



“Conference Call to Discuss the Proposed Transaction  
Between Srei Infrastructure Finance & BNP Paribas  
Lease Group”

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Conference Call to Discuss the Proposed Transaction Between Srei Infrastructure Finance & BNP Paribas Lease Group. This call is hosted by Maybank Kim Eng Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Modi – Research Analyst at Maybank Kim Eng Securities. Thank you. And over to you, Mr. Modi.

**Vishal Modi:** Good afternoon and welcome to this conference call. From the management team we have Mr. Hemant Kanoria who is the CMD at Srei Infrastructure Finance, Mr. D.K. Vyas who is the CEO of Srei Equipment Finance Ltd, Mr. Sanjeev Sancheti who is the Chief Strategy Officer and Mr. Amit Agarwal – AVP, Investor Relations.

I would like to hand over the call to Mr. Kanoria to begin the proceeding and then we can take the Q&A post that. Over to you, sir.

**Hemant Kanoria:** Thank you, Vishal. Thank you very much everyone. A very Happy New Year to all of you who are on the call and wish all of you that this year would be very successful for everyone and prosperous.

So to begin with, last year, that was on the 29<sup>th</sup> of December we made an announcement, there was a Board meeting of Srei Infrastructure Finance and also of Srei Equipment Finance where a decision was taken by the respective boards after BPLG who had approached the Investment Trust that they wanted to buy 5% of equity shares of Srei, the listed entity, and by virtue of that they would like that 50% of their shareholding which was there in the equipment finance could be taken over by Srei Infrastructure Finance.

So we saw that this opportunity would be a good opportunity both from the perspective of BPLG and also for Srei shareholders. From BPLG's perspective it was basically they wanted to move up into the larger infrastructure play in India because they could see that the equipment financing business has been growing, last three to four years definitely were slow in the infrastructure space but gradually with the new government coming in, many of the areas which were having their difficulties were sorted out, especially in the power sector and the road sector where most of the investments of the infrastructure players in India had gone. So therefore, with the intent of the Government to sort out all these particular areas as fast as possible they were quite excited also that the growth would come into this particular sector and they wanted to come and play a larger role in the infrastructure sector in India. And therefore they decided that they would like to become shareholder in Srei Infrastructure Finance Limited and not only being limited to the Srei Equipment Finance business. And that was the reason why we structured this transaction in a manner which would be value accretive to the Srei shareholders because this would result in 100% of the equipment finance business getting

consolidated for the Srei shareholders. And because BPLG also was coming in as shareholder in the parent company so they would like to also see that there is growth which comes in the parent also and it adds value to all the stakeholders. And that was the reason for doing this particular transaction and we feel that this is the next step after BPLG came in into the equipment financing business eight years back and it helped the company and the group to grow in this particularly well, with BPLG a large institution coming into Srei as one of the shareholders, this will add further value going forward.

And also from the strategic perspective at Srei, what we have been always discussing and expressing ourselves in the market very clearly and to all the investors that it is basically in our interest and in the interest of all the shareholders to see that the value which has been created in Srei by investing into various business whether it be Srei Equipment Finance, in the telecom tower business, in roads, power, ports, whichever areas that the investment has been made gradually we will keep on unfolding these particular investments and the value will get created. Last three four years the market was quite bad so that is the reason why we were not able to achieve the objectives, that we had in mind. But gradually we have started doing that and in the last quarter of the calendar year 2015 if you would see that first of all in the month of October there was an announcement that we were disinvesting out of Viom and the transaction has been concluded, we are waiting for the regulatory approvals there. I think that it should be coming within March and we should be getting the money coming into the company. Similarly with the BNP Paribas Lease group taking this decision of coming into Srei and 100% of Srei Equipment Finance being consolidated into Srei will be again value accretive. So these two transactions have already happened. And gradually going forward the other investments which has been also made, the strategic investments in various other sectors also we are trying to find out that what are the best way that we keep on unfolding these investments and the value which has been created can be capitalized into Srei. So going forward it is in consonance with the strategy that we had already articulated for the last few years to the investors.

So this is what we would like to report at this juncture and if there are any other points which anyone of you have or any questions we will be very happy to answer.

There is one more point which we wanted to mention is that also Sahaj which is the rural IT infrastructure which has been created and the new government which has come in they are also wanting to ensure and see that how this can be grown. We again see that there is a huge value which has been created in this business but you see that as we have been expressing earlier also that it takes time, in the infrastructure sector when you make an investment it first of all takes time to complete the investment to create the project whichever way it may be and then it also takes time for the projects to stabilize and then the value accretion starts. So similarly we see that in Sahaj and in other areas also all this value creation has taken place and we will keep on unfolding it gradually as we move forward.

So I will open the forum for questions now.

