



“Srei Infrastructure Finance Limited Q3 FY 2015  
Earning Conference Call”

February 16, 2015



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**Moderator:** Ladies and Gentlemen, good day and welcome to the Srei Infrastructure Finance Limited Q3 FY 2015 earning conference call hosted by IDFC Securities. As a remainder, all participant lines will be in the listen only mode. 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 “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Samir Bhise from IDFC Securities. Thank you and over to you.

**Samir Bhise:** From Srei infrastructure Finance, we have Mr. Sunil Kanoria who is the Vice Chairman Srei Infrastructure, Mr. D. K. Vyas, CEO of Srei BNP Paribas, Mr. Bajrang Choudhary, CEO of Infrastructure Project Development Division, Mr. Sanjeev Sancheti, Chief Strategy Officer, Mr. Kishore Lodha, who is the CFO of Srei Infra, Mr. Murari Rajan who is the CIO and Mr. Amit Agarwal, AVP, Investor Relations. Without much ado, I would want to hand over to the management of Srei Infra who will just address you on Q3 FY 2015 earnings. Over to you Sir.

**Sunil Kanoria :** Good afternoon everyone. Basically for the business highlights for this period of Q3FY 2015, the group disbursement which includes both equipment financing and project financing was approximately Rs. 9,457 Crore, as compared to Rs. 9,463 Crore for the same period previous year, almost a flat year period which we have seen. Equipment finance again was only Rs. 6,200 Crore in these nine months, compared to Rs. 6,723 Crore same year previous. This basically reflects what we have been saying that the overall infrastructure business is still slow, momentum has not yet picked up. We are hoping that the various measures which the government is taking up we hope that in the next few quarters we should see opportunities coming up, but the challenges which have been there in the last two years in the sector will take some time for it to go. In terms of profitability, we have had an impact primarily due to non-performing assets and cost of risk which is continuing. Our profit before tax for the period has been Rs 184 Crore compared to Rs 216 Crore in the same period and after tax and adjustment of minority is Rs. 117 Crore against Rs. 135 Crore. The forex loss during this period has been about Rs. 19 Crore against a previous loss of Rs. 39 Crore. We have seen the rupee dollar to be relatively stable after the depreciation previous year. The overall non-performing assets, net NPA for our equipment financing is about 3.62 is almost hovering at similar levels and the gross is about 4.8, same as the previous year and the project finance is about 2.04% which too is almost at the same level, however the gross NPA has marginally gone up this quarter to 2.9. Coming a little more on Srei BNP Paribas if you look on a quarter-to-quarter basis the profit after tax from Rs. 40 Crore in the second quarter is Rs. 34 Crore now in the third quarter. It is more or less flat primarily because of the non performing assets. If you see we have had a provision and write off of about Rs. 103 Crore to be precise for this quarter which has had an impact on the PAT. We expect that as we are repossessing various



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assets and working out solutions and dispose of assets we should be able to recover part of that going forward in the coming quarters, however the overall equipment sales till is subdued in the market. Overall construction equipment sales in the country has been almost down by over 20% over the previous year, so that reflects the kind of market environment which you are seeing and that is in the second year continuous, so if you look at two, two-and-a-half years back and where it is today is almost 35-40% down on the overall volume of sales. On the project side again as we all know there are challenges in the market and not much of new projects are coming up, so our focus is more to take care of the existing portfolio and assessing how to manage risk on that and taking care of recoveries on that rather than major portfolio increase. On a standalone basis the PAT has been about Rs. 16 Crore vis-à-vis the previous quarter of Rs. 21 Crore and for the entire period is about Rs. 74 Crore on a standalone basis vis-à-vis Rs. 51 Crore standalone over the previous year. As I shared, the gross NPA and net NPA is 2.9% and 2% respectively.

Our borrowing portfolio basically more or less remains the same, more focused on the domestic banks and bond markets and very small by international funding.

Coming to the investment portfolio, as we have said that our attempt and efforts to dispose some of the investment continues, more particularly in the telecom infrastructure which is Viom and our road assets, however on Viom the process is on. We had hoped that we could have concluded that transaction earlier but is taking a little more time than what we thought but the efforts are on and we are hoping we should be able to conclude as soon as possible. On the roads again the markets have been a little subdued still for the infrastructure sector. We are waiting for policy reforms by the Government of India in that sector particularly on exits and we are evaluating various options in that and we hope that in the coming months we should be able to do something on that, either sell some of the portfolio individually or some overall action for encashing our investments.

