



**“Srei Infrastructure Finance Limited Q4 FY 2013
Earnings Conference Call”**

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FINANCIAL INSTITUTIONAL SECURITIES PRIVATE
LIMITED

Moderator

Ladies and gentlemen good day and welcome to the Srei Infra's Q4 FY 2013 Earnings Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder for the duration of this Conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this Conference please signal an operator by pressing * and then 0 on your Touchtone telephone. Please note that this conference is being recorded.

At this time I would like to hand the conference over to Mr. Karan Uberoi of JM Financials. Thank you and over to you, sir.

Karan Uberoi

Good afternoon everybody and welcome to Srei Infrastructure's earnings call to discuss the fourth quarter results. To discuss the results we have on the call Mr. Sunil Kanoria who is the Vice Chairman of Srei Infrastructure, Mr. D. K. Vyas – CEO, Srei BNP Paribas, Mr. Sanjeev Sancheti who is Group Head, Corporate Strategy & Planning, Mr. Bajrang Choudhary who is CEO, Infrastructure Project Development at Srei Infra, Mr. Anil Agrawal who is the CFO and Mr. Amit Agarwal who is Senior 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 Session. Over to you, sir.

Sunil Kanoria

Good afternoon gentlemen. If you look at Srei during the whole year and the last quarter more particularly and if we segregate our business as we do in three broad categories of revenue generation is our fund based business, our fee based businesses and our strategic investments which are there.

I will basically give a broad overview of the consolidated results in terms of overall disbursements during the year we have had about Rs. 15,600 crore of disbursements. On the equipment finance we did about Rs. 10,800 crore and project finance about Rs. 4,700 crore. Compared to the previous year it has been overall lower in terms of disbursements and strategically looking at the overall economic environment last year more particularly the infrastructure sector the focus was on profitability and not on just loan book growth. The balance sheet net worth on the closing was about Rs. 3,000 crore. The overall borrowings of the group grew by about 15% to about Rs. 18,200 crore.

In terms of profitability the total income increased by about 31% to Rs. 3,200 crore approximately and the profit after tax rose by about 135% on a consolidated basis to Rs. 263 crore from Rs. 111 crore previous year.

The foreign exchange loss for the current year was about Rs. 48 crore vis-à-vis the previous year of Rs. 65 crore. This is a notional loss in terms of the market-to-market with the dollar movement generally most of our loans are hedged and some which is not hedged are long term in nature and we believe over long term the real cash flow outflow from the company is lower than the premiums which we pay because of the long tenure.

The loan portfolio if you look at the interest earning assets in equipment finance increased by about 11% and project finance by about 14%. Net NPA in equipment was about 2.16% and project finance was 2.22%.

In terms of Srei BNP Paribas which is Equipment Finance we ended the year with the average return on net worth of about close to 17% and an average assets on books of about 1.8% return. The leverage was about little over 7% and a capital adequacy of 16.2% with total assets of about Rs. 18,700 crore. The profitability on a quarter-to-quarter has been steadily rising and the focus has been on operational efficiency, margin improvement and the bottom line. So on annualized basis yearly we made a PAT of about Rs. 270 crore vis-a-vis previous year of Rs. 197 crore giving an increase of almost over 30% and Q4 the profit was about Rs. 66 crore vis-à-vis the Q4 of the previous year was about close to Rs. 30 crore.

Our NIMs has remained around 4.4% and a net NPA of 2.2%. Here to just to explain being a NBFC in an asset finance company in case of few of the customer goes in to a CDR which some of them did during the current year we have to classify as an NPA as per RBI norm in spite of the fact that they have been paying us regularly because they went for CDR. So that because of I think two or three transactions the gross NPA rose up substantially but overall if you see the provisions which we make is much more stringent than what the RBI norms are.

In terms of Srei the standalone which is primarily the project finance business and the fee based businesses the total net borrowings about Rs. 11,000 crore and the earning asset of about close to Rs. 10,500 crore with the capital adequacy of about a 21.7 and a leverage of about 4 times, and Return on Average asset of about 0.7 almost same as little slightly higher than what it was last year.

The profitability again on a standalone basis had a good jump this year from the previous year same year as about Rs. 58 crore was the total profit. We had Rs. 95 crore in the current year however on a quarter-to-quarter if you compare it was marginally higher from Rs. 16.6 crore to about Rs. 17 crore. Again the NPA here is about 2.5% primarily on account of two transactions one was already NPAs in the previous year and one additional NPA we had in the current year which was on account of Deccan Chronicle there we have made certain provisions looking at our overall security and the cover left.

The loan book is spread about Rs. 10,000 odd crore in energy, transportation, social and commercial infrastructure and communications. Energy is about 40% but that includes renewable to both wind and little solar. Transport is primarily roads and the other areas. So it is fairly spread over in the key sectors of infra and borrowings in both the companies SreiBNP Paribas and Srei is mostly from domestic banks and financial institutions Debentures and some ECBs.

