SREI Infrastructure Finance Limited

First Quarter Results Conference Call- Financial Year 2008-2009

August 4, 2008

Moderator: Good afternoon ladies and gentlemen. I am Mohnish, the moderator for this conference. Welcome to the SREI Infrastructure Finance conference call hosted by Edelweiss Securities. 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 International Bridge. 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.

Kunal Shah: Yeah, thank you Mohnish and good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Sunil Kanoria, Director; Mr. Sanjeev Sancheti, CFO; and Mr. Bajrang Choudhary, Senior Vice President from SREI to discuss their first quarter FY09 earnings and to give their business outlook. Over to you sir.

Sunil Kanoria: Yeah. Basically if you look at the first quarter of this financial year, this is the quarter when we have concluded demerger of the asset finance business and the formation of the joint venture company with BNP Paribas, which is a 50-50 joint venture. As a result, a majority of our assets relating to asset finance have been moved to the joint venture company that is called SREI Equipment Finance. The transaction got concluded on the 2nd of April 2008. We got the full capital in into the company. All the assets were transferred. As a result, this quarter, SREI Infrastructure Finance, the consolidated results which you may have seen in the papers and standalone also, reflect primarily the 50% income only from the joint venture entity, which till March 2008 was 100%; so that is one major difference which has got formulated this quarter. Consolidated profit after tax this quarter has been about INR 43 crore. The way it has got reflected is about INR 32 crores is on a standalone basis of SREI Infrastructure Finance and about INR 11 crore has come in from the joint venture company that is about 50% of the profit, about INR 21 crores is what approximately the profit in the JV company this quarter. There has been some impact in terms of the fact for the joint venture business this quarter primarily because of the interest cost, which shot up. There were two key reasons. One was the interest rates have been going up considerably and there was a major hike during this quarter, and second was the rupee depreciation, which took place if you have observed that in March the rupee was about less than INR 40 to a USD, and end of June, it was closer to INR 43, a little over INR 43 to a USD. So that was a sudden major large impact, which came in as a mark-to-market. Giving the explanation to both these two points is on the interest rates side, the interest rates have gone up; our costs of funds have also gone up. We have raised our SREI benchmark rates from 1st of July by 1.5% in order to effect the kind of increase in the cost of funds in the market place. The benefit of that would come in the near future quarters when we impact that into our customer pricing. Just to also remind investors that SREI has been following a practice thereby all our assets are floating rate assets, thereby we are able to re-price our assets with the increase in our benchmark rate. As a result, it reasonably cushions the company against increase in interest cost. The only thing there is a lag of three to six months' time when we are able to pass this on and start getting the impact. Second, on the foreign exchange mark-to-market because of the steep rise in the dollar to rupee, most of our loans are long-term, seven, eight to ten years. We have a practice of hedging part of our loans and keeping some part open. This sudden impact has impacted the financials for this quarter, but going forward over a period of time, the averaging out would take place and might still by overall average cost of fund on a long-term basis for these foreign loans is still much cheaper because as you are aware, the LIBOR is low and our margins over LIBOR is within around 2%. So, even without the foreign exchange losses, our cost is about 6% to 7%, and the foreign exchange forwards which we have hedged ourselves costs about 5% now, therefore it was not making sense to hedge yourself in today's environment for a long-term. Therefore, prudently we kept it open because these are notional losses. So, this basically explains the lower profitability, partly lower profitability in the joint venture business for this quarter.

Coming to the parent, we see a profit of about INR 32 crores on a standalone basis, and the major income out of this has been the funding which we have invested into by providing short-term bridge loan for financing of our telecom tower business to Quipo that we acquired despite assets. The earning of that has come in into this quarter. There the earnings have started. As a result, it has contributed reasonably substantially to the income for this quarter.

Again, the financial expenses if you find is high again primarily because of the exchange rate fluctuation during this quarter, which was beyond normal. I think these were the two key factors which had had some impact; however, we have been able to maintain and had a good growth in the overall consolidated profitability for this quarter.

Looking at the business side, our equipment finance business in terms of the first quarter, there has been a good growth in our disbursements, and we have close to 45% more business we did than last year same quarter. Therefore, although the overall environment in the country was slow, but what contributed in still having a good volume of business, almost INR 1700 crores revenue business we have conducted during this quarter, primarily because many of the banks virtually went out of the market for the last couple of months and although the overall sales did not grow to that extent, but lot of customers came to us, and we still saw a reasonable growth, quite a good growth in our new businesses done in this quarter.