From the business perspective Viom is doing well. There is now good growth which has come back, steady, efficiently, in terms of EBITDA margin and decent cash profit and we are steadily increasing our tenancy ratio which is already the highest in the country. These were major things. If there are any further questions in detail, members we will be happy to answer.

**Moderator:**

Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from the line of Samir Dalal from Natwarlal and Sons, please go ahead.

**Samir Dalal:**

Couple of questions, the first one is on the yields this quarter. From last quarter they have gone down by almost 100 basis points in September you declared average yields of funds of 16.3 versus this quarter 15.3, any particular reason why such a drastic drop in yields?



- Sanjeev Sancheti:** Couple of things, Samir, one if you remember in the first quarter there was an one-off income which came in on the Kingfisher Exit, so that has increased our yield quite significantly in the first quarter and the second is that in the present quarter there were additional provisioning there were reasonable amount of reversal of interest which we had to do while making the provision because once an asset becomes an NPA you have to reverse all the accrued interest, it is a combination of both.
- Samir Dalal:** That was in the last quarter.
- Sanjeev Sancheti:** Even this quarter.
- Samir Dalal:** Can you tell us how much reversal of interest income was for both these respective quarters and what kind of NPA has increased, I am talking about your Srei Infrastructure standalone book, this September 14, 16.3% average yield on funds, 15.3 in December, so if you can just give us an indication on how much reversal was done in Q2 and Q3?
- Sanjeev Sancheti:** Q3 has been about Rs.12-15 Crore.
- Samir Dalal:** Q2?
- Sunil Kanoria :** Q2 the number would not be available off hand, but probably will be more or less similar amount.
- Samir Dalal:** My question is your NPA under gross level quarter-on-quarter has not changed, 2.9%, 2.9%?
- Samir Dalal:** Can you give a gross NPA number absolute for Q2 and Q3 again if you don't mind?
- Sanjeev Sancheti:** Q3 would be about Rs. 490 Crore and Q2 it would be Rs. 20 Crore less than that.
- Samir Dalal:** If we were to exclude some of these reversals which you all have done and if we don't have it coming through in next quarter where no further NPAs get added what would be your actual average yield on funds, what can we expect?
- Sanjeev Sancheti :** Average would be anywhere around 14.25 to 14.5.
- Samir Dalal:** Is this for the consolidated?
- Sunil Kanoria:** Quarter-to-quarter on a sustainable basis based on our portfolio which we have and for the yield which the portfolio gives would be about 14.5%. Unless there is some one-off transaction, like we had in Kingfisher or if there are any major NPA's and then you have a hit on the interest income reversal but just to tell you our existing portfolio which is there.



- Samir Dalal:** No, I am again asking you, is this for the consolidated or is this for the standalone?
- Sunil Kanoria:** I am only talking about Srei standalone. In Srei standalone the loan book which is there that loan book gives me yield around 14.5%.
- Samir Dalal:** So was there any exceptional income registered in this quarter to push up the yields to 15.3? This is in your presentation, slide number 20.
- Sunil Kanoria:** This is an average of nine months as on December, working loan that we can share with you separately.
- Samir Dalal:** How much of your funds are borrowed at the base lending rate of banks and any change in the base running rates, how would that affect you, what percentage of your loans if you can tell us of your banking side?
- Sunil Kanoria:** Both our assets and liabilities are floating, so majority of our loans because we have most of the borrowing from the bank except the bonds is primarily from the banking system all linked to the base rate, so if the base rate comes down our cost of fund also comes down.
- Samir Dalal:** So, have we seen any benefit from this 25 basis points cut that came, a couple of banks have passed on some benefits, so have we seen any benefits in our books and what kind of benefits we can expect from the borrowing side?
- Sunil Kanoria:** I don't see any bank has yet reduced their base rates since last one month, since the announcement. I have not heard of any bank which has yet done it but yes what has happened is the liquidity in the market is there, so therefore, the short term money management which we are doing that has helped us to reduce our cost of funds, so if you look at this quarter our cost of funds have come down by almost 20-30 basis points.
- Samir Dalal:** Going forward what are the plans, you have talked about looking at alternative sources of funding, so what are the sources at the moment what is the yield you are all looking at raising funds from the bond market or anywhere?
- Sunil Kanoria:** The bond market will cost us all inclusive around 10.75% to 11% but we have to do a blend of various sources of funding. We have some bond market which we are developing because we have to expand our liability side. We have the banking system primarily that will be linked to the base rate, if the base rate comes down that will also come down. The third is basically we do external commercial borrowing, we have done some amount which cost us around 10.2-10.3, going forward we intend to explore further on the ECB side. As an infra finance company in Srei's standalone we are allowed to raise that which can get us funding anywhere between 10-10.5, then it will



depend on the liquidity and interest rate curve in the market to be able to access more cheaper funds.

