

## SREI Infrastructure Finance (SREI IN)

Share Price: INR41

MCap (USD): 334M

India

Target Price: INR70 (+70%)

ADTV (USD): 0.9M

Diversified Financials

# BUY

(Unchanged)

### Loan growth to revive in FY16

- Maintain BUY & INR70 TP, at 1x FY16F P/BV. Catalysts from loan-growth revival in FY16-17.
- 3Q EPS missed on lacklustre growth in equipment (CE) & project financing. But NIMs expanded as costs of funds declined.
- Completion of coal auction & pick-up in infrastructure projects to reignite loan growth in FY16-17. Monetisation of telecom investments (VIOM) in last leg.

### Weak operating environment

A weak environment brought down CE loan disbursements by 8% YoY in 9MFY15. In contrast, higher refinancing in project financing lifted loan disbursements here by 23% YoY. Consolidated AUM growth was a muted 3% YoY. Equipment borrowers' cash flows are gradually improving. While gross NPLs for SREI BNP climbed 20bps QoQ to 4.8%, GNPLs for SREI Infra were stable at 2.9%. NIM benefited from falling interest rates. SREI BNP's NIM expanded 0.7% YoY to 5%. SREI Infra's gross spreads widened 1.6% YoY to 3.9%. We expect further improvements from investment monetisation. NII growth was strong at 26% YoY, though higher provisions brought PAT down to INR238m from INR277m in 2QFY15.

### Return ratios to improve; FY16 to be better

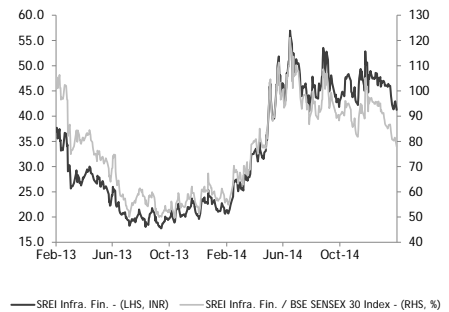
We model in a 51% earnings CAGR for FY15F-17F on higher NIMs and lower credit costs. ROEs would leap by 500bps from 5% to 10% by FY17F. We believe growth will pick up and asset stress, ease. Monetisation of investments would be further catalysts.

FYE Mar (INR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Operating income	9,742.7	9,100.2	10,452.9	11,776.7	13,980.9
Pre-provision profit	3,717.7	3,931.8	6,017.9	6,655.0	8,146.3
Core net profit	2,641.8	1,385.1	1,494.5	2,441.3	3,413.6
Core EPS (INR)	5	3	3	5	7
Core EPS growth (%)	111.2	(47.1)	8.0	63.8	40.0
Net DPS (INR)	1	1	1	1	1
Core P/E (x)	8.0	15.1	14.0	8.5	6.1
P/BV (x)	0.7	0.7	0.6	0.6	0.6
Net dividend yield (%)	1.9	1.2	1.2	1.8	2.4
Book value (INR)	60	62	64	68	74
ROAE (%)	9.2	4.5	4.7	7.3	9.6
ROAA (%)	1.3	0.6	0.6	0.9	1.2

### Key Data

52w high/low (INR)	57/21
3m avg turnover (USDm)	0.9
Free float (%)	26.2
Issued shares (m)	503
Market capitalization	INR20.8B
Major shareholders:	
-Bharat Connect Ltd.	23.5%
-Adisri Investment Ltd.	17.2%
-Opulent Venture Capital Trust	11.5%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(11.5)	(5.7)	99.8
Relative to index (%)	(14.4)	(9.1)	39.8

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	1	0	0
	Maybank Consensus		% +/-
Target Price (INR)	70	70	0.0
'15 PATMI (INRm)	1,495	1,602	(6.7)
'16 PATMI (INRm)	2,441	2,581	(5.4)

