



"Srei Infrastructure Finance Limited"

May 15, 2012



**MODERATORS:**

**MS. CHINMAYA GARG**  
**MR. SUNIL KANORIA**  
**MR. D.K VYAS**  
**MR. SANJEEV SANCHETI**  
**MR. BAJRANG CHOUDHARY**  
**MR. AMIT AGARWAL**



**Moderator:** Ladies and gentlemen, good day and welcome to the Srei Infrastructure Finance Limited FY'12 Earnings Conference Call hosted by IDFC Securities Limited. As a remainder, for the duration of this conference all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is been recorded. At this time, I would like to hand the conference over to Ms. Chinmaya Garg from IDFC Securities Limited. Thank you and over to you.

**Chinmaya Garg:** Thanks a lot. Hello everyone. Good afternoon and thank you for joining us for this call. This is FY'12 Earnings Conference Call of Srei Infrastructure Finance Limited hosted by IDFC Securities. We have with us the management team represented by Mr. Sunil Kanoria, Vice Chairman, Mr. D.K. Vyas CEO - Srei BNP Paribas, Mr. Sanjeev Sancheti, Group CFO, Mr. Bajrang Choudhary, President, Infrastructure Project Development and Mr. Amit Agarwal, Senior Manager, Investor Relations. I would request Mr. Kanoria to please discuss the results and then we can take on Q&A. Over to you Sir.

**Sunil Kanoria:** Thank you. Sunil Kanoria here. Just to take you over through the various businesses of the company as i have shared in the past also that we divide our businesses in to three core areas from where our revenue gets generated. These are the fund based business, the fee based, and the various strategic investments. On the fund-based business we have equipment financing through the joint venture with BNP Paribas and there the business last year has grown quite well. Our Net Disbursement was almost close to 50% up from Rs. 8107 Crores to about Rs. 12170 Crores. Our profit also was up by 51% from previous year of about Rs.130 Crores to Rs.197 Crores after all taxes and provisions. If you look at the quarter to quarter in that business March 2012 and March 2011 it went up from Rs.23 Crores to Rs.29.7 Crores, so about 25% jump on the quarter to quarter and almost 51% over on year to year. Our total Asset under management has also increased almost 46% from close to Rs.12000 Crores to Rs. 17500 Crores approximately. Our net NPA rose marginally from 1.78% to 1.96% during this year, primarily this reflects the conservative provisioning policy, which we follow. It is much stricter than the RBI, so these norms are different and in consonance with our international norms and our own assessment to be conservative. We believe last year was very good year for us in Equipment finance side going forward we still believe that this sector should grow in spite of the various challenges, however the level of growth may be slightly moderate and we expect at least a growth of 25% to 30% both in terms of new disbursement and in profit for the current year. Coming to the standalone Srei which is primarily the project finance business and the fee-based business there although our disbursement went up over by 40% from Rs. 4400 Crores previous year to Rs. 6260 this year, our profit after tax came down substantially over the year from Rs.134 Crores to about Rs. 58 Crores which is about 57% down, on a quarter to quarter basis it was almost flat just a 2% increase from Rs.16 Crores to Rs.16.6 Crores. This primarily has been due to forex marked-to-market as we had reflected again in the past due to the huge forex fluctuation during last year and that brought in a marked-to-market on our external commercial borrowings, normally these borrowings are all long term borrowings, therefore part of it we had not hedged it to get an overall average without although due to the quarter to quarter marked-to-market we have had to make heavy provision of



almost Rs.57 to Rs.58 Crores during the current year which impacted us. Also, the overall interest cost had gone up substantially during the year. As a result the spread and NIM in this business were marginally lower than the previous year. The net NPA has been about 0.78%, again basically making provisions based on our assets. If you look at our consolidated numbers for the company, the profit came down over a year by about 38% and during the quarter compared to previous quarter by about 10% and primarily the impact was on the marked-to-market and for also the interest cost which went up sharply. Also in consolidation, because of some of the other business which is still evolving like Sahaj, the PAT losses from Sahaj impacted the consolidated numbers, however the overall net disbursement combined on equipment finance and project finance was very robust at about Rs. 18,600 crs. Basically, these were some of the key highlights from the financial business during the year. We see in project finance in the current year there are challenges in the economy, therefore we are taking a cautious approach. We would still, in spite of the challenges expect that we should be able to grow around 25 percent at least, however if the economy and environment becomes better in the second half we may see a better growth, presently we are taking the market on a cautious note. Cost of funds in the equipment finance business was about 10.6% but in project finance it was close to 12%, basically reflecting that long-term money is still more expensive. In terms of the loan book, distribution in the project finance is primarily about 39% in the energy sector, 33% in transport sector and the rest is spread in to the other sectors. The source of funding for both the business is primarily from the banks and financial institutions, external commercial borrowings and also from debentures. If you come on the investment side and if you look at the investment in Viom, which is a telecom sector, and of course telecom sector has undergone challenges on the regulatory side. In spite of that, the company would have almost close to Rs. 1600 Crores of EBITDA for March 2012. Based on the March run rate, the current year should be about Rs. 1800 crores plus without assuming any growth in the sector. Definitely, there are challenges in case one of the operators primarily Telenor where the license issue is there, in case they decide to shut down completely India which looks unlikely during our discussion with their senior management, but if in case that happens the impact on us will be about 20 to 21% in our revenue and although we will be able to still maintain and manage our debt position but definitely the profit will get impacted in the short run, however we believe during our analysis and discussions with the operators that in case that scenario arises, the demand of sites from the existing operator like the incumbents of Vodafone, Bharti etc., would increase and we have seen that trend in the last one-and-a-half months, the demand from these operators are scaling up as no one is putting new sites, they are all open to come in wherever the sites are there and we being a good operator and being able to show our performance we are attracting that opportunity, so we believe that over a certain period of time we should be able to address the challenge in case it so happens, however we still believe that Telenor would continue, the scenario should improve in the next couple of months, at least clarity should come in and we are hoping for the best. At the moment our tenancy is 2.43. In terms of the various other Quippo rental businesses, Quippo construction has improved and grown its EBITDA although PAT is still about Rs.6 to 7 Crores of loss because of depreciation. The energy rental business is PAT positive. The oil and gas had an impact because some of the rigs were not operating, however we now have contracts for all the rigs and we expect profitability in the current year. Sahaj is our common service center with positive EBITDA this year, however PAT negative due to investments. It is a long-term distribution of



