



“Srei Infrastructure Finance Limited Q1FY13
Earnings Call”

August 13, 2012



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Srei Infrastructure Finance Limited
August 13, 2012

Moderator: Ladies and gentlemen good day and welcome to the Srei Infrastructure Finance Limited Q1 FY'13 results conference call hosted by IDFC Securities Limited. As a reminder, for the duration of the conference, all participant lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during 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 would like to hand the conference over to Ms. Chinmaya Garg of IDFC Securities. Thank you and over to you Ma'am.

Chinmaya Garg: Good afternoon everyone. I welcome you to Q1 FY'13 earnings conference call of Srei Infrastructure Finance Limited., hosted by IDFC Securities. The management team here is represented by Mr. Sunil Kanoria, Vice Chairman, Mr. Sanjeev Sancheti, Group CFO, and Mr. Amit Agarwal, Senior Manager, Investor Relations. I would request Mr. Kanoria to make a presentation and then we can open the floor for Q&A. Over to you, Sir.

Sunil Kanoria: Good afternoon to everyone. Just to give an overview of what we achieved in the first quarter of the financial year and to start of with our fund-based business in Srei BNP Paribas which is the joint venture with BNP Paribas. We have disbursement of Rs. 2,335 crore for the quarter. It is less than what we had in the previous year same quarter which was Rs. 2,842 crore. This is primarily because of the overall economic slowdown in the country. We believe that the way last year we had grown our overall disbursement by almost 50%, we expect that this year we may do anywhere between 25% and 30% overall in the current financial year which itself we believe should be good for us. Overall assets under management has grown to Rs. 18,500 crore approximately in the end of the quarter. Our PAT was Rs. 68 crore and profit before tax was about Rs. 101 crore. The PAT was higher over the previous year same quarter by about 15%. We expect similar trend to continue and overall end up with 20% to 25% of profit growth in the current financial year. Our NPAs have risen a bit during this quarter primarily because of two accounts which has impacted the gross NPA which is Hindustan Construction Company and ARSS. They have been our old clients, we have to buy the construction equipment, although our payments have been fairly on time but because both these two companies have gone into CDR with the banking system, we also had to provide the same. We are well securitized, collateralized with our equipment and we believe that in the long term we would not be sustaining losses under this. However, the NPAs have risen this quarter because of these primary accounts, but overall otherwise the portfolio is behaving well. In terms of Srei Infrastructure Finance Limited, the standalone business of project financing primarily and advisory which we do, the profit after tax was only Rs. 10 crore, down from Rs. 33 crore primarily because of almost 57 crore of mark-to-market losses. As we know the dollar moved substantially



Srei Infrastructure Finance Limited
August 13, 2012

during this quarter from about Rs. 50.60 on 31st March to about Rs. 55.60 in the end of June. As a result, there has been a major impact on the mark-to-market. However, we believe that all our loans are long term in nature; the forex loans, so these would be more of notional losses and the overall cost will get amortized over the period and still the average cost of foreign exchange loan will be fairly reasonable and comparable to our domestic borrowings and give us the benefit of long-term funding. The disbursement during this quarter was slightly higher than the previous year same quarter, from Rs.1,078 crore to about Rs.1,281 crore, and our assets under management ended with about Rs. 14,000 crore and our net NPA of about 0.71%. Overall, the consolidated figures, primarily our PAT has been only Rs. 17 Crore which factors in about Rs. 58 Crore of mark-to-market losses. If that was not so, the profit would have been higher than the previous year same quarter. The overall disbursement combined with equipment and project was about Rs. 3,700 Crore, and our assets under management now are over Rs. 33,000 Crore. The way we saw this quarter basically was that the economy has brought in certain challenges. The company is moving cautiously. We would and should grow during the current year, but with the cautious approach we expect that still 20% to 25% of growth we should be able to maintain both in terms of our profit and new business during the current financial year. We hope that the second half of the year would be better. Our NIM in equipment finance was a little over 4% and at the standalone project finance was about 3%, more or less in line with what we have been doing in the past. So we do not see much of a pressure on the NIMs to that extent. Yes, cost of money has not come down. It is there more or less it was. The Board and the BNP also decided to invest Rs. 200 Crores into Srei BNP Paribas, the joint venture, because the business needed capital and both the partners are committed to the business and its growth, so combined investment of Rs. 200 crore from BNP Paribas and Srei has been approved by both partners. These are some of the highlights. I think we will now be open to questions.

Moderator: Thank you Sir. Participants we will begin the question and answer session. We will take our first question from the line of Rati Pandit from Quantum Securities. Please go ahead.

