

## Conference Call Transcript

### SREI Infrastructure Finance Limited

#### FY09 Results

June 15, 2009 | 05 p.m. IST

#### *Corporate Participants*

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**Mr. Hemant Kanoria**  
*Chairman and Managing Director*

**Mr. Sanjeev Sancheti**  
*CFO*

**Mr. Bajrang Choudhary**  
*Senior VP*

## Questions and Answers

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**Moderator:** Good evening ladies and gentlemen. Welcome to SREI Infrastructure Finance Limited Conference Call, hosted by Edelweiss Securities Limited. I am Pooja, the moderator for this conference. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, question and answer (Q&A) session will be conducted for participants connected to WebEx International. After that, Q&A session will be conducted for participants in India. I would now like to handover to Mr. Kunal Shah. Thank you and over to you sir.

**Mr. Kunal Shah:** Thank you Pooja, and good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Hemant Kanoria, chairman and managing director; Mr. Sanjeev Sancheti, CFO; and Mr. Bajrang Choudhary, senior VP of SREI to discuss their FY09 earnings. Over to you sir.

**Mr. Hemant Kanoria:** Thank you. I am Hemant Kanoria here. Good evening everyone. Just to start off, as everyone would appreciate that you know last year, FY08-09, was very critical and especially because in the past 6 months...the first 6 months went off very well, from April to September, the growth was good. We were growing at about 50-60%, and everything seemed to be alright. It was in October that we faced this global financial crisis which also hit India, and in October the liquidity was scarce, and it also put many of the companies and the financial institutions in a bad shape. But fortunately, the Government of India and Reserve Bank of India, were in a proactive mood, and were in a position to infuse a lot of liquidity by taking steps immediately. So, by November, we saw that liquidity, the banks started improving by December. It was throughout the sectors that wherever, whichever company was facing problems in the financial sector on the liquidity, they all started getting a little of easing kind of a situation for them where liquidity was concerned. For SREI, specifically, though we were not having any asset liability, majority mismatches, we did not get into any liquidity crisis as such. But in October, when there was overall kind of a storm which was there in the market, we felt that it would be correct for us as a strategy to move forward. We were just waiting and seeing that you know till when the storm would be continuing. So we took a strategic decision that we would concentrate not on increasing the business, but seeing that our receivables and recovery is in place because the economy was going in for a sudden slowdown, and with that, the catastrophe usually is on the receivables and the portfolio health of the portfolio. So, we redirected the people in the organization towards focusing more on the receivables, interacting with clients to see that if they were facing any problems, how we could basically assist them, so the portfolio remains healthy, and that was the strategy. Secondly, we also thought that it was important for us to ensure that if there was no liquidity crisis that the company faced. Therefore, doing extra business would have put us into a lot of risk because if we were not able to get

continuous funding as the market was quite uncertain, so for that reason we did not do new business. So, in the third quarter, the business sharply dropped and it dropped down to almost about just on a consolidated basis it was just about INR 60-70 crores. So, substantially, it had come down. Then again from January onwards the business, you know, the environment started improving. At least, I would say that there was a little bit more clarity in the environment because with so many steps that the government had taken, stimulus packages which were announced, that from January onwards, the confidence started coming back into the system. So, we also started gradually increasing the disbursement, and in the last quarter of this financial year, we did a disbursement of close to about INR 1,200 crores. So, it is about INR 1,300 crores in total. So, therefore, basically, what we saw was that till March, the situation had gradually started improving, so the recoveries also because of our focus in the recoveries primarily during the uncertain times in the third quarter and the fourth quarter, it did help us substantially, and as many of the other companies and the banking sector faced problem that their recoveries slowed down and they were having a lot of NPAs. We did not have that kind of situation. Our NPAs did go up, it went up from 1.83 to 2.27, but it was marginal, and it was controllable, and this was in spite of the fact that you know we have been following very stringent guidelines on the NPA provisioning, and we continued to do that in spite of the fact that RBI did suggest that there could be certain relaxations which banks and financial institutions could carry out on the NPA provisioning norm, but we stuck to our previous continuing NPA provisioning norms, so with that it marginally increased. On a consolidated basis, definitely it is not that high, it is much lower, it is just about....and as per RBI, it is about 1.2%. So, in general, on the environment, this was something which you know in the last 20 years, I would say that this...therefore, our growth for the whole year was just about on the disbursements on a consolidated basis, was just about 15%. Whereas, in the earlier years, we had been growing at about 30-40% per annum. But, I think, that this was something which was totally unexpected, but at the end of the day we are satisfied that there has been a growth of 15%. The more satisfying area for us has been that our NPAs have not just, you know, gone or ballooned, so that has been under control.

