



JV CAPITAL SERVICES PVT. LTD

www.sharetrading.in

SREI INFRA FINANCE LTD.

CMP 83

BUY

INDUSTRY: INFRASTRUCTURE EQUIPMENT

RISK PROFILE— MEDIUM

TARGET 120

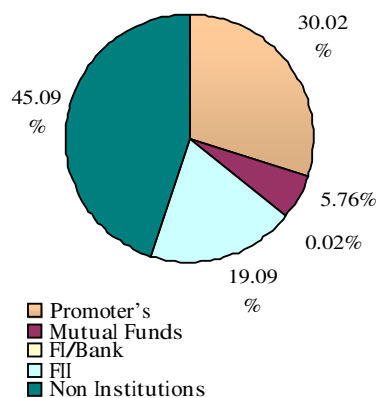
NSE Symbol: SREI

Key Data:

52 week H/L :	94/45
Market Cap (Rs Cr.):	966
Face Value:	Rs. 10
Beta :	1.68
P/E :	19.98
Div % :	1.20
BV :	68.02
PBV :	1.22

(Source: Company)

Share Holding Pattern (%):



Relative Performance Analysis:

■ NIFTY
■ SREINTFIN



Swati Saxena
research@jvfinancial.com
011-41654858

Srei Infrastructure Finance Limited is an infrastructure-focused private sector non banking finance company (NBFC). The Company offers holistic infrastructure solutions, including financing, advisory services and development. The Company's services include infrastructure equipment financing and leasing; infrastructure project financing, advisory and development services; insurance broking; venture capital, and capital market. The Company has 63 offices in India and three offices in Russia. The Company's subsidiaries include Srei Infrastructure Advisors Ltd., Srei Venture Capital Ltd., Srei Sahaj e-Village Ltd., Srei Capital Markets Ltd., Srei Forex Ltd., Global Investment Trust Ltd. and IIS International Infrastructure Services GmbH. During the fiscal year ended March 31, 2009, the Company acquired 100% interest in Controlla Electrotech Private Ltd.

INVESTMENT RATIONALE

SREI is a holistic infrastructure solution and is expected to generate revenues for its other business by the cross selling of other services i.e. project financing and fee income for subsidiaries. The order size of the company are large and big therefore the outsourcing of the job from the larger players to the MSMEs will certainly increase due to which SREI will be a direct beneficiary of the outsourcing. SREI has the presence across infrastructure finance chain. It serves the customer from advisory role at project initiation till the completion of the project.

According to the Government of India, construction sector is expected to flourish most in the Eleventh Plan with the rising infrastructure demand, thus the construction equipment segment is going to witness a huge upsurge in demand. SREI follows a customer relationship based business model and believes in one stop shop concept; with this the company has a stringent provisioning norm which helps it to limit the NPAs at below 0.5%.

VALUATION:

We expect SREI to remain strong player in infrastructure equipment segment. At current price of Rs 83, it is trading at 13.76x its FY10 earnings and 11.76x its estimated FY11 earnings. Investors can take a bet on this stock with an upside expectation of over 45% with a holding period of one year.

Financial Summary	Net Sales	Total Expenses	PAT	EPS
Year				
FY2006	227	150	48	4.21
FY2007	400	281	80	7.10
FY2008	326	378	108	9.08
FY2009	528	268	47	4.16

(Source : JVCS RESEARCH)

INDUSTRY PROFILE

The role of Non Banking Financial Institutions in asset creation and infrastructure development is well acknowledged. NBFIs act as a principal channels of credit delivery to the micro, small and medium enterprises. By serving these MSMEs, the NBFIs are promoting inclusive growth and contributing to the nation building process. Government of India has allowed the infrastructure financing NBFIs to source external commercial borrowing (ECB) from multilateral/regional financial institutions and government owned development financial institutions and government owned development financial institutions.

ELEVENTH FIVE YEAR PLAN

The 11th five year plan has outlined a massive capex requirement for domestic infrastructure development. During the eleventh plan the total investment in India's infrastructure sector is estimated to be around 7.5% of GDP. Capex for infrastructure development is pegged at around Rs 2,056,150cr over FY07-12. The eleventh plan emphasizes attracting private investment through public private partnership (PPP).

Infrastructure Investment in the 11th Plan based on Sectoral analysis.

SECTOR	TOTAL INVESTMENT IN 11TH PLAN
ELECTRICITY	666,525
ROADS	314,152
TELECOM	258,439
RAILWAYS	261,808
IRRIGATION	253,301
WATER SUPPLY AND SANITATION	143,730
PORTS	87,995
AIRPORTS	30,968
STORAGE	22,378
GAS	16,855

BUSINESS UPDATES:

- SREI is the only player in the equipment financing business which provide end to end services to its customers (majorly MSMEs)
- With various subsidiaries, tie ups and associate companies, SREI offers a complete range of services to its clients including Insurance broking, Venture capital, Capital Markets and Sa-haj-e- village. SREI is able to maintain a market share of more than 30% and is a leader in its segment.
- SREI is a holistic service provider, which helps it to generate recurring revenues.

