



“SREI Infrastructure Finance Limited FY-16 Earnings Conference Call”

May 13, 2016



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MODERATOR: **MR. VISHAL MODI – RESEARCH ANALYST, MAYBANK KIM ENG SECURITIES**



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Moderator: Ladies and gentlemen good day and welcome to SREI Infrastructure Finance Limited Q4 FY16 Earnings Conference Call 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 for 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. Thank you and over to you sir.

Vishal Modi: Good afternoon, welcome to this conference call. From the management team we have Mr. Sunil Kanoria, who is the Vice Chairman of SREI Infrastructure Finance, Mr. D. K. Vyas, who is the CEO of SREI Equipment Limited, Mr. Bajrang Choudhary – CEO, Infrastructure Project Development, Mr. Sanjeev Sancheti – the Chief Strategy Officer, Mr. Kishore Lodha – the CFO and Mr. Amit Agarwal – the AVP at Investor Relations department. I will hand over the proceedings to Mr. Kanoria and then we can move over to Q&A. Over to you Sir.

Sunil Kanoria: Thank you Vishal. This is Sunil Kanoria here. I will first give the business highlights of the financial year 15-16. We did overall disbursements of 14,500 crores as compared to 12,500 crores in the previous year so there has been a slight growth in the disbursements. In our Equipment Finance business, it was about 9,158 crores compared to 7,719 crores in the previous year and Project Finance was about 5,300 crores as compared to 4,800 crores in the previous year. The marginal growth in the business in terms of profitability, profit after tax was about 73 crores as against 129 crores in the previous year on a consolidated basis. Primarily, the overall cost of risk in some of the subsidiaries which were having losses on a consolidated basis has had this impact. In terms of the loan portfolio, if you look at our Equipment Financing business, our portfolio is about 18,700 crores closing basis and Project Finance portfolio stands at 14,200 crores.

In our Equipment Finance business, the net NPA has been about 1.9% and Project Finance has about 3.43% NPAs. We have seen an improvement in the collections in the last quarter, more particularly in the Equipment Financing business. As a result, the NPLs which were on a gross basis almost close to 5% in December are down to 2.9% in March. Primarily, the equipment business has started to show positive signs.

We have seen growth in the last couple of months in the Equipment Financing business and also better recoveries. Lot of the projects which were stuck have started to work on the ground, more particularly driven by the road sector, the mining sector and irrigation. The way we see it is that there are three areas which have driven growth and better recoveries. There are execution challenges because the capacities of many contractors have got impacted. But gradually and slowly things are unraveling and we are also seeing double-digit growth coming into the construction mine equipment. That is where the group's focus is and we will continue

to strengthen and focus in that area going forward where we expect better growth in the coming period.

If we look at basically SREI Infra , we have not had much growth in our loan book, only nominal growth. The NPLs basically have been almost the same with marginal reduction. We have been able to stabilize that, trying to manage the assets and the portfolio there and we have been very cautious in growing our infra project business.

One of the key activities which has happened not in Q4 but in this quarter has been the divestment of our Viom investment. We have now completely exited and as on 21st April, 2016 we received the entire proceeds and have exited Viom completely. The total amount of about 2,931 crores is what SREI received, out of that partly against the investments we had and partly against the loans which we had against the shares. So with this deal a major activity of the company has been accomplished which has released capital substantially to the company and the intent is to continuously focus on our core business of Equipment Financing and to a certain extent the project financing where we still believe that it will take some more quarters to stabilize, to focus on our existing portfolio and be able to ensure that we do not have slippages there, so that will be the focus.. Also during the year, the focus would be to look at releasing of capital in our road portfolio and our Sahaj portfolio. These are the two key areas where we would be pushing this year to see whether we can release some capital out of these two areas of investment. The focus would be to ensure that we maintain our market share in the Equipment Financing business and grow that and with the double-digit growth happening in that space, we expect that we should be able to have a better growth this year and also better recoveries. These were basically the key highlights of the year and the quarter and the strategy going forward. If there are any questions I will be happy to answer.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Anita Rangan from HSBC Asset Management. Please proceed.

Anita Rangan: Just wanted to know for SREI Equipment, in terms of the gross NPA there has been very good reduction in gross NPA numbers. But as you said like some portion of it would have been like a Q4 phenomenon and driven by collections. So can you give us a sense as to how will this reverse in Q1 and over a period of time will it stabilize or 3% is a good number to start with for next financial year? And couple of other questions like what would be the stock of the reposed assets and what would be the quantum of restructured assets at the end of March?