On a consolidated basis the earnings profitability has been approximately Rs. 263 crore after all the minority interest etc. There have been two subsidiaries which is no more subsidiaries so therefore there is capital further so although we have got diluted we have not sold the stakes

but as a result of that we did not have to consolidate in Srei's books. So as a result of that the impact has been positive in the consolidated accounts of Srei, which has helped in improving the Return on Asset and the overall consolidated leverage is about 6 times.

The investments are spread over in the subsidiaries various strategic investments and we have our treasury stock again as we had earlier stated that the overall investment book is almost constant we have not increased the investments. The intent was to exit some of the investments we were able to exit one of the businesses investments which was there in the oil and gas sector. In the other areas markets were not good we hoped that in the current year and the years next we should be able to get the opportunity to dilute or exit some of the investments and book the gains.

Coming to some of the strategic investments is primarily Viom has had a in spite of the most challenging year for the sector in last year with the 2G Supreme Court judgment, I think for Viom it was one of the best years it helped us the environment to look inwards find out operational efficiencies and strengthen the management and bring in new capabilities which we expect the company to be in PAT positive, the accounts are under audit but the expectation is although we will be losing some tenants but we also add in good tenants. The quality of tenants improved because we added good chunk of tenancies from the incumbents like the Bharti, Vodafone, Idea which helped us in getting a bit of quality tenant and also cushioned us against the negatives of some of the operators who hold it up or reduced their market presence especially Telenor etc. So they reduced their number of sites but they are stronger in the five, six circles where they are operating and they need more. So we have started to see good growth coming in back in to the telecom in the tower sector. The momentum is started to build up in the last two, three months we have had break through in building a new tower at a much lesser cost. There even the first tenant coming in makes it viable and positive we expect that to bring us back in to a growth phase for the next couple of years and with the stronger financials in terms of profitability we should be able to take that advantage of growth coming back.

In terms of the various Quippo businesses, Quippo Construction, Energy, Rental, Oil & Gas they have been all EBITDA positive but due to depreciation interest they are still PAT losses. We hope in the next year, two years we should be able to gradually start to bring some of the business in to profitability on the after tax basis also.

Sahaj has improved its performance it is now getting well established. We also brought in McKinsey to help us validate our business model and strengthen new lines of revenues which are now under implementation. It has given us a good strength in the distribution in the rural network in almost 26,000 centers which is being operated and covering almost 290 million people. We expect this year to be EBITDA positive and we expect this to now roll up and grow much faster going forward.

Our Shareholding pattern still the promoters are 49%, foreign holding is about 14% with individuals 23% and 10% of the treasury stock. So broadly these are the things. The year has been definitely challenging for the overall infra sector. I think in the history of our country

where infra development has slowed down dramatically however if you see the positive side in the last two months what we have seen is that some of the problems which are there in the existing projects which are stuck up is slowly getting un-winded and issues are getting resolved. I would not say that new investments and new projects are coming in but the existing projects I think if the hurdles and bottlenecks are started to resolve I think the momentum should start to pick up with the interest rates also showing some signs of easing now it would improve the matters and the pressure.

So we expect that in the next six to nine months we should see improvements in the functioning and opportunities coming back may be not in terms of new projects but in terms of supporting existing projects. Now, over to JM for working out the questions.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the Question & Answer Session. Our first question is from Amey Sathe of JM Financial. Please go ahead.

Amey Sathe Sir, two questions. One is on the energy portfolio. Can you just give us some highlight of the energy portfolio in terms of exposure to coal based projects or gas based projects and how much will be the proportion of the operating assets in that?

Sunil Kanoria It is almost all the exposure is in operating asset. We have wind which is there almost and 12% - 13% is wind itself of the exposure, little bit of solar and rest is primarily thermal, one or two hydro but primarily it is all thermal.

Sanjeev Sancheti About 70% will be thermal.

Amey Sathe Okay. And a second question on your margin side, your yield on funds has come down sequentially as well as on a y-on-y basis, so any reason for that?

Sanjeev Sancheti Yes. You see Deccan as Mr. Kanoria said that we have provided for after seeing the adequacy of security etc so what has happened is the income which was approved during the year in the first three quarters we reversed that, so the impact is about Rs. 46 crore. If you adjust that impact then you will see that my yield goes up to 14.75% which is more or less in line with what it is. Similarly the quarter as well as the YoY. So that impact is actually brought the yield down because they have to reverse the entire interest in coming quarter.

Amey Sathe Okay. And what is your sense on the cost of fund is going ahead?

Sunil Kanoria I think in the last one year or so the cost of funds have remained stable it is showing a slight sign of reduction in the last few months. I think going forward it would continue to have a slight lowering in the cost of fund I do not see it is increasing. The deduction may be slow over a period of time but I think I do not see for some time now interest rate going up.

