

Conference Call Transcript

SREI Infrastructure Finance Business Outlook

September 23, 2008 | 04 p.m. IST

Corporate Participants

Mr. Hemant Kanoria

SREI Infrastructure Finance - CMD

Mr. Sanjeev Sancheti

SREI Infrastructure Finance - CFO

Mr. Sandeep Lakhota

SREI Infrastructure Finance - Company Secretary

Mr. Bajrang Choudhary

SREI Infrastructure Finance - Senior VP

Questions and Answers

Moderator: Good evening ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the SREI Infrastructure Finance Limited Conference Call hosted by Edelweiss Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Kunal Shah. Thank you and over to you sir.

Kunal Shah: Thank you Sandhya and good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Hemant Kanoria, CMD; Mr. Sanjeev Sancheti, CFO; Mr. Sandeep Lakhotia, Company Secretary; and Mr. Bajrang Choudhary, Senior VP from SREI. Over to you sir.

Hemant Kanoria: Good afternoon everyone. Actually, a lot of calls were coming to us where people were getting worried just because there is one news item in newspaper which has come out today where they have reported that SREI Infra was pulled up for range of alleged breaches. We just like to mention and clarify that this is basically inspection which has been conducted by the corporate affairs ministry which is in the normal course. For the last three years, balance sheet has been taken into account, 2005, 2006, and 2007, for three years, and all the violations which they had mentioned are basically not violation. They are all technical snags, which are very small and minor in nature, where it is not on the issues of compliances, but it is only on the issues what their views are on matters. What our views are have gone in writing that these are views to the points which have been raised by them. So, they have raised various points like starting from the first one during the press is noted where there has been a misappropriation by one of the employees of the company a couple of years back and the company and the directors have not reported in the directors' report that particular fact. It has been reported in the auditor's report. It has been provided in the accounts also and it has been reported to RBI also, and there was no need or there is no requirement as per laws that it has to be reported in the director's report. Therefore, it was not reported and that is the reply from us.

Similarly, the loans that we have raised, the loans also because basically the inspector who had come, he has not understood that we are basically a financial institution. As a financial institution, we have the enabling resolution both from the board and from shareholders that we pay for raising loans on a continuous basis because that is the raw material for us. So, for every loan, we do not have to go to the board. We had formed a committee of directors and they have been empowered by the Board of Directors to take a decision on raising loans from time to time, as required by the company. And also on the loans which are sanctioned for clients where it is a credit committee which has been set up and the authority has been given to the central credit committee, the management credit committee, again because we are not a manufacturing

company or a trading company but a financial institution, so giving loans is in the normal course of business for us. These are the answers which have provided and the point which they have raised. So, basically I would just like to reassure all investors that there has been no major technical snag also. These are all small technical snags and there is nothing major in nature. So, therefore there is nothing to be concerned about that there is something wrong or there is some huge violation which the company has done as has been pointed out in the newspapers and also to the extent that there has been some investments which have been made, we do not invest in the stock market. It is just some investments which are made from time to time which go through various committees, and whatever the investment has been made, there has been a profit which has arisen of about INR 68 lakhs on the investment and the total amount of investment which was made also was about INR 5 to 5.5 crore. So, there has been not any major investment which has been made. So, what it seems in the press is that the company makes a lot of investment in stock market, etc., which is absolutely wrong, the way which has been mentioned here.

The mezzanine capital raised by the company was after we had got the approval from SEBI. So, therefore, that was raised in early 2000 after the approval of SEBI and the subscribers to the mezzanine capital were institutions like IFC-Washington, DEG, FMO and all, and it had also got the clearance of RBI, and it was reflected in the balance sheet as mezzanine capital because that is what was cleared by SEBI. So it has also been answered, and therefore, all these particular points have already been addressed and there is no major point which has come out from the inspection. So, this is what I would like to say. If there are any questions which anyone of you have, I will be very happy to answer, and my colleagues are also here, so we will be very happy to address them.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. 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, kindly press *1 now. I repeat, participants who wish to ask questions may kindly press *1 on the telephone keypad.

Kunal Shah: Hello, yeah....Sandhya...

Moderator: First question comes from Mr. Rohan Juneja. Over to you sir. Mr. Rohan Juneja, your lines are open, please go ahead.

Rohan Juneja: Yeah. Hello...can you hear me?

Hemant Kanoria: Yes, yes.

Rohan Juneja: Hello...

Hemant Kanoria: Yes, I can hear you.

Rohan Juneja: Hemantji, hi, good morning. How did this come out in the newspaper? Did someone, I mean...I have got several questions. My first

question is obviously according to a newspaper. This must have been known to the company prior to that, how come there was no disclosure to investors about this?

Hemant Kanoria: No, because you see this was basically a preliminary inspection and any preliminary inspection happens on a continuous basis. Because you see that as per SEBI guidelines, we have SEBI inspections, we have RBI inspections, we have company law, corporate affairs inspection. So all the inspections are in the normal course of business and therefore there is nothing to report to investors specifically on these particular points and then there are few points which have come up which are major contravention. If there are any major contraventions, we have to report and we do report as soon as there is any major contravention which has happened and which has been pointed out by any of the authorities. In this particular case, it is a normal inspection report and they have given their findings after the preliminary inspection only, they have said that these are the questions which they have. According to them, they feel that these are the violations, but until and unless the company answers to it and after answering it, if they say that no, we do not accept all your points which you have mentioned or you have answered, then only it becomes a violation. At present...

