



# “SREI Infrastructure Finance Limited Q1 FY 2016 Earnings Conference Call”

August 3, 2015



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**Moderator:** Ladies and gentlemen, good day and welcome to the Srei Infrastructure Finance Q1 FY 2016 earning conference call, hosted by IDFC Securities.

**Sanket Godha:** Thank you Zaid. Good afternoon everybody and welcome to Srei Infrastructure Finance earnings call to discuss first quarter FY 2016 results. To discuss the call, we have on the call Mr. Sunil Kanoria who is Vice Chairman Srei Infra, Mr. D.K. Vyas, who is CEO of Srei BNP Paribas, Mr. Sanjeev Sancheti who is Chief Strategy Officer Srei Infra, Mr. Kishore Lodha, who is Chief Financial Officer and Mr. Amit Agarwal, AVP, Investor Relationship. I now request the management to take us through the financial highlights subsequent to which we can open the floor for question and answer. Over to you Sir.

**Sunil Kanoria:** Thank you. This is Sunil Kanoria here. For the Q1 FY 2016, on a consolidated basis, the group disbursement was Rs.2751 Crores as compared to Rs.3217 Crores in the same period previous year. It is a very clear sign, as we have been highlighting in the past that the growth is subdued in the infrastructure sector. We have seen some marginal improvement in the last few weeks especially driven by the mining sector demand in the equipment side. Enquiries have started to come in especially after the coal auctions and the new mining bill which has come in. We are expecting that would bring in some growth post September in the last two quarters and that should bring in some better growth in the equipment financing business, where we are already strongly present and therefore we hope to see better disbursements during those quarters. Out of this equipment financing was Rs.1749 Crores and the project financing was Rs.1002 Crores, net worth is Rs.3201 Crores on the consolidated basis with a consolidated borrowing of Rs.20, 140 Crores. Our income stood at Rs.799 Crores against Rs.942 Crores in the same period previous year. Again primarily two aspects, one is due to the cost of risk having been there continuously on a quarter-to-quarter, so you have income reversals so that reduces the income and has impact. The growth is limited, so therefore the income growth is limited. Thirdly, the previous year same quarter, we had a major income out of exit from Kingfisher investment which we had in the fund, so that was exited, so therefore last year same time we had a much higher income. The profit before tax for Q1 2016 is Rs.35 Crores as compared to Rs.97 Crores in same period previous year and profit after tax and after minority is Rs.23 Crores as against Rs.65 Crores in the same period previous year, again primarily due to the Kingfisher income which we had in the previous year same quarter. Forex loss during this quarter is Rs.3 Crores. Our interest earning portfolio in our equipment financing is about Rs.18, 703 Crores and project finance of about Rs.12119 Crores. Net NPA for equipment financing is 3.56 and project finance is 3.88. So this quarter at least NPLs are more or less stable as we had highlighted that we are hoping that we do not get into new situation through better monitoring of the client and the projects. Basically if we come on the balance sheet side in Srei BNP per se as



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I already said our interest earning asset is about Rs.18,703 and our return on average net worth has been down to 4.1% with capital adequacy of 16.4 and leverage of 6. In terms of income of Srei BNP Paribas, it is Rs.548 Crores compared to Rs.578 Crores the previous year same quarter. The NPA and write offs in the previous year same quarter was about Rs.68 Crores and this year is about Rs.80 Crores including provision on standard assets with a PAT of Rs.23 Crores vis-à-vis Rs.63 Crores of the previous year same period. As I said the NIMs are about 4.2% and gross NPA 4.6 and net NPA is 3.6. For the standalone Srei, the return on average net worth is about 3.4%, leverage 4.8 and capital adequacy of 16.8. We have brought down the leverage to a marginal extent because of recoveries and not having that high growth. On a standalone the quarter income was about Rs.452 Crores vis-à-vis Rs.545 Crores previous year same period and a PAT of Rs.23 Crores vis-à-vis Rs.37 Crores. What we have been able to do during this quarter is our cost of fund in both the business in Srei and Srei BNP has come down, that has also helped us to improve our margins a little better. In terms of our investment if you look at, it has been more or less constant. We have hardly done any new investments, which we have already said, the focus is basically to divest some of our investment and to give an update on Viom, work is going on progress and we hope that during this financial year, we will be able to exit or reduce our exposure in this investment.