On consolidated total income, there has been a growth of about 6.34%; from INR 800 crores, it has gone up to INR 851 crores and the consolidated profit before tax has been INR 104 crores against INR 152 crores. Last time we also had a 64 crores of deferred tax which was written back. The consolidated disbursement in FY09 has been 6,620 crores against 5,736 crores in the previous year. The assets under management on a consolidated basis have gone up to INR 10,096 crores against INR 8,227 crores, so that has registered a growth of about 22%. The net worth has also gone up ~ 55% this year to INR 1,140 crores from INR 716 crores, and the consolidated profit after tax for the year has been INR 82 crores against INR 134 crores, which also included INR 64 crores of one-time deferred tax write-back which was there. So, if we just compare apples to apples and the growth on the profit from, on a consolidated

basis last year was INR 88.5 crores, so this is about 104.90 crores, before the extraordinary item.

The business which was done was about INR 6,620 crores, and we have also declared a dividend of 10% for the year. This is on a consolidated basis; on a standalone basis, in SREI Infrastructure, the parent company, the total income has been INR 131 crores. The profit after tax has been INR 60 crores and there has been no NPA. Disbursement has been INR 1,100 crores and the asset under management is INR 2,077 crores for the parent company on SREI's standalone. The joint venture, SREI Equipment Finance, which is with DNP, the disbursement is INR 5,519 crores, and asset under management is about INR 8,019 crores. The total income is INR 929 crores, and the profit after tax is INR 62.5 crores. The profit before tax is INR 105 crores, gross NPA is 2.27 and the net NPA is 0.97 for the joint venture company. For the parent company, the net and the gross NPA, we have maintained it as zero. Borrowing, basically for SREI Equipment Finance, the joint venture, is about INR 5,480 crores, and for the parent it is INR 1,342 crores. Out of this, domestic borrowing is almost close to about 75%, and 25% is from the overseas market through ECBs, etc.

Going forward, I think that as you all know that we have a stable government in place, and there is a lot of enthusiasm on the infrastructure side, the right kind of, that is what the government has declared that they have the right kind of persons as the ministers in the right places for the infrastructure like road, power, port, etc. So, the government is quite sanguine that it will announce large number of projects in this particular year, and moving forward for the next 5 years, infrastructure would remain as their focus area. So, we see that then that should augur well for our organization because then we are in the entire infrastructure space. However, at this particular juncture, you know, we still have to see what kind of projects are getting announced because the government is just in place about 3 weeks back, so it will take it about some time. So, I think that from July onwards, it will start announcing projects, that is what we all hope for, and we should see that the activities should again restart October onwards because it is in July they announce the projects. It being the monsoon season, so none of the infrastructure projects will be in a position to start off. They will only start September-October onwards, so I think that unfortunately all of us, we have been seeing very slow kind of pace of growth, and I think at least in India, there is a growth possibility, and everyone is quite happy and hopeful about it. But, if you compare it to other parts of the world, then people are still not sure about how the economies will grow, but here we have this surety, so therefore we would like to be a little conservative in our approach at this juncture. We are sure that by September-October, we would be able to take a review, and revise whatever guidance which we are giving. At present, we feel that we should be in a position to maintain a growth of about 15-20% on our disbursement, 15-20% on our profits going forward, and we are quite sure that we should be in a position to stick to these parameters. We are sure that September onwards, we would be in a position to review our projections, and then give a definitive kind of guidance as to what kind of growth we should be in a position to close for this particular year, and what kind

of profits we would have. Is there anything else which you would like to add?

**Mr. Sanjeev Sancheti:** Nothing.

**Mr. Hemant Kanoria:** So, thanks, this was just an overview and what we wanted to highlight. We would now welcome questions. So, whatever questions that you have, we will be very happy to address them. Thank you.

**Moderator:** Thank you very much. At this moment, I would like to handover the proceedings to WebEx International Moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a Q&A session for participants at India Bridge. Thank you and over to you Jennifer.

**International Moderator:** Thank you Moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press \*1 to ask a question. Again, that is \*1 to ask a question. Your first question comes from Rohan Juneja.

**Mr. Rohan Juneja:** Hi guys. Can you give us some update on Quippo, and what is happening over there?

**Mr. Hemant Kanoria:** You see on Quippo basically we had announced the Tata Telecom transaction, so that is at the final leg. The due diligence report before the final payment has just come last week, and there are small things which are to be addressed on both the sides, which we hope would be addressed within this week or next week, and then the transaction will fructify. We have started both the teams on the telecom side; both have started working together. The orders have started been taken together. It is basically going on both the towers of both the organizations, and you know basically we have also been able to get the order of Telenor for a very large contract for the next 10 years. Therefore, we are quite hopeful that this particular merger would be extremely good for shareholders, and will create a huge value for all the investors.

**Mr. Rohan Juneja:** Your stake in Quippo is still 16%.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Sanjeev Sancheti:** In the current company, we are 16.85%.

**Mr. Rohan Juneja:** Okay, thank you.

**International Moderator:** Again, to ask a question, press \*1. At this moment, there are no further questions from participants at WebEx International Center. I would like to handover the proceedings back to the India Moderator.

