

SE Investments

Buy: Rs 49

Target: Rs 60

SE Investments Ltd is one of the leading companies in the category 'A' classified NBFC by RBI specialized in micro finance and other lending activities viz hire purchase, personal loan, loan against property to both individuals and corporates. The company has a dominant presence in the Northern part of the country specially NCR. We expect micro finance activities to continue to be a lucrative business owing to easy access to small loans and the low penetration of banking systems in India. The company also offers very lucrative deposit schemes for individuals with an average interest rate of over 12.5 percent. We initiate coverage on stock with 'BUY' rating

Investment Rationale:

Highly lucrative business with low default:

The company has a balanced mix of corporate and individual loan portfolios where the average yield is between 18-28 percent. The loan amount for micro finance ranges between Rs 2,000-50,000, is dominated by women and has very negligible number of defaults. The corporate loan portfolio is classified into business loans, which is secured in nature with average maturity period of 12-36 months.

The average default rate for entire loan portfolio is less than 1 percent of gross outstanding loan and SE investment follows very strict norms of bad debt treatments. The company has various collection schemes viz daily, weekly and monthly on reducing balance where the average yield is as high as 28 percent.

The company has further plans to expand its loan portfolio in micro finance and corporate loan following its GDR issue where it has raised Rs 176 crore, resulting into a 5 fold expansion in net worth.

Huge scope for credit expansion:

According to NABARD, the current micro credit by micro financial institutions is at Rs20,000 crore whereas the total micro credit demand is estimated at Rs2.4 lakh crore, creating a huge gap and scope for exponential growth in micro credit. Majority of this demand is met through local money lenders charging very high interest rate up to 60 percent pa thus encouraging MFIs to further penetrate through low cost loan offerings.

Till date, a large number of poor people remain outside the formal banking system. The rural penetration in banks is less than 18% and the existing banking policies are far from meeting their needs. About 75 million households live below the poverty line and the annual credit demand by the poor exceeds Rs 70,000 crores, out of which the cumulative disbursements is about Rs. 8000 crores. Only 5 % of rural poor have access to microfinance and the share of Microfinance in total credit of Indian Banking system is less than 1%. The Indian micro finance industry (MFI) would cross 11 crore borrowers and Rs 135,000 crore (\$30 billion) in loan portfolio by 2014.

Valuations:

We have valued company on P/B (x) multiple. At current price of Rs49 the stock is available at 2.6x and 2.2x at its FY11E and FY12E earnings respectively. We recommend a buy on the stock with price target of Rs60 by discount FY11E BV of Rs18.7 by 3.2x thus implying an upside potential of 22 percent.

STOCK DATA

BSE Code	532900
NSE Code	SEINVEST
Bloomberg Code	SEIN IN
52 Week High / Low (Rs.)	57 / 8
Face Value (Rs.)	2.0
Diluted Number of Shares (Crore.)	20.3
Market Cap. (Rs Crore.)	995
Avg. Yearly Volume	45376

SHAREHOLDING PATTERN (%)

Particulars	Mar. 2010	Dec. 2009	Sept. 2009	June 2009
Promoters	22.9	38.9	38.8	38.8
FII	14.1	11.6	5.2	-
GDR	48.3	-	-	-
Public & Others	14.7	49.5	56.0	61.2
Total	100.0	100.0	100.0	100.0

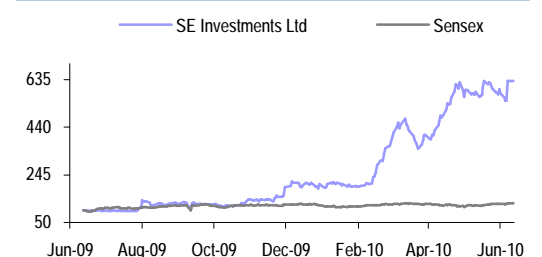
RETURNS STATISTICS (%)

	1M	3 M	6 M	12 M
SE Investments	(3.2)	25.9	186.8	467.0
Sensex	2.9	(1.8)	(0.5)	25.4
BSE Midcap	4.4	2.6	3.6	46.2

FINANCIAL RATIOS

Particulars	2009A	2010A	2011E	2012E
PE (x)	1.1	1.9	18.0	13.8
P/BV (x)	0.2	0.2	2.6	2.2
ROE (%)	19.7	8.8	14.5	16.0
ROCE (%)	5.7	4.5	5.8	5.8