infrastructure in the rural sector; we believe on overall medium to long-term it would give a strong impetus to the group in the rural infrastructure development. Basically these are some of the core issues. I think we will now open for questions.

**Moderator:** Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Mohamed Riyazuddin from Money Ore. Please go ahead.

**Mohamed Riyazuddin:** Hello good afternoon sir. Sir my first question was that there has been a sharp spike in the NPA levels from Q3 over Q4, so what has happened last quarter to book such a huge increase in gross NPA level and second why are we sitting on the such low PCR ( Provision Coverage Ratio) levels?

**Sunil Kanoria:** This you are talking about the equipment finance or the project finance.

**Mohamed Riyazuddin:** I am talking about standalone financing and even in equipment finance we have a very low PCR Ratio.

**Sunil Kanoria:** Well, if you see, it is relatively high on the equipment financing, our gross NPA is 2.8% and net NPA is 1.96%. As i said that here, we take 90 days as and we provide quite aggressively to classify the NPA, as you know all the equipment are there where we have our collateral and assets, so we make a fair assessment of the assets underlying and based on that we do the provisioning. On the project finance, primarily it has been just in one or two accounts, which had stress due to the environment, and therefore it happened only in the last quarter, till December things were fine. We are still expecting the recovery to happen, but we felt that it is best to make some provision for March and therefore we provided for that.

**Mohamed Riyazuddin:** Basically in equipment finance, because our loans are secured against hard assets therefore provision requirement would be far less even if they turn bad.

**Sunil Kanoria:** That's right.

**Mohamed Riyazuddin:** And in our project finance business we have a lien on the infrastructure asset that has been created by the client, right.

**Sunil Kanoria:** Absolutely.

**Mohamed Riyazuddin:** So even if they turn bad significantly we still have a stake over the physical assets created.

**Sunil Kanoria:** Absolutely, so therefore in short run there is a cash flow problem, as i had said that the economy is under stress, so definitely there have been certain stresses on the cash flow and the liquidity side, as a result a few accounts went overdue and therefore we felt that it is best to make the provision.

**Mohamed Riyazuddin:** How do you see the condition going forward because you are sitting on a very enviable pretty low level of NPAs?



- Sunil Kanoria:** As i said there is definitely a stress in the economy but because we have financed hardcore underlying assets and cash flow there may be a challenge in the short to medium term, but we believe that in the medium to long term things would get addressed.
- Mohamed Riyazuddin:** And we are surely not being very aggressive in recognizing them as NPAs.
- Sunil Kanoria:** No, not at all. Well what we do is as per the norm whenever we have to make the provision we ensure that we make the provision conservatively.
- Mohamed Riyazuddin:** Okay, and sir what has been the sole reason for such a sharp fall in NIMs both in equipment finance and project finance business from the last quarter, normally we see in the last quarter of the year we have lower margins but what has been the reason for such a sharp fall in quarter to quarter and obviously year-on-year is also there.
- Sunil Kanoria:** Primarily because of the cost of money which has gone up substantially, if you see what it was in the first quarter last year and what it was in the last quarter last year there has been almost a 2% to 2.5% increase in the cost of money.
- Mohamed Riyazuddin:** Okay, even if RBI has reduced interest rate or started the process of reducing we are not seeing any kind of reduction in our cost of funds.
- Sunil Kanoria:** No, not at all. You see RBI only gave an indication on reduction only in April, even, till now we are not seeing that impact at all in the market.
- Mohamed Riyazuddin:** But, we have seen a disruption in our yield of funds even from last quarter as well.
- Sunil Kanoria:** We did pass on of the interest cost to a certain extent last year but the increase kept on happening so we will have a watch and again in the month of June, we will review whether we need to increase or decrease our benchmark rate, because all our loans are linked against our benchmark rate.
- Mohamed Riyazuddin:** So, our yields are decreasing but we cannot reduce our cost, therefore NIM's will remain in pressure going forward this year Sir?
- Sunil Kanoria:** Well, we can get it corrected because as i said that all our assets are floating and linked to our benchmark rate, so we had taken an increase last year, but it seems, that was not enough to maintain that because always we cannot pass 100% of the cost to the market, we have to take what the market can also bear, so we did a certain amount of increase, we will watch in case we find that the increase does not comedown then we may have to consider further increase if the cost keep going up.
- Mohamed Riyazuddin:** Sir, last question does it have to do with our over dependence on working capital loan.
- Sunil Kanoria:** Well to a certain extent yes but at least that gives us stable ALM, otherwise any other method could bring in more challenge on our ALM.



