (%)	39.2
Issued shares (m)	503
Market capitalisation	INR40.9B USD614M

Major shareholders:

Adisri Commercial Pvt Ltd.	60.4%
Fidelity Management & Research Co.	6.8%
BNP Paribas SA	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(5)	(23)
Relative to index (%)	(1)	(4)	(33)

Source: FactSet

FYE Mar (INR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income	20,534	23,242	27,433	32,630	39,170
Pre-provision profit	11,322	10,336	11,531	13,527	16,445
Core net profit	2,433	3,845	4,737	5,886	7,321
Core EPS (INR)	5	8	10	12	15
Core EPS growth (%)	293.0	64.6	21.0	25.6	23.6
Net DPS (INR)	1	1	1	1	1
Core P/E (x)	16.8	10.2	8.4	6.7	5.4
P/BV (x)	0.9	0.8	0.8	0.7	0.6
Net dividend yield (%)	0.6	0.7	1.1	1.2	1.2
Book value (INR)	92	99	107	118	131
ROAE (%)	6.1	8.0	9.1	10.4	11.7
ROAA (%)	0.8	1.0	1.0	1.1	1.1
Consensus net profit	-	-	4,793	6,164	na
MKE vs. Consensus (%)	-	-	(1.2)	(4.5)	na

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4QFY18 results

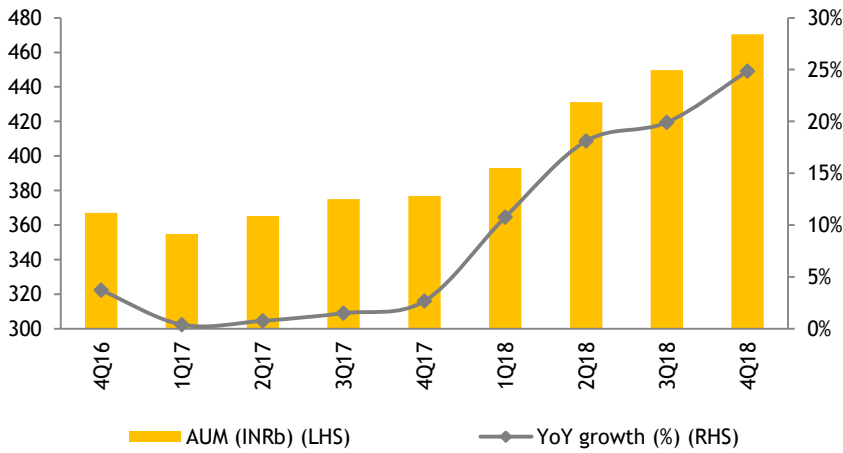
Consolidated Income Statement (INRm)	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Net Interest Income	2,150	3,900	3,757	74.7%	-3.7%	13,000	20,072	54.4%
Fee Income	130	130	210	61.5%	61.5%	332	580	74.5%
Other income	2,390	840	680	-71.5%	-19.0%	7,202	2,590	-64.0%
Non-Interest income	2,520	970	890	-64.7%	-8.2%	7,534	3,170	-57.9%
Total Income	4,670	4,870	4,647	-0.5%	-4.6%	20,534	23,242	13.2%
Employee Cost	556	653	706	26.9%	8.1%	2,016	2,397	18.9%
Other Operating Expenses	664	1,297	1,084	63.3%	-16.4%	7,197	10,510	46.0%
Total Operating Expenses	1,220	1,950	1,790	46.7%	-8.2%	9,212	12,906	40.1%
Operating Profit	3,450	2,920	2,857	-17.2%	-2.2%	11,322	10,336	-8.7%
Total Provisions	2,450	1,300	1,101	-55.1%	-15.3%	7,721	4,421	-42.7%
PBT	991	1,620	1,756	77.2%	8.4%	3,601	5,915	64.3%
Tax	358	508	605	69.2%	19.1%	1,173	1,922	63.8%
PAT (after associate share & minorities)	630	1,053	1,168	85.5%	11.0%	2,433	3,845	58.1%
Balance Sheet (INRm)	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)			
Borrowings	262,040	316,320	328,730	25.5%	3.9%			
AUM								
Commercial equipment*	216,230	281,750	291,900	35.0%	3.6%			
Project Finance	123,870	142,960	136,180	9.9%	-4.7%			
Consolidated AUM	376,830	449,710	470,500	24.9%	4.6%			
Disbursements (INR m)								
Commercial equipment*	35,380	43,040	43,770	23.7%	1.7%			
Project Finance	19,640	14,270	22,020	12.1%	54.3%			
Total disbursements	55,020	57,310	65,790	19.6%	14.8%			
Key Ratios								
Asset quality - Project Finance								
Gross NPL (%)	3.2%	3.1%	3.2%	--	10bps			
Net NPL (%)	2.0%	2.1%	2.4%	40bps	30bps			
Profitability								
NIM - Equipment Finance*	5.0%	5.6%	5.7%	70bps	10bps			
Gross Spread - Project Finance	1.6%	2.2%	1.9%	30bps	-30bps			
Tax-rate	36.1%	31.4%	34.5%	-1.6ppts	3.1ppts			