Moderator Thank you. Our next question is from Sameer Dalal of Natverlal & Sons. Please go ahead.

- Sameer Dalal** Couple of things on your NPAs. You have mentioned that you will have to classify certain projects which are still paying you as NPAs because they have entered to CDR. Is it possible to classify which ones have been most of the NPAs and why they have been paying you and why have they still gone in to CDR if they are able to pay?
- Sunil Kanoria** Basically because our structure is asset finance where we have provided equipments on financing and leasing, so company like HCC we get our payments because it is for the equipments it is not a corporate loan in the cash flow like the banks have but the norms are such that if a customer goes in to CDR we as an NBFI we do not have that levy although banks do not have to if it is a CDR they do not have to make a full provision. For us we have to make a full provision because still now the guidelines do not exempt us.
- Sameer Dalal** Can you tell us which were the other companies which you have the similar problems with?
- Sunil Kanoria** Well, I think it will not be appropriate to give names of the companies but there are few which have gone for CDR and we had to do that.
- Sameer Dalal** Okay. And also right now Sanjeev mentioned there was a Rs. 46 crore income reversal I think you have mentioned Deccan, because of Deccan?
- Sunil Kanoria** That is right.
- Sameer Dalal** So this was Deccan Chronicle I am guessing?
- Sunil Kanoria** Yes, Deccan.
- Sameer Dalal** What is the exposure we have towards Deccan Chronicle and how much of that has been classified already has NPAs and how much has been written off?
- Sunil Kanoria** Well, we had approximately Rs. 240 crore of exposure; we have properties and assets so we have written off about Rs. 24 crore plus the interest reversal of about Rs. 46 crore. So almost about Rs. 65 crore we have written off.
- Sameer Dalal** And you have given Rs. 240 crore, so how much are you expecting to be able to recover of the Rs. 240 crore from this the balance amount what is the plan going forward for this corebalance Rs. 180 crore?
- Sunil Kanoria** Well, we have properties secured with us we are working out we have taken possession of some of the properties and we are working through our Sarfaesi because we are entitled for Sarfaesi and DRT. We are working towards to see how we can be able to sell to get the approval and sell the properties and realize some of our money.
- Sameer Dalal** Okay. Then on the Srei's standalone business also the growth in interest earning assets has been quite low in the current year what is the expectation for it going forward given that like

you have mentioned infrastructure growth there are still the problems yes, they have been resolved but there are still problems what do we expect for the current year?

Sunil Kanoria Well, as I said that last year our approach has been to grow very cautiously and that is the reason why when we saw the economic scenario challenging especially for the infra we slowed down our growth we will continue to have a close watch in the environment and system and with our experience of almost 24 years in the infra space knowing every sponsor contract we would look at opportunities but in a very cautious manner. Let us see how the economy evolves in the next couple of months and we have the ability and the readiness to capture if there is an opportunity.

Sameer Dalal So you are not giving any sort of guidance of what you could probably grow at?

Sunil Kanoria No, we would like to avoid any guidance at this juncture because the economic scenario is showing signs but it will take some more time so we need to get more confidence in what actions and how things are spacing out in the next couple of months.

Sameer Dalal Sure. And okay and there is another thing a certain number of finance companies are looking at refinancing certain projects which are already operational and generating revenues where loans have come up from maturity, are you looking at any such opportunities and if so what percentage of your interest earning assets come from the refinancing side and how much are fresh loan issued out if you can get some sort of clarity on that?

Sunil Kanoria I think that is a good opportunity and that is where our growth is also coming from last year also last six to eight months and going forward also we see that as good opportunity which helps sponsors to be able to release their capital and projects as the projects which have got now cash flow generation and have got completed they are able to get funding easily and with that the sponsors are able to then clear up and do some of the projects which are in the phase of completion.

Sameer Dalal So is it possible to give some information on how much of your like you said 6, 7 months you have been looking at this only what percentage of your total interest earning assets are from the refinance base for the current year and what percentage are fresh ones given to projects and the implementation?

Sunil Kanoria Well, we have not calculated the percentage of that but as I said the majority of that in the last 6 - 7 seven months has been that kind. I think a fair numbers would it will be given by Mr. Sancheti.

Sanjeev Sancheti I can come back on that.

Sameer Dalal Sure. Sanjeev, also if you can give some information on also the total interest earning asset what percentage lye in the completed space and what percentage lye in projects under implementation if that could also be given?

Sanjeev Sancheti Okay. We will do that.

Moderator Thank you very much. Our next question is from Vinay Shah of Reliance Mutual Fund. Please go ahead.

Vinay Shah Sir, you have mentioned you have written off Rs. 24 crore for Deccan and what was the amount of interest reversal?

Sunil Kanoria Rs. 46 crore. Rs. 24 crore plus Rs. 46 crore, total Rs. 65 crore.

Vinay Shah Okay. And this is in which book these exposures?