**Samir Dalal:** Now coming to Srei BNP Paribas, there also one thing you discussed of course the disbursement growth has been quite lackluster in Q3 even though you have new spaces of funding such as second hand equipment, healthcare, IT products and things like that what can we expect the trend to be like for the next quarter and may be the next year, what do you see happening for your equipment finance book going forward?

**Sunil Kanoria:** We are still seeing not much of a pick up on the construction and mining equipment side. I think the mining equipment should see some improvement post September with coal mines being auctioned and people have been given a minimum mandate that they have to produce so much of coal, otherwise they will have to pay penalty and therefore we expect that going forward the future will be good and we being in that space for the last 20-25 years very strong we expect that growth to definitely come to us and support our growth too but I think it will take maybe two more quarters because by the time things pick up then the monsoon will come up, so we will only see, maybe people will start placing orders earlier but the key pickup will start in September, it is our expectation.

**Samir Dalal:** Then the NPA on the equipment finance they have gone up further to 4.8%, looking at how things are, how much more of NPAs are you expecting for your equipment finance book where do you see this going up to?

**Sunil Kanoria :** I still see some pain for the next two quarters at least one or two quarters I still see some pain. We are in February and I must say that the cash flow in to that system has not yet happened much, it is only with trickles, so the infra space definitely needs impetus, the road sector is primarily virtually shut off, very slow growth happening, very few projects have been cleared, the old ones which had some problem and nothing new has come up at all in the road sector and therefore that has been the concern. Railways people are talking about but again on the ground work has not yet started, so therefore I think we will have to wait before the impact of all the government initiatives come in to this space.

**Samir Dalal:** Sir, can you tell us how much of your funding is currently struggling to make payments to you and how high do you see your NPAs going for this equipment finance book? Some pipeline, some guidance on what you see?

**Sunil Kanoria:** I would say our gross NPA should hover around 5-5.5 by maybe the next two quarters.

**Samir Dalal:** You have been telling us for almost now a year that the Viom asset is looking to be liquidated and you are looking for an exit, do you accept by March maybe we could have some information, can I ask for some timeframe by when we can expect it



because personally if you look at it, your cost of the asset has just gone up for one year, if you had a 11% interest on the Rs, 1,600 Crore you have invested by about Rs.170 odd Crore.

**Sunil Kanoria:** I agree. That, is definitely a concern and key focus for us as management, it just so happens that many things take its own time but we can only share that we are on top of it and working towards closure, we have lot of shareholders within the group. We have to bring everyone together plus potential investors and buyers, so bringing everyone working together and getting things done is taking more time than what we had envisaged and work is, I can only share is that we are working very hard on it.

**Samir Dalal:** Can we expect anything before March or it seems unlikely at the moment?

**Sunil Kanoria :** Well let me tell you it can happen anytime. It can take time because there are lots of processes also required or it can happen very fast also, so I would not now want to make a statement. I can only share that yes we are working hard on it and let's hope we can give some good news.

**Samir Dalal:** Lastly for the Viom side, you have been continuously reducing your debt which was about Rs. 8,000 Crores in FY 2011 which had come down to about Rs. 6,400 Crore in FY 2014, however in FY 2015 even though you have generated good cash profits the debt level has not come down, so have you made some investment, or is it just that your repayment schedule has not come up, so you are holding on to some sort of cash, can you give us what the cash on balance sheet for Viom?

**Sunil Kanoria:** We have Rs. 600-700 Crore of cash and what we had done in September we had lot of loans which was having just a maturity of one-and-a-half to two years, so we have gone and did a fresh funding on longer term to match the cash flow so that we can get some cash in to the system and as I said that the growth has come back and we are reserving that for building up more sites. We see and expect going forward with the data growth happening and post this spectrum auction, some of the operators have already initiated major expansion plans for more sites going forward and I see in the coming two to three years good demand where we will need capex for new sites also.

