

**Q1FY14 Result Update**
**BUY**

| Industry                | NBFC - IFC |
|-------------------------|------------|
| CMP (Rs)                | 21         |
| FY15E Target Price (Rs) | 27         |
| 52 Week H/L (Rs)        | 52 / 18    |
| Volumes (BSE+NSE)*      | 816054     |
| Shares O/S (mn)         | 503.2      |
| Market Cap (Rs mn)      | 10467.4    |
| Free Float (%)          | 74.9       |
| Bloomberg               | SREI IN    |
| Reuters                 | SREI.BO    |

\*Three Month Average

**Share Holding Pattern (30/06/2013)**

| Particulars  | Shares (mn)  | (%) Holding  |
|--------------|--------------|--------------|
| Promoters    | 126.4        | 25.1         |
| FII's        | 63.7         | 12.7         |
| DII's        | 0.2          | 0.0          |
| Others       | 312.9        | 62.2         |
| <b>Total</b> | <b>503.2</b> | <b>100.0</b> |

Source : BSE

**Financial Highlights**

| (Rs bn)        | FY13 | FY14E | FY15E |
|----------------|------|-------|-------|
| Op. Income     | 3.5  | 4.7   | 5.4   |
| NIM (%)        | 1.1  | 1.8   | 1.8   |
| Spread (%)     | 1.5  | 2.2   | 2.3   |
| PAT            | 1.0  | 1.2   | 1.4   |
| PAT Growth (%) | 63.8 | 26.2  | 19.3  |
| ABV (Rs)       | 48.0 | 47.1  | 48.6  |
| P/ABV (x)      | 0.4  | 0.4   | 0.4   |
| P/E (x)        | 11.0 | 8.7   | 7.3   |

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**Result Highlights**

- SREI Infrastructure Finance Ltd's (SIFL) Q1FY14 net profit of Rs 207.3mn was better than our expectation of Rs 101.3mn due to better than estimated margins and asset quality.
- Loans grew by 10.1% YoY to Rs 110bn. Disbursements declined to Rs 9.7bn in Q1FY14 from Rs 12.8bn in Q1FY13. Transportation and energy formed 65.1% of the loan book.
- Net Interest Income declined by 4.1% YoY to Rs 424.9mn due to decline in spreads from 3% in Q1FY13 to 2.6% in Q1FY14. On a QoQ basis, there was an improvement in spread from 2.1% in Q4FY13 because in Q4FY13 there was a large interest reversal on account of a media account that was declared as an NPA.
- Gross NPA levels remained stable at 2.4% in Q1FY14 as against 2.5% in Q4FY13.
- SIFL's equipment finance division's loans grew by 5.4% YoY to Rs 188.1bn. Gross NPA levels marginally increased on sequential basis from 2.8% in Q4FY13 to 3.1% in Q1FY14. PAT grew by 1.5% YoY to Rs 690mn.
- 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 26913 common service centers were rolled out till June 2013. It reported an operating loss of Rs 16mn in Q1FY14.

**Outlook and Valuations**

The standalone business of SIFL is trading at 0.4x FY15E Adj. Book Value of Rs 48.8. After assigning a multiple of 0.5x 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 27 (as against Rs 32 mentioned in our quarterly preview dated July 10, 2013).

| Price Target Calculation             | Basis of Calculation   | Amount (Rs) |
|--------------------------------------|--|-------------|
| Standalone Value / Share (Rs)        | 0.5x FY15E ABV   | 18.1        |
| 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  | 7.9         |
| <b>Value of Investments (Rs)</b>     |  | <b>49.3</b> |
| Less: Cost of Equity Investments     |  | 40.5        |
| <b>Net Value of Investments (Rs)</b> |  | <b>8.8</b>  |
| <b>Price Target</b>                  |  | <b>26.9</b> |