- Mohamed Riyazuddin:** How come sir because we are borrowing 40% to 45% short-term and most of our lending would be long-term i guess so how.
- Sunil Kanoria:** No, but this is short term, these working capital are renewable every year but basically these working capital gains are hypothecated of assets, it is traditionally in practice all basically matched, it is exactly match-to-match against my receivable.
- Mohamed Riyazuddin:** But, again the tenure might be less but the interest on short-term capital is currently might be high because of the immediate strain on liquidity.
- Sunil Kanoria:** But, if you look at the short-term and the long-term cost there is virtually no difference today.
- Mohamed Riyazuddin:** No, difference today there should be a reduction.
- Sunil Kanoria:** That's right there is no difference, so basically whether we take long-term or short-term this does not make the difference.
- Mohamed Riyazuddin:** So, we see the scenario this proportion changing going forward sir?
- Sunil Kanoria:** Well we would intend to do that but depending on the market environment and the liquidity.
- Moderator:** The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.
- Moderator:** The participant line just got disconnected. We will move on to the next question from the line of Chandan Gehlot from Deutsche Asset Management. Please go ahead.
- Chandan Gehlot:** I have a couple of questions. My first question is related to the project financing business, which is Srei Infrastructure Finance Limited, which we read in the news media. There is one particular account which is currently on to the CDR which is the KS Oil where Srei Infrastructure Finance Limited, exposure is roughly around Rs.100 Crores, I just wanted to get an update on this account.
- Sunil Kanoria:** Well we have made a part provision, our asset is against windmill of the company and we are working on to do the recovery of the assets and therefore, we felt that it is best to make some provision and then see and watch what happens in the current year.
- Chandan Gehlot:** How much so far have we provided in this account?
- Sunil Kanoria:** Well the exact numbers i would let you know, but whatever the provision was required, i think we have made about, if i am not mistaken, may be 15% or 20% of it.
- Chandan Gehlot:** When can we see more clarity on this account, in the next quarter or will it take some more quarters?



- Sunil Kanoria:** Well I think it may take two - three quarters; we will keep a watch on it. We will try and resolve it.
- Chandan Gehlot:** Sir secondly i want to understand the second aspect of the business, do we have any cap on the maximum lending to any particular account?
- Sunil Kanoria:** Yes, absolutely we do not do 15% of the net worth of an individual company.
- Chandan Gehlot:** Currently is there any other account where we have the largest exposure in terms of absolute numbers?
- Sunil Kanoria:** Well there are quite a lot. Because this is project finance and there are lot of customers. I would not want to disclose my customers list here but we have exposure within our prudential norms, which we follow.
- Chandan Gehlot:** Generally top 10 clients would contribute how much of your loan book?
- Sunil Kanoria:** I do not have the exact number at this juncture. We can work on it to provide that.
- Chandan Gehlot:** Another question is on your investment in Viom. Just want to get some estimation, if things worsen from here and if Telenor moves away from India what kind of impairment we can see on this investment?
- Sunil Kanoria:** Well it is on the valuation side I would say so, as I said that in the short run what would be the impact on the valuation would have an impact only if we sell, if we don't not sell then there is no impairment, dispose off. As I said the other operators would start coming in and we expect that to get balanced in case that kind of a scenario, so arise, but very difficult to at this moment say what will be the valuation, it would depend on market to market.
- Chandan Gehlot:** Okay, another question, we have seen some Rs. 65 Crore of foreign exchange marked-to-market losses, this loss is classified under which head?
- Sunil Kanoria:** This is my finance cost only.
- Chandan Gehlot:** Okay, my another question is for SreiEquipment Finance Private Limited, just wanted to understand that recently RBI has come up with new securitization and direct assignment transaction guideline, do you see what kind of impact Srei Equipment Finance Private Limited may have on their funding side?
- Sunil Kanoria:** There would be some impact, we have about 15% to 18% of our portfolio through that route, so definitely there may be some impact and we are still trying to understand and although it is not applicable to us, it is applicable to the banks, but the banks may take a cautious approach on these kinds of transactions. We are going to assess the impact but basically what we will do is we will then borrow through normal other sources.



