



**“Srei Infra Q3 FY14 Earnings Conference Call”
February 7, 2014**



**MANAGEMENT: MR. SUNIL KANORIA – VICE CHAIRMAN, SREI INFRA.
MR. D. K. VYAS – CEO, SREI BNP
MR. SANJEEV SANCHETI – GROUP HEAD, CORPORATE
STRATEGY & PLANNING, SREI INFRA.
MR. AMIT AGARWAL – CHIEF MANAGER, INVESTOR
RELATIONS.**

**MODERATOR: AMEY SATHE – ANALYST, JM FINANCIAL INSTITUTIONAL
SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY14 Earnings Conference Call of Srei Infrastructure hosted by JM Financial Institutional Securities Private Limited 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Sathe, thank you and over to you sir.

Amey Sathe: Good afternoon everyone and welcome to Srei Infrastructure's Earnings Call to discuss the 3rd Quarter Results. To discuss the results we have on the call Mr. Sunil Kanoria – Vice Chairman Srei Infra, Mr. D K Vyas – CEO Srei BNP Paribas, Mr. Sanjeev Sancheti – Group Head and Corporate Strategy & Planning and Mr. Amit Agarwal – Chief Manager, Investor relations. May I request Mr. Sunil Kanoria to take us through the financial highlights subsequent to which we can open the floor for Q&A, over to you sir.

Sunil Kanoria: Just to set the tone, that being in the infrastructure financing business, we all know the last two years; there have been challenges in the sector. We are seeing slight improvements in the last few weeks in terms of a little better policies coming out in some of the sectors. We have seen little better buoyancy in the Telecom, slight in the road, some clarity is coming on exits, and power is still a challenge in terms of fuel and coal. But within these challenges we are trying to take care, how we manage ourselves and be conservative, focus is on the quality of the assets.

Keeping that in mind, in the background the disbursements in the group, combined with equipment financing and project financing for this period of nine months has been about Rs. 9,500 crore, to be precise Rs. 9,463 crore, whereas the equipment financing was Rs. 6,723 crore and project Rs. 2,646 crore. Overall it is lower than what we had done previous year same times, slightly lower than that, but as a policy the focus is on the quality and not on the volume of business. In terms of the net worth, overall net worth of Srei consolidated stood at about Rs. 3,142 crore and the borrowings about Rs. 20,000 crore. So, we have kept more or less stable in terms of the borrowings to and net worth has grown to the extent of the profits. The profitability before Tax and exceptional items for the year ended December'13 was Rs. 255 crore as compared to Rs. 258 crore in the same period previous year and Profit after tax, after minority is Rs. 135 crore against Rs. 194 crore in the same period previous year. The FOREX loss during this period has been Rs. 39 crore compared to the loss on M2M in the previous year period of Rs. 53 crore. The loan portfolio in our equipment financing is about Rs. 18,500 crore and project financing about Rs. 11,300 crore. The NPA for equipment financing is 2.8 and project finance is about 2.2, the net NPA. In the equipment financing it has gone up slightly, primarily in the equipment financing the way we have till December at least, that even if a case has gone for the CDR and we may not have had any restructuring in and we are getting our payments. But as per RBI we had to classify it as a NPA, which we have done as a result our gross NPA goes up. However, recently the RBI has come up with the guideline that NBFC could follow the same guideline as a bank. So, therefore we expect that some of the cases which had gone for CDR and where we had to make certain provisions and classify as NPA, we may correct that in the current quarter.

In terms of the business as I said the equipment financing business, we are seeing some improvement in the disbursement in the last two months more particularly in November-December had shown some improvement. We still see that it will be definitely a much lower growth than what it was in the previous year. The industry is expecting growth only post September in the current year.

However, in terms of our overall ability to understand that equipment business primarily from the asset purchase to asset deployment and asset sale, that has what has helped us to keep our NPA levels low and be able to recycle the capital by way of disposals of assets through our entire network system which we have, not only in India but international which we have created, where we can dispose assets post re-possession and secondly is working with clients to find solutions on the projects. Also through a diversification, mode we have expanded overall financing in the equipment financing business, not only construction and mining equipment but into IT equipment, healthcare, rural equipment in the rural infrastructure and also increase the proportion of the used equipment financing which we were doing, which improves the yields better and we expect that return on that should come in the coming years, with the change in the mix of the product line.