- Moderator:** Thank you very much. We will now begin with the question-and-answer session. Our next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.
- Anita Rangan:** Just wanted to know, since now Srei Equipment will be 100% stake, would you look at merging Srei Equipment with Srei Infrastructure at some point in time?
- Hemant Kanoria:** I think that basically if we look at it that because it is 100% getting consolidated into Srei so immediately we do not have any plans because all the benefits that Srei would have had if Srei equipment was its division or a company is available today, so it is achievable at this particular juncture, so I do not see and going in for merger is quite a lengthy procedure, it may take some time and there does not seem to be any reason to do that immediately.
- Anita Rangan:** And my second question is, BNP was earlier like 50% stakeholder in Srei Equipment and now it is like a 5% stakeholder in Srei Infrastructure, so in that sense from a strategic perspective for BNP is it now like more passive investment right, I mean they are not going to be active in Srei's affairs versus earlier they were like more active investor?
- Hemant Kanoria:** No, actually earlier also BNP was never an active investor and the management control was with the earlier management only that is with Srei, BNP did have a couple of people on the board, but at the same time there was no actual management as such. Similarly now and we were drawing on the strength of BNP on risk management procedures in other network which we were able to create with international vendors so that will continue because at the Srei level also they are coming as a 5% shareholder. So by virtue of their being a shareholder in Srei, so they will bring in whatever their network will be available to us and also wherever their expertise and skill sets are there we can draw on to that too.
- Anita Rangan:** And is it possible for you to share on any valuations on which they exited Srei Equipment and what valuation they are acquiring at Srei Infrastructure?
- Hemant Kanoria:** No, it is actually not a valuation, it is a procedure of a derivative which is basically they are buying 5% of shares of Srei from the growth trust and whatever money comes into the growth trust will flow back to Srei which will then be utilized towards purchasing their 50% of shareholding.
- Moderator:** Thank you. Our next question is from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.
- Ritesh Nambiar:** Sir, just extending the question which the earlier participant mentioned about. So clearly now Srei Infrastructure is a listed entity and even the valuation of Srei Equipment, 50% of that gets captured in the overall market value, so assuming that it is a 5% stake which BNP is taking so in that count it should be around 160 crores, 170 crores should be the overall consideration and if I look at Srei BNP Paribas has a net worth of over 2,200 crores as of September. So I was not able to get the math because 5% cannot tantamount to 50% stake, right?

**Hemant Kanoria:** No, because if you actually look at it that basically as I said that it is more of a derivative because some of parts of Srei is much higher, and because Srei has its own equity which is there and over and above the equity now that the 3,000 crores of Viom will also be flowing in, plus 100% of Srei equipment finance will be there, plus it has investments in road, power, Sahaj, ports. So if we take all these particular values, if you look at from the sum of parts then what they are getting, earlier they were 50% only in one particular vertical that is equipment finance, now they are getting their entire project finance plus all the other verticals also where they are coming in and also the cash which is flowing out of the Viom itself which is 3,000 crores. So therefore if you take all these particular things into account, so it is basically a fair valuation on the basis.

**Ritesh Nambiar:** No, where I am coming to is everything is reflected in your stock price so whatever you said so that we are well aware of that, it is just that even your Viom deal is factored into the price which is currently trading.

**Hemant Kanoria:** No, but we do not think so, we do not think so that the market has been able to capture the price of Srei, we have been telling for the last seven, eight months, one year almost the price of Srei if you take the sum of part should be about 200 bucks whereas the market does not see that because the market thought that we will not be in a position to divest out of Viom, we will not be able to create value because all the other infrastructure players are not doing well so therefore how can Srei be doing well. And that was the reason why there is a huge discount and actually we have been saying that the sum of the parts if it is taken it should be about 200 bucks should be the price of Srei, and which we again repeat.

**Ritesh Nambiar:** But is that allowed, any person taking a 5% stake at 200 because any which ways you have a formula for it, right?

**Hemant Kanoria:** No, we are not saying 200, I am saying that the market price if you actually go in with sum of parts and do the valuation it should about 200 bucks, the market is not giving 200 bucks, the market was between Rs.45 to Rs.60, now it has moved up because gradually when they see and the similar thing had happened in 2007 and 2008 when BNP had come in the market price used to about Rs.15 and Rs.16 and so when BNP came in the market price went at Rs.250 because BNP gave a value of about Rs.140, Rs.150 at that particular time. So similarly you see that when an investor is coming in to the company they actually go through the mathematics, the market is not able to see it because they see whatever is the balance sheet of the company and they do not see the value which is getting created through various investments which has been made, and every time it takes time because infrastructure play is not something where you invest today and you will get the return tomorrow, it takes time, so therefore it takes time to create a value. So people who are coming in and making an investment they go through the mathematics, people who go into the market because they have to go by the market perception. So I cannot comment on the market, what does the market feel, the actual value is this, the market may perceive it lower, perceive it higher it is dependent upon the market and that would be the market dynamics for which it is very difficult for us to comment.

**Ritesh Nambiar:** So as I understand the 5% stake of yours will not fetch you 170, it may fetch you much higher you are saying?

**Sanjeev Sancheti:** So that does not make any difference because whatever it will fetch me that same money would be used to purchase the 50% stake, the intrinsic value is something which both the parties would believe to be something. The transaction obviously will be on the basis of SEBI formulae, whatever is at the time of consummation of the transaction.

**Ritesh Nambiar:** So where I am coming to is, so why is BNP taking such a big hit from the value at which we have invested in BNP?

**Management:** No, that is why again that is where we are making an error, BNP is not taking a hit, BNP is seeing the value of the parent which has investments not only in the equipment financing business but has investments in many other areas also. So therefore BNP because they are coming into a larger play moving from one vertical into a much larger play that is the reason why they are seeing this particular value.

**Ritesh Nambiar:** That is right, the whole point I am trying to derive is that so you are buying out your flagship business from your JV and with the so called embedded valuation which it is getting is around 10% of the overall value. So how is it happening is what my question was. And secondly, even though all the proceeds which you are getting from Viom so that is flowing into the company but you are not declaring any special dividend or anything, you are not up streaming it, right?

**Management:** No, it is up-streamed means that it remains in the parent, in Srei, so therefore whether Srei now declares a dividend out of that or utilizes that money for future and further growth is a call which the company will have to take. But it is the wealth which is of the shareholder, so shareholders who have invested in Srei they by virtue of the company becoming richer, they are also becoming richer, it does not mean that the money has to flow into their hands.

**Ritesh Nambiar:** Right, in fact I do not how they account for it also because all the set of I would say capital flows which happen till last year into Srei BNP because you both were infusing capital on a yearly basis to manage the capital ratios. So that never showed such kind of valuation at which this large deal happened, that is the 50% stake which you are buying. So I do not understand why there is such a big discount in this because...

