

Conference Call Transcript

SREI Infrastructure Finance

Q3FY10 Results

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Corporate Participants

Mr. Sunil Kanoria
Vice Chairman

Mr. Sanjeev Sancheti
CFO

Mr. Bajrang Choudhary
Senior VP

Questions and Answers

Moderator: Ladies and gentlemen, good evening, and welcome to the SREI Infrastructure Finance Limited Q3FY10 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Kunal Shah of Edelweiss Securities Limited. Thank you and over to you sir.

Kunal Shah : Thank you Melissa and good evening all of you, this is Kunal Shah from Edelweiss Securities. We have with us Mr. Sunil Kanoria – Vice Chairman, Mr. Sanjeev Sancheti, CFO and Mr. Bajarang Chaudhary Senior Vice President from SREI Infrastructure Finance to discuss their Q3FY10 earnings, over to you sir.

Sunil Kanoria: Thank you. Welcome everyone. Well just to take you through the financials, this quarter was much better than the previous quarters for us in terms of business growth and profitability. I will just start, one, first from the consolidated and then get into some of the key business areas. If we look at the consolidated financials for the quarter December '09, we have a net profit of about INR 45 crores as compared to the previous year same quarter of about INR 8.7 crores. For the nine months, we have concluded at INR 109 crores of profit as compared to INR 78 crores of the previous year same period of nine months. In terms of new business this quarter, we did a new business of approximately INR 2,000 crores, and in these nine months, we have done about INR 6,168 crores of new business. As a result, our total assets under management is a little over INR 12,000 crores now. And this comprises the businesses being done of the equipment financing under SREI Equipment Finance that is BNP joint venture and project and large equipment financing, which we do at the parent level. So this is a combination of both these businesses. The key reasons why we saw our profit growth this quarter was - one, the business growth was better than the previous quarters, so that helped us into earning fees and earning spreads in this quarter. Second, basically with the interest cost coming down, we were able to improve our marginal cost of funding, which contributed to the bottom-line positively. Also, partly because of the foreign exchange dollar being weak and rupee being stronger in this quarter that also contributed approximately INR 9 crores in terms of mark-to-market gain during this quarter on a consolidated basis. Our net interest margin, therefore, for this quarter, improved considerably to about 5%. I would say it is primarily because of the fairly low cost of borrowings. We believe that the NIM on a longer term basis would be sustainable around 3.5-4.0%, which has been traditionally there for the company. I think these are some of the numbers in

terms of the business and profitability of this quarter. In terms of other two announcements we have made today, is as you are aware in the previous board, we had announced that we had formed a committee to look at various consolidation and synergy values to be created within the group and our various infrastructure businesses and investments. So, the committee had been working on it and we have today announced amalgamation of SREI and Quippo, as you are aware Quippo Infrastructure Equipment is for the infrastructure equipment rental company, there are various businesses under it. SREI owned about close to 17% of Quippo. What we have proposed today is to amalgamate both the companies and parent company of Quippo, the holding company gets merged into SREI. The swap ratio determined through the valuers, we had appointed valuers and the various advisors were there in the transaction, we had Kotak and DBD as the transaction advisors. We had the valuation by KPMG and BDO Haribhakti. We had the fairness opinion from IICI Securities, and JM Financial. The legal advisor was Amarchand & Mangaldas and based on that the merger announced for the swap issue was coming as schedules of Quippo would receive three shares of SREI, for every two shares held in Quippo, the ratio was basically 3:2, which has been recommended by their prices and approved by the board today. SREI also holds, as I said, 17% of Quippo. So, this will result in creating treasury stock of approximately 9.5% of the expanded restructured equity capital of SREI. The appointed date for the merger has been decided as 1st April 2010, so that within this period we can get all the approvals etc. The board has also proposed a bonus issue of 4:5 to the existing shareholders of SREI that is four shares for every five existing shares of SREI. This has been the other announcement today basically to provide the shareholder value. The objective if you see, we believe that this synergistic integration of SREI and Quippo will help us to strengthen and create a further integrated holistic infrastructure institutions, whereby bringing all the infrastructure businesses under one umbrella, whether it is equipment financing, project financing, Quippo's infrastructure various businesses. As you know Quippo has five businesses under it, one is a Quippo Telecom Tower Business, we have the Quippo Construction Equipment Rental business, Quippo Oil & Gas Equipment Rental, we have the Quippo Energy Rental business and we have the individual Quippo joint venture for auctioning of used equipments. So, all that has a fair amount of synergy value for the various business with SREI is engaged in and we expect that this should create and enhance with the shareholder value. It would improve and expand a spectrum of the services which we can offer to our customers on a much of synergistic way. We should create an efficient and functional business structure reducing operational cost and key thing what we expect is through this process, we would be able to increase our net worth which is expected to be after the amalgamation to be approximately INR 2000 crores and that would help us grow our business substantially. Ability to grow the business of the combined entity would be fairly large and that is also one of the key objectives for doing this integration. I think these were some of the in summary, the updates and the developments, we would be open to any questions if there are any, somebody.