**Moderator:** Thank you Jennifer. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press \*1. First in line, we have Mr. Kashyap from Emkay Global. Over to you sir.

**Mr. Kashyap:** Good afternoon Mr. Kanoria. I have couple of questions first, and on standalone basis, I understand that in the fourth quarter if I were to, you know, deduce the numbers from full year number which you have reported and

take the first 3Q numbers, we probably would have made a negative spread in Q4 at net interest income level?

**Mr. Hemant Kanoria:** Yeah. You are right.

**Mr. Kashyap:** Okay, and is it mainly because of forex or is there any other..?

**Mr. Hemant Kanoria:** Mainly because of forex.

**Mr. Sanjeev Sancheti:** Mainly because of forex.

**Mr. Kashyap:** So, how much was the forex loss impact during the quarter.

**Mr. Sanjeev Sancheti:** INR 21 crores.

**Mr. Kashyap:** Come again.

**Mr. Sanjeev Sancheti:** 21 crores.

**Mr. Kashyap:** 21 crores?

**Mr. Hemant Kanoria:** Yeah, that is on a M2M basis, but now we should see because now the...

**Mr. Kashyap:** This is for 4Q.

**Mr. Sanjeev Sancheti:** This is for 4Q, yeah.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Kashyap:** 4Q, and how much was that in 3Q?

**Mr. Sanjeev Sancheti:** 3Q was 14.6.

**Mr. Kashyap:** INR 14.6 crores, but I mean, if I were to adjust this, say about 21 crores from NII, we would have roughly made probably no spreads in the fourth quarter, right, because if I were to back calculate, then I get interest earned of about INR 56 crores, expended of about INR 77 crores, so NII of about INR 21.5 crores.

**Mr. Hemant Kanoria:** You are right because you see that in the fourth quarter, as I said that in the third and the fourth, this reduced down the business, and therefore we were having a lot of cash lying in the bank and the parent company. On the interest side, because we felt that it would be more prudent to conserve cash, than to just lend it and because the situation was so uncertain, so we had the money lying in the bank, and that has not been utilized.

**Mr. Kashyap:** So, I mean, what would be the standalone NII adjusted for FX in the fourth quarter?

**Mr. Sanjeev Sancheti:** 1%.

**Mr. Kashyap:** That is the NIM?

**Mr. Hemant Kanoria:** Yeah.

**Mr. Kashyap:** This is adjusted for the FX?

**Mr. Hemant Kanoria:** Whole year.

**Mr. Kashyap:** Okay, in the standalone business itself, despite the fact that we have divested our equipment finance business, we are not seeing any let up in

terms of opex like, you know. For example, our staff expenses would have gone up, sorry our other opex would have gone up from about say INR 32.5 crores in last year to roughly about INR 58-odd crores this year. So in other opex are there any one-times or why has not there been any drop in other opex for this year?

**Mr. Hemant Kanoria:** The reason for that is that you know the advisory business, this professional charges, basically nothing but a variable cost.

**Mr. Kashyap:** Okay, and that would have driven the....

**Mr. Hemant Kanoria:** Yes, yes, so it is really not a fixed opex.

**Mr. Kashyap:** Okay.

**Mr. Sanjeev Sancheti:** It was close to INR 38-40 crores.

**Mr. Hemant Kanoria:** About 40 crores would be that.

**Mr. Kashyap:** Okay, out of the total INR 58 crores, and this will be, I mean, that should also be a commensurate income of that which is probably not reflected in other income because other income is still roughly about INR 38-39 crores for the full year.

**Mr. Sanjeev Sancheti:** There is a fee-based income. Not coming on other income, but strictly under fee income.

**Mr. Kashyap:** Okay.

**Mr. Hemant Kanoria:** Because you see advisory is the part of the regular business of SREI.

**Mr. Kashyap:** Okay.

**Mr. Hemant Kanoria:** Because now in SREI parent....

**Mr. Kashyap:** Right, hello?

**Mr. Hemant Kanoria:** Which is one project advisory and the project financing.

**Mr. Kashyap:** Right, hello?

**Mr. Hemant Kanoria:** Yeah.

**Mr. Kashyap:** I could not get the last part actually.

**Mr. Hemant Kanoria:** Basically, this has been the fee-based income....

**Mr. Kashyap:** Right.

**Mr. Hemant Kanoria:** ...has also been shown as the operating income, this income, because the company has two divisions, the advisory division and the project finance division.

**Mr. Kashyap:** Okay, okay. So, from whatever other operating income would also include a portion of fee income on project advisory.

**Mr. Hemant Kanoria:** Yes.

**Mr. Kashyap:** Okay. Earlier you mentioned something about the RBI guidelines in terms of NPAs, and you mentioned I think one number that was about 1.2% or something like that, so I missed out, what was that?

**Mr. Sanjeev Sancheti:** See, that is a gross NPA as per RBI guidelines.

**Mr. Kashyap:** Okay, and according to us, it is about 2.27.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Kashyap:** Okay, okay. In the JV, if I look at tax rate for the full year, it is somewhere about 22%, and would that remain same for the next two years?

