



“Srei Infra Q2 FY14 Earnings Conference Call”
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STRATEGY & PLANNING, SREI INFRA.
MR. BAJRANG CHOUDHARY – CEO, INFRASTRUCTURE
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MR. ANIL AGRAWAL – CFO
MR. AMIT AGARWAL – CHIEF MANAGER -INVESTOR
RELATIONS.**

Moderator

Ladies and gentlemen good day and welcome to the Srei Infrastructure Finance Limited Q2 FY14 Earnings Conference Call hosted by JM Financial Institutional Securities. We have with us on the call today, Mr. Sunil Kanoria – Vice Chairman; Mr. Sanjeev Sancheti – Group Head, Corporate Strategy and Planning; Mr. Bajrang Choudhary – CEO, Infrastructure Project Development; Mr. Anil Agrawal – CFO and Mr. Amit Agarwal – Chief Manager, Investor Relations.

As a reminder, all participants' 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 this 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. Sunil Kanoria from Srei Infrastructure. Thank you and over to you, Mr. Kanoria.

Sunil Kanoria

Thank you. To start with, the business of this half year on a consolidated basis, the overall environment has been challenging and the focus of the company has been not on growth and new business disbursement but to look at portfolio and quality of its assets. If we look at the Group disbursement in six months, we have done about Rs. 5,922 crore.

On equipment finance, disbursement was about Rs. 4,395 crore compared to Rs. 3,953 crore in the same period and on the project finance, disbursement was lower to Rs. 1,465 crore as compared to Rs. 1,928 crore in the same period previous year.

In terms of the total income, it stood at about Rs. 1,600 crore on a consolidated basis and the profit before tax and exceptional item was Rs. 143 crore as compared to Rs. 139 crore in the same period previous year as in the previous year there was an exceptional item. Profit after tax was Rs. 88 crore as against Rs. 148 crore in the same period previous year after taking into account the exceptional items. Forex loss in this period was about Rs. 44 crore against Rs. 36 crore in the same period last year.

The net NPA for equipment finance was 2.62% and project finance was 2.13%. If you look, some of the financials have been lower during this period primarily for three reasons where the company is working out going forward to address. One is the gross funding cost; as you all know that during July – August, the interest rates in India went up very high in a very short period of time and that has impacted the cost of funds which went up and by the time we passed it on to our customers, as you know that all our assets are floating but that happened in September and the effect of that will come in this quarter and the coming quarters. We have been able to increase our benchmark rate by 50 basis points from October onwards so which we will start to see the benefits. So we have been trying to address the cost of funds from that perspective.

The NPA has been challenging in the overall infra space however in the project finance we have not added any new NPA in this period, but have increased our provisions on what was there in the previous period. As a result, the provisions have been high which has impacted the bottom-line.

In equipment finance, the NPAs have gone up marginally but if we take out the cases which are under CDR, we are not yet allowed to follow the same norms as the banking system. Therefore our NPLs as a percentage are higher. Recently the Governor has made a statement in this credit policy that the CDR provisioning norms would be same as NBFCs and we hope that in this quarter, we will get the regulations and will be able to take care and correct our NPA ratios for the coming quarters because the CDR cases have been paying us regularly but because of the nomenclature, we had to factor that CDR as an NPA.

If we look at the equipment construction industry as such as a result of which our business disbursements will be low. Overall sales of the equipment has had almost 15% to 20% de-growth in this period over the previous year, our expectation is that in the next half of the fiscal, there might be slight improvement but overall this year, the industry is expecting negative growth in the sales of equipment. Therefore we have also rejigged our portfolio accordingly and the focus is to move on some of the new areas of product which we had created over the last few years especially the healthcare equipment, used equipment and the rural agriculture equipment financing and we expect that going forward those business areas should pick up to balance out the de-growth happening in the construction equipment segment.

Coming to Srei BNP Paribas business aspect the volume has been more or less the same. There is marginal growth. NPLs have been a little higher but we expect the things to be under control and the focus is continuously on the portfolio.

On project finance, very clearly again, the focus is not to grow the disbursements beyond a point but focus more on the quality of the portfolio and as a result we have been able to not add any new NPLs as I made the statement during this quarter. We are working closely with the customers to ensure that the asset continue to perform, assist the customers to see that the projects are completed and the cash flow continues. Therefore we don't see much of a change in my portfolio also over what was in the previous quarter to the current quarter because of very marginal change in our product mix.

Other areas which also impacted the bottom-line in this period was the foreign exchange mark-to-market. As one may be aware we have at the Srei level about \$38 million open position because of these long-term loan which we have and there we have to do a mark-to-market. The dollar also went up substantially high as depreciation during this period which impacted the mark-to-market provision in the current period. So overall, if we see this quarter and this period has been lower primarily because of our borrowing cost increase which is now getting controlled during this period. NPL provisioning, the Forex mark-to-market and the

extraordinary income are four key factors have contributed to a lower profitability in this period. We believe that most of these issues going forward should be able to get addressed.