Moderator : Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. If you wish to remove yourself from the questioning queue, you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question is from the line of Amit Premchandani from UTI Mutual Fund, please go ahead.

Amit Premchandani: Yeah good evening sir. Just a question, what was the ROE of Quippo Holding and the book value and earning of the company which is getting merged?

Sunil Kanoria: The QIL, basically, was a holding company for those five subsidiaries and has investment of about INR 110 crores and there was hardly any debt or anything in the balance sheet. It is basically the holding of all the companies getting merged here.

Amit Premchandani: What is the net worth in the holding company, which was getting reflected?

Sunil Kanoria: It was just a book investment about INR 110 crores.

Amit Premchandani: Only INR 110 crores?

Sunil Kanoria: Yeah.

Amit Premchandani: And there was no earning stream as such for a holding company?

Sunil Kanoria: For the holding company no, it was all the businesses which had its own earnings.

Amit Premchandani: And all these businesses they were getting consolidated in the Quippo holding?

Sunil Kanoria: No, it was unlisted entity.

Amit Premchandani: Okay sir thank you.

Moderator: Thank you Mr. Premchandani. The next question is from the line of Rahul Bhangadia from Lucky Securities, please go ahead.

Rahul Bhangadia: Yeah sir, I just wanted to know you just said that INR 2,000 crores of net worth for the amalgamated company, right?

Sunil Kanoria: Yes.

Rahul Bhangadia: If you could just give me the number of shares that you will end up with once all these exercise is over?

Sunil Kanoria: The number of shares which the promoters will hold?

Rahul Bhangadia: No, for the overall company.

Sunil Kanoria: Overall company, after the bonus and the merger it will be about 50 crores.

Rahul Bhangadia: 50 crores shares of it?

Sunil Kanoria: Yes.

Rahul Bhangadia: And the promoter holding will then be?

Sunil Kanoria: About 46%.

Rahul Bhangadia: Okay that is all for it, thank you.

Moderator : Thank you Mr. Bhangadia. Participations who have a question may press * and 1 on their touch-tone telephone. Ladies and gentlemen, if you have a question you may press * and 1 on your touch-tone telephone. The next question is from the line of J D Agarwal from Kelusa, please go ahead.

J D Agarwal: Yeah, I would just like to know what would be the diluted shares, the current outstanding shares are 10.8 crores, right?

Sunil Kanoria: 11.6 crores.

J D Agarwal: Okay 11.6 goes to?

Sunil Kanoria: 11.6 well there will be a bonus issue

J D Agarwal: 50.3 crores shares?

Sunil Kanoria: Yeah.

J D Agarwal: Okay sir and so what is the current net worth of Quippo Infrastructure Equipment Limited?

Sunil Kanoria: As I have said that it basically the investments which are there, the book value or the investment is 110 crores.

J D Agarwal: Okay 110 crores and sir, can you just give us an update on the two investments that the company is talking about basically the DSPL or DTACL, the power venture and anymore into the solar company?

Sunil Kanoria: Could you repeat that question again?

J D Agarwal: Sir, about the company's investment into the power venture?

Sunil Kanoria: Yeah as you may have read in the paper also that the process is on in fact delayed because of various issues with the sellers like GIC and all but the court is expected to conclude the transaction in the next couple of days. So, we are hoping that by tomorrow or day after that transaction hopefully should close expecting no other incidence. The investment there in terms of equity and debt combine would be about INR 120-130 crores.

J D Agarwal: Okay, so how much would be debt, how much would be equity in that company?

Sunil Kanoria: That is being work out, details are being worked out, I would not be able to comment that immediately.

J D Agarwal : And sir there were some news article about you investing 30% in Bhaskar Solar?

Sunil Kanoria: No, it is a premature. We are exploring the opportunities, nothing decided as yet.

J D Agarwal: But like the article says you will pick up 30% for INR 5,000 crores, I mean the number sounds too big and I mean are these numbers out of place?

Sunil Kanoria: Yeah it is not the right statement, press comes out with too many things.

J D Agarwal: Okay and sir just on the debt part of Quippo, how much could be additional debt that you know one would consolidate, but there is debt in the subsidiaries, right?

Sunil Kanoria: Yeah, each business has its own debt and their own capital.

J D Agarwal: Okay, so there is no debt in the standalone company to acquire these investments?

Sunil Kanoria: No, no nominal may be very small debt.

J D Agarwal: And the largest portion of the debt is in the telecom company where you hold 38%?