**Mr. Sanjeev Sancheti:** It should be more than 22%.

**Mr. Kashyap:** What would be the tax rate for say next about 2 years. We still have deferred tax liabilities too?

**Mr. Sanjeev Sancheti:** We will have full tax. It is more than 35 actually. See, basically, the tax rate, effective tax rate in the JV is coming to about 37-38%, which I expect to go down every year by about 200 basis points, it would be about 36% next year.

**Mr. Kashyap:** Okay. It should be about maximum marginal tax rate kind of..?

**Mr. Sanjeev Sancheti:** Because of the deferred tax.

**Mr. Kashyap:** Okay, and in JV, if I look at your presentation, we have leverage of about 6.2X right now, and If I remember correctly, I mean, many of times that we have spoken to you, you mentioned that the maximum leverage that we would be comfortable is roughly about probably 8X kind of leverage that we would be comfortable with, so any plans of infusion of equity in the joint venture?

**Mr. Hemant Kanoria:** Actually, we are thinking about doing a tier-II capital. That is what both DNP and SREI have been discussing. Whenever the time is appropriate, we will go ahead and do a tier-II capital.

**Mr. Kashyap:** Okay, in the JV?

**Mr. Hemant Kanoria:** Yes.

**Mr. Kashyap:** And anything on tier-I?

**Mr. Hemant Kanoria:** Tier-I, no. We are not planning anything on the tier-I at this juncture because the capital infusion had just taken place last April, worthy to have another capital infusion as a tier-I.

**Mr. Kashyap:** Okay, so this 6.2X is based on the total capital which is available including tier-I and II. So I mean, what I am trying to understand is that is there any portion of tier-I which is still, you know, left to be leveraged, what would be the tier-I capital adequacy as of now?

**Mr. Hemant Kanoria:** At present, everything is tier-I, there is no tier-II at this juncture. Tier-II, we are proposing to do it for this financial year.

**Mr. Kashyap:** Okay.

**Mr. Hemant Kanoria:** Nearer to reaching our 8 times.

**Mr. Kashyap:** Okay.

**Mr. Hemant Kanoria:** As only two shareholders have to put in money in the tier-II, to see that to be a very big challenge, so we will just see that whenever

the time is appropriate, then we will put in.

**Mr. Kashyap:** Okay, okay, and if you could throw some light on the other investments, you know, in ports, SEZ, what has been the cumulative equity investments and how much was in FY09? This will all be in the parent right?

**Mr. Hemant Kanoria:** Yeah, this will all be from the parent only.

**Mr. Kashyap:** Okay.

**Mr. Sanjeev Sancheti:** Investments should be close to about INR 227 crores against INR 130 crores which was there last year.

**Mr. Kashyap:** So, 130 was last year, and this year we put in about 27 crores additional?

**Mr. Hemant Kanoria:** No, no, it is 227.

**Mr. Kashyap:** Okay, 227 and 130.

**Mr. Sanjeev Sancheti:** Yeah, so about INR 90 crores.

**Mr. Kashyap:** Okay, about 90 crores we put in this year, and SEZ?

**Mr. Hemant Kanoria:** Everything taken together.

**Mr. Sanjeev Sancheti:** All put together.

**Mr. Kashyap:** Okay, all put together, and this would also include our couple of road projects where, you know, some equity investments would have been required?

**Mr. Sanjeev Sancheti:** Everything.

**Mr. Hemant Kanoria:** Roads, ports, SEZ, everything.

**Mr. Kashyap:** And any of the road projects where, you know, which has become operational during the year?

**Mr. Hemant Kanoria:** Yeah, one road project has become operational.

**Mr. Kashyap:** And which one was that?

**Mr. Hemant Kanoria:** In this year, April.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Prashant from ICICI Prudential. Over to you sir. Hello, Mr. Prashant. Mr. Prashant, your lines are open. You may please proceed. As there is no response, we will move on to next question. Next in line, we have Mr. Ashi from Kotak India Focus. Over to you sir.

**Mr. Ashi:** Good evening Mr. Kanoria.

**Mr. Hemant Kanoria:** Good evening.

**Mr. Ashi:** Sir, just on the project development. Just wanted to understand how much would we be looking at investing possibly in FY10. If we have done about INR 90 crores in FY09, how much incremental could we possibly be looking at investing in FY10 and any potential divestures that we are looking at on this portfolio?

**Mr. Hemant Kanoria:** Basically, we are looking at certain road projects, and as

I mentioned that there is one road project, which has already started tolling, and we see that in the next 6-9 months in this particular financial year, there are another about 3 projects, which will start tolling. So, what we, as a strategy, what we have decided is that as the projects start rolling, we will start looking at other investors and we can dilute some portion of the equity, so the incremental equity which we propose is that we do not want to at this juncture, as per the plan, not go beyond a total of INR 300 crores of investment. So at present, we are 226, so if we divest something, then we will invest something, so we will keep on moving around in that particular range.