MERGER WITH QUIPP0-LONG TERM SYNERGY PLAN

Srei Infrastructure Finance has merged with Quippo Infrastructure on 15 Feb 2010. Srei Infrastructure's main line of business are equipment finance, project finance and advisory. This is where the amalgamation part comes into play as Quippo Infrastructure is an equipment bank. Now that the Quippo is a part of SREI, the company will have the advantage of synergies. In short term, the amalgamation will result in dilution of earnings per share.

SEPARATE ROAD BUSINESS

The company may hive off its road projects business into a separate company. Srei is in the process of setting up a separate vertical for road projects, which are being developed on a build, operate and transfer (BOT) basis. This is the part of the company's strategy to fuel its growth. Currently the company works with consortium partners such as Madhucon, Sadbhav Engineers and KMC to bid for road projects where the company holds between 10% to 49% stake. The hive off move is expected to help the company to raise more money and exit faster from such projects. It will also open up opportunity to list the entity on the bourses and will help in faster rotation and redeployment of cash flow.

INFRASTRUCTUREEQUIPMENT FINANCE

- The Infrastructure Equipment division is engaged in leasing and hire purchase of infrastructure, construction and machineries to various construction companies and SMEs engaged in civil and mechanical construction.
- The company disbursed Rs 5,519cr in current fiscal year. Srei equipment's business was under a rapid growth path in the beginning of current fiscal year. Company has launched many new business plans.
- SREI is the equipment finance leader in India. In Q3FY10 the business volume of the company was low, but realizations were good. In Q4FY10, the business was increased with focus on much better quality assets.

JOINT VENTURE WITH BNP PARIDAS LEASE GROUP

SREI has entered in to a joint venture with BNP Paribas Lease group, which is been effective from 2 April, 2008. BNP Paribas Lease Group is a 100% BNP Paribas Subsidiary. BNP Paribas Lease group has invested Rs775cr in the JV Company through infusion of fresh capital. BNP Paribas Lease group will also assist and support the JV Company to raise resources at lower costs, thereby improving the profitability of the organization.

After this JV, the loan book of SREI ran down from 54bn to 49bn as it secured the loans

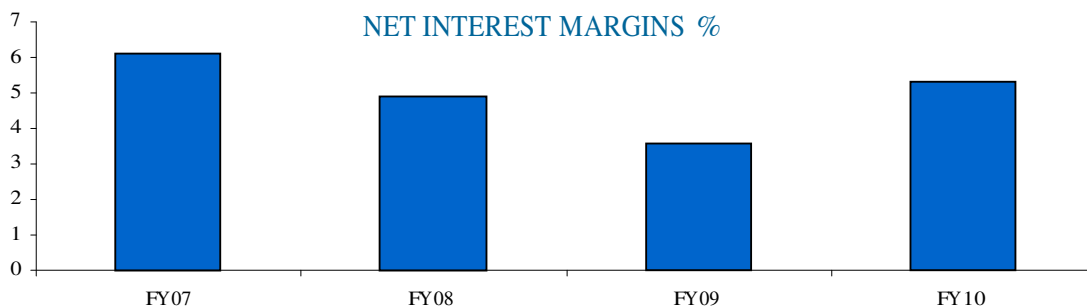
INFRASTRUCTURE PROJECT ADVISORY

- Infrastructure advisory division of the company is involved in carrying out Techno-Financial feasibility Vs Demand Assessment study on development of Multi facility international Class Bus terminal at Jaipur.
- Project advisory segment also carried out the assessment and revaluation of the entire power distribution network of Maharashtra State Electricity Distribution Company Limited (MSEDCL). The company has been extending its infrastructure advisory reach and spread through empanelment with various Government organizations and strategic relationships with some of the best players in industry.

IMPROVED MARGINS AND STRONG ASSET QUALITY

Interest margins on the equipment financing business expanded 4.3% a yield on advances improved 15%. Being a NBFI, SREI does not have an access to cheaper sources of funds compared to banks. The company will be able to raise funds more easily with RBI categorizing NBFIs further into equipment financing NBFI and easing norms on External Commercial Borrowing (ECB) is expected to help the company to lower its cost of funds.

The asset quality of the company has been excellent as the gross NPAs have been less than 1.5% and net NPAs below 0.5% in the last three years.

