



“Srei Infra Q1 FY14 Earnings Conference Call”

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MODERATOR: **AMEY SATHE – JM FINANCIAL INSTITUTIONS & SECURITIES.**

Moderator Ladies and gentleman, good day and welcome to the Srei Infrastructure Finance Limited's Q1 FY14 Earnings Conference Call hosted by JM Financial Institutional Securities. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touch tone phone. I now hand the conference over to Mr. Amey Sathe of JM Financial Institutional Securities. Thank you and over to you sir.

Amey Sathe Good afternoon everybody and welcome to the Srei Infra's next call to discuss First Quarter FY14 Results. To discuss results, we have on the call Mr. Sunil Kanoria, who is the Vice Chairman of Srei Infra, Mr. D K Vyas – CEO of Srei BNP Paribas and Mr. Sanjeev Sancheti who is the Group Head, Corporate Strategy and Planning along with other senior management team. May request Mr. Sunil Kanoria to take us through the financial highlights and subsequent to which we can open the floor for question and answer. Over to you sir.

Sunil Kanoria Thank you. Good afternoon friends. This is Sunil Kanoria here. Just to highlight brief in terms of Srei, we have our 3 sources of revenue which gets upstream. One is our fund based business, we have our fee based business and the strategic investments. I will go one by one. On our fund base business, we have the equipment financing and the project financing. Equipment financing portfolio is close to about Rs.19,000 crores and project finance is about Rs.11,000 crores and fee based earnings has been about Rs.42 crores in this quarter and our investments are about Rs.2700 crores consolidated. In terms of the key business highlights, we have applied for the banking license in June. We have received authorization in principle from RBI to set up the White Label ATMs. They key objective of that was, as you know we have the e-Sahaj, where we have close to 27,000 centers in the villages looking at how we can bring in this product into those market segments through our networks and be able to develop a business model at the lowest rung of strata where people have not been able to too much enter and develop the business. It will also help us in our overall strategy of financial development from the ground level. We also raised about Rs.135 crores of NCD during this quarter. Our foreign exchange position also, we have been working on gradually to reduce and in March we were at \$60 million open position which is now down to about \$38 million. As an when the opportunity comes, and we see our cost is effective for the loans we keep on doing it, just to remind here that most of our loans are long tenures, 10 year - 12 year money, for our infrastructure financing business. So overall if you see, the costing has been fairly still attractive to the company. Yes, on a quarter to quarter because of the major impact on the exchange rate we take a hit. This quarter again was large hit when the dollar went from 54 levels to about 60 plus. And still hovers around that. We will get a notional hit on quarter to quarter. However still on a long term, it is favorable. One of the other change happened is Viom, our telecom business has turned around well and we declared a profit of about Rs.78 crores for the year ended March'13 and business now looks much better and robust and gradually coming back to growth levels, growth in the coming months and the years to come. In terms of business in the first quarter, the group disbursement was Rs.3500 crores and our equipment finance about Rs.2500 and about Rs.1000 crores in the project financing.