**Mr. Ashi:** Okay, but we will not go beyond INR 300 crores of investment.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Ashi:** Okay, and just to understand the strategy here, as per my initial understanding, we would actually look at other partners particularly in equity at earlier stages of the project. On the road projects, it actually seems like we maintain the equity commitment through the entire project, so till what stage of the project do we typically want to remain, do we want to kind of fund the project through the entire growth, and have it operational and then divest.

**Mr. Hemant Kanoria:** No, you see that it is not the growth. There are two phases in any of the road projects, one is the construction phase and second is the tolling phase.

**Mr. Ashi:** Sure.

**Mr. Hemant Kanoria:** This takes minimum about, depending upon the size of the road, it takes anywhere between 1.5 to 2 years to about 3 years. So, as soon as the construction is over, and only when the tolling starts that you can get a good value. Then only it makes sense to divest, so we do not look at that we will be holding the projects on our books for the entire period of 15-20 years. So, as soon as it becomes operational, that means the tolling starts off, between a period of 2-3 years' time, so then we will start looking at investors and start proportionately divesting it, not divesting everything at one time because as the toll keeps on increasing, the value also gets increased, and now that there are large number of infrastructure funds which have come up, and many of the funds, they do not want to go in for a project which is in very, very early stage, so that gives us an opportunity also to evaluate certain exits, so at this juncture when we talk, we are already in discussions with a couple of infrastructure funds, who are looking at our portfolio. We may divest either in parts or in some of the projects, so therefore, those are the kind of modalities that we are working on. There is a clear-cut strategy that we would gradually start divesting.

**Mr. Ashi:** Okay, we clearly not looking going beyond 300 crores on this particular portfolio?

**Mr. Hemant Kanoria:** Yeah, yeah.

**Mr. Ashi:** So, incremental investments will happen along with divestures, if you need to close that.

**Mr. Hemant Kanoria:** Yeah, that is what the strategy is.

**Mr. Ashi:** Okay, and in terms of Quippo, how much is the current investment in the standalone company, and are we looking at subscribing to any warrants that Quippo may be issuing for the telecom deal?

**Mr. Hemant Kanoria:** Immediately, we do not have any investments in the....

**Mr. Sanjeev Sancheti:** No, what we have is in the parent company. Absolute terms could be close to around INR 16-18 crores.

**Mr. Ashi:** Okay, but is that parent, as in, is Quippo Telecom planning to do back-to-back warrants with Quippo Infra which may then need to do warrants back for the funding?

**Mr. Sanjeev Sancheti:** This is a subscription which will not happen at Quippo, directly at the Tata Tower company which is WTTIL.

**Mr. Ashi:** Okay.

**Mr. Sanjeev Sancheti:** At least keep some percentage of that particular holding with SREI.

**Mr. Hemant Kanoria:** Directly in Quippo Telecom because then Quippo Telecom will merge with WTTIL, and then WTTIL will get listed, so we will have an easier exit option.

**Mr. Ashi:** Through that kind of a route.

**Mr. Hemant Kanoria:** Yeah. So, therefore, that is what we are looking at, and those opportunities, because we are involved in it, that is the reason why we are getting this opportunity at a good value.

**Mr. Ashi:** Mr. Kanoria, I just wanted to understand, instead of doing it through Quippo Infra, we do it directly into Quippo Telecom.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Ashi:** Okay, what is the kind of extent of this kind of an investment we may make in Quippo?

**Mr. Hemant Kanoria:** Just a correction, not directly in Quippo Telecom but directly in Wireless Telecom.

**Mr. Ashi:** Okay, directly in Wireless Telecom.

**Mr. Hemant Kanoria:** Which is the entity of the TTSL.

**Mr. Ashi:** Okay, and any sense on what the quantum could be?

**Mr. Hemant Kanoria:** Close to INR 90-100 crores.

**Mr. Ashi:** Okay. Just wanted to understand that we have INR 300 crores of equity investment on project development, about INR 90-100 crores which we have invested in Quippo. Does this affect the ability of the project finance business to actually leverage us? And if we have INR 700 crores net worth, and INR 400 crores have actually gone into equity commitment, what is the extent of leverage we believe we could actually have on the standalone company?

**Mr. Hemant Kanoria:** See, that will not be an issue because being an

infrastructure project financing company, we can borrow up to 8 times of our net worth. The project companies where we have invested, will not be deducted out of the net worth, so our leveraging capability does not get impaired because of that. In the parent company, we are proposing that this year we should be in a position to do a disbursement of about INR 2,000 plus crores, from INR 1100 crores of disbursement that we did last year. This year, it will increase to 2,000 crores. This is not going to be a substantial increase because, you know, substantial in the sense that compared with the market, it is not going to be substantial because in project financing as you would appreciate that from the time that you sanction the loan and the disbursement takes place, there is a time lag, not like a corporate financing where the sanction to disbursement is just between 30 days to 45 days.