Going forward if you look at this quarter and the next quarter, this quarter is always normally a little lean period because of the monsoon period. Equipment sales are little down, and overall economic situation in terms of little slower growth, there was certain uncertainty in the market. We are sure there will be some impact, but we feel that we still would be able to grow reasonably well and provide about 30% to 40% growth in our business in the near quarters also, in the next few quarters too.

In terms of the business at the parent level, again we are in the process of gearing up for providing growth by business in terms of the infrastructure project financing and large ticket financing, which we still continue to do at the parent level. We have initiated various activities and projects in that area, and we hope that in the current year, we should do a business of close to INR 3000 crores is what our targets are, and in the JV, we expect to do a new business of almost about INR 7000 crores. So, combined both the joint venture and the parent, we expect that this year we should do about INR 10,000 crores of business, and looking at what we did last year of about INR 6200 crores, we should still have a far better growth with the capital which we have in place now. The parent company is still not leveraged at all much, so we can leverage and grow. The JV company also is now well capitalised. I think one major advantage for the company at this point of time in the market has been that both the entities, the parent and the joint venture company has been well capitalized now, and we need to now basically do leveraging to increase our this thing. It is not a good time for leveraging because the cost of funds are high, the markets are tough, but we are also resorting to external commercial borrowings which we keep getting approvals and permissions from the Reserve Bank primarily because of our engagement in the infrastructure sector, and we expect that in the next few months, we would be raising a decent amount of external commercial borrowings, which would help us to get long-term money at reasonable cost and be able to compete well in the market and provide better services to our customers. I think these are some of the key highlights, which is there for this quarter in the business. Total asset now in the management is over INR 9000 crores, and the way in spite of the challenges which the economy is facing, I think we should still see a reasonable growth amongst the challenges in the infrastructure space because that is the priority area where the government's focus is also, and I am sure we will be able to find reasonable opportunities in this area. Over to you know. I think if there are any questions and all.

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

International Moderator: Thank you Mohnish. We will now begin the Q&A session for participants connected to the international bridge. Please press 01 to ask a question. Mr. Rohan Juneja from FrontPoint, USA. Please go ahead sir.

Rohan Juneja: Hi guys, thanks for hosting the call, and more importantly at the time when participants from the US can participate as well. Two questions; the first one, can you give us the notional amount of forex loans that you guys have, and can you break it out in the denomination of the currency as well please?

Sunil Kanoria: Primarily, in the parent company, we have about INR 622 crores, that is about USD 160 million in the parent company and in the JV company, another about USD 200 million of facilities. Out of that, it is basically into euro and dollars.

Rohan Juneja: Okay.

Sunil Kanoria: In the parent company, it is full dollars.

Rohan Juneja: Alright.

Sunil Kanoria: All the loans, and in the JV company, it is primarily euro and USD. Dollar is about 60% and euro is about balance 40%.

Rohan Juneja: Okay got you and you guys have no yen-denominated loans?

Sunil Kanoria: No. Well, there is a Yen, which we converted into dollars primarily.

Rohan Juneja: I got you, got you. Okay, and then the second question being that you commented on the tough environment and how certain banks have cut back on lending more so to speak, but can you just speak about any kind of due diligence or any additional due diligence that you are doing to lend out to those sectors where the banks have been less inclined to lend to?

Sunil Kanoria: Our sector is very focused and niche in the infrastructure equipment space, and we have been there in that space for 20 years now, and we just cater to the construction equipment, infrastructure equipment space. Therefore, we understand every client base, and 70% of our business is repeat business and we have seen many cycles in this 20 years in this field whereas many of the banks have been coming in and out of the segment as a temporarily coming in, getting out of it, it is not a major focus area. It is a small percentage of their total book, but for us, it is 80% to 90% on my assets. Therefore, our understanding and risk assessment in this space is different and far better. I don't think we have done something remarkably different in the last two to three months. Yes, we exercised caution in understanding our client and their needs and assessed their cash-flow before we fund them and that is what continues.

Rohan Juneja: Alright sir. Thank you.

International Moderator: Participants, who wish to ask questions, please press 01 now. At this moment, there are no further questions from participants at international bridge. I would like to hand over the proceedings back to Mohnish.

Moderator: Thank you international moderator. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, kindly press *1 on their telephone keypads. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line, we have Poonam Sharma from IDFC Mutual Funds.