Source: Company, Maybank Kim Eng

*Note : 3QFY18 and 4QFY18 numbers for CE business are derived from available data

CE AUM growth of 35% YoY led overall AUM growth of 25% YoY. Project-financing AUM growth was 10% YoY, after eight subdued quarters. We believe growth in project financing will be slow in the near term, considering management’s caution on new lending.

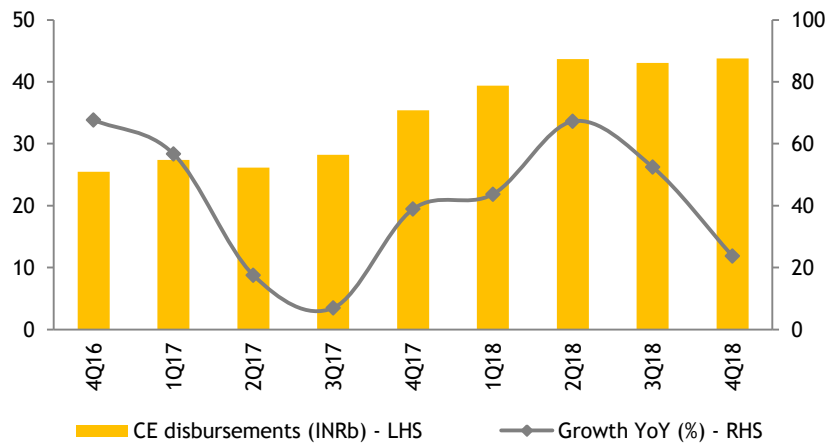
AUM increased 25% YoY to INR470.5b



Source: Company

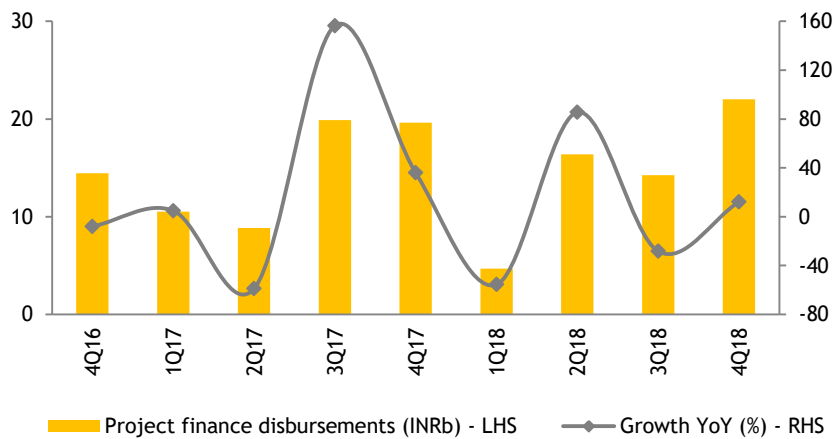
Construction-equipment (CE) demand is expected to grow rapidly from the government’s higher spending on roads, ports and irrigation projects. We expect CE to underpin a 22% loan CAGR in FY19-21E.