Rohan Juneja: Okay, so...

Hemant Kanoria: ...this is only as per the findings of their inspection report.

Rohan Juneja: Okay, understood. So, this was...so, this investigation, just so that all of us have it very clear, this investigation was conducted by whom?

Hemant Kanoria: By the Companies Affair ...

Rohan Juneja: By the Companies affair...

Hemant Kanoria: ...and you see that is because the company is registered under the Company's Act, so this is the ROC, the Registrar of Companies.

Rohan Juneja: Fair enough. so, once you guys made your findings, you guys will reply to them and they have said that you are still in violation, so how does it get carried forward from hereon, you guys have to...

Hemant Kanoria: No, no, no. It is basically what you said rightly that it has been only the inspection which has been conducted...

Rohan Juneja: Okay.

Hemant Kanoria: ...and on the basis of the inspection, they have only given us a letter which is their findings of the inspection.

Rohan Juneja: Okay.

Hemant Kanoria: So, therefore this is only the first step of the findings which they have given on the inspection.

Rohan Juneja: Got you. Okay, so now you have to respond to their findings, is that how it works?

Hemant Kanoria: Yeah, we have to respond to their findings that these are

their findings and we are given time to respond to all their findings. According to them they feel that you have mentioned this in the balance sheet, you have not mentioned that in the balance sheet, so these are the kind of things which they have raised.

Rohan Juneja: Right.

Hemant Kanoria: So, we have to reply to them that whatever we had mentioned in the balance sheet and what was our logic of not mentioning something in the balance sheet. But 99.99% everything has been mentioned in the balance sheet.

Rohan Juneja: Fair enough. So, do they have the sole discretion to take into account your response and then analyze further what needs to go ahead?

Hemant Kanoria: Yeah. So, you see they have the sole discretion for that, but then under the Companies Act, it is also provided that all these, particularly if there is any violations which they have pointed out also, the worst case scenario, let us suppose that if they say that, all these violations, we do not accept what your logic is. So, therefore all these violations are compoundable, that means that there will be a penalty which will be levied by the ROC and it is all compounded because there is nothing, zero violations in this.

Rohan Juneja: Okay. Some of the allegations, can you just throw some light, they are saying investment in stock market without proper guidelines, they are saying that you haven't registered or pre-registered with the SEBI before going and buying your stock for instance or buying some other...

Hemant Kanoria: No, no, no, we have never bought our stock, we cannot buy even our stock. You see there are only about five-six companies in which the company had invested, some investments were there in 2002, some investments were there in 2003, some investments were there in 2004; small amounts, some INR 50 lakhs, INR 1 crore, INR 1.5 crore; so these small amounts of investments were made and then it was sold off. So, they are saying when you made those investments, you should have taken it to the board and got the approval of the board before making any investments.

Rohan Juneja: So, isn't that the way it usually works, don't you have to get the board's approval before investing...

Hemant Kanoria: That I will tell you, how it works is that because we are a financial institution. If we were not a financial institution, if we were a manufacturing company or a trading company, then all the loans and the investments that we make, we have to take to the board for approval. But in this particular case we have an enabling resolution and also our enabling resolution which has been taken from the general body of the shareholders, one from the board and then from the general body of the shareholders because the company's business is to borrow and the company's business is to lend. So, everytime we do not have to go and that is what our response to the point which has been raised by the inspector is, that, this is the point which is there and now it will be decided and worst to worst case, you know, let us suppose they say that no, no, we don't accept this, so they will say that...

Rohan Juneja: Right.

Hemant Kanoria: ...okay now you have to pay a penalty of INR 500.

Rohan Juneja: I mean it won't be INR 500.

Hemant Kanoria: So, but that is it. You see that it is basically, it is maximum...it has been defined in the Companies Act. Maximum it can be INR 1500, it cannot be more than INR 1500.

Rohan Juneja: So, there is an enabling resolution saying that either you or Sunilji or someone in the company has authority to invest in companies as per or is that the way it is or who has the authority to invest...

Hemant Kanoria: See we have, let me tell you clearly...in the company, there is a committee of directors, then there is a investment committee, then there is a rental credit committee, then there is a management credit committee. So various investments up to various amounts giving loan for the investments up to various amounts have been delegated to people at various committee levels or if it has been...so, there is an investment policy in place in the company and all these you have to do as per an NBFC because RBI regulates us on this and if there were any violations on all these things, RBI would have caught us and hanged us for it. RBI conducts an inspection almost every two to three months because we are a deposit taking company.

Rohan Juneja: Okay. And my last question, could you give us some kind of a rough timeframe, I know it is hard to determine that at this point in time, but some kind of a rough timeframe as to the proceeding of the events. Your response and then how long do you think they will take to respond.

Hemant Kanoria: Our response will be out to them by tomorrow morning, okay, and because it has already been made out, lawyers have already seen the response and all, so by tomorrow we will submit our response. Then, they will again say that okay, these are the points which we accept or these are the points we don't accept. If they do not accept certain points, then as per the Companies Act, they will charge us a penalty for each of the points out of 38 points whatever they don't accept, that suppose if they don't accept any of the 38 points, then they will charge us INR 1500 for each point.