In terms of Srei BNP Paribas, on a standalone basis as i said the PAT has been stable, we have not had much of a growth in the profits after tax of the previous period and we expect little improvement hopefully in the last quarter but overall should remain the same as previous year. Also the interest rate which we had thought would show signs of bringing down have been only going up with the recent hike by the Reserve Bank of India. Therefore we would be passing on that interest increase to our customer and the committee two days earlier has increased our also benchmark by 25 basis points and only thing is that we pass on that twice a year, 1st January and 1st July, so this impact to the customer would go only from 1st of July., on our existing contract. So, the impact of that benefit you will be getting only in the coming quarters. In terms of the infrastructure project financing business, we have been there in the space and the intent was again not to build up the book too much, looking at overall economy and also develop new sectors in the infra space and the central bank has brought in new areas like healthcare, hospitals and hotels into the infrastructure definition and we are looking at opportunities more particularly in the health care sector to expand our portfolio going forward. In terms of the power sector, our exposure is about 34%, however in that primarily 31% is in generation, 19% out of that is operational and under construction is 12%, out of that 12%, 5% is captive and 1% is renewal and IPP is about 6.3%, which is basically, out of that again 2.8% is captive and about 3.5% is on the coal linkage or gas.

So, broadly we are reasonably under control, we do not expect new surprises in NPAs in the current quarter too, whatever we have we are working out to resolve that. We have not added any major new NPAs during the last few quarters. The Profit after tax has been Rs. 51 crore on a standalone basis, vis-à-vis Rs. 78 crore previous year. Again cost of money has gone up and the spread as a result has had some impact on the same.

Coming to the Investment Portfolio, which is our major and as a strategy the company has been working out to dispose some of its investments and divest some of it. The efforts has been on; we see some progress started to happen a little, in the road sector we hope to conclude one divestment hopefully before March; we are in the final stages of divestment there.

On Viom, which is our telecom business that has shown good positive growth in the last 6 months and we expect much better growth coming going forward. However again there we had initiated our process to look at how do we create some divestment to be able to impact some of our investment there and the process has been started, we hope that in the next coming quarters we should be able to do something there and achieve that objective now that sector is looking much more positive than what it was in the last 2.5 years.

Sahaj is building up well, it has its challenges, we hope that next year we will EBITDA positive but it is a platform which has built up very well with almost 28,000 centers in rural India, we are also now rolling out our WLA, which is a ATM network, low cost ATM network through this network, along with banking correspondence and that is the financial services through these VLE's is what is bringing us the major revenues apart from the e-learning activity, so we expect going forward that distribution channel will help us in building up our platform and value propositions at the rural India. I think I have broadly covered all the sectors in terms of the consolidation; our profits has been on a consolidated basis at Rs. 135 crore vis-à-vis Rs. 194 crore in the previous year this period and the key difference basically has been of some exceptional items. There were two businesses which got de-subsidiarized, which contributed about Rs. 104 crore net to the bottom line; as a result the profit this year has been down because those two subsidiaries have gone out now this year. Basically, these are the information, I think, best is to open up for questions.

Moderator: Ladies and gentlemen we will now begin the Question and Answer session.

Amey Sathe: Sir Two questions, one is on the new RBI guidelines on restructuring so what will be the likely impact on our earnings because of the restructure in provision that we need to make?

Sunil Kanoria: With this guideline, we are still examining more detail of this but broadly on the Srei equipment finance business that is the Srei BNP Paribas, we expect a little positive improvement there because due to this some of the accounts which had gone for CDR and as per the past guideline we had to classify as a NPA, in spite of the fact that they were regular with us, that will get out of the NPA. So, Srei BNP Paribas we should have a positive impact. At the Srei level we do not see any impact as such as yet, there may be some minor, additional provision to be done on one or two restructure accounts but broadly, For IFC we are already allowed as onetime restructuring so, prima facie what we have seen, we should not have any major impact out of these guidelines.

Amey Sathe: There are guidelines by the RBI on joint lending framework from 1st April onwards, so if you can help us understand what will be the impact of that on our overall asset quality front?