Compared to previous year, is being almost flat little less marginally but more or less flat. Focus is not on doing new disbursements. The focus is on quality and bottom line and that is where the company has been able to focus and ensure that our bottom line is protected. Our net worth about Rs.3000 crores against Rs.2762 in the same time period income increased by 3%, Profit before tax and M2M was about Rs.108 crores from Rs.106 crores last year. And profit after tax was Rs.47 crores vis-à-vis Rs.17 crores previous year. The Forex loss this quarter was about Rs.28 crores and if you look back in the previous year, same time it was about Rs.58 crores. So as I was explaining we have been able to bring down our open positions gradually which has us managing the quarter to quarter losses. The loan portfolio, as i said is relatively steady, increase by 5 – 10%. NPA for equipment finance was 2.4% and project finance about 2.12%. We believe that we should be able to maintain our NPA levels around these levels for sometime. Our strength in being able to understand risks and manage risk better. We are aware that environments are challenging specially in the infra space but because of our expertise and understanding the risks we believe that we have reasonable security. We have the ability to manage that risk. It takes a certain time and there will be lag but our ability to able to repossess equipment and assets ability to manage projects where there are challenges in our own operational expertise helps us in managing the risks much better than many of our counter parts. If you look at Srei BNP, we are the leaders in this space. We have continued our leadership position and our 24 years of experience in this as I said helps us to manage risks holistically. So in case there are challenges, we find that we are able to repossess the assets, we are able to re-deploy the assets, our loan to value ratio for a new asset is about 80%. So we have a certain initial coverage. We see also opportunity is coming. In spite of the gloom and bloom, the economy is still growing between 4 – 5%. And it was so in the 90s and early 2002 and there we see opportunity is not much into the new equipment side but basically in the used equipments and that is where in the last few quarters, the focus has been which is helping us to improve our margins also steadily overtime and so that our bottom line is focused on and also reduce our risk in the market place. So that is the core focus area, we believe we should be able to sustain and have a reasonable growth both primarily in our bottom line for the current year and be able to manage our risk reasonably well. We have in our presentation shared the potential of the construction equipment industry outlook. The growth have been negative but still the volumes are there and being a lead player in that, we can take a minimum reasonable chunk of the volume and be able to do our business. Our distribution network and our product strategy if you see the focus on the used equipment helps us to get better returns. So Srei BNP profit on a PAT basis has been stable, about Rs.69 crores for this quarter. If you look at the previous year same quarter, it was about Rs.68 crores. More or less remained the same in this quarter. But we believe that in the next couple of quarters, we should be able to better that. Main impact which happened was partly on the cost of funds where we have not been able to make a major dent specially with interest rates moving up. In order to take care of our interest rate risk, just to highlight that, all our assets are floating in nature to our PLR and we have just announced increase of our PLR by 50 basis points. So we will be able to pass that on to our customers. It is a time lag of 3 – 6 months but ultimately we are able to pass on the risk and that's what helps us and their our core focus is always is to make sure that our asset liability mismatch, our interest rate risk, our foreign exchange risk, these are areas where we specialize and focus on to ensure that we are able to well

manage that. It doesn't hit us in and that's what we have learnt in the last 24 years. We have to withstand the difficult environment which comes through in the economy from time to time. And therefore that helps us through to withstand the challenges. Coming on infra financing on a stand alone basis, the focus continues on the infra space itself. The intent is again not to close a loan book but to be able to manage that. Again here, one of the unique features which Srei brings on the table is operational expertise on various infra structure assets through our strategic investments which we have in the roads, in the power, in the telecom infra etc., we know the challenges on the ground. We know we have been operating expertise toso therefore wherever the challenges come in our loan book, we are able to bring in our operational expertise with the client and be able to manage risks relatively better than others. And there have been a few cases, as per norms, we have to make provisions. However we believe that we have reasonable security to protect the capital of the company. Just to share if you look at the power sector, we have 36% but we really break down our generation, T&D, operation and under construction. The projects which are linked to coal and gas, it's just about 5.4% of the portfolio. There could be a little impact for a certain period of time. There we will have to support the client but we believe with safety and security we will be able to take care of challenges. As a result, on a stand alone basis we made a profit of Rs.21 crores compared to Rs.10 crores of previous year same quarter. Our borrowings have been primarily from the Indian banking system, Bonds, we have been able to build up a bond portfolio gradually and to a certain extent foreign exchange. Just too again highlight all our new loans which we take whether in Srei equipment or Srei is fully hedged. We do not borrow any dollar loan without hedge going forward, any new loan without the full hedge. On a consolidated basis, the profit came to about Rs.47 crores compared to Rs.17 crores of the previous year. In terms of investments, we have break up where about Rs.2000 crores is in our communication that's Viom, Transportation, Energy and Social infra structure and about Rs.600 crores in subsidiaries. We also hold that treasury stock almost 10% of Srei itself. Coming to Viom, as I was saying, Viom has done fairly well. We are still the highest in terms of tenancy ratio in the country. In spite last year being one of the worst year after telecom licenses got cancelled, for Viom it turned out to be one of the best because we focused internally, brought in operational efficiencies, substantially into the business and with the quality focus on our tenancies and having a healthy tenancy helped us who have a revenue of almost Rs.5000 crores with the PBT of about Rs.78 crores. We are seeing now growth gradually coming out again in this sector for us. We expect the next 2 – 3 years to bring us fair amount of growth and also the advantage is now the growth is coming primarily from the incumbents. So Bharti, Vodafone, Idea, is what is now that is more contributes to our growth in tenancy because they have virtually exhausted their own sites. So now they are coming to our site wherever the sites are there. As because no one is building a site if there is already a site in a particular area. And therefore our share from these 3 customers itself is now on 24 – 25%. So the quality of tenants have started to improve also and having long term contracts it helps us to have steady return over a long period of time. Sahaj, again is steadily closing to better EBITDA and we are hoping at this year, we should be able to do our EBITDA positive. This is a business which will help us substantially in our distribution of financial services in to rural India and give us a edge. And this is one sector which has not got impacted because of the overall economic scenario. Money is there in the rural India, it's basically how much and how we are able to reach and provide these services which

