



<b>Report Date</b>	22nd Oct, 2010	
<b>Company Name</b>	SREI Infrastructure Ltd.	
<b>Price / Recommendation</b>	CMP: - ₹121	Buy (Medium Risk – Medium Return)

## Company Background

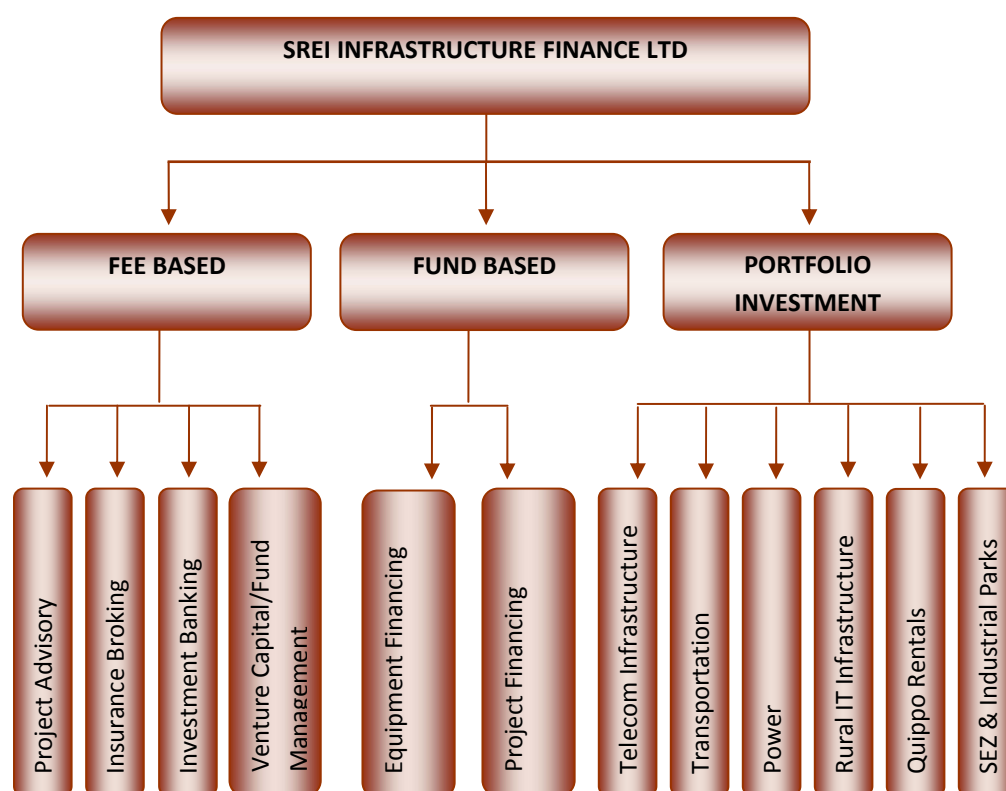
SREI Infrastructure Finance Ltd started its operations in 1989, is a holistic infrastructure institution with sole objective of delivering solutions in the infrastructure space both in urban as well as in rural India. With a pan India presence the company made itself a strong player in the field of NBFCs. Its core businesses include Infrastructure Equipment Leasing & Finance, Infrastructure Project Finance, Advisory & Development, Insurance Broking, Venture Capital, Capital Market and Sahaj e –Village. It is the first Indian infrastructure financing company that is listed on London Stock Exchange. Company made its global presence with three offices in Russia.

SREI initially started to cater the equipment financing needs of the micro, small and medium entrepreneurs (MSMEs). Later on the Company distinguished itself beyond traditional lending and thus developed a unique business model that ensures presence across the entire value chain of infrastructure financing domain.

At present the company has a customer base of over 20,000 with a capital base of ₹ 700 crores. Headquartered at Kolkata, It is operating through 71 offices in India and 3 offices in Russia.