Sunil Kanoria Srei Infra.

Vinay Shah You did mention that it would not possible to specify each and every name for CDR cases but can you please guide on what will be the total quantum in infra book as well as the equipment book for this CDR cases?

Sunil Kanoria The CDR issue is there only in the Srei Equipment book that is the Srei BNP Paribas. I think it is about Rs. 200 odd crore to Rs. 225 crore.

Vinay Shah Okay, you have mentioned interest earning assets for the BNP book what will be the loan book size as on March 2013?

Sunil Kanoria About Rs. 19,000 crore.

Vinay Shah Including securitized assets?

Sunil Kanoria Yes, including securitized assets.

Vinay Shah Okay. So if I remove then it would be around Rs. 16,500 crore?

Sunil Kanoria Yes, around Rs. 16,500 crore Yes.

Sanjeev Sancheti About Rs. 15,000 crore.

Moderator Thank you. Our next question is from Nidhesh Jain of Espirito Santo.

Nidhesh Jain My question is regarding your outlook in the equipment finance business how you see FY14 and FY15 panning out, specially on the loan book growth side and on the credit quality side?

Sunil Kanoria I think in terms of the loan book growth we at the moment would see about 10% to 15% but I believe that post monsoon if some of the actions which the government is looking at to take and if that happens I would not be surprised at much higher growth in the second half we are geared for that and we would be able to take that opportunity when it comes there is a fair

amount of optimism because last 1- 1.5 years people had not bought assets and lot of the existing projects which are half completed or just in the process would need lot of assets to complete those projects. So we expect that in the second half things should be better we had only hoping that next month or two some of the issues gets resolved by the government.

Nidhesh Jain

And on the credit quality side?

Sunil Kanoria

I think the worst per say whatever impact has to happen has happened I think now the customers have also realized so they are not going in to high growth phase so they are consolidating and saving cash, so I think we should be able to maintain our credit quality in the current year.

Nidhesh Jain

And there have been some reports from various brokerages that there are the initial signs of recovery in the economy so do you see any on the ground there are any signs of recovery in the economy and especially in the infrastructure side?

Sunil Kanoria

I think so, yes, slow. definitely slow, but I see things showing a little improvement in some buckets, some sectors, and some areas in the last one, one and half, two months.

Moderator

Thank you. Our next question is from Mihir Ajmera of Enam Holdings. Please go ahead.

Mihir Ajmera

Sir, in Srei Infrastructure Finance you have income from investment of Rs. 63 crore, so could you please specify what is the source for that?

Sunil Kanoria

Sanjeev, can you give the details?

Sanjeev Sancheti

Yes. You see about Rs. 30 crore was the income which was upstream from the fund, the fund had made profit when we sold some investments. So that was upstream and apart from that the other was that the income which we had on sale of our assets (Oil & Gas)

Sunil Kanoria

Oil and gas, the Barge.

Moderator

Our next question is from Kashyap Jhaveri of Emkay Global. Please go ahead.

Kashyap Jhaveri

Just wanted to check on couple of things. One is on consolidated numbers lot of this de-subsidarization income what exactly is that pertaining to?

Sunil Kanoria

Basically we had two subsidiaries where further capital was raised by the funds who invested, so as a result it did not remain a subsidiary of Srei. So once it is not the subsidiary then you do not do a full consolidation. So that is the reason why one time those impacts have come.

Sanjeev Sancheti

What happens is that because it is an associate it is no more subsidiary so there is a reversal of the consolidation because this we have in exceptional item.

- Kashyap Jhaveri** And second question is on this fee income if you look at Srei standalone we did about Rs. 150 crore fee income, could you throw some light as to what are the different sources and how?
- Sunil Kanoria** See from last years' fee income increased by about Rs. 48 crore annually largely because of that our advisory division has got large projects from NPR(National Population Register) there we had invoiced Rs. 34 crore that is one and the second thing is that a project financed keep doing independent syndication out of if we got about Rs. 13 crore of the fee income primarily because of this income increased by about Rs. 66 crore -- say Rs. 40 crore to Rs. 50 crore.
- Kashyap Jhaveri** So out of about Rs. 115 crore about Rs. 35 crore is this NPR about Rs. 15 crore to Rs. 16 crore is the syndication fees?
- Sanjeev Sancheti** Yes from the project finance division the rest is the normal advisory fees and the fee which we get from the syndication out of our road divisions.
- Kashyap Jhaveri** Then third question is on your NII. We see a lot of chequered kind of number that in some of the quarters it is pretty high and I am talking about consol as well as the standalone and in some of the quarters it suddenly sort of dips quite dramatically. Any particular reason for that like in this quarter if you look at Q4 in the standalone business we are active had a negative NII?
- Sanjeev Sancheti** No, I explained you that this quarter we reversed Rs. 46 crore of interest income on Deccan Chronicles which was explained in the call earlier because if you smoothen that, then the quarter as well as your YTD yields are almost the same 14.75. In one of the quarter we were referring to the yield sometimes goes up because the overdue the penal interest which we charge to the customers we do not accrue it income till we actually receive it so we have become very aggressive and we receive the accounts so we have no option but to have this little bit of lumpiness and some penal interest, cash is collected then only we bring it as an interest.
- Kashyap Jhaveri** Right. And any outlook on the fee income for next year compared to Rs. 115 crore that we did this year?
- Sanjeev Sancheti** I think we should grow slightly, very difficult to put a number just now because some of these projects like NPR these are projects which come and these are three-four months short gestation project. Obviously we keep bidding for various projects. At this point in time I would say probably that we will do definitely slightly better than what we have done this year but exact numbers because of the nature of these projects it is very difficult to estimate just now.
- Moderator** Thank you. We will take our next question from Rajesh Agarwal of Moneyore. Please go ahead.