Rohan Juneja: So, there could be no criminal proceedings or anything as such, I completely...

Hemant Kanoria: No, no, no, there is no criminal proceeding in all these particular points which have been raised. In the sections which they have given, there is no criminal proceeding at all.

Rohan Juneja: I hope we are going to see in the newspaper that says that because I mean it is just, you know, it is...

Hemant Kanoria: Yeah, I think that there is someone who has played mischief because from the department itself these are confidential documents and the department is also not allowed to give it to anyone. So, therefore they have leaked it out to the press, so there must be someone who is behind all these things and someone must be having some kind of a vested interest. There may

be some guys in the stock market who may be feeling that because of this, all the other people will get panicky, they will hammer the stocks and they will be able to buy it at INR 70-75 because otherwise they will never get at INR 70-75. So, I think that this is some...and this is what usually happens many times, so this is someone who has played mischief on that, otherwise they should have given all the points point by point. If the press had to write it, the news guys should have written each point, point by point that these are the sections. They have not given the sections because they know that if anyone reads the sections, they will know that all these sections basically are not any kind of criminal violations or any of these sections cannot be taken by the ROC and levy huge charges on that because all these charges have been defined that under these sections if there is any violation also, it has been defined that what has to be paid as a penalty.

Rohan Juneja: That is fair enough. This is, I mean, this is considering that, you know, the world is coming to an end, at times when things like this come out. It just does not set good precedent, but anyways thanks for the clarification and look forward to hearing more from, you know, whatever comes out of this article, your points, and likewise from the...

Hemant Kanoria: Yeah definitely and you see that anyone of you who would like to see the letter of ROC or would like to see the reply, we will be very, very happy to supply that.

Rohan Juneja: I mean, if you could send us...

Hemant Kanoria: Because we have no problem at all. We don't want to make it public, but any of you who have any kind of doubt, it is absolutely transparent, you can come and...anyone would like to see any of the letters, we will be very happy to show that and we can open it for inspection to any person.

Rohan Juneja: Thank you. We appreciate it.

Moderator: Thank you very much sir. Next question comes from Mr. Amitabh from Tenax Capital. Over to you sir.

Mr. Amitabh: Hi, this is Amitabh. I just had a quick question. I think it may have already been answered, but if you could tell me in a little more detail, you said that there were about INR 5.5 crores of investments, the profit about INR 58 lakhs or so. I just wanted to understand where those investments are.

Hemant Kanoria: See, those investments were in various shares which has been made from time to time. It has started from 2002 onwards, so therefore every year if you see in the balance sheet, it has been already reflected in the balance sheet. There is nothing which is beyond the balance sheet. So, if you see from 2002, in that year what are the investments which we have made, what is the profit or what is the loss, that has got to be there. So, now what the ROC has...the point which they have raised is that all these investments had not been approved by the Board. So, our reply to that is it need not be approved by the Board, it has to be approved by the committee because we have an investment and a loan policy which has been approved by the Board. Every decision we do not have to take to the Board because there is a

committee of director and authorizations have been given to various people through various committees.

Mr. Amitabh: Are these investments in stock markets or bonds or...

Hemant Kanoria: No, no, these are investments in some shares. Let's suppose that we had invested in some shares of IDFC, we had invested in some shares of Sundaram Finance, we had invested in some shares of ICICI Bank and whatever is the profit or losses which arise in any of the investments or sales, that is all recorded in the balance sheet only. So, there is nothing out of the balance sheet.

Mr. Amitabh: Got it. One more question for you. If everything does go according to your plan, if these charges or...not charges, whatever these investigations are as small as you think, do you think that by the end of this week, we should see a resolution out and over with?

Hemant Kanoria: Resolution in the sense?

Mr. Amitabh: Resolution in terms of whatever investigations are going on will completely stop or there will be a...

Hemant Kanoria: No, this is not an investigation, this is an inspection. Let us just first understand that what is it. It is an inspection. There is a difference between an investigation and inspection.

Mr. Amitabh: Okay.

Hemant Kanoria: This is an inspection and they have given their inspection report. So, as per the inspection report that anyone who comes in for an inspection, they have to...they have to find out points, otherwise how will they justify their existence. You get all these particular people, RBI comes for inspection to our company every two months because we are a deposit taking company, so they have to inspect the records, they have to inspect that whether we are following the right kind of policy. We have inspections on SEBI. We have inspections from various authorities. So, this is also an inspection. This is an inspection in the normal course.

Mr. Amitabh: Got it.

Hemant Kanoria: This is an investigation.

Mr. Amitabh: Got it. Okay, alright, I am done, thank you so much.

Hemant Kanoria: Okay.

Moderator: Thank you very much sir. Next question comes from Mr. Harish Krishnan from Kotak.

Harish Krishnan: Good evening sir.

Hemant Kanoria: Yeah, good evening.

Harish Krishnan: My question pertains to how many points have the MOC come up with in which they find that you are in violation with, in terms of the actual number?

Hemant Kanoria: 36.

Harish Krishnan:36.

Hemant Kanoria: Yeah.

Harish Krishnan:And of which you have dealt with maybe 4 or 5, and I presume the remaining ones would be even more minor than this is it.