**Samir Dalal:** So I mean at the moment for the current year no debt repayment will be required is because most of it has been refinanced.

**Sunil Kanoria :** That is right, not much, hardly.

**Samir Dalal:** On the tenancy side you say you have a tenancy of 2.3, I just wanted to understand do you count if somebody is there as a 2G tenant and he adds as a 3G do you count him as an additional tenant and you count him that as loading?



- Sunil Kanoria :** Actually if he adds that then we will be almost close to 3, but what we do is that if a 3G tenancy is paying me a full tenant rate then I take it as a tenancy, otherwise we do not take it.
- Samir Dalal:** So this 2.3 is minus the loading that anyone who has 2G has taken 3G?
- Sunil Kanoria:** Yes.
- Moderator:** The next question is from the line of Vishal Modi from Maybank, please go ahead.
- Vishal Modi:** My question is on the fee income side. If we look at the current trend which is around Rs. 20 odd Crore compared to last year around Rs. 40 odd Crore so what is the sustainable growth here or the amount that we expect and what are the drivers for this fee income side?
- Sunil Kanoria:** Fee income is very difficult to give, basically a kind of lumpy earnings and it comes out of our project development thing where we help the customers to do syndications of the loan, help them to get the projects advisory, so those kind of activities we get done, or disposal of the shares, so that at times if a transaction gets through and if it is done then we earn something. It becomes a little lumpy and difficult to protect. We are hoping before March in this quarter we should get some decent fee income.
- Vishal Modi:** Second question is on the infra disbursement feel, so the current growth of disbursement was around 23%, my question is, is it driven by refinancing opportunities or what is the driver here?
- Sunil Kanoria:** Basically it is more refinancing opportunity where you have the cash flow and you do it. There are hardly new projects coming up, it is mainly through the refinancing route.
- Vishal Modi:** What would be your outlook for disbursement growth for next couple of years?
- Sunil Kanoria :** Well, I would say that 2016-2017 is when we can see a much more stronger growth, 2015-2016 still will start to show some improvement in the second half and we may see 15-20% growth but 16-17 is when I would expect the economy to bounce back.
- Moderator:** The next question is from the line of Samir Bhise from IDFC Securities, please go ahead.
- Samir Bhise:** Sir one of our group companies Sahaj I think they have not applied either for small finance or payment bank license despite having a large rural franchise, so could you just elaborate on the thought process on that side?
- Sunil Kanoria:** Well for the small bank we would not have been eligible, the way the RBI criteria was there, that neither Srei or Sahaj could have applied for the small bank, so we could not



do that. On the payments bank we evaluated but we felt that Sahaj network which we have it is better to partner with people who may get rather than doing it and investing ourselves. We would be able to leverage our distribution and create that value through our network which is there and partner with some without putting in capital and that was the reason why we felt that because the payment bank is advantageous to telecom company or institutions having that technology support, so we felt that the distribution on the ground which we have, it is better to partner with a player rather than applying for our own.

- Samir Bhise:** Any groups that we are in to talks with or any applicants?
- Sunil Kanoria:** No, we have had couple of discussions with people but basically we wait for who gets it and then we discuss it. I am sure everyone would want my distribution network, we can cherry pick with whom we want to work with to give them our distribution network.
- Moderator:** Our next question is a followup question from the line of Samir Dalal from Natwarlal and Sons, please go ahead.
- Samir Dalal:** I just wanted to know of the new disbursements done, how much of it was to group companies like Viom or the road project that we are currently working on?
- Sunil Kanoria:** Viom we don't give anything.
- Samir Dalal:** You have no loans outstanding to Viom at all?
- Samir Dalal:** Any other group companies where we disburse any equipment finance loans?
- Sunil Kanoria:** Roads and all we may be doing a little bit I would not have that number but bridge loan we give and then they get their funding on their SPV level and we then get back.
- Samir Dalal:** This growth, everything is from non-group companies.
- Sunil Kanoria:** Yes.
- Moderator:** As there are no further questions I now hand over to the management for closing comments, over to you.
- Sunil Kanoria:** Thank you very much for joining the call and if anyone has any other specific questions may through the bankers or the company question. Thank you very much.
- Moderator:** Ladies and gentlemen, on behalf of IDFC securities that concludes the conference call. Thank you for joining us and you may now disconnect your lines.