

## Conference Call Transcript

### SREI Infrastructure Finance Limited Q2FY09 Results

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#### *Corporate Participants*

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**Mr. Hemant Kanoria**  
*SREI Infrastructure Finance Limited - CMD*

**Mr. Sanjeev Sancheti**  
*SREI Infrastructure Finance Limited - CFO*

**Mr. Bajrang Choudhary**  
*SREI Infrastructure Finance Limited - Senior VP*

## Questions and Answers

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

**Mr. Kunal Shah:** Thank you Manjula and good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Hemant Kanoria, Chairman and Managing Director; Mr. Sanjeev Sancheti, CFO; and Mr. Bajrang Choudhary, Senior Vice President from SREI to discuss their Q2FY09 earnings. Over to you sir.

**Mr. Hemant Kanoria:** Thank you. Good evening ladies and gentleman. Happy Diwali to all of you. For this particular quarter, the disbursement is about INR 2,869 crores against a disbursement of INR 1,454 crores which was there in the last corresponding quarter in the last year, and the operating income is INR 243 crores against INR 162 crores. The profit before tax is INR 40 crores against INR 38.5 crores, and EPS is about INR 5.97 in H1FY09 against INR 5.19 in H1FY08. I think all of you would have seen the results for these six months. The net profit has been INR 69.82 crores against INR 57.16 crores. Here only 50% of the joint venture company has been taken in both the income and the profits and SREI has been taken on a standalone basis. So, on a standalone basis, if we see the total profit after tax is about INR 48.45 crores against INR 52.87 crores, which was there last year. This year if we see that in Q2, the tax incident has gone up from INR 4.7 crores to INR 13.7 crores because there is a deferred tax, which has been also provided for of close to INR 10 crores in this particular quarter. So, therefore, profit before tax is about INR 40 crores against INR 38.5 crores, which was there last year. So, that has increased and the business has also grown well this six months, especially for the half year, the business is about INR 4,600 crores which has grown by about 60% which was close to INR 2,900 crores in the corresponding period last year.

Basically, in the first six months, the impact on business has not been much, and business growth has been decent I would say with 50% to 60% growth where we were feeling that it will be about between 35% and 40%. Though it has been more than our expectation on the disbursement and business growth fronts, but on the profit side, because of the variance on the interest and as all of you would be aware about the fact that globally there has been a financial crisis which has also affected India to some extent in the last quarter. Especially it has been affected from this month; October has been very severe on the financial side. So, there has been a lot of volatility in interest rates, call money

market going up very high, and the medium to long-term money also changing according to that. Liquidity has also been an issue with many institutions and banks. The stock market has come down, so everything which should not be happening has been happening.

In these times when in the financial market there is a storm and the dust is still settling, we are also playing it by the ears. It is more of a wait and watch kind of policy where, as the market evolves we are acting accordingly. So, interest rates which have gone up substantially and especially in this month they have further increased, we are also not taking any actions which would trigger off a knee jerk reaction on our part. So, we are trying to implement well thought policies because we have a large number of customers and we do not want to send any kind of signals, which will affect business in the medium to long term.

So, I think that the only cause of concern is that interest rates are going up. On the side of liquidity also, this month was basically quite tight because of two reasons. One, because also of the fact that almost about two weeks in this month have gone into holidays because initially it was pooja holidays, then it was Diwali, etc. So two weeks have gone, so actually two weeks have been exposed to the market where things have been quite volatile.

So, in general, I think we still have to see how in the next 2 to 3 months the business turns out. There may be a little bit effect on the infrastructure side on new projects because beginning of next year we will also be going into elections. So, there would be some effect. But at least the projects, which are happening, I do not think that those would be stopped. Those particular projects will be implemented. Fortunately, the silver lining to the black clouds is that the cost of raw materials is coming down. So, interest costs have gone up, but raw material costs have also substantially dropped. So, therefore, it makes more commercial sense for construction companies and infrastructure players to see that they implement the projects because steel prices have come down, fuel prices have come down, oil also has crashed. So, I think this is the right time for infrastructure and the construction companies to start getting their money at whatever cost and executing the project because that is going to help them tremendously.

So, in general and as all of you also watch the market and would know better how the market is moving globally and also domestically. So I do not want to comment upon the market, but where SREI is concerned, on the business side, we are having a policy where we are seeing the events closely. First six months have been good on the business side. So, therefore, there is no concern there and in the next six months also. We feel that at the end of the year we should be in a position to at least have a growth of anywhere between 25% and 35%; it may not be 60%, which we have had in the first six months, but it would be in tune and may get affected by 5% to 10%. But there is not going to be any dramatic difference in business goals, which we have targeted, and what we will be able to actually achieve.

So, this is the basic situation. The financial results have already gone to all of you. If there are any questions on that we will be very happy to address those.

The special items in this particular quarter are fee-based income of about INR 58 crores, which has come from Ganga, and to that extent, there are legal and professional expenses of about INR 49 crores. They are not expenses, which has been incurred on lawyers, but they are more of professional fees because there was outsourcing on the Ganga project, which we were implementing. So, therefore, a lot of work was outsourced to a couple of agencies who had the technical skills and personnel available. So, that is why, there has been this item which may seem a little out of the normal on legal and professional expenses.

Otherwise, the other things are in tune. There has been a provision on deferred tax, which has been quite substantial for this particular quarter. So, these are the two special items on the expenditure side, and otherwise on the income etc., things are normal.