Sunil Kanoria: That is right.

J D Agarwal: In Quippo Telecom, right?

Sunil Kanoria: Yes.

J D Agarwal: Okay sir. And sir just on the quarterly income, how much is the FOREX?

Sunil Kanoria: About INR 9 crores is the mark-to-market gain during this quarter consolidated.

J D Agarwal: Okay INR 9 crores mark-to-market gain. And sir any other extraordinary in this quarter or any, can you just talk about the provisions in this quarter, NPAs and provisions?

Sunil Kanoria: There has been in the SREI parent that is the project finance business, we have had no NPAs because the book is small and young and we have been able to fairly keep it well. In the joint venture there is an NPA, the net NPA is about 0.9%.

J D Agarwal: Where was it last quarter?

Sunil Kanoria: There had been an increase in the NPA provision for this quarter compared to previous quarters, the reason basically we saw some challenges in our portfolio in Andhra Pradesh after the death of the previous Chief Minister and as a result most of the projects are all government, and with the Telangana issue also the government's payments did not come, so many of the customers had challenges. But, we have seen some resolution this month. The fortunate part is that it is all government payments, so it may get delayed but we expect it to come back.

J D Agarwal: Okay, so this was, I mean Andhra Pradesh was a problem even in second quarter, right?

Sunil Kanoria: Second quarter it started, in September, there was some problem, it started with some impact but this quarter was definitely, three months were completely dry.

J D Agarwal: Okay, so what I mean...can you figure out if it were INR 100 crores to be collected, how much did you collect in Andhra Pradesh?

Sunil Kanoria: Well that we collected about 80-83%, normally we collect about 95%. But what happens we make a provision if there is a 90-day overdue we will have – so because of that the provisions went up.

J D Agarwal: Okay sir and basically just on coming back to the consolidation. The original shareholders of SREI will own 50% of the combined company? Is it fair to say that? If I will own in SREI today, how much would I own in the combine company?

Sunil Kanoria: 44-45%.

J D Agarwal: Okay fine. Okay thank you very much sir.

Moderator : Thank you Mr. Agarwal. The next question is from the line of Hiren Dasani from Goldman Sachs, please go ahead.

Hiren Dasani: Yeah hi gentlemen. Few clarifications may be I am not aware of the entire background. What is the shareholding of the Quippo Holding Company, which is getting merged with SREI?

Sunil Kanoria: Quippo Holding 57% is held by the sponsor group, the promoter group, 17% is held by SREI itself and balance there are venture funds who owns private equity venture funds, domestic venture funds and few independent investors.

Hiren Dasani: But not related to the promoter group?

Sunil Kanoria: No, promoter group owns about 57%.

Hiren Dasani: Okay because I mean I understand there is also venture fund which is set up by SREI, so does it owns any stake in this?

Sunil Kanoria: No.

Hiren Dasani: So, roughly 74% is owned by promoter and SREI and 26% is owned by the other entities?

Sunil Kanoria: Yeah that is right.

Hiren Dasani: What is the stake of this holding company in each of the operating company?

Sunil Kanoria: When there are five operating companies, the Quippo Construction it owns 100%, Oil and Gas owns 100%, Energy owns 100%, then we have an auction company joint venture with Henry Butcher of UK that is 50-50 joint venture and then we have telecom company it is owned 38%.

Hiren Dasani: Telecom company it owns 38%?

Sunil Kanoria: Yes.

Hiren Dasani: And would this 38% gets further diluted based on any pending transactions?

Sunil Kanoria: That 38% will not get diluted.

Hiren Dasani: 38% will not get diluted, because you are not diluting at the entity level of Quippo Telecom, right?

Sunil Kanoria: Yeah right.

Hiren Dasani: Even after any proposed transaction about new tower acquisitions and all?

Sunil Kanoria: Well, you watch future we do not know, but with the Tata demerger is in the process, Quippo Telecom is de-merging its business into the Tata Tower company, so that would happen below Quippo Telecom, but not at the level of Quippo Telecom.

Hiren Dasani: So, Quippo Telecom will demerge its tower business into JV with Tata Group?

Sunil Kanoria: That is right, yeah.

Hiren Dasani: And in that company how much Quippo Telecom will own?

Sunil Kanoria: Quippo Telecom would own, well along with the other group of investors we own about 45%. You see in the Quippo Telecom I have other shareholders which is GIC Singapore, IDFC Private Equity, and Oman Investment Fund. So, these three along with Quippo Telecom as a group will hold about 45% in the Tata Tower company, combined tower company.

Hiren Dasani: Sure, sir 45% in the Tower Company by Quippo Telecom of which SREI would own 38%, is that right to understand?

