

SREI INFRASTRUCTURE FINANCE

INR 72



Creating value out of JV with BNP Paribas

BUY

We believe that SREI Infrastructure Finance (SREI)'s proposed 50:50 joint venture with BNP Paribas Lease Group (BPLG) for equipment financing and leasing business is highly value accretive. We believe, BPLG as a strategic investor would help them capture the huge growth opportunities in their business with better margins and without equity dilution in the near term.. BPLG is bringing INR 7.75 bn for 50% in the JV, which would value its equipment finance business at INR 15.5 bn (2.0x book). Our fair value based on SOTP is INR 127 per share - an upside of 77% from the current levels. We upgrade the stock to 'BUY'.

* 50:50 JV with BNP

BPLG would infuse INR 7.75 bn towards its capital contribution for 50% share in the JV. SREI would put in an estimated INR 250 mn in cash plus its asset finance and insurance broking business. The JV would have net worth of INR 8.0 bn initially. BPLG is paying INR 8 bn for 50% in the JV, which would value its equipment finance business at INR 16bn (2.0x book). We expect the operating performance of the company to improve going forward in terms of better margins, as BNP Paribas can help the company to reduce cost of funds. We believe the business will get re-rated with introduction of BPLG. Historically the stock has been trading at 1.3x trailing book, we value this business at 1.7x book (INR 13.6 bn), considering improvement in margins and ROE.

The JV entity (SREI Infrastructure Development Finance Ltd) will acquire SREI's entire current portfolio for a consideration of INR 3.75 bn (net of liabilities). We expect BNP to buy the balance 50% stake at a later stage (2-3 years), which should be at the then market value.

* SREI (standalone) post de-merger

Post the de-merger, SREI (parent) would continue to do project financing, advisory, Venture capital, investment banking and equipment rental business (through Quipo). SREI's FY07E networth of INR 4.9 bn will be freed to build asset book (equivalent to current asset base) without any further dilution. We value the businesses left with SREI at 1.25x book to get INR 6.1 bn (INR 56 per share)

* Equipment rental (Quipo)

Its Equipment rental business (Quipo), where SREI owns 16% has been valued at INR 6.0 bn. Presently Quipo has deployed assets worth INR 6 bn in construction, Telecom, Oil and gas sectors. We expect more value unlocking from the constituents of this business.

* Valuations: 77% upside

On SOTP basis, we would value the overall business at INR 13.8 bn (INR127 per share), which would be 77% upside to the current price. Our best case and worst case scenario give valuation per share of INR 150 (110% upside) and INR 96 (33% upside) respectively. We upgrade the stock to 'BUY'.

Business	Net worth (INR mn)	P/B (X)	Value (INR mn)	Stake (%)	Value (INR mn)
Project Fin, Advisory	4,863	1.3	6,079	100	6,079
Equipment Finance	8,000	1.7	13,600	50	6,800
Equipment Rental			6,000	16	960
Total Market Value					13,839
Value per Share					127

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Bloomberg : SREI IN

Market Data

52-week range (INR) : 72 / 31
Share in issue (mn) : 109.4
M cap (INR bn/USD mn) : 7.9 / 192.9
Avg. Daily Vol. BSE ('000) : 479.5

Share Holding Pattern (%)

Promoters : 20.1
MFs, Fls & Banks : 1.5
FIs : 48.0
Others : 35.4

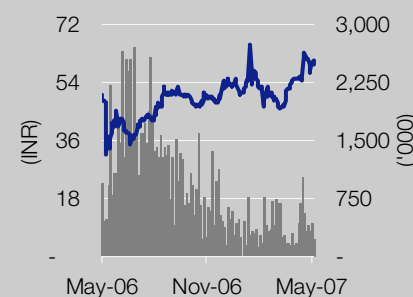


Table 1: Sum of the parts

Sum of the Parts								
Company	Business	Net worth (INR mn)	P/B (X)	Value (INR mn)	Stake (%)	Value (INR mn)	Per share (INR)	
	Present Market Cap					7820	72	
Best Case								
SREI Standalone	Project Fin, Advisory	4,863	1.50	7,295	100.0	7,295		
JV BNP	Equipment Finance	8,000	2.00	16,000	50.0	8,000		
Quipo	Equipment Rental			7,000	16.0	1,120		
	Total Market Value					16,415		150
	Upside					109.9		
Base Case								
SREI Standalone	Project Fin, Advisory	4,863	1.25	6,079	100.0	6,079		56
JV BNP	Equipment Finance	8,000	1.70	13,600	50.0	6,800		62
Quipo	Equipment Rental			6,000	16.0	960		9
	Total Market Value					13,839		127
	Upside					77.0		
Worst case								
SREI Standalone	Project Fin, Advisory	4,863	1.00	4,863	100.0	4,863		
JV BNP	Equipment Finance	8,000	1.20	9,600	50.0	4,800		
Quipo	Equipment Rental			4,839	16.0	774		
	Total Market Value					10,438		96
	Upside					33.5		

Source: Company, Edelweiss research

Table 2: Balance sheet estimates (FY07E)

Existing	SREI		
Liabilities	INR mn	Assets	INR mn
Net worth	4,863	Loans	40,185
Other Liab	36,435	Investments n others	1,113
Total	41,298	Total	41,298
Transferring to JV			INR mn
Loans			40,185
Liabilities			36,435
Net worth			3,750
Post demerger			
Liabilities	SREI	Assets	INR mn
Net worth	4,863	Investments	1,363
		Cash	3,500
Total	4,863	Total	4,863
Post demerger			
Liabilities	BNP Paribus JV	Assets	INR mn
Net worth	8,000	Loans	40,185
Liabilities	36,435	Cash and others	4,250
Total	44,435	Total	44,435

Source: Company, Edelweiss research

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Head, Institutional Equities

Vikas Khemani – 2286 4206

Head, Institutional Equities

INDIA RESEARCH	SECTOR	INSTITUTIONAL SALES
Shriram Iyer - 2286 4256	Head – Research	Nischal Maheshwari - 2286 4205
Gautam Roy - 2286 4305	Airlines, Textile	Rajesh Makharia - 2286 4202
Ashutosh Goel - 2286 4287	Automobiles, Auto Components	Vikrant Oak - 4019 4712
Vishal Goyal, CFA - 2286 4370	Banking & Finance	Shabnam Kapur - 2286 4394
Revathi Myneni - 2286 4413	Cement	Abhijit Chakraborty - 4019 4823
Sumeet Budhbraja - 2286 4430	FMCG	Balakumar V - (044) 4263 8283
Harish Sharma - 2286 4307	Infrastructure, Auto Components, Mid Caps	Ashish Agrawal - 2286 4301
Priyanko Panja - 2286 4300	Infrastructure, Engineering, Telecom	Nikhil Garg - 2286 4282
Hitesh Zaveri - 2286 4424	Information Technology	Swati Khemani - 2286 4266
Parul Inamdar - 2286 4355	Information Technology	Neha Shahra - 2286 4276
Priyank Singhal - 2286 4302	Media, Retail	Priya Ramchandran - 2286 4389
Prakash Kapadia - 4097 9843	Mid Caps	Anubhav Kanodia - 2286 4361
Niraj Mansingka - 2286 4304	Oil & Gas, Petrochemicals	Tushar Mahajan - 2286 4439
Nimish Mehta - 2286 4295	Pharmaceuticals, Agrochemicals	Harsh Biyani - 2286 4419
Manika Preamsingh - 4019 4847	Economist	Nirmal Ajmera - 2286 4258
Sunil Jain - 2286 4308	Alternative & Quantitative	Ankit Doshi - 2286 4671
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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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