Also, as you are aware that we have split the equipment financing business into a JV company. So, therefore, the new business which has been conducted in SREI parent (the project financing and financing of equipments above 3 million dollars), we have been getting business, but in these particular areas, the disbursement takes some time and it takes a little time for the disbursement to pick up. So, gradually in the second quarter, it has picked up and by the third and fourth quarters, it will pick up further. So, we should be in a position to achieve what we have targeted—this year we should be in a position to do about close to INR 2000 crores-2200 crores of disbursements. So, I think, by March and you know I am not taking any kind of exceptional circumstances, which may develop because as all of you know that there had been certain exceptional circumstances, which have developed in the US and other markets also. So I hope that nothing exceptional happens here, and then we should be in a position to achieve our target of INR 2,000 crores-2,200 crores of disbursement for SREI. Also, for the equipment financing business, we should have a 25-30% growth compared to last year and that also does not seem to be very difficult. We are also quite conservative.

So, with these words ladies and gentlemen.....is there is anything else that you would like to report on this. So, if you have questions, we would be very happy to address them.

**Moderator:** Thank you very much sir. At this moment, I would like to hand over the proceedings to WebEx International moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a question and answer session for participants at India bridge. Thank you and over to you Laurie.

## International

**Moderator:** Thank you Manjula. We will now begin the Q&A session for participants connected to the WebEx International bridge. Please press \*1 to ask a question. Your first question comes from line of Mr. Rohan Juneja of

FrontPoint Partners.

**Mr. Rohan Juneja:**Hi guys, thanks for hosting the call. I have a couple of questions, firstly on the net interest margin. I mean if am looking over the number correctly on a consolidated financial statement you have shown a good decline in the net interest income year-over-year, but the NIM seems to be up a lot just about 95 basis points. Can you just address that, and you know it shows about a NIM of 7.43. Can you just talk about that a little bit? Hello?

Mr. Bajrang

**Choudhary:**Yeah, yeah, and the second question, then we will address both those questions together?

**Mr. Rohan Juneja:**So then just addressing that NIM also going forward if you have, you know what's your maturity schedule, so that is my first question. The second question is, can you just talk, I know you, you said something about higher taxes. I am sorry, I might have missed your comments. Can you just talk about why the taxes were so much higher as well please?

Mr. Bajrang

**Choudhary:**Yeah, I will reply first on the tax part. You see what has happened is that.....

**Mr. Rohan Juneja:**I cannot hear you. Can you come closer to the mike or the phone if you do not mind please?

**Mr. Hemant Kanoria:**Is it better now?

**Mr. Rohan Juneja:**Yeah, slightly better, yep.

Mr. Bajrang

**Choudhary:**Last year, we had excess deferred tax provision in our books, so in comparable quarter of last year, there was no extra provisioning required for deferred tax. So, that deferred tax provision was nil. However, this year, we had to provide for the deferred tax provision as we had under MAT, so effectively our tax rate would be close to 34% on a quarter-to-quarter basis, which would be inclusive of both the MAT as well as deferred tax. That is the reason the extra deferred tax charge has come in.

**Mr. Rohan Juneja:**Essentially, it is the valuation allowance against the deferred tax asset, is that correct?

Mr. Bajrang

**Choudhary:**Pardon.

**Mr. Rohan Juneja:**It is the valuation allowance against..., it is a deferred tax asset right that you guys have?

Mr. Bajrang

**Choudhary:**Deferred tax asset, yes, you are right. Yeah.

**Mr. Rohan Juneja:**Okay I got it, okay that is fine, and then....what is the probability of this relying this in the future though?

Mr. Bajrang

**Choudhary:** It is in the future that if we are not able to get the depreciation, then only this has to be paid, but then because we are doing leasing of assets, we are going to keep on getting the depreciation benefits year-to-year.

**Mr. Rohan Juneja:** Okay, okay. I mean, can you address the NIM, sorry my first question please.

Mr. Bajrang

**Choudhary:** Yeah. The NIM is higher in this quarter is primarily because we had the advance against the Spice Tower assets in which we had earned higher rate of interest, and that is the reason that NIM is higher in the current quarter.

**Mr. Hemant Kanoria:** See basically, what has happened is that as you may recall that we had done this transaction on Quipo Telecom, which had taken over these assets of Spice, and the funding was made to a certain extent by SREI. So we have got a good return on that particular funding, and therefore, it has resulted in a higher NIM. But we do not expect these kinds of opportunities every quarter.

**Mr. Rohan Juneja:** Right.

**Mr. Hemant Kanoria:** This time it was higher because of that.

**Mr. Rohan Juneja:** So, it could be like one-off items to you, right in the way of like I mean this seems kind of very high to be sustainable?

Mr. Bajrang

**Choudhary:** Yeah, Rohan, as Hemant was saying, basically this is just a 100 or 150 basis points, which has an impact only for this particular transaction. Obviously, we do not expect this to continue for the coming quarters.

**Mr. Rohan Juneja:** Okay, and then also on that question I also had about your funding schedule, any kind of maturities coming up, and can you just talk about that?