- Sunil Kanoria:** I do not see that, not being a part of the banking system, we are a financial institution; the joint lending program would be more in terms of monitoring the customers going forward. I do not see any impact on the quality of the asset or in terms of the provisions. That is my initial understanding and we are in further detail examining and trying to understand what the implication could be.
- Moderator:** We have the first question from the line of Shubhankar from SKS Capital and Research. Please go ahead.
- Shubhankar:** So, couple of questions here, did you see anything on the loan book growth guidance for current financial year?
- Sunil Kanoria:** Year end 14' we do not see much of a growth at all. We should be having a flat situation because February is already done almost, so we do not see much of a growth during this period.
- Shubhankar:** There will be anything that you would like to say for us for FY15?
- Sunil Kanoria:** As I said FY15, we expect that post September the economy should start to show positive signs and the first Quarter will be virtually because of the elections etc itself. I would say the second half of next year could show better signs of improvement.
- Shubhankar:** Can you give some more detail on the divestment process that you have initiated for the road project as well as for telecom tower business. Is there anything, else that you by per say up here?
- Sunil Kanoria:** As I said, in the road we are in the process of finalizing one of road projects as a divestment. We are hoping that we should be able to do it before March, trying to close that before March. On the telecom side, we have initiated our process just few weeks back. And there it would take about at least 3-4 months for a process to be done. And we have appointed the bankers.
- Shubhankar:** So is it related to like you are getting some strategic partner up there in the IPO?
- Sunil Kanoria:** Well at the moment we are looking at an investor and then we will look at the IPO process also. But the first level is an investor, so that we can also do some divestment. Because it is very clear and as we have said in the past, our strategy was to do some divestment to be able to get some cash back. And the time is good; the business is doing well now. It is throwing good amount of cash and it is now in the growth phase again. So there is a huge amount of interest which we see. And we hope to get a fair value to it.
- Shubhankar:** Where are we in terms of this new banking license?
- Sunil Kanoria:** That we have made the application. I would say the ball is in the court of The Reserve Bank Of India and very difficult to make any comment on that.

- Moderator:** The next question is from the line of Mr. Sudhakar Prabhu from Span Capital. Please go ahead.
- Sudhakar Prabhu:** I had actually a couple of questions. My first question is on your Srei BNP **Paribas** joint venture. What has the amount invested by Srei in this joint venture till date?
- Sunil Kanoria:** Well the investment, we are 50% shareholder. Our investment is about 175 crore
- Sudhakar Prabhu:** And anymore capital commitment this year or during the next year in the JV?
- Sunil Kanoria:** I do not see at least till March 15th, then depending on how the growth in the economy happens, we will review it post elections and may be around August - September. And see how the future holds
- Sudhakar Prabhu:** And just to understand what is the deal with the BNP Paribas? Is it a fixed IRR deal or what is it like? And who manages it in terms of management? Is it BNP Paribas group or is it Srei?
- Sunil Kanoria:** Now there is no fix IRR, it is a joint venture agreement. They came in, invested in company 2008-2009. It is a 50-50 joint venture. Management control is with Srei and Sunil and Hemant Kanoria very clearly as far as our shareholder's agreement. And the joint venture is doing quite well. As economic challenges come, so you not grow for a year, but overall in last six years, the partnership has done well. And the economy has done well.
- Sudhakar Prabhu:** And out of this Rs. 19,000 crore of loan book, how much would be for the construction part and non-construction part?
- Sunil Kanoria:** About 90% would be construction and mining equipment, 10% is what we have now expanded into IT, Healthcare, rural which we have started now for a year so and the intent to build that so that in our overall book the construction and mining equipment as a percentage, not as a quantum term but as a percentage may be lower.
- Sudhakar Prabhu:** Right and since this is only less than 10% of your book, do you think growth next year would be on the non-construction part higher?
- Sunil Kanoria:** I think so. As a percentage, if we look at March '15.
- Sudhakar Prabhu:** And even your base is small, right? So, you can grow that part of the book.
- Sunil Kanoria:** Yes, so we feel that March '15, that 10% could become 15-20%.
- Sudhakar Prabhu:** And in terms of NPAs, do you think the worst is over or do you think your NPAs in this segment can go up to 4-5% with some of the public sector banks and others are reporting or how are you placed in terms of asset quality?

Sunil Kanoria: I think the way we see in the infrastructure space, I think it has bottomed out, I would not say that recovery has started full-fledged, etc., but as I said in my opening remarks that the sector overall seems to have bottomed out, people know where they are, people know the issues and the challenges. It is taking time to come out of it, some improvements have started to see as I said that in the road sector, improvements are being seen, in terms of decent guidelines of exit and a few transactions have started to happen, we expect that going forward as soon as some divestment happens, you see the main is that all the construction companies, they have had lot of assets which are sitting there and unless they are able to exit and divest some of their investments, the liquidity will not come in and it is very important for the environment to improve from the perspective one you can exit, which was not allowed now recently the government has allowed exits of road projects, so if that is a positive sign, so we feel that once if this happens, it may take time, it may take 6 month, 9 months, 1 year but the process has started. So, therefore we feel the downside has reduced basically been there now and we may see slow recovery in some sectors as you move forward. If you see the deals have started in the market in the road sector. Because roads was one key sector, power as I said is still on a challenge, solutions and resolutions are not yet there. Both on road, coal and gas, those issues need to be resolved.

