

Conference Call Transcript

SREI Infrastructure Finance

Q2FY10 Results

October 27, 2009 | 05:30 p.m. IST

Corporate Participants

Mr. Hemant Kanoria
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Mr. Sanjeev Sancheti
CFO

Mr. Bajrang Choudhary
Senior VP

Questions and Answers

Melissa: Ladies and gentlemen, good evening and welcome to the SREI Infrastructure Finance Limited Q2 FY'10 results conference call, hosted by Edelweiss Securities Limited. As a reminder, for the duration of this conference call, participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone 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. Thank you and over to you Mr. Shah.

Kunal Shah: Thank you Melissa and good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Hemant Kanoria, Chairman & Managing Director, Mr. Sanjeev Sancheti, CFO and Mr. Bajrang Choudhary, Senior Vice President, SREI Infrastructure Finance, to discuss their Q2 FY'10 earnings. Over to you Sir.

Hemant Kanoria: Good evening to all the friends in India and good morning if they are in the US. The Q2 results, basically, if we just take a snapshot of the results, the disbursement this particular quarter has grown and has gone to about 2600 Crores. So, gradually we are seeing the disbursements coming back to normal, which had slid down from the third quarter of the last financial year. Gradually, the income is also rising. I would not say that it is absolutely up to our satisfaction, but gradually the things are improving in the market. The asset under management has also now combined, gone up to 11600 Crores. The PAT, on a consolidated basis, is at 25 Crores in this particular quarter against 26 Crores last year. Again, last year, the September quarter was extremely good because the economy was absolutely at its highest at that time. After the financial crisis last year, from October onwards it started slowing down, so we see that there is an increase there. NIM also, we have been able to maintain, it was 4.8% in Q2; in the corresponding period last year, it was about 4.66, so it is more or less at the same rate. The leverage has increased from 3.37 to 4.52, and the total income for this particular quarter from all activities is about 240 Crores on a consolidated basis compared to 244 Crores last year in the corresponding period. Last year, total consolidated profit quarter-to-quarter after taxes was 26 Crores. This year, it is 25.77, approximately about 25.8 Crores. So, basically what we see is that gradually the business is coming to normalcy and we are quite hopeful that in the next couple of quarters there will be a decent growth. Also, we should be in a position to maintain that at the end of the year as we have been giving the indication right from the beginning that we should have a disbursement and profit growth of about 15-20% compared to what it was in 2008-09. So, we see that the trend is towards that. There have been some setbacks and one of the setbacks has been on net NPA; net NPA has

gone up to 0.92% this particular year for this quarter from 0.5% in the corresponding period last year, primarily because of the floods in Andhra and the death of CM, YSR Reddy. Hence, there was a setback and people were not able to get their money on time (usually the government pays them at the end of every quarter). As per our provisioning norms, above 90 days we provide for 20%, and above 180 days we provide for 50%; therefore, we did our provisioning as per our norms, we did not want to change our norms and go to the RBI which is more relaxed on this. We thought that it is more prudent for us to maintain our stringent norms on the NPA provisioning. Hence, it is not something very alarming; it is within control, and that is what we can assure everyone on that. Quarter-on-quarter if you see, all of you may notice that in the last quarter, that is quarter ended June, there was a total consolidated profit after tax of 38 Crores, whereas this time it is 25 Crores. People may be thinking that what is the area of concern. It was in the last quarter because of the foreign exchange provisioning, the income that we were able to book because of the depreciation in the dollar and appreciation in the rupee, so that had led to almost about 30 Crores of extra profit. Therefore, you know, these are kind of things, which as per the accounting norms we have nothing to do because every quarter there may be some changes depending upon where the currency is going and the provisioning that we have to do or the income that we have to book because of the rupee going in our favour. So, these kind of variations may be there, but on a trend if you see that the disbursements are picking up, the business has picked up now and we do not want to be over aggressive in just lending. We are very careful on the lending side because we do not want to take undue risks in this particular market. We think that it is better to have a steady growth and good quality of portfolio, as we were doing earlier also, and because all the industries have gone and the infrastructure has gone through this financial crisis, so therefore we have been extra careful on our lending norms and we have also made it more stringent because for us quality is of extreme importance. The other thing is that you know now what has happened is all of you are aware that in the last 20 years SREI has been in various verticals, some verticals have been doing very well, some verticals will still take time to grow and some verticals there have been diversification like the investment banking business, advisory business the equipment financing business that we have gone in to Russia where we have also the advisory side, we have gone in to Mauritius. So what we thought and there are so many businesses which has fanned out over a period of 20 years, so we felt and the board felt that it was important that committee of directors should look into all the portfolios of the company in the infrastructure sector and identify the areas of growth. It is also important to look at the areas which we should either exit or sell out and other areas where we should consolidate because those are the strength areas of the company. Just to take a stock of the entire portfolio of SREI in the infrastructure structure, a committee has been formed; this is to devote time and look into all these particular areas to bring about more operational efficiencies, to bring about more synergies within the businesses which we are involved in because we have SREI BNP Joint Venture, we are in