RELATIVE TO SENSEX



FINANCIAL SUMMARY

Year	Net Sales (Cr)	EBITDA (Cr)	PBT (Cr)	PAT (Cr)	EPS (Rs)	CEPS (Rs)	DPS (Rs)	BV (Rs)
2009 A	45.3	15.9	17.1	13.8	43.7	51.7	1.0	221.9
2010 A	80.0	28.2	32.3	26.3	26.0	30.2	1.0	296.4
2011 E	159.0	65.2	69.9	55.2	2.7	3.0	0.2	18.8
2012 E	216.7	89.3	91.1	71.9	3.5	4.0	0.2	22.1

RAJESH GUPTA - Research Analyst

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For a list of our branches refer to our website: www.sbicapsec.com

Company background and business model:

SE Investments Ltd is one of the leading companies in the category 'A' classified NBFC by RBI. The company is specialized in micro finance business loans viz hire purchase, personal loan, loan against property, business loans to both individuals and corporate. The company presently derives nearly 47 percent of its revenues from micro credit followed by corporate loans at 33 percent and rest is contributed by power and other segments.

Corporate loan:

The Company, under the corporate loan segment is engaged in the business of hire-purchase, leasing of motor vehicles providing personal loans, business loans, loans against property, etc. to individuals/corporate bodies. The Company has formulated various Schemes for Corporate Financing keeping in view the size and nature of business.

The Company also offers Fixed Deposit Schemes as per rules, regulations and guidelines prescribed by the Reserve Bank of India. The interest rate on Fixed Deposit is 12.50% per annum, compounded monthly. The Fixed Deposits of the Company have been rated at "MA-" (Adequate Safety) by M/s. ICRA Limited, New Delhi.

Micro Finance Credit:

The microcredit division provides unsecured loans to low-income households with loan sizes varying from Rs2,000 to Rs50,000. There are two streams of microfinance lending methodology employed by the company.

Individual lending model: Here the loans are extended to individual entrepreneurs for various purposes - both agricultural and non-agricultural. The loans are unsecured in nature and have cross guarantees of other borrowers

Group lending model: Here the loans are extended to borrower groups. Normally, these borrowers are ladies and have income from various sources like dairy, poultry, handicrafts, agricultural labor and other microenterprises.

The company has categorized its loan portfolio as per the nature of products like income generation loan where the loans are given for productive purposes with a potential to employ the borrowed money in income generation. The loans are typically for 24 months whereas the clientele is spread across urban and rural areas. A large number of these loans are for agricultural uses like procurement of inputs, dairy and primary processing of agri-produce.

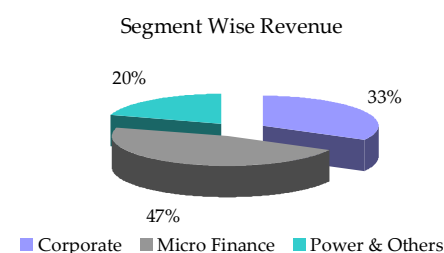
Apart from above, SE Investments also provides micro credit to self employed people engaged in rickshaw pulling, traditional family owned activities, shoe making, dairy business poultry etc. These loans are provided on a daily collection basis employing local people having complete information about the borrowers and their credit worthiness. The default rate in micro credit scheme is very low due to strict credit appraisal analysis prepared by the company before lending.

Micro credit schemes are highly labor intensive as employees need to personally visit & deliver the things at the door steps of each micro credit customer for procurement of file, disbursement of loan and collection of installments. The Company has also started Islamic micro credit scheme on pilot basis.