Rati Pandit: Thanks for taking my question. Firstly, I just have one data point to know. What was the forex borrowing in dollars at the end of June and what was unhedged out of that, both for the JV and the standalone?

Sunil Kanoria: For Srei BNP Paribas, our total borrowing was about 326 million dollars, out of that Rs. 18 million was unhedged, and 309 was hedged. In Srei total borrowing was 178 million, out of that 100 was hedged and 77 was unhedged.

Rati Pandit: Okay. We also had one exposure towards K.S. Oils. I just want to know how it has been performing as such. Is it a standard account or is it still NPA?



- Sunil Kanoria:** It is still an NPA. We have made provisions. I believe, i had made the statement in the last concall also that we had financed against the windmills, and windmills have been performing. We are definitely to participate in the CDR of the bank, which we are doing. We believe that because the windmills have value and cash flow generation, we should be able to recover our money over a period of time. However, we have classified it as a non performing and being providing as per the rules.
- Rati Pandit:** Okay. You mentioned about Hindustan Construction, and which was the other company?
- Sunil Kanoria:** ARSS.
- Rati Pandit:** Okay. It has happened at the standalone front?
- Sunil Kanoria:** Both these two have been in the joint venture where we have provided equipment.
- Rati Pandit:** Okay. What is our exposure over there?
- Sunil Kanoria:** I think both will be each about Rs. 100 odd crore.
- Rati Pandit:** Okay Sir. Thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Md Riazuddin from Moneyore. Please go ahead.
- Md Riazuddin:** Good afternoon Sir. Thanks for taking my question. I would like to know how is the equipment finance market panning up incrementally from here, as we see lot of many projects being sanctioned or we already have a large pool of equipment already lying, so incrementally how and whom are we financing and how is this industry panning up incrementally from here?
- Sunil Kanoria:** In the first quarter, just to give a comparison, previous year the overall sales of construction equipment grew 40%. In this first quarter it has grown about 15%, so definitely it is overall lower growth than previous year. The expectation of the industry is that the total sale of construction equipment in the current year should grow anywhere between 15% and 20%. If things pick up in the second half, then it may go up to 20% plus, but otherwise between 15% and 20% is the expected growth for the sector. Also to keep in mind that the economy is still growing at 5.5% to 6%, and there are a lot of projects which are yet to be executed in the pipeline and those need equipment and therefore that is still driving the growth for requirement of equipment. Also what has happened is that very large construction companies are getting more into a project management mode and construction activity is



Srei Infrastructure Finance Limited
August 13, 2012

more downloaded to subcontractors to smaller contractors, so the demand is more, coming at the subcontractor and the smaller contractor level. There they do not have those stress of equity which large construction infra companies who went into BOT projects are facing challenges of equity. The smaller ones are not facing that and they are paying basically based on cash projects.

Md Riazuddin: Okay. If I have to correlate it with the growth of equipment manufacturers, I see that equipment manufacturers are not posting good results. If they continue to do so, in our portfolio do we have only new equipment or we have refinance opportunities as well?

Sunil Kanoria: We have been doing refinancing that is one of our cores, where we get our overall average yields. Our refinancing hovers around 20% to 25% of our business and there is a fair amount of focus on that to build that up, but it is a mix of both used equipment and new equipment.

Md Riazuddin: Okay. In our equipment finance JV, what portion of our loan is fixed and what portion of our loan is variable as in the loan book?

Sunil Kanoria: My entire loan book is variable, linked to Srei's benchmark rate and that is the principle we have been following since almost about 12 years now, so we keep repricing. The only is that we reprice it twice a year for operational purposes, 1st of July and 1st of January.

Md Riazuddin: Okay. Since a huge portion of our loan book as well as asset book, the way we source funds, is very short term. We have 42% to 43% working capital and similarly 42% to 43% short-term loans, we do not feel any pressure on margins in the short term because the interest rate move very drastically in the short term, you might end up either losing more or gaining more?

Sunil Kanoria: No not exactly, because two things are there, one is short-term loan money which we take from mutual funds and all is more of interest arbitrage against our working capital facilities itself, in the lines of credit which we enjoy. The working capital facility which is there, that definitely the interest rates are variable and that is the reason why our loans also which we lend are all variable. If the interest rates move up continuously then we price it on our overall cost of funds and we pass it on to our customer which is what we have been doing it for so many years.

Md Riazuddin: What would be the average maturity of your loan in equipment finance?

Sunil Kanoria: Average maturity of my asset side will be about 24 to 28 months.