**Mr. Ashi:** Yeah, this is entire time lag, yeah.

**Mr. Hemant Kanoria:** So, here, there is a entire time lag. So, it will take us some time to build up the book, and we also want to do it very cautiously, so that is the reason why you would see in the parent, we have a zero NPL, and we would definitely like to maintain a very, very good portfolio in the project financing side.

**Mr. Ashi:** Okay, great sir, thanks so much, I will probably come back for some followup questions.

**Moderator:** Thank you very much sir. Participants having questions are to kindly ask two questions in the initial round, and then come back with the followup question. Next in line, we have Mr. Manish from Darashaw and Company. Over to you sir.

**Mr. Manish:** Hello?

**Mr. Hemant Kanoria:** Hi.

**Mr. Manish:** Could you share details of the Russian operation?

**Mr. Hemant Kanoria:** The Russian operation is basically from October. We have gone slow as what we have done in India. We had gone slow October onwards in the disbursement, so because in Russia also the same kind of situation was existing, and we are slow on our disbursements, so we have not been doing any new disbursements at this juncture. At the same time, what our strategy has been is just as much as it has been in India, to concentrate with having a better relationship and more intense, not better, more intense relationship with the customers. So, if there is any trouble at any point, then we are in a position to help them to sort it out, so that our portfolio does not get affected, so that has also helped us, and we are not doing a lot of disbursement at this particular time.

**Mr. Manish:** Okay, and what is the size of loan book in Russia?

**Mr. Hemant Kanoria:** Portfolio will be about USD 25-30 million.

**Mr. Manish:** In profitability? Hello?

**Mr. Hemant Kanoria:** Yeah.

**Mr. Manish:** Profitability?

**Mr. Hemant Kanoria:** The profitability this year would be about, till December it was about USD 200,000. The year ending there is December.

**Mr. Manish:** Okay, thank you sir.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Anshul from CRISIL. Over to you ma'am.

**Ms. Anshul:** Good evening. I have this one question about...just wanted to know what your equity investments are going ahead? Is there any sector focus in infrastructure?

**Mr. Hemant Kanoria:** Yeah, primarily, we are looking at 3 areas - roads, power, and ports. These are the 3 areas because on the project financing side also we have substantial appraisal skills and expertise and experience in the team because just about 2 months back we had 2 more persons joining from IFC-Washington. One has joined as a joint managing director to look after the entire and build up the project financing portfolio on the infrastructure side, and the second gentleman has also joined. So, two people have joined from IFC, one at very, very senior level on the board as a joint managing director, and then the second person, and we have a team of about 16-18 people in the infrastructure projects and financing department who have the basic skillsets in these three sectors, so we are concentrating on these three sectors more.

**Ms. Anshul:** Okay, second question was could you throw some light on the cost of funding, how is it moved from the peak till now, what is the current status?

**Mr. Hemant Kanoria:** See, it is basically the cost of funding has been, last financial year, it has been moving like a yo-yo, so it was at about 10-11% in the beginning of the year, it went up to about 16-17%. Then, it came down to about 11-12%, and it is now continuously on the decline. So, it is coming down. Basically, it has moved up. It had peaked in October-December. From January, it started coming down, and now we are seeing that there is a sharp downward trend.

**Ms. Anshul:** Thank you sir.

**Moderator:** Thank you very much ma'am. Next in line, we have Ms. Nikita from SK Securities. Over to you ma'am.

**Ms. Nikita:** Yeah, good evening sir. I wanted to understand your NPA provision has gone up substantially to INR 25 crores. Could you explain that?

**Mr. Sanjeev Sancheti:** Our NPA level in the JV has gone to 2.27%. Hello?

**Mr. Hemant Kanoria:** Hello?

**Moderator:** Hello, Ms. Nikita. Since there is no response, we will move on to the next question. We have a followup question from Mr. Ashi Anand from Kotak India Focus. Over to you sir.

**Mr. Ashi Anand:** Hello? Just have some followup data requests.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Ashi Anand:** Would you please give the split of the AUM between loans and securitized assets for both the JV and the standalone company.

**Mr. Hemant Kanoria:** Standalone, we do not have any securitized assets.

**Mr. Ashi Anand:** Okay.

**Mr. Hemant Kanoria:** Because it is just the books, we are only building up the books, and the JV, we have total about INR 1,370 crores of securitized portfolio.