Hemant Kanoria: Exactly, because I have only dealt with the ones which has been pointed out by the press which they seem to think are major. So, this is what I have addressed and beyond that, the press also must have found it to be very minor and it is very minor. These, according to us, are also very minor because you see that if there is no one in the world, which I can guarantee you, you can maintain all the books as per...this is the inspector's perspective, this is not the perspective that you have to follow. This is his perspective, his interpretation of the Companies Act, but then there are auditors, there are RBI inspections which go on, so therefore either all these people, the auditors have also not been able to apply their mind. He has not been able apply his mind, and the RBI has not been able to apply its mind. It cannot be that everyone has not been able to apply their mind.

Harish Krishnan:Okay. And out of these 36, in terms of would the RBI take into notice anything that the Registrar of Companies does or documents, would there be a problem later on from RBI's perspective?

Hemant Kanoria: No, no, no. RBI has already conducted their inspection. You see RBI's inspection goes on regularly. If there was...and being a financial institution and being a deposit taking financial institution, you see that if we were not deposit taking, it would be a different matter altogether. We are a deposit taking NBFC. Because of being a deposit taking NBFC, RBI has very stringent inspection procedure that we cannot violate anything. They go through everything on a regular basis. The company affair people, the regional director here, and the ROC, they only conduct an inspection once in four years, five years, so they always do it regularly. Once in four-five years, they will conduct this for any company.

Harish Krishnan:And is this ...so obviously this is not the first time that you have been under inspection from the ROC.

Hemant Kanoria: No, no, this is not the first time, earlier also it has happened.

Harish Krishnan:And earlier also in the past you have got some certain recommendations from them which are like the points that they have raised now.

Hemant Kanoria: Yeah, yeah, yeah, and then we have rectified those. See, there may be some mistake. Let us suppose that for example, just to give you an example, the first point which they have raised is that they have a misappropriation which has been taken place by one of the employees, okay. And that has been reported by the auditors in their auditors' report and that should have also been reported in the director's report, okay. The point is that it is a point of debate that whether everything which has been reported in the auditor's report should be reported in the director's report and if it is so, then

what is the need of having a director's report, then there should be one combined auditor's and director's report only. If the auditor's report has already put in there and if the accounts have already provided as a NPA and it has already been reported to RBI also because any of these kinds of misappropriation which they claim, we have to immediately within a stipulated time report this matter to the Reserve Bank of India, and we have to continuously keep them abreast because the regulator who is regulating us is the RBI.

Harish Krishnan: Accha. In light of what one may think that these charges are quite frivolous in nature, it might help all of us if these charges are brought out because what obviously the press has highlighted is possibly something which could be alarming in terms of investment and stock market. Again, they have not given how much is the quantum. So, when you put in perspective that INR 5.5 crores over three years or four years, that doesn't amount to much. So, it will really help us if you could have maybe put out the entire notice on your website as well as your reply, I think that will solve a lot of these problems.

Hemant Kanoria: That will not be advisable because you see as I mentioned that, the ROC itself may take umbrage against it because we are not allowed to do that, and as I said that whoever wants to see it, we are very happy. Let's suppose that if you wanted, we will send it to you, we can see it, but we cannot put it on the website, it is not a public notice. So, there is a difference between making it a public notice and making...and sharing it with people from, you know, on a confidential basis.

Harish Krishnan: Okay.

Hemant Kanoria: Because I cannot make it public. This is an inspection report. Then, we have to have a policy of making all the inspection reports public, and ROC doesn't allow it also no because it is confidential.

Harish Krishnan: Fair enough. Thanks a lot sir. All the best.

Moderator: Thank you very much sir. Next question comes from Mr. Harish from Blackstone. Over to you sir.

Mahesh Vaze: Yeah, hi, can you hear me?

Hemant Kanoria: Yeah, yeah.

Mahesh Vaze: Okay, this is Mahesh Vaze from Blackstone.

Hemant Kanoria: Yeah.

Mahesh Vaze: Actually my question is not related to the current issue. Just wanted to know how much of the promoter warrants have already been...shares have been issued?

Hemant Kanoria: See, it is basically...as per the SEBI guidelines, we can't subscribe more than 5% in a year, either through creeping acquisition or warrants subscription.

Mahesh Vaze: Right.

Hemant Kanoria: First year, 5% has already been subscribed to.

Mahesh Vaze: Okay.

Hemant Kanoria: The second year, 5% will be subscribed to. Then, the third year will be due in the next year. So, therefore...

Mahesh Vaze: The second year is falling due when?

Hemant Kanoria: March and April.

Mahesh Vaze: March and April.

Hemant Kanoria: Yeah.

Mahesh Vaze: And given the...given the fact that our price is now below the warrant...

Hemant Kanoria: Yeah.

Mahesh Vaze: ...price, is there a chance that it will not get subscribed to because this is something that has happened for some other corporates.

Hemant Kanoria: No, no, no, there is no chance at all because we feel as a promoters you know, I am very certain about the fact and I feel that the prices of INR 74-75 what has happened today that there may be some vested interest of some people in that and when the market price goes lower than INR 100 also, still the warrants were issued at INR 100, and I feel that the intrinsic value of SREI's share today is not less than 400 bucks. So, I would be a fool not to subscribe to it.