4QFY18 CE disbursements were up 24% YoY to INR43.8b



Source: Company, Maybank Kim Eng

Project-financing disbursements were up a smaller 12% YoY to INR22b



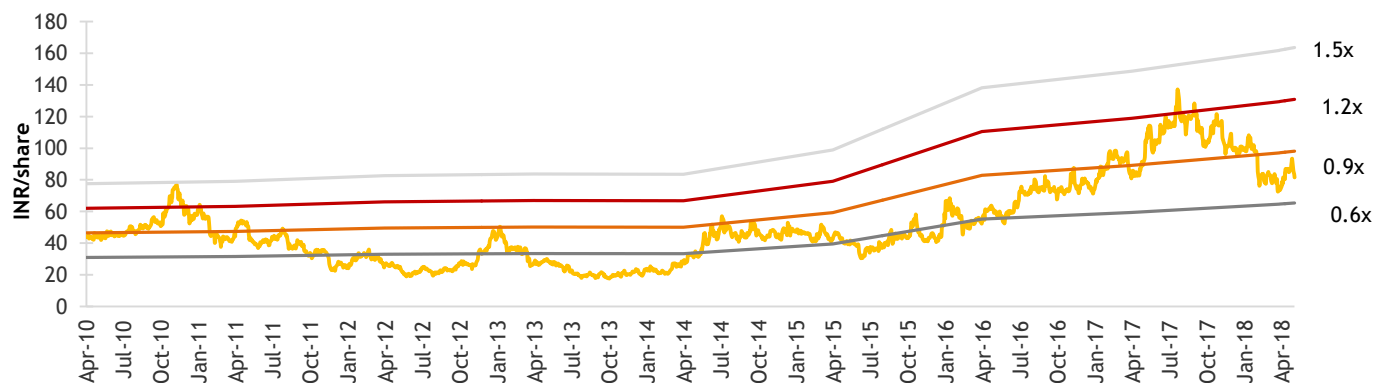
Source: Company

Changes in forecasts

Old vs. New Estimates	FY19E, Old	FY19E, New	Change	FY20E, Old	FY20E, New	Change
Income Statement (INRm)						
Net Interest Income	16,766	23,576	40.6%	19,055	28,053	47.2%
Non-Interest Income	4,235	3,857	-8.9%	5,377	4,577	-14.9%
Total Income	21,000	27,433	30.6%	24,431	32,630	33.6%
Operating Expenses	10,634	15,902	49.5%	11,753	19,103	62.5%
Loan Loss Provisions	3,561	4,264	19.7%	3,625	4,275	17.9%
Pre-provisioning Profits	10,366	11,531	11.2%	12,679	13,527	6.7%
Reported Profits	4,717	4,737	0.4%	6,163	5,886	-4.5%
Balance Sheet (INRb)						
Borrowings	338	404	19.6%	390	495	26.9%
Loans	327	404	23.5%	380	491	29.4%
Total Assets	410	496	20.9%	470	598	27.4%
Key Ratios (%)						
ROA (%)	1.2%	1.0%	-20bps	1.4%	1.1%	-30bps
ROE (%)	9.2%	9.1%	-10bps	10.9%	10.4%	-50bps
EPS (INR)	9.1	9.6	5.4%	12.1	12.1	-0.5%
BV (INR)	106.6	107.4	0.8%	117.6	117.9	0.2%
Adj. BV (INR)	100.9	100.2	-0.6%	112.1	109.7	-2.1%
Net NPA (%)	1.3%	1.3%	--	1.1%	1.2%	0.2%