**Hemant Kanoria:** No, but that is why I am not able to understand your question that where there is a discount, there is no discount, you are raising a point about discount, where there is no discount, so that is the fundamental gap. In terms of premium to Srei, there is no discount to Srei Equipment Finance. So you are looking at a discount to Srei equipment whereas you are not looking at the premium of Srei. So if you look at the premium of Srei then you will find that that is justified and that is why BNP has taken this call.

**Ritesh Nambiar:** Now can you justify me this Rs.200 value business wise because I am sure of that in the SOTP also it is difficult to justify now because it is just 2,000 crores cash which you have received.

- Hemant Kanoria:** See, basically as I said that it is all a perception, stock market the price of a share of the company is all on perception, the perception of some of the investors or most of the investors in the market is that the price should be Rs.50, Rs.60, Rs.40 whatever it is, so that is so. We believe from the perspective of the major shareholder in Srei we believe, that is the reason why if you look at the promoters continuously we have been buying share, the reason because we believe that the price, the intrinsic value of Srei should not be less than Rs.200 per share, that is what we believe and that is what is basically when any investor is coming to us and wanting to invest in Srei parent we are saying that this is our value. If you want to buy at a lower value smaller number of share you can go into the market and buy it, that is someone is wanting to come into the company then they will have to pay this price.
- Ritesh Nambiar:** No, my question is then why not unlist it, why not buy the whole share because if you find it so cheap so you should buy the whole stake and increase or use this proceeds which you have received from Viom to buyback.
- Hemant Kanoria:** That is what we are doing, so that is why 5% is allowed as per the creeping acquisition, so that is what we are doing every year.
- Ritesh Nambiar:** But that is at the market price, not at a very high premium, right?
- Hemant Kanoria:** No, at the market price because we can only buy from the market, we cannot buy from anyone else at a premium, we have to buy it from the market because we believe that the share price, the intrinsic value of Srei is close to about Rs.200 per share, that is what we believe, we may be wrong but that is our belief and that is what we have articulated to the market also that that is what our belief is, that is why we do not come out with any new issuance from Srei because we know that this a value which has been created in the company, market may not believe that. So the market would do exactly as they believe, we will do what things we feel is right for the company and for the market.
- Ritesh Nambiar:** And just on this actually, now just on the entity point of view because now Srei BNP would become a subsidiary of Srei Infrastructure so it would be renamed as Srei equipment I guess?
- Hemant Kanoria:** It was already there as Srei Equipment, the name had never changed.
- Ritesh Nambiar:** And just on that actually, so is all your liability requiring an NOC for the change of management because this is a key change actually in the company's characteristics.
- Hemant Kanoria:** See there is no change in the management because initially when we had signed the agreement with BPLG when they had come in, the management control was clearly defined that is Sunil and me, so therefore there is no change in the management control. So from the perspective of management control there is no change, from the perspective of shareholding yes there is a change, because there is a change in the shareholding that is the reason why we have to go back to the regulator and take their approval and that is why we have declared last week that this

particular transaction would get consummated after we get the requisite regulatory approval. So we would wait for that..

**Ritesh Nambiar:** And then all the lenders and creditors you have to get approval from the same?

**Hemant Kanoria:** Yes, so lenders and creditors we have already conducted our lenders meeting which was done last week itself on the same day when this declaration was made, the board accepted this particular proposal. So we have already expressed it to our lenders and then they will follow the process because as I said that there is no management control change because the management remains what it was previously. So if there were a change in the management, change in the control then it would be a different thing altogether, but there has been no change in that, this is only a shareholding change.

**Ritesh Nambiar:** So there is a change in control, right?

**Hemant Kanoria:** No, there is no change in control.

**Ritesh Nambiar:** It is a 50-50 JV which now it is 100%?

**Hemant Kanoria:** No, again you are making, you know there is a misunderstanding that you are having between shareholding and management control. Management control as I mentioned I repeat again that it was specified in our agreement when BPLG came in because Srei Equipment finance was a company where BPLG came in and invested 50%, that time the management control was very clearly defined with Srei and with Sunil and me, so therefore that remains and there is no change. The shareholding has changed, instead of Srei holding 50% it would be holding 100%, so that is the change. So there is no management control change, there is a shareholding change.

**Ritesh Nambiar:** And the change in board composition and everything?

**Hemant Kanoria:** The board composition, they have two people on the board, so therefore there are two persons, Sunil and me we were on the board, two independent directors and two from their appointees. So that will only get, because now they will not be holding shares directly into Srei Equipment finance. So therefore that particular directorship of the appointees basically they may continue, they may withdraw that is up to them to decide.

**Ritesh Nambiar:** The second part is regarding, because all your debt gets rated so your conversation with the rating agencies and how they are perceiving this move?

**Hemant Kanoria:** Again, as I said there is no change, if there was any change in the management control or the management staff it would have been a different matter altogether. So there is nothing which is changing, it is only at the shareholding level that the shareholders have changed. So let us suppose that Srei is listed on the stock market, today someone comes in and buys 30% of the Srei share, so will anything change for the company, the management control remains with us,

the company is running in the manner that it runs. So therefore with a 30% or 40% also if someone comes in and buys of Srei it is not going to change the way that the company is running until and unless there is a management control change. The rating institution will only review it if there is a management control change, but there is no management control change.

**Ritesh Nambiar:** See, I am being very categorical in the sense that suppose there is a JV between two parties, one very strong and very high rated and one moderately rated entity and if the stronger entity takes that JV then that entity gets upgraded and weaker entity takes that entity, that entity gets downgraded. So in case of Srei, BNP was always rated higher than Srei Infrastructure.

**Hemant Kanoria:** Not because of that, you see if what you are saying if that was holding true then BNP is a bank which is A rated in the international market, by virtue of that Srei equipment finance should have been AAA rated?

**Ritesh Nambiar:** No, it is like it is a combination of your rating as well as his rating, so there is a notching over your rating so there was a one notch difference which rating agency thought is...