Mahesh Vaze: So, hope sir that a lot more people agree with your intrinsic value because being investors, we would like to see it go to the intrinsic value.

Hemant Kanoria: No, because that is...

Bajrang Choudhary: And Mahesh...

Hemant Kanoria: Yeah.

Bajrang Choudhary: Mahesh, just to add a point here, Bajrang here...

Mahesh Vaze: Yeah.

Bajrang Choudhary: This we are talking about is due in March, right.

Mahesh Vaze: Yeah.

Bajrang Choudhary: So, as an investor, you should expect that the March price will not be INR 74.

Mahesh Vaze: Okay, okay. Just one other thing. There is some sort of legal proceeding that is happening between us and one of our ex-employees, right?

Hemant Kanoria: Yeah.

Mahesh Vaze: Can you just update us on that, mostly again some in the media I read something, but I just wanted to know the official position.

Hemant Kanoria: You see there was one employee of the company, he had joined the Venture Capital Fund and in the Venture Capital Fund, it did not work out with him, so he had been given some stocks and all to subscribe at INR 100. So, he basically filed a case against the company saying that that INR 100 he

need not subscribe to that INR 100 and he should be given the shares free, but that does not happen. How can you be given the shares free. There is a letter of the company at INR 100, you can put the money at INR 100 and take the shares, as simple as that. Now, because of the market price, he doesn't want to take that, he wants to eat the cake and have it also.

Mahesh Vaze: Is there any possibility that what we saw in terms of this thing getting reported in press being connected with the fact that there is dispute with this ex-employee?

Hemant Kanoria: Maybe, I cannot rule that out. See because the person who had joined and who is doing all these things, who had got it written in the press also and filed a case against the company, was working in the press; he was in Bennett Coleman. So, therefore, he is well connected. He was in Times of India, so he is well connected with the media. That is why maybe that he might have used it.

Mahesh Vaze: Okay, fine enough sir. And in terms of the business, how have things moved in the last three months, any business which has anything to do with financial services...

Hemant Kanoria: Yeah.

Mahesh Vaze: ...because the worldwide, it seems to be going down. So, how is our business doing?

Hemant Kanoria: See, our business has not taken a blip at all. As a matter of fact compared to the corresponding period last year, there has been a growth of almost about 40% to 45%. So, that way there has not been a blip and, to put in the right perspective, people feel that the economy is slowing down and everything in the economy is slowing down. But fortunately for infrastructure, nothing has dipped. So, therefore, there is nothing to slow down. It can only go up because at present what the slowdown in the infrastructure sector is only at the top. At present...in the last three-four years, we are having a lot of stocks on infrastructure, that USD 500-billion, this-that, but how much as you or we have seen actual investments happening, not much. So, therefore there is no slowdown which can take place because not much of an investment has taken place. It has to only catch up with the population going up with everything, so therefore roads have to be created, power plants have to come up. There is no way it can just go back. So, that is why in the infrastructure sector, I am not overly concerned. Yes, there is a concern on the interest rate part because you see the interest rates are increasing, therefore, people who have already started the implementation of the project, for them there is no way out but to borrow at a higher cost and get the project implemented on time; otherwise they will save other issues on penalties and all from the government. So, therefore it is advisable that they complete the project and also hope that the interest rates will come down in the medium to long term and if they do come, then they will again benefit.

Mahesh Vaze: One last thing, this Ganga Expressway, has the consultancy payment come to us?

Hemant Kanoria: It is in the process.

Mahesh Vaze: So, which quarter will it get booked in?

Hemant Kanoria: You see actually we have the...we have our accounting norm and the fee-based income that we book it only on cash basis, we don't do it on an accrual basis.

Mahesh Vaze: Right.

Hemant Kanoria: So, therefore, we are expecting that it should either be coming in this month or within next month. So, either I think that we will book it in...we will book it in the next quarter only. I don't want to say that we will get booked in this quarter because we have just about three-four days left and there is a lot of slip between the cup and the lip.

Mahesh Vaze: Okay. And are there more consulting opportunities with UP government as of now, are we doing something else also which would...

Hemant Kanoria: Yes, we have been given six cities. Week before last, we have been awarded six cities to do the entire planning for them and this assignment is a work of about INR 14,000 crore...

Mahesh Vaze: So, what would be our, meaning what is the structure for us, is it similar to Ganga Expressway?

Hemant Kanoria: It is a little lower than Ganga Expressway because Ganga Expressway was a good one, PD, here I don't think so that we will be able to make that much of money, but just to get the entire advisory group now has a team of about 45-50 people, and it is not only UP government that we are doing the work with. We have got assignments in Karnataka, we have got assignments in Northeast, in West Bengal. So, there are a large number of assignments on which we are...Andhra Pradesh, so we are working on a large number of assignments, but as I said that, you know, we have a cash system of accounting for advisory. So, that is the reason that, you know, there is always a time gap in completing the job, getting the money from them. So, when we get the money, then only we book it.

Mahesh Vaze: Fine enough. Thanks a lot.

Hemant Kanoria: Okay.

Moderator: Thank you very much sir. Next question comes from Mr. Praveen Jain from HDFC Mutual Fund. Over to you sir.

Praveen Jain: Yes sir, I just wanted to ask that you said that your investment was around INR 4 to 5 crores.

