sbicap securities

Institutional Equity Research

Banking | India

SREI Infrastructure Finance Ltd

SREI IN; SREI.BO

July 13, 2012

Management Meet Note

Current price	Rs	24

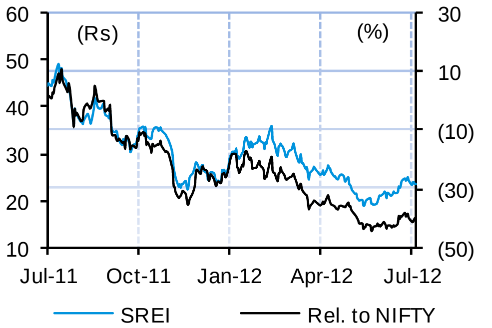
Market data

Mkt capitalisation	Rs bn	11.8
Average daily vol	'000	442.8
52-week h/w	Rs	50.2 / 18.85
Shares O/S	mn	503.1
Free float	mn	266.2
Promotor holding	%	47.1
Foreign holding	%	13.0
Face value	Rs	10.0

Price performance (%)

	1m	3m	6m	1yr
Nifty (abs)	2.5	0.8	7.9	(6.0)
Stock (abs)	7.8	(8.6)	(23.1)	(45.3)
Relative to Index	5.3	(9.4)	(31.0)	(39.3)

Performance



Source: Bloomberg, SSL

Divyanshi Dayanand
+91 22 4227 3385
divyanshi.dayanand@sbicapsec.com

Ravikant Bhat
+91 22 4227 3349
ravikant.bhat@sbicapsec.com

Aayush Dureha
+91 22 4227 3456
aayush.dureha@sbicapsec.com

We recently met the management of SREI Infrastructure Finance Limited. Following are the key takeaways from the meeting.

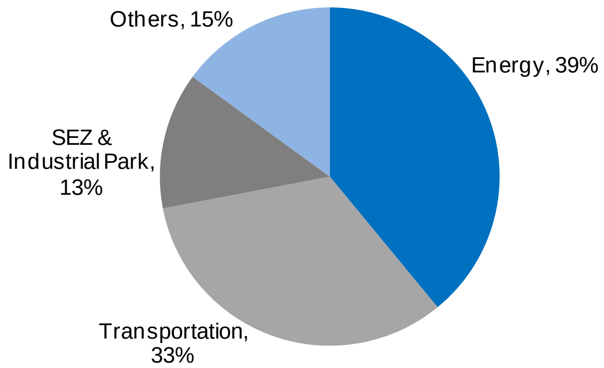
Asset quality remains comfortable: In the equipment finance business, Net NPA rose marginally from 1.78% to 1.96% during this year. SREI follows very conservative provisioning policy. The provisions are more than the statutory requirement of the RBI, and in continence with the international norms and their own assessment to be conservative. For now the asset quality remains comfortable and the company is not facing stress either on the project finance or on the equipment financing business. Impact of economic slowdown is somewhat visible on the demand side but a nominal growth of ~30% in business is achievable

SREI BNP Paribas to grow moderately: The JV would be looking at an equity infusion of ~ Rs 250 crores which would be contributed by both the partners. The management believes that last year was fairly a good year for the JV. Going forward, the sector should grow in spite of the various challenges, though the growth may see slight moderation in near term. Management has guided for a growth of 25% to 30%, both in terms of new disbursements and in profit for the current year. While cautious is maintained for the project finance arm given the near term challenges still no stress has been visible on the profitability of the arm. The business growth may improve in second half if economic conditions improve. The overall sales of construction and mining equipments in India are growing at almost 40%, which is likely to remain around current levels, but much would depend on the economic environment.

Telecom tower business continues with its leadership: The Company is leading in the telecom tower business with over 40000 towers as on date. The business boasts of a tenancy ratio of over 2.39X. The tenancy ratio is strong given the company has not double counted GSM and CDMA while calculating the figure, where in the average industry tenancy ratio is ~ 1.6x . While dependency on Uninor is ~20%, the management feels that for now there is no immediate threat of the company pulling out of business. They still believe that Telenor would continue, the scenario is likely to improve in the next couple of months, when they expect some clarity to come in on the policy front and then they can plan the future accordingly. The management believes that on the telecom tower side other operators would start coming in and they expect that to get balanced in case that kind of the scenario so arise. While current challenges would have impacted the valuations the management plans to continue to remain invested over a longer term, hence there is no immediate impairment visible in this particular investment.