Poonam Sharma: Hi, couple of questions. Just needed to know the quantum of loss on account of forex loans that you have both in the parent and the JV please?

Sunil Kanoria: About INR 10 crores is there in the parent.

Poonam Sharma: INR 10 crores in the parent.

Sunil Kanoria: Another INR 11 to 12 crores in the JV.

Poonam Sharma: In the JV. Also, could you let us know the leverage both at the parent and the JV level?

Sunil Kanoria: Parent level is just 1.

Poonam Sharma: Okay.

Sunil Kanoria: Approximately 1:1.

Poonam Sharma: Okay.

Sunil Kanoria: And in the JV level, 6 times, closer to 6.

Poonam Sharma: Closer to 6. Also could you just give us a sense how have we used, sorry…, your cost of funds moved and what are the NIMs both at the consolidated level and, you know, at the SREI main?

Sunil Kanoria: At the consolidated level, we have a NIM of about 6.9%.

Poonam Sharma: 6.9%.

Sunil Kanoria: Yeah, but this is a little high in this quarter, because the yield on my advances in the parent because it was a funding for acquisition….

Poonam Sharma: Yeah.

Sunil Kanoria: …..So, the yield was much higher.

Poonam Sharma: Okay.

Sunil Kanoria: 21% to 22%.

Poonam Sharma: Okay.

Sunil Kanoria: This has gone up.

Poonam Sharma: Okay.

Sunil Kanoria: But primarily, I would say it would be closer to about 5.5%.

Poonam Sharma: 5.5%. So, Quipo has, the loan that you had given to Quipo was to the extent of some INR 650 crores, right?

Sunil Kanoria: That is right.

Poonam Sharma: Okay and you have accounted for the interest in parent main on account of that loan, right?

Sunil Kanoria: That is right.

Poonam Sharma: Okay, but have they returned the capital to you or is the borrowing still on the book?

Sunil Kanoria: No, it is still there, this we are getting it anyway now.

Poonam Sharma: Okay.

Sunil Kanoria: Next couple of days, we should get it.

Poonam Sharma: Okay, so the entire amount will be paid by Quipo to you.

Sunil Kanoria: That's right.

Poonam Sharma: Okay, okay, and, what about the NPAs, could you get a sense on how the NPAs are moving?

Sunil Kanoria: In the June quarter, on a quarter basis, it is 1.2%.

Poonam Sharma: 1.2%, okay, and slippages during the quarter; how has the slippage ..

Sunil Kanoria: Definitely what happens the first quarter is, March, you see, in our business, the best period is between December to March, because that is the time when all the construction companies get all the money and the cash flow comes in.

Poonam Sharma: Okay.

Sunil Kanoria: In April, it starts building up. April to September, is not that very good.

Poonam Sharma: Okay, okay.

Sunil Kanoria: Post September, it starts picking up.

Poonam Sharma: Okay, thank you so much sir.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Ajinkya from Motilal Oswal.

Ajinkya Dhavale: Yeah. Good evening sir. Can you just throw some light on the balance sheets of the both companies? Can we get the brief highlights?

Sunil Kanoria: Yeah. If you look at the joint venture company…

Ajinkya Dhavale: Yeah.

Sunil Kanoria: Our capital is now close to INR 840 crores.

Ajinkya Dhavale: Okay.

Sunil Kanoria: With the results, and liabilities are almost INR 4800 crores…..

Ajinkya Dhavale: Okay.

Sunil Kanoria: ….on the books, and we have our securitization of almost INR 1600 crores…

Ajinkya Dhavale: 1500?

Sunil Kanoria: 1600.

Ajinkya Dhavale: Okay.

Sunil Kanoria: So, that is on the liability side represented by primarily mostly the financial assets….

Ajinkya Dhavale: Right...

Sunil Kanoria: …and cash in the bank.

Ajinkya Dhavale: Right, so the loan book has now, how much is out there on the books?

Sunil Kanoria: The loan books….on the book is currently INR 6200 crores.

Ajinkya Dhavale: Okay, okay and how much leverage here more you can take out. You will have to infuse some funds here?

Sunil Kanoria: No, no I do not have to infuse funds now.

Ajinkya Dhavale: Okay, this somebody……

Sunil Kanoria: …..because our capital is good enough to grow at this year.

Ajinkya Dhavale: This year, okay and at the parent level?

Sunil Kanoria: At the parent level, my leveraging is hardly anything.