Sanjeev Sancheti: I do not think this will not work that way, the way it works is that because that tower business of Quippo Telecom is getting de-merge to WTTIL, all the shareholders of Quippo Telecom would get direct shares in WTTIL and we and all the shareholders block will hold to 45% in WTTIL and effective SREI will land up holding close to around 11.5%, though this is a process of merger.

Hiren Dasani: Sure, but 11.5% in the ultimate tower company and rest three companies are 100% owned by Quippo Holding?

Sunil Kanoria: Right.

Hiren Dasani: And there is an auction company which is 50-50 JV?

Sunil Kanoria: Yes.

Hiren Dasani: Yeah and if I understood you correctly, what you are saying is that 50.3 crores is the fully diluted share count?

Sanjeev Sancheti: That is right.

Hiren Dasani: And this is post bonus?

Sanjeev Sancheti: This is post bonus post and amalgamation.

Hiren Dasani: So, if I want to just adjust for pre-bonus like 5:9 because you are giving four shares per five existing shares, then the pre-bonus share count would be roughly 27.9 crores?

Sanjeev Sancheti: That is right.

Hiren Dasani: Yeah right, whereas current share count is roughly 11.6 crores, so am I understanding correctly that 16.3 crores is the shares which are going to be issued for the merger is Quippo?

Sanjeev Sancheti: That is right.

Hiren Dasani: So, the current share price, roughly INR 1,250 crores is the value of the Quippo?

Sanjeev Sancheti: That is right, I mean at the current share price, we will transfer to that much.

Hiren Dasani: Yeah, so 16.3 crores shares into roughly INR 77 is the closing price today, it should be about INR 1,250 or INR 1,260 crores, hello?

Sunil Kanoria: Yes.

Hiren Dasani: Okay. And can you share any other details about the operating company?

Sunil Kanoria: Operating company means?

Hiren Dasani: Telecom or Energy or any revenue balance sheet numbers?

Sunil Kanoria: It has been unlisted company till now, so at the moment nothing. Telecom, broadly, we can say the Tata Quippo combined, we would be having about close to 40,000 towers including the work in progress, going on by March close to 40,000 towers would be completed and we have already a tenancy over 2, which is a tenancy ratio, which determines the quality of portfolio. And we have two key anchor tenants which is TTSL and Unitech Telenor. These are two key anchor tenants apart from the other tenants.

Hiren Dasani: And any other entities, are they significant or this the largest?

Sunil Kanoria: This is of course the largest. The telecom is the largest, others are building up.

Hiren Dasani: But would they have significant investment because you are saying the total investment itself is INR 110 crore at the Quippo level so the remaining three will not be material. As they are 100% own by the Quippo.

Sunil Kanoria: They will be material because the value of telecom what they were initially invested, value has gone up and other businesses similarly and we have been able to leverage get other business to grow those businesses. It is there but definitely not as much as the telecom business.

Hiren Dasani: I am just wondering that of the INR 110 crore investment at the Quippo infrastructure level that is spread into the 5 operating company and the remaining 3 operating companies you are 100% owning so the total equity will not be more than INR 100 crore or so for those 3 companies, right?

Sunil Kanoria: About other would be about INR 30-40 crores of book investments. Not values just book investments. Those businesses have grown fairly large. Like my oil and gas we have a total capital employed of almost over INR 1,000 crores. Then we have the energy business which is of INR 150 crores, construction about INR 200 crores. So, we have been able to fairly well grow those businesses.

Hiren Dasani: But in oil & gas company, INR 1,000 crore capital employed means rest is debt?

Sunil Kanoria: Rest is debt and also we have one joint venture in for one of the off shore vehicle business. It's a joint venture where Quippo oil and gas owns about 38%.

Hiren Dasani: Lastly, can you share some guidance on the stand alone equipment financing company as well as what's the outlook on the project financing company?

Sunil Kanoria: As I was saying that the guidance going forward there is a good potential, we have seen a growth in the previous quarter. We are seeing strong momentum and this quarter normally and traditionally has been fairly good for us barring the last year which was definitely crisis period so we expect that this quarter should be in terms of new business better than what we have done in the previous quarter. Hopefully 20-25% growth in business in terms of profit also at least 20% growth we should have in this quarter. In terms of the parent business also there we are doing the project finance, that s also showing good signs and we are fairly confident that we should be able to grow better this quarter.

Hiren Dasani: Okay. Thanks everyone.

Moderator: Thank you Mr.Dasani. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha: First on Quippo, what is the total consolidated debt in cash position?

Sunil Kanoria: : Well I am sorry, I will not be able to comment on that.

Madhukar Ladha: Okay, then coming on SREI stand alone numbers, is there any exceptional item in this year? How the top-line is coming at INR **71 crores**?