Source: Maybank Kim Eng

Trading at 0.8x FY19E P/BV

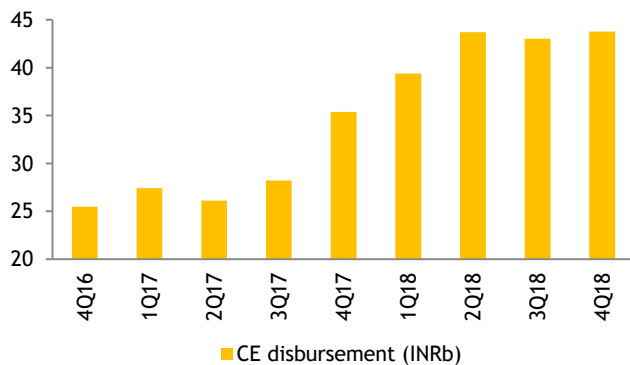


Source: Company, Bloomberg, Maybank Kim Eng

Value Proposition

- India's leading financier to the infrastructure sector. In commercial equipment lending the company has largest market share at 33%.
- CE business is the key driver for loan growth as CE demand picking up; asset quality is improving
- Value unlocking potential by separate listing of CE business, social rural infrastructure (Sahaj), and industrial parks.
- Beneficiary of a pickup in government awarding new projects in the infrastructure space.
- Focus on diversification of lending book to new areas, such as health care equipment, technology infrastructure, and used vehicles to de-risk the business.

Healthy CE disbursement growth at 24% YoY

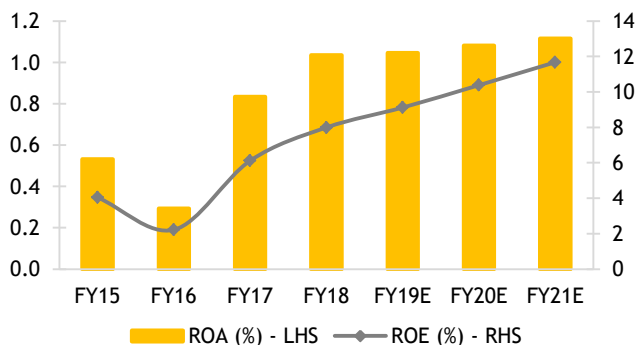


Source: Company

Financial Metrics

- Credit cost to remain in the range of 100-120bps for next two-three years on lower NPL accretion. Improvement in economic growth to aid asset quality recovery.
- Loans to grow at 22% CAGR over FY19-20E. CE will be the key driver for growth.
- Fee income witnessing strong momentum as demand for equipment on rental improves.
- We forecast ROE improvement from 8% in FY18 to 10.4% in FY20E on lower credit cost, higher loan growth and better fee income growth

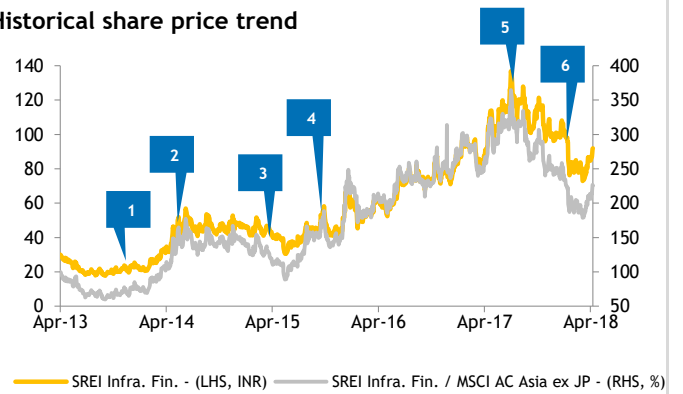
Improvement in return ratios



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, Factset, Maybank Kim Eng

- Slowdown in infrastructure lending and increase in NPLs weighed on the stock price.
- New government's plan to increase infrastructure spending led to optimising of infrastructure financiers.
- Delay in monetisation of telecom tower business (VIOM) pushed the stock price down.
- Announcement of transaction to acquire 50% of JV with BNP Paribas. BV and EPS accretive deal led to rally in the stock price.
- Pick up in commercial equipment sales volume leading to improving outlook on loan growth
- Higher interest rates induced fears of margin compression and this led to fall in stock price in last six months.

Swing Factors

Upside

- Strong recovery in infrastructure lending can push the loan growth higher than expected.
- Lesser than expected NPLs in FY19-20E.

Downside

- Delay in a pick-up in infrastructure lending could hamper the loan growth revival.
- Delay in monetisation on investments in road and rural network projects.
- Higher than expected increase in cost of funds could hurt margins.