Power Business:

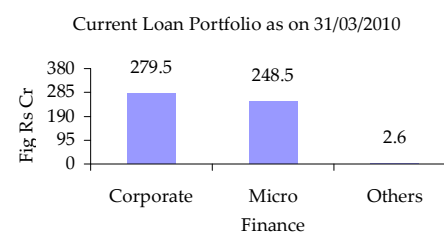
The company has invested Rs16.4 crore in wind power of 3.2 MW situated at Karnataka (2.4 MW) and Jodhpur (0.8 MW). These wind mills have potential to generate Rs 2 - 2.50 crore topline annually at 26-27 percent PLF. The company is also benefited from low tax outgo owing to power business and as a result its effective tax rate has reduced to 20-21 percent from 33 percent

SEGMENT WISE REVENUE



Source: SBICAP Securities Research / Company

CURRENT LOAN PORTFOLIO AS ON 31/03/2010



Source: SBICAP Securities Research / Company

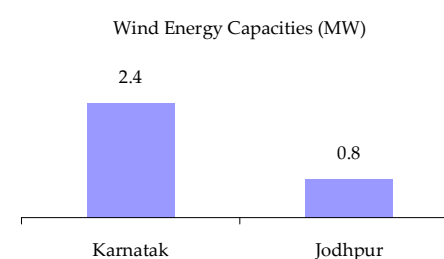
BAD-DEBTS



Source: SBICAP Securities Research / Company

Note: Inventories refers to outstanding debt

WIND ENERGY CAPACITIES (MW)



Source: SBICAP Securities Research / Company

The Business Loans Process:



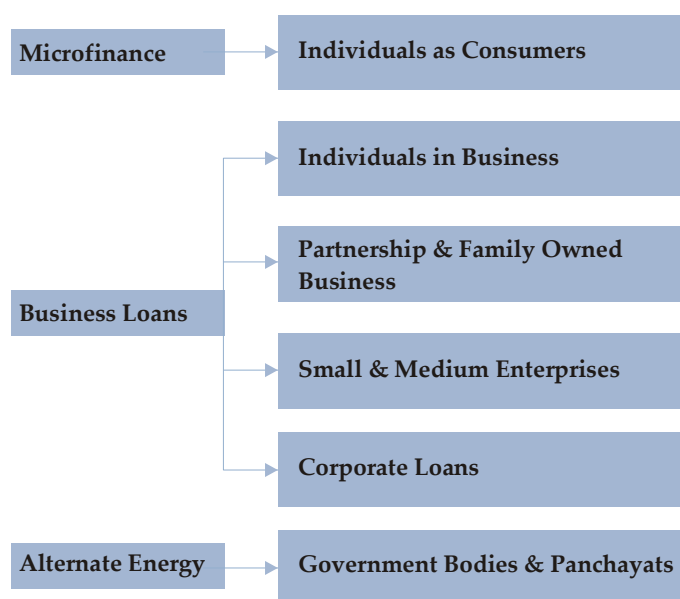
- Focus on a large clientele of small businesses, family run enterprises & traders
- Transactions are based on qualitative & quantitative assessments of the entity
- Focus on credit history , local knowledge of the operating segment& understanding of the performance of the entity
- Pricing reflective of risk assessment of the client
- Competitive fast & efficient decision making
- Quick Processing
- Robust reminder& collection process

SEIL - Microfinance Clients:

	MICROFINANCE CLIENTS
Composition of target segment	<ul style="list-style-type: none"> • Male and female members • Engaged in a range of skill based economic activities requiring low capital investment: <ul style="list-style-type: none"> – Cultivation – Dairy farming – Metalware – Street vendors
Education	<ul style="list-style-type: none"> • Many of them are illiterate
Income Sources	<ul style="list-style-type: none"> • Small trading and production activities • Monthly income usually ranges between \$40-\$170
Asset Ownership	<ul style="list-style-type: none"> • Majority live in Kuccha/Semi-pucca houses • TV, Radio, two-in-one, LPG connection present among , matured active clients