Sunil Kanoria: Basically as I said, the Jan-March quarter saw a good cash recovery from the customers in the Equipment Financing business with the uptrend in the market place in terms of projects getting released, money getting released by the authorities etc. We are hoping that this trend should continue and we should be able to maintain strict vigil on our NPLs.. In terms of the repo

stock, it stood at 893 crores as on March '16.. It is similar to what it was in December and little lower marginally. And our restructured assets in our Equipment Financing business has come down to some extent from 683 crores in December to 525 crores in March.SREI. At the SREI Project Finance level, primarily the gross NPA is marginally lower, it's almost the same 804 crores against 813 crores in December. Our restructured assets remain the same at 396 crores, so these are the numbers for that. There is no repo stock in SREI, so these are the basic numbers.

Anita Rangan: For SREI Infra out of the 2,930 crores which you have received, how much would go into investments and how much into loan?

Sunil Kanoria: About 1,790 crores will go against the investment and the rest against the loan repayment.

Anita Rangan: The asset quality currently is recognized at 150 days, right?

Sunil Kanoria: That's right.

Moderator: The next question is from the line of Siddharth Chaudhary from IDFC Bank. Please proceed.

Siddharth Chaudhary: What would be your share in asset and satisfaction of debt numbers for SREI Infra and SREI Equipment? The second question would be what would be your total provisions for your restructured and repo assets in both the companies?

Sunil Kanoria: On the repo assets in SREI Equipment, we generally provide about 30% provision and the amount is about 200 crores odd. In terms of the total loan book per se 18,700 crores is in the Equipment Financing and about 14,000 crores odd in the project financing.

Siddharth Chaudhary: My question was regarding share in asset and satisfaction of debt, so what would be that figure for SREI Infra and SREI Equipment separately?

Sunil Kanoria: SREI Equipment is approximately 200 crores odd and SREI is approximately similar amount.

Moderator: The next question is from the line of Sameer Dalal from Natvarlal & Sons Stock Brokers. Please proceed.

Sameer Dalal: Question now comes on growth strategy going forward which is something you mentioned, although you are not looking at growing your standalone book--what kind of growth levels could we expect in the infra? What would be the year ending target for loans disbursed there? My question actually was to do with your SREI Infrastructure Finance book; you mentioned that you are not looking at too many opportunities there. But given that you have got all of 1700 crores plus 1300 crores through debt repayment, what can we expect from the book in the current financial year? What would it look like in Q1 and what would it look by end of Q4?



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Sunil Kanoria: We will have some growth but not substantial growth. We would like to continuously focus on the portfolio and it's quality. Therefore I would say whatever my March '15 loan book is, we would more or less maintain that for the current financial year also.

Sameer Dalal: Further, has any of the investment money come into your subsidiary company Equipment Finance?

Sunil Kanoria: We don't immediately foresee that except the one which we have announced where SREI Equipment, we have announced the transaction with BNP whereby BNP will be swapping the shares into SREI and we will acquire the balance 50% of the SREI equipment. SREI. We are awaiting all approvals, so once that is done that will get consummated. So with that we will be selling our treasury stock to BNP and we will be making the same amount of investments in that. So apart from that I don't see anything much happening.

Sameer Dalal: So you are not going to be putting any fresh funds from these 1700 crores of capital that has come back. You are basically saying loan book growth for the current year in infra will not happen nor will you make any investments in the subsidiary for increasing the loan book. Are we safe to assume that 170 crores is just the savings of interest you are not going for the current financial year in the standalone book?

Sunil Kanoria: I did not say that. What I said basically is that my total asset size loan book as on March, we will maintain that for the whole year. So the amount that we have recovered from divestments and loan repayments of about 3000 crores, we get the headway to build that business further up to that extent. We will look at that business growth; from that perspective we will have that growth but on overall closing book by March '16 we would not grow it by much. It may grow by 5%-7% but we don't expect substantial growth of total loan book from the base of March '16.

Sameer Dalal: You have mentioned 804 crores is the NPA number in the infra book; of which I believe there are three large accounts. They must have aged quite a bit at least two of them I'm quite aware have aged quite a bit, one is the newspaper company in Hyderabad and other one is KS Oil. Can you give us clarity on by when you would have to finish writing these off because they have crossed the 700 days' mark of NPA category?

Sunil Kanoria: We will be making additional provisions of that as we move along as per the regulations.

Sameer Dalal: Can you give us the guidance on what kind of provisions will be required in the current financial year?

