

Q3FY12 Result Update
Buy
Financial Highlights

Y/E March 31 st (Rs mn)	Operating Income	NIM (%)	PAT	Growth (%)	ABV (Rs)	P/ABV (x)	P/E (x)
FY09	1325.0	1.2	503.6	-53.4	59.8	0.55	7.5
FY10	2213.5	6.0	1114.9	121.4	67.9	0.48	3.4
FY11	3120.7	4.2	1341.6	20.3	50.7	0.64	12.2
FY12E	3544.3	3.1	1096.2	-18.3	52.2	0.62	15.0
FY13E	4848.4	3.0	1623.7	48.1	54.3	0.60	10.1

Source: QS Research

*The above numbers are on a standalone basis.

Result Highlights

- Srei Infrastructure Finance Ltd's (SIFL) net profit of Rs 1.2mn in Q3FY12, was much lower than our expectation of Rs 200.8mn due to a MTM loss of Rs 647mn on unhedged and partially hedged forex borrowings, due to depreciation of the Rupee by 8.4% as against the US Dollar during the quarter.
- Loans grew by 104.3% YoY to Rs 78.4bn on the back of 55.2% YoY growth in disbursements to Rs 14.7bn. At present, Energy and Transportation segments constitute 79% of SIFL's loan portfolio.
- Net Interest Income (NII) grew by 137.3% YoY to Rs 588.9mn on account of robust loan growth. Interest spreads improved on a QoQ basis from 3% in Q2FY12 to 3.7% in Q3FY12
- Due to rapid growth in business during Q3FY12, capital adequacy ratio declined from 23.2% in Q2FY12 to 20.1% in Q3FY12.
- Asset quality remained stable on a sequential basis with gross and net NPA levels both being at 0.1% in Q3FY12.
- SIFL's biggest business division, the equipment finance performed well, with Srei Equipment Finance Pvt. Ltd's (SEFPL) loans and NII growing by 61% and 78.5% YoY to Rs 156.4bn and Rs 1785mn respectively in Q3FY12. SEFPL also reported a forex loss of Rs 128mn in Q3FY12. Its net profit grew by 69.4% to Rs 488mn.
- Within strategic investments of Rs 25.2bn, investments in telecom infrastructure and transportation form the major chunk at Rs 21bn and Rs 3.97bn respectively.
- Viom Networks' revenues and EBITDA for 9MFY12 stood at Rs 23.8bn and Rs 11.8bn respectively. As on December 31, 2011, the company had 39981 towers and a tenancy ratio of 2.42x.
- SIFL's subsidiaries Quippo Construction Equipment and Quippo Oil and Gas reported a loss of Rs 41mn and Rs 95mn respectively for 9MFY12. Quippo Energy Rental reported a PAT of Rs 17mn during the same period.
- In case of Srei Sahaj, around 23904 common service centres were rolled out by December 2011 end. With the company being in its initial stage of growth, it reported a loss of Rs 158mn for 9MFY12.

Industry	NBFC
Close Price (Rs)	33
FY13E Target Price (Rs)	41
52 Week H/L (Rs)	56 / 22
Volumes (BSE+NSE)*	1119463
Shares O/S (mn)	503.1
Market Cap (Rs mn)	16405.6
Free Float (%)	53.5
Bloomberg	SREI IN
Reuters	SREI.BO

*Three month average

Share Holding Pattern*		
Particulars	No. of Shares (mn)	% Holding
Promoters	234.1	46.5
MF / UTI	1.3	0.3
FII	66.7	13.3
Public and Others	201.0	39.9
Total	503.1	100.0

*As on December 31, 2011

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Forex Borrowings in Q3FY12

	Foreign Borrowings (USD mn)				Foreign Borrowings (Rs mn)		
	30-Sep-11	31-Dec-11	Net Addition / Repayment	Change %	30-Sep-11	31-Dec-11	Change %
Srei BNP JV	303	289	-14	-4.6	14837.9	15340.1	3.4
Hedged	278	268	-10	-3.6	13618.6	14225.4	4.5
Unhedged	25	21	-4	-15.7	1219.4	1114.7	-8.6
Standalone	184	214	30	16.3	9010.5	11359.1	26.1
Hedged	28	42	14	50.0	1371.2	2229.4	62.6
Partially Hedged at Rs 49/\$	69	69	0	0.0	3381.0	3662.5	8.3
Unhedged	87	85	-2	-2.3	4260.4	4511.8	5.9
Srei + JV	336	359	23	6.9	16429.4	19029.2	15.8
Hedged	167	176	9	5.4	8180.4	9342.1	14.2
Partially Hedged at Rs 49/\$	69	69	0	0.0	3381.0	3662.5	8.3
Unhedged	99	114	14	14.1	4870.1	6024.6	23.7
Rs/\$ Rate					49.0	53.1	