In terms of our road portfolio also we are exploring ways to get some divestments either through sale of individual project or through combined capital raise or capital divestment in the road assets depending on the markets. Overall the way we see it is in the infra sector still the challenges remain, it has been a very slow recovery, some project work has started on the ground, some of the bottlenecks have been removed by the government in terms of clearances etc., but the real momentum is yet to take place. We are hoping that in the last two quarters we may see better time as the bank also start to resolve issues in projects we may see some of the projects pass through pickup and the government expenditure should help in bringing cash flow into the system. Basically these are the broad highlights on the financials. I think we can now take question and we will be happy to answer them. Thank you.

**Moderator:**

Thank you members of management. Ladies and gentlemen, we will now begin the question and answer session. The first question is in the line of Sameer Dalal from Natvarlal & Sons Stock Brokers. Please go ahead.

**Sameer Dalal:**

On the annual report page 159 is restructured book. The total restructured book is at about Rs.260 Crores. Is there in addition to the NPAs which you just mentioned of 4.3%?

**Sunil Kanoria:**

Yes, that is right.



- Sameer Dalal:** So 4.8% is your gross NPA which is about Rs.760 Crores, correct?
- Sunil Kanoria:** That is right.
- Sameer Dalal:** And Rs.260 Crores, about Rs.1000 Crores is stressed assets.
- Sunil Kanoria:** Yes.
- Sameer Dalal:** On page 152 of the annual report there is a fixed asset page where there is an addition of plant and machinery to the tune of Rs.130 Crores and in the note out there, it says this is because of repossession from existing customers who have not been able to pay their debt, so is that part of the NPA again or is this addition to the NPA that you are reporting?
- Sunil Kanoria:** Those equipment it should be taken, what happens the customers who are not able to, we take it over and we lease it out to various customers.
- Sameer Dalal:** Now in that it is showing up a total as of the last financial year at Rs.530 Crores, so you are saying totally Rs.530 Crores worth of assets have been repossessed am I correct?
- Sunil Kanoria:** No that is my leased assets; part of it is repossessed asset which we lease out. Balance is the leasing business which we do.
- Sameer Dalal:** So, can you bifurcate that for us as to how much of your assets are your leased assets and what percentage is the one that is repossessed?
- Sunil Kanoria:** All are leased out, even if I repossess if it is leased out then it is shown as my own asset, if it is not leased out then it is in my repo asset and my current asset.
- Company Speaker:** Repo is only Rs.130 Crores.
- Sunil Kanoria:** But the repo and leased out which we have done last year was Rs.130 Crores.
- Sameer Dalal:** No that is for last year. I am saying how much is the total that you have repossessed and you are still holding onto which you have not been able to sell?
- Sunil Kanoria:** That is the only one.
- Sameer Dalal:** You have about Rs.1000 Crores of stressed assets plus Rs.120 Crores of repossessed assets at the moment on your balance sheet. Also one of the subsidiaries which is your Mumbai SEZ project that went from being a subsidiary to a JV which means obviously someone has



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infused either some equity stake or you have reduced stake, I mean if you have not been able to sell your stake into company because the investment is still the same from last year but you can just tell us why it has moved to the associate side and what was the investment that came into that company?

**Sunil Kanoria:** Because in that we have not exited our investment, but we needed for the capital, so investments have been made by third party into the entity as a result it has become JV rather than because as I said that we are trying not to make further investment.

**Sameer Dalal:** Now, if your stake is valued at about Rs.80 Crores, how much percentage do you have in that now of the total company?

**Sunil Kanoria:** We have now 49.

**Sameer Dalal:** And the recent fresh equity infusion was done at what valuation?

**Sunil Kanoria:** I think the same value.

**Sameer Dalal:** You would have done at the same valuations. Okay. Coming back to the quarterlies you also mentioned that you have seen your interest cost coming down, this is I am guessing because some of the banks have been reducing the lending rates, what about your lending rates which you lend out? Are you looking at cutting them anytime soon or you would be able to hold on to those rates even in this situation where there could be competition coming into take over functioning assets?

**Sunil Kanoria:** We had our ALCO meeting last week and we decided not to change our interest rate at the moment and wait and watch.