Sunil Kanoria: Additionally, both these combined could be about 40-50 crores.



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Sameer Dalal: Isn't there no headway or progress on any of the recoveries on those two fronts or the new asset that just turned NPA in the last financial year?

Sunil Kanoria: We are just making our efforts; let's see if the environment shows better signs. Now with the bankruptcy code happening, there may be some potential.

Moderator: The next question is from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please proceed.

Ashwin Balasubramaniam: I just want clarification to one of the questions you had answered. I think you sold 200 crores worth of assets in this quarter or something, did I get that thing right?

Sunil Kanoria: I did not say anything of that.

Ashwin Balasubramaniam: I think there was some question of assets sold during the quarter or something.

Moderator: The next question is from the line of Sudhakar Prabhu from Span Capital. Please proceed.

Sudhakar Prabhu: My first question is on credit costs in your Equipment Finance business. You had a credit cost of around 2% in FY16, how do you see the credit cost going in the FY17? The reason why I am asking is your NIMs is around the 4.7% and half of this is going into your credit cost which is 2% so that is why I think is one of the reasons why your ROAs are too low. How do you see the credit cost going into FY17 and how do you see the return ratios?

Sunil Kanoria: We are seeing a positive trend. Last quarter was a good quarter in terms of recovery. If the similar process continues I think we should be able to show some improvement. However, I feel that the past challenges in some of the accounts which are there that may still linger on for couple of more quarters which may not allow a substantial reduction in the overall ratio and the cost of this. But we do not expect it to grow.

Sudhakar Prabhu: Just one clarification, you mentioned 5% to 7% growth that was in your Project Finance business, asset growth?

Sunil Kanoria: Yeah project finance.

Sudhakar Prabhu: And how do you see the Equipment Finance book growing in FY17?

Sunil Kanoria: Equipment Finance, we expect the double-digit anywhere from 15% to 20%.

Sudhakar Prabhu: My next question is on your Project Finance business. The NIMs or spread have fallen drastically compared to FY15, spread is around 2% versus 3.5% last year so what explains this?



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Sunil Kanoria: In the March '15 we had the Kingfisher exit which we had done in July '14 so that has spiked it up.

Sudhakar Prabhu: What is the progress on your road projects? I believe five are operational and three are under construction, so just wanted to know what is the strategy in these road projects. Are you holding majority stake in these projects or are you holding minority stakes and if you are holding minority stakes any plans of divesting them? If you decide to divest would it be on individual road project basis or would it be on portfolio basis?

Sunil Kanoria: I just said in my opening remark that we have totally six toll roads in which we have our investments. Five of them are operational and one of them is under construction which will be done by this financial year. In one of them we have full majority and other we have roughly about 40% to 49%. However, most of our partners--many of them are open to exit. So we are exploring couple of opportunities to release capital out of these investments. One by the way of open for individual sales, open for consolidated sale and also to look at today's capital at the holding company level in the road portfolio. So there are multiple ways which we are exploring at the moment with various bankers and investing communities. Our target is to achieve something during this year.

Sudhakar Prabhu: The total investment is around 350 crores in all your road projects?

Sunil Kanoria: That's right, equity is about 350 crores.

Sudhakar Prabhu: Is there any plan of investing more in the under construction project or that is also fully funded?

Sunil Kanoria: It's basically very nominal, maybe 20-30 crores, not much.

Sudhakar Prabhu: My question is on your SEZ projects, I believe you have three SEZ projects and just wanted to know what's the update on that? Because in one of the projects the land is already in your hand, in the Mumbai project, and so what is the progress of these SEZ?

Sunil Kanoria: We have one in Tuticorin that we have already started selling. It's fully bounded and partly developed. The sales have started to happen and we continuously focus to build on the sales there. In Mumbai basically the land is there, we are waiting for the final clearances. We have got the environment clearances, couple of small clearances are left. And then post that we will finally start to market that.

Sudhakar Prabhu: Do you have a majority stake in all these SEZs?

Sunil Kanoria: Yeah in the SEZs the funds own the major stakes.