- Md Riazuddin:** What portion would be within one year?
- Sunil Kanoria:** The exact number I would not have, but we follow a very strong ALM and we do not allow mismatch of more than 10%. We follow international norms laid down by IFC and then the BNP Paribas came in, one thing is there, that our cash credit facility is what we take, because we take it against hypothecation of the receivable which we have, so that is not assumed as one year and that RBI also acknowledges that, because that is the method of financing by banks. The short term which we take from mutual funds and all that is factored in because that is against our CC limits only.
- Md Riazuddin:** Okay, because I was only concerned about interest rate mismatch. Your incremental business in project finance, how is it fairing up?
- Sunil Kanoria:** As said, in Q1 we did about Rs. 1,281 crore. Last year we had done about Rs.1,077 crore, so there has been a little growth, but we are not very strongly bullish on that, we are very cautious. Overall year if we grow 20% to 25%, we will be happy.
- Md Riazuddin:** Because we had enough amount of capital buffer, which we have very rightfully exhausted now, so we are in close vicinity to 15% requirement, so we do not have that amount of head room to grow in project finance as well?
- Sunil Kanoria:** The economy at this juncture does not even warrant that too much, so we would not want to grow substantially in this current year and going forward as we also will be releasing our capitals to our disinvestments through that then we will be able to release that be able to continuously grow as the economy evolves.
- Md Riazuddin:** Any indication towards when we can expect our road projects, which we have been looking for?
- Sunil Kanoria:** As I said this all depends on markets, we are looking at it and evaluating. We hope that this year something we should do.
- Md Riazuddin:** Okay, one final question. What about oil block in Cambay Basin we used to post it in every quarterly presentation. It does not appear in this presentation?
- Sunil Kanoria:** That is part of one of our investment which is there in the oil and gas. We have not yet started any activity in that site at the moment, there has been no investment till we get all the clearances everything and all, we have got the license, but we have not started any investment at all.



Srei Infrastructure Finance Limited
August 13, 2012

- Md Riazuddin:** Thanks a lot Sir.
- Moderator:** Thank you. Mr. Riazuddin you may go ahead with your question.
- Md Riazuddin:** Thanks for taking my call again. The asset base of Viom has decreased despite addition of 144 towers from last year end to within this quarter. Has it been due to depreciation only?
- Sanjeev Sancheti:** That is also because of working capital cycle. That includes the current net assets as well.
- Md Riazuddin:** Okay. How do we look into this tussle between Unitech and Telenor about the sale of assets and how can it impact our business?
- Sunil Kanoria:** That will have no impact on our business because Telenor is here to stay. They have already said that they are going to be in 9 circles. I think that this is just a process, they will get it sorted out. I do not see any impact. We have been in touch with them regularly at the senior management level. Once they get the new license then they will just continue.
- Md Riazuddin:** Not much erosion in our revenues or anything of that sort from Viom?
- Sunil Kanoria:** I do not see that.
- Md Riazuddin:** Okay. The revenues from Sahaj have been falling and we see a lot of resistance in that business going forward. Any positive feelers we are getting from that because the network has become negative and we have been continuously making losses there?
- Sunil Kanoria:** Sahaj is a little long-term business. I would say the revenue has gone up only. Two things would happen. The revenue has two components, one is the revenue which we get a subsidy from the government that will gradually come down because four years is the revenue which we are going to get, and four years is gradually coming down in many of the circles. Second is that the revenue from the services is showing a positive sign. It is growing month on month. Even in the last three four months, the government services have come in and is growing, but what happens, the growth is not as high which will compensate the complete government subsidy which is going away. It will take sometime so that is reason why you may see a little down in the overall revenue, but the focus is primarily to develop and grow the service revenue directly from the consumer there and that is showing positive signs of growth. The core business revenue is growing almost about 40%.
- Md Riazuddin:** But we have incurred EBITDA losses also?