the retail equipment financing, wholesale equipment financing, advising, and so therefore there are large number of businesses which are there. Many times from the management's perspective we see that these are important areas to be in because all these areas complete the entire value chain. But, taking a dispassionate view of the whole thing and to look at it, therefore we thought the best would be that a committee of independent directors who are experts in the financial area, one is a banker, one is the President of Chartered Accountant Institute and other person is from SEBI who is an executive director. These are the three people we are fortunate to have on our board, who can look into all the portfolios of the company in a dispassionate way, get advisors and suggest to the board what are the areas that we should concentrate and where should we synergize, so the management can then deliberate with them and create an action plan for that. I think we did all this at the right time because from here onwards we want to move at an astronomical pace and today there has been another good news announced by the RBI. For the past 2.5-3.0 years, we have been basically following up with the government and RBI quite intensely that in the NBFCs itself there should be a subsection which should be created of infrastructure financing, because our requirements are quite different from the general NBFC. In October's credit policy, finally RBI has announced that there would be a separate category of infrastructure financing NBFCs, which will be created. This is good news for us because we are sure that through this we will be in a position to reduce our cost of funding, raise long-term resources because we will be in a position to get more attention both from the government and the RBI, which would help us creating an enabling environment to have policy framework, guideline, which will help us to grow our business and reduce our cost and not have asset liability maturity mismatches also and because there will only be very few companies. So, we would be in a position to get the desired attention of both the government and RBI on this. Hence, I think that this has been a very good announcement from our perspective and all our followup for the last so many years with the RBI and government has finally yielded results, so I think this basically and the figures have already gone, the presentation is already there with all of you. I would welcome your questions on this and with me my colleagues are here Sanjiv Sancheti, CFO, and Bajrang Choudhary, Senior VP, so we will all be very happy to answer all your queries. Thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer (Q&A) session. Anyone who wishes to ask a question may press "*" and then "1" on their touchtone telephone. If you wish to remove yourself from the question 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: Just a question on what you just said. What will be the impact on the cost of fund because of the decrease in risk rate assigned to SREI Infra after the RBI policy today?

Hemant Kanoria: See, I do not think that will basically make a large impact because from the bank as it is if they create a different category for infrastructure financing NBFCs it would enable us to get money at better rate because there will be only a few companies. The interest rate is basically a derivative of the liquidity, which is available with the bank and negotiating power of the borrower.

Amit Premchandani: So, basically you are saying that it may not have much of direct impact on the cost of funding?

Hemant Kanoria: Actually, as a matter of fact you know as I mentioned that having a separate category of infrastructure financing NBFCs will help us and this was our longstanding request to the government and RBI. We have been continuously following it up because it will help us to reduce our cost of fund. To give you an example, because now RBI will be in a position to ease out ECB for us, we will be in a position to raise long-term loans from international institutions at a lower cost; plus, we will also now be able to access IISCL refinancing, which we are giving to banks at 7.65% long term. If we are able to come to that category and get that money at 7.65%, for long term, we are home.

Amit Premchandani: Thank you, that is it from my side.

Melissa: Thank you Mr. Premchandani. The next question is from the line of Rohan Juneja from Frontpoint Partners. Please go ahead.

Rohan Juneja: Hi, just two quick questions; first, on the NPAs, you said there were couple of one-offs. Can you just tell me about what you expect; could there be any kind of recovery from those one-offs. Second, on this restructuring, what is the timeframe around it. How long you guys are going to think about specific purpose that you want to focus on. Can you just give us some more colour on that, if you do not mind?