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- Sudhakar Prabhu:** So it would be 100%?
- Sunil Kanoria:** That's right.
- Sudhakar Prabhu:** On this merger process; when do you think the merger would be completed, by end of this financial year?
- Sunil Kanoria:** Which merger?
- Sudhakar Prabhu:** The merger of BNP with the parent company.
- Sunil Kanoria:** There is no merger, there is a swap of shareholding. BNP's stake in SREI equipment will be acquired by SREI and BNP will get the shares. The treasury stock which SREI has they will get the shares of SREI, so it's the share swap kind of a thing by selling and buying. We are awaiting the approvals from the regulators. If we get the approvals, then we will do it.
- Sudhakar Prabhu:** There won't be any merger so the Equipment Finance would be a standalone entity with you holding 100% in that entity?
- Sunil Kanoria:** That is right.
- Sudhakar Prabhu:** Since you have got the 3000 crores of cash, any plans of any special dividend or rewarding the shareholders?
- Sunil Kanoria:** The Company is growing and basically it has released the capital. The profitability has not had a major impact with this. It is basically the capital invested and the loan given that has come back.
- Sudhakar Prabhu:** But the standalone entity has the cash, so 3,000 crores of cash?
- Sunil Kanoria:** Cash is there. The profitability is not that substantial therefore the dividends payout happens through the profitability, so therefore at this juncture we don't see that opportunity.
- Moderator:** The next question is from the line of Vishal Modi from Maybank Kim Eng Securities. Please proceed.
- Vishal Modi:** Can you throw some light on the progress during the year in terms of number of new centers for products or services that we are offering? And then some bit on whether we have broken even the EBITDA level? Lastly you spoke about divestment of stake in this, so what are the plans, what kind of stakes are you looking to sell and the future outlook for this whole Sahaj model?



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Sunil Kanoria: The business has started to show positive signs. During the year we have added another 10,000 centers so we have about 40,000 centers now. On a month on month basis we are now EBITDA positive. In the last couple of months, we have turned EBITDA positive. We have pruned down the cost also substantially and we are seeing volumes of trade increasing. We are expecting during this year that the volume would continue because we are adding on services. Primarily at the moment it's mostly services and slowly we are also adding some products. It's an e-commerce platform to serve through a brick and click model, services and products, with the focus on services which is government services, e-commerce, financial services, and e-learning. These are the some of the services which we are providing. In terms of the divestment and release of capital we are working on and then we intend to go in the market and examine what the appetite and interest would be. We would be open to look at in what form and manner we can get an investor, whether it is a strategic investor, whether it is a financial investor with the objective of releasing some of our capital invested into it.

Moderator: The next question is a follow up question from the line of Sameer Dalal from Natvarlal & Sons Stock Brokers. Please proceed.

Sameer Dalal: Just checking your consolidated numbers, the fee-based income and equipment rental income has seen a drastic decline in the current financial year. Can you elaborate why it is this way and what would it look like going forward?

Sunil Kanoria: Yes fee based income has come down. My project development and working has not happened. We have been very cautious so nothing much has happened there. In terms of the equipment rental business many of the assets, primarily the oil rigs were not performing. Now it has been put to use in the month of February-March itself. So we expect good revenues coming out of that during the year.

Sameer Dalal: Is it possible for you to give some guidance on what kind of income would come from your equipment rental business for the full financial year FY 17? What would be your sustainable level for that?

Sunil Kanoria: It will be difficult to say that at the moment.

Sameer Dalal: The SEZ you mentioned, your fund owns 100% in the SEZs. What kind of stake does SREI have in the funds that own the SEZs? If SEZs were to be divested, what would be the actual release of equity for SREI because in Viom when it got sold there was some amount of funds which were debt and some of it was equity, so I wanted to know what the equity allocation of the SEZs is.

Sunil Kanoria: Equity in SEZs is close to about 100 crores.

Sameer Dalal: You have invested 100 crores in the SEZs?

- Sunil Kanoria:** Yeah.
- Sameer Dalal:** What stake of the SEZs would that 100 crores have given you?
- Sunil Kanoria:** That in detail is not there at the moment. We will share that and let you know.
- Sameer Dalal:** Since you mentioned that Sahaj is somewhere where you would like to raise some funds. Is it possible for you to spend maybe five minutes to describe the exact business model of Sahaj? What exactly are you doing and how Sahaj collects revenue?
- Sunil Kanoria:** Basically it is an e-commerce platform for the rural India where through a brick and a click we are providing various services. We provide government G to C services. We provide e-commerce services, financial services, and e-learning. So what happens in a village is we identify a village level entrepreneur who owns and operates a center. We have created that center, we have trained them, and we've helped them. Mostly we prefer a woman entrepreneur who owns it and provides the services. We have cash wallet structure with it, all through technology. So the villager comes to that center and is able to get the services, whether it is a government service or whether it is a FI service.
- Sameer Dalal:** Can you elaborate what exactly would be the government services just to get an idea what exactly is the work profile?
- Sunil Kanoria:** Health record, birth certificate, death certificate, electricity bill payment, domicile certificate, then the Aadhar card. So basically all services which the government provides to a citizen are provided through these centers. Now the direct transfers which will come and so any interface with the government and the citizen is what the intent is to provide that. That's a pull factor which people get pulled to the center and then the other services, the financial services and others are provided.
- Sameer Dalal:** And how does Sahaj collect revenue because if the center is also owned by an entrepreneur that entrepreneur probably charges this revenue and what percentage will that revenue be and what percentage of that would come to Sahaj as an income?
- Sunil Kanoria:** Services are different so every transaction has to be done through my portal. My portal is there, the computer is there and therefore the VLE has a cash arrangement wallet with me. So whatever services the citizen comes and takes, in order to access that service and provide that service through my portal I charge something and some part is paid to the VLE.
- Sameer Dalal:** And your charge this to the customer or you charge this to the company that is providing the service, for example do you charge it to the government?