Source: FactSet; Maybank

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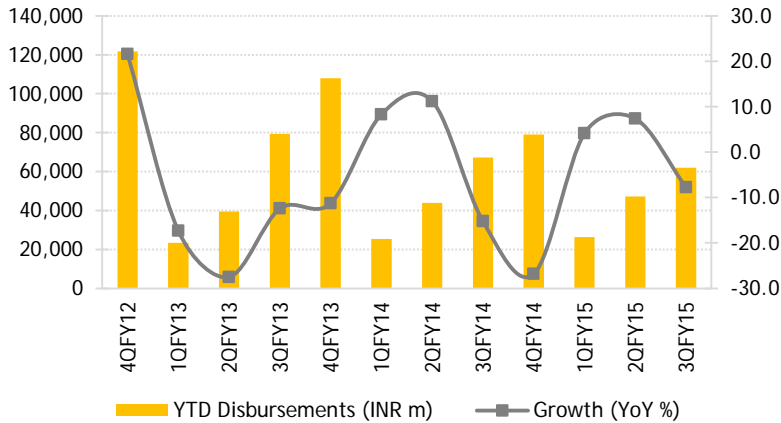
## 3QFY15 results

Consolidate Income Statement (INRm)	3Q14	2Q15	3Q15	YoY (%)	QoQ (%)
Net Interest Income	1,140	1,570	1,440	26.3%	-8.3%
Fee Income	410	180	210	-48.8%	16.7%
Other Income	450	570	550	22.2%	-3.5%
<b>Non-Interest income</b>	<b>860</b>	<b>750</b>	<b>760</b>	<b>-11.6%</b>	<b>1.3%</b>
<b>Total Income</b>	<b>2,000</b>	<b>2,320</b>	<b>2,200</b>	<b>10.0%</b>	<b>-5.2%</b>
Employee Costs	374	346	361	-3.5%	4.1%
Other Operating Expenses	636	674	780	22.5%	15.7%
<b>Total Operating Expenses</b>	<b>1,010</b>	<b>1,020</b>	<b>1,140</b>	<b>12.9%</b>	<b>11.8%</b>
<b>Operating Profit</b>	<b>990</b>	<b>1,300</b>	<b>1,060</b>	<b>7.1%</b>	<b>-18.5%</b>
Total Provisions	260	750	740	184.6%	-1.3%
PBT	730	550	320	-56.2%	-41.8%
Tax	263	287	113	-57.0%	-60.6%
<b>PAT (after associate share &amp; minorities)</b>	<b>458</b>	<b>277</b>	<b>238</b>	<b>-48.1%</b>	<b>-14.2%</b>
<b>Balance Sheet (INRm)</b>					
Borrowings	198,550	180,565	205,300	3.4%	13.7%
Consolidated AUM	344,530	344,380	353,050	2.5%	2.5%
<b>Key Ratios</b>					
<b>Asset Quality - SREI BNP</b>					
Gross NPL (%)	3.7%	4.6%	4.8%	1.1%	0.2%
Net NPL (%)	2.8%	3.5%	3.6%	0.8%	0.1%
<b>Asset Quality - SREI Infra</b>					
Gross NPL (%)	2.5%	2.9%	2.9%	0.4%	0.0%
Net NPL (%)	2.2%	2.1%	2.0%	-0.2%	-0.1%
<b>Profitability</b>					
NIM - SREI BNP	4.3%	4.9%	5.0%	0.7%	0.1%
Gross Spread - SREI Infra	2.3%	4.8%	3.9%	1.6%	-0.9%
Tax rate	36.0%	52.1%	35.3%	-0.7%	-16.8%
<b>Capital Adequacy - Standalone</b>					
CAR (%)	19.8%	18.4%	19.6%	-0.2%	1.2%