Mr. Bajrang

**Choudhary:** Yeah. The maturity on the asset book or the liability book you are saying?

**Mr. Rohan Juneja:** On your liability book.

Mr. Bajrang

**Choudhary:** Rohan as you said..., asset liability, we do not carry any mismatch on the asset liability side. So, most of the funding that we do on a long term are being funded by long-term borrowings that we have like especially from foreign borrowings, and medium-term borrowings we do basically out of the working capital that we get from domestic banks in India. And that is one of the good advantage for us in terms of the forex mark-to-market that we get, and that we do not have very short-term sort of maturity there. We do have that advantage of the dollar moving down, in the next couple of years, and we will not really have that much of cash outflow in terms of mark-to-market.

Mr. Hemant Kanoria You see, as Bajrang mentioned that on the liability side, as a matter of policy, SREI does not have an asset liability maturity mismatch, and this has been a practice which we have been following since 1997. And this was one of the conditions, which all these international financial institutions had put on SREI. So, therefore, we are still following that and that has helped us to a very large extent that we never get into these crisis that we have shorter-term liability and a longer-term asset side.

**Mr. Rohan Juneja:** That was my biggest concern. Okay, thank you.

**Mr. Hemant Kanoria:** Yeah.

**Moderator:** Participants, who wish to ask questions, please press \*1. Participants, who wish to ask questions, please press \*1. At this moment, there are no further questions from participants at WebEx International Center. I would like to hand over the proceedings back to Manjula.

**Moderator:** Thank you very much Laurie. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press \*1 now. First in line, we have Mr. Bhavin Shah from IDFC Mutual Funds. Please go ahead.

**Mr. Bhavin Shah:** Yeah, good evening sir. Considering the current scenario in terms of liquidity crisis going on, how do you see liquidity for you as well as how growth would be impacted on account of liquidity. And secondly, how is the NPA position, and how are we seeing that phasing out?

**Mr. Hemant Kanoria:** See basically on the liquidity side, as you very well know, in the past few weeks whatever has happened is a dramatic change in the market.

**Mr. Bhavin Shah:** Yeah.

**Mr. Hemant Kanoria:** See, for SREI on the equipment financing side, whatever we are doing as imported equipment, that has not been impacted because we are still getting our ECB lines and approvals etc., are coming in. It is much better now.....because of change in RBI ECb guidelines. Where the domestic market is concerned, we were also borrowing from banks etc. So, wherever we have the lines of credit from the bank which has not been utilised, we are still in the process of drawing those lines of credit from the bank. It may only get impacted to a certain extent is what we would be in a position to see from December-January. So, at this particular moment, if we actually look at it we are utilising the previous lines of credit. In future, by November, if the market settles down, then everything is fine. If the market does not settle down, then we may see an impact in December-January, but it will be little early for us to comment on that because no one had imagined that this kind of a market would happen in September. It was only in the second week of October that this has happened. So, therefore, I think it is much better to take a more cautious approach at this juncture, that is point No.1. Point No.2 is you have asked about

the NPA level. Gross NPA level is about 1.58% which was about 1.25 to 1.35. So, there is a very marginal increase in NPA.

Mr. Bajrang

**Choudhary:** And just to add here. See what happens is the benchmark of NPA of 1% to 1.2% that we generally have on an annualized basis, and we have seen that on a quarterly, the trend that we have is that NPA does grow slightly higher on quarter two and quarter three, and then tapers down again in quarter four because of the seasonality of the business, because of the rainy season around this period....

**Mr. Hemant Kanoria:** .....and also because of the festival season what happens is that payments which have to come to the contractor from the government and others get a little delayed during this particular quarter. So, second and third quarters are usually slow on the collection side.

**Mr. Bhavin Shah:** Okay.

**Mr. Hemant Kanoria:** As we do not see any kind of alarming situation as yet, and it is very difficult to do a crystal ball gazing and say that what is going to happen in the future because as I said that we have to all wait and watch how the things progress.

**Mr. Bhavin Shah:** Okay. Sir, on the liquidity part, could you just tell me how much percent of your total funding would be from mutual funds, one; and second, how much would be your utilisation levels from your bank borrowings?

Mr. Bajrang

**Choudhary:** You see, from our mutual funds what we had is all long term. We do not have any short-term money from the mutual fund, so if we look from all mutual funds taken together would be about INR 600 to 700 crores, and as a percentage which would be about 6% to 7% of mutual fund. And so that would be from the mutual fund, and we do not have any short term. So therefore, it is the prepayment as some amount in November, December, January, February, March. So, it is all in small measures. There is nothing, which is substantial. As I said the policy of the company has never been to keep on borrowing short term and lending medium to long. So, we do not have any kind of a mismatch there.

**Mr. Bhavin Shah:** Okay, and what are the utilisation levels from your banks?

**Mr. Hemant Kanoria:** At present, for SREI it is about INR 119 crores and in the JV Finance it is about INR 1,200 crores from banks, the working capital, and then we have term loans also from them.

**Mr. Bhavin Shah:** Thanks a lot.

**Moderator:** Thank you very much sir. Participants who wish to ask questions, may kindly press \* followed by 1 on your telephone keypad. Next in line, we have Mr. Prashant from ICICI Prudential. Please go ahead.

**Mr. Prashant:** Sir, good evening. Hello?

**Mr. Hemant Kanoria:** Yeah.

**Mr. Prashant:** Sir, few questions on the JV first. The JV is experiencing some marginal decline in margins, but actually have been quite flat YoY, I mean can we expect this level to sustain, going forward, at 5.25%?