- Rajesh Agarwal** Sir, I wanted to know that that Kingfisher loan which we bought in the fund that we are able to recollect our money and we are through?
- Sunil Kanoria** No, we have yet done it we have been waiting for their open offer all the process to be over and their transaction to get over which is now almost in the final stage I think in the next couple of days it should happen. So all that is done then we will be with them.
- Rajesh Agarwal** Sir, we would not loose on that because I was reading the statement by the Chairman of State Bank they are saying that the residual **value** that belongs to them, so we will not have any dispute with Diageo?
- Sunil Kanoria** See Diageo there is no dispute at all. Diageo the fund owns the assets and the share, so it has in agreement with Diageo it has to sell to Diageo and there are agreements in terms of fund has done. So the fund will have to comply with all the conditions there and post that whatever the thing is it will go back to UB Holdings and then what they do with it to the banks or I am sure they will take care.
- Rajesh Agarwal** So we are no way concerned with that?
- Sunil Kanoria** We are no way concerned with that.
- Rajesh Agarwal** We will get our money and then it is the problem with the UB Holdings and State Bank?
- Sunil Kanoria** Yes.
- Rajesh Agarwal** In Viom we have any plans to have an IPO or sell the stake to PE?
- Sunil Kanoria** Well, now that the Viom business stabilized well. We had 1.5 years back gone in for a process for an IPO but because the markets then tumble after the 2G scam we had to hold on but now that again the business is back and things are much better we will look at some opportunity of raising capital both primary and secondary in what manner and what form we have not yet taken any decision.
- Rajesh Agarwal** But our stake will come down.
- Sunil Kanoria** We would like to get some liquidity definitely.
- Rajesh Agarwal** Sir, how is the road portfolio doing?
- Sunil Kanoria** I would say the road business is doing well, five of them are already started tolling another 3 to 4 of them would start tolling in the current year may be one or two would be left for the next year otherwise we hope that most projects in the current year by the end of the current year would be tolling. We are intending to sell some of the stakes either consolidately or individually in the projects and the efforts are on. We could not do it last year the markets

being bad. We did one project small that is where the fund made some earning and distributed it. We hope to do some more in the current year.

Rajesh Agarwal And what IRR we are fetching? The IRR which we bided we are getting the same IRR in the projects which are started?

Sunil Kanoria Actually good. Our projects for early stage once which was a good project and most of them are doing reasonably well.

Rajesh Agarwal And sir, the last question is see the short term we are not going to started coming down because we are a major borrower in the short term money market and suppose the cost of funds comes down. So our NIM will go up or we have to pass on?

Sunil Kanoria Well, in the short-to-medium term it will go up. Over a longer term we will pass it on.

Rajesh Agarwal So any chances of our NIM improving in the future?

Sunil Kanoria We hope so.

Moderator Thank you very much. Our next question is a follow up question from Vinay Shah of Reliance Mutual Fund. Please go ahead.

Vinay Shah Sir, in the equipment business our gross NPAs increased from 2.22% to 2.28% quarter-on-quarter, has this increased on account of some particular account or it is general in course?

Sunil Kanoria Yes I explained little while back that primarily that has gone up because of two or three customers which went for CDR and in Srei Equipment once the customer goes in to CDR we as an NBFI and Asset Finance Company have to provide it as an NPA although the banks do not have to provide as an NPA because they have done a CDR and that has had a major impacts in increasing the percentage of the NPA although the customers are paying to us.

Vinay Shah But these should have been gone in CDR may be some previous quarters only or they have gone in this quarter only in CDR?

Sunil Kanoria Some in the previous quarter, some may be this qtr also it is a combination, I do not have exact numbers which went in which quarter but yet about 2 to 3 accounts which went in for CDR.

Vinay Shah If these accounts would have gone in CDR in previous quarters, would it impact NPA of this quarter?

Sunil Kanoria Well, the NPA is accumulative.