builds up the business potential. And all the 6 states where we are operating are in a good growth state, in the village area. Key share holders apart from the promoters which is close to 49% have been stated like Fidelity, Credit Suisse, etc. I think these were the numbers. I will now open the session for questions.

Moderator Thank you very much sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Sameer Dalal from Natvarlal and Sons Stock Brokers. Please go ahead.

Sameer Dalal Sunil, you said you have a open foreign exchange exposures of 38 million, meaning after 60 million you hedged about 22 million, at what rate did you hedge it?

Sunil Kanoria I think it was about 58 or 59.

Sameer Dalal And this 38 million that is unhedged at the end of the quarter, was taken at what rate about 60?

Sanjeev Sancheti It is likely below 60, very little below 60.

Sameer Dalal So right now all the way fall to 60 you will see a further hit in this?

Sunil Kanoria That's right.

Sameer Dalal You also said you PLR have increased by 50 basis points. This is for your equipment finance or this is for across the board even for your infrastructure finance?

Sunil Kanoria Both.

Sameer Dalal Also you made a statement saying you had no plans of increasing your loan book in the infra space.

Sunil Kanoria I would say it is not that there is no plan to increase anything but we will be doing very conscious cases. We see opportunities coming in, and I will give you an instance what kind of opportunities comes in today. There are many projects which are almost brownfield projects which either need re- financing or certain restructuring which at the banks level it gets into a problem. But there is a very clear cash flow which is coming in there have been mismatches of cash flow and the erstwhile where the loan structures were done, and the bank space is challenged because if they restructure, it will be an NPA for them. But if we see many cases where we see strong cash flow already being generated, operational risk already over. We can make decent returns and step in with certain amount and have a high safety also and be able to get directly into the cash flow from day 1 rather than taking any operational risk. So we are seeing opportunity emerging and the size in the volume which we are talking about is very small compared to overall market. So we believe that we will be able to get reasonable opportunities to be able to churn some of our books as repayment of our existing loans come in, we would be able to deploy it in better quality assets.

- Sameer Dalal** So if you had to give a number where do you see the loan book towards the infrastructure finishing at the end of the year?
- Sunil Kanoria** I would say any time between Rs.12,000 – Rs.13,000 crores.
- Sameer Dalal** So you are talking of 20% growth in current year?
- Sunil Kanoria** Yes.
- Sameer Dalal** Now another thing you mentioned is you started putting these ATMs up. The question is if it going to be done by Srei or is this going to be done by Sahaj?
- Sunil Kanoria** Sahaj is going to be a distribution network, the principle license is with Srei.
- Sameer Dalal** So the investment will come in the Srei's book?
- Sunil Kanoria** Yes, and that's why we at the moment, in-principle approval we have got, so we are in making detail business plan, viability of that in the villages, and how to structure it out.
- Sameer Dalal** What kind of investment are you looking at in making this kind of business, rough idea, you are looking at how much money you are planning on putting in?
- Sunil Kanoria** It will not be much initially but I think that the numbers are still being worked out. Because we are working with manufacturers and trying to bring in machines which is fairly low cost and can be made viable at the village levels looking at the potential there. So we have not yet been able to freeze-on, on our Capex, etc., at the moment.
- Sameer Dalal** What would be the upper limit to the Capex you would be looking at?
- Sunil Kanoria** I don't see more than Rs.100 crores max that too over a period of 2 – 3 years. We will do a light Capex model structure with manufacturer. Those are things we are trying to evaluate. Our basic intent is not much of Capex into it but basically to leverage the network which we have built with this 27000 centers we have. Because they are already working in financial services that they are offering from these centers.
- Sanjeev Sancheti** So important thing is you already have the basic infrastructure to that extent. There is nothing which has to be created as such other than the machine itself.
- Sunil Kanoria** It is basically just the machine which helps in to bringing in better tooling, and power anal these things are there.
- Sameer Dalal** One question that on your power side of funding, 5.4% of your total book of Rs.10,000 crores is to IPP power merchants with linkages to coal and gas. Of these plants, which are under construction, that's about Rs.550 crores or equivalent, what percentage of them have approached

bankers already for restructuring and if they do some restructuring, how would you have to classify them in your books?