Hemant Kanoria: Yeah.

Praveen Jain: But I can see your balance sheet which shows something like in ICICI Bank, you have investment of around INR 45 crores.

Hemant Kanoria: In the?

Praveen Jain: In the balance sheet...

Hemant Kanoria: Yeah.

Praveen Jain: ...I can see that there is an investment of INR 45 crores around in ICICI Bank.

Hemant Kanoria: That is you must be seeing in 2008. You see that what the inspection report, I was mentioning pertaining to the inspection report points which were raised...

Praveen Jain: Okay.

Hemant Kanoria: ...by the inspector and that was in the year 2006-07.

Praveen Jain: Okay.

Hemant Kanoria: So, that is why mention that it is in 2006-07 the investment which was there.

Praveen Jain: Yeah. In 2006-07 also, you had investment of around INR 19.5 crore...

Hemant Kanoria: Yeah.

Praveen Jain: ...which now has increased to around INR 45 crores, so but you said that overall investment is INR 4 to 5 crores, but still...

Hemant Kanoria: No, no, not overall investment. This is the investment which the ROC has pointed out.

Praveen Jain: Okay, which ROC has pointed out.

Hemant Kanoria: Yeah, because you see that I was just, here I was answering the questions pertaining to the ROC. Otherwise, whatever is there in the balance sheet is already there.

Praveen Jain: Okay, okay, but then why this big investment is there for even 2007, if I see the overall investments which you have in credit or in the listed shares...

Hemant Kanoria: Yeah.

Praveen Jain: ...this big amount for any reason or any... first which you have put it in this big amount sir.

Hemant Kanoria: No, no, it is only in ICICI Bank. You see that last year ICICI Bank and all the banking stocks were doing very well.

Praveen Jain: Okay.

Hemant Kanoria: So, therefore we were also getting some money which has come. So, therefore we have made some investments.

Praveen Jain: Okay, okay, but I think then the current year you might have to provide for the MTM because...

Hemant Kanoria: Yeah, yeah, that will be there, that we will always provide, that if you see in the balance sheet, the MTM is already provided for.

Praveen Jain: Okay. And sir as you said that there is an enabling resolution given by the Board of Directors subcommittee which can borrow as per the enabling resolution.

Hemant Kanoria: Yeah.

Praveen Jain: This resolution is dated what, like it is from 2004 onwards or like because we have read in the paper that the resolution was... borrowing was done earlier and then resolution was passed.

Hemant Kanoria: No, what happens is that you get a resolution passed for a certain amount. Let's suppose for example we start from 2001 in this century itself, so 2001 there was one resolution which was passed for a certain amount. Then again there was another resolution once we touch that limit. Then another resolution was passed for increase in the amount. Then again a third resolution was passed last year for increasing the amount further. So, what the Companies Act says is that everytime that you want to approve a certain amount, that you get an enabling resolution and till you touch that particular amount, that you do not need another resolution everytime.

Praveen Jain: Okay, so the enabling resolution which was there for earlier, have you crossed that limit which was enabled by the resolution or something.

Hemant Kanoria: No, no, no, it has never been crossed.

Praveen Jain: It has never been crossed.

Hemant Kanoria: No. So, therefore you see what happens the inspector when he comes, he sees all the things. He has been seeing for the last three years all the balance sheets and all he has seen.

Praveen Jain: Yeah.

Hemant Kanoria: He has gone through all the things. This is his preliminary report, his preliminary finding...

Praveen Jain: Okay.

Hemant Kanoria: ...which has unfortunately become public because he has not even...these are the points which he could have raised. He has to raise it in writing only...

Praveen Jain: Correct, correct.

Hemant Kanoria: ...so, otherwise how does he raise it and he has to reply to these particular points. It is not that all the points which he has raised are violation.

Praveen Jain: Okay.

Hemant Kanoria: It is his finding.

Praveen Jain: Okay. No, because in the paper it has come that your resolution limit was INR 1,000 crores, but you borrowed more than INR 1,000 crore.

Hemant Kanoria: Yeah, see, basically I don't want to comment upon the intelligence of journalists.

Praveen Jain: Okay. Okay, alright.

Hemant Kanoria: Okay.

Praveen Jain: Yeah, thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions may kindly press *1 on the telephone keypad. Next question comes from Mr. Rohan Juneja from Edelweiss.

Rohan Juneja: Hi Hemantji.

Hemant Kanoria: Hi.

Rohan Juneja: Two questions. Firstly, on those warrants that were issued last year to management at INR 100 and granted. They were above current market price at that time, are you guys converting them to stock now given that the stock is below the...below the convert price of INR 100?

Hemant Kanoria: No, no, we have to convert it only at INR 100 and it has to be converted keeping in mind the creeping acquisition limit of SEBI which is 5%.

Rohan Juneja: Yeah.

Hemant Kanoria: So, the first 5% we had subscribed in March 2008. Now, the next one is due on March 2009 and the third tranche is due in April 2009. So, we will be only subscribing at the time when it is due and the company...and the promoters have already paid an advance and kept a deposit with the company.

Rohan Juneja: Right.

Hemant Kanoria: So, therefore...and 5% has already been subscribed.

Rohan Juneja: Okay, great. So, at INR 100, the rest will be subscribed to as well is what you are saying, right?