**Hemant Kanoria:** But then it should be one notch lower, if I go by your argument then it should have been one notch lower than AAA, it should not be one notch higher than what we are having the rating.

**Ritesh Nambiar:** Right, so it is always that way, it is a JV after all.

**Hemant Kanoria:** No, but that does not hold. See what happens that Srei Equipment Finance was rated on its own, it has no concern with the rating of either Srei or with BNP, it was on a standalone basis that Srei equipment finance has been rated. Now the question is that why Srei equipment finance is rated one notch higher than Srei Project Finance? The reason being because the risk which is there in the Equipment Finance business is lower than in the Project Finance and that is the reason why the rating institution has rated Srei Infrastructure as one notch lower than the Srei equipment finance, not because of the promoters but because of the business model.

**Ritesh Nambiar:** So you are saying there will be no rating implications?

**Hemant Kanoria:** Yes, because this is the business model. Srei equipment finance has less risk because it is backed by equipment's which you can reposes and resell, whereas in the project finance it takes time before you can recover your money, you have to take over the project, you cannot just sell the equipment's and recover the money. That is the reason why the rating institution for an infrastructure company the rating would be one notch lower than the equipment financing business that is a logic on which they have gone.

**Moderator:** Thank you. Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

**Hiren Dasani:** Sir just to understand, how did this treasury stock got created of 10% of the listed entity?

- Hemant Kanoria:** This was created as far back in 2010-2011 the treasury stock because at that particular time all the business in 2008 when Srei Equipment Finance was divested the entire infrastructure equipment finance business was divested into Srei Equipment Finance company which was created because BNP was coming as a partner, there were other businesses also where there were investments in Quippo and the Quippo related Viom etc. So all these were brought in and merged into Srei, when it was getting merged so the derivative which was there was a treasury stock.
- Hiren Dasani:** So this came out of the merger?
- Hemant Kanoria:** It was a derivative of the merger.
- Hiren Dasani:** So merger between, sorry?
- Hemant Kanoria:** Merger between Viom, Quippo and Srei.
- Hiren Dasani:** And the press release also mentions that BNP will also acquire the remaining 5% treasury stock at the second stage of the transfer, pricing of that is not decided?
- Hemant Kanoria:** No, no there is no second tranche in the press release; I think there may be confusion.
- Management:** No, there is no second tranche in the press release, this is happening because of the merger, this is because of Srei taking over 100% of BNP stake in Srei equipment finance and BNP will take 5% buy from the trust.
- Hiren Dasani:** Okay, so effectively 5% is what BNP, the press release mentions consideration payable by Srei to BPLG for second tranche or shall be compliant with RBI pricing down.
- Management:** There are two tranche to this transaction, one is the buying part and the other one is selling part, we are talking of that tranche.
- Hiren Dasani:** So BNP acquires 5% stake as per the SEBI norms of 26 weeks or two weeks of whichever will be higher?
- Hemant Kanoria:** It is the first tranche.
- Hiren Dasani:** So let's say if the price is let's say for example Rs.70, just a hypothetical example, so BNP acquires at Rs.70, 2.5 crores shares, right?
- Hemant Kanoria:** Yes.
- Hiren Dasani:** Now is that the consideration that Srei pays 2.5x70, approximately 175 crores?
- Hemant Kanoria:** Yes.

- Hiren Dasani:** So then there is no RBI pricing consideration there, right?
- Sanjeev Sancheti:** No, there is RBI pricing consideration; the pricing is 26 weeks average or two weeks average whichever is higher.
- Hiren Dasani:** No, I understood that. So I am saying let's say for example hypothetically let's assume that price comes out to be 70 which is higher, I am just making up a number 70 because it is closer to 67 the current price.
- Sanjeev Sancheti:** Fair enough.
- Hiren Dasani:** So I am saying at Rs.70 is at what BPLG buys 2.5 crores shares approximately that is about Rs.175 crores comes to the trust.
- Hemant Kanoria:** Correct, the trust will upstream it up to Srei.
- Hiren Dasani:** That 175 crores gets up-streamed to Srei and then 175 crores is what you buy 50% of Srei equipment finance from BPLG, right?
- Hemant Kanoria:** Yes. So this is the second tranche of the transaction.
- Hiren Dasani:** And assuming that is 70 is 100 then it becomes 250 crores and then you buy 50% for 250 crores.
- Hemant Kanoria:** Correct, you are right.
- Hiren Dasani:** So you will not pay more than whatever you receive for that 5% stake?
- Hemant Kanoria:** Correct.
- Hiren Dasani:** Now sir just one more question, this 2,200 crores net worth of the equipment finance JV, was it all infused at the book value or was it done at some premium also?
- Sanjeev Sancheti:** Some was at book value and some was at premium.
- Hiren Dasani:** Is it possible to know what is the retained profit of this 2,200 crores, how much was infused?
- Sanjeev Sancheti:** That retained profit and infusion, that breakup I do not have it handy just now.
- Hiren Dasani:** But would it be fair to say that both partners would have come in at the same price or would BNP have come...?
- Hemant Kanoria:** No, initially they came at a premium and we came at par at the same price.
- Hiren Dasani:** Subsequent infusions were at the same price?

**Hemant Kanoria:** Yes.

**Hiren Dasani:** And if I may ask one more question sir, what is the outlook on this ROE of the equipment finance business because last year we had put about 7% ROE and if I am looking at H1 it is about 4.5%, so where do we go from here?

**Hemant Kanoria:** See we are quite positive about the ROE but at this particular juncture to give a figure is going to be very difficult, the reason being because the market has started picking up and the last quarter we have seen substantial growth in the financing of equipment and the sales of equipment. So therefore we are hopeful but I think that we should be in a position to give the guidance in the next couple of months that where do we see the market moving because last quarter from the sales of equipment's have been very good, if the same trend remains in this quarter also then the results will be much better than what we were expecting.

**Hiren Dasani:** And the parent business remains as it is, I mean there is no change in the parent business in terms of project financing and all?