Equipment Rental Business: the equipment rental business performed well in the last quarter. In terms of the various other Quipo rental businesses, Quipo Construction has improved and grown its EBITDA. The EBITDA has grown because of the high depreciation, the interest expenses have come down, resulting in a cash profit. However because of depreciation, the reported PAT is negative. Going ahead the business is expected to remain strong. Especially in the oil and gas segment where two rigs were not on hire, but the management is very sanguine that in this current financial year, it will be able to deploy all its oil rigs. Profits would begin to come in from the current fiscal as the company has got the contracts and the rigs would be taken up for hire. The energy rental business is still positive and PAT positive.

Infra Exposure



Source: Company, SSL

Investments in various arms not to see any impairment: With various long term investments in group businesses on a consolidated basis, they have a large chunk of capital blocked. Various investments include telecom business, equipment financing, equipment rental business and even a few road assets. These investments are long term in nature and don't give me quarter-to-quarter return, resulting lumpy returns over a period of time. And as a result, it impact the return on equity While reporting quarterly numbers the value of those investments are not effectively factored and it is heavily discounted. Any and any happening in that environment say like the telecom environment has been challenging. However the impact on investments in largely notional, the company is not planning to monetize its investments in near future hence none of the investments can be considered impaired. Economic cycles are largely cyclical in nature and hence can be discounted.

Infrastructure play continues to be strong; Roads lead the way: The Company has invested in the power, road, telecom, port, oil & gas and SEZ sectors with a medium to long-term perspective. These strategic investments are valued at Rs 20267mn as on March 31, 2012.The management believes that the value add because of its expertise in the segment would help the company to garner better value over a medium to long term. Company has invested selectively in road projects allotted by National Highway Authority of India (NHAI) (including a major expressway project). NHAI is now bidding out road projects expanded to 6 lanes. Presently, your Company, under consortium arrangement in Roads and Highways, has a substantial portfolio of close to 5500 Lane-Km under development, operation & maintenance. These projects are a diversified mix of annuity and toll based projects and has been awarded by the National Highways Authority of India (NHAI) under National Highways Development Programme (NHDP), Ministry of Road Transport and Highways and various other State Governments. This gives the Company a promising opportunity to become a significant player in the segment.

'Sahaj' initiative shaping up well; to break even in 2 years: 'Sahaj' is a Common Service Centre aimed at providing a digital infrastructure set up to gap the infrastructure divide with urban and rural India . The business was EBITDA positive this year, garnering Rs 48mn. PAT negative due to current investments and the long term distribution expenditure of infrastructure in the rural sector. The management is upbeat about the project as they believe overall medium to long-term it would give a strong impetus to the group in the rural infrastructure development. The project is a gestation feed project, it needs a lot of development which would take at least about two to three years. In some sectors like UP it has picked up well in the last three or four months. The government is now pushing very hard to every state to push the government services through CSCs (Common Service Centers) and they have been resistance more at the local levels by government authorities. So that is getting addressed. The management is hopeful of a cash profit hopefully in the next two year's time.

New Securitisation norms likely to impact volumes: The company has about 15%, 18% of the portfolio through that route. With new norms coming in the first likely impact is expected to be on the volumes (may go down as high as 30%), though the route would still continue to be functional. Given the RBI's stand, with these new norms the banks may take a cautious approach on these transactions. The management believes that once the final guidelines are released an exact assessment of the situation would be possible. The new norms could have an impact to certain extent on the cost of borrowing which is one reason that the company is not reducing its benchmark rates.

Margins to remain largely stable: The Company saw some impact on margins in the fourth quarter on yields coming down and cost of funds rising marginally. While cyclicity in interest rates would be seen in the quarterly margins, long term NIMs are likely to be in the range of 3.25-3.75%. In a declining interest rate scenario the company would be benefited on the cost front which would finally augment the NIMs.