Source: Company, QS Research

Calculation of Forex Gain in Different Exchange Rate Scenarios

Due to the Rupee depreciating by 8.4% during Q3FY12, SIFL reported a forex loss of Rs 647 mn at the standalone level and Rs 128mn at the consolidated level. Going ahead with an expected improvement in the overall macro-environment over the medium – long term, we expect the Rupee to gradually appreciate from the current levels. In the table given below we have presented 5 scenarios of different exchange rates and the resulting gain on SIFL's present unhedged forex borrowings:

Particulars (Rs mn)	Reported Forex Loss for Q3FY12 on Unhedged Borrowings (Rs mn)	Calculated Forex Loss for Q3FY12 (Rs mn)	Estimated Forex Gain (Rs mn) in future if Rupee ends up at any of the following levels as on March 31, 2012				
			Rs 49/\$	Rs 48/\$	Rs 47/\$	Rs 46/\$	Rs 45/\$
Srei BNP JV	128.C	86.3	85.7	106.7	127.7	148.7	169.7
Standalone	647.C	630.9	628.3	713.3	798.3	883.3	968.3
Srei + JV	711.C	676.1	671.2	766.7	862.2	957.7	1053.2

Source: QS Research

In our projection, we have estimated an exchange rate of Rs 49.5/\$ at FY12E end and Rs 47.5/\$ at FY13E end. So we estimate the standalone entity to end FY12E with a forex loss of Rs 270.1mn and have a forex gain of Rs 266mn in FY13E, due to the rupee appreciation.

Valuations

We have estimated SIFL's net profit to grow at a CAGR of 10% over FY11-FY13E to Rs 1.6bn in FY13E. As the networth of SIFL has increased by 3x post the merger of Quippo Infrastructure Equipment Ltd (in FY11), it will take some time to deliver good RoEs.

The standalone business of SIFL is trading at 0.6x FY13E Adj. Book Value of Rs 54.3. We have valued SIFL's standalone business at 0.7x its FY13E ABV (post deducting FY13E estimated net NPA of Rs 118.7mn), which gives us a standalone value per share of Rs 40.5 (see the table below for calculation of standalone value per share). In case of its investment in Viom Networks, we have given a 50% discount to its EV, net of debt, which gives us a value of Rs 18.4 per share. The equipment financing business is valued at 0.9x FY13E BV, which gives us Rs 11.2 per share. Value of road projects comes at Rs 7.9 per share, based on SIFL's 1x equity contribution in 13 road projects. For subsidiaries, due to losses in Srei Sahaj and Quippo companies, we do not ascribe any value to it as of now. We have deducted the cost of investments in subsidiaries and joint ventures from the subsidiary / strategic investment value per share, which gives us a net value of investments of Rs 0.6. By summing the standalone value and net value of investments, we derive a target price of Rs 41. We maintain a 'Buy' rating on the stock (as mentioned in our quarterly preview dated January 10, 2012).

Calculation of Standalone Value / Share	
RoE - P/ABV based Multiple (x)	0.7
Projected Market Capitalization (Rs mn)	20520.7
Less: Net NPA FY13E (Rs mn)	118.7
Adj. Market Capitalization (Rs mn)	20402.C
Standalone Value per Share (Rs)	40.5

Source: QS Research

Price Target Calculation	Basis of Calculation	Amount (Rs)
Standalone Value / Share (Rs)	0.7x FY13E ABV	40.5
Viom Networks 11% Stake Value / Share (Rs)	50% discount to EV indicated by Management	18.4
Srei Equipment Finance / Share (Rs)	0.9x FY13E Book Value	11.2
Road Projects Value / Share (Rs)	1x Equity Contribution by SIFL	7.9
Subsidiary / Strategic Investments Value per share (Rs)		37.5
Less: Cost per share of Investments in Subsidiaries / Strategic Investments (Rs)		37.0
Net Value per share of Investments in Subsidiaries, Joint Ventures and other Strategic Investments (Rs)		0.6
Target Price (Rs)		41.1

Source: QS Research

Standalone Quarterly Income Statement

Particulars (Rs mn)	Q3FY12	Q3FY11	Var (% YoY)	Q2FY12	Var (% QoQ)	9MFY12	9MFY11	Var (% YoY)
Interest Income	3116.0	1299.0	139.9	2233.0	39.5	7152.0	4430.0	61.4
Other Income	271.8	317.3	-14.3	450.2	-39.6	1173.4	871.0	34.7
Total Income	3387.8	1616.3	109.6	2683.2	26.3	8325.4	5301.0	57.1
Financial Expenses	2527.1	1050.8	140.5	1907.6	32.5	5932.5	3154.9	88.0
Net Interest Income	588.9	248.2	137.3	325.4	81.0	1219.5	1275.1	-4.4
Operating Income	860.7	565.5	52.2	775.6	11.0	2392.9	2146.1	11.5
Total Expenditure	159.1	240.9	-34.0	314.7	-49.4	748.5	572.1	30.8
Operating Profit	701.6	324.6	116.1	460.9	52.2	1644.4	1574.0	4.5
Provision and Contingencies	27.0	-	-	45.9	-	78.1	-	-
PBT Before M2M	674.6	324.6	107.8	415.0	62.6	1566.3	1574.0	-0.5
Forex M2M Gain (-) / Loss (+)	647.0	-23.0	-2913.0	323.0	100.3	976.0	-187.0	-621.9
Profit Before Tax	27.6	347.6	-92.1	92.0	-70.0	590.3	1761.0	-66.5
Tax	26.4	116.1	-77.3	12.4	112.9	176.6	580.2	-69.6
PAT	1.2	231.5	-99.5	79.6	-98.5	413.7	1180.8	-65.0