- Sunil Kanoria:** Absolutely, because of the overall operational expenditure which is there is fairly high. We expect that this year we should break even EBITDA and have some positive EBITDA in the current financial year.
- Md Riazuddin:** Okay. There have been lots of talk about already giving circles to white label ATM players who can expand. I have spoken earlier that we can also offer our Sahaj sites for ATM. Is it possible and if yes, then are we moving towards it?
- Sunil Kanoria:** Yes it is possible and we have already started the work on that, working with various players and we are evaluating the business model at the moment.
- Md Riazuddin:** Okay. Thank you.
- Moderator:** Thank you. Our next question is from the line of Mr. Mihir Ajmera from Enam Holdings. Please go ahead.
- Mihir Ajmera:** I just want to check this HCC and ARSS that you mentioned. Why are you part of the CDR if your lending is based on equipment?
- Sunil Kanoria:** Yes, because RBI had come out with a guideline that if the banks have put as CDR for companies, then as a NBFI which was not known to us earlier, late last year RBI said that you have to also factor in and make the provision if the bank has come out with CDR.
- Mihir Ajmera:** But your lending is purely against the equipment?
- Sunil Kanoria:** My lending is against purely the equipment. I know it, so therefore we are representing to the reserve bank on this anomaly, but at the moment we have to follow the rules.
- Mihir Ajmera:** Okay. I just wanted some more color on Fees & Investment income; in this standalone it is quite significant this quarter. If you could just tell us what is the income and the income on investment is?
- Sanjeev Sancheti:** If you come to the standalone then you will see the fee income of 26 crore, a small portion of it about 3 to 4 crore is from advisory business and then the balance is from the syndication which we do for the project development business.
- Mihir Ajmera:** How much would that be?
- Sanjeev Sancheti:** That would be about some 20 plus crore and this is something which is almost a regular income. It was not there last quarter; I am just checking is there some seasonality to it?



- Sanjeev Sancheti:** Not really, it depends on when the drawdown happens and when we can bill.
- Sunil Kanoria:** There will be some amount of seasonality there definitely, because it is not a recurring income, but as the volume of business is there, depending on that it keeps on coming.
- Mihir Ajmera:** Right, and the income on investment?
- Sunil Kanoria:** Income on investment is Rs. 15 crore. One of road projects exited with the existing promoters.
- Mihir Ajmera:** Sorry Sir, one of the investments that you had in one of the road projects, assigned your equity rights.
- Sunil Kanoria:** Yes, in that we got Rs. 15 crore.
- Mihir Ajmera:** Okay, any outlook on this. Are you likely to do more of the same?
- Sunil Kanoria:** Exit of some of our road projects definitely is on the anvil and we would want to do that as the opportunity comes.
- Mihir Ajmera:** What was the investment in this Rs. 15-cror profit?
- Sunil Kanoria:** We just got the concession. We hardly made any investment in it.
- Mihir Ajmera:** Can you explain that a little bit?
- Sunil Kanoria:** What happens is we go and bid together with the customer, the sponsors for the project. Many a times we go ahead, make full investment, get the project completion, get the cash flow and then we do a sale. At times, in the early stage only if someone wants to acquire, either our sponsor itself or he has got some other investors along with him, and we are making some money, we take the money and exit.
- Mihir Ajmera:** If you could name the project?
- Sunil Kanoria:** It would not be appropriate to make a comment.
- Mihir Ajmera:** No problem. If I can ask one more question, in the standalone the Rs. 1,200 odd crore that you have disbursed and the loan book increase, could you give us some flavor of what kind of lending this is because it was asked on one or two other questions also, we are not seeing any material investment happening in the industry?



Srei Infrastructure Finance Limited
August 13, 2012

- Sunil Kanoria:** Many of them are the projects which we have sanctioned and the disbursement happens over a period of time. Certain portion happens from that. I will not be able to name the projects and all. Primarily it is with some limited powers and road. These are two key areas.
- Mihir Ajmera:** Okay. Others breakup within this portfolio has grown quite a bit, last quarter you used to give telecom as well which is not there, so could you give us some flavor of others and what does it include.
- Sunil Kanoria:** Rs. 2,000crore, it is partly telecom, but telecom is now very small, not much. I will get back to you on this.
- Mihir Ajmera:** Okay. Just one more if I can, the losses in the other subsidiaries - construction equipment, Sahaj, etc. which was asked earlier, there are quite substantial on a quarterly basis now. Could you give us some outlook, some kind of guidance for the full year what we can expect?
- Sunil Kanoria:** I think Sahaj still this year we are aiming to be EBITDA positive, but because of the interest and depreciation it will be still under loss. It is difficult to quantify at this junction. The aim is to drive down the cost, but at the moment it will be very difficult to predict that, but definitely it will have losses. The construction equipment is EBITDA positive, we are almost having 25% EBITDA, but because of the high interest and depreciation we are having the loss. We expect this year to be more or less break even. Others are small. Basically these two I would say and then the oil rig, that also now all the rigs have got the contract so the revenue would start throwing in. During the whole year, I would say we should be able to have a PAT positive in this year.
- Mihir Ajmera:** Okay. What is the stake of Srei, in each of these; construction equipment, oil and gas?
- Sunil Kanoria:** Construction and oil and gas is 100%.
- Mihir Ajmera:** Okay. Thank you Sir.
- Moderator:** Thank you. Ms. Chinmaya Garg, please go ahead.
- Chinmaya Garg:** How are you seeing the business environment panning out, things changing at the margin or what is our outlook for rest of the year?
- Sunil Kanoria:** I just said that, from Srei's perspective, we still expect that this year we should grow around 20% to 25%. Overall economic challenges definitely are there. Policy issues in the infra have been slow. There is a commitment by the government and they want to do things. We