**Mr. Hemant Kanoria:** You see, it is again, as I said, that let us not take this particular month to be the criteria. So, things need to, the dust needs to settle down, but if the same market continues, we may lose out 50-75bps, on the NIM. If the market does not come back to normal, I am not saying that we are wanting to see what the market was in June-July this year, but if it comes back to the August-September level also, then I think that we should be in a position to maintain that.

**Mr. Prashant:** Okay. I mean, despite the seasonality, if you were to compare the Y-o-Y numbers, which will take into account the seasonality impact. The net NPA is up some points, some 0% to 0.51%, and even the gross NPA level is up Y-o-Y. I think, in gross NPA, even in the previous year there was no declaration. So, have you actually seen some deterioration in the asset quality?

**Mr. Hemant Kanoria:** No, as Bajrang mentioned, what happens is that usually during this particular quarter, especially from July till about September, because of the rainy season, and also the festival season, which is there in October, there is some delay in the payments. That does not have an impact, because it does not mean that ultimately this results in an NPA. It is only that when we are reporting on quarterly basis, we have to take into account whatever has been the collection, the percentage of the collection, and whatever has not come within the timeframe, because we have a 90 days, 180 days, and 360 days of provisioning norms, which we follow. So therefore, it could have an impact, but we do not see that there is anything, which is alarming in this quarter, and for this year we see the same kind of situation that was there in the previous year also.

**Mr. Prashant:** Okay, in terms of standalone numbers, if I was just to remove this INR 65 crores fee income that you have recorded on Ganga Expressway and expense of ~INR 48 crores that you have got against that, the PBT comes down to ~INR 5 crores for the quarter or so. So, I mean what has really been the reason of such a dismal number, because you said you have booked Quipo income also in this quarter?

**Mr. Hemant Kanoria:** Yeah, but you see that it is not a question of being a dismal figure, because for any funding that you do, you do not get your entire income in the first year itself, so it starts coming from one year onwards. So the disbursement itself, if you actually look at it, the transaction got completed with BNP on April 2, then by the time we really started doing the business it was May-June. The earnings started from September-October, some disbursements and earnings. So, we will see that the actual trend of interest will start getting reflected by the last quarter of this year, and, especially from the next year onwards, because the money which was put in for financing would start earning interest with a lag. We will have a disbursement of ~INR 2,000-2200 crores by the end of this year, and therefore, there will be stability on the cash flow, but for this period definitely, we have to rely upon 50% of the consolidated income,

which is coming from the equipment financing business. It is not that the equipment financing business is totally devoid of it.

**Mr. Prashant:** Correct, what is the net worth of the standalone entity right now, the parent?

Mr. Hemant Kanoria Standalone will be INR 700 crores.

**Mr. Prashant:** The parent has INR 700 crores, out of which the investment is ~INR 400 crores?

Mr. Bajrang

**Choudhary:** No, the JV was ~INR 25 crores.

**Mr. Prashant:** No, the overall investment should be ~INR 400 crores.

Mr. Bajrang

**Choudhary:** It would not be that high, it would be close to about 250 crores.

**Mr. Prashant:** 250 crores, so okay, okay sir thank you very much.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Lakshmi from Capital Market. Please go ahead.

**Ms. Lakshmi:** Hello, I would like to know the disbursement for quarter?

Mr. Bajrang

**Choudhary:** Yeah, this quarter the disbursement has been INR 2,000 crores.

**Ms. Lakshmi:** INR 2,000 crores?

Mr. Bajrang

**Choudhary:** No. Sorry, it has been INR 2,863 crores.

**Ms. Lakshmi:** Pardon me.

Mr. Bajrang

**Choudhary:** INR 2,870 crores.

**Mr. Hemant Kanoria:** INR 2,870 crores.

**Ms. Lakshmi:** INR 2,870 crores. What was it the corresponding previous quarter?

**Mr. Hemant Kanoria:** INR 1,454 crores.

**Ms. Lakshmi:** Can you throw some light on your Ganga... that business.

**Mr. Hemant Kanoria:** For Ganga, we were the advisors only, and our role as an advisor has already got over because a concessionaire was appointed. After that we do not have any role in Ganga, at present.

**Ms. Lakshmi:** So, this fee income is just for this quarter is it? This is not going to accrue every quarter?

**Mr. Hemant Kanoria:** No, no. Fee income is basically going to come. SREI has an advisory division, so this was one of the assignments that SREI had done, but then there are also other assignments that SREI is doing. So, it is not that the fee income was just a one-time income and it is not going to accrue in the

future.

**Ms. Lakshmi:** Okay, okay.

**Mr. Hemant Kanoria:** The lines of business of SREI are advisory, infrastructure advisory, and project financing, so both these lines are in SREI.

**Ms. Lakshmi:** Okay.

**Mr. Hemant Kanoria:** And in the JV it is the equipment financing business.

**Ms. Lakshmi:** Okay, can you break up your revenues in terms of all these businesses? Can you give a breakup, is it possible?

**Mr. Hemant Kanoria:** Fee-based income has been given, at INR 68 crores, the other income is basically ~INR 14 crores, and then finance charges is ~INR 117 crores.

**Ms. Lakshmi:** Okay.

**Mr. Hemant Kanoria:** Sorry, income from financial activities, INR 164 crores.

**Ms. Lakshmi:** Okay, thank you.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Mohnish from Darashaw Company. Please go ahead.