**Q1FY14 Results Summary**

| Particulars (Rs mn)          | Q1FY14        | Q1FY13        | % YoY Change | Q4FY13        | % QoQ Change  |
|------------------------------|---------------|---------------|--------------|---------------|---------------|
| Interest Income              | 3840.0        | 3587.0        | 7.1          | 3234.0        | 18.7          |
| Other Income                 | 511.9         | 506.7         | 1.0          | 925.6         | -44.7         |
| <b>Total Income</b>          | <b>4351.9</b> | <b>4093.7</b> | <b>6.3</b>   | <b>4159.6</b> | <b>4.6</b>    |
| Financial Expenses           | 3415.1        | 3143.9        | 8.6          | 3382.6        | 1.0           |
| <b>Net Interest Income</b>   | <b>424.9</b>  | <b>443.1</b>  | <b>-4.1</b>  | <b>-148.6</b> | <b>-385.9</b> |
| Operating Income             | 936.8         | 949.8         | -1.4         | 777.0         | 20.6          |
| Total Expenditure            | 325.5         | 268.1         | 21.4         | 356.4         | -8.7          |
| <b>Operating Profit</b>      | <b>611.3</b>  | <b>681.7</b>  | <b>-10.3</b> | <b>420.6</b>  | <b>45.3</b>   |
| Provisions and Contingencies | 15.2          | 23.3          | -34.8        | 253.2         | -94.0         |
| <b>PBT Before M2M</b>        | <b>596.1</b>  | <b>658.4</b>  | <b>-9.5</b>  | <b>167.4</b>  | <b>256.1</b>  |
| Forex M2M                    | 278.6         | 514.5         | -45.9        | -45.0         | -719.1        |
| <b>Profit Before Tax</b>     | <b>317.5</b>  | <b>143.9</b>  | <b>120.6</b> | <b>212.4</b>  | <b>49.5</b>   |
| Tax                          | 110.2         | 48.5          | 127.2        | 41.5          | 165.5         |
| <b>PAT</b>                   | <b>207.3</b>  | <b>95.4</b>   | <b>117.3</b> | <b>170.9</b>  | <b>21.3</b>   |

Source: Company, QS Research

**Forex Borrowings in Q1FY14**

|                    | Foreign Borrowings (USD mn) |              |                          |             | Foreign Borrowings (Rs mn) |                |            |
|--------------------|-----------------------------|--------------|--------------------------|-------------|----------------------------|----------------|------------|
|                    | 31-Mar-13                   | 30-Jun-13    | Net Addition / Repayment | Change %    | 31-Mar-13                  | 30-Jun-13      | Change %   |
| <b>Srei BNP JV</b> | 331.0                       | 331.0        | 0.0                      | 0.0         | 17968.3                    | 18510.0        | 3.0        |
| Hedged             | 331.0                       | 331.0        | 0.0                      | 0.0         | 17968.3                    | 18510.0        | 3.0        |
| Unhedged           | 0.0                         | 0.0          | 0.0                      | 0.0         | 0.0                        | 0.0            | 0.0        |
| <b>Standalone</b>  | 174.0                       | 162.0        | -12.0                    | -6.9        | 9445.6                     | 9890.0         | 4.7        |
| Hedged             | 114.0                       | 107.5        | -6.5                     | -5.7        | 6188.5                     | 6399.0         | 3.4        |
| Unhedged           | 60.0                        | 54.5         | -5.5                     | -9.2        | 3257.1                     | 3244.2         | -0.4       |
| <b>Srei + JV</b>   | <b>339.5</b>                | <b>327.5</b> | <b>-12.0</b>             | <b>-3.5</b> | <b>18429.8</b>             | <b>19494.8</b> | <b>5.8</b> |
| Hedged             | 279.5                       | 273.0        | -6.5                     | -2.3        | 15172.7                    | 16250.6        | 7.1        |
| Unhedged           | 60.0                        | 54.5         | -5.5                     | -9.2        | 3257.1                     | 3244.2         | -0.4       |
| Rs/\$ Rate         |                             |              |                          |             | 54.3                       | 59.5           |            |

**Calculation of Forex Gain / Loss in Different Exchange Rate Scenarios**

Due to sharp rupee depreciation in Q1FY14, SIFL reported a forex loss of Rs 278.6mn on the standalone front as it had an open position of \$54.5mn within its forex borrowings as on June 30, 2013 (down from \$60mn as on March 31, 2013). The company further brought down its unhedged forex borrowings to \$38mn in August 2013 and entirely hedged the borrowings in case of SREI BNP JV in March 2013 in the process of reducing exchange rate risk. 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 9 months.