Sunil Kanoria: As I mentioned that there has been about INR 9-10 crores of mark-to-market gain on the forex because of the rupee appreciating. Apart from that the major gain has been primarily on volume of business grown and secondly the marginal cost of funds has come down. Which has contributed to lower interest cost during this quarter

Madhukar Ladha: This quarter there has been no temporary financing to Quippo included of yours right?

Sunil Kanoria: No this quarter there is no new financing.

Madhukar Ladha: No new financing of that nature. Coming back to Quippo, can you also give us a description of the other businesses?

Sunil Kanoria: There are 5 businesses; one is the telecom tower business. And sure as I described briefly, we would have about close to 40,000 towers, tenancy of 2 in that. Then we have the Quippo oil and gas.

Madhukar Ladha: What would be the effective share holding of Quippo in the telecom business, after all the demerger with Tata Telecom?

Sunil Kanoria: It will be which Bajrang just now said would be about 11.5%.

Madhukar Ladha: The line was slightly unclear that is why I am asking this

question again.

Sunil Kanoria: It would be after all the merger of Quippo tower business into the Tata it would be around 11 and after this consolidation of Quippo into SREI, it would own about 11.5% of the Quippo Tata tower company.

Madhukar Ladha: Great, go ahead on the other businesses.

Sunil Kanoria: The other business is the Quippo energy rental business. There we have gas-based generator on rent which we give. And that business is growing just about 2.5-3.0 year old business. We have over 50 MW gas gensets on rent in the market. It is doing fairly well. We are PAT positive also till now right from beginning, from the first year all the business. Our assets would be around INR 130 crores in that. And it's a very fast growing business with the gas availability coming in. Then, we have the Quippo Oil and Gas, where we have land rigs which is on rent. There was a slowdown for a year or so, when the oil prices came down, but last few months we are seeing a pick up and demand there. We have investment of about 38% on off-shore vessel which is being constructed in Singapore and it has already been contracted out for 5.5 year contract to Malaysian company. That is about INR 125 million project. The vessel is expected delivery in April this year and it is already contracted so we know the revenue coming in going forward. We also have an oil block. Where we have stake in a consortium which we got in the NLP 7 program in Gujarat near Cambay. So that work we have not yet started. We expect it to start this year, all the formalities get over with the government. Then we have the Quippo construction. That we have about close to INR 200 crores of investment in that. It had certain challenges again with the market being slow about a year, but we are seeing things pick up. Because the option business is move up a fee base income, there is no...

Madhukar Ladha: My questions are answered.

Moderator: Thank you Mr. Ladha, the next question is from the line of Mr. Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: Actually, my questions were related to the financials of Quippo, which you have answered to the extent that you could, but my other this thing remains that you have said that your combined net worth after the amalgamation would be about INR 2,000 crores, roughly extrapolating your consolidated performance I would assume that you would have a excluding amalgamation part of it the net worth of about INR 1,400 crores. Is that right, you had INR 1,150 crores March ending so you would roughly be about INR 200 crores add you will be about INR 1,350-1,400 crores so its...

Sunil Kanoria: It's consolidated net worth you are talking about. Net worth of SREI is about INR 775 crores.

Rahul Bhangadia: So consolidated would not include Quippo right?

Sunil Kanoria: Consolidated would not include Quippo.

Rahul Bhangadia: So the consolidated part of it, so then that makes at even. So you are valuing roughly about INR 1,200 crores is what you have valued

there. I am just wondering if you could with some numbers because it leaves us with no way to value, do our modeling or do any kind of valuation methodology. Some number would be useful.

Sunil Kanoria: No numbers on what?

Rahul Bhangadia: Numbers on Quippo.

Sunil Kanoria: In terms of valuation?

Rahul Bhangadia: In terms of P&L.

Sunil Kanoria: As I said because we are only acquiring the investment company and then each business has had different methods of valuation by the valuers which we do not have. They just came out after doing all the due diligence and all. They came out and proposed the swap ratio to the board so we will not be able to comment anything on the details of it.

Rahul Bhangadia: Okay fine, Thank you.

Moderator: Thank you, the next question is the follow up from the line of J D Agarwal from Kelusa. Please go ahead.

J D Agarwal: Thank you for taking the question. Sir, can you just share the broad principles on which the valuation was done? And the broad value to basically telecom construction because at 11.5% stake in the telecom company valued at INR 1,200 crores means about INR 10,000 crore value to telecom venture, right? Because I don't have much information on construction and oil & gas, so I would take that as probably both and remaining that. So it looks like we paid about INR 12,000 crores for the telecom company, is it right to say or there has been other principles?

Sunil Kanoria: Methodology is adopted, combination of DCF and market multiple, market value, market feed back so combination of all that, combination of the SREI business, combination of SREI investment so it has been a combination of all the detail if they set there is a process which is followed but we do not have the details of..