Coming on to our investment side – our largest investment which is Viom in the telecom and the tower business, fortunately is doing quite well as I had highlighted in March '13. The company had turned positive, PAT positive with a Rs. 78 crore profit and the current six months also the company has been into profit. The growth we have seen now is good growth in the tenancy July onwards. Almost on a monthly basis, we are adding over 1,000 tenancies into the portfolio and we expect the first half also to be profitable and overall this year also should end with decent profits. We were working with the government to allow listing of India Infrastructure companies abroad and after lot of persuasion to the government, recently that has also been allowed. We believe the depth of the market internationally may be better and we would explore opportunities to see if Viom could be listed internationally and in the next 6-9 months or a year whether we will be able to encash some of our investments out of this as the business and company is doing quite well.

On the transportation side that is the road sector, there again, the focus is on some disinvestment and raising some capital, discussions are on. We have started to see some interest in project which has completed construction and tolling has started. People are still not wanting to take risk on projects which are under construction but there is interest in projects which have completed construction and we are working towards that to see if we can encash some of our investments. We believe that going forward, the focus is very clearly to make certain disinvestments and encash our investments which I think we should get some opportunities going forward.

As you know we had also applied for the banking license and the process is on. We are also working towards developing the white labeling ATMs through our Sahaj centers. I think these are some of the information and I will be open to question and answers. Thank you.

Moderator

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu

My first question would be your outlook on the NIMs for both your business because I understand you have already reached your benchmark rates so what is the NIM you are expecting in the second half?

Sunil Kanoria

In terms of Srei BNP Paribas, I think we should be able to maintain and improve our NIM marginally. At the Sreilevel also there will be some marginal improvement because our cost of money now in the last one month has again started to go down a little but we have already increased our benchmark rate, the impact of which will also happen during this period.

- Sudhakar Prabhu** My second question would be on your power asset. As I understand out of your total power asset of close to Rs. 1,000 odd crore you have around 19% of your asset is still under construction and 13% operational, do you have any exposure to gas-based project?
- Sunil Kanoria** No, not to gas.
- Sudhakar Prabhu** So largely these would be thermal and coal. Right?
- Sunil Kanoria** Only thermal.
- Sudhakar Prabhu** And out of your under construction project of 1,000 odd crore, what is the progress on that? Are these on track for commissioning?
- Sunil Kanoria** Out of that 19 % , 7% is captive so that is link to the company's this thing and about 10% is the IPP / merchant thing where it is almost about 5% is still again having captive fuel and 5% is with coal linkage. So the progress is on. Obviously there is a little slow progress there but we don't expect challenges in those customers.
- Sudhakar Prabhu** And lastly on your road projects you have I think close to about Rs, 400 crore of investment in your road and transportation project. So these would be largely road, Rs. 400 crore?
- Sunil Kanoria** Yes.
- Sudhakar Prabhu** And how much of these are operational and non-operational?
- Bajrang Choudhary** Four are operational and five are under construction.
- Sudhakar Prabhu** And how has been the initial performance of these roads, the four of which are operational, have these been as per your expectation?
- Bajrang Choudhary** Yeah it has been mixed, couple of assets we are doing well as we had thought and couple of them we are still closer to as per our expectation and on one we are slightly down than we had thought we would be. Overall experience for us has been mixed.
- Sudhakar Prabhu** And lastly a question on your equipment finance business. I believe you have converted this company from a private to a public company, so any plans of listing it separately or raising money in that company?
- Sunil Kanoria** Basically, the intent to make it public was to be able to raise bonds, etc. Today it was more dependent upon borrowing from the banking system. The intent was to also go ahead and do listed bonds in the corporate bond market more actively and that's the reason why there was certain hindrances in the private limited and therefore we converted into public.

- Sudhakar Prabhu** My last question would be on your RoE. How would you plan to improve your total RoE? How do you see the RoE in the next 2 to 3 years once you start divesting some of your assets and the capital gets released?
- Sunil Kanoria** I think that is where the core focus is and we expect that in the next year or so we should be able to divest some of our larger investments., Today on my investment, I don't get any return on quarter-to-quarter basis. Once I exit some of the investments,I will be able to recycle that capital into my finance business and that should improve my return on equity substantially.
- Sudhakar Prabhu** And when do you see this happening over next two to three years?
- Sunil Kanoria** Yes I said our two major investments which is in the telecom and road, these two we are working out to encash my investment and we hope we should be able to do something on roads in the next couple of months and Viom also we should be able to do something within the next year or so.
- Moderator** Thank you. As there are no further questions I would now like to hand the conference over to the Management for their closing comments.
- Sunil Kanoria** I like to thank everyone and this has been a challenging period but we firmly believe that slowly things are getting resolved. There is a strong focus by the government to address some of the challenges which infrastructure space is facing. Some positive news on the road sector where the government is planning to see jobs. This should start capital formation and cash flow into the system into the construction industry and we hope things should start to get better and for the company once we are able to exit some of our investments which start to improve my return on equity also going forward. Thank you.
- Moderator** Thank you very much members of the management. Ladies and gentlemen on behalf of JM Financial Institutional Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.