**Hemant Kanoria:** No, that remains the same.

**Hiren Dasani:** Are you looking at any more value unlocking exercise going forward as well?

**Hemant Kanoria:** Yes, going forward as I said that you see earlier also we have been mentioning and for quite some time that we are looking at value unlocking on the strategic investment that we have made, so the strategic investment was comprising of basically the equipment finance business, project finance, telecom tower, roads, power, SEZ, Sahaj, so all these are in line. In the pecking order whichever comes first in the sense that wherever we get a better value there is no distress sale for us, it is not that there is liquidity which is required in Srei, it is unlocking value because when you make an investment you make an investment with an objective that you would be able to maximize your return on that. So therefore wherever we have seen that we have been able to optimize the returns, some we exit, some we hold and create a value. So if you see these two transactions in Viom we felt that it was a time where we could exit and get the full value unlocking so therefore that is what we did. Here in Srei equipment finance because BPLG was able to move up to the top co, there was Srei listed company so therefore again a value has been created by having 100% of this. Similarly, each of the other strategic investments which we have made, we will continuously keep on looking at that how to unlock the value one by one and that is an ongoing process for us.

**Hiren Dasani:** And sir if I look at your September quarter investor presentation, there is a slide on the equity investments which says strategic investment under communication 1,598 crores, is that what is related to the Viom?

**Hemant Kanoria:** Yes.

**Hiren Dasani:** So on that 1,598 crores you are likely to get about 1,900-odd crores at the listed entity level, is that correct?

**Hemant Kanoria:** 1,800-odd crs.

**Moderator:** Thank you. Our next question is from the line of Pritesh Mohanty from FirstRand Bank. Please go ahead.

**Pritesh Mohanty:** Sir just one question, what would be BNP's rights for having 5% stake in Srei Infrastructure will they get any board seat, any other board committee membership or any other thing than just having 5% stake?

**Hemant Kanoria:** No, see as per SEBI guidelines and all in a listed company you cannot give any special rights to any shareholders, so therefore there will be no special rights to anyone.

**Pritesh Mohanty:** So there will not be anything for BNP in Srei Infrastructure?

**Hemant Kanoria:** There will be no special right but definitely there will be a consultative process in doing whatever businesses that we are doing.

**Pritesh Mohanty:** And second thing sir, considering that currently Srei infrastructure is rated A+ and Srei Equipment Finance is AA- and once it becomes 100% subsidiary then some of the rating agencies actually align the subsidiary rating to the parent rating. So in that case if that thing happens then Srei Equipment Finance rating may be downgraded to A+, unless Srei Infrastructure rating increases to AA- because of the Viom cash infusion. So have you started discussing with the rating agencies what would be their view post change in control?

**Hemant Kanoria:** No, there is no change in control. As I have mentioned earlier also that there is no change in control, the equipment finance business and the infrastructure finance business both are being run by the same management team, so therefore there is no change in control. Where the business models are concerned, equipment finance business model is different than the infrastructure project finance business model, the rating institutions when they give the rating they take that particular business model and look at it and give the rating. So therefore we have a rating which is higher one notch in the equipment finance then project finance. Now what is going to happen, the question which you have raised is very-very valid because of the cash flow which is going to come of Viom into Srei Infrastructure, so we believe and that is what our representation to the rating institution would be that because the net debt has reduced now in the parent so the rating should improve in the parent and which may result in a notch being higher than even the equipment finance one because the debt equity ratio will come down.

**Moderator:** We will move to our next question which is from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

- Amitabh Sonthalia:** So just to add on to a few of the earlier questions, Srei BNP has net worth about 2,200 crores and has about 600 crores of gross NPAs, is that correct, or net NPAs rather? So the adjusted net worth book value of Srei BNP would be roughly 1600 crores, is that fair?
- Hemant Kanoria:** So if you are adjusting the full NPA, you are trying to get into adjusted net worth, right?
- Amitabh Sonthalia:** Yes, I was just wondering if that number that I have is correct.
- Hemant Kanoria:** Yes, it should be around that.
- Amitabh Sonthalia:** Okay. So 50% stake or another way to look at it is in terms of the adjusted basis is worth about half of that at one time book value which is 800 crores and therefore if we value that at one time book then Srei is actually being valued at 16,000 crores of market cap by BNP which actually is much higher than the number that Hemant mentioned of Rs.200 a share, it is almost a Rs.300-odd a share which is being valued at. So that sounds great for the minority shareholders. The other question I had was what will be the overall asset quality of the consolidated entity on a proforma basis? If you can have some readymade indication of that in terms of what would be the gross NPA, on a pro forma basis if you are able to consolidated 100% of Srei BNP what would be the consolidated?
- Sanjeev Sancheti:** Gross NPA would be close to about 1,200 crores approximately if I am not mistaken.
- Sanjeev Sancheti:** Net would be about 1,100 and about 1300 should be gross.
- Amitabh Sonthalia:** 1,100 net NPA for the consolidated entity?
- Sanjeev Sancheti:** Yes.
- Amitabh Sonthalia:** And so Srei's current net worth if you can just share just for clarification?
- Sanjeev Sancheti:** 3,200 crores.
- Amitabh Sonthalia:** Which includes 50% of Srei BNP's net worth, right?
- Sanjeev Sancheti:** Yes.
- Amitabh Sonthalia:** So now you will add about 1,100 crores of Srei BNP net worth to this, so your net worth actually for Srei will go up to about 4,400 crores roughly?
- Sanjeev Sancheti:** Actually it becomes about 4,700 crores.
- Amitabh Sonthalia:** Because you will also have the extra income from Viom, etc.
- Sanjeev Sancheti:** Yes.