With the Holistic Infrastructure value chain model, the company is growing on the path of expansion through mergers and joint ventures. Srei Equipment Finance Pvt. Ltd is a joint venture between Srei Infrastructure and BNP Paribas Lease Group, engaged in Infrastructure Equipment Leasing and Financing Business to SME across Indian. Company also has its partnership with Tata Teleservices Ltd. (TTSL) through the merger of their passive infrastructure businesses, resulting in the formation of Quippo-WTTIL. The company further strengthened its leadership position with the acquisition of the tower arm of Tata Teleservices (Maharashtra.) later on this company changed its named as Viom Networks Ltd. Recently company has approved the amalgamation with Quippo Infrastructure Equipment Ltd (QIEL). QIEL is a holding company with stakes in various entities which include telecom towers, onshore rigs, power rentals, construction equipment and asset valuation and auction companies

## Business Verticals of SREI Infrastructure Finance Ltd



## Consolidated Q1FY11 Result highlights:

₹ in Crore	Q1FY11	Q1FY10	%y-o-y	Q4FY10	%q-o-q
Interest Income	273.5	149.6	82.8	224.7	21.7
Non Interest Income	33.4	10.1	230.7	64.8	-48.5
other income	5.6	1.7	229.4	2.9	93.1
<b>Total income</b>	<b>312.5</b>	<b>161.4</b>	<b>93.6</b>	<b>292.4</b>	<b>6.9</b>
Interest expense	179.2	82.5	117.2	163.3	9.7
Operating Exp	47.5	30.8	54.2	54.2	-12.4
<b>Total Expense</b>	<b>226.7</b>	<b>113.3</b>	<b>100.1</b>	<b>217.5</b>	<b>4.2</b>
PBT	85.8	48.1	78.4	74.9	14.6
Provisions	11.2	5.4	107.4	7.2	55.6
Provision for Tax	29	4.2	590.5	20.4	42.2
<b>Net profit</b>	<b>45.6</b>	<b>38.5</b>	<b>18.44</b>	<b>47.3</b>	<b>-3.6</b>
NII (₹)	94.3	67.1	40.54	61.4	53.6
GNPA%	0.97	1.18		1.06	
NNPA%	0.43	0.39		0.45	
Equity(FV ₹10)	116.29	116.29		116.29	
Calculated EPS (₹)	4.01	3.35		3.97	
EPS Annualised	16.05	13.41		15.88	

- Srei Infrastructure Finance Limited has begun the new financial year on a very optimistic note. It has done consolidated disbursements of ₹3,243.38 Crore during quarter ended June 30, 2010 compared to ₹1,532.70 Crore business done during corresponding quarter last fiscal, registering a huge increase of 111.61%.
- Consolidated profit after tax was ₹45.65 Crore for the first quarter ended June, 2010 as compared to ₹38.5 cr.
- Total Loan book going up to ₹14,576 Crore as against ₹10,602 Crore, resulting in an increase of over 37.48%.
- Net Interest Income rose by 41 % to ₹ 94.3 cr.
- Fee based income grew by 707 % YoY to ₹24.8 cr from ₹ 3.1 cr.
- Net Worth rose by 12% from ₹ 1182 cr to ₹ 1324.5 cr.

### Key parameters of Srei Infrastructure Finance Ltd: (Consolidated)

Key parameters	FY08	FY09	FY10
NII	223.2	207.1	335.7
NIM%	3.84	3.1	4.87
CAR%	42.09	39.18	21.98
Gross NPA%	1.01	1.33	1.06
Net NPA%	0.28	0.47	0.45
Gross Approval	8227	10096	13265
Disbursals	5736	6620	9016.8
PAT	134.7	82.5	156.8
PATM(%)	23.51	15.63	23.72
EPS (₹)	12.18	7.06	13.42
ROE%	23.87	12.21	21.12
BV/shr (₹)	65.78	98.2	110.14

### Investment rationale:

- **Strong financial performance** - SREI has posted an impressive performance in the FY year 2010 and also posted good numbers for the first quarter of FY2010-2011. This is just an indication of good beginning of the new financial year. It has registered a growth of over 90 percent in the PAT. Consolidated approvals also witnessed an increase of 31 % for FY2010.
- **Increasing demand for infrastructure finance** - The Eleventh Five Year Plan (FYP) 2007-2012 foresee a total investment of USD 514 billion in the infrastructure sector, hence providing good opportunity for the company in the near future. Both project financing and equipment financing are expected to grow to cater the requirements of the Indian infrastructure sector. The management of the company continues to be observant on these front so that company becomes well positioned to capitalise the upcoming opportunities.
- **SREI Infra plans to raise \$1 billion overseas fund** – The Company is planning to raise \$1 billion overseas fund to invest in power, road and port projects in India. Moreover it is aiming to raise \$ 214 million for a domestic fund. The main emphasis of raising this money is to tap the investment opportunities in the country that has doubled its target for infrastructure spending to \$1trillion in the five year starting 2012.
- **Good client base includes big corporates:** Besides providing project financing and equipment financing services, the company is also providing advisory services to various large and reputed corporates. SREI advisory team is playing a crucial role in advising Siemens for Delhi metro, L&T for Mumbai's monorail project.