| Particulars (Rs mn) | Reported Forex Loss for Q1FY14 on Unhedged Borrowings (Rs mn) | Calculated Forex Loss for Q1FY14 (Rs mn) | Estimated Forex Loss (+) / Gain (-) (Rs mn) from Q1FY14 onwards if Rupee ends up at any of the following levels as on March 31, 2014 |          |          |          |          |
|---------------------|---|--|--|----------|----------|----------|----------|
|                     |   |  | Rs 63/\$   | Rs 62/\$ | Rs 60/\$ | Rs 59/\$ | Rs 58/\$ |
| Srei BNP JV         | 0.0   | 0.0                                      | 0.0  | 0.0      | 0.0      | 0.0      | 0.0      |
| Standalone          | 278.6   | 285.6                                    | 132.0  | 94.0     | 18.0     | -20.0    | -58.0    |
| Srei + JV           | 278.6   | 285.6                                    | 132.0  | 94.0     | 18.0     | -20.0    | -58.0    |

**Income Statement - Standalone**

| Particulars (Rs mn) - Y/E March      | FY11           | FY12           | FY13           | FY14E          | FY15E          |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Interest Income                      | 6292.3         | 10510.0        | 14269.0        | 16581.1        | 19323.5        |
| Other Income                         | 1170.1         | 1296.9         | 2395.7         | 2658.5         | 3093.0         |
| <b>Total Income</b>                  | <b>7462.4</b>  | <b>11806.9</b> | <b>16664.7</b> | <b>19239.6</b> | <b>22416.5</b> |
| Financial Expenses                   | 4477.7         | 8928.6         | 13182.1        | 14556.5        | 17028.2        |
| <b>Net Interest Income</b>           | <b>1814.6</b>  | <b>1581.4</b>  | <b>1086.9</b>  | <b>2024.6</b>  | <b>2295.4</b>  |
| % Change YoY                         | 13.7           | -12.9          | -31.3          | 86.3           | 13.4           |
| <b>Operating Income</b>              | <b>2984.7</b>  | <b>2878.3</b>  | <b>3482.6</b>  | <b>4683.1</b>  | <b>5388.3</b>  |
| Total Expenditure                    | 870.8          | 1021.7         | 1429.1         | 1804.7         | 2093.0         |
| <b>Operating Profit</b>              | <b>2113.9</b>  | <b>1856.6</b>  | <b>2053.5</b>  | <b>2878.4</b>  | <b>3295.3</b>  |
| Provisions and Write Off             | 128.5          | 217.3          | 307.4          | 818.1          | 1296.9         |
| <b>PBT Before M2M</b>                | <b>1985.4</b>  | <b>1639.3</b>  | <b>1746.1</b>  | <b>2060.3</b>  | <b>1998.4</b>  |
| <b>Forex M2M Gain (-) / Loss (+)</b> | <b>(136.0)</b> | <b>551.4</b>   | <b>392.0</b>   | <b>217.2</b>   | <b>-200.0</b>  |
| <b>PBT</b>                           | <b>2121.4</b>  | <b>1087.9</b>  | <b>1354.1</b>  | <b>1843.1</b>  | <b>2198.4</b>  |
| Tax                                  | 778.4          | 508.3          | 404.5          | 645.1          | 769.4          |
| <b>PAT</b>                           | <b>1343.0</b>  | <b>579.6</b>   | <b>949.6</b>   | <b>1198.0</b>  | <b>1429.0</b>  |
| % Change YoY                         | 20.5           | -56.8          | 63.8           | 26.2           | 19.3           |