J D Agarwal: You do not have, again what I am saying the decision makers would have the details. Like the board of SREI Infrastructure when they are considered merging with Quippo. They would have the details that who they are giving their 60% stake to.

Sunil Kanoria: No, the board is having the detail from the valuers and fairness guides on how do you value both the businesses and what should be the swap ratio based on the fairness and the valuation of all the businesses. Valuers do not comment on the absolute value.

J D Agarwal: What I am asking is sir in this sort of consolidation that there are lots of questions unanswered. What I am trying to say is to us it look like SREI was under valued because market cap was 800 consolidated net worth was about INR 1,200 crores. Now the question is, when the valuers valued SREI did they value it as market price thinking that was the fair value of SREI?

Sunil Kanoria: They came out very clearly was that steps. It gave the

appropriate weightage.

Moderator: Excuse me sir this is the operator.

Sunil Kanoria: But market price was not the only determinant.

J D Agarwal: Sir basically what I am trying to say I is if you say that, the book value of SREI is the fair value then the value of the acquisition becomes about INR 1,600-1,650 crores and for 11% stake in telecom company largely if I would say that, that is the main value then it becomes we paid about INR 15,000-16,000 crores as equity value for the telecom company. When until and unless you tell us what is the value you paid for construction and the oil& gas company we would not be able to deduct and say that this is the value which has been paid because on the face of it, it looks like a very expensive acquisition. So, just if you could share some numbers and say that no see what you are saying is probably not right lets look at it this way.

Sunil Kanoria: I am sorry, I do not have the data. It will be long for to make any comment on individual valuations of each businesses. It has been a culmination and factor of multiple values for each business which the valuers pay them. That why the independent valuers were appointed with this fairness price, they have gone through in detail looking at all aspects of the businesses.

J D Agarwal: But with this are you open to sharing how much each business has been valued at or SREI will not share that?

Sunil Kanoria: I don't have it at the moment so how do we share it. Two days later we can get that, right.

Sunil Kanoria: They do relative valuation. Which is what they did. They will not give you detail valuation of how much they are valuing each business. They just give you swap ratio, final.

J D Agarwal: I was under the impression they would give you that we value telcom as such, we value oil&gas as such. This is we value and which is why you should consider us or not consider us.

Sunil Kanoria: That is when you go and buy you pay cash and buy it. Here it was a merger. Thereby, it was a relative valuation, relative swap between two entities therefore it doesn't matter whether it is as Bajrang was sharing that it could be 80 and 120 or 100 and 140 anything it could be.

J D Agarwal: No problem sir, for us SREI was definitely undervalued. Which is good deal. Telecom was always a big trigger for SREI. So in a way of unlocking the holding right for SREI shareholders all that. Okay sir, thank you very much.

Moderator: Thank you Mr. Agarwal, the next question is from the line of Aditya

Singhania from Enam Holding. Please go ahead.

Aditya Singhania: Thanks. I just wanted to understand that INR 1,100 crores loan that was outstanding to the tower company. What is the status of that and how does that fit into to this merger scheme?

J D Agarwal: Well that continues because that is through the Quippo Telecom. That doesn't change anything.

Aditya Singhania: That is directly to the tower company?

Sunil Kanoria: That is directly to the tower company.

Aditya Singhania: Which will get demerged and form part of the merged Tata entity. If I could also clarify on that did you end up giving a loan of more than one time as your consol net worth on around on time consol net worth?

Sunil Kanoria: It is not a loan, it is a lease for the tower. It is a leasing business, so the tower is being leased out to the tower company and on a leasing basis and they rent it out and they earn and we earn certain money. Its like a banking concept whereby it is banked to telecom.

Aditya Singhania: Operating lease kind of. So that debt has nothing to do with your acquisition? And what is the consol net worth of SREI post its merger, if I missed that in earlier question.

Sunil Kanoria: It is expected because it will be dependent on 1st April so it is expected to be closer to around INR 2,000 crores. After the merger, after the bonus issue everything.

Aditya Singhania: The current net worth is if I understand correctly about INR 1,200 crores, consol of SREI?

Sunil Kanoria: Consol. is INR 1,200 crores, I was only talking about SREI's balance sheet. which today is the net worth is around INR 775 crores. That is expected to go to about INR 2,000 crores.

Aditya Singhania: How does it add INR 1,300 crores on net worth if I could understand?

Sunil Kanoria: Because when the merger takes place there is a value. Because when the merger takes place which is what we have made to understand that through the method of amalgamation and when the court scheme complete, on 1st April when we do there would be approximately INR 1800-2000 crores odd net worth.

Aditya Singhania: And what amount of goodwill will that include?