- Chandan Gehlot:** Okay but do you see because of this source of funding which is getting dried your cost of borrowing may further increase?
- Sunil Kanoria:** Yes, that could happen, in fact to certain extent on the cost of borrowing and that is the reason why we are not even reducing our benchmark rate and we are going to wait and watch, what and how the market evolves in the next few months.
- Chandan Gehlot:** But is it correct, that are we will be able to pass on whatever cost of borrowing to the ultimate customer?
- Sunil Kanoria:** Generally yes, with a time lag of may be three to four months but in the past generally we have been able to do and that is the reason why in the equipment finance our NIM have been 4.4% which we believe it is 4% - 4.5% is what the standards are.
- Chandan Gehlot:** Another thing, which I have seen on SREI Equipment, is your provision for standard assets has reduced in FY12 to roughly?
- Sunil Kanoria:** That is basically because of the total assets in the books as per RBI, that is RBI norm, which we follow.
- Chandan Gehlot:** Last year it was Rs.20 Crore and this year it was Rs.3.65 Crores, just wanted to understand what has changed in this year?
- Sanjeev Sancheti:** Last year standard provision was for the first time, we took a one-time impact. From this year it is only incremental. It is standard 6.25% provisioning.
- Sunil Kanoria:** Last year was the first year when RBI introduced it and after that now it is only incremental.
- Chandan Gehlot:** Lastly just wanted to get some update, recently read in the press just wanted to understand is there any capital infusion plan in to this entity?
- Sunil Kanoria:** Yes, both the partners are planning capital increase, and we will provide it.
- Chandan Gehlot:** Any estimated quantum, which both partners are looking to infuse in this entity?
- Sunil Kanoria:** Well, at this juncture we are making internal assessment and whatever is required both the partners are committed to support it, so whenever capital is required we will support it, we do not want to put entire capital at one go but whenever it is required we will keep putting it.
- Moderator:** The next question is from the line of Aditya Singhania from Enam Holdings, please go ahead.
- Aditya Singhania:** Hi thanks, I had two questions. I just wanted to understand the quarter over impact on the forex side, if you could explain that in standalone as well as in the Srei BNP Paribas?



- Sunil Kanoria:** In Srei BNP Paribas for the whole year it was Rs.18 Crores and in this quarter on QoQ basis it was reversal of Rs.6 Crores, in the Srei standalone for the whole year it was Rs. 56 Crores. Total was about Rs.80 Crores earlier, it is down in December quarter 2012 and then March quarter 2012 then the dollar had come down to Rs.51 approximately, so it was 42 Crores. Rs. 42 Crores reversal impact was there in this quarter.
- Aditya Singhania:** Did you change your accounting policy because I remember last time you had mentioned that you were still taking the full impact rather than amortizing?
- Sunil Kanoria:** December quarter the dollar was pretty high. In December quarter dollar was touching 53 and then in March quarter it came down to Rs.50.87 and now again it is up to Rs. 53 something.
- Aditya Singhania:** This 42 Crore reversal is on the basis off?
- Sunil Kanoria:** The difference of 53 and 50.87
- Aditya Singhania:** Okay and what would be the unhedged amount as of now?
- Sunil Kanoria:** It is \$87 million.
- Aditya Singhania:** In the standalone?
- Sunil Kanoria:** In the standalone.
- Aditya Singhania:** And in the BNP?
- Sunil Kanoria:** It is about 21, so about 100 to 105 million dollars in total.
- Aditya Singhania:** Any change in the hedging policy given very significant volatility in the dollar offering?
- Sunil Kanoria:** Basically the principal is that all the new loans, which we are taking at the moment, we are hedging it. On the old loans it does not make sense because those are at 42 levels, at this juncture does not, because those are long-term loans, there is no repayment pressure, so there is no need to do it now.
- Aditya Singhania:** I just wanted to follow up on a question asked earlier in the call on NPAs. Is there any seasonality in the NPAs in Srei BNP Paribas because from the third quarter to the fourth quarter we have seen a big jump but fourth quarter versus fourth quarter of last year is almost similar, so could you just explain that?
- Sunil Kanoria:** You see basically, what happens is end of March we do a more rigorous assessment every quarter, we are doing it as per the norms, IFC norms, International norms and the Indian norms and the RBI norms all that we follow but in the month of March we also try and see and do some more wherever we find that it is better to be conservative, we take a conservative approach looking at



the overall stress in the environment. Our provision actually is even more stringent than the norms, which we are following.