The Company was engaged in the detailed design of Bangalore Metro Track and Traction System with DB International of Germany.

- **Expansion plans through joint ventures and mergers:** Initially the company was catering only to the equipment financing, but later on through various Joint ventures and Acquisitions, Company has expanded its horizon to a vast range of services. Association with BNP enabled the company to enter into the financing of equipment for IT, medical and agriculture. Recently Srei has decided to merge a promoter group company Quippo Infrastructure Equipment Ltd (QIEL) with itself. The merger was done with a price of ₹102 for Srei, in the deal for every 2 shares held in QIEL 3 shares of Srei would be given. Post this merger the share capital of Srei will rise to ₹2.79bn an increase of 140%. This would bring Quippo Telecom Infrastructure Ltd, Quippo Construction Equipment Ltd, Quippo Energy Pvt Ltd and Quippo Energy Pvt Ltd. These businesses are expected to grow over the years with the increasing demand.
- **Growing loan book:** Srei at the end of Q1FY11 had a loan book of almost ₹ 14500 crores and the management of the company is expecting the loan book to grow by 35-40 % by the end of FY 2011. At the end of FY10 it had a loan book of ₹ 10000 crores. This growth was mainly due to the lower base in FY09 as the company remained conservative in disbursement of loans due to the ongoing financial crisis.

## Other Developments

- SIFL likely to raise around USD 150 million through external commercial borrowings.
- SREI Infrastructure Finance and SREI Equipment Finance have raised their benchmark rate by 100 basis points (bps) with immediate effect from 15 % to 16 % per annum. The company has decided to increase its benchmark rate after reviewing the current market trend of increasing interest rates to contain inflation.
- The company has decided to raise up to a maximum of ₹ 10 billion via public issue of non convertible debentures (NCDs).

## Peer group Analysis:

Consolidated Result for Year Ended FY10, ₹ in Cr

Particulars	SREI Infra	Magma Finance	Sundaram Finance	M&M Financial
Market	1278.7	1047.7	3738.9	6960.3
Total income	969.5	656.6	2013.28	1576.3
Net profit	156.8	71.32	268.2	356.09
Equity	116.2	21.78	55.55	95.98
EPS(₹)	13.42	6.43	49.26	37.07
NII	335.7	768.7	1194.7	788
NIM%	4.87	5.1	2.9	3.1
NNPA%	0.45	0.4	0.45	1
BV/shr(₹)	110.1	135.7	265	182.7
P/E(X)	6.2	9.9	10.3	15.1
P/BV(X)	1.12	1.42	1.42	3
Div%	12	0	100	75

The peer group is strictly not comparable with Srei Infrastructure; the comparison is done on a broader aspect which shows the company is undervalued in terms in P/E ratio.

## Risk & Concerns

- Certain fluctuating market factors, such as foreign exchange rates, market prices, interest rates, credit spreads and equity prices could reduce the income or portfolio value of the company.
- Moreover this is a sector which requires huge funds and certain support by the government, thus any change in government regulations and change in guidelines by RBI regarding capital adequacy ratio will have an adverse effect on the company's working model.
- Due to large gestation period of projects, the company could face liquidity risk due to mismatch between the timings of cash flows and their repayment commitments.
- Increasing competition by the domestic as well as overseas player is again a matter of concern for the company. There is always a keen interest shown by overseas investors in the infrastructure sector of the country thus increasing the scope of more players coming in the industry.

**Recommendation:** Srei Infrastructure Finance Ltd is one of the leading private sector infrastructure financing institutions in India and among the first Indian NBFCs to access the international market for funds. The company is recently focusing on its amalgamation process with QUIPPPO which will open new paths for the company in diversified fields. Moreover the company is on the path of expansion with planning to invest ₹ 500 crore over the next three years. Srei is awaiting the Reserve Bank of India's nod for the infrastructure non- banking finance company (NBFC) status.

Looking at the future prospects and sound financials, we are positive on the outlook of the company with the expected growth in infrastructure financing industry. We recommend buying the stock at current levels for the initial target of ₹150.

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