- Amitabh Sonthalia:** So FY16 pro forma basis your net worth would be close to 4700 crores?
- Sanjeev Sancheti :** Yes. And extrapolating September numbers it would be 4700 crores on a 100% consolidation.
- Amitabh Sonthalia:** And even if we adjust the full amount of net NPAs from this we still get a figure of about 3500 crores as adjusted net worth?
- Sanjeev Sancheti:** Yes, if you are adjusting 100% of NPA.
- Amitabh Sonthalia:** Assuming worst case scenario for the company where all your assets get 100% written off on your net NPAs.
- Sanjeev Sancheti:** Yes, you are saying if there is no further recovery from there?
- Amitabh Sonthalia:** Yes, I am just taking the worst case scenario for the sake of this.
- Sanjeev Sancheti:** Yes, from that assumption what you are saying is right.
- Amitabh Sonthalia:** Secondly, what is the likely pro forma impact on the P&L this year of this consolidation?
- Sanjeev Sancheti:** I am not getting into any forward-looking statements but if September was to be consolidated on 100% basis than profit after tax would move to about 60 crores for the six months from 35 crores today.
- Amitabh Sonthalia:** I am sorry, can you repeat that please?
- Sanjeev Sancheti:** 35 crores September PAT would go to 60 crores September PAT.
- Amitabh Sonthalia:** So intentionally there is a positive P&L impact without any dilution really?
- Sanjeev Sancheti:** Without any dilution absolutely.
- Amitabh Sonthalia:** And that is likely obviously, and this current year would you say is probably the most depressed year in terms of profitability on both businesses?
- Sanjeev Sancheti :** Yes, it is.
- Amitabh Sonthalia:** Given the fact that one, the distress is high, and secondly, you have had high acquisitions?
- Management:** Yes, you are right.
- Amitabh Sonthalia:** And when do you hope, you mentioned that you expect the Viom money to come in by March so that would have a pro-rata impact on your FY17 financials, is that fair to assume that, that would be deployed in yield bearing assets rather than any long-term investments?

- Sanjeev Sancheti:** Yes, so immediately to start with repayment of debt and then as opportunities come in we would invest in core business.
- Amitabh Sonthalia:** So about 1,800 crores your average cost of debt I am assuming would be 12% would translate to 200-plus crores of PBT for FY17, is that fair assumption to make?
- Sanjeev Sancheti:** You are right.
- Moderator:** Thank you. Our next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna:** In last all concalls we were talking about Viom, now this thing has definitely come as a surprise for most of predominantly from minority shareholder's perspective. Just to add on the number, you just indicated around 4,700 crores consolidated pro forma net worth, so sir considering this 300 crores goodwill which is there on the accounts books, after adjusting that?
- Hemant Kanoria:** After adjusting that, yes, we always adjust the goodwill from the net worth.
- Bajrang Bafna:** So that is what I was wondering because as per my calculation it should be 5,000 crores gross and after adjustment of goodwill it should be 4,700 crores.
- Hemant Kanoria:** Goodwill adjusted.
- Bajrang Bafna:** So broadly 3,600 crores is the adjusted net worth after adjusting this 1,100 crores net NPA?
- Hemant Kanoria:** Yes, if you would do that that is an assumption obviously.
- Bajrang Bafna:** Sir now one thing is that on the Viom side we indicated this 2,952 crores will be actual inflow to the company including that equity as well as some quasi equity which was there. So just wondering how much interest that the company was generating on this quasi equity because that will help us at least to get a sense that how much ROE could improve just because of this transaction because we were under impression that 1,800 crores the company will receive on behalf of equity which was not generating any sort of return for the company. So now this 2,952 crores, remaining this 1,100 crores what could be the incremental income which will be generated by this 1,100 crores?
- Hemant Kanoria:** All that I think between 2% to 2.5%.
- Bajrang Bafna:** Over and above what we were generating earlier?
- Hemant Kanoria:** Yes.
- Bajrang Bafna:** And sir what about you earlier also indicated about those road assets monetization, any progress on that front?

- Hemant Kanoria:** Yes, that is also as you mentioned that all these are work in progress from Viom to roads to this transaction with BPLG, so as and when it keeps on happening we will keep on announcing that but we do not want to make any premature announcements because the entire strategy of Srei and the Group has been to make investments into infrastructure projects and at an appropriate time to unlock the value and that is what we have been doing. So similarly in the road sector also we will do it at an appropriate time, there is no distress that we have to or stress that we are having that we have to sell an exit. So we will create good value for the shareholders and that is exactly what we can assure.
- Bajrang Bafna:** And sir just one clarification about this 5% stake that will be given to BNP, there is no cash transaction involved in it because we were indicated that hypothetical assumption, Rs.70 and Rs.175, Rs.250, so slightly confused on that front. It is simply 5% treasury shares will be given to BNP and there will be no cash transaction involved in this entire deal, correct?
- Hemant Kanoria:** No, no so there is cash transaction also and this is fully cash but there is no net outflow, it is a cash transaction but there is no net outflow.
- Bajrang Bafna:** So first BNP will pay price to trust for getting this 5% stake?
- Hemant Kanoria:** Yes.
- Bajrang Bafna:** And then this amount will be transferred to Srei parent?
- Hemant Kanoria:** Correct.
- Bajrang Bafna:** And then Srei parent will transfer the same amount to BNP again?
- Hemant Kanoria:** Not transfer, we will purchase the share from BNP.
- Management:** And give the consideration against that, the same amount.
- Bajrang Bafna:** So net-net BNP in that case will end up holding this, that just has been done to do some sort of tax adjustment?
- Hemant Kanoria:** No, it is not tax adjustment it is a real life cash transaction.
- Bajrang Bafna:** Because you could directly give them this 5% shares.
- Hemant Kanoria:** But the 5% shareholding is not held by us, it is held by the trust.
- Sanjeev Sancheti:** We cannot do it, trust has to sell. If it was held by Srei probably that was a different issue but trust holds, trust cannot do a swap.