Hemant Kanoria: Yeah, yeah, it will. There is no chance that we will not subscribe to it.

Rohan Juneja: Okay. And then the second question is can you just tell us a little bit about your forex. Do you have any forex borrowings and how it is hedged because I know in quarter before there was some noise related to that.

Hemant Kanoria: See we have a forex body which is in the normal again. You see we do borrowing both in the domestic market and in the foreign market and all the loans that we borrow are medium to long term loans and there is a minimum maturity period which is stipulated by RBI. In the case of our borrowing, the minimum average maturity period is about five years, so it cannot be below five years. So, they are all long-term loans that we borrow and what we usually do is that we hedge it to a large amount and a small amount as per the guidelines which have been laid by the Board and the ALM, we are allowed to keep and as per the foreign, as per the institutional guidelines also because we are borrowing from the institution, so there is a policy which has been laid down, so there is a small portion which is open and the balance is all hedged.

Rohan Juneja: So, it is LIBOR borrowing right, the interest rate fluctuates with LIBOR?

Hemant Kanoria: Yeah, yeah, so it is LIBOR plus...you see earlier we were borrowing at LIBOR plus 140 basis points, 50 basis points. now it has gone to about LIBOR plus 250 to 300 basis points. So, it all depends upon how the

market is. At present, because of the liquidity crisis in the international market, interest rates have also gone up.

Rohan Juneja: So, can you just give us a brief idea of how much is unhedged and the only reason I ask is because you know better than I do, the LIBOR has moved up the last week or so after the whole Lehman episode. So, can you just tell us how much is unhedged.

Hemant Kanoria: No, but this is again there are two points to it. One is the hedging of the interest rate. On the interest rates, we don't hedge because interest rate hedging is not practical at all because interest rates will move according to the market because we have also variable interest rate when we are doing our lending. So, if the interest rates move up, then we also increase interest rates to our borrowers and that has been provided in the agreement and that we do on a regular basis and the company's policy is that twice in a year we declare the SREI benchmark rate. So, on July 1st, we increased our SREI benchmark rate by 150 basis points. Now, again it will come up for review. Let us suppose if the interest rates move up very fast, then we have to review it...we can do a review quarterly also, but for practical purposes, because it has to be implemented also, we have taken a policy in the company to do it. It is not written in the document to borrowers because the borrowers have to pay the interest, have to pay the increased interest at anytime there is an increase in the interest rate, but practically it is not possible to increase it every month. So, therefore we do it on a six-monthly basis and that was done from the 1st of July, we increased it by 150 basis points to 14.5%.

Rohan Juneja: Okay. Thank you.

Moderator: Thank you very much sir. Next question comes from JP Morgan. Over to you sir.

Male Speaker: Hello...can you hear me?

Hemant Kanoria: Yeah.

Male Speaker: Yeah. I have a question regarding, I mean you already mentioned that all these violations, in case your justifications are not accepted, you will have to pay some penalty...

Hemant Kanoria: Yeah.

Male Speaker: ...which will not be a very material amount.

Hemant Kanoria: Yeah.

Male Speaker: Are there any provisions of the Companies Act which prohibit you from doing any kind of business for these violations?

Hemant Kanoria: No, no, no, nothing.

Male Speaker: So, there is absolutely no risk of any business being not allowed after these violations?

Hemant Kanoria: No, no, no, because you see the Companies Act does not govern that what kind of business that we are doing, that is being governed by the RBI.

Male Speaker: Okay.

Hemant Kanoria: And RBI, we are regularly inspected by the RBI, so therefore...and that is basically done on a regular basis.

Male Speaker: Okay.

Hemant Kanoria: Where we are lending, what is the portfolio that we have.

Male Speaker: Okay, okay. So, it is only the penalty. The worst case scenario maximum is penalty...

Hemant Kanoria: Yeah, yeah.

Male Speaker: ...nothing more than that.

Hemant Kanoria: Nothing more than that.

Male Speaker: Okay. Thank you sir.

Hemant Kanoria: Okay. Thank you very much ladies and gentlemen.

Male Speaker: Hello...

Hemant Kanoria: Yeah. Any other points, otherwise should we...

Kunal Shah: Sandhya, any other questions?

Moderator: We do have some questions lined up sir.

Kunal Shah: Some questions are there?

Moderator: Yes sir.

Kunal Shah: Yeah sir...sir, can we take few questions?

Hemant Kanoria: Okay fine.

Kunal Shah: Yeah.

Moderator: We have Mr. Vikas from Reliance Mutual Fund.

Mr. Vikas: Hello...good afternoon sir. Wanted to know that inspection has been carried as per the instruction of...and who has carried out these inspections?

Hemant Kanoria: Inspection has been carried out by one Mr. M. R. Das who is the inspector.

Mr. Vikas: Okay. In the press release, it has...press report, it has also been mentioned that your auditor, the NT has also mentioned in their auditor's report, but in the last final report, nothing was mentioned.

Hemant Kanoria: Just one sec, I will just show it to you where it is mentioned. If you see the balance sheet of 2007...

Mr. Vikas: Okay.

Hemant Kanoria: ...because the inspection is related to 2005-2006-2007...

Mr. Vikas: Okay.