**Sameer Dalal:** How often do you all have this meeting?

**Sunil Kanoria:** Every quarter.

**Sameer Dalal:** Nothing before next quarter you will not look at cutting any sort of rates or anything.

**Sunil Kanoria:** Yes.

**Moderator:** Thank you very much. Next question is from the line of Vishal Modi from Maybank. Please go ahead.



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- Vishal Modi:** This question was on the income from equipment rental business, so the usual rent is around Rs.40 Crores, this quarter it was only Rs.6 Crores, so what has happened there?
- Sunil Kanoria:** Well I have to get into the details, probably my team can share it, but basically the rentals have not come in, as the assets are not running on that month then the income does not come in.
- Vishal Modi:** Basically, this is largely because of the slowdown and less demands
- Sunil Kanoria:** It varies from month-to-month, quarter-to-quarter.
- Sanjeev Sancheti:** What happens is when one contract ends and the new contracts start there normally is a one or two or three months of gap before it restarts, so that is the standard thing that happens in one-and-a-half to two years.
- Vishal Modi:** But can we expect some sort of pickup from this income going right?
- Sunil Kanoria:** Post monsoon I expect it to go up definitely.
- Moderator:** Thank you. The next question is from the line of Gurvinder Vasani from Principle Mutual Fund. Please go ahead.
- Gurvinder Vasani:** Sir, I just wanted to reconfirm the numbers what you mentioned you said the asset repossessed from the customers who did not pay the dues on time was around Rs.130 Crores. I think in last call you had discussed that you repossessed assets in this business and then do MTM of the same and not take on the losses of any in your book and then resell it or lease it through our own company or any of your subsidiaries. The numbers discussed then I think was around Rs.500 Crores, was that a cumulative number and this 130 pertain to only last year?
- Sunil Kanoria:** This Rs.130 Crores, the question was for Srei, what we were talking in the last quarter was for Srei BNP. The Srei BNP joint venture, we do the equipment financing there, we repossess on a regular basis and that was Rs.500 Crores. What we have done in the last quarter in March was Rs.130 Crores at Srei also, the large rigs which we had given equipment, large value equipment Rs.130 Crores we took it over and rented it out. We did on rent, so we will get our rent, it is not repossessed in my stock, it is all rented out.
- Gurvinder Vasani:** Basically that was for the Srei Equipment and this is for the Srei Infra and compared to that Rs.500 Crores of equipment, what is the number for this quarter?



- Sunil Kanoria:** About 750.
- Gurvinder Vasan:** Additional 250 is coming in this quarter then?
- Sunil Kanoria:** That is right. As I said repossessions are continuous processes at this juncture. In the last one and one-and-a-half years we have seen that and then we are deploying it through our system.
- Gurvinder Vasan:** Is there any restructured asset category also in the equipment finance company?
- Sunil Kanoria:** Yes, I think there is some amount as per RBI, I would not have the numbers immediately, I will have my colleague to share it later.
- Moderator:** Thank you very much. Next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.
- Shubhankar Ojha:** Comparing Srei and other listed NBFCs, our performance has been pretty poor in terms of both financial as well as stock performance in terms of value creation over the last five years. Is there any introspection, is there any thinking process or revaluation in the top management in terms of changing our business model or enter into some other space like consumer financing or housing financing to create value for the shareholders and to improve the financial performance of the company. Srei currently is trading at half of our book compared to Indiabulls Housing which is at five times price to book or even the average price to book of the sector which is two and two-and-a-half times. So is there any thinking process, is there any revaluation in the top management or at the board level to consider entry into related sectors like as I said housing finance or consumer finance in order to improve the financial performance as well the value creation for the company?
- Sunil Kanoria:** Basically very clearly we are in the infrastructure space for the last 26 years. Yes, at this juncture for the last few years the infrastructure sector has been going through a challenge. It is the first time in this 26 years we have seen this challenge in the sector but we still firmly believe in the long-term prospects of this sector and if you look at that many of the players like IDFC is now converting into a bank, so the space is virtually vacant, you hardly have any players, in this space. We firmly believe that we have the ability to manage the risks in this space. Yes, we will need some time. Secondly through our divestment of our various investments which we are working on, that is going to give us a value proposition and release our capital, as we have already said that Viom is in the process. The other two in areas where we intend to work on our divestment is our roads and then our Sahaj in the next 12 to 18 months, therefore through this we release capital, we get capital returns plus

