



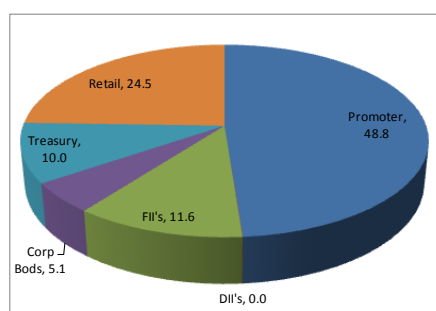
## BUY

BSE code	532756
NSE code	SREINFRA
Bloomberg code	SREI:IN
Current price	21
Target Price	57
MCap Rs bn	10.6
MCap US\$ mn	234.8
52 wk H/L	38/17
Face value	10
2 Wk Av vol ('000)	319

## Financial Snapshot

₹ Mn	FY13	FY14E	FY15E
NII	845.9	1,269.9	1,806.7
% Ch	(40.9)	50.1	42.3
OPM	1,131.5	1,192.5	1,330.0
PAT	949.6	762.3	1,288.6
% Ch	63.8	(19.7)	69.0
EPS	1.9	1.5	2.6
PER	11.1	13.9	8.2
BV	52.6	53.7	55.5
Adjusted BV	48.0	48.7	50.1
P/BV	0.40	0.39	0.38
P/ABV	0.44	0.43	0.42

## Shareholding Pattern



Sameer Dalal

Sameer@natverlal.com

91-22-42134444

## Asset sale key to drive RoE

Srei reported its numbers for Q3 FY14 which was in line with expectations. It reported an interest income growth of 8.2% YoY and 1% QoQ on the back of loan book growth. Fee income too declined YoY by 12% and sequentially by 16% with low demand for advisory services with limited infra projects being planned. Overall we believe Srei like all companies in the Infra finance space are facing a difficult situation. The scenario continues to remain weak with no sign of new projects and old projects continuing to lie in limbo. The government has taken many steps through the cabinet committee which has cleared projects of `6600bn these will still take time before getting started and we see some positive news flow towards the sector.

**Loan book growth to remain subdued:** The management is being cautious on its new funding as they have seen some large NPA's and even larger restructuring of loans in an attempt to match cash flows. Further the marco environment for infrastructure investments has not changed and we don't see many new projects. During Q3 the disbursed loans were to the tune of `11.8bn higher by 140% over the previous quarter. However the outstanding loan book growth is at only 8% from the end of FY13. We don't see a significant increase in the book over the next few quarters and probably till elections and the monsoons are behind us. Since it has a comparatively small base they would be able to post some growth by financing smaller projects in the near term.

**Slow revenue growth:** With infrastructure projects not seeing many takers the funding requirements too have disappeared as discussed. With net disbursements remaining muted and limited scope to increase rates we have seen the interest income increase by a mere 1% Sequentially. Further with limited project advisories and no fresh loan requests the fee income too has seen a sequential decline of 16%. Although the long term requirements for infrastructure are immense we don't see any major drives for revenues in the near term.

**Interest costs decline marginally:** the interest cost declined by 1.9% sequentially as some they were able to raise some low cost funds during the quarter. It will be difficult for Srei to keep funding costs down as the RBI has increased its benchmark rates. Although the company is looking at raising some funds at lower costs we remain a little skeptical given the current scenario.

**Asset quality deteriorating:** Most infrastructure companies continue to face problems and some of the large companies have seen defaults. Srei too has seen the NPA's rising over the past year with Deccan holding and KS Oil defaulting on their loans. The gross NPA's have risen to 2.5% of its total book while its net NPA's increased to 2.2%. The NPA's largely are from these 2 accounts at present which contribute ₹2.4bn and ₹1.0bn respectively. The management has guided they have large collaterals against these loans where losses would be limited post sale of collateral. Further to this Srei has had to restructure loans near to `10bn as projects commissioning has been delayed. This restructuring was to push back interest and principal payments to match the cash flows of these projects. Although at present these do not show up in the NPA's we would keep a keen eye to see how the NPA movement happens over the next few quarters.



**Provisioning to remain high on account of NPA's:** With NPA's increasing and possibility of a further increase Srei has had to keep a provisioning at higher levels. Although the provisions declined sequentially we believe it would continue to provide against the NPA's which would keep profitability low.

**Forex losses could taper if rupee stabilizes:** Srei continues to hold some unhedged foreign borrowings at about 7 to 8% of the total. The INR decline over the current year has forced it to take some forex losses. Srei has been writing of its losses in total with none carried forward. If the Indian rupee were to stabilize against the dollar these losses would be lower going forward and we could see an increase in profitability.

**Asset sale to free up capital and improve return ratios:** Srei has many investments in various asset heavy businesses these include VIOM Networks, a rental company in power, oil & gas and stakes in various road projects. It has been keen to list these companies to reduce their investments in these various entities. Now with Bharti Infratel listed it would be easier to raise funds and off load some stake in VIOM networks to start with. If they are able to free up some capital we would see the RoCE and RoE rise as these assets have not been delivering much to the profitability at present. The management has indicated they are looking to sell some of the road investments and are in active talks and seem confident of closing a sale in the next 6 months.

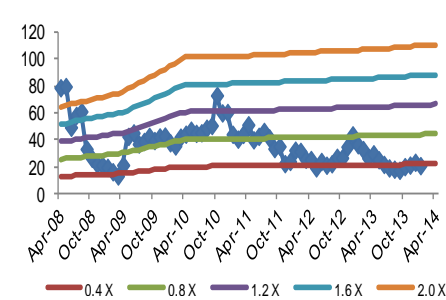
**Srei equipment finance continues to grow:** The equipment finance JV with BNP Paribas too has seen some decline with interest earning assets declining by 1.5% from the end of FY13. However being the market leader we believe once the investment cycle turns and there is demand for construction equipment we would see growth momentum for them revive. At present given the poor valuations given to finance companies it seems unlikely they would come to the market to unlock value in these operations.

