



BUY

BSE code	532756
NSE code	SREINFRA
Bloomberg code	SREI:IN
Current price	76
Target Price	127
MCap Rs bn	38.2
MCap US\$ mn	562.4
52 wk H/L	92/40
Face value	10
2 Wk Av vol ('000)	3058

Financial Snapshot

₹ Mn	FY16	FY17E	FY18E
NII	7,980	15,061	17,843
% Ch	20.6	88.7	18.5
Pre prov profits	5,436	7,398	7,756
Provisioning	3,417	6,169	3,336
PAT	1,302	725	2,851
% Ch	(44.3)	293.2	82.2
EPS	1.4	5.7	10.3
PER	52.7	13.4	7.4
BV	72.0	96.7	105.9
P/BV	1.06	0.79	0.72
RoE	2.01	6.72	10.20

Shareholding Pattern

Particulars	Sep-16	Mar-16	Sep-15
Promoters	60.8	58.7	58.72
Treasury stock	4.7	9.7	9.7
DII's	0.0	0.6	0.0
FII's	18.2	8.5	12.8
Retail	16.3	22.4	18.8

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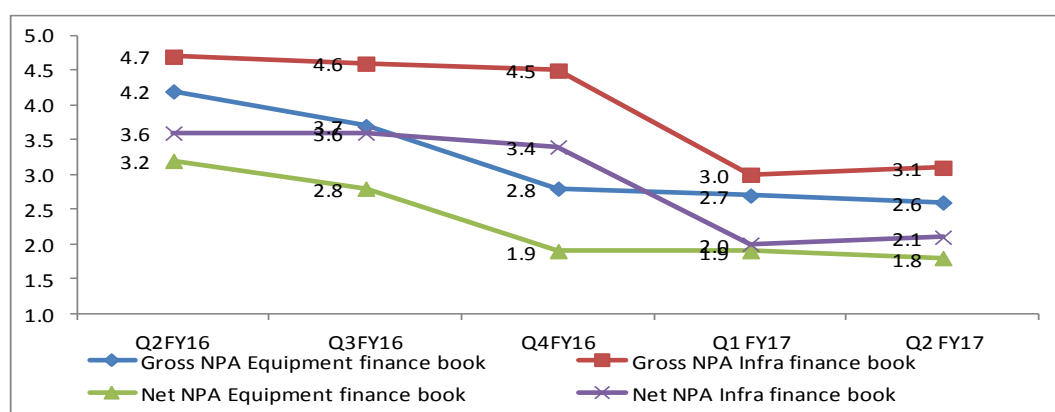
Profit to continue to grow with provisioning to reduce along with NPA's.

Srei now has a 100% stake in the equipment financing business and hence discussing the consolidated numbers are better than doing a sum of the parts earnings. The quarterly consolidated numbers were good but there is still a lot of scope for improvement of the numbers over the next few quarters and years. During the quarter it reported a NII of ₹4.2bn and a profit of ₹618mn which was a jump of 70% and 438% over the previous year but again these are not totally comparable. Provisions for the quarter were still quite large at ₹982mn which will start seeing a decline going forward as the NPA's are now reducing with them liquidating assets. Srei has set an ambitious target to double its equipment finance book over 3 years while for the infra book growth could be in low double digits. On a blended basis however growth in loans could be at a good 15% which seems achievable given the low base and the demand expected from the infra space. These factors combined would allow it to increase the NII and the profits to increase going forward.

Focus on equipment financing business: Srei which now owns the full 100% in the equipment financing arm by taking over the JV partner stake is going to focus on this business. The target like we mentioned is to double their loans over 3 year period. Although this may be a difficult task as demand pick up might be gradual in the near term the growth for this business will fructify as government focus on infra is quite strong which would mean requirement of equipment to execute these projects. They continue to have a good market size with about 30%. During H1 Srei has had a disbursement of ₹53.5bn which is up by 34% over the previous year. However the total loans outstanding are only up to ₹197.8bn up by only 5% which we believe will increase as the infra projects execution start picking up steam. Demand is expected from road, railways and mining in the near term.

Infra financing to be very limited: Although the opportunity to lend to infra projects is lucrative as ticket sizes are large the risk too is higher. The management has taken a decision to be more cautious on lending to infra projects as many companies are still quite debt laden in the space which could lead to more NPA creations over time. This would mean the infra book growth would be a low double digit going forward. Further with the looking for safer assets to lend to we have seen the spreads decline as these projects are able to fund at cheaper rates. Given this we believe the profitable growth for this business would be more controlled over the years.

Asset quality continues to improve: With a strong focus on recoveries the company has seen a decent improvement in its asset quality over the past year. The NPA have improved for both the equipment and infra finance loan books.



Decline in provisioning to drive profits growth faster: During the H1 provisions have been extremely high given the windfall benefit from the sale of Viom networks. During Q2 too the provisions continued to be high at ₹978mn on a consolidated basis. the company has guided for credit costs to remain at these levels for the remainder of the year however this is expected to start declining in FY18E. With new NPA provisioning coming down and some recoveries happening we too are convinced the provisioning will be lower. This will lead to a faster growth in the net profits in FY18 compared to the NII.