**Mr. Mohnish:** Hello?

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

**Mr. Mohnish:** Could you explain the increase in professional legal fees from INR 1.69 crores to INR 49.56 crores.

**Mr. Hemant Kanoria:** This is a one-time fee, which has been incurred because this was on the Ganga Expressway where we were the advisors, so there has been earning of INR 68 crores, and there has been an expenditure of ~INR 40-odd crores. That has been shared, because it was outsourced to a couple of agencies providing the technical expertise.

**Mr. Mohnish:** That is a one-time expenditure?

**Mr. Hemant Kanoria:** Yeah, that is a one-time expenditure.

**Mr. Mohnish:** And the next recognition of advisory fees on the Ganga Expressway project, there will be no corresponding cost increase?

**Mr. Hemant Kanoria:** No, no, there is nothing, no cost increase. Everything has been provided.

**Mr. Mohnish:** Okay, thank you.

**Moderator:** Thank you very much sir. Next, we have Ms. Sarika from Kotak Securities. Please go ahead.

**Ms. Sarika:** Hi, I wanted to understand if there are any mark-to-market provisions related to your forex borrowing? If there is any there, have you accounted for that and under what head have you accounted for it?

Mr. Bajrang

**Choudhary:** We have mark-to-market of ~INR 8 crores in the parent company.

**Ms. Sarika:** Okay.

Mr. Bajrang

**Choudhary:** We accounted for it along with the financial charges.

**Ms. Sarika:** Okay.

Mr. Bajrang

**Choudhary:** And in the JV we have ~INR 16 crores.

**Ms. Sarika:** In the JV, you have INR 16 crores.

Mr. Bajrang

**Choudhary:** Which again is in financial charges.

**Ms. Sarika:** So, 50% of that would again come into consolidated numbers, is it?

**Mr. Hemant Kanoria:** That is right.

**Ms. Sarika:** Okay, and secondly, I also wanted to know what would be the actually financing asset in this particular quarter, as in outstanding total asset financed, including operating and financing.

**Mr. Hemant Kanoria:** INR 9,600 crores are the total assets.

**Ms. Sarika:** INR 9,600 crores, so is that inclusive of securitisation as well?

**Mr. Hemant Kanoria:** Yeah.

**Ms. Sarika:** How much would be the securitisation in this particular quarter?

Mr. Bajrang

**Choudhary:** INR 1,200 crores.

**Ms. Sarika:** How much?

**Mr. Hemant Kanoria:** INR 1,200 crores.

**Ms. Sarika:** Okay, and the Ganga Expressway project fee is a lump sum amount. There would not be any further accrual of this income in the following quarters, right?

**Mr. Hemant Kanoria:** Yeah, it will not be for Ganga Expressway, but the...

**Ms. Sarika:** But the other projects...

Mr. Hemant Kanoria ... which will be coming out of other advisory jobs.

**Ms. Sarika:** Yeah, yeah, right sir. No, I just wanted to understand if it is in tranches or a lump sum?

Mr. Bajrang

**Choudhary:** It is a lump sum.

**Ms. Sarika:** Okay. Fine sir, that was it.

**Mr. Hemant Kanoria:** Okay, thanks.

**Moderator:** Thank you very much ma'am. I repeat again, participants who wish to ask questions, may kindly press \*1 on your telephone keypad. Next in line,

we have Ms. Ashi Anand from Kotak. Please go ahead.

**Mr. Ashi Anand:** Sir, first of all, I need to congratulate the management for coming out with the investor presentation. I think it really helps in terms of understanding what is happening with the company, so please keep that up and looking forward to additional disclosures, going forward.

Mr. Bajrang

**Choudhary:** It was a suggestion given by you, so we have just started with it.

**Mr. Ashi Anand:** No, sir, it is very nice way to say.

Mr. Bajrang

**Choudhary:** With further comment, we can further improve that.

**Mr. Hemant Kanoria:** We will definitely keep improving the presentation.

**Mr. Ashi Anand:** Excellent. I think it is a very good start. Just a few questions. In terms of Quipo Telecom, just wanted to understand in this quarter, how much was the interest, which has gone and the interest cost that was related to the Quipo Telecom deal?

**Mr. Hemant Kanoria:** Basically, we have to look at it from the right perspective. Quipo Telecom is just one of the clients. Funds were available and the disbursements were being done. So this money, which has come back from Quipo Telecom, has been redeployed to other people. One client has given us a better interest rate, because the funding they required was on an immediate basis. That is why we have got extra income, and we were able to deploy at a higher interest rate, but, going forward, this money has again been redeployed. We do not look at it from the perspective that is a Quipo Telecom transaction, but as one of the clients, and so therefore, it is just that it is a regular business.

**Mr. Ashi Anand:** Sir, I just was trying to understand how much higher was the rate of interest, because that could have an impact on NIMs, going forward.

**Mr. Hemant Kanoria:** Yeah, because, as Bajrang mentioned, NIMs should be about...

Mr. Bajrang

**Choudhary:** It should be down 150bps because of that particular transaction.

**Mr. Ashi Anand:** Okay, 100-120bps higher because of the transaction.

**Mr. Hemant Kanoria:** Right.

**Mr. Ashi Anand:** Do we have any funding remaining or we have got the full payment for it?

**Mr. Hemant Kanoria:** We have, I think, almost got the full payment. I think there is some small outstanding, which is there...

Mr. Bajrang

**Choudhary:** Next week, we could have the money coming in.

**Mr. Ashi Anand:** Okay sir that is fine. Now, when you are speaking of ~INR 2,000 crores of disbursement from the standalone company, approximately how

much do you see going towards project financing and how much towards equipment financing?