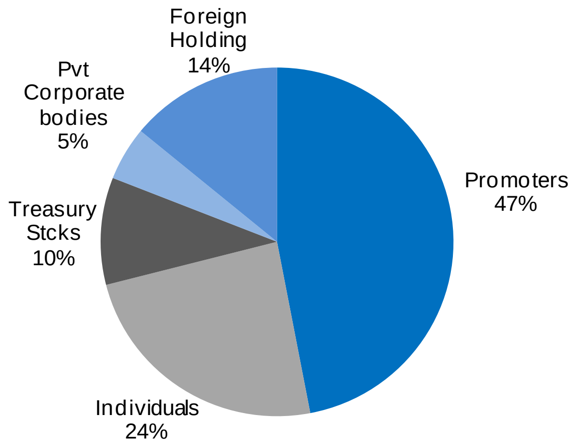
Q4F12 performance: SREI Infrastructure Finance reported a net profit of Rs 132.1mn for the fourth-quarter ended March 31, 2012, compared to Rs 142mn net in the corresponding quarter last fiscal. An impact of high interest rates was seen on the profits which came down on a YoY basis. The consolidated income from operations in the Q4F12, however, was up at Rs 6533.6mn against Rs 6277.5mn in the Q4F11. Profit was impacted due to the sharp depreciation of Indian rupee against US dollar, resulting in a notional forex loss of Rs 648mn. Consolidated asset under management at the end of March 2012, grew by 51 % to Rs 307.64 bn from Rs 205.1bn at the end of March 2011, while consolidated disbursements in the FY 2011-12 was up by 49 % to Rs 186bn compared to Rs 124.97bn in FY 2010-11. Interest earning portfolio for Equipment Financing increased by 29% to Rs122,750 mn from Rs 95,163 mn and for Project Financing increased by 81% to Rs 91,994 mn from Rs 50,745 mn.

About the Company: The Company was established in 1989 as an NBFC with infrastructure focus. It is primarily engaged in the business of Infrastructure Financial Services; Infrastructure Development such as Roads, Ports, Telecom, Power; Rural Infrastructure; Hospitality and Healthcare. The company has received an IFC status by the RBI; wherein a clear focus on infrastructure related finance can be undertaken by the company. The company's focus areas remain on project and equipment financing along with some strategic investments in a host of infrastructure projects across sectors. The company is present across India (198 offices), has 2 offices in Russia and 1 in Germany.

- **Equipment financing business:** The equipment financing business is a 50:50 joint-venture with BNP Paribas. The JV focuses on financing equipment including excavator, dumpers and crushing plants among others.
- **Project financing business:** dominated by power (40%) and transportation (33%) sectors.
- **Other Strategic Investments:**
    - Viom Networks Ltd: Telecom passive infrastructure provider; JV with Tata Teleservices
    - Quipo Rentals: Concentrates on equipment rental business- focusing on infrastructure.
    - SAHAJ: Initiative on ruaral IT infrastructure development.

The current management team has Mr. Hemant Kanoria as the Chairman and Managing Director and Mr. Sunil Kanoria as the Vice Chairman of the company. Promoter holding in the company currently stands at 47%.

Share holding



Source: Company, SSL

Income statement (Consol)

Y/E March (Rs mn)	F 10	F 11	F 12
Income from Operations	9,696	16,094	23,778
Other operating Income	26	223	561
Total Income	**9,722**	**16,317**	**24,339**
Growth (%)	25.7	67.8	49.2
Expenditure			
Employee Cost	626	1,234	1,718
Legal & Professional Fee	350	402	397
Operating & other expenses	520	1,530	1,835
Bad Debts Written off	259	351	512
Contingent Prov. Against Standard assets	0	224	117
Prov for bad & doubtful assets	21.0	209.7	216.2
Depreciation	433	1,241	1,650
Total Expenditure	**2,208**	**5,190**	**6,445**
Profit from Operations	**7,513**	**11,126**	**17,894**
Other Income	26	64	124
Profit from ordinary activities before finance cost	**7,539**	**11,191**	**18,018**
Finance Cost	5,336.7	8,300.8	15,650.3
Profit before taxes	**2,203**	**2,890**	**2,368**
Taxes	609	928	1,136
Profit after taxes	**1,593.9**	**1,961.8**	**1,231.5**
Exceptional Items	0	0	0
Minority Interest	9.4	169.4	113.4
Profit After taxes and minority interest	**1,584.2**	**1,792.1**	**1,117.8**

Balance sheet

Y/E March (Rs mn)	F 10	F 11	F 12
LIABILITIES			
Capital	1,163	5,032	5,032
Reserves & surplus	11,734	25,648	26,754
Minority Interest	236	738	913
Loan Funds	65,696	100,641	167,933
Deferred Tax Liability	736	1,015	1,405
Total liabilities	**79,565**	**133,075**	**202,038**
ASSETS			
Fixed Assets	3,171	14,618	20,753
Capital & Project WIP	-	745	-
Goodwill	62	4,253	4,399
Investments	6,707	20,314	21,137
Net Current Assets	69,574	92,772	155,749
Miscellaneous Expenditure	43	14	-
Total assets	**79,565**	**133,075**	**202,038**