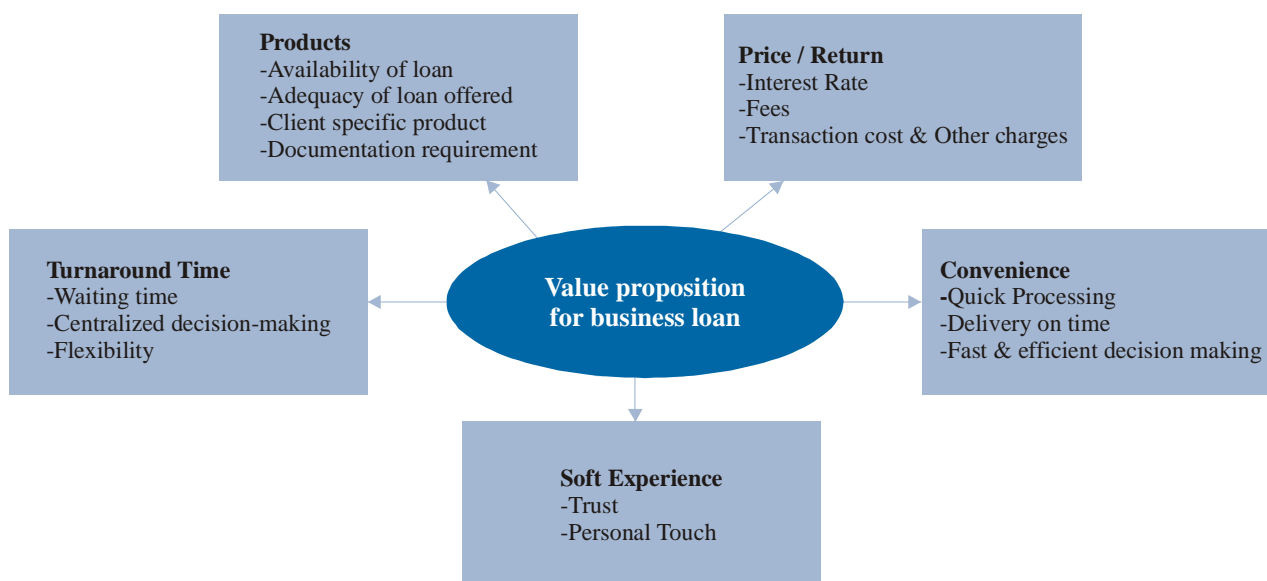
~ The company offers micro credit for diverse purposes.

SEIL Reach / Journey:



Source: SBICAP Securities Research / Company

VALUE PROPOSITION FOR BUSINESS LOAN



Source: SBICAP Securities Research / Company

Key strength of the company:

- The Company focuses on semi-urban and rural areas, reaching across remote locations, where no other financier is available, thus carving a niche for itself.
- The Company aims at targeting the common man, who is unable to get credit from banks and who is saved from the clutches of the local moneylenders. It offers attractively packaged, quick credit against a wide variety of products that touch an individual's life.
- The Company has a longstanding presence spanning over two decades of financing, resulting in a deep understanding of the market that it operates in.
- The Company's biggest strength is its trained manpower. This enables smooth conduct of operations. Over the years, the Company has established a name for itself in the retail debt market, which gives it access to an uninterrupted resources base.
- SEIL has a de-risked business portfolio. The Company's presence in various retail finance segments provides it an effective hedge against recession in any category.
- The company also looking to venture into other activities similar in nature to housing loans for LIG (Low Income Group), Gold finance which is highly secured in nature compared to its unsecured micro credit scheme etc.

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Key business risks:

- Nearly 90 percent of the current micro credit business is done through cash, which is very risky in terms of handling the cash as employees personally have to visit the credit disbursement sites to disburse the loan. The company has taken a step to allow its existing customer to open bank accounts with PNB to transact in the future.
- Most of the micro credit is unsecured in nature which may result into default.
- A large portion of micro credit is control by unorganized players and hence it faces competition from local money lenders
- Frequent changes in the regulatory framework
- The company presently has operation only in northern part of the country i.e NCR region, the competition from banks and other micro finance company in future may hamper its business.

~ Nearly 90 percent of the current micro credit business is done through cash

Industrial Opportunities:

Micro finance revolution was started in Bangladesh in 1976 by Noble peace price winner Muhammad Yunus

- More than 10000 micro finance institution in 60 countries
- It reached 82 million households by the end of 2006 and is expected to reached 175 million households by 2015
- Annual growth rate world wide is estimated at 30 percent as per the World Bank Estimates.

India is the second fastest economy in the world with average 9 percent growth in last five years till 2008. However, growth in India has been largely exclusive and has not taken into account the state of rural areas, as it ranks 134 in the United Nation's HDI (Human Development Index) index and is a classic case of high growth and low development.

In order to sustain such a high growth rate, the country needs to develop the roots of the country and the roots lie in rural India - amongst the millions of villages. If India truly wants to shine in the world, it will have to give importance to rural development and one of the tools to do the same is through Microfinance.