Source: Company

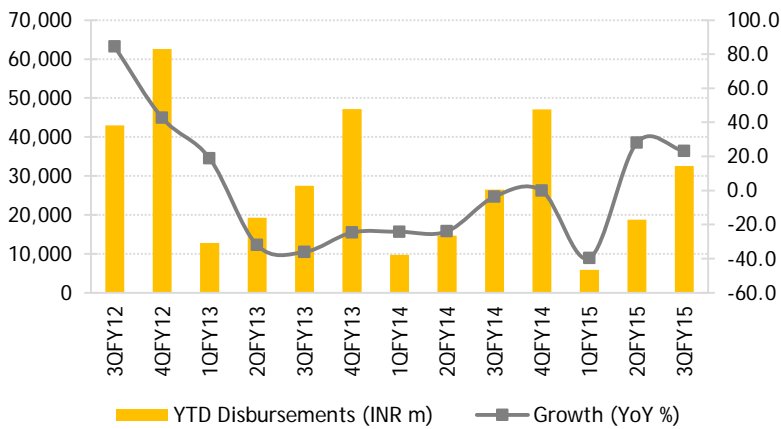
SREI BNP's loan disbursements dropped 8% YoY in 9MFY15. Weak demand for commercial equipment and delays in infrastructure and road projects were to blame. Refinancing opportunities in project financing led to disbursement growth of 23% YoY.

**Disbursements for SREI BNP contracted in 9M15...**



Source: Company, KESI

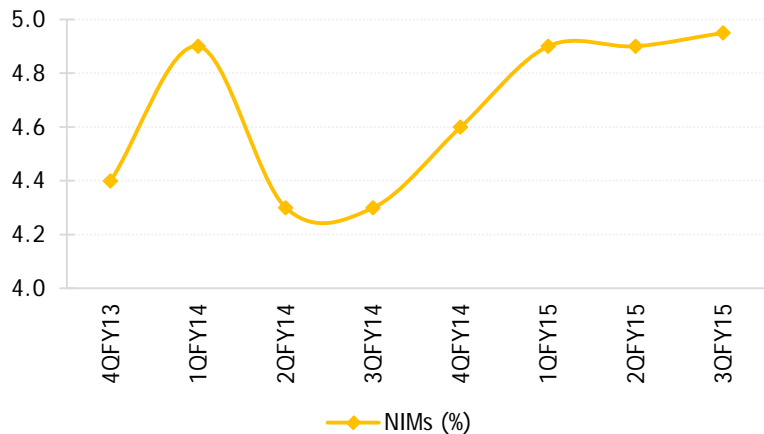
**... but grew for SREI Infra, by 23% YoY**



Source: Company, KESI

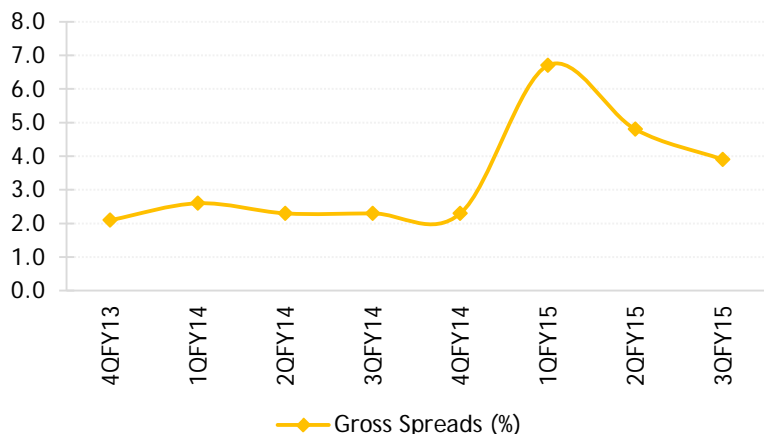
NIMs for both were better as costs of funds declined with easing liquidity and lower repo/interest rates. Asset yields benefitted from a one-off recovery in 1QFY15.