Sudhakar Prabhu: How much would the restructuring assets in your both segments, the JV and Infra segment?

Sunil Kanoria: We do not see much at all, we have not done much of restructuring in both the companies. We have not done that in the past. We do not see much of that because normally we finance against equipments and equipment financing. It is primarily under the CDR which we do because if it is a restructured asset under Srei Equipment, we have to show it as per the RBI as an NPA, which is what we have been doing in the past. So, I do not see much of a major impact.

Sanjeev Sancheti: Obviously the new guidelines will have some positive impact on this for the equipment finance companies.

Sudhakar Prabhu: And NPA recognition in your equipment finance is on 90 days, right?

Sunil Kanoria: Yes, that is right.

Sudhakar Prabhu: And how about in the Infra segment?

Sunil Kanoria: Infra we follow the 180 day norm as per RBI because being an IFC and an Infra Financing Institution we have to strictly follow the RBI guideline.

Sudhakar Prabhu: And also out of the total borrowing, how much is Forex borrowing in terms of foreign currency?

Sunil Kanoria: In the Srei Equipment Finance, the foreign borrowing would be about 10%. That is all hedged, 10-15%, that is all hedged, 100% and the SREI level again it would be about 8-10%. Out of that, about \$38 million is what is only unhedged, rest all is hedged.

- Sudhakar Prabhu:** Any chance of hedging this or you will keep it open?
- Sunil Kanoria:** We expect it to keep it open because these are long term loans and over a period of that 12 year because these are all 10-12 year loans, then we really see how much of cash also has been there, still it is much better than doing a hedging and paying an 8% premium. We may have a mark-to-market on a quarter to quarter basis, but overall cash, if I take the cash cost over the period of the loan, it is still much cheaper.
- Sudhakar Prabhu:** And my third question would be on the Viom thing. What is the exact stake Srei company wants in it, because there is some confusion that it was 11%, some say 18%, so what is the exact stake direct or indirect which Srei owns in Viom?
- Sunil Kanoria:** See basically, Srei and the group, we are owning about 18%, approximately in Viom, but partly in Srei, partly through various funds which we have which we manage. But overall, as a group we own about 18% in Viom.
- Sudhakar Prabhu:** And how much does the listed entity Srei own?
- Sunil Kanoria:** Srei, directly I think is about 11.5%.
- Sudhakar Prabhu:** Just to understand your divestment process, what is the kind of valuation you are looking at? Because I understand you will do around Rs. 1800-2000 crores of EBITDA this year. What is the kind of valuation you are looking at? Because if I look at your peers, which is the only listed entity, Bharti Infratel is quoting at around 6.5-7x EBITDA, so what is the kind of right valuation do you think Viom should get?
- Sunil Kanoria:** Looking at the performance of our company in terms of its tenancies, in terms of its growth and its diversity, we expect a much better value and I cannot make any comment on that because we have to honestly get a value in the market, we cannot say anything but the interest which we are seeing we expect that we should get a decent value.
- Sudhakar Prabhu:** And whenever this happens, Srei will sell off its entire stake, right? The entire money will come to Srei?
- Sunil Kanoria:** Well, not necessarily. We will look at the value and then decide how much to sell. We will definitely sell some portion, whether we sell all, whether we sell a part of it. We will take a call post what we get the value.
- Sudhakar Prabhu:** And your other partner, the TATAs will also sell their stake or only you will sell it or only you have made the intention of selling it?
- Sunil Kanoria:** I think there are lot of investors with us, we have IDFC Private Equity, GIC Singapore, Macquarie Oman, many of them has been there in the company for the last 8 or 9 years now, since 2005, 2006 when we started. So I am sure, as a group there would be some people who

may want to divest, but at this juncture, it would be premature, once we get a value perspective, then we will take a call on that.

Sudhakar Prabhu: And you said, this should get over by next 3-4 months, by April-May?

Sunil Kanoria: Well, the overall transaction may take still six months' time, but we should be able to get some picture in working in the next 3-4 months.

Sudhakar Prabhu: What is the progress on the UB group shares which you, any plans of selling it off and any timeline for it?

Sunil Kanoria: We will do it at an appropriate time.

Sudhakar Prabhu: But the amount is already overdue, right? So you are free to do it anytime?

Sunil Kanoria: Well I am free to do it. I have no restrictions as such. The fund has its requirements, the investors are there so we will have to take care of the investor's interest and based on whatever the best is there, the fund will take the call.