Sunil Kanoria: There will be no goodwill, I do not think so.

Aditya Singhania: Okay thanks.

Moderator: Thank you Mr. Singhania. The next question is from the line of Nick Van Broekhoven from Value Square. Please go ahead.

Nick Van Broekhoven: I was wondering why is it not possible just to list all these in companies instead of having people ask 15 times just same question because it is very unclear what have you just done. We look value all around

the world and this is just the big mess basically to try to understand if you do not have the data. So I would propose that you put out a big press release with all the details because otherwise it is completely difficult for foreign shareholders to look at your company and try to get the undervaluation of SREI in the future to be lower but this kind of babbling it does not really help. Thank you.

Sunil Kanoria: We have put out a presentation today evening on our website, which will give some broad picture of the discussion which we have had now. The detail numbers and all which is not available to us also we have not been able to update today. In case whenever in future we have we will update that but broad structure, etc., we have uploaded in our website today evening.

Nick Van Broekhoven: I saw that presentation it does not say anything. It will give you a nice picture of Quippo world but it does not give you anything of what is in there. I mean this could be an empty shell. So basically you say you kind of create shareholder value but it is not clear how you are going to do that and I hope it is going to create shareholder value but it is impossible to verify with the things that you have presented. I do not understand how you cannot give that to other shareholder if there has been fairness opinion and valuation report by respected entities like KPMG, ICICI, etc., what would they basically touch on them this is something which is crucial. So, otherwise, how you will let the share tank tomorrow people do not know this and I do not know how you made a deal with the company you do not have actual data I mean did you just find something which is in there. This is the question for Mr. Kanoria. You are the main shareholder you should understand our concern as minority shareholders in this.

Sunil Kanoria: As I also said that you see if you look at the valuers and the fairness all have gone into the details in the last three months but what they do is post going into details, the due diligence, we have appointed Ernst & Young who had done the due diligence on Quippo on the account impact side, Amarchand had done on the legal side, all these reports were taken in by the valuers and fairness opinion and based on all those inputs and the reports we have done the detail analysis and the summery of that is what they have presented to the board. As I have said that, as we get access to any further information which we can make public, we would definitely do so.

Nick Van Broekhoven: Could you give is there a link between the promoter of the Quippo and the promoters of SREI please?

Sunil Kanoria: Yes, I have said that the promoters of Quippo 58% of Quippo was held by the family by weight, 17% is held by SREI and the rest is by venture funds.

Nick Van Broekhoven: Is the family of SREI is the same family that owns Quippo.

Sunil Kanoria: Yes, 30% and as a result of that 30% of the promoter holding which is there today in SREI that would go up post this merger to 46%.

Nick Van Broekhoven: Okay yeah alright. And book value per share in what

would that be in the new entity?

Sanjeev Sancheti: In the combine entity?

Nick Van Broekhoven: Yeah for all these is done?

Sanjeev Sancheti: It is about close to INR 45-50.

Nick Van Broekhoven: Okay. So how does it create shareholder value that is what I want to understand may be because I do not have the details, your book value was about 104 last quarter or so, it is going to be a lot less. So I do not understand how is it going to create shareholder value which you mentioned in the presentation?

Sunil Kanoria: If you have that presentation, I will just take you to one slide page #11 in case you have that. If you look at what is the force of business for SREI as an institution? We have three basic sources of income, one is the fund based business which we have and that we do one by way of equipment financing through our joint venture with BNP and that is growing fairly well. There was a lull slower growth last year but it is picking up now and we expect that to grow. The second is the project financing which we do at the parent level and that also has a good potential and we are growing that. So we expect that our fund-based business as our net interest margin contribution to the balance sheet to the income would continuously grow. My second business is my fee-based businesses which is my investment banking, my project advisory, and my venture capital fund management which we do. So this basically provides kind of a fee-based business income to the company. And third is my investments and the reason why we have to do we look at investments as a medium-to-long term return to the investors and to the company. Apart from these two business of fund and fee which gives us a continuous earning on a steady basis, investment do not give a return on a steady basis but it can give a good value proposition on a medium-to-long term basis and that is the strategy we have adopted as our business model. There we have strategic investments through certain subsidiaries which we enter into and second we have investments in terms of long term investments into various infrastructure businesses and there if we look at after the merger we would have investment in telecom sector, telecom infrastructure, we have investments in the road sector, we have investments in the power, we have in the rural IT infrastructure which is our Sahaj, we have the Quippo Rentals which is the various Quippo verticals and we have investment in the SEZ industrial park. If you look at the total investments in the all these my book value would be about INR 800 crores. We basically believe that value of this book value is fairly large and when we unlock value over the period of time is when this should give a good return to the shareholder of SREI as we go along and that is why we wanted to not have any conflict between the sponsor groups and we brought in all the investment into this year itself. Also let me tell you a little background about Quippo when Quippo got formed in 2002, the investors in Quippo was SREI with about 20% at that time when it got diluted to 17%, then we had IFC Washington, we had SMO Netherlands, we had the Government of Singapore, and we had other international investors. In the mid-1990s, the family had put options from these