**Balance Sheet - Standalone**

| Particulars (Rs mn) - Y/E March  | FY11           | FY12            | FY13            | FY14E           | FY15E           |
|----------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| <b>SOURCES OF FUNDS</b>          |                |                 |                 |                 |                 |
| Shareholders Funds               | 25531.3        | 25820.1         | 26475.4         | 27379.0         | 28454.7         |
| Loan Funds                       | 53613.5        | 99635.2         | 111784.0        | 127433.8        | 146548.8        |
| Other Liabilities and Provisions | 1433.0         | 1577.4          | 3998.5          | 4398.4          | 4838.2          |
| <b>Capital Employed</b>          | <b>80577.8</b> | <b>127032.7</b> | <b>142257.9</b> | <b>159211.1</b> | <b>179841.7</b> |
| <b>APPLICATION OF FUNDS</b>      |                |                 |                 |                 |                 |
| Fixed Assets                     | 4016.7         | 4987.1          | 5550.0          | 5827.5          | 6118.9          |
| Investments                      | 25055.1        | 26441.3         | 26981.0         | 28330.1         | 29746.6         |
| Loans and Advances               | 49977.4        | 93138.7         | 104571.0        | 119210.9        | 137092.6        |
| Other Assets                     | 1528.6         | 2465.6          | 5155.9          | 5842.6          | 6883.7          |
| <b>Total Assets</b>              | <b>80577.8</b> | <b>127032.7</b> | <b>142257.9</b> | <b>159211.1</b> | <b>179841.7</b> |

**Ratios - Standalone**

| Key Ratios - Y/E March               | FY11  | FY12  | FY13  | FY14E | FY15E |
|--------------------------------------|-------|-------|-------|-------|-------|
| <b>Valuation</b>                     |       |       |       |       |       |
| EPS (Rs)                             | 2.7   | 1.2   | 1.9   | 2.4   | 2.8   |
| BVPS (Rs)                            | 50.7  | 51.3  | 52.6  | 54.4  | 56.5  |
| Adj BVPS (Rs)                        | 50.7  | 49.8  | 48.0  | 47.1  | 48.6  |
| P/E (x)                              | 7.8   | 18.1  | 11.0  | 8.7   | 7.3   |
| 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 (%)                   | 3.6   | 2.4   | 2.4   | 2.4   | 2.9   |
| Payout (%)                           | 32.8  | 50.8  | 31.0  | 24.6  | 24.7  |
| <b>Growth (%)</b>                    |       |       |       |       |       |
| Borrowings                           | 51.5  | 85.8  | 12.2  | 14.0  | 15.0  |
| Loans and Advances                   | 39.1  | 86.4  | 12.3  | 14.0  | 15.0  |
| Net Interest Income                  | 13.7  | -12.9 | -31.3 | 86.3  | 13.4  |
| Operating Income                     | 34.8  | -3.6  | 21.0  | 34.5  | 15.1  |
| Operating Profit                     | 39.2  | -12.2 | 10.6  | 40.2  | 14.5  |
| Net Profit                           | 20.5  | -56.8 | 63.8  | 26.2  | 19.3  |
| <b>Profitability (%)</b>             |       |       |       |       |       |
| Yield on Assets                      | 14.7  | 14.7  | 14.4  | 14.8  | 15.1  |
| Cost of Funds                        | 10.1  | 11.7  | 12.5  | 12.2  | 12.4  |
| Spread                               | 4.0   | 2.5   | 1.5   | 2.2   | 2.3   |
| NIM                                  | 4.2   | 2.2   | 1.1   | 1.8   | 1.8   |
| RoAE                                 | 8.0   | 2.3   | 3.6   | 4.4   | 5.1   |
| RoAA                                 | 2.1   | 0.6   | 0.7   | 0.8   | 0.8   |
| Cost/Income                          | 29.2  | 35.5  | 41.0  | 38.5  | 38.8  |
| <b>Balance Sheet Ratios</b>          |       |       |       |       |       |
| 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 | 106.9 | 106.9 |
| <b>Asset Quality (%)</b>             |       |       |       |       |       |
| Gross NPA                            | -     | 0.9   | 2.5   | 3.8   | 4.1   |
| Net NPA                              | -     | 0.8   | 2.2   | 3.1   | 2.9   |
| Provision Coverage                   | -     | 11.1  | 11.7  | 20.0  | 30.0  |
| <b>Capital Adequacy (%)</b>          |       |       |       |       |       |
| Capital Adequacy Ratio               | 29.4  | 19.6  | 21.7  | 20.0  | 18.8  |

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