Source: QS Research

Standalone Income Statement

Income Statement (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Interest Income	2455.2	4083.7	6292.3	10633.5	15619.7
Other Income	809.1	617.6	1170.1	1421.4	1716.8
Total Income	3264.3	4701.3	7462.4	12055.3	17336.4
Financial Expenses	1939.3	2487.8	4341.7	8510.9	12488.0
Net Interest Income	515.9	1595.9	1950.6	2122.9	3131.6
% Change YoY	-62.8	209.3	22.2	8.8	47.5
Operating Income	1325.0	2213.5	3120.7	3544.3	4848.4
Total Expenditure	804.2	694.5	870.8	1102.8	1580.6
Operating Profit	520.8	1519.0	2249.9	2441.5	3267.8
Provisions and Write offs	17.1	37.7	128.5	340.3	827.6
PBT Before M2M	503.7	1481.3	2121.4	2101.2	2440.2
Forex M2M Gain (-) / Loss (+)	-	-	1.4	270.1	-266.0
PBT	503.7	1481.3	2120.0	1831.1	2706.2
Tax	0.1	366.4	778.4	735.0	1082.5
PAT	503.6	1114.9	1341.6	1096.2	1623.7
% Change YoY	-53.4	121.4	20.3	-18.3	48.1

Source: QS Research

Standalone Balance Sheet

Balance Sheet (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS					
Shareholders' Funds	6948.6	7901.0	25531.3	26331.7	27425.5
Loan Funds	13426.1	35382.2	52896.4	99170.5	143464.8
Deferred Tax Liability (Net)	-	344.0	679.0	344.0	344.0
Capital Employed	20374.7	43627.2	79106.7	125846.2	171234.3
APPLICATION OF FUNDS					
Net Block	803.5	831.1	3925.6	4478.6	4926.4
Investments	4805.1	7073.3	25055.1	32234.0	37677.3
Current Assets	3053.7	571.5	1296.4	5318.7	7713.3
Loans and Advances	12107.8	35921.7	50239.8	85432.0	123272.4
Less: Current Liabilities and Provisions	395.4	770.4	1470.1	1617.1	2355.1
Net Current Assets	14766.1	35722.8	50066.1	89133.7	128630.6
Total Assets	20374.7	43627.2	79106.7	125846.2	171234.3

Source: QS Research

Key Ratios - Standalone

	FY09	FY10	FY11	FY12E	FY13E
Valuation					
EPS (Rs)	4.3	9.6	2.7	2.2	3.2
BVPS (Rs)	59.8	67.9	50.7	52.3	54.5
Adj BVPS (Rs)	59.8	67.9	50.7	52.2	54.3
P/E (x)	7.5	3.4	12.2	15.0	10.1
P/BV (x)	0.5	0.5	0.6	0.6	0.6
P/ABV (x)	0.5	0.5	0.6	0.6	0.6
Dividend Yield (%)	3.1	3.7	2.3	1.5	2.8
Payout (%)	27.0	14.6	32.8	26.9	32.6
Growth (%)					
Borrowings	50.1	163.5	49.5	87.5	44.7
Loans and Advances	12.7	196.7	39.9	70.0	44.3
Net Interest Income	-62.8	209.3	22.2	8.8	47.5
Operating Income	-41.2	67.1	41.0	13.6	36.8
Operating Profit	-60.4	191.7	48.1	8.5	33.8
Net Profit	-53.4	121.4	20.3	-18.3	48.1
Profitability (%)					
Yield on Assets	9.6	16.1	14.0	15.1	14.5
Cost of Funds	17.3	10.2	9.8	11.2	10.3
Spread	0.6	5.9	4.2	3.9	3.7
NIM	1.2	6.0	4.2	3.1	3.0
RoAE	7.4	15.0	8.0	4.2	6.0
RoAA	2.8	3.5	2.2	1.1	1.1
Cost/Income	60.7	31.4	27.9	31.1	32.6
Balance Sheet Ratios					
Leverage (Total Assets/Networth) (x)	2.9	5.5	3.1	4.8	6.2
Borrowings / Loans and Advances (%)	110.9	98.5	105.3	116.1	116.4
Asset Quality (%)					
Gross NPA	-	-	-	0.2	0.4
Net NPA	-	-	-	0.1	0.1
Provision Coverage	-	-	-	39.0	77.1
Capital Adequacy (%)					
Capital Adequacy Ratio	39.2	22.0	29.4	19.5	18.0
Basic Data					
Share Price (Rs)	32.6	32.6	32.6	32.6	32.6
Market Capitalization (Rs mn)	3791.1	3791.1	16405.6	16405.6	16405.6

Source: QS Research

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