Microfinance has been very successful in countries like Bangladesh, Bolivia, Kenya, Latvia and many more; Microfinance has been able to change the face of the economy in these countries. This is a concept which has been prevalent in India for quite some time but has never been given much importance and has not been exploited enough to gain anything substantial out of it.

Till date, a large number of poor people remain outside the Formal Banking System. The rural penetration in banks is less than 18% and the existing banking policies are far from meeting their needs. About 75 million households live below the poverty line and the annual credit demand by the poor exceeds Rs 70,000 crores, out of which the cumulative disbursements is about Rs. 8000 crores. The current micro demand is estimated at Rs2.4 lakh crore.

Only 5 % of rural poor have access to microfinance and the share of Microfinance in total credit of Indian Banking system is less than 1%. However, there is a growing popularity of microfinance in India with an expected growth rate of 20% in the next 5 years.

According to Intellcap, Indian micro finance industry (MFI) would cross 11 crore borrowers and Rs 135,000 crore (\$30 billion) in loan portfolio by 2014. Most of the growth is expected to come from underserved states that are witnessing a flurry of activity, and also from a range of new financial and non-financial products that are being introduced in the sector.

Indian microfinance institutions have grown at a spectacular rate between 2004 and 2009, with the average portfolio size increasing at 107 per cent on Y-o-Y basis, and the number of clients increasing at 91 per cent. In the year 2009, the industry had a client base of about two crore and gross loan portfolio of Rs 11,734 crore.

Despite a sustained high growth rate in the industry, the full potential of microfinance has not been fully explored in geographies such as Uttar Pradesh, Bihar and North-Eastern states. The microfinance penetration in India is merely 3.6 per cent, and 60 per cent of the portfolio is concentrated in the southern states of Andhra Pradesh, Tamil Nadu and Karnataka.

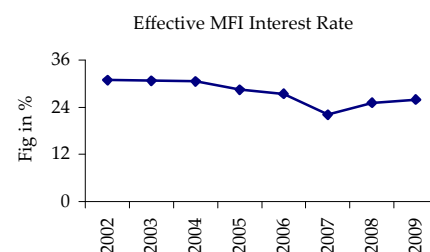
Interest rates charged by MFIs are often a cause for controversy and criticism in the sector. In response, there have been many efforts among MFIs to reduce interest rates and as a result, MFI interest rates dropped from 31% in 2002 to 26% in 2009

~ India ranks 134 in the United Nation's HDI (Human Development Index) index in 2009

~ The rural penetration in banks is less than 18% and annual credit demand by the poor exceeds Rs 70,000 crores whereas the total micro credit demand is estimated at Rs2.4 lakh crore.

~ Indian micro finance industry (MFI) would cross 11 crore borrowers and Rs 135,000 crore (\$30 billion) in loan portfolio by 2014.

EFFECTIVE MFI INTEREST RATE



Source: Intellcap

Outlooks:

The world micro finance potential is estimated to be over 4 billion people out of whom nearly 70 percent are in Asia. Over 1 billion people in the world earn less than \$1 per day whereas only 57 million people have taken loans from micro finance institutions.

According to NABARD, the current micro credit by micro financial institutions is at Rs20,000 crore, whereas the total micro credit demand is estimated at Rs2.4 lakh crore, thus creating a huge gap and scope for exponential growth in micro credit. Majority of this demand is met through local money lenders charging very high interest rate up to 60 percent pa thus encouraging MFIs to further penetrate through low cost loan offerings.

Only a fraction of the people enjoy access to financial services provided by formal institutions. In INDIA so far, the total outreach of all micro finance institutions is around 22.5 million with an outstanding portfolio of around Rs 13500 Crore. The total population of India, which can be serviced by MFIs, is estimated to be 360 million and thus providing a huge base of potential customers to be covered by MFIs.

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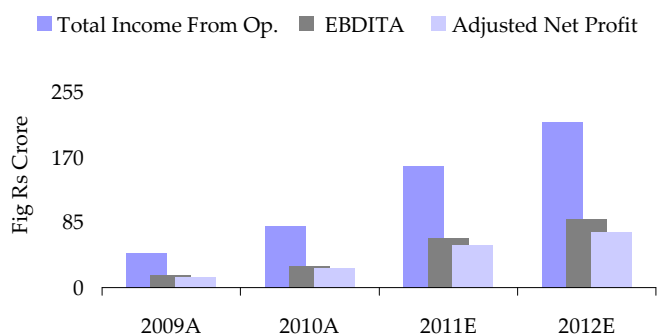
Earnings & Valuations:

We expect the total income (Interest, other income and power) and profit of SE Investments Ltd to grow at 60 and 65 percent CAGR to Rs227 and Rs72 crore during 2010A and 2012E period respectively. The sales growth is mainly on account of rapid expansion in credit owing to robust demand.