parallelly during this phase we expect the environment to improve, the solutions in projects to happen, projects to get completed and the advantage in infra is that once a project is completed then you have a steady long-term return and therefore we do not want to get into consumer finance etc., and all that is not our cup of tea, but we would like to add value in the infra space by adding value-added services whether it is through rental of equipment, whether through auction of equipment, whether in managing projects in the infra space and strengthening and reducing our risk into it, those are areas where we would continuously focus on and I believe that on a medium to long-term, this is what will give us the USP differentiation in the market place.

- Shubhankar Ojha:** In terms of refinancing can it be an area where you would be interested in?
- Sunil Kanoria:** What financing?
- Shubhankar Ojha:** Basically in vehicle financing, which is basically extension of equipment financing business?
- Sunil Kanoria:** That is not our cup of tea, I would not. I would like to continuously do and we may have gone through a challenge, but we know this business, we know the risk underlying, we know how to mitigate those risks, but we will need some time to do it and we believe that we will be able to do it.
- Shubhankar Ojha:** In terms of Viom are we in a position to come to a conclusion whether we are doing a listing or a stake sale or what are the options that we are still considering?
- Sunil Kanoria:** I can only share that as far as Srei is concerned and our investment is concerned I have said in the past also that we are working out a mechanism or solution so that during this financial year, we are able to get our investment back. At this juncture, I will not be able to share anything further, because work is in progress between the shareholders.
- Moderator:** Thank you very much. The next question is from the line of Aditya Singhanian from ENAM Holdings. Please go ahead.
- Aditya Singhanian:** What are your thoughts on the growth outlook for the sector, as mentioned in opening remarks that you are seeing some marginal improvement in the last few weeks, so just some thoughts there and related to that if I could just check the disbursements in the BNP JV are down from Rs.2600 odd Crores to Rs.1700 Crores, is this reflective of the underlying sort of trend in sales in that space or are they all giving up market share or how do we see this?



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- Sunil Kanoria:** We have improved our market share. We are concerned we do not want to go too high. Our market share in the last quarter has substantially gone up by 7%, 8%, so we are not losing market share at all. It is overall market size which is coming down and giving perspective, the market size has come down by almost 25%, 30% over the previous year.
- Aditya Singhania:** There is a further decline of 25%, 30% from last year?
- Sunil Kanoria:** From the previous quarter if you see another about 20%, 25%. So the market is definitely not growing that is where the concern is but our market share is going up because lots of players are getting out of the sector.
- Aditya Singhania:** How does this then tie up with your comments that you are seeing some marginal improvements over the last few weeks particularly on the mining side?
- Sunil Kanoria:** That is why I said, it is only in the mining side that we are seeing a good enquiry coming up, lots of contracts have been released by some of the mining companies like Coal India and some large ones. Now, the customers are coming and seeking and placing orders. By the time, the disbursement and the equipment will happen, it will happen post the monsoon. So the deliveries of the equipment will start to happen by September, October and therefore I see from those trends, I can see that yes the growth is starting to come back. In the other sectors in roads or other equipment, it is still slow. It is the mining which has shown good sign.
- Aditya Singhania:** Would you say that given this indication that you are seeing and then we are seeing significant improvement in HCV sales on the CV side that this quarter or may be the current scenario, current few months is the worst in the sector and from here we should see an improvement?
- Sunil Kanoria:** I expect so. I will keep my finger crossed, but I will definitely expect that things should be better post September.
- Aditya Singhania:** How does this translate then to the outlook for the asset quality, should we expect peak of NPL sometime this year?
- Sunil Kanoria:** It looks like by March I believe that we should see a peak.
- Aditya Singhania:** Any rough sense on where that peak could be compared to where we are now?
- Sunil Kanoria:** Difficulty to say, but we are continuously monitoring the situation.