investors because that was the new venture there we committed to these investors so we had to acquire some of the stake and as a result of that acquisition the family landed up with 57% stake in Quippo in mid 2000 and we had to give them the exit. So that is what the obligation which the family had. As a result of that came in. But as it went along and the business in SREI went along we felt that it is best to bring all businesses into here so there is a strong synergy and value proposition here to the stakeholder. So the way we would look at it and the way we are looking at it is to give the company a potential for medium-to-long term growth also. And this we expect it to come from these investments when we keep unlocking. As we have been seeing in 2008 so just one of the businesses we de-merge and brought BNP at three times the book then my market was going to less than one time. So we believe there is a value in various businesses which we have created. It is not getting rightly perceived in the market. We believe that when we are able to unlock it at the right time we would be able to contribute well to the bottom-line of the company.

Nick Van Broekhoven: In short-term, it is going to be not a value creating as you stated in the press release because your book value is going to go lower for sure. So do you see what I mean?

Sunil Kanoria: On short-term, yes, I can agree with you for the short term, but I would say that you would look a long term.

Sanjeev Sancheti: But, Nick, if you see the book value goes low in short term just because of bonus. It is not going to impact the market share in anyway.

Nick Van Broekhoven: Okay thank you.

Moderator: Thank you Mr. Ven. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha: Hi everyone. Just on this detail questions, can we have like revenue and EBITDA at least from each of the businesses of Quippo?

Sunil Kanoria: Not at the moment. We can work out and provide that going forward but immediately I am not able to offhand give you.

Madhukar Ladha: That will be very helpful in order to make some sort of valuation at least for Quippo.

Sunil Kanoria: Sure. We will work towards it.

Moderator: Thank you Mr. Ladha. The next question is a follow up from the line of Aditya Singhanian from Enam Holdings. Please go ahead.

Aditya Singhanian: Thanks. Just wanted to check on the telecom tower company sorry if I miss this, what is the total debt in that company and what is the total equity and networth?

Sunil Kanoria: On a combined basis between the Tata Quippo the total debt would be about INR 4,600-4,700 crores as of December end and our networth would be about INR 1,700 crores.

Aditya Singhanian: And this INR 4,600 crores of debt on a combined basis and INR 1,700 crores of net worth is enough for 40,000 towers that you mentioned

or you need to take additional debt or equity?

Sunil Kanoria: We expect that by end March the debt would be another INR 400-500 crores.

Aditya Singhania: And no more equity?

Sunil Kanoria: No more equity. Then we are taking Tier-II capital, preference capital.

Aditya Singhania: How much would that be?

Sunil Kanoria: INR 350 crores of preference capital has been raised, long-term 10-year preference capital.

Aditya Singhania: And what about the INR 1,100 crores loan that you have, is it to this company?

Sunil Kanoria: No it is to Quippo Telecom.

Aditya Singhania: I thought you mentioned that is the tower company?

Sunil Kanoria: Yeah that is the tower company, after the merger yes. After the merger it will go there.

Aditya Singhania: So that INR 1,100 crores included in these INR 4,600 crores?

Sunil Kanoria: Yes that is right, absolutely. After all the merger and all it will be around INR 5,000 crores.

Aditya Singhania: So if I could just take a minute you are saying that the total amount spend to put up, this INR 40,000 crores would be about INR 7,000 crores. 4700 plus 500 plus 350 plus 71.

Sunil Kanoria: About 7000-7500.

Aditya Singhania: INR 7,000 crores. Alright thank you.

Moderator: Thank you Mr. Singhania. The next question is from the line of Atul Tetambe from Amoeba Capital. Please go ahead.

Atul Tetambe: Hello Mr. Kanoria, this is Atul speaking. Actually, the thing is that I am quite disappointed with the way conference call has been conducted and the fact of the matter is that I mean as a shareholder of the company we should have get all the information before or you could have communicated with us on a form of a detail press release and what is the ratio and how this being done and otherwise this discussion will go on and on and it will not end at all anywhere. So henceforth I would request you to come out with some detail analysis before taking any conference call.

Sunil Kanoria: Okay, point noted.

Atul Tetambe: Thank you very much.

Kunal Shah: Yeah, sir. Thank you for your time and thank you all the participants for participating in the call.

Sunil Kanoria: Thank you very much everyone.

Moderator: Thank you gentlemen of the management. Thank you, Mr. Shah. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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