**SREI BNP's NIM expanded 70bps YoY to 5%**



Source: Company, KESI

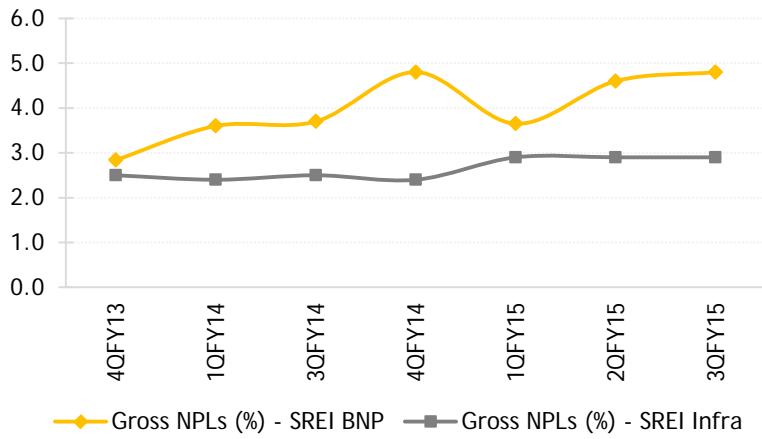
**Gross spreads for SREI Infra improved 160bps YoY to 3.9%**



Source: Company, KESI

CE's asset quality remains stressed. We expect gradual improvements. Quality for project financing was steady.

SREI BNP's assets still under stress



Source: Company, KESI

FYE 31 Mar	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
Core P/E (x)	8.0	15.1	14.0	8.5	6.1
Core FD P/E (x)	na	na	na	na	na
P/BV (x)	0.7	0.7	0.6	0.6	0.6
P/NTA (x)	na	na	na	na	na
Net dividend yield (%)	1.9	1.2	1.2	1.8	2.4

**INCOME STATEMENT (INR m)**

Interest income	26,606.2	29,596.2	31,770.1	34,382.5	38,730.0
Interest expense	(21,356.5)	(23,502.8)	(24,501.9)	(26,117.5)	(28,733.7)
<b>Net interest income</b>	<b>5,249.7</b>	<b>6,093.4</b>	<b>7,268.3</b>	<b>8,265.0</b>	<b>9,996.3</b>
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,303.4	1,425.8	1,532.7	1,716.7	1,957.0
Other income	3,189.6	1,581.0	1,651.9	1,795.0	2,027.6
<b>Total non-interest income</b>	<b>4,493.0</b>	<b>3,006.8</b>	<b>3,184.7</b>	<b>3,511.7</b>	<b>3,984.6</b>
<b>Operating income</b>	<b>9,742.7</b>	<b>9,100.2</b>	<b>10,452.9</b>	<b>11,776.7</b>	<b>13,980.9</b>
Staff costs	(1,614.4)	(1,294.4)	(1,343.9)	(1,552.3)	(1,874.4)
Other operating expenses	(4,410.6)	(3,874.0)	(3,091.0)	(3,569.4)	(3,960.2)
<b>Operating expenses</b>	<b>(6,025.0)</b>	<b>(5,168.4)</b>	<b>(4,435.0)</b>	<b>(5,121.6)</b>	<b>(5,834.6)</b>
<b>Pre-provision profit</b>	<b>3,717.7</b>	<b>3,931.8</b>	<b>6,017.9</b>	<b>6,655.0</b>	<b>8,146.3</b>
Loan impairment allowances	(1,035.4)	(1,637.1)	(3,002.1)	(2,389.5)	(2,518.7)
Other allowances	(59.5)	(39.1)	(659.4)	(609.4)	(509.4)
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>3,627.8</b>	<b>2,256.2</b>	<b>2,356.4</b>	<b>3,656.1</b>	<b>5,118.2</b>
Income tax	(1,027.1)	(881.1)	(871.9)	(1,224.8)	(1,714.6)
Minorities	41.1	10.0	10.0	10.0	10.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>2,641.8</b>	<b>1,385.1</b>	<b>1,494.5</b>	<b>2,441.3</b>	<b>3,413.6</b>
<b>Core net profit</b>	<b>2,641.8</b>	<b>1,385.1</b>	<b>1,494.5</b>	<b>2,441.3</b>	<b>3,413.6</b>