- Aditya Singhania:** That I understand but I wanted to understand if there was any seasonality in the NPA?
- Sunil Kanoria:** Seasonality is generally there between June, September and December, those quarters are more seasoned. In September because of the monsoon we have a major season, so that has an impact because of the seasonality.
- Aditya Singhania:** Right, but just 2% net NPAs seems on the higher side. I understand that you are talking of 90-day levels and not 180 days, so could you give us some sense of what the 180-day levels are compared with the 2% net at the 90-day level?
- Sunil Kanoria:** That we have to compile because normally we do not do this. I know as per RBI the level would be about 0.6 to 0.7% net.
- Aditya Singhania:** So that would be the 180-day level I guess.
- Sunil Kanoria:** You are right.
- Aditya Singhania:** Just a final thing, the investment schedule last quarter had shown about a 500-Crore increase in Viom or telecom infrastructure and that has come down again to the second quarter level, could you explain just what exactly happened here and what had happened in this quarter?
- Sunil Kanoria:** Well that was more so on a short-term investment we had made. It was a stock in trade, which came in for a short while, and it was sold off.
- Aditya Singhania:** Is there any profit or loss on this?
- Sunil Kanoria:** No hardly any profit or loss in it, very nominal small amount.
- Aditya Singhania:** Okay and just finally if I may ask one more question why was such a big decline in the yield in Srei BNP Paribas this quarter? Yield has fallen, I understand the cost of money has gone up but that also actually your reporting cost of funds to be flat quarter over quarter at 10.6, so the yield has actually, if you see the interest income or the total income from the operations has fallen 10% quarter over quarter whereas your AUM including the securitized loans is up 8% quarter over quarter, it is like a 200 basis point plus decline in yield, so I am just wondering if there is something I am missing here?
- Sunil Kanoria:** That could be one reason, because in March itself we did a high level of securitization, so that income does not come in the income side.
- Aditya Singhania:** No but that would be on accrual basis in any case right?



- Sunil Kanoria:** Yes, but that income completely goes off the book, so the yield on average fund deployed, that could have an impact.
- Moderator:** The next question is from the line of Umang Shah from Motilal Oswal, please go ahead.
- Umang Shah:** Thank you for taking my question. One of my question was pertaining to yield, the same question, even in the standalone book the yields have gone down substantially on a quarter on quarter basis, so I just wanted to understand that, one more thing is there some kind of interest reversal or may be because your NPAs have gone up you have reversed some interest income or something?
- Sunil Kanoria:** Yes, I think that could be the cause on both the sides, because in case we recognize income we also reverse the interest portions.
- Umang Shah:** Okay, sir I just wanted to checkup one more thing, you mentioned that on consolidated basis you have unhedged forex loans of around 100 to 105 million dollars, what would be our total foreign currency borrowings?
- Sunil Kanoria:** It is close to \$480 millions.
- Umang Shah:** Okay, and sir if you could just elaborate a bit on your NPA recognition, what method you follow for NPA recognition, is it 90 days, 180 days and what kind of provisioning policy do you guys follow?
- Sunil Kanoria:** Basically, one is we look at the RBI, that is the barest minimum, if we look at our foreign institution, which is 90 days it is 20% up to 180 days, it is 50% and if it is 360 days we write off 100%.
- Umang Shah:** Okay please correct me if I am wrong, up to 90 days you provide 20% up to 180 days you provide 50% and when you provide 100% it is?
- Sunil Kanoria:** 360 days.
- Umang Shah:** 360 days you provide 100% and then write-off.
- Sunil Kanoria:** Yeah, 360 is 100%.
- Umang Shah:** Okay and recognition both on your standalone books as well as on the Srei BNP Paribas book or rather on a consolidated basis you recognize NPAs on a 90-day overdue basis.
- Sunil Kanoria:** In standalone because, it is project finance, we are an infra project company so we follow the RBI norms in that, and RBI norms is applicable to infra finance company, being an infra finance company now, but in the equipment finance we follow the norm which we have suggested.
- Umang Shah:** In equipment finance any loan overdue for 90 days would be classified as NPA ?



- Sunil Kanoria:** That is right.
- Umang Shah:** Okay, and as you have mentioned on the standalone book we have achieved the IFC status, is it?
- Sunil Kanoria:** Yes we are IFC and a PFI.
- Moderator:** Thank you. Participants who wish to ask a question may press “\*” and “1” at this time. The next question is from the line of Abhishek Soni from Canara Robeco Mutual Fund. Please go ahead.
- Abhishek Soni:** Good afternoon sir. Just a couple of questions on the Srei BNP Paribas, first thing out of the \$480 million of foreign currency borrowing, how much pertain to the JV?
- Sunil Kanoria:** JV is about \$ 280 mn.
- Abhishek Soni:** So \$280 mn is JV and around \$ 200mn for our standalone entity. The second thing the number for the increased, the net NPA number is 2% now in the JV entity, on the equipment finance book so is it a onetime sort of the yearend as you said the recognition and the stringent policies what you have in the year end is one of the reason for this, we have not noticed any change in cycle, or any change in asset quality change for that book is it.
- Sunil Kanoria:** No.
- Abhishek Soni:** Okay, so it is very much as it goes till the last quarter.
- Sunil Kanoria:** That is right.
- Abhishek Soni:** On the other side how the incremental demand for equipment finance is behaving?
- Sunil Kanoria:** See as I said till March fortunately last year the overall sales of construction mines equipment in India grew at almost 40% in this current year April had a growth slightly more than what it was in the April 2011 however this year there are apprehensions by the industry that it may not grow at 40% it may taper down to between 20% and 30% depending on how the environment shapes up. You see because what happens is that there is a lot of orders still in hand to be executed even if new projects have slowed down so that needs lot of more equipment and therefore the sales from there has not had that bigger impact.
- Abhishek Soni:** Okay in the final question you said that there are some securitization done during this quarter, can you tell us the quantum and also just an indication whether there is any change in terms of the pricing?
- Sunil Kanoria:** Total securitization in Srei BNP Paribas was about Rs.2,500 Crore and I think close to about 2500-3000 was done in this last quarter and the cost basically has been slightly lower than the cost borrowed we do from the banks and all so but overall still the cost of fund in the JV we have been able to maintain at average at about 10.6.