Srei Infrastructure Finance Limited
August 13, 2012

hope that in the next few months we should see actions, positive perceptions emerging. However, it will take time for it to sink in and give a desired result. As a result, I think overall this current year, we will be cautiously optimistic.

- Chinmaya Garg:** I will just go back into the queue.
- Moderator:** Thank you. Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani:** Thanks for the opportunity. I do not know if it was discussed earlier or not, but there was some news item about Srei getting into Kingfisher exposure, can you just elaborate whether it is on balance sheet or off balance sheet or how it is?
- Sunil Kanoria:** We had made a clarification in the news also that it is one of our debt fund which has acquired the debt. It is well securitized and collateralized based on the various securities which is holding. The debt fund saw an opportunity and therefore invested in it.
- Hiren Dasani:** What was the rationale and what are the other exposures that this debt fund would be having?
- Sunil Kanoria:** There are two to three other investments which it has made. I will not be able to share the details of that. It is the funds responsibility to invest. The fund manager saw that opportunity and saw it well securitized so it is invested.
- Hiren Dasani:** Okay. Does Srei have any exposure to debt fund?
- Sunil Kanoria:** We also had some, Srei had exposure to Kingfisher for we had financed in aircraft in the past and we got fully paid out, because we also sold the portfolio at Srei level and we invested certain portion in the fund along with other investors.
- Hiren Dasani:** Would it be possible to know what the total corpus of the debt fund is and how much exposure Srei would have to the debt fund.
- Sunil Kanoria:** Total corpus is close to Rs. 500 crore of the fund. I would not have that exact number of how much Srei has invested into it.
- Hiren Dasani:** 20% would be right of Rs. 500 crore?
- Sunil Kanoria:** It may be slightly higher; I will have to check up and will get back to you.



- Hiren Dasani:** The nature of the exposure is slightly confusing because all of us know what is the status of the Kingfisher airlines and what kind of security cover is there with this.
- Sunil Kanoria:** As the market is aware, we are also aware that we will not get our money from Kingfisher. Therefore knowing the situation, the fund has taken it and the entire structure has helped us to get our exposure which we had, of almost Rs. 80 to 90 crore into Kingfisher and that we got our full money out through this structure and we got additional security and all in this fund to protect the investment. It is where the fund saw an opportunity and overall it was a win-win.
- Hiren Dasani:** So you are saying that by this way you could also get out of your own exposure?
- Sunil Kanoria:** That is right, we protected our money and we got our full money back.
- Hiren Dasani:** Okay, because of the nature of the security, etc. you are saying that you would not have to take the loss?
- Sunil Kanoria:** That is right. Now we are very well protected. We have no risk. We are not depending on Kingfisher for the money to come in.
- Hiren Dasani:** The Rs. 500 crore is the equity of the debt fund or is it like a leverage structure?
- Sunil Kanoria:** It is not leverage. The investors are there. It is debt fund.
- Hiren Dasani:** The fund itself does not take leverage.
- Sunil Kanoria:** The fund does not take leverage.
- Hiren Dasani:** Okay. Thank you.
- Moderator:** Thank you. Our next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.
- Mihir Ajmera:** I just had another question. In the standalone, your debt has gone up by almost Rs. 1,300 crore Q-o-Q, whereas your interests earning assets are up only by about Rs. 800 crore. I am just trying to understand is this some last minute liquidity or something?
- Sunil Kanoria:** I think it must be last minute liquidity.
- Mihir Ajmera:** Okay. The other assets also up from Rs. 500 crore Q-o-Q, what is that?



Srei Infrastructure Finance Limited
August 13, 2012

Sunil Kanoria: It must be some advances for leases or something. We can check it up and Sanjeev can come back to you.

Mihir Ajmera: Thank you.

Moderator: Thank you. Participants that was the last question. I would now like to hand the conference over to Ms. Chinmaya Garg for closing comments.

Chinmaya Garg: I would like to thank all the participants and the management especially for taking the time out for this call. Thank you everyone.

Moderator: Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your line.