**Mr. Ashi Anand:** Okay.

**Mr. Hemant Kanoria:** And the balance is all, out of INR 8,000 crores.

**Mr. Ashi Anand:** Okay, and the balance is loans...the balance is loans and operating?

**Mr. Hemant Kanoria:** Yeah.

**Mr. Ashi Anand:** Okay, thank you, and on the standalone, the entire AUM is loans.

**Mr. Sanjeev Sancheti:** Is loans.

**Mr. Ashi Anand:** Okay, if you also could give me the MTM losses on forex taken in both the standalone and JV?

**Mr. Hemant Kanoria:** Yeah, give me one second.

**Mr. Sanjeev Sancheti:** Standalone about 20.6.

**Mr. Ashi Anand:** Okay.

**Mr. Sanjeev Sancheti:** And JV is about 13.5.

**Mr. Ashi Anand:** 13.5?

**Mr. Sanjeev Sancheti:** For this quarter.

**Mr. Ashi Anand:** Losses for this quarter, fair. Just wanted to understand on the standalone for the funded company, even if I remove the impact of the MTM on forex loans from interest expense, interest expenses have gone up very significantly from the third to the fourth quarter despite the borrowings having remained more or less constant, as in from INR 1,260 crores to INR 1,342 crores. But the interest expense, even adjusted for the MTM, has almost doubled. So, are there any other hits that we have taken here or if you could just throw some light on this?

**Mr. Hemant Kanoria:** It is basically because of the interest rates because interest rates have sharply moved up during the third and the fourth quarter for the standalone company, and that is the reason why we have taken this particular hit on all the loans and the cash credit limits that we had everywhere because we were still in the process of setting up because what has happened is that in the standalone, all our credit limits had moved to the joint venture company, and in the standalone company, we were building up a portfolio. In the meantime, October onwards, this particular thing happened. Therefore, whatever loans that we had, the interest rates, and we did not have so many banks with us, so only two to three private sector banks which were there, so

they increased the interest rates substantially because they themselves were borrowing in the call money market at a very high rate.

**Mr. Ashi Anand:** Sure. Sir, the only thing is a lot of what you are talking of, the main impact would actually have been in the third quarter.

**Mr. Hemant Kanoria:** Yeah, third and fourth.

**Mr. Ashi Anand:** The increase in interest expense I am speaking of is specifically the fourth versus the third quarter, where it seems almost doubled.

**Mr. Sanjeev Sancheti:** In the third quarter, in the closing balance of the loan has increased, but most of the loans came towards the end of the third quarter. Effect of interest...

**Mr. Ashi Anand:** Okay.

**Mr. Sanjeev Sancheti:** You have to compare the second with the fourth, to ideally have a good comparison.

**Mr. Ashi Anand:** In terms of the borrowing book.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Ashi Anand:** Okay, so it is more in terms of the timing.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Ashi Anand:** Okay, great, thanks so much.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Gurvinder Singh from Principal Mutual Fund. Over to you sir.

**Mr. Gurvinder Singh:** Sir, can you explain more about your provisioning policy, how much do you provide for 90 plus and 180 plus as compared to what is stipulated by RBI?

**Mr. Hemant Kanoria:** See, 90 plus is 20%, 180 days plus is 50%, and 360 days plus is 100%.

**Mr. Gurvinder Singh:** Sorry, 90 plus at 20%, and 180 plus is?

**Mr. Hemant Kanoria:** 50%.

**Mr. Gurvinder Singh:** Okay.

**Mr. Hemant Kanoria:** 360 plus is 100%.

**Mr. Gurvinder Singh:** Hello?

**Mr. Hemant Kanoria:** Yeah, 360 plus is 100%.

**Mr. Gurvinder Singh:** How much is the capital adequacy now?

**Mr. Hemant Kanoria:** Capital adequacy in the JV company is approximately 14.14, and in the parent company, it is about 33%.

**Mr. Gurvinder Singh:** 33%, okay sir, thank you.

**Moderator:** Thank you very much sir.

**Mr. Hemant Kanoria:** Thank you.

**Moderator:** Participants who wish to ask questions, may please press \*

followed by 1 on the telephone keypad now. I repeat, participants who wish to ask questions, may please press \* followed by 1. We have a followup question from Mr. Prashant from ICICI Prudential. Over to you sir.

**Mr. Prashant:** Yeah, sir, just wanted to understand on equipment financing business. Intuitively it looks like in October to December you should have had poor collections, but I understand December was a very good month, and following that also there were few good months. How is collection efficiency right now?

**Mr. Hemant Kanoria:** We have maintained the same kind of collection efficiency, so I think that in April definitely again it declined because of the election month was there in April and till the first week of May because no government payments were coming because of the election code which was there, so April again it declined. May 15<sup>th</sup> onwards it started picking up, and now in June, we see that the pick-up has been much better. Going forward, I think now that the elections are over, the government would be announcing more projects. Things should be all back to normal.

**Mr. Prashant:** Okay. On the provisioning, while your slippages, our gross NPA would have increased to 2.2% in the JV. Since it is an asset based business, and typically you have a hold on those assets, why do you need to provide to the extent of 50-60%, and does not it happen that on becoming an NPA, you would recover that asset and place it somewhere else or sell it through your asset sale arm.