Hemant Kanoria: ...it is on page 133....page 133 of the annual report, printed annual report has gone 2006-2007. On page 133, the last point is that we have been informed an employee of the company had misappropriated funds amount

to INR 2 crore 80 lakhs, 280 lakhs.

Mr. Vikas: And sir about the other board resolutions?

Hemant Kanoria: About the?

Mr. Vikas: The board resolutions.

Hemant Kanoria: Board resolutions cannot be mentioned in the...that is the board resolution no, it cannot be mentioned in the annual report.

Mr. Vikas: Okay. And sir in the wake of whatever has been reported by this inspector, you have tightened up further security law and other practices, so that this kind of violation doesn't happen in future.

Hemant Kanoria: No. But there is no violation, so what can we tighten up. See the point is it is only a perspective. You may write something in a particular manner and we may write in another manner, but that does not mean that there is a violation. It is only the perspective of the inspector that you should have, that this has been mentioned in the auditor's report, let us suppose for example, let's take an example that he has said that this has been mentioned in the auditor's report, this should have been mentioned in the director's report. That is what the inspector is saying. So, that is his perspective, but the law does not saw that you have to mention in the director's report. The Companies Act, nowhere it is mentioned that you have to mention in the director's report.

Mr. Vikas: Okay. I just wanted to know one more thing. For your latest foreign currency transaction and swaps, the figures reported on 31st March 08, is it possible for you to let us know what is the current mark-to-market value of that?

Bajrang Choudhary: We will have to come back to you because that we don't do a calculation on a day-to-day basis. But whatever is there, it is provided in the balance sheet. So therefore the September balance sheet, we will do our calculation; in the September balance sheet it will be provided for, but we don't have...we don't have mismatches there because we have a policy, and it is woven under the overall policy of the hedging and the open positions that we can take.

Mr. Vikas: Okay sir. Thank you.

Bajrang Choudhary: Welcome.

Moderator: Thank you very much sir. Next question comes from Mr. Prashant Poddar from Edelweiss. Over to you sir.

Prashant Poddar: Hello...

Hemant Kanoria: Yeah.

Prashant Poddar: This is Prashant from ICICI Prudential sir.

Hemant Kanoria: Yeah, that is what I thought, you know, when they said, all of us were...we had our eyebrows raised that you shifted to Edelweiss now.

Prashant Poddar: No sir. Just one thing sir. You mentioned about increase in

SREI benchmark rate. How frequently, I mean what was the gross increase last year from FY07 end to FY08 end and from there to now in your benchmark rates.

Hemant Kanoria: It was about...it is something which we have to just...it was 11, then it was increased to 12.5, then it was increased to 13, then it was increased to 14.5 from the 1st of July.

Prashant Poddar: So, 11 was at the end of FY07?

Hemant Kanoria: Around that time, I can, you know, get back to you...

Prashant Poddar: Bajrang, can you just give me that number later on.

Hemant Kanoria: Yeah, yeah, we can give you them later on.

Prashant Poddar: From FY07 to FY08 end and from FY08 end till date...

Hemant Kanoria: Yeah.

Prashant Poddar: ...what has been the increase. And sir, about this foreign borrowings, what is the total size of foreign borrowings we have now?

Hemant Kanoria: USD 145 million.

Prashant Poddar: USD 145 million. And all of it would be linked to LIBOR?

Hemant Kanoria: Yeah, yeah, everything is linked to LIBOR only.

Prashant Poddar: Okay. So, the recent increase in LIBOR would have affected us o that extent?

Hemant Kanoria: But there is no increase in LIBOR, there is an increase in the premium on LIBOR, but not in LIBOR, LIBOR has not increased.

Prashant Poddar: Okay. So, if you want to raise more, it would affect you.

Hemant Kanoria: Yeah, if we want to, let us suppose the new loans which we go in for...

Prashant Poddar: Yeah, yeah, yeah.

Hemant Kanoria: ...they are LIBOR Plus which we pay, that means the premium over LIBOR would increase for the new loan.

Prashant Poddar: For the existing loans, there is no impact.

Hemant Kanoria: No, for existing loan, it is fixed no because LIBOR has not increased.

Prashant Poddar: Okay, okay. Alright sir, thank you very much.

Hemant Kanoria: Okay. Okay, thank you very much. Should we round up now?

Moderator: Sure sir, you can go ahead.

Hemant Kanoria: Okay. Thank you very much.

Kunal Shah: Yeah, thank you sir for taking your time out.

Bajrang Choudhary: Thank you.

Kunal Shah: Yeah, yeah. Thank you sir. Have a pleasant day sir.

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

Disclaimer

This document has been prepared by Edelweiss Securities Ltd. Mumbai, India and is meant for use by the recipient only as information and is not for circulation. Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. This information in the document should not be construed as representation of our Analyst or Edelweiss's view. The information contained in event transcripts is a textual representation of the applicable company's conference call and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference calls. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this document. The user assumes the entire risk of any use made of this information. In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting conditions in the domestic and overseas markets in which the Company operates, changes in Government regulations, tax laws and other statutes and incidental factors. The information contained herein is as of the date referenced and Edelweiss does not undertake any obligation to update these statements. Edelweiss and/or its directors and/or its employees may have interests or positions, financial or otherwise, in the securities mentioned in this presentation.