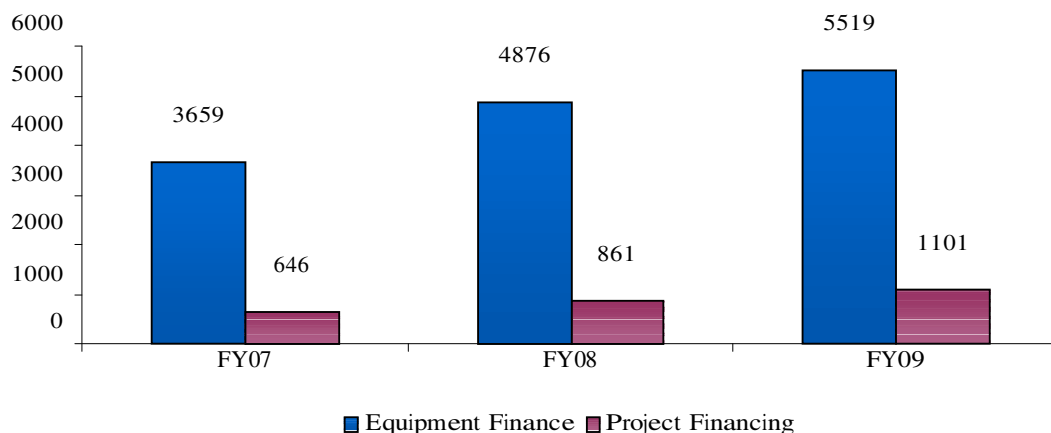


PEER COMPARISON

COMPANY NAME	MARKET CAP (Rs cr.)	SALES TURNOVER	TOTAL ASSETS	PE (x)
Sundaram finance	2233	1082	7428	10.74
SREI Infrastructure	992	469	2037	8.92

TOTAL DISBURSMENTS (Rs Cr)

Total disbursements have registered a CAGR of more than 38% from FY06 to FY10. We expect a total disbursement of 17% in FY11 being supported by health growth in equipment financing assets and projects financing business. With extensive expertise, SREI has a competitive advantage over banks in lending to SMEs. Project financing is expected to maintain 16% contribution to total loans.



Source: Company

OUTLOOK

Share of SREI Infrastructure Finance Ltd has been quoting much below its intrinsic value. We see the current pricing as a highly attractive opportunity for investors as the stock is trading at a huge discount compared to its peers, it is trading at a P/BV of 1.22x compared to an industry average of 2.28 xs for current fiscal year. We maintain a 'BUY' on this stock with a price target of Rs 120.

FINANCIAL VALUATION

Earnings Statement				Rs cr.
Particulars	2008	2009	2010E	2011E
Net Sales	528	326	446	525
Total Expenditure	378	268	275	321
EBIDTA	150	58	171	204
Interest	302	194	168	241
PBDT	-153	-136	3	-37
Depreciation	36	8	9	12
PBT	113	50	88	103
Tax	5	0	4	48
PAT	108	47	70	82
EPS	9.08	4.16	6.03	7.06
Margins (%)				2011E
EBIDTA	28.3%	17.8%	38.3%	38.9%
PBDT	-28.9%	-41.7%	0.7%	-7.0%
PBT	21.4%	15.3%	19.6%	19.6%
PAT	20.4%	14.4%	15.6%	15.5%
Growth matrix				2011E
Net Sales	31.9%	-38.2%	36.8%	17.7%
EBIDTA	25.6%	-61.2%	194.8%	19.5%
PBDT	60.5%	-10.8%	-102.2%	-1323.3%
PBT	32.9%	-55.8%	75.0%	17.5%
PAT	37.2%	-56.3%	48.0%	17.3%
EPS	27.9%	-54.2%	45.0%	17.1%

BALANCE SHEET

	FY2008	FY2009	FY2010E	Rs cr. FY2011E
Sources of Funds				
Share Capital	116	116	116	116
Reserves & Surplus	588	1015	1096	1206
Shareholders Equity	723	1173	1791	1984
Minority interest	13	22	58	82
Loan Funds	5544	4282	4589	3743
Total Liabilities	6280	5477	6438	5809
Application of Funds				
Gross Block	531	362	503	643
Depreciation	96	42	31	21
Net Block	434	320	406	438
Capital Work in Progress	0	0	0	0
Investments	322	443	596	730
Current Assets	5801	4914	5700	6384
Current Liabilities	277	200	264	340
Net Current Assets	5524	4714	5436	4641
Total Assets	6280	5477	6438	5809

Research Desk

Tel: 011- 41654860

Ashit Suri	Head of Research	ashit@jvfinancial.com
Swati Saxena	Research Analyst	Research@jvfinancial.com
Shaurya Priya	Research Analyst	Research@jvfinancial.com

RISK PROFILE:

Low Risk : Fundamentally Sound companies, with low beta. Expected market out-performance is 0-10%

Medium Risk : Expected market out-performance is 10-20%. Preferably for the Investors with a maximum time frame of 6 months.

High Risk : High Beta Stocks, expected market out-performance is more than 20%, Preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

Disclaimer Appendix

This document has been prepared by the Research Desk of M/s JV Capital Services Pvt. Ltd. and is meant for use of the recipient only and is not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to support any security. The information contained herein is obtained and collated from sources believed reliable and we do not represent it as accurate or complete and it should not be relied upon as such. The opinion expressed or estimates made are as per the best judgment as applicable at that point of time and are subject to change without any notice. JVCS Pvt. Ltd. along with its associated companies/ officers/employees may or may not, have positions in, or support and sell securities referred to herein. Investors are advised to maintain strict stop loss.