



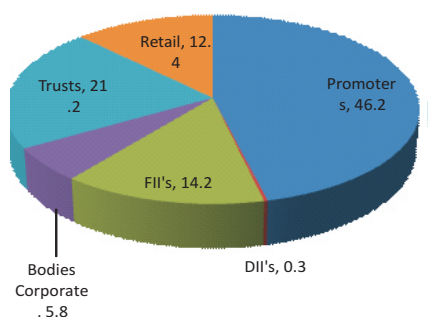
BUY

BSE code	532756
NSE code	SREINFRA
Bloomberg code	SREI:IN
Current price	39.7
Target Price	95
MCap Rs bn	20.0
MCap US\$ mn	444.0
52 wk H/L	78.9/35.6
Face value	10
2 Wk Av vol ('000)	12520

Financial Snapshot

Rs Mn	FY10	FY11E	FY12E
NII	1,396.4	1,928.4	2,650.1
% Ch	614.3	38.1	37.4
OPM	622.0	690.1	866.8
PAT	1,114.9	1,343.0	1,642.6
% Ch	121.4	20.5	22.3
EPS	9.6	2.7	3.3
PER	4.1	14.9	12.2
BV	67.9	50.7	53.1
P/BV	0.6	0.8	0.7

Share holding pattern



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Margin remain under pressure with rising cost of funds

Srei posted a YoY revenue growth of YoY of 22.6 during Q1 FY12 however the profitability growth was negated due to the sharp rise in the cost of funds. The NII on a standalone basis declined by 29.9% to Rs384mn, this was due to a sharp contraction in NIM's by 310bps. The fee based income however witnessed a growth of 44% during the same period which aided them in posting a relatively smaller decline in profitability. The operating profits were down by 18% while the profit decline was higher at 24% due to the higher depreciation cost. However Srei was able to buck the trend in disbursement growth with gross disbursements increasing by 73% to Rs10.77bn during the quarter while the outstanding disbursements grew by 33% to Rs52.98bn

NIM's under pressure: The NII of Srei declined by 29.9% on the standalone basis to Rs384mn. The revenues grew by 25.3% while the Interest expense grew quicker at 46.4% during Q1. This caused the NIM's to decline by 310bps to 2.9%. However this decline is not totally attributed to rising cost of funds, in Q1 FY11 Srei had Rs13bn outstanding loans to Viom networks which had significantly higher interest rates to it while that was absent during FY12. Srei follows a policy of passing on interest costs during the months of January and July of a year, in July it did increase the rate to borrowers by 75bps this was following the 100bps increase in January. This will reflect on their books from the next quarter onwards. However since the RBI has increased interest rates in July by 50bps the pass on hike will not have the same effect as earlier expected. We believe Srei would continue to report NIM's at similar levels for a few quarters before they pass on the increased cost again in January 2012.

Healthy disbursement growth: Srei has been able to buck the industry trend and been able to increase its disbursements even with the rising interest costs to borrowers and slowdown in demand. The reason for this has been the low base that Srei has at present. With the total infra loans of only Rs53bn at present we believe it would be possible for Srei to grow their book even in this tough market conditions albeit with some margin pressure.

Fee based income higher: Srei has been able to register a better profitability against its NII decline due to a rise in their fee based income. The fee based income was higher by 44% during the quarter as there was an increase in the quantum of deals executed by the project equity side. This income can be lumpy as it would depend on the number of deals executed in a quarter and would be difficult to project.

Strong Performance from JV with BNP: Srei equipment finance pvt ltd (SEFPL) is the 50:50 JV with BNP paribas. SEFPL which caters to equipment financing under Rs150mn has been posting strong growth which continued in the Q1 FY12. The gross disbursements grew by Rs39.9bn an increase of 53% over the previous year. The total outstanding disbursements grew YoY by 51% to Rs114.68bn. In view of this growth the NII too witnessed a growth of 74% over the corresponding period, although NIM's did decline by 50bps to 3.6% in view of the rising costs of funds. The PAT witnessed an even stronger performance which grew YoY by a whopping 106% to Rs590mn.

SEFPL is a market leader in the small equipment financing space and we believe they would be able to continue to grow its books given the demand for equipment will remain strong in light of the infrastructure development required in India. Given this



aggressive growth it has been able to contain its NPA from rising with Gross and Net NPA's of 2.3% and 1.4% respectively. In addition as security the equipment is financed with it as collateral. This secures its book further as they would have claims to the equipment which could be sold to raise funds against the NPA.

SEFPL recently had both its promoters increase their investments by Rs500mn each with a total inflow of Rs1.0bn. Following this capital infusion the CAR is still quite low at 15.1%. To maintain their growth in they would need further capital infusions. We believe this could be the time they look to list the entity and this could lead to some value unlocking for Srei and be the trigger that would drive the Srei price closer to our target price.

Adequately capitalized: Following the merger with Quippo the CAR of Srei had rising sharply. Its current CAR stands at 27.6% on a standalone basis, this would be enough for them to grow their books for the next couple years without having to raise further capital. In addition Srei has some treasury stock and before they do a fresh issue we believe it would look to offload this to raise capital. This would ensure no dilution of equity for probably an additional year.