Sunil Kanoria We have only seen one case which is seeking some time for the COD has got delayed by about 6 – 7 months. There we may have to support him. But for an infra financing the first time restructuring is allowed so we don't need any provision in the first time.

Sameer Dalal So this would be restructuring by the banks because your exposure will be significantly smaller than the banks. So if the banks classify them as restructured loans, how would you classify them?

Sunil Kanoria As I said that in restructured loans if it is infra assets, first time restructuring, you don't have to make provisions as per RBI.

Sameer Dalal And last question right now Deccan Chronicle is pretty much a write-off, how much of the loan book has you all written off on Deccan Chronicle, has it totally been written-off? Is there any further write-off expected in that one? And when do you plan on doing these write-offs if any are left?

Sunil Kanoria Let me tell you, one we have certain properties mortgaged to us. We have made certain write-offs which was uncovered and we have made assessment of the value of the properties and matter of fact, let me tell you we are in the process of disposal also and also trying to work out with other institutions and banks to see, that the newspaper is still running and operational. There are challenges in the brand and all which various institutions are saying and have initiated but we believe, one the properties will fetch us certain values, so we had not written-off 100% of the loan but we had made provisions to the extent we believe that there is a gap in the property and the loan amount.

Sameer Dalal What is your current outstanding of Deccan and how much have we written-off those numbers, can you share please?

Sunil Kanoria I think Rs.216 crores, is the net exposure.

Sameer Dalal How much is written-off?

Sunil Kanoria I think Rs.24 crores.

Sameer Dalal So you expect that at least than land will fetch you at least Rs.140 crores - 160 odd crores.

Sunil Kanoria We expect that.

Sameer Dalal Can you tell us more about where the land parcel is and is it just the land parcel or is the factory on the land parcel? What exactly is the land parcel that you have pledged with you?

- Sunil Kanoria** We have in Chennai, we have in Hyderabad. There are five properties which we have in these spaces. I cannot give exact details of those properties at this juncture.
- Sameer Dalal** And lastly one question which I do have is, would it be possible for you all to share eventually what kind of concentration of loans you have to the top 10 borrowers, that you have and how their financials stand at the moment, if overtime you all can share something on that front?
- Sunil Kanoria** We don't have at the moment but we can start to work out.
- Moderator** We have the next question from the line of Vinay Shah from Reliance Mutual Funds. Please go ahead,
- Vinay Shah** For this Gross NPA in the equipment finance business which is 3.08% as on June 30th, what is the recognition this is 180 plus or 90 plus?
- Sunil Kanoria** Basically, out of this the major percentages come because of 2 accounts, which are under CDR and if the cases have gone under CDR and we have to make the provisions as per the RBI and NPA, although banks don't have to do that, they have to just make a small provision. We don't enjoy that same benefit and that has impacted the Gross NPA numbers. If we look at some of those places, our installments are going on time. We also expect out of that one of the case, because they are regular in payments even after going under CDR. We should be able to get out of CDR from those, in a very short period of time. In the CDR cases also our dues from those customers are less than 90 days. So we have not crossed. So our recoveries are happening but because they have gone into CDR, as per the regulation we have to make a provision.
- D.K.Vyas** If we exclude CDR cases our loss would be 1.25%.
- Vinay Shah** Okay if I look at the non-CDR part, then this recognition would be what 90 plus or 180 plus ?
- Sunil Kanoria** 90 plus
- Vinay Shah** This is the entire 90 plus which is considered?
- Sunil Kanoria** We start making provision 90 plus and 180 days and then 360.
- D.K. Vyas** We make 100% provision above 360 days.
- Vinay Shah** Can you elaborate this provisioning policy, is it possible?
- Sunil Kanoria** 90 – 180 days 20%, 180 days to 360 is 50%. Above 360 is 100%.
- Vinay Shah** Okay and against this 2 CDR cases, what will be the exact provision that will be there in the book?