**Mr. Hemant Kanoria:** Yeah, you are absolutely right, you see that is what we definitely do because we are an asset financing company, so we would repossess the asset, either we will put it on rental or we sell it off through the auction company that we have, but the more prudent, we do an NPA provision despite of the fact that it is an asset and it is a physical asset which is saleable because that is a more prudent policy because you don't take any sudden hits any time. You may say that you know this is being more conservative, but I think as a financial institution, it is always better to be more conservative than to be aggressive.

**Mr. Prashant:** Okay, and how is the work for your customers right now, I mean what is the traction in the work that your customers get right now?

**Mr. Hemant Kanoria:** Now, the contract with basically the government is already mentioning that it would be announcing a large number of road projects. In power also it is going to expedite the process of awarding new contracts and all, and as I mentioned right in the beginning that everything seems to be very hopeful, but at the same time, we have to be realistic and that is the reason why we are giving a very conservative guidance at this juncture of 15-20% growth and not giving a very high growth guidance, which we would like to review. By September, we should be absolutely clear about what would be the guidance for the next 6 months.

**Mr. Prashant:** Yeah, that is on asset side, but on profitability side, can you go back to your FY08 profitability levels, given the fact that the things are much

better now?

**Mr. Hemant Kanoria:** No, you see that profitability would also now that the interest rates are coming down, so we hope that we would also be in a position borrow at a lower cost and we should be in a position to go back to better profits. But as I said that it will be too early because what has happened is just about 20-25 days that the new government is in place, so immediately to give a guidance which is...

**Mr. Prashant:** No, at least forex losses would not be there. Provisions ideally should be lower than FY09, and margins are surely, I mean, interest rates are surely more benign than financial year 09 again. Capital markets related income was anyways not there in FY09, so all of that makes us believe in GDP that the numbers should be much better this year.

**Mr. Hemant Kanoria:** I totally agree with you, and that is what we will be working towards, I can assure you that.

**Mr. Prashant:** Okay, and are we planning for any capital raising in the JV anytime soon?

**Mr. Hemant Kanoria:** Not soon.

**Mr. Prashant:** Okay, thank you sir.

**Mr. Hemant Kanoria:** At least it is not there in this financial year. Next financial year, we will take a stock of the situation and then take a decision accordingly.

**Mr. Prashant:** Yeah, one last question, SREI e-village, you have booked some INR 2 crores income in this quarter, what is that related to?

**Mr. Hemant Kanoria:** It is the IT infrastructure which we are putting up in the villages through SREI Sahaj.

**Mr. Prashant:** Yeah.

**Mr. Hemant Kanoria:** It was a project which we had taken up about 2 years back. So, the model that we have established is now working out well, and we are quite hopeful that, that should give us good profits in the future too, but again it is just about 1-1/2 years old, so it is too early to say that what would be guidance of the profit that we can give on a consistent basis.

**Mr. Prashant:** But what are the operations there right now, what is the number of kiosks you already have in West Bengal there, and West Bengal is the only state where you are doing this project?

**Mr. Hemant Kanoria:** No, no, we are doing it in 7 states now, and out of that, out of 27,000 centers, 11,000 centers have already been installed, and 4,000 are already activated.

**Mr. Prashant:** Okay, so 11,000 installed and 4,000 activated. Okay, and what is the cost that you will incur on one kiosk?

**Mr. Hemant Kanoria:** See, it is basically a model where we have the entire back-end cost which we incur, and the front-end, there is a cost which is

incurred by the franchisee.

**Mr. Prashant:** Okay, and this franchisee would be typically a private guy.

**Mr. Hemant Kanoria:** Yeah, yeah, he would be a private guy, so we get them to get loans from the banks and all, so he is taking a risk also in the project along with us. Shared risk with a shared revenue.

**Mr. Prashant:** So, you are only providing IT infrastructure to them.

**Mr. Hemant Kanoria:** Yeah, yeah, we are providing IT infrastructure, the back-end, connectivity, software, services, all these things we provide.

**Mr. Prashant:** Okay, so you get paid fees from this kiosk guy or is it a revenue share?

**Mr. Hemant Kanoria:** Yeah, it is a revenue-share model.

**Mr. Prashant:** Okay, it is 100% variable model?

**Mr. Hemant Kanoria:** Yeah.

**Mr. Sanjeev Sancheti:** Yes.

**Mr. Prashant:** Okay, thank you sir.

**Mr. Hemant Kanoria:** Okay, thank you everyone. Bye.

**Moderator:** Thank you very much sir. Participants who wish to ask questions, may please press \* followed by 1 on their telephone keypad.

**Mr. Hemant Kanoria:** If there is any question, what I would request is that you can just get back to us independently, if there are any other questions which are left.

**Moderator:** Sir, there are no further questions. You may please proceed.

**Mr. Hemant Kanoria:** Thank you.

**Mr. Sanjeev Sancheti:** Thank you.

**Mr. Kunal Shah:** Sir, thank you for taking time out, and thank you all the participants for participating in the call. Thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank

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