- Sunil Kanoria:** Depends on product-to-product, most of them are from the government or the service provider, at times it is from the consumer. So it is both, the blend and mix of different kinds of services needs different revenue model.
- Sameer Dalal:** What was the kind of revenues that Sahaj had in FY16, what was the EBITDA level numbers if any or you can throw some light on those as well on Sahaj since you're talking of monetizing it?
- Sunil Kanoria:** Basically on the retail business on this model we earned about 40 crores of revenue for Sahaj. The VLE earned over and above whatever it earned, 40 crores was the revenue which we earned and of course during the whole year my EBITDA was negative 3 crores. But as I was saying that on a month on month basis from November-December, it has turned positive.
- Sameer Dalal:** Now this 40 crores comes from your 40,000 centers?
- Sunil Kanoria:** That's right. It was 28,000 last year opening and because the last three months we ramped up the centers, we set up another 12,000, so now closing is about 40,000 centers.
- Sameer Dalal:** Now this 40 crores revenue would also include the part which you would end up, this is the gross revenue so you would have to pay some to the entrepreneur as well?
- Sunil Kanoria:** No, this is only for us, entrepreneur is over and above that.
- Sameer Dalal:** This is your net revenue after paying the entrepreneur?
- Sunil Kanoria:** Yeah.
- Sameer Dalal:** What are the plans of expansion from 40,000 where do you plan on taking that?
- Sunil Kanoria:** We hope that this year we could go up to about 65,000 to 70,000 centers.
- Sameer Dalal:** And what is the cost of investment , who bears the investment, which capital would be deployed for that?
- Sunil Kanoria:** That is the VLE, we don't make any investment.
- Sameer Dalal:** So it's a zero investment business for you?
- Sunil Kanoria:** Yeah.
- Moderator:** The next question is from the line of Rajeev Pathak from GeeCee Investments. Please proceed.

Rajeev Pathak: On your guidance for FY17 for the total assets under management it will be kind of flattish, so given that we are seeing some kind of traction happening on the mining equipment and the entire Equipment Finance business, are we to say that with the total area on remaining flattish or Equipment Finance will actually grow and you will see some de-growth happening in the Project Finance business?

Sunil Kanoria: No, I said that for my Project Finance it will be flat but my Equipment Finance will grow by 15% to 20%. So overall I will have a growth if I combine both equipment and project. In the project side we have received the 3,000 crores so we will be able to do business of that much and whatever repayment comes. So in my Project Finance I don't intend to grow my book much but the Equipment Finance book will definitely grow.

Rajeev Pathak: Overall longer period--three years or so Project Finance businesses have actually been making a lower ROE as compared to their Equipment Financing even if you adjust for the investments. So how do you plan to take this entire piece together, where can we see ROEs going up to in the next three years' time?

Sunil Kanoria: That is the strategy; one is to unlock the investments which we have. Next two years will provide opportunity for us to keep divesting some of our investments. Secondly Project Finance, if we take out standalone business, it is fairly decent except the cost of risk was high last two years that has impacted the business. But otherwise if I see the margins have been fairly decent. It gets hit because of my capital was completely blocked in investments and therefore I was not getting the earnings. So we expect next 2-3 years ROEs should improve definitely.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to Mr. Vishal Modi for closing comments. Over to you.

Vishal Modi: Thank you everyone for joining this conference call, have a great day.

Moderator: Thank you very much Mr. Modi and members of the management. Ladies and gentlemen, on behalf of SREI Infrastructure Finance Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.