Sudhakar Prabhu: If I look at your ROE, it is less than 10%, so let us assume, once you divest all this stake and once growth starts picking up, maybe next 2-3 years, what is the kind of ROE the group is targeting at?

Sunil Kanoria: We would look at, at least 16-18% ROE on a steady basis, there has been a challenge, the intent was that the investment which we have, we keep on recycling that capital and in overall cycle of 3-4 years, we are able to keep churning capital gains out of it along with our fund based business, that is the intent. And therefore, keeping that in mind, we will see how we at least get to a 16-18% ROE on our consistent basis over a period of time.

Sudhakar Prabhu: Do the company has a stated dividend policy?

Sunil Kanoria: At the Srei level, we do not have exactly a policy as such but we are declaring dividend every year.

Sudhakar Prabhu: But there is no specific payout ratio as such?

Sunil Kanoria: We do not have a payout ratio as such but we ensure that there is a dividend payout every year.

Moderator: The next question is from the line of Mr. Sanket Godha from JM Financial. Please go ahead.

Sanket Godha: My question was more with respect to the construction equipment finance business. Just wanted to understand the current competition scenario in this business and how do you see the growth coming back to the segment basically, given the slowdown, that is happening for the last one, one and a half year and how do you foresee the asset quality, when do you think it will

bottom out or you will see continuous stress in this segment for couple of quarters from going now?

Sunil Kanoria: I will request my CEO of Srei Equipment Finance, Mr. Vyas, who is here, to answer that question.

D. K. Vyas: On the equipment financing, the competitive scenario is that today main competition is from HDFC bank, Indusind Bank, Citibank and from the NBFCs. And primarily the banks are looking at smaller equipment to meet the pricing criteria for financing value mostly it is smaller equipment. We have qualified for the criteria for lending and in a way to look at the equipment sales which have been happening in this current year. Primarily, the sale, whatever volumes have been happening is only in the smaller piece of equipment which is up to Rs. 50 lakhs value. Bigger equipments, there has been no demand this current year, so there is no purchases. Actually, there is a de growth in the sale of large equipment and the smaller equipment has been reasonably doing well. There is small degrowth, but there is not been a much degrowth on those equipment. Now, those are being financed by banks and NBFC. Many NBFCs are, if you see the exposure, but the active NBFC other than us would be now to some extent Shriram. However, we have still been able to maintain the market share because 30% market share on this equipment financing we have been able to maintain with all this competition coming and going. In equipment financing, every 4, 5 year there is churning of competition. But, if you look at our market share, there has been a consistency managing the 30% market share. So we are not been balancing market share though there no much growth in the business and equipment financing, rather than the market has degrown. The market share is protected.

Sanket Godha: And when do you see growth coming back, Sir, means anytime in near future, maybe probably post-election?

D. K. Vyas: As Mr. Sunil said earlier also, that the growth in this till election is very difficult to predict because month-on-month equipment sale has not been growing, so maybe second half of this financial year, post September, we should see some growth because we see some kind of improvement on the road side and if lot of EPC are coming and lot of contract mining happening this year, so we could see some growth start happening from second half of the financial year.

Sanket Godha: The mining has started in Karnataka, so any growth on that side because it has helped in to some extent, in growth or something of that kind? Do you see a growth because of the mining activity beginning in Karnataka?

D. K. Vyas: No, when I said mining, it was primarily contract mining from the coal side. Because Coal India's subsidiaries are not coming with lot of tenders for contract mining and that been pushing the demand for the larger equipment because in coal mining you need larger equipments and as regards Karnataka, iron ore mining generally you need the same equipments which have been used for roads or irrigation and mining. Iron ore mining you don't need larger equipments, so there is not much of impact. Because the equipments which are being used, for

irrigation and road can be used also for iron-ore, so it does not really create an incremental demand.

Sanket Godha: With respect to the asset quality, means it is current and your NPA stands as 2.8%, so do you think it will deteriorate further before we see an improvement in the asset quality ratios?

D. K. Vyas: I think because we are following the 90 days norms and further we take the management estimate beyond that also in terms of approving and looking at the scenario what we are facing for last one year, we feel that we have been bottomed out and hopefully we should pick up from 2nd half of this next financial year, so maybe this is the really reaching to the peak of the bottom, that is the expectation.

Moderator: As there are no further questions from the participants, I would now like to hand the conference back to Mr. Amey Sathe for his closing remarks, over to you sir.

Amey Sathe: On behalf of JM Financial, I would like to thank Mr. Sunil Kanoria and the senior management of Srei Infra and all the participants for joining us on the call today. Thanks a lot and good bye.

Moderator: Thank you. On behalf of JM Financial Institutional Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.