Vinay Shah Sir, it should have been accounted in December's NPA?

- Sunil Kanoria** If it has become a NPA that time then we do it at that time. If it has done in March it does get done in March.
- Sanjeev Sancheti** So that is why the NPA if you see in the last two quarters is almost steady. So once the NPA has declared then you do not keep providing for the same NPA every quarter. It is provided much.
- Vinay Shah** Right. And net NPA has increased higher than the gross NPA from 1.9% to 2.2%, so is there any provision which has written-back?
- Sunil Kanoria** You see what happens in our CDR case we take it as NPA so my gross is higher but I only provide 10% as per RBI norms in those particular cases because it is statutory. Otherwise in other cases we made provisions as per our norms which is much more aggressive than the RBI. So therefore what happens the net NPA because of those CDR cases where you have provided only limited the net NPA goes up.
- Vinay Shah** No, but provision has increased or decreased?
- Sanjeev Sancheti** No, provision in totality will increase obviously so if you see the provision because every quarter you are making some more provisions. What happens is the proportion of CDR was higher hence the net NPA is higher.
- Vinay Shah** No, my question is provision is not increased in line with the gross NPA?
- Sanjeev Sancheti** Yes because in the CDR cases the provisioning is only 10% while in non-CDR cases the provisioning is much higher 20% for 90 days and 50% for 180 days. So that is the reason the net NPA is higher.
- Moderator** Thank you. Our next question is from Kashyap Jhaveri of Emkay Global, please go ahead.
- Kashyap Jhaveri** My question on your Opex has gone up but dramatically any outlook on the expenses next year?
- Sanjeev Sancheti** You are talking about the standalone?
- Kashyap Jhaveri** I mean both. Let us say in standalone the Opex on YoY basis on for the full year has gone up from about Rs. 95 crore to about Rs. 130 crore and in consol is has gone up from about Rs. 390 crore to Rs. 480 crore, so any color on that?
- Sanjeev Sancheti** If you see the operating expenditure as far as the **Standalone** is concerned and this is I am talking about presentation and the growth is broadly in line with the growth in the size of the organization,

- Kashyap Jhaveri** Okay. I am actually on Slide #8 okay and if I look at the Opex for the full year from about Rs. 93 crore it has gone to about Rs. 133 crore?
- Sanjeev Sancheti** See most of it is increased in man power most of our Opex increased in man power and obviously the related expenditure which is rent, etc.
- Kashyap Jhaveri** Yes but I mean if I look at standalone balance sheet the balance sheet size has not gone up so dramatically.
- Sunil Kanoria** Yes see what we have done is that in our equipment finance business we have added a few verticals in terms of strengthening our used equipment financing market business because today new sales are less so there is more opportunity for used equipment sales, etc., in medical and IT we have added, agriculture equipment we have added. So those needs those are more retail. So as a result of that we have added people, manpower cost and we have opened a few more branches in order to strengthen our retail network and we will continue to do that in the current financial year also because we still see opportunity in those areas lot more earnings will be also better and we are doing strategically current year. As I said that our entire focus for this since last year has been focused on profitability more than loan book growth. So Yes, this year we are seeing assets which has a higher return and we are able to built up our book in that manner on used equipment, on agri equipment, on technology and medical equipment which gives a better returns and in it is retail. The only thing with that is that you need to invest in people and branches.
- Kashyap Jhaveri** Okay. And any color or what could be cost-to-income ratio next year on consol as well as standalone?
- Sunil Kanoria** That in the equipment finance it should be around 30% to 32% which we have maintained it and gone up to 34% to 35% but we expect about 30% to 32% and at the parent level is the mixture because our fee based income is basically on people so as that gets evolved many times we have to outsource people, professionals, consultants etc the cost goes up depending on project-to-project.
- Sanjeev Sancheti** Okay. Just to add on to that when we are talking of this increase in the operating cost as Mr. Kanoria just said that last part of the increase is due to the variable expenditure on professional outsourcing for the NPR project and other advisory projects if you do so almost Rs. 20 crore is because of that. Because that is always variable and that will continue to be variable. Because of our fee income had increased our outsourcing cost has also increase because our model is that we have only 30 to 40 people in the advisory team and we outsource a lot of low ended work in whatever projects which we get. So Rs. 20 crore is just for that.
- Kashyap Jhaveri** In this year?
- Sanjeev Sancheti** Yes, in this year in this financial year.

