



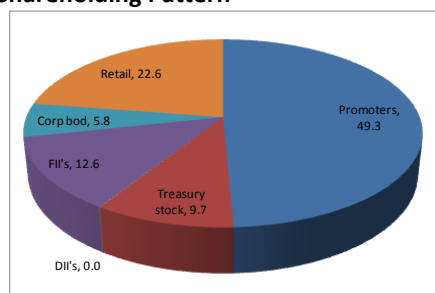
BUY

BSE code	532756
NSE code	SREINFRA
Bloomberg code	SREI:IN
Current price	41.5
Target Price	78
MCap Rs bn	20.9
MCap US\$ mn	342.4
52 wk H/L	57.5/20.5
Face value	10
2 Wk Av vol ('000)	578

Financial Snapshot

₹ Mn	FY14	FY15E	FY16E
NII	709.0	2,130.9	2,218.7
% Ch	(49.2)	200.6	4.1
OPM	1,625.4	3,325.1	3,526.6
PAT	593.2	971.0	1,394.4
% Ch	(37.5)	63.7	43.6
EPS	1.2	1.9	2.8
PER	35.2	21.5	15.0
BV	53.2	54.4	56.0
Adjusted BV	48.3	49.0	50.1
P/BV	0.78	0.76	0.74
P/ABV	0.86	0.85	0.83

Shareholding Pattern



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The wait for the turnaround gets longer, Valuations at huge discount to peers

Srei reported its Q3 FY15 numbers which were marginally below expectations at the profit levels. The infrastructure loan book continued to show a relatively strong performance with a growth in disbursements which were higher both sequentially and over the previous year. However with NPA's increasing further the reversal in interest income affected the profitability. The Equipment finance business where Srei owns 50% has had a rather difficult time, with very low disbursements and rising NPA's leading to higher provisioning which have affected profitability for that business. The management has been looking to sell stake in some of its road projects and its stake in its passive telecom venture VIOM, however there is no clear time frame at present which came in as a major disappointment. Although NPA's have increased the increase has been very small at present with the management guiding still a little stress over the next couple quarters. Although we are positive on Srei due to the possibility of asset sale leading to freeing up of funds we believe the stock would remain range bound during the time till the announcement of such sale.

Loan disbursements muted: Srei was able to grow its loan by 2.6% sequentially and 12.2% on a YoY basis at the net level for its standalone infrastructure book which was a good performance giving very little demand for financing. However the equipment finance business saw a even smaller increase of 1% Sequentially and a decline of 0.8% YoY, the fresh disbursements for the quarter were the lower by 29% sequentially and 36% YoY. This as the main stay business of the equipment finance business the mining industry has had very low demand of funds. We believe this book will grow over a couple quarters down as demand for mining equipment see's an uptick following the auction completion of coal mines. Further with the equipment finance business looking at new streams of funding the loan book could see some growth coming from other sectors such as healthcare and IT as well over the next couple years.

Interest income and NII increase: Interest income has been suppressed for a long time now with the increasing NPA's making them take a reversal of interest income for past quarters. The interest spreads too have been compressed due to the lower yields being generated post the reversal of income. Srei's infrastructure business generated near about 13.8% average Yield for the quarter with a spread of 2.5% for the quarter. The spreads could very well be bottoming out now as the increase in NPA for the infrastructure book look limited and cost of funds too are expected to decline with expectation of further rate cuts by the central bank which would lead to lower base rates by banks.

Freeing up of funds to boost profitability: During Q1 Srei was able to free up ₹4.5bn of funds from sale of united spirit shares, these funds were used for new funding as can be seen looking at the balance sheet. VIOM is the telecom tower business where Srei owns 15% stake which they have been looking to divest. The current investment towards this company stands at ₹15.9bn. Once it were to offload this asset these funds would be used to reduce debt thereby allowing them to increase NII and profits as VIOM has not been able to return any funds against this investment. We believe this is the only trigger in the near term that would help increase valuation which is at dismal levels.



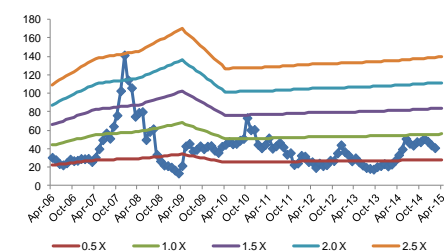
Increased provisioning keeps profit growth in check: Srei has been able to keep its NPA's for infrastructure book at the similar levels with the gross and net NPA's reported at 2.9% and 2.1% respectively. The management has been actively pursuing sale of collateral against these NPA's but has been unsuccessful till now. Although the management has guided for sale of some assets before the end of the current financial year we would not want to factor this in as they have been working on this for long with no results. Since recovery is not in sight we believe the management will have to keep provisioning high and they too have guided for the same. The high provisioning in the current year will keep profitability in check.