The net interest margins is expected to be maintained at current 7-9 percent level whereas, the operating profit is expected to grow at 78 percent CAGR to Rs89 crore. At the same time, the company also expects operating margins to improve between 5-6 percentage points, owing to greater focus on micro credit where the average IRR is better than corporate loan portfolios. The net margins are expected at 32-33 percent level owing to lower tax outgo on account of the wind power tax benefits.

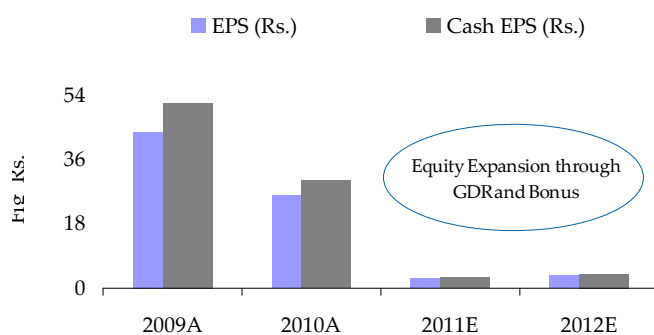
We have valued the company on a P/B (x) multiple. At current price of Rs49 the stock is available at 2.6x and 2.2x at its FY11E and FY12E earnings respectively. We recommend a buy on the stock with price target of Rs60 by discount FY11E BV of Rs18.7 by 3.2x thus implying an upside potential of 22 percent.

TOTAL INCOME FROM O., EBDITA & ADJ. NET PROFIT



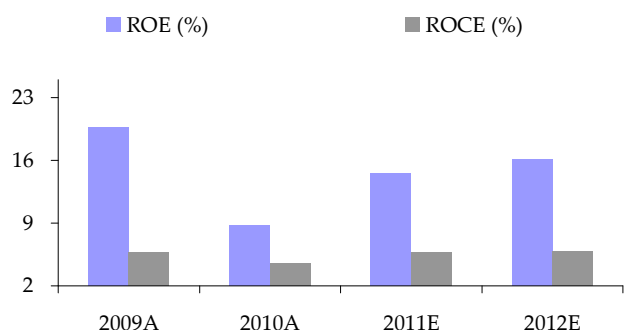
Source: SBICAP Securities Research

EPS & CASH EPS (RS)



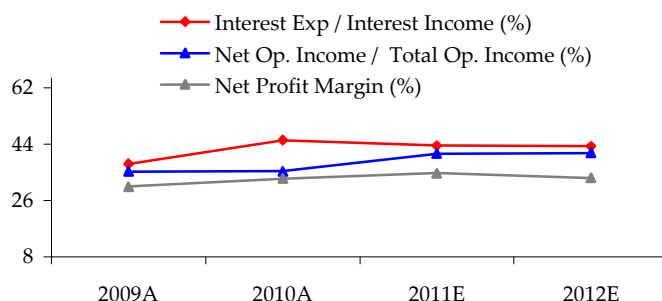
Source: SBICAP Securities Research

ROE & ROCE (%)



Source: SBICAP Securities Research

NET INTEREST MARGIN, NET OP. INCOME / TOTAL OP. INCOME & NET PROFIT MARGIN (%)



Source: SBICAP Securities Research

Financial Statements:

Income Statement:

Figures in Cr.