- Moderator** Thank you. Our next question is from Sameer Dalal of Natverlal & Sons. Please go ahead.
- Sameer Dalal** You have mentioned something that you are looking to increase your people for equipment rental business. **Sunil Kanoria** Equipment financing on used equipment financing.
- Sameer Dalal** Correct. But that would be again in which the equipment finance business or would there be any standalone company, would that be in Srei or Srei BNP Paribas?
- Sunil Kanoria** Srei BNP Paribas.
- Sameer Dalal** But then that would not explain why the standalone expenses have gone up by about 40% less, Sanjeev right now mentioned Rs. 20 crore was because of some higher expenses from because you were outsourcing some of your work your fee income went up so you outsource but it is still another 20% high?
- Sanjeev Sancheti** Yes, so I will explain you to so I have the full reconciliation we could have discussed that not an issue but about Rs. 9 crore is actually in impairment of asset which has come which is a onetime. So we have impaired some fixed assets so that put together is this number. So there is an increase of about Rs. 21 crore to Rs. 22 crore just on the variable part of our professional fee which is the outsourced model which we follow on our advisory fees. So just to say that most of the NPR work was outsourced and these are just means the supervision and the top level controlled work. And a lot of these kinds of projects are best outsourced because these are one time projects and they may not continue. So there is no point having hiring these kind of skill sets for skill sets permanently in our rolls.
- Sameer Dalal** So how like somebody was just asking what do you expect your operating expenses to look like in the years going forward? What kind of growth can we expect in the costing?
- Sanjeev Sancheti** If I remove the variable portion of it because that we cannot predict and I think we would grow about 10% to 12% I do not think beyond that.
- Sameer Dalal** And coming back to your fee based income you said because you had certain exceptional income coming in there you are?
- Sanjeev Sancheti** It was not exceptional because I do not call it exceptional because this year we had NPR next year we may have UID or any other thing so the nature of the business is that you get different projects and these projects we run largely on outsource model. So when we get these projects we will also had expenditure which will be against that and both will move together.
- Sameer Dalal** Just to come back and one question on your borrowing side. How much of the funds borrowed in the past year will be coming up for maturity in the current year which you will be needing to refinance and what was the interest rate on those funds at that point and things like that if you can give some clarity on the borrowing side?

- Sanjeev Sancheti** Sameer, I think this is a detailing question and probably I will have to deal it with you separately on this because just now I do not have the numbers sitting on me. So I will note it down and we will come back to you on that.
- Moderator** Thank you. Our next question is from Nikhil Paranjape of ICICI Securities. Please go ahead.
- Nikhil Paranjape** I wanted to check on your equipment finance business if I have to look at delinquency on a 90 plus basis then how would it look like?
- Sunil Kanoria** Well, this data we would not have it ready in front of us now but we can come back on those details.
- Nikhil Paranjape** And second thing was you mentioned that probably the share of retail and used kind of equipments has increased over the last one year or so which are higher yielding so I wanted to check why the spreads have come down from 4.1% to 3.8% NIM has remained stable because of equity infusion but the spreads have come down?
- Sunil Kanoria** Our NIM have gone up only marginally, this should not have come down. We have started the journey in the late last year on focus on more on the retail side etc and this year we will be building that up. **Sanjeev Sancheti** Yields have also gone up slightly and NIMs have also gone up slightly if you see Page #6.
- Nikhil Paranjape** Yes, I am on that only. Essentially interest spread from 4.1% to 3.8% for this year
- Sanjeev Sancheti** That was because of the last year we had increase in cost so if you see the yield the yield has slightly gone up.
- Sunil Kanoria** Yes, it is slightly gone up only. Yields are slightly gone up and we expect further improvement in the yield in the current year.
- Nikhil Paranjape** And if I have to look at your equipment finance portfolio retail strategic breakup was about 65:35 if I remember correctly then in the incremental disbursements how do you see that makes and also in terms of used and new equipments?
- Sunil Kanoria** In the equipment finance retail is now almost about 55% to 60% plus of the new business being done and if you see the used equipment would be about 15% the intent is to build it up to around 25%.
- Nikhil Paranjape** How much has essentially incremental yield you would be getting on your used as compared to new?
- Sunil Kanoria** Used we get about 18% plus.
- Moderator** Thank you. Our next question is from Rajesh Agarwal of Moneyore. Please go ahead.