**Mr. Hemant Kanoria:** In SREI?

**Mr. Ashi Anand:** Yeah, in SREI's standalone.

Mr. Bajrang

**Choudhary:** The project financing, it would be close to ~40%, 35-40%.

**Mr. Ashi Anand:** Okay.

Mr. Bajrang

**Choudhary:** And remaining will be towards equipment financing again, in the large ticket equipment, because in the project financing, as you would appreciate, after sanction also the disbursement has to be done in tranches, and as the development and the progress of the project takes place, the disbursement also keeps on happening. See the lion's share will be through equipments only.

**Mr. Ashi Anand:** What type of equipment are we focusing on here?

Mr. Bajrang

**Choudhary:** Basically ports, railways, and oil and gas. Then roads and power equipment.

**Mr. Ashi Anand:** Okay, sure. Just wanted to understand, is ~40% of this standalone book only concentrating on project financing? We have a number of those other parts that we have spoken of in terms of the advisory business, we have equity and debt indication that we can do, and we could come up with an equity fund at some point in time when markets improve, which could actually put equity in the first projects. Just trying to understand, given what has happened with the markets and some amount of uncertainty, how much does that actually impact some of the other parts of the business, and what is the kind of impact you are seeing on those.

**Mr. Hemant Kanoria:** See, it is very difficult to say at this juncture, because it the whole story is just ~2.5 to 3 weeks old, so the storm is just over, the dust is settling down. After that only will we know whether there has been any devastation or not, if there is one, and life goes on as normal, and if there has been, because you know, everything, and everything has happened very fast. So I would say in the next one month, we would be in a better position to comment because today whatever we say, it may not be true. Either we will be too pessimistic in our view or too optimistic in our view. So, a realistic situation can only be gauged after about a month or so.

**Mr. Ashi Anand:** Okay sir. Just in terms of, I know you have answered the question already in terms of the ALM mismatch, but in terms of the borrowings that we have, what amount of this would be term loans, which are say maturing over the next one year?

Mr. Bajrang

**Choudhary:** We can get back to you on the next one year because we have till March. As I said, it is matching, therefore we do not track it because in any month if it is mismatched, then only it will be tracked. But because it is matching, so whatever receivables, which we are getting is taken care of by the repayments that we have, but we can get back to you, because....

**Mr. Ashi Anand:** Actually, let me just rephrase my question. Just wanted to understand in terms of longer term loans, which are maturing. I am more concerned about the ability to get additional term loans. We may have an asset, which also matures, but will actually rollover and be lent to someone else. The ability to actually get those funds, do you see, that as an issue.

**Mr. Hemant Kanoria:** See, what you are talking about can only result if there is a mismatch. If there is no mismatch in the asset and liability sides. If there is a default by any client on the assets, there is capital to substantiate and to support any small default. See, if the entire asset portfolio defaults, then it is a different matter altogether.

**Mr. Ashi Anand:** I am sorry, I am just actually talking just in terms of ability to fund additional growth. So say we have INR 1,000 crores, say we have a INR 1,000-crore book in the standalone company, and INR 200 crores of that actually, liability goes away, and you are not able to get additional funds. Are you seeing that as an issue, to actually grow the book further?

**Mr. Hemant Kanoria:** At present, we are not seeing that it will be a big concern, but at the same time we cannot say that we will not get it, because as against equipment financing and, especially imported equipment, the ECB line is still open. We are tapping ECB lines on continuous basis, and we have relationships with a large number of international institutions who are still lending to us. So I do not see that to be a problem. There may be a little bit of an issue on the project financing side with rupee expenditure, and if banks do not fund. At present, in the next 15 days to one month only will we know whether the banks are funding or not, because there is so much liquidity introduced in the market, and the banks are being told not to lend to real estate and stock market operations, so where else will they go. They will have to start lending to infrastructure and equipment financing, and the government has... the signal which the government is giving is that they are all out to support NBFCs by declaring yesterday that bonds and perpetuity can be raised. Okay, no money in bonds and perpetuity will come, but it is just a thought that the government is proactive and they want to support the NBFC sector, and this is a statement, which is very, very pronounced in that direction.

**Mr. Ashi Anand:** Sure. Okay, sir. In terms of our foreign currency borrowings, how much is the current foreign currency borrowing and how much of that is unhedged and what is the policy, say going forward, in terms of the quantum we want to hedge and the quantum just for keeping open?

**Mr. Hemant Kanoria:** Basically, there has been a consistent policy of the company in this regard, which is that only 25% of net worth can be an open position. Beyond that, we cannot have an open position, and that is an

absolutely clear-cut policy. So, therefore, going forward also, we are going to continue with that policy. We do not want to revise or change that policy because there is nothing that is very risky.

**Mr. Ashi Anand:** Okay.

**Mr. Hemant Kanoria:** It has gone through the test of time—over more than a decade. So, we would like to continue with that policy—25% of the net worth of the company.

**Mr. Ashi Anand:** Okay.

**Mr. Hemant Kanoria:** Yeah.

**Mr. Ashi Anand:** But just to understand, if you are actually borrowing abroad and if we hedge it, what is the kind of costs or what is the all-inclusive costs that will come out vis-à-vis what is available domestically?

**Mr. Hemant Kanoria:** See, basically today, it will be, let us suppose that if you take the LIBOR, it is LIBOR plus 250-300BPs, plus the hedging cost is another, depending on the tenure that we have, it can range from 2% to 3% to 3.5%, so all costs would be ~9% to 11%.