Further sale of investments: The management focus which has shifted to sell its non core assets or generate cash from its investments will reap good benefits for Srei. The initial work is being done and divesting a stake in the road projects either as a whole or in parts and on raising funds from stake sale in sahej the rural project. As these get done we will see unlocking of value and moneys which will translate to direct benefit with growth in NII and profits giving a good boost to the RoE going forward.

Valuations:

Srei has given a good return ever since they have been talking of selling their investments in VIOM and other acquiring its equipment finance subsidiary. The stock has now moved up to levels of ₹76 and at this price is trading at a P/E of 13.4x and 7.4x and a P/BV of 0.8x and 0.72x its FY17E and FY18E respectively.

The low valuations given to srei have been due to the extremely low RoE and RoA the company has had over the past few years. However this is about to change with the RoE expected to move towards the 11% level in FY18E. With the NPA reducing the provisions will be lower which could drive profitability. If they are able to liquidate more assets like they did VIOM which is the intent of the management we could see a further improvement in NII and profitability which we have not factored into our earnings at present.

The rising RoE and further plans of divesting investments be it Sahaj or the road projects we believe a P/BV multiple of 1.2x on its consolidated earnings would be justifiable. This would also leave further room for increase as the company fixes its NPA issues and also looks to further reduce its treasury holding and freeing up further funds. We are rolling forward our target based on our FY18E earnings now and also will be focusing on the consolidated earnings since a large earnings will come from the equipment finance business which is a 100% subsidiary. Based on these we arrive at a target price of ₹127 implying an upside of 67% over the next 18 months. This too is conservative as if the management is able to deliver what they say the valuation multiple could rise further.

Financials

Profit & Loss

In ₹ million	FY15	FY16	FY17E	FY18E
Interest Income	29,222	30,918	47,395	52,264
YoY (%)		5.8	53.3	10.3
Interest Expense	22,607	22,938	32,334	34,422
YoY (%)		1.5	41.0	6.5
Net Interest income	6,614.7	7,979.8	15,061	17,843
YoY (%)		20.6	88.7	18.5
Total expenses	3,867.1	3,574.8	5,217.3	5,739.1
YoY (%)		(7.6)	45.9	10.0
PBDT	2,747.6	4,405.0	9,843.9	12,103.8
Other income	4,381.6	1,701.6	4,648.0	2,039.0
Depreciation	2,014.3	2,152.9	2,949.2	3,426.2
PBT before provision	5,114.9	3,953.7	11,542.6	10,716.6
Provisions	3,095.9	2,724.8	7,122.2	2,860.3
FX loss	134.6	169.5	100.0	100.0
PBT	1,884.4	1,059.4	4,320.4	7,756.3
(-) Tax	670.4	444.1	1,468.9	2,559.6
PAT	1,214.0	615.3	2,851.5	5,196.8
Extra-ordinary expen:	(88.0)	(109.9)	0.0	0.0
Net Profit	1,302.0	725.2	2,851.5	5,196.8
YoY (%)		(44.3)	293.2	82.2

Key Ratios

	FY15	FY16	FY17E	FY18E
EPS (₹)	2.6	1.4	5.7	10.3
CEPS (₹)	6.6	5.7	11.5	17.1
Book value (₹)	71.2	72.0	96.7	105.9
RoE	3.6	2.0	6.7	10.2
DPS (₹)	0.5	0.5	0.7	1.0
Gross NPA	4.7	4.0	2.8	2.4
NET NPA	3.8	3.1	1.9	1.5

Balance Sheet

In ₹ million	FY15	FY16	FY17E	FY18E
Share capital	5,032	5,032	5,032	5,032
Reserves	30,814	31,218	43,645	48,236
Net worth	35,846	36,250	48,677	53,268
Minority interest	126	12	12	12
Total loans	203,258	206,727	304,508	347,122
Non Curr Liab	3,412	3,643	3,643	3,643
Current Liab	6,138	8,553	9,631	9,277
Total Liabilities	248,780	255,184	366,471	413,322
Net Assets	14,949	13,697	30,437	27,438
CWIP	565	623	500	500
Goodwill	3,077	3,077	2,840	2,840
Investments	22,499	21,698	6,698	6,698
loans and advances	185,413	195,970	309,662	357,535
Non Curr Assets	5,456	6,632	6,632	6,632
Curr Assets	16,821	13,487	9,702	11,679
Total Assets	248,780	255,184	366,471	413,322

Valuations

	FY15	FY16	FY17E	FY18E
PE (x)	29.4	52.7	13.4	7.4
Cash PE (x)	11.5	13.3	6.6	4.4
P/BV X	1.1	1.1	0.8	0.7
Price/Adj BV (x)	1.3	1.3	0.9	0.8
Divident Yield	0.7	0.7	0.9	1.3

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