

June 20, 2007

**ACCUMULATE**

Price Target Price  
**Rs98** **Rs110**

**Sensex** **14,412**

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	60	98	97	145
Rel. to Sensex	60	75	82	67

**Stock Details**

Sector	Financial Services
Reuters	SREI.BO
Bloomberg	SREI@IN
Equity Capital (Rs mn)	1089
Face Value	10
52 Week H/L	107/34
Market Cap	Rs10.7bn/USD261mn
Daily Avg Volume (No of shares)	1.5mn
Daily Avg Turnover (US\$)	3.2mn

**Shareholding Pattern (%)**

(31st Mar.'07)

Promoters	20.1
FII	43.7
Institutions	1.5
Private Corp.	13.0
Public	21.8

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**SREI Infrastructure Finance**Quarterly  
Update**Strong operating performance**

SREI Infrastructure Finance (SREI) has reported Rs315mn of net profit (standalone) for Q4FY07, driven by hefty tax write backs. The operational performance was in line with expectations with adjusted NII growing by 37.1% yoy to Rs527mn, pre-provision profit growing by 20.0% to Rs321mn. Albeit, the NIMs have contracted significantly over last year, driven by increase in cost of funds and lower securitisation, they have shown improvement on sequential basis. The company has done full year provision for the bad and doubtful debts during the current quarter, which has resulted in flat PBT of Rs218mn. With hefty tax write back of Rs97.3mn, the net profit has almost doubled over last year to Rs315.0mn.

We remain positive on SREI's business and see tremendous potential in the asset financing business. The private equity management business has also been doing exceedingly well and has shown 80% growth in the AUM. We also expect the company to significantly expand its project-financing book now with the capital in the parent company having been released.

We would like to wait for more clarity on the numbers for the company post restructuring and revise our numbers then. We change our rating on the stock to **ACCUMULATE** with price target of Rs110.

**NII shows strong growth**

SREI's adjusted NII for Q4FY07 has grown by 37.1% yoy to Rs527mn driven by 61% yoy growth in disbursements. The NIM have contracted on yoy basis however, the same have shown improvement on sequential basis.

**Adjusted NII grows by 37.1% yoy**

Rs mn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
Reported NII	625	407	403	53.3	55.0
Less: Depreciation of operating lease	98	23	61		
Adjusted NII	527	384	342	37.1	54.2

Source: company, Emkay Research

**AUM and NIM**

Rs mn	Q4FY07	Q4FY06	Q3FY07
Financial assets	31,651	15,259	28,450
Operating assets	4,089	2,036	2,947
AUM	46,442	28,677	41,692
NIM (%)	6.7	7.0	5.0

Source: company, Emkay Research

**Pre-provision profit grows in line**

The operating profit for the quarter has grown in line with expectations to Rs321mn, up 20.0% yoy. The gains from higher than expected growth in NII were partially offset by higher staff costs, which went up by 52.5% yoy to Rs72.3mn.

**Provisioning pulls down PBT**

The company has provided for the bad and doubtful debts during this quarter instead of spreading it over four quarters, which has resulted in flat PBT of Rs217.7mn. The provisioning for bad and doubtful debts has almost doubled to Rs103mn compared to Rs51.7mn in the same quarter last year.

The impact of this extra-ordinary expense was partially set off by hefty tax write back of Rs97.3mn (compared with tax provisions of Rs56mn last year). As a result the net profit almost doubled to Rs315mn for Q4FY07.

## Valuations and view

We remain positive on SREI's business and see tremendous potential in the asset financing business. The NIMs in the business are also likely to improve with SREI raising BPLR by 150bps in the beginning of this quarter. The private equity management business has also been doing exceedingly well and has shown 80% growth in the AUM. We also expect the company to significantly expand its project-financing book now with the capital in the parent company having been released.

We have not revised our numbers on the company as we would like to wait for more clarity in terms of balance sheet and P&L post the transfer of the assets to JV with BNP Paribas. We change our rating on the stock to ACCUMULATE with price target of Rs110.

## Sum of the parts valuation

Particulars	Rs mn	Comments
Value of 50% stake in Joint venture	4,650	@40% discount to valuations given by BPLG
Value of the retained balance sheet excluding the subsidiary value#	4,750	@ 1x book value
Value of private equity	1,332	11x management fees of 1.5%
Value of quipo	640	@1x book value
Total	11,622	
Per share	112	

Source: Company, Emkay Research

## Quarterly results

Rs mn	FY07	FY06	% yoy chg	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
Net interest income	1,833	1,201	52.7	625	407	403	53.3	55.0
Other income	21	5	342.6	13	2	4	429.2	188.6
Net income	1,854	1,205	53.8	637	410	407	55.5	56.4
Total expenses	893	472	89.5	317	143	207	122.0	52.7
Pre-provision profit	961	734	31.0	321	267	200	20.0	60.4
Provisions	103	52	99.0	103	52	0	99.0	-
Profit before tax	858	682	25.8	218	215	200	1.1	8.9
Total tax	65	198	-66.9	-97	56	21		
Tax rate (%)	7.6	29.0		-44.7	26.0	10.4		
Net profit	793	484	63.7	315	159	179	97.6	75.8

Source: Company, Emkay Research

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