- Rajesh Agarwal** What is the status of the recovery process of Deccan Chronicles, have you started the recovery process?
- Sunil Kanoria** Yes, we have started it and we have also repossessed some of the properties because now it is pending in the DRT to allow us to sell the properties.
- Rajesh Agarwal** What is our gut feeling, how we can recover any idea?
- Sunil Kanoria** Well, I think we should be able to recover at least about Rs. 150 crore plus through the properties etc and rest through some structuring which also the customer is approached the lenders and all, so let us see what happens. It is very difficult to say at this juncture.
- Rajesh Agarwal** And sir, what is the status of our banking license, are we going ahead?
- Sunil Kanoria** We will make the application then we will see what happens.
- Rajesh Agarwal** And sir, the "White Label" ATM again when we are rolling it out?
- Sunil Kanoria** We are doing all the viability and the working because we want to do it in our rural centers under Sahaj where we have 26,000 centers already opened and it is connected through the Internet so it is much easier we have to only see a business model and the cost of the ATMs and all which will work in rural India.
- Rajesh Agarwal** When will it be a profitable business because their cost of transactions may go up because of the rural people will?
- Sunil Kanoria** Well, it will we are working out to make it a profitable otherwise we will not do it. The reason is that you see in these villages most of the villages they do not even have a bank branch and that is the intend of creating ATMs so there are challenges it is not that it is an easy job there are challenges the only advantage we have because we already have a center at these villages the VLE is there who is operating and providing all the services through the Internet so we have the net connectivity, we have VSAT already there. So it is an incremental add-on of a machine which can give and take money also. There are regulatory issues with the RBI, etc., we are trying to work out and find solutions.
- Rajesh Agarwal** Can it be related to DBT, Direct Benefit Transfer which Government is planning to do and supposed to give 3.5% of the transaction as a cost?
- Sunil Kanoria** Absolutely that is one of the key drivers.
- Rajesh Agarwal** Okay. Is that transaction cost is feasible?
- Sunil Kanoria** Yes. Because you see we are covering 290 million people in 6 states, so I do not think there is any other company in the country having that exposure and network.

- Rajesh Agarwal** And second last question, sir Quippo Equipment Finance stake we have sold to whom now after it has been deconsolidated?
- Sunil Kanoria** BNP is our partner for the last five years now.
- Rajesh Agarwal** No, in the Quippo Equipment Finance which we have deconsolidated from this quarter it has come down?
- Sunil Kanoria** Quippo Equipment Finance is not there it is Quippo Construction Rental.
- Rajesh Agarwal** Yes, Quippo Construction.
- Sunil Kanoria** There the funds have taken it.
- Rajesh Agarwal** Funds you have taken it and that belongs to Srei only?
- Sunil Kanoria** Yes.
- Moderator** Thank you. Our next question is from Sameer Dalal of Natverlal & Sons. Please go ahead.
- Sameer Dalal** One on the Deccan side, you have provided that as a full NPA right? So that is not in the interest earning assets that you showed the Rs. 240 crore?
- Sunil Kanoria** Yes.
- Sameer Dalal** The second question is you said you sold one oil and gas rig which would be from one of your subsidiaries I would be guessing. How much do you realised for that and are you looking to exit like instead of selling the business sell off these as individually, what exactly you are planning in these businesses?
- Sunil Kanoria** No, it was not a rig it was a separate business altogether it was a subsidiary of my Quippo Oil and Gas where we have our rigs this was an offshore vessel in Singapore working in Malaysia so we had about 39% stake we sold off our stake.
- Sameer Dalal** So it is not going to change some of the numbers of your oil & gas subsidiary businesses?
- Sunil Kanoria** No.
- Sanjeev Sancheti** In fact the oil & gas of course this year almost all the five rigs are on rent so we see that this year much improved performance hoping them for a much improved performance in oil & gas.
- Sunil Kanoria** I think this year in that business more than double our revenue.

- Sameer Dalal** Okay. And also would it be possible to give what was the depreciation numbers in the construction equipment, energy rental and oil & gas business because even the PAT negative what was the depreciation numbers in those?
- Sunil Kanoria** Well, it would not be immediately available but Sanjeev could coordinate to get.
- Moderator** Thank you. We have a question from Sneha Kothari of Shubkam Ventures, please go ahead.
- Sneha Kothari** Just wanted to know your outlook on the asset quality and the second question is where do you see a sustainable ROEs?
- Sunil Kanoria** For which business?
- Sneha Kothari** Equipment finance business and Quippo?
- Sunil Kanoria** On the equipment finance I think we should be able to improve our return on equity that is our target we have infused capital therefore see the average return has come down last year but we expect it to keep edging up going forward closer to 20% to 21% in the next two to three years. In terms of the asset quality I would say that the challenges in the economy which hit from last year I think we should start to see slow revival this year so we expect that we should be able to maintain and manage the portfolio better in the current year.
- Moderator** Thank you. Our next question is from Rajesh Gupta of Vintage Capital. Please go ahead.
- Rajesh Gupta** My question is that your disbursements have increased by Rs. 15,000 crore while the asset base only increased by Rs. 2,500 crore?
- Sunil Kanoria** Yes, because there is a lot of repayment which happened and all the equipment finance the assets are three years, four years, happens and then we do new business.
- Rajesh Gupta** If the asset is free I think it should be more compared?
- Sunil Kanoria** Yes, Rs. 15,000 crore to Rs. 17,000 crore or loan book then some are three years, some four years, some seven years then the project finance is a little longer.
- Moderator** Thank you very much. As there are no further questions from the participants I will now like to hand the floor back to Mr. Karan Uberoi for closing comments. Over to you, sir.
- Karan Uberoi** 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. Thank you and good bye.



*Srei Infrastructure Finance Limited
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Moderator

Thank you very much. Ladies and gentlemen on behalf of JM Financial Institutional Securities Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.