Particulars	2009A	2010A	2011E	2012E
Interest Income	45.3	80.0	159.0	216.7
Other Income	3.6	8.4	10.2	10.2
Total Income	48.9	88.4	169.2	226.9
Total Expenditure	29.3	51.8	93.8	127.4
Interest Expenses	17.1	36.2	69.2	93.8
<i>As % of Sales</i>	<i>37.7</i>	<i>45.3</i>	<i>43.5</i>	<i>43.3</i>
Other Operating Cost	12.3	15.5	24.7	33.6
<i>As % of Sales</i>	<i>27.1</i>	<i>19.4</i>	<i>15.5</i>	<i>15.5</i>
EBDITA (Excl OI)	15.9	28.2	65.2	89.3
EBDITA (Incl. OI)	19.6	36.6	75.4	99.5
Depreciation	2.5	4.3	5.5	8.4
PBT	17.1	32.3	69.9	91.1
Tax	3.3	6.0	14.7	19.1
Net Profit	13.8	26.3	55.2	71.9
Adjusted PAT	13.8	26.3	55.2	71.9
Equity	3.1	10.1	40.6	40.6
EPS	43.7	26.0	2.7	3.5
Cash EPS	51.7	30.2	3.0	4.0
FV	10.0	10.0	2.0	2.0

Balance Sheet:

Figures in Cr.

Particulars	2009A	2010A	2011E	2012E
Equity Capital	3.1	10.1	40.6	40.6
Pref. Share Capital	2.5	2.5	2.5	2.5
Reserve and Surplus	64.2	288.1	338.7	405.9
Net Worth	69.8	300.8	381.7	449.0
Secured Loans	125.2	188.6	414.9	551.8
Unsecured Loans	43.4	96.9	155.1	232.6
Loan Funds	168.6	285.5	570.0	784.4
Deferred Tax Liability	2.5	2.5	2.5	2.5
Total Capital Employed	240.9	588.7	954.2	1,235.9
Gross Block	56.1	70.7	113.1	158.4
Less: Accumulated Depreciation	12.2	16.4	21.9	30.3
Net Block	43.9	54.3	91.2	128.1
Investments	24.6	54.8	103.4	119.2
Inventories	163.9	350.2	780.5	1,068.7
Cash and Bank Balance	21.3	173.1	27.6	22.3
Loans and Advances	10.3	17.1	60.4	75.8
Total Current Assets	195.6	540.5	868.6	1,166.9
Creditors & Othr. Current Liabilities	16.0	51.3	85.5	135.4
Provision	7.1	10.3	23.4	42.7
Total Current Liabilities	23.1	61.6	109.0	178.2
Net Current Assets	172.5	478.8	759.6	988.7
Micellaneous Exp.	-	0.7	-	-
Total Assets	240.9	588.7	954.2	1,235.9

Important Ratios:

Particulars	2009A	2010A	2011E	2012E
Total Operating Exp. / Total Op. Income (%)	64.8	64.7	59.0	58.8
Total Operating Exp. / Total Income (%)	60.0	58.6	55.4	56.2
Interest Exp/Interest Income (%)	37.7	45.3	43.5	43.3
Net Op. Income/Total Op. Income (%)	35.2	35.3	41.0	41.2
Net Op. Income (Incl. OI) / Total Op. Income (%)	43.3	45.8	47.4	45.9
Net Profit Margin (%)	30.4	32.9	34.7	33.2
EPS (Rs)	43.7	26.0	2.7	3.5
Book Value (Rs)	221.9	296.4	18.8	22.1
Earning Yield (%)	89.2	53.0	5.6	7.2
Div Yield (%)	2.0	2.0	0.4	0.4
Return on Net Worth (%)	19.7	8.8	14.5	16.0
Return on Cap. Employed (%)	5.7	4.5	5.8	5.8
P/BV (X)	0.2	0.2	2.6	2.2
P/E (x)	1.1	1.9	18.0	13.8

Note: The valuation ratios are based on CMP

Source: SBICAP Securities Research

Name	Designation
Alpesh Porwal	Head (Retail)
Anand Oke	Deputy Head - Retail Research
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Retail Research Reports - Recent '*Initiating Coverages*'

Date	Scripts	Recom. on INR	Rating	Target Price INR	Time Frame
07-July-10	Amttek Auto	173.00	Buy	216.00	12 Months
17-June-10	Reliance Infrastructure	1,173.00	Buy	1,448.00	12 Months
29-Mar-10	Piramal Glass Ltd.	92.00	Buy	116.00	12 Months
10-Mar-10	Sabero Organics Gujarat Ltd.	80.00	Buy	97.00	12 Months
29-Dec-09	Om Metals Infraprojects	30.00	Buy	39.00	12 Months

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