Hemant Kanoria: You see on the NPAs, basically as we keep on recovering it, the NPA percentage will come down because there are not going to be large write off on that. As I said, we have been following a very conservative policy of NPA provisioning and we do not see that in the next quarter this will be rising because already the payments have started coming in. Many times you know it gets into the election mode and it gets into the political framework where delays do happen. But our norms cannot keep on changing, so therefore it had happened; but I do not see that this is going to be an area of concern on the NPA and we are quite sure that we should be in a position to bring it under control. On the point of that what this committee is doing, we would like to come out as fast as possible, that is the reason why we have said that you know the committee should get the advisors if they want to and deliberate on the various investment portfolios that SREI has, the businesses that we are in, where we can bring in operational efficiencies, where we can combine certain things. Therefore, that will basically help everyone to get a clearer picture and from the management perspective also as I said that many times as people who are very passionate into business and in 20 years you also get into certain areas

where actually if you think through it dispassionately you should not have been. That is the task which this particular committee would be taking to come out with their recommendation, which we thought that it was high time because 20 years is a long time to be in a sector, where there is no one who has taken up full fledged external review of it.

Rohan Juneja: That is fair enough, just as a follow up and I will jump off the question line straight after this. I understand increasing the credit cost and that is an one-off, but you do expect some recoveries. Can you quantify at least in some way what is recoverable in some ways or the other like off the 50 to 92 basis point increase, the 42 basis point increase can you quantify in some way what you think is one-off versus what is recoverable and then also just a little more detail on at least what are the areas that SREI wants to focus more on in terms of this whole restructuring?

Hemant Kanoria: Basically on the NPA, I think that we should be able to come back to about, we should be in a position to reduce it by 25-30 basis points in the next quarter definitely. So, the net NPA of 0.92 that you see should come down to about 60-70 basis points definitely that is what we are sure about. The other area is on the restructuring, which you said that our focus would be that is where we are asking the committee of independent directors to look at, which areas we should focus on and where these trends and teams are already performing very well and where we can synergize to bring in operational efficiency because you know there are many areas where we can bring in operational efficiency, which the more felt is possible because now we have a SREI BNP we have SREI where we have investment banking. We have private equity; we are discussing with people who can come and partner with us, so there is a valuation, which can be done where we can get a partner just like what we did with the BNP. Therefore, we have got the opportunities where they can suggest these are the areas where you get a partner because you already have their franchise, which is available, the network which is available, so you should get a partner, then this is how you will be in a position to create a value immediately like what happened with the BNP one, so these are the kind of things, which they would look at it from the perspective with help of advisors and all because the management gets too busy in doing day-to-day thing, so that is the objective at this particular juncture.

Rohan Juneja: Okay. Thank you.

Melissa: Thank you Mr. Juneja. The next question is from the line of Harish Krishnan from Kotak, Singapore. Please go ahead.

Harish Krishnan: Hello Sir, four questions from my end. In your disclosure to the BSE, I see a line item of legal and professional fees, this was close to about 50 Crores in the corresponding quarter of September 2008 has come off to close about 5 crores. What exactly is this line item?

Company Speaker: Basically, this line item includes the variable component of the costs which we incur for our advisory business. In that quarter, the advisory business had the Ganga Project going on in the previous quarter, so billing (ph)

was also very high and corresponding variable costs also was very high. This particular quarter we did not have such a cost obviously.

Harish Krishnan: Okay, secondly in terms of employees cost, on the standalone side, they seemed to have doubled for the first half of this year. In fact when we met up with Mr. Saud also I understood the point that you have taken on quite some high profile talent, just wanted to get a sense as to how quickly this will get translated into business because they are looking at a specific objective of project finance first on the debt side and later on the equity side.

Hemant Kanoria: See, basically on the people who have been taken, it is always a chicken and egg situation. Now we are in the situation at the chicken level or the egg level is what we are to understand and we have taken good people, they are already there in the market to get the business and we are quite hopeful and we should see the results coming in the next couple of quarters and that is the reason why we are taking experienced people whom we do not have to invest too much of time. There should not be too much of gestation period and you can start getting the results much faster, so we are hopeful that in the next couple of quarters we should see the results coming out.