**Mr. Ashi Anand:** Okay sir, 9% to 11%. Great, thanks so much and best of luck, going forward, in these tough times.

**Moderator:** Thank you very much sir. I once again repeat, participants who wish to ask questions, may kindly press \*1 on your telephone keypad. Next in line, we have Mr. Nischint from Kotak. Please go ahead.

**Mr. Nischint:** Can you give us an update on what is happening with Quipo Telecom?

**Mr. Hemant Kanoria:** Update on the Tata Teleservices transaction?

**Mr. Nischint:** Yeah, I mean, okay.

**Mr. Hemant Kanoria:** The bid was there, everything is going on, it is still, I think that we are at the last stage

**Mr. Nischint:** Okay, and your stake in the company still remains at ~17%, right?

**Mr. Hemant Kanoria:** The stake in Quipo remains at 16.85% to be exact.

**Mr. Nischint:** Okay, okay. Now, in terms of the same topic, I am coming back to the entire liquidity crunch and you seemed to be guiding for 25% growth and saying that because we have access to forex, we would be kind of more or less insulated from this entire liquidity issue. Just wanted to understand as to what will be, I mean what could be the... some sense if you could, i.e., some absolute factor that you could say that you know this is the amount of sanctions that we already are having from foreign institutions or from domestic institutions, something that would let us say you know give us more comfort on the growth visibility vis-à-vis most of the other NBFCs.

**Mr. Hemant Kanoria:** Basically today, if you actually look, last year, we did a disbursement of business of ~INR 5,200 crores for the whole year. This year, in

the next six months, if we only do INR 1,000 crores (worse case scenario), I am saying that we will do much higher, we will have 25% growth.

**Mr. Nischint:** Okay, but on the borrowing side, mobilizing these INR 1,000 crores, how easy is it for you, you already have some sanctions available or...?

**Mr. Hemant Kanoria:** Because INR 1,000 crores... INR 1,100 crores is ~USD 250 mn. We do not see that it is going to be a very big issue in the next six months to mobilise that amount, in spite of the fact that whatever maybe the tough conditions in the market, it is a very small amount. So, 20-25% growth is something, which we do not see to be a very optimistic. We feel that this is taking a pessimist view that we should be in a position to achieve 20-25% growth.

**Mr. Nischint:** Okay, okay. Any amount of, you know, any sense on what is the amount that has been sanctioned, but not drawn till date, as on date?

Mr. Bajrang

**Choudhary:** You see at a monthly draw down that we are doing even from the domestic... INR 500 crores.

**Mr. Hemant Kanoria:** Close to about, we have about international loans also, on the ECB side we have about sanctions of 100.....

**Mr. Nischint:** I am sorry, you just broke up, 100 and?

**Mr. Hemant Kanoria:** USD 120-125 mn and approvals, which we have not drawn down as yet.

**Mr. Nischint:** Okay.

**Mr. Hemant Kanoria:** We are in the processing of drawing... and when we are talking about in the last week of, last day of October, December, is still ahead of us. We are not really concerned about it like many other NBFCs, who have borrowed a lot of money from mutual funds and had commercial papers and short-term money.

**Mr. Nischint:** Okay.

**Mr. Hemant Kanoria:** We do not have that, and that is why we have for the past so many years, we have been competitive.

**Mr. Nischint:** Okay, fine, thank you very much.

**Moderator:** Thank you very much sir. Next, we have a follow-up question from Ms. Sarika of Kotak. Please go ahead.

**Ms. Sarika:** Hi, sir, I wanted to have a breakup of operating lease and the financing lease, if you can give that number?

**Mr. Hemant Kanoria:** Operating lease in the parent is ~INR 83 crores.

**Ms. Sarika:** How much? Sir, your voice is cracking.

**Mr. Hemant Kanoria:** INR 83 crores.

Mr. Bajrang

**Choudhary:** That is in the parent and in JV we have gross block is ~INR 405

crores.

**Ms. Sarika:** Okay, and the balance, the financing.

Mr. Bajrang

**Choudhary:** Balance is normal, you know, the project financing what we do.

**Ms. Sarika:** How much is the project financing?

**Mr. Hemant Kanoria:** Yeah, 1,277... sorry, 1,277 minus 83, so basically ~ INR 1,190 crores.

**Ms. Sarika:** How much?

**Mr. Hemant Kanoria:** INR 1,150 crores.

**Ms. Sarika:** INR 1150 crores. Sir, I also wanted to know what would be the depreciation on operating lease assets?

**Mr. Hemant Kanoria:** Parent?

**Ms. Sarika:** Yeah, on consolidated basis actually I wanted, that will also do.

Mr. Bajrang

**Choudhary:** INR 20 crores.

**Mr. Hemant Kanoria:** About INR 20 crores.

**Ms. Sarika:** Yeah.

Mr. Bajrang

**Choudhary:** It is about INR 2 crores in the parent, and in the JV it could be about... ~INR 13 crores.

**Ms. Sarika:** INR 113 crores?

Mr. Bajrang

**Choudhary:** INR 2 crores there and INR 13 crores here.

**Ms. Sarika:** Okay, okay, fine sir. Thanks.

**Moderator:** Thank you very much ma'am. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr. Kunal Shah for final remarks.