- D.K.Vyas** That will be approximately 10% range. There are 4 CDR cases and 2 are large and 2 are medium sized and provisioning that would be around 10% in totality.
- Vinay Shah** On the growth outlook for this financial year, for the equipment finance business I missed that part, if you can please come again on that part?
- Sunil Kanoria** We do not want to give guidance but we expect that we will be able to have a reasonable growth in terms of the bottom line. The focus is on the bottom line to operational efficiency, margin improvement. There is a challenge in the last one month especially because of the interest rates having gone substantially high. We are working how to manage it. We believe we should be able to take care and manage that. And with that we believe and we should be able to have a reasonable growth in our bottom-line if not much on the loan disbursement growth.
- Moderator** We have the next question from the line of Sanket Gaurav from JM Financial. Please go ahead.
- Sanket Goda** I have couple of question. One is with respect to the cost of funds post RBI action, what do you think how the cost of funds and eventually margins will pan out going ahead due to these RBI actions on short term rates? Second question is with respect to the restructuring pipeline, and to what extent we have it in our books, and third is with the banking license and as a group we have applied for banking license and what's the road map for the same?
- Sunil Kanoria** One on the interest rate increase which has happened in the last 1 – 1.5 month and that is why keeping that in mind and seeing what impact it could have, the committee and the company has increased its PLR by 50 basis points and mind you as I said earlier in my statement, that all my assets are floating. That's a little advantage we have compared to other companies whether it is project finance or equipment financing. In the last 15 years we have managed our interest rate cycle because of the floating infra state structure we have. So we don't take interest rate risk. There is a gap we have the resetting of the interest rate to existing customers from first July and first Jan. So there will be a lag of couple of months but eventually it gets passed on. And seeing the cost we are passing, we are going to pass that on to the customer. We expect over the medium term we will be able to manage that risk especially because of the rate hike which we have done. On the restructuring side, as I said normally we don't do the restructuring. Either we reposes the assets in the equipment financing business family, the few cases even if we do, we follow the regulatory norms of making the requisite provisions wherever required. In terms of the banking license, well, we have made the application. Now it is up to the regulators and Govt to take the call once it firms, we believe that we have a strong network and understanding of the business for the last 25 years and overall help us especially through our financial inclusion and our network of Sahaj which we have in the rural India. Let's see what happens and we will take our call.
- Moderator** We have the next question from the line of Rati Pandit from Quantum Securities. Please go ahead.

- Rati Pandit** Sir I just have one question on Electrosteel, which was in news recently in June - July to which we have certain exposure. So just want to know, what is the status in that? Whether that is going into CDR, from the steel industry, Electrosteel, are we restructuring that?
- Sunil Kanoria** No we are not restructuring. We are getting our payments regular as per on time. We have not had any issues till now.
- Rati Pandit** As of now it is paying on time?
- Sunil Kanoria** Yes.
- Moderator** We have the next follow-up question from the line of Sameer Dalal from Natwarlal and Sons Stock Brokers. Please go ahead.
- Sameer Dalal** Small follow up on the question just asked, what is our exposure to Electrosteel?
- Sunil Kanoria** I think Rs.370 – 380 crores or so.
- Moderator** We have the next question from the line of Anita Rangan from HDFC. Please go ahead.
- Anita Rangan** On your comments on NPA that excluding the restructuring, gross NPA would be 1.45%, can you just give some light on how the NPA would look like, say by end of March, just want to see how the NPA has moved from March to this quarter?
- Sunil Kanoria** From March '13 to June, March it was 2.9% including CDR which is now 3.1% about 20 basis point in this June quarter.
- Anita Rangan** So excluding the CDR, how it would like in March? Was there any CDR portion in the March quarter?
- D.K.Vyas** Excluding CDR was 1.13, which has gone to 1.45. There is a page of the same in the presentation.
- Moderator** As there are no further questions from the participants, I would now like to hand the floor back to Mr. Amey Sathe for closing comments, over to you sir.
- Amey Sathe** On behalf of JM Financial, I would like to thank Mr. Sunil Kanoria and the Senior Management team of Srei Infra and all the participants for joining us on the call today. Thanks a lot and good bye.
- Sunil Kanoria** Thank you.



*Srei Infrastructure Finance Limited
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Moderator

Thank you. Ladies and gentleman, on behalf of JM Financial Institutional Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.