- Abhishek Soni:** On the leverage now we are 7.4 in the JV, so probably in the next 6 months we may see capital infusion.
- Sunil Kanoria:** Yeah that's right.
- Moderator:** The next question is from the line of Sameer Dalal from Natvarlal & Sons please go ahead.
- Sameer Dalal:** Hi, Good afternoon one question on your loan book side. On the telecom sector what is the kind of loans outstanding at the moment towards Uninor or any of the new incumbents that have got the telecom license during the last two years?
- Sunil Kanoria:** On the loan side we have no loans at all, very negligible, we don't give loans. Telenor is basically a customer of Viom, as a tenant on the towers of Viom, as a customer.
- Sameer Dalal:** Sure then, from your standalone you haven't given any project loans for anything to Telenor or any of the other telecom companies?
- Sunil Kanoria:** No.
- Sameer Dalal:** And in Viom what are the debtors' days and how much of it is from Telenor at the moment?
- Sunil Kanoria:** Telenor up to February end is all paid up. Generally we have around 60-65 days overall receivables average in Viom and payments are regularly coming; yes it is around 60 days overdue.
- Moderator:** The next question is from the line of Mohamed Riyazuddin from Money Ore, please go ahead.
- Mohamed Riyazuddin:** Sir what was market share in equipment financing sir?
- Sunil Kanoria:** About 33%.
- Mohamed Riyazuddin:** And how has it progressed over the last three four quarters?
- Sunil Kanoria:** Well it has been always been steady there; the second largest is having about 12% to 13% so the gap between No.1 and No.2 is very large.
- Mohamed Riyazuddin:** Who will be the second one sir?
- Sunil Kanoria:** Last year it was HDFC Bank.
- Mohamed Riyazuddin:** What is the amount overdue from Telenor?
- Sunil Kanoria:** In Srei there is no overdue, they are a customer in Viom, that's it.
- Mohamed Riyazuddin:** Can you attach an amount as to how much is overdue from them, 60 days overdue from them?



- Sunil Kanoria:** Well if it is a 60 day overdue it means, 60 days billing, and my billing payments are 30 to 35 to 40 days it basically coming every month on a regular basis.
- Mohamed Riyazuddin:** Okay no problem with that?
- Sunil Kanoria:** yes, no problems at all in that.
- Mohamed Riyazuddin:** When do we foresee ourselves to break even on our construction equipment, Quippo Construction Equipment?
- Sunil Kanoria:** I think this year we should be able to.
- Mohamed Riyazuddin:** What is preventing us sir from breaking even?
- Sunil Kanoria:** In the equipment rental business the EBITDA has grown, because of the high depreciation the interest also has come out, so there is a cash profit, because of the depreciation the PAT negative has been there about Rs.6-7 Crores. In the Oil & Gas two rigs were not on hire, so that is now we have got the contract so that will get on hired this year, so as soon as the hiring happens then we expect that profits to come in.
- Mohamed Riyazuddin:** Okay when do we expect something significantly changing on Sahaj?
- Sunil Kanoria:** Sahaj will take time. Sahaj is a gestation project, it needs a lot of development but once we build up that development and the distribution network, so Sahaj to my mind would take at least about two to three years.
- Mohamed Riyazuddin:** Has the business started coming from Government because last time when we visited the government to consumer, G to C business did not start as of them, have they started picking now?
- Sunil Kanoria:** It had started but in trickles. In some states like UP it has picked up well in the last three four months, the government is now pushing very hard to every state to push the government services through the CSCs and there have been resistance more at the local level by government authorities so that is getting addressed that is why i have said that, it will take a little more time it is a mindset change, people who have been doing it for donkey's years, when it goes into a PPP hand it takes a little time but the government is determined it is happening that is the reason why there are subsidies provided by the government.
- Mohamed Riyazuddin:** So in around two years it will break even on this business?
- Sunil Kanoria:** We are already EBITDA positive now, this year. We should do a cash profit hopefully in the next two years time. We are trying even in this year, so let's hope.
- Mohamed Riyazuddin:** Technically speaking can we lend our spaces in our Sahaj site for ATMs?