- Hemant Kanoria:** And the trust has to take their own independent decision. If the trust did not take that decision, you see therefore BPLG first of all approached the trust to buy the shares from them, if let us suppose that trust would have said that we do not want to sell the share then it would have been a different situation, we do not know how the transaction would have turned around. So these are all hypothetical situation.
- Moderator:** Thank you. Our next question is from the line of Aditya Singhanian from Enam Holdings. Please go ahead.
- Aditya Singhanian:** I had two questions, one was on Viom, there was a figure of 1,800 crores mentioned as the realization for Srei but I thought that the economic interest of Srei was 14 out of the total 18-odd % held by the group, I think that translates to higher number so I just wanted to clarify what the inflow to Srei
- Sanjeev Sancheti:** So in fact in the last call we very clearly said that Srei's direct holding is about 11.15% which holds the cost of 1598 crores which is about little less than 1,800 crores is what we see, the rest was in terms of quasi debt, quasi structure, so that is the current situation. In fact the same question was answered in the previous call.
- Aditya Singhanian:** Sir I did not quite understand the 2% to 2.5% what exactly that meant?
- Sanjeev Sancheti:** Because the earning which I am getting on the quasi structure is 12%, if I redeploy tomorrow in the market but that it will be about 14% - 14.5%, so that is the difference.
- Aditya Singhanian:** So what will be the inflow to Srei 1,800 or the higher number 2,300 or 2,400?
- Sanjeev Sancheti:** Ultimately everything will come to Srei either in the form of equity or in the form of debt reversals.
- Aditya Singhanian:** The upfront will be 1,800 crores and the balance will flow overtime?
- Sanjeev Sancheti:** Yes, you are right.
- Aditya Singhanian:** The other thing was, Mr. Kanoria has talked a bit about sort of growth picking up in the equipment finance business, could you just give us some more details in terms of what pick up you have seen and how you expect that moving ahead and also what implications if that has if any for the asset quality in the business, do you see that improving as well or not yet?
- Hemant Kanoria:** No, asset quality has definitely started improving because more contracts are being awarded to the construction company and my colleague D.K Vyas will be able to give you more of the details on the pickup in the equipment sales which just started happening. D.K, would you like to?

- D.K. Vyas:** See, equipment sale volume has started picking up, there two major key growth drivers for entire equipment industry is backhoe loader and excavator. Excavator started growing at 20% month-on-month in terms of sale of excavators and backhoe loader sale has started growing at 7%, actually till August it was only having a de-growth, September onwards you see the growth in the equipment sale, excavator is growing, transportation and logistics vehicles are growing at 25% plus. So you see the growth in terms of road sectors, in terms of mining, in terms of irrigation, in terms of urban infrastructure, the equipment sales started growing. Road equipment today, there is a huge positive demand supply gap in the sense that if you really want to buy motor grader and compactor etc. there is no delivery for two months. So this speaks about the growth in the equipment sale in the country and that gives us a good amount of visibility that the equipment market will grow and our business is also expected to grow going forward in that.
- Aditya Singhania:** And any thoughts on the asset quality of the book?
- D.K. Vyas:** As Hemant said that asset quality you see we already started experiencing the improvement in that in terms of our retail and SME sector stress has reduced quite substantially, on the large contractor you started seeing solutions coming out with the large customers. So we are experiencing the improvement in quality.
- Aditya Singhania:** So if we look at the NPAs which I think was sort of gross NPA close to 5%, could we say that that was a peak that was hit last quarter and from there we should see improvement in the coming quarters?
- D.K. Vyas:** We think so.
- Aditya Singhania:** Any sort of indication by when we should see that improvement?
- Hemant Kanoria:** We should be because if you see month by month and now on the arbitration act also because the government has come out with a clarity on the arbitration also, so we see that with all these particular things there is a lot of money which is stuck up with the contractors, with the government, so that also should get sorted out, the government is already abreast with the problem and they have also been briefed by the bankers that if this does not get sorted out then they will have further problems because huge amount of money is stuck up of the contractors and concessioners with the government. So I think that all these particular steps which are being taken one by one is going to ease out the pain which is existing in the infrastructure sector and the construction segment. So therefore we see moving forward there will be an improvement definitely, but to what extent figure wise, that we do not want to speculate on that, we would be in a position to reflect it by way of the financials which will be declared from time to time.
- Aditya Singhania:** And just to follow-up this stress reduction that you are suggesting, even in the larger contractor space, will that have a positive impact on the project finance book as well overtime or there is not much of a connection?

- Hemant Kanoria:** No, on the project finance side we have not done any equipment financing as such so therefore there we will not see much of a difference, there the recovery has already started taking place in the project itself and therefore we would see in the project also where it was stuck up because of not getting the land from the government for road construction or the coal linkages which were there. So we have started gradually seeing again that the problems are getting sorted out.
- Moderator:** Thank you. Our next question is from the line of Ravi Vukkadala from Religare Invesco. Please go ahead.
- Ravi Vukkadala:** Sir I have a couple of questions, just wanted to check something that you had said about the creditor consent, so this was with respect to which company, was it Srei Infrastructure or Srei BNP?
- Hemant Kanoria:** No, Srei Infrastructure it does not require anything, it is for Srei Equipment Finance because in Srei Equipment Finance the lenders were there so therefore there was a shareholding pattern which was given to them, so when there is a change in the shareholding pattern, though there is no change in the management control, I am reiterating that, there is a change in the shareholding pattern and therefore we need to keep the lenders abreast with it and if the lenders have any views then they will express that and we will take that into account.
- Ravi Vukkadala:** So it is not as a NOC or consent letter that we need, it is just FYI kind of notification and expression of any views?
- Hemant Kanoria:** We already have a core committee of all the lenders, we have already convened a meeting of the core committee and then they have their own internal processes which they will be following in due course.
- Ravi Vukkadala:** And this does not include the public issue investors, I think you had a public issue a while ago where this was offered to investors across retail and institutional segments. So will you be offering some sort of buy back to these investors or were they involved in this consultation process at all?
- Hemant Kanoria:** No, but we do not require to.
- Ravi Vukkadala:** But you are not going to look at any buyback option for these investors, because at the time of investment the shareholding was different, I think a lot of investors would have come in looking at the fact that BNP was a 50% shareholder which is no longer the case?
- Hemant Kanoria:** I do not think so, but if there is anyone in specific who is wanting to exit the company there is already a secondary market which is there, it is like the stock market, you see that Srei shareholding is listed, because of this transaction some people are bullish about it, some people may be bearish about it because the shares are listed so they have the prerogative to either enter or exit. So similarly in the debt instruments also because it is listed so the investors will have the prerogative to either exit or enter or continue.