Large investment book: Srei following the merger with Quippo in FY11 got in its fold many investments in various businesses undertaken by Quippo. The investments include businesses in equipment rental, portable energy rental, telecom tower business, onshore oil rigs for the oil and gas sector, road projects. The total investment in all these various projects add up to Rs25.9bn. Some of these businesses have turned EBIDTA positive and some will turn positive over the next few years. The eventual plan of Srei is to list all these various businesses when they reach a large size and have strong profitability. They may also look at raising funds in these various ventures through private equity.

If some of these ventures were to be listed or even raise private equity funds Srei would get the benefit of the value unlocking in them. In addition to this if listed and Srei were to offer some of their holding along with the listing would enable them to increase their net worth which in turn would mean increase in the CAR. Either of these two options would be beneficial to Srei over the longer term and benefit them with getting better valuations. At present they may look at raising funds in VIOM network the telecom tower arm, (lots of talks of listing) and the road transportation business where they may look at some private equity investments.

Valuations

At present Srei is trading at a P/Bv of 0.7x and P/E of 12.2x FY12E its standalone earnings. With most of the margin contraction behind us now we believe it would see profitability growing faster over the next few years as the loan book grows. Given the low base for its disbursement we believe they would be able to post a CAGR in excess of 20% over the next few years. In addition to this a large part of the valuation of Srei is derived from its subsidiaries and JV's. AS mentioned before any of these listing would be a clear value unlocking opportunity for Srei. We had valued Srei on a SOTP basis and we continue to value it on similar lines. For the standalone we valued it on a P/BV of 1.2 a 30% discount value we give to IDFC the market leader. After adding the value of its investments and JV's we arrive at a price target of Rs95. We hence maintain a BUY recommendation on Srei with an upside potential of 140% from the current levels.

Financials

Profit & Loss

In Rs million	FY09	FY10	FY11	FY12E
Interest Income	2,134.8	3,884.2	6,270.1	9,335.7
YoY (%)	(50.5)	81.9	61.4	48.9
Interest Expense	1,939.3	2,487.8	4,341.7	6,685.5
YoY (%)	(35.8)	28.3	74.5	54.0
Net Interest income	195.5	1,396.4	1,928.4	2,650.1
YoY (%)	(84.8)	614.3	38.1	37.4
Total expenses	735.6	622.0	690.1	866.8
YoY (%)	28.0	(15.4)	10.9	25.6
PBDT	(540.1)	774.4	1,238.3	1,783.3
Other income	1,129.5	817.1	1,192.3	1,156.0
Depreciation	76.9	101.4	180.8	280.3
PBT before provision	512.5	1,490.1	2,249.8	2,659.0
Provisions	8.8	8.8	128.4	64.4
PBT	503.7	1,481.3	2,121.4	2,594.6
(-) Tax	0.1	366.4	778.4	952.0
PAT	503.6	1,114.9	1,343.0	1,642.6
Extra-ordinary expenses	0.0	0.0	0.0	0.0
Net Profit	503.6	1,114.9	1,343.0	1,642.6
YoY (%)	(53.4)	121.4	20.5	22.3

Key Ratios

	FY09	FY10	FY11	FY12E
EPS (Rs)	4.3	9.6	2.7	3.3
CEPS (Rs)	5.0	13.4	3.7	4.0
Book value (Rs)	59.8	67.9	50.7	53.1
DPS (Rs)	1.0	1.2	0.7	0.8
NIM	1.7	5.7	4.4	4.1
Interest spread	0.1	7.6	5.0	5.1
CAR	57.4	20.0	38.0	32.0

Balance Sheet

In Rs million	FY09	FY10	FY11	FY12E
Equity capital	1,162.9	1,162.9	5,032.4	5,032.4
Reserves	5,785.7	6,738.1	20,498.9	21,672.0
Net worth	6,948.6	7,901.0	25,531.3	26,704.4
Total borrowings	13,426.1	35,432.7	52,896.4	75,480.2
Deferred tax	0.0	344.0	679.0	774.2
Total liabilities	20,374.7	43,677.7	79,106.7	102,958.8
Net block	803.5	831.1	3,985.5	3,485.2
Investments	4,805.1	7,073.3	25,055.1	27,560.6
Current assets	15,161.5	36,543.7	51,536.2	73,759.6
Inventories	10.7	9.5	580.9	697.1
Debtors	72.2	36.5	464.1	40.0
Cash	2,970.8	525.5	251.4	1,176.7
Loans and advances	12,107.8	35,972.2	50,239.8	71,845.8
liabilities & provisions	395.4	770.4	1,470.1	1,846.5
Net current assets	14,766.1	35,773.3	50,066.1	71,913.0
Misc expenses	0.0	0.0	0.0	0.0
Total assets	20,374.7	43,677.7	79,106.7	102,958.8

Valuations

	FY09	FY10	FY11	FY12E
PE (x)	9.2	4.1	14.9	12.2
Cash PE (x)	8.0	3.0	10.7	9.9
Price/book value (x)	0.7	0.6	0.8	0.7

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