**Mr. Kunal Shah:** Yeah sir. Sir, before final remarks, just two to three questions from my side. Sir, on this 'Paison Ki Nilami' contest which has happened in August and September, I just wanted to know the response over there and whether the disbursements in this quarter, they have been made by this contest? If not, then how much is the amount to be disbursed over next two quarters from this?

**Mr. Hemant Kanoria:** The 'Paison Ki Nilami' I think that we did ~INR 1,100-1,200 crores of business and primarily 65-70% of the disbursement has already taken place of that. The balance is in process, because if you ask, as manufacturers keep on delivering the equipment as the clients keep on taking, so therefore there is always a lag on that.

**Mr. Kunal Shah:** Yeah, so maybe like 35-40% of this INR 1,100-1,200 crores will come in, in the coming quarters?

**Mr. Hemant Kanoria:** You see, we might have some more, we are saying INR 1,100 crores is something which is... We had response which had gone up to ~INR 1,800-2,000 crores, but then again, it has to pass the test of our credit rate also, so INR 1,100 crores is something, which we have already approved, out of the nine days of the 'Paison Ki Nilami'. Out of that, 65% has already been disbursed, so the balance will be disbursed in the coming quarter.

**Mr. Kunal Shah:** Okay, and just coming to the rates, no doubt it has helped customers get at a lower rate, but would it be impacting your yields? You have mentioned a 50-75bps compression in margins, that is considering this Paison Ki Nilami event?

**Mr. Hemant Kanoria:** No, no, because whatever we are disbursing, what the interest rates have got revised, so that is the policy of the company that when the interest rate is revised, people have to pay the higher interest rate. It will not be at the old interest rate.

**Mr. Kunal Shah:** Okay, okay.

**Mr. Hemant Kanoria:** It is not that we will maintain the same rate, which we had contracted at that particular time. The world has changed, so we also will change.

**Mr. Kunal Shah:** No, but how much would be the differential be between this event and your normal lending rates?

Mr. Bajrang

**Choudhary:** See, Kunal, what happens is in these events probably...

**Mr. Hemant Kanoria:** We get a higher yield there.

Mr. Bajrang

**Choudhary:** Because the interest rate might be lower, but then we have a higher commission payout because of the bulk purchases.

**Mr. Hemant Kanoria:** For the manufacturers.

Mr. Bajrang

**Choudhary:** Effective pricing on the equipment itself, so there are other multiple benefits that come with it. Basically, the yield in these cases can go slightly higher as well. It depends in terms of the particular assets that got sold and the number of assets sold into that event.

**Mr. Kunal Shah:** Okay, and just to know how was the response, since this event has been organized over so many years. In this year, how was the overall response in this event?

**Mr. Hemant Kanoria:** This year, the response was much better because we did a lot of business. What has happened is that... we did almost nine of these events in just about a month and a half to two months, so the response was also very good, and we had ~16,000-17,000 customers who had come at all

these particular places, so the response was very good. Also, as Bajrang mentioned, what happens is that when we are getting into these events, we are also getting into special arrangements with the manufacturer. So, it may seem that interest rates are lower, but the yields are higher, because we get commissions from the manufacturers.

**Mr. Kunal Shah:** Okay, and sir, on the Ganga Expressway, I was under the impression that there are two parts to it, one is the advisory and one is the management consultancy. This management consultancy fee income would accrue over the next three-four years, you would be just amortizing it over the next three-four years. Is it so or it is like just the one-time, which you have received, no doubt on the advisory part, but on the management consulting part, is there more income to be accrued from this Ganga Expressway project.

**Mr. Hemant Kanoria:** No. No management consultancy. We have not yet taken it up from the government because at present it was only the advisory. Management consultancy will be only expediency, i.e., the project's management consultancy will arise once the project starts happening. At present, you see that they have also... the government has to get the land, so it is a very large project, so the government has to acquire all the land, start handing over the land, then only the management consultancy work will start. That has not yet started, so at present it has been just the advisory work up to the concession agreement.

**Mr. Kunal Shah:** Okay, and sir, on these tax rates, no doubt we have been creating these deferred tax assets, over the past two years, we would have seen ~10% tax rates in your standalone entity, 10-12%. So, considering whatever operating we are doing at this stage in your project finance business, sir how do you see your interest rates and tax rate, no doubt it would be 33-34% for this year, but do you expect it to come down in FY10E or FY11E or so?

**Mr. Hemant Kanoria:** Yeah, basically, we are providing for the deferred tax, but the cash outflow does not take place to that extent. This has happened in the past also because through operating leases, through the lease structures, etc, which we have, we are in a position to reduce the tax, so reasonable basis would be that we should land up paying anything between 15% and 20%. There would be ~10-12% savings.

Mr. Bajrang

**Choudhary:** And just to add on to that, see what happens is, as our operating portfolio builds up and the depreciation mark increases, we will have this deferred tax provision coming down.

**Mr. Kunal Shah:** Yeah, sir, any specific timeline as to when we can see this actually happening in your financial statements?

Mr. Bajrang

**Choudhary:** Depending on how the operating lease portfolio develops, but I would say that in the next two-three quarters, I do not think this will... I think at least ~three-four quarters minimum, we would have the same rate going.

**Mr. Kunal Shah:** Okay, okay sir. Now, just the final remarks. Thank you sir for your time, and thank you all the participants for participating in the call. Have a pleasant journey.

**Mr. Hemant Kanoria:** Thanks everyone, bye.

**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.

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