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FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Core P/E (x)	16.8	10.2	8.4	6.7	5.4
Core FD P/E (x)	16.8	10.2	8.4	6.7	5.4
P/BV (x)	0.9	0.8	0.8	0.7	0.6
P/NTA (x)	0.9	0.8	0.8	0.7	0.6
Net dividend yield (%)	0.6	0.7	1.1	1.2	1.2
INCOME STATEMENT (INR m)					
Interest income	39,280.0	49,448.1	59,848.8	72,349.3	86,971.8
Interest expense	(26,279.7)	(29,375.8)	(36,272.6)	(44,296.4)	(53,240.5)
Net interest income	13,000.3	20,072.3	23,576.2	28,052.9	33,731.3
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	332.3	580.0	725.0	870.0	1,044.0
Other income	7,201.5	2,590.0	3,131.6	3,706.6	4,394.7
Total non-interest income	7,533.8	3,170.0	3,856.6	4,576.6	5,438.7
Operating income	20,534.1	23,242.3	27,432.8	32,629.6	39,169.9
Staff costs	(2,015.6)	(2,396.7)	(2,763.8)	(3,187.2)	(3,675.4)
Other operating expenses	(7,196.8)	(10,509.5)	(13,138.5)	(15,915.3)	(19,049.2)
Operating expenses	(9,212.4)	(12,906.2)	(15,902.3)	(19,102.5)	(22,724.6)
Pre-provision profit	11,321.7	10,336.1	11,530.5	13,527.1	16,445.4
Loan impairment allowances	(7,720.7)	(4,419.0)	(4,264.3)	(4,275.2)	(5,317.6)
Other allowances	0.0	(2.1)	(102.1)	(252.1)	(2.1)
Associates & JV income	(0.5)	(154.7)	(150.0)	(250.0)	(260.0)
Pretax profit	3,600.5	5,763.6	7,014.1	8,749.7	10,865.6
Income tax	(1,173.3)	(1,921.6)	(2,327.4)	(2,923.7)	(3,614.4)
Minorities	5.5	2.9	50.0	60.0	70.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,432.7	3,844.9	4,736.7	5,886.0	7,321.3
Core net profit	2,432.7	3,844.9	4,736.7	5,886.0	7,321.3
BALANCE SHEET (INR m)					
Cash & deposits with banks	9,320.0	13,045.8	16,176.8	19,654.8	23,733.2
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	256,320.0	325,955.8	404,185.2	491,085.0	592,985.1
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	12,819.0	9,133.7	11,325.8	12,533.1	15,133.7
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	30,087.7	50,876.0	58,348.6	67,530.8	81,329.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other assets	22,532.3	13,228.8	2,716.7	4,634.8	3,921.8
Total assets	331,079.0	412,240.1	492,753.1	595,438.5	717,103.1
Deposits from customers	0.0	0.0	0.0	0.0	0.0
Deposits from banks & FIs	0.0	0.0	0.0	0.0	0.0
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	24,485.4	26,293.7	29,403.9	32,306.8	35,500.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	237,556.2	302,438.6	375,023.9	463,154.5	567,364.3
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	22,683.7	33,661.0	34,271.7	40,626.4	48,155.6
Total liabilities	284,725.3	362,393.3	438,699.5	536,087.7	651,019.8
Share capital	5,032.4	5,032.4	5,032.4	5,032.4	5,032.4
Reserves	41,315.4	44,811.3	49,018.1	54,315.3	61,047.8
Shareholders' funds	46,347.8	49,843.7	54,050.5	59,347.7	66,080.2
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	5.9	3.1	3.1	3.1	3.1
Total equity	46,353.7	49,846.8	54,053.6	59,350.8	66,083.3
Total liabilities & equity	331,079.0	412,240.1	492,753.1	595,438.5	717,103.1