Harish Krishnan: Okay, this increase in employee cost would be attributable only because of this talent being taken in or has there been other widespread employee addition as well because I was given to understand there were about some 20 odd people who were recruited in this division.

Company Speaker: Mostly acquisition of talent, there has not been any widespread increase in manpower in general.

Hemant Kanoria: Yes, in general there has not been, as a matter of fact in the corporate financing business, the number of employees have come down and in project financing we have rationalized and in the project financing division we have been taking some people because there would be a focus to increase project financing.

Harish Krishnan: So, currently, what is the leverage on the project finance side Sir?

Hemant Kanoria: The leverage at present is about 3.5x.

Harish Krishnan: Third, sir, on your investment books wherein you have put in more than about 300 crores, during the last quarter for example Sadbhav came out with a notice saying that they have increased stake in one of their road projects from 51% to 90%, where you are also a partner. So, I just wanted to understand did you actually sell out some stake or was this additional equity infusion which means that their stake went up.

Hemant Kanoria: No, there must be additional equity intake, because you see what happens is that once they have invested something then usually we do not keep on increasing it on a continuous basis. Therefore, the actual amount of investment is not a percentage that we go by. So many times we do take a

decision that we will not increase our stake further by investing more amounts; therefore, when the requirement is there, the other partner invests and we may get diluted to that extent, so that is how we structure.

Harish Krishnan: Is it fair therefore to assume that you have not booked any revenues from sale of any of these investments?

Hemant Kanoria: No, not yet.

Harish Krishnan: On a related note when can we start seeing monetisation of that value? Because few of the projects for example with Madhucon have already started, operational or very soon or very soon getting operational, so is there any stage where you identify when you want to exit a particular investment?

Hemant Kanoria: You are absolutely right, you see that we have already started because the equity market was not ripe enough last year or so, so in the last two or three months things have started changing. So, we have already started discussing with various infrastructure funds and on our portfolio we have started showing around our portfolio also selectively to people that if we get a good value then we do not mind diluting some portion, exiting partly or fully out of it. So, this will now be because the project which has started and we are already coming to the expected level of revenues. Those are the projects that we have started already, seeing how we can monetise it partly or fully and that will be an exercise that we will try to, you know I think these discussions usually takes about three, four months time. We should see something coming out either in the last quarter of this year or from the first quarter of next year.

Harish Krishnan: Okay. I appreciate that. My last question before just I move out of the queue would be in terms of today's announcement on the credit policy regarding provision norms for banks I think for the asset-backed finances, asset-backed NBFCs and non-asset backed NBFCs there has been a difference in provisioning, so which bracket would you fall sir?

Hemant Kanoria: See basically whichever bracket we fall it does not make much of a difference, we do not even look at the provisioning norm of RBI, because they have a long way to go to catch up with our provisioning norms, because the provisioning norms which we are following is so stringent, which is almost four times more stringent than the RBI norms, so they have been catching up to that particular extent.

Harish Krishnan: Okay. I think the impact was more on the banks who were lending to you, in the sense that if it was to a non-asset backed NBFC then I think provisions have reduced to 50% against 100%. So the impact would be on funding cost, indirect funding cost in a way. I was wondering whether you would be classified as an asset-backed NBFC.

Hemant Kanoria: Actually what happens is that with the bank there are two things, which play, all these particular provisioning norms and all they apply when there is a liquidity constraint with the bank. Today there is sufficient liquidity and it depends on the borrowers negotiation capability. Today, if we are able to negotiate, then the bank, because they have so much of liquidity, they

look whether they lend to me at a rate of 10% of what they put in government securities or in the short-term money market where they are getting 3% or 8% returns and whether there is security and the safety of their money.

We are in a position to negotiate with banks at very good rates and though these do make a difference at the macro level, but in the micro level, everyone wants to lend, so it is our negotiation capability, so we have not seen that earlier also RBI has tweaked around with these risk weightages but we have always seen that it has been dependent upon our negotiation and power and the liquidity of the banks.

Harish Krishnan: Sir finally if I may, any status on capital rising on the Quipo side that SREI might have to commit to?