- Aditya Singhania:** One of the other company in the space IDFC , in the conference call gave a guidance of taking a large provisioning for their current book expecting some stress particularly relating to the gas sector and somewhat to the coal sector? How do you assess your own book or there any such issues at all?
- Sunil Kanoria:** Well, fortunately we do not have much of exposure in the power sector, gas we have no exposure and in the coal we have few, but seems to be under control.
- Aditya Singhania:** Gas, you have no exposure?
- Sunil Kanoria:** Gas, we have no exposure.
- Aditya Singhania:** I have just seen the presentation on slide you know that breakup you give of power exposure that seems to mention linkage coal and gas I was just wondering if you have any?
- Sunil Kanoria:** That is gas, only the energy rentals where we provide small 1-2 megawatts of generator that is why that 1% is coming, otherwise there is nothing.
- Moderator:** Thank you. The next question is from the line of Rajat Jain from Principal Mutual Fund. Please go ahead.
- Rajat Jain:** Thank you. Good afternoon Sir. The question is on the yield on asset and Srei BNP Paribas, yield on assets for the current quarter is 13.2% versus 14.3% for the preceding that is the March quarter and 14.5 for this quarter last year. So what sort of explains Sir?
- Sunil Kanoria:** Two things are there. One is as I said with the cost of risk on a quarterly basis we have to do an income reversal. The income reversals of the past has an impact on the margin on the total income and secondly also basically the overdue charges and income and all which we charge from the customers there also we have been conservative whatever we are getting we just take the money and reduce the rates, otherwise normally our interest rates are 24% penal interest which we just to get out, we get lower returns also and take the money.
- Rajat Jain:** So essentially it relates to, actually if you compare like-to-like your rates are more or less similar except that we have had some interest reversal and we have not accounted for some overdue charges, because it is accounted on the basis of money receipt.
- Sunil Kanoria:** Absolutely.
- Moderator:** Thank you. The next question is a follow-up question from the line of Sameer Dalal from Natvarlal & Sons Stock Brokers. Please go ahead.



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- Sameer Dalal:** You mentioned you had additional Rs.250 Crores which you wrote back in the current quarter in Srei BNP, you took back in repossessed equipment worth another 250 in the current quarter right?
- Sunil Kanoria:** Rs. 250 Crores repo assets we did additional during this quarter.
- Sameer Dalal:** What are the total assets that are now held on our books in Srei BNP?
- Sunil Kanoria:** About Rs.760 Crores.
- Sameer Dalal:** Even from whatever we repossess during the whole of last year we have not been able to sell any of those.
- Sunil Kanoria:** We have sold. It is a churning. Every week we have an auction and we dispose equipment, we have new equipment, monthly flow it happens. But the inflow is more than the outflow.
- Sameer Dalal:** In trade receivables Rs.49 Crores is considered doubtful which is outstanding from more than six months, is this been considered in part of your NPAs or restructured books at that moment and secondly even in the considered good there is about Rs.158 Crores which is an increase on Rs.83 Crores in the previous year, so if you can just tell us what exactly, because last time also we had Rs.177 Crores which were written back because interest was accounted for but there was no collections on it because of the nature of the loan, so are there any more of those nature of loan which could throw up some surprise going forward for income?
- Sanjeev Sancheti:** These are other than loans, in these there is nothing which is doubtful, but if these are doubtful then we would recognize it so. It is just that it keeps coming and going.
- Sameer Dalal:** But it is a quite large number at Rs.158 Crores and it is a jump of Rs.70 Crores over the previous year, Sanjeev.
- Sanjeev Sancheti:** Depends on the amount which you have billed.
- Sunil Kanoria:** Basically part of it is government receivable also.
- Sanjeev Sancheti:** Basically most of it is billing in the last quarter, obviously it is going to take time to come. Normally the payment cycle is 50 to 90 days. These are all less than six months.
- Sameer Dalal:** What about Rs.49 Crores which is considered doubtful? Have you all considered as part of your restructured as NPA category or these could further slip into one of those two?



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- Sanjeev Sancheti:** We are providing provisions on this but these are not considered as doubtful, because these are not financial assets. These are not loan assets, but these are not considered doubtful. They will come over a period of time. Part of it is government debt recovery.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Sanket Godha for closing comments. Over to you sir.
- Sanket Godha:** On behalf of IDFC Securities, I would like to thank the entire senior management of Srei Infrastructure Finance and all the participants for joining us on the call today. Thank you and good bye.
- Moderator:** Thank you very much Mr. Godha and members of management. Ladies and gentlemen, on behalf of IDFC Securities that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.