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth (%)					
Net interest income	55.4	54.4	17.5	19.0	20.2
Non-interest income	558.7	(57.9)	21.7	18.7	18.8
Operating expenses	60.8	40.1	23.2	20.1	19.0
Pre-provision profit	199.2	(8.7)	11.6	17.3	21.6
Core net profit	232.1	58.1	23.2	24.3	24.4
Gross loans	24.8	26.7	24.1	21.4	20.7
Customer deposits	na	na	na	na	na
Total assets	31.2	24.5	19.5	20.8	20.4
Profitability (%)					
Non-int. income/Total income	36.7	13.6	14.1	14.0	13.9
Average lending yields	16.09	16.52	16.07	15.84	15.73
Average financing yields	16.09	16.52	16.07	15.84	15.73
Average cost of funds	11.21	9.94	9.89	9.84	9.69
Net interest margin	5.33	6.71	6.33	6.14	6.10
Net income margin	4.88	6.58	6.17	6.00	6.03
Cost/income	44.9	55.5	58.0	58.5	58.0
Liquidity (%)					
Loans/customer deposits	nm	nm	nm	nm	nm
Asset quality (%)					
Net NPL	2.0	1.9	1.3	1.2	1.2
Gross NPL	2.9	2.5	2.6	2.6	2.5
Gross NPF	2.9	2.5	2.6	2.6	2.5
(SP+GP)/average gross loans	3.4	1.0	1.2	1.0	1.0
(SP+GP)/average gross financing	3.4	1.0	1.2	1.0	1.0
Loan loss coverage	33.4	43.0	50.0	52.0	54.0
Capital adequacy (%)					
CET1	13.8	10.5	9.5	8.7	8.0
Tier 1 capital	13.8	10.5	9.5	8.7	8.0
Risk-weighted capital	18.9	16.1	14.7	13.4	12.3
Returns (%)					
ROAE	6.1	8.0	9.1	10.4	11.7
ROAA	0.8	1.0	1.0	1.1	1.1
Shareholders equity/assets	14.0	12.1	11.0	10.0	9.2

Source: Company; Maybank

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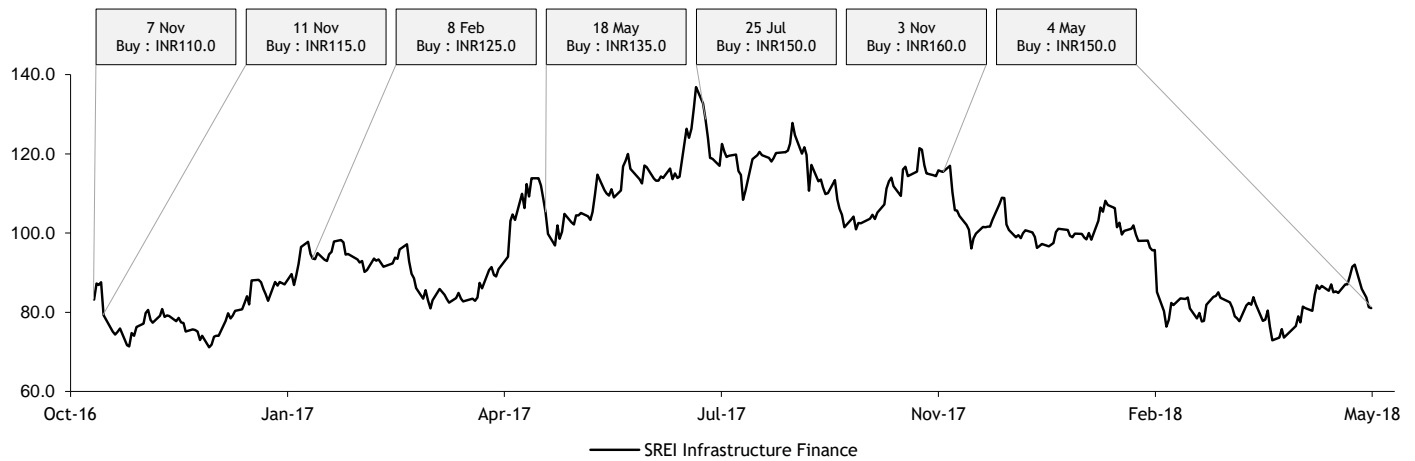
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