- Sunil Kanoria:** Yes, we have started to work on that.
- Mohamed Riyazuddin:** Because few days ago there was this plan because third party white label ATM would come up and the biggest problem in the interior places is the connectivity, now since we have established our own antennas and all and we have invested we can leverage the same through white label ATM, I think there is a very good business proposition going forward.
- Sunil Kanoria:** Yes, absolutely we are already working on it.
- Moderator:** The next question is from the line of Dinesh Shah from Reliance Mutual Fund please go ahead.
- Dinesh Shah:** Good evening Sir, I have a question from the Srei BNP Paribas business, the leverage is around 7.4 times, so at what level on a sustained basis we plan to keep it that is first question and second question is recently Fitch has downgraded the Srei BNP Paribas and put on negative outlook citing the reason of capital and focus on short term borrowing, so your views and action plans for the same, want these two clarifications.
- Sunil Kanoria:** That is where we have had a difference with Fitch. In terms of the capital both the partners BNP Paribas and us are committed to the business and we will continue doing that, last year also we put in capital whatever was required, we don't want to put in too much capital, so that my return on equity falls down, but we would like to optimally utilize our capital, we are pumping in further capital, both the partner, and we would continue to do so and support it whenever capital is required, but they wanted a huge chunk of money putting in day one, which we felt was unreasonable both the partners are strong and committed and therefore we will ensure that within whatever capital is required we will maintain capital adequacy over 15% and take care of that so that we ensure to optimize our return on equity. Secondly on the short term working which is there that is a fairly new phenomenon which they have highlighted and that is the way business has been done in the country over the last 25 years, so basically on the working capital side it is all the cash credit working capital loan which we get from the banking system and that is a method of RBI and the banking system for the last few decades and for the last 25 years we have had this, it is not a new phenomenon in the current year that Fitch questioned this, so there is a difference of opinion. Even with RBI when we do our ALM this is treated as long term and not short term. My receivables are matched with the bank's lending; it is just that technically it is working capital method whereby the banks review the account every year for renewal only that's it.
- Dinesh Shah:** So in the structural liquidity statement or the ALM statement that you furnish to RBI, how do you show this thing?
- Sunil Kanoria:** This is all against my receivable, this is not short term, this is what we are trying to explain to Fitch also but somehow this year, so many years they have been rating never this question was raised, it is not something new, but this year they questioned that.
- Dinesh Shah:** Can you kindly quantify the kind of amount you plan to infuse this fiscal?



- Sunil Kanoria:** Well we are working on. Whatever, as I said whatever amount is required both the partners will be putting in, see last year we required 200 Crores, so both of us put in, now we will require whatever further needs to be put in.
- Dinesh Shah:** Leverage will remain at what level on a steady state basis, debt equity?
- Sunil Kanoria:** We will maintain our capital adequacy around 16%. Little over what is required.
- Dinesh Shah:** And on the asset quality front how the gross NPA moved quarter on quarter for the Srei BNP Paribas, December 2011 to March 2012?
- Sunil Kanoria:** Well I don't have exact numbers now, but I could get it shared through my team.
- Moderator:** The next question is from the line of Chandan Gehlot from Deutsche AMC. Please go ahead.
- Chandan Gehlot:** Sir just two questions, one question is on your income recognition from the securitization business?
- Sanjeev Sancheti:** This is amortized over the period of the contract so we don't take upfront. That is what you wanted to understand probably, right.
- Chandan Gehlot:** Can you throw some color on the Viom listing plans if you have any information available with you?
- Sunil Kanoria:** Well, Viom we had initiated our process for listing but with the telecom sector environment became challenging and the markets were not good, whenever the markets improve and the sector we expect that in the next few months at least some clarity will come to the sector and if the markets are good we will gear up at the first given opportunity.
- Moderator:** The next question is from the line of Deepak Rajani a private investor, please go ahead.
- Deepak Rajani:** Sir I would like to know what is the book value of the consolidated entity as at the year end and I want to know your thoughts, I am not expecting an justification for share price but I am trying to understand your thoughts on why we are quoted at discount to book value that we do?
- Sunil Kanoria:** Well the book value at consolidated level is about 55 rupees and to answer the question why it is low, that is a concern to us too, and very difficult to give an answer to that.
- Deepak Rajani:** You are in the industry that you are in you have a keen insight in to how markets function, I am sure you have keen insight in to the range in relation to book value that company such as ours quote and we are at probably 40% the book value, so I am just wondering, clearly how share prices are and markets are with all their inefficiencies they always are ahead of the curve in many ways, the market is clearly telling us something, but are they telling us something to be as alarmed about this parameters perhaps suggest?