Hemant Kanoria: See, basically we will evaluate the opportunities because on the Quipo also on telecom etc., there are opportunities which are coming up and which we will evaluate and see that whether it makes logical sense, that it is still going to give us reasonable return on the investment. If it does, then definitely we will be open to it because it is a good business to go. Telecom after this deal with the Tatas it has become a very valuable company, so therefore if we get an opportunity at a concessional rate, why not?

Harish Krishnan: Any timeline for this?

Hemant Kanoria: That would be a little difficult to say at this juncture.

Harish Krishnan: Okay. Thanks a lot.

Melissa: Thank you Mr. Krishnan. The next question is from the line of Mr. Ashwini Agarwal of JM Financial Mutual Funds. Please go ahead.

Ashwini Agarwal: Good evening Sir. I have just got a couple of questions. Sir can you tell me your equity stake in various road projects and timeline of completion?

Company Speaker: You are not audible, can you come again please?

Ashwini Agarwal: Can you tell me about your equity stake in various road projects and other projects and the time of completion of those projects?

Hemant Kanoria: We will be able to give it to you. I do not have it in front of me, so what we will do is I will mail it to you.

Ashwini Agarwal: Okay sir, in the tower business of Quipo what is the total debt in the associate company?

Hemant Kanoria: I have to get back to you.

Company Speaker: Total debt in the...

Hemant Kanoria: Quipo telecom company.

Ashwini Agarwal: Exactly sir.

Hemant Kanoria: We will get back to you because I do not have those figures. We were looking at only SREI's figure at this juncture. So I will get back to you with the exact numbers. So Bajrang will just give you a call and give you those details.

Ashwini Agarwal Okay sir and the loan book infrastructure financing loan, what is the growth which you are looking forward to?

Hemant Kanoria: Basically as I said we are looking at the growth by the end of this year of about 15-20% on disbursements.

Ashwini Agarwal: Okay and any chance of increasing the leverage, because you are slightly under leverage and (inaudible) 29.57.

Company Speaker: Leverage is increasing gradually.

Ashwini Agarwal: Okay sir, that is all from me right now. I will get back to you sir.

Hemant Kanoria: Thank you. If there are any more questions could I just request that if you could just send it to Mr. Bajrang Choudhary, because if you do not mind I have a flight to catch now, so I will take my leave.

Kunal Shah: Yes, Melissa are there any other questions?

Melissa: Sir we have one last question.

Kunal Shah: Okay then we will just take a last question and then if you do not mind because.....

Hemant Kanoria: Okay.

Melissa: Sure sir. The last question is from the line of Mr. Sujay Mishra from Kotak India Focus Fund. Please go ahead.

Ashi Anand: Good Evening Mr. Kanoria, I will just keep this short. This is Ashi Anand. Sir we have just heard of various new players coming into the industry, Shriram Transport Finance, Bajaj Auto Finance etc., also heard of ICICI Bank getting back into the market, just wanted to understand, how are the competitive dynamics now?

Hemant Kanoria: On the equipment financing side, ICICI Bank has not yet come back to the market, but if they do come back I do not see that there is going to be a concern because we already have 28-30% of the market share and we do not have any desire of increasing market share. So, we would like to maintain that only, anyway 70% is a large enough space for so many other players to be there and we would welcome that. The point is that we are also trying as a strategy in SREI Equipment Finance to grow, to expand the portfolio not only in the infrastructure equipment financing which we have been doing till now because with BNP support and help and they have put in their business development also here, we have already started doing IT in technology area. We have already started some things in the medical equipment side. We are also looking at expanding our portfolio and gradually our objective would be to keep a healthy portfolio mix in equipment financing, in the constructing sector, mining sector, vis-à-vis IT and medical sectors. We are speaking to vendors where BNP has relationship at an international level, so that we can leverage on that and on the IT equipment we have already started doing that leveraging on BNP's international vendor relationship and even on the medical equipment we have started talking to them. So, these are areas where we can diversify our

portfolio, expand into various areas where BNP has their strength and we are not overly dependent on one sector.

Ashi Anand: Great Sir, thank you so much. Have a good flight.

Hemant Kanoria: My pleasure. Thank you everyone. Bye.

Melissa: Thank you gentlemen of the management. Ladies and gentlemen, on behalf of Edelweiss Securities Limited, that concludes this conference call. Thank you for joining us.

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