**BALANCE SHEET (INR m)**

Cash & deposits with banks	5,798.5	5,637.2	6,088.2	6,879.6	7,980.4
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	169,231.0	179,789.0	194,172.1	219,414.5	254,520.8
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	24,789.5	24,196.4	26,132.1	14,261.9	17,816.5
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	14,923.2	17,146.3	18,185.6	19,521.9	21,959.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other assets	7,974.3	12,404.7	10,874.5	16,085.3	10,581.5
<b>Total assets</b>	<b>222,716.5</b>	<b>239,173.6</b>	<b>255,452.6</b>	<b>276,163.3</b>	<b>312,858.6</b>
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	13,699.4	15,486.4	17,322.3	19,721.1	22,846.5
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	169,115.9	182,186.6	194,939.7	210,534.8	240,009.7
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	9,531.4	10,110.0	10,599.9	11,316.8	12,587.1
<b>Total liabilities</b>	<b>192,346.7</b>	<b>207,783.0</b>	<b>222,861.8</b>	<b>241,572.8</b>	<b>275,443.3</b>
Share capital	5,032.4	5,032.4	5,032.4	5,032.4	5,032.4
Reserves	25,063.2	26,061.4	27,261.6	29,261.3	32,086.1
Shareholders' funds	30,095.6	31,093.8	32,294.0	34,293.7	37,118.5
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	274.2	296.8	296.8	296.8	296.8
Total equity	30,369.8	31,390.6	32,590.8	34,590.5	37,415.3
<b>Total liabilities &amp; equity</b>	<b>222,716.5</b>	<b>239,173.6</b>	<b>255,452.6</b>	<b>276,163.3</b>	<b>312,858.6</b>

FYE 31 Mar	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	29.0	16.1	19.3	13.7	20.9
Non-interest income	(5.3)	(33.1)	5.9	10.3	13.5
Operating expenses	7.6	(14.2)	(14.2)	15.5	13.9
Pre-provision profit	15.7	5.8	53.1	10.6	22.4
Core net profit	137.1	(47.6)	7.9	63.3	39.8
Gross loans	22.4	6.7	8.2	12.9	15.8
Customer deposits	na	na	na	na	na
Total assets	12.7	7.4	6.8	8.1	13.3
<b>Profitability (%)</b>					
Non-int. income/Total income	46.1	33.0	30.5	29.8	28.5
Average lending yields	15.34	15.17	15.25	15.41	15.55
Average cost of funds	12.49	12.35	11.95	11.80	11.65
Net interest margin	3.03	3.12	3.49	3.70	4.01
Net income margin	2.85	2.81	3.30	3.61	3.89
Cost/income	61.8	56.8	42.4	43.5	41.7
<b>Liquidity (%)</b>					
Loans/customer deposits	nm	nm	nm	nm	nm
<b>Asset quality (%)</b>					
Net NPL	2.3	2.8	2.4	2.1	1.8
Gross NPL	2.8	3.3	3.4	3.3	3.1
(SP+GP)/average gross loans	0.7	1.0	1.6	1.2	1.1
Loan loss coverage	17.0	15.4	32.0	37.0	42.0
<b>Capital adequacy (%)</b>					
CET1	na	na	na	na	na
Tier 1 capital	14.3	10.7	10.5	10.8	10.3
Risk-weighted capital	21.7	17.8	16.2	17.0	16.7
<b>Returns (%)</b>					
ROAE	9.2	4.5	4.7	7.3	9.6
ROAA	1.3	0.6	0.6	0.9	1.2
Shareholders equity/assets	13.5	13.0	12.6	12.4	11.9

Source: Company; Maybank

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