**Sunil Kanoria:**

See, where my perception goes and whenever i interact and all currently if you see on a consolidated basis we have a large chunk of capital blocked in my investment, whether it is telecom, whether it is my road asset various investment these investments don't give me quarter to quarter return. These would give me lumpy returns over a period of time and as a result it impacts return on equity, it impacts some of the major ratios etc., and the value of those investments are not effectively factored and it is heavily discounted and any ups and downs happening in that environment say like the telecom environment has been challenging, so although we are an infra player and towers will always be required whether there are five players, four players, eight players, consumer is there and tower will be required like a road, if one goes away someone else comes in but the overall perception that and we are perceived not as infra in Viom but as telecom attached to the telecom sector's woes, I think that has had a heavy impact on the company, on the perception and therefore when we look at the book value and all that doesn't get affected because people look at the overall investments as very heavy and whether we would be able to exit whether the valuation would be there or not so those concerns is what my feeling is because if you see our fund based business, our equipment finance and project finance, I would say we are fairly happy with it, the way it has grown and things, yes there has been some impact due to the marked-to-market on our forex basis which we have consciously taken because those are long term facility, but otherwise i would say both those two businesses have been very fairly consistent and robust over years in the last so many years we have been in that sector.

**Deepak Rajani:**

Just to dwell on the same issue, since you seem to suggest it is bit of a perception issue and clearly going by the fact that promoters have been buying shares in the past few months, I am just wondering whether you need to do perhaps more about perception considering the line of work you are in, this kind of share price, fund raising abilities, so if it is simply a matter of perception perhaps I am just wondering, I am asking you more than telling you, you don't seem to doing something about perception, because at the end of the day all these questions that me and our peer group has been asking you, everybody is focused on share price, it is extremely important, while markets are bad, external factors are bad and all of that, we are particularly hit, because performance on a 12-month basis stock has performed very poorly and I am also just wondering, it is clearly a concern to you because the industry you are in, you are buying stocks, I mean the promoter, not you personally, but I was just wondering if this is something that you can concretely do about perception, does it take up your mind space?

**Sunil Kanoria:**

We think a lot about it. The challenge has been that we do not want to do anything which will impact us on the long term basis, but yes what we would want to do definitely is to improve the perception and one way which we believe is through performance, it may take a little time markets have not been supporting us in terms of being able to exit some of our investments, I think as soon as we start the cycle of exiting our investments which shows a positive gain it is then that the philosophy with which we started off the business and the investment would get reflected in the market, we are in an infra finance business, we know that we are there for long term and we had been looking at long term, as I said that on a quarter to quarter basis we have a challenge but we still firmly believe that on a long term basis, medium to long term basis our story and our strategy is strong, we have to go through this journey and this process in the interim, focus on our efficiencies, focus on our customers and our relationship which will help us



to meet these challenges, and challenges definitely are there in overall perception if you see in the infra sector today perception is highly negative because perception is that nothing moves, it is not that nothing moves, it is that there are many big large projects many things and policy issues have got impacted but if you really see on the ground level, we see still activity growth is still happening at 5% fine it is not happening at 7% or 8% or 9% but 5%-6% is still happening, so it is how you are able to look at that kind of growth still take on that in spite of those challenges.

**Deepak Rajani:**

Just again to dwell on that same point I am just saying that perception for an infra player is one thing, the business not picking up is one thing, but to have the NPA ratio that you have and to have the discount to book value that you have that is not so correlated to the cycle, I am saying, if you can convince the market that your NPAs are where you say they are, the market's perception and the investments that you are holding are not worth with the sums of money you claim they are, defined by your discount to book value. I think that perception should be easier to, I mean I would as a shareholder greatly appreciate the signs from the management to make clear that perception, while the infra space is bogged down by government inaction and all of that we all appreciate that but I am saying that you should be concerned about your spread and your NPAs, and your where you claim it is, then you should be a little more proactive convincing the market that your NPAs are where they are because the discounted book value suggested the market does not believe that is my point.

**Sunil Kanoria:**

I understand. No this is a new angle, which I didn't understand in the market because our NPAs has been always under for so many years we have been fairly steady and monitoring it and that is our core strength. It is just that we have been far, far more aggressive in our approach in the NPAs than the market and the other players in the market, so I take your point, I think it is a very, very valid important point which we need to work on as management to see how we correct the perception which is possible for us to do it.

**Moderator:**

The next question is from the line of Abhishek Soni Canara Robeco Mutual fund, please go ahead.

**Abhishek Soni:**

Just one data point, how much is tier 1 under Srei Equipment Finance Private Limited?

**Sunil Kanoria:**

12.5% and overall is 16.9.

**Abhishek Soni:**

Just a clarification, in terms of provisioning or in terms of recognition under Srei BNP Paribas it is 90 plus days or 180 plus?

**Sunil Kanoria:**

Yeah 90,180 and 360.

**Moderator:**

Currently there are no further questions. I would now like to hand the floor over to Ms. Chinmaya Garg for closing comments.

**Chinmaya Garg:**

I would like to thank the management and participants for taking the time out for this con call. Thank you every one.



*Srei Infrastructure Finance Limited*

**Moderator:**

Thank you. On behalf of IDFC Securities Ltd., that concludes this conference thank you for joining us you may now disconnect your lines.