**Valuations:**

At the current price the stock is trading at a P/E of 13.9x and 8.2x and P/BV of 0.39x and 0.38x its FY14E and FY15E earnings respectively. Although on a P/E it looks fairly priced the massive discount to the BV is not justifiable. Based on the current NPA's and some more NPA's this kind of undervaluation on BV would not sustain. We believe earnings will rebound in the H2 FY15E when growth in infrastructure investment sees an uptick. The forex losses too will decline as most of the currency decline is now done and we don't see a major downside to the INR from the current levels.

In the last report we mentioned there could be some assets sales which happen before the end of the current financial. This however now seems unlikely and will probably happen sometime near the end of Q1 or early Q2 of FY15E. A sale of its asset holding would help free up some capital which would allow it to repay some borrowing driving near term profitability till growth returns. We believe the valuations are extremely attractive at this point, a P/Adjusted BV of 0.8x should be the minimum the stock should trade at. We give a slight discount to P/BV of 1x as there is some possibility of NPA's increasing. To this we add the value of its investment in VIOM networks and the share of its JV in Srei equipment finance based on this we arrive at a price target of ₹57 implying an upside of 170% from the current levels and hence maintain our BUY recommendation.

Forward P/BV



**Financials**

**Profit & Loss**

In ₹ million	FY12	FY13	FY14E	FY15E
Interest Income	10,361	14,028	15,341	16,313
YoY (%)	71.9	35.4	9.4	6.3
Interest Expense	8,929	13,182	14,072	14,506
YoY (%)	99.4	47.6	6.7	3.1
Net Interest income	1,432.3	845.9	1,269.9	1,806.7
YoY (%)	(7.6)	(40.9)	50.1	42.3
Total expenses	872.7	1,131.5	1,192.5	1,330.0
YoY (%)	26.5	29.7	5.4	11.5
PBDT	559.6	(285.6)	77.4	476.7
Other income	1,446.0	2,636.4	2,286.2	2,409.5
Depreciation	154.0	309.6	347.0	369.1
PBT before provision	1,851.6	2,041.2	2,016.5	2,517.0
Provisions	212.3	295.4	357.5	393.8
FX loss	551.4	391.7	570.0	200.0
PBT	1,087.9	1,354.1	1,089.0	1,923.3
(-) Tax	508.3	404.5	326.7	634.7
PAT	579.6	949.6	762.3	1,288.6
Extra-ordinary expen:	0.0	0.0	0.0	0.0
Net Profit	579.6	949.6	762.3	1,288.6
YoY (%)	(52.0)	63.8	(19.7)	69.0

**Balance Sheet**

In ₹ million	FY12	FY13	FY14E	FY15E
Share capital	5,032	5,032	5,032	5,032
Reserves	20,788	21,443	21,970	22,905
Net worth	25,820	26,475	27,002	27,937
Total loans	98,473	111,784	123,260	130,651
Non Curr Liab	1,244	1,518	1,558	1,630
Current Liab	1,496	2,481	2,394	2,499
<b>Total Liabilities</b>	<b>127,033</b>	<b>142,258</b>	<b>154,214</b>	<b>162,717</b>
Net Assets	4,359	4,987	5,203	5,034
CWIP	628	563	200	200
Investments	26,441	30,874	30,374	25,374
Infra loans	88,238	97,166	107,146	117,861
Non Curr Assets	923	4,012	4,413	4,854
Curr Assets	6,443	4,657	6,878	9,394
<b>Total Assets</b>	<b>127,033</b>	<b>142,258</b>	<b>154,214</b>	<b>162,717</b>

**Key Ratios**

	FY12	FY13	FY14E	FY15E
EPS (₹)	1.2	1.9	1.5	2.6
CEPS (₹)	1.7	2.8	2.3	3.4
Book value (₹)	51.3	52.6	53.7	55.5
Adjusted BV (₹)	49.8	48.0	48.7	50.1
DPS (₹)	0.5	0.5	0.4	0.6
NIM	2.8	1.9	1.9	2.2
NET NPA	0.0	2.1	2.4	3.5
ROE	2.3	3.6	2.9	9.5

**Valuations**

	FY12	FY13	FY14E	FY15E
PE (x)	18.2	11.1	13.9	8.2
Cash PE (x)	12.4	7.5	9.3	6.1
P/BV X	0.41	0.40	0.39	0.38
Price/Adj BV (x)	0.42	0.44	0.43	0.42
Divident Yield	2.4	2.4	1.9	2.9

**Disclaimer**

The information provided in the document is from publicly available data and other sources, which we believe are reliable. It also includes analysis and views expressed by our research team.

The report is purely for information purposes and does not construe to be investment recommendation/advice. Investors should not solely rely on the information contained in this document and must make investment decisions based on their own investment objectives, risk profile and financial position. Efforts are made to try and ensure accuracy of data however, Natverlal & Sons Stockbrokers Pvt Ltd. And / or any of its affiliates and / or employees shall not be liable for loss or damage that may arise from any error in this document. Natverlal & Sons Stockbrokers Pvt Ltd and / or any of its affiliates and / or employees may or may not hold positions in any of the securities mentioned in the document.

This document is not for public distribution and should not be reproduced or redistributed without prior permission.

Natverlal & Sons Stockbrokers Pvt Ltd. Fairy Manor, 13 Rustom Sidhwa Marg Fort Mumbai 400001 Tel 91-22-42134444 Email [research@natverlal.com](mailto:research@natverlal.com)