NPA for equipment finance business increases: The mining space where srei equipment finance business caters to largely has been going through a slump. With very little demand it has been unable to grow this loan book much. Further this division has seen an increase in NPA's which is now at 4.8% and 3.6% an increase of 200bps and 100bps at the gross and net levels respectively. With stress persisting in this space the management believe this could lead to further accretion in the NPA levels which could move as high as 5.5% over the next couple quarters.

Valuations:

Post the current results we have revised our earnings marginally downwards for the current and next financial year. At our new earnings target the stock at the current price trades at a P/E of 21.5x and 15.0x and a P/BV 0.76x and 0.74x its FY15E and FY16E its standalone earnings. This is without factoring in a sale of its assets which we are told is at an advance stage. We assume a P/BV of 1.5x its FY16E for its standalone book and add at the same multiple its value for holding in the JV which is the equipment business at a 25% holding discount. Further to that we add at a large discount the value of its holding in VIOM and the toll road projects. Based on these a we arrive retain our target price at ₹78 implying an upside of 89% from the current levels without capturing upside from the funds being freed up from asset sales. If this were to happened we would revise our target price higher. Based on these we continue to hold our positive view on the company from the extremely attractive valuations and hence retain our BUY recommendation on the company.

Forward P/BV



Financials

Profit & Loss

In ₹ million	FY13	FY14	FY15E	FY16E
Interest Income	14,578	15,771	17,627	19,202
YoY (%)	37.2	8.2	11.8	8.9
Interest Expense	13,182	15,062	15,496	16,984
YoY (%)	47.6	14.3	2.9	9.6
Net Interest income	1,395.9	709.0	2,130.9	2,218.7
YoY (%)	(17.9)	(49.2)	200.6	4.1
Total expenses	1,131.5	1,371.3	1,419.0	1,617.9
YoY (%)	29.7	21.2	3.5	14.0
PBDT	264.4	(662.3)	711.9	600.8
Other income	2,086.4	2,287.7	2,613.2	2,925.8
Depreciation	309.6	261.2	393.3	437.2
PBT before provision	2,041.2	1,364.2	2,931.8	3,089.4
Provisions	295.4	191.9	1,382.5	908.2
FX loss	391.7	296.0	100.0	100.0
PBT	1,354.1	876.3	1,449.3	2,081.2
(-) Tax	404.5	283.1	478.3	686.8
PAT	949.6	593.2	971.0	1,394.4
Extra-ordinary expen:	0.0	0.0	0.0	0.0
Net Profit	949.6	593.2	971.0	1,394.4
YoY (%)	63.8	(37.5)	63.7	43.6

Balance Sheet

In ₹ million	FY13	FY14	FY15E	FY16E
Share capital	5,032	5,032	5,032	5,032
Reserves	21,443	21,742	22,360	23,166
Net worth	26,475	26,774	27,392	28,198
Total loans	111,784	129,601	135,228	159,755
Non Curr Liab	1,518	1,794	1,854	1,938
Current Liab	2,481	2,873	2,735	2,988
Total Liabilities	142,258	161,043	167,210	192,879
Net Assets	4,987	5,400	5,819	6,081
CWIP	563	312	200	200
Investments	30,874	30,262	26,982	26,982
Infra loans	97,166	109,722	120,694	138,798
Non Curr Assets	4,012	3,378	1,816	1,979
Curr Assets	4,657	11,969	11,700	18,839
Total Assets	142,258	161,043	167,210	192,879

Key Ratios

	FY13	FY14	FY15E	FY16E
EPS (₹)	1.9	1.2	1.9	2.8
CEPS (₹)	2.8	1.8	2.8	3.8
Book value (₹)	52.6	53.2	54.4	56.0
Adjusted BV (₹)	48.0	48.3	49.0	50.1
DPS (₹)	0.5	0.5	0.6	1.0
NIM	1.9	1.3	2.3	2.2
NET NPA	2.1	2.4	1.8	1.6

Valuations

	FY13	FY14	FY15E	FY16E
PE (x)	22.0	35.2	21.5	15.0
Cash PE (x)	14.8	22.7	14.8	11.0
P/BV X	0.79	0.78	0.76	0.74
Price/Adj BV (x)	0.86	0.86	0.85	0.83
Divident Yield	1.2	1.2	1.4	2.4

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