Source: Company, SSLe

SBICAP Securities Limited

Corporate Office: Mafatlal Chambers, A-Wing, 2nd Floor, N. M. Joshi Marg, Lower Parel, Mumbai -400013.
Tel.: 91-22-42273300/01 **|** Fax: 91-22-42273334 **|** Email: sbicapresearch@sbicapsec.com **|** www.sbicapsec.com

Name	Designation	Phone	E-mail
Kishore M Chinai	SVP & Co - Head (Equities)	42273343	kishore.chinai@sbicapsec.com
Sriram N.S.	Deputy Head - Sales Trading	42273318	sriram.ns@sbicapsec.com
INSTITUTIONAL SALES			
Sidharth Agrawal	Assistant Vice President	42273481	sidharth.agrawal@ sbicapsec.com
Pankaj Karde	Sr. Manager	42273488	pankaj.karde@ sbicapsec.com
Kishor Binwal	Sr. Manager	42273480	kishor.binwal@sbicapsec.com
Jitender Kumar CMT	Sr. Manager – Quant Analyst	42273483	Jitender.kumar@sbicapsec.com
Nishit Paleja	Sr. Manager	42273479	nishit.paleja@sbicapsec.com
Piyush Khandelwal	Sr. Manager – Business Development	42273489	piyush.khandelwal@sbicapsec.com
Kunal Sukhani	Manager	42273485	kunal.sukhani@sbicapsec.com
INSTITUTIONAL DEALING			
Arundhati Parab	Sr. Sales Trader	42273434	arundhati.parab@sbicapsec.com
Vikas Nathani	Sr. Sales Trader	42273433	vikas.nathani@sbicapsec.com
Dhavan Parekh	Sales Trader	42273431	dhavan.parekh@sbicapsec.com

INSTITUTIONAL RESEARCH				
Rabindranath Nayak	Lead Analyst	Power & Capital Goods	42273310	rabindra.nayak@sbicapsec.com
Alok Ramachandran	Associate	Power	42273478	alok.ramachandran@sbicapsec.com
Nirav Vasa	Associate	Capital Goods	42273460	nirav.vasa@sbicapsec.com
Ravikant Bhat	Analyst	Banking	42273349	ravikant.bhat@sbicapsec.com
Divyanshi Dayanand	Analyst	Banking	42273385	divyanshi.dayanand@sbicapsec.com
Aayush Dureha	Associate	Banking	42273456	aayush.dureha@sbicapsec.com
Manish Kumar	Analyst	Infra/Construction/Aviation/Port	42273388	manish.kumar@sbicapsec.com
Rohan Phadke	Associate	Infra/Construction/Aviation/Port	42273388	rohan.phadke@sbicapsec.com
Vivek Kumar	Analyst	Pharma	42273312	vivek.kumar@sbicapsec.com
Kunal Mishra	Associate	Pharma	42273459	kunal.mishra@sbicapsec.com
Akshit Shah	Analyst	Realty/Hotel&Resort/ Consumer Durables	42273329	akshit.shah@sbicapsec.com
Sagarika Mukherjee	Analyst	FMCG	42273386	sagarika.mukherjee@sbicapsec.com
Vaishali Parkar	Analyst	Auto	42273364	vaishali.parkar@sbicapsec.com
Rahul Kundnani	Analyst	Media / Retail	42273387	rahul.kundnani@sbicapsec.com
Dipesh Mehta	Analyst	IT/Telecom	42273311	dipesh.mehta@sbicapsec.com
Ankit Pande	Associate	IT	42273458	ankit.pande@sbicapsec.com
Jatin Damania	Analyst	Metal, Mining & Pipes	42273361	jatin.damania@sbicapsec.com
Dikshit Mittal	Analyst	Oil & Gas	42273330	dikshit.mittal@sbicapsec.com
Gunjan Poddar	Associate	Oil & Gas	42273363	gunjan.poddar@sbicapsec.com
Milind Raginwar	Analyst	Cement/Logistics	42273362	milind.raginwar@sbicapsec.com
Sanjay Bhansali	Sr. Manager Production		42273313	sanjay.bhansali@sbicapsec.com

Key to investment Ratings

Guide to the expected return over the next 12 months. **1=BUY** (expected to give absolute returns of 20 or more percentage points); **2=ACCUMULATE/ADD** (expected to give absolute returns between 10 to 20 percentage points); **3=REDUCE** (expected to give absolute returns between 0 to 10 percentage points); **4=SELL** (expected to give absolute negative returns)