- Ravi Vukkadala:** Secondly, on the actual value of the transaction, so BNP could have bought the shares from the market as well right, I think towards the second half of December the share price was around 40-odd and would translate to around 125 crores, 150 crores for a 5% stake. So the entire value of the business that Srei BNP equipment finance is would be at around 300 crores as per this transaction?
- Hemant Kanoria:** Again we are going back to the same question, we have already articulated that, so I would request kindly if you can just go through the transcript you will find it.
- Ravi Vukkadala:** No, I was there for that, I believe that like you said that it is 200 per share
- Hemant Kanoria:** Yes, we have elaborated in detail so therefore you see that why BNP has gone in for this transaction, why BNP did not go into the market and purchase it, these are all hypothetical questions. So therefore the transaction which has happened because BNP has felt that this is the best way for them to create value and we have also felt that this is the best way to create value for the shareholders, so therefore we have done that.
- Ravi Vukkadala:** Sure, it creates value for the Srei Infrastructure shareholders, I am just saying that while the value may be perceived as 200 but on the market it is still listed at 45, 50 so wouldn't...
- Hemant Kanoria:** So that is very difficult to say, you see that as I said that we cannot speculate on what the market perceives.
- Ravi Vukkadala:** No, but it is available for purchase at 50.
- Hemant Kanoria:** Yes, but then that is for the people to go and purchase it, so we cannot stop people from purchasing from the market or from selling into the market, that is their prerogative.
- Ravi Vukkadala:** And BNP did not want to do that?
- Hemant Kanoria:** That's why I said that how would BNP, maybe that if BNP was buying 5% shares in the market the prices would have moved up much-much higher, God knows.
- Moderator:** Thank you. Our next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** Thanks for the opportunity, all my questions have been answered. Thanks.
- Moderator:** Thank you. Our next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Sir just a clarification first, there is no fresh issue of equity shares so there is no share premium which is created and there is no dilution as far as equity is concerned since the trust is selling. Now since the trust is selling you own the trust shares at say about 18 crores, 19 crores odd so

maybe half of that would get sold and there would be some tax implications when the money gets up-streamed?

**Sanjeev Sancheti:** Yes, there may be some tax implication, since it is a long-term capital gain the tax implication will be at the lowest base rate which is about 11.5% of the capital gains.

**Jigar Walia:** And the SEBI formula is relevant only for the sake of for you to calculate the gain or loss primarily?

**Hemant Kanoria:** Yes, absolutely.

**Jigar Walia:** Now if you can let know in terms of the timeline for the cash upstream particularly for the Viom transaction?

**Hemant Kanoria:** See we are just waiting for all, ATC has applied to the Competition Commission and to FIPB for the approvals, as soon as those approvals come in then I think the transaction will be consummated because it is just waiting for all the regulatory approvals.

**Jigar Walia:** And the other regulatory approvals as far as the BNP deal is concerned, you mentioned something about lenders, any other?

**Hemant Kanoria:** So we have basically there is a shareholding change so therefore we have to take the approval from RBI.

**Jigar Walia:** And the Viom money, so 2,952 crores is what you would initially use to reduce your debt, am I right?

**Hemant Kanoria:** Yes.

**Jigar Walia:** Any change in the Chief Financial Officer, I think BNP had rights to appoint few key staff or something like that?

**Hemant Kanoria:** No, there were never any rights for anything, it was just that as I said that we were doing, the businesses were being run in a consultative process, the management control was with Srei and clearly defined with Sunil and me, so that continues, there is no change in that. It is just that we were doing it in a consultative process so therefore that would continue here also.

**Jigar Walia:** Sir one clarification on the rating thing that is explained throughout the call, as far as this deal is concerned then this will be rating neutral, but as far as Viom deal is concerned you feel that it could possibly improve your rating even a notch higher.

**Hemant Kanoria:** Yes, yes because that is what we have been expressing to the rating institutions also, so they say that as soon as this Viom deal happens and the cash inflow comes in they would definitely do a review of the rating.

- Jigar Walia:** Sir any investment commitments for any of the other investment companies including road, Sahaj anything from the parent side?
- Hemant Kanoria:** See as I said that it will be speculative on our part to say anything, but it is all work in progress because the value addition where the business is concerned is already happening, we have already made investments in that, now it will be unlocking of the value at an appropriate time and as we go down the road.
- Jigar Walia:** And as a company overall are we on 90 DPT or it is equipment finance or 90 DPT of the transaction?
- Hemant Kanoria:** 150.
- Jigar Walia:** First year 150, okay.
- Moderator:** Thank you. We will take our last question which is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.
- Anita Rangan:** Thanks, my question has been answered. Thank you.
- Hemant Kanoria:** So thank you everyone. If there are any other questions we will be very happy to if you can address to Sanjeev or to Amit, my colleague, so we will be happy to answer any other questions. Thank you very much, thank you everyone for joining in and I once again wish all of you a very Happy New Year. Bye.
- Moderator:** Thank you. On behalf of Maybank Kim Eng Securities that concludes this conference call. Thank you for joining us and you may now disconnect your line.