Ajinkya Dhavale: No, just the highlight of the balance sheet?

Sunil Kanoria: Yeah, INR 690 crores is the capital.

Ajinkya Dhavale: Okay.

Sunil Kanoria: INR 800 crores is the debt.

Ajinkya Dhavale: Okay.

Sunil Kanoria: And on the asset side, we have investments of over INR 400 crores.

Ajinkya Dhavale: Okay, these are liquid investments?

Sunil Kanoria: Basically, these all are investments in Q4……

Ajinkya Dhavale: Okay, all the strategic…….okay.

Sunil Kanoria: Then, the cover assets are almost about INR 700 crores.

Ajinkya Dhavale: Okay.

Sunil Kanoria: And rest about INR 300 crores of financial assets, INR 1000 crores is the asset there.

Ajinkya Dhavale: Okay, and we discussed about the business to be done in this year. Where we are looking at closing assets and the management or the disbursals you expect during the year?

Sunil Kanoria: Disbursal during the year…

Ajinkya Dhavale: INR 3000 crores at the parent level and INR 7000 crores at the JV level.

Sunil Kanoria: That is right.

Ajinkya Dhavale: Okay, okay. Yeah, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Anand from Kotak.

Mr. Anand: Hello?

Sunil Kanoria: Yeah.

Mr. Anand: Sir, hi, I just wanted some numbers. If you can just give me the gross NPAs and the net NPAs for the JV?

Sunil Kanoria: Yeah, that 1.2 which I said……

Mr. Anand: Is that the gross level sir?

Sunil Kanoria: Yeah, that is the gross level.

Mr. Anand: Okay and how much at the net level?

Sunil Kanoria: Net level is point….

Male Speaker: It could be anywhere around 0.2 or 0.3.

Sunil Kanoria: It is 0.2…

Mr. Anand: Around 0.2, fine. Sir, in terms of the Quipo warehousing that we did how much was the actual quantum of revenues that we have booked in this current quarter and what was that based on and what interest rates have you really charged them?

Sunil Kanoria: It was about 21%.

Mr. Anand: Okay.

Sunil Kanoria: It was our rate and for acquisition financing that is normal, and about 89 crores….

Mr. Anand: INR 89 crores is what we have booked?

Sunil Kanoria: Yeah, yeah….. INR 89 crores.

Mr. Anand: Okay fine. Sir, if you could just give me also the current loan book, you had mentioned 6200 crores loan has been the BNP JV right?

Sunil Kanoria: That is right.

Mr. Anand: So, there is about INR 300 crores of loan book in project finance. So, that is the rough breakup right?

Sunil Kanoria: No, about INR 1000 crores…..

Mr. Anand: Okay sir, the INR 1000 crores including the INR 700 crores which should be going off roughly?

Sunil Kanoria: That is right, yeah, yeah.

Mr. Anand: Okay fine, and sir, on the BNP JV I think I have got some numbers down wrong. You have mentioned a capital of about INR 840 crores, debt of about INR 4800 crores….

Sunil Kanoria: Right.

Mr. Anand: So, that is the total liabilities of about INR 5640 crores….

Sunil Kanoria: Right.

Mr. Anand: …..and the loan book is about INR 6200 crores?

Sunil Kanoria: We have the sundry creditors and all on, current liabilities?

Mr. Anand: Sir, how much was the current assets, the net current assets if we kind of net off the current assets versus……..

Sunil Kanoria: INR 530 crores.

Mr. Anand: That is about INR 530 crores?

Sunil Kanoria: Yeah.

Mr. Anand: Okay fine. What was the amount that we have securitized in this current quarter?

Sunil Kanoria: Current quarter, we did not do much. I think it was less than INR 100 crores. Yeah, less than INR 100 crores….

Mr. Anand: Less than INR 100 crores?

Sunil Kanoria: But we had our money, the capital had come in April….

Mr. Anand: Sure.

Sunil Kanoria: …so, we had the funds.

Mr. Anand: Okay.

Sunil Kanoria: So, we did not sell out much.

Mr. Anand: Okay. Sir, you also mentioned that you will be taking a certain amount of incremental borrowings through the ECB route?

Sunil Kanoria: That is right.

Mr. Anand: And also longer term ECB kind of borrowing?

Sunil Kanoria: Right.

Mr. Anand: Just wanted to understand how exactly do we account for a currency risk when we take longer term foreign money?

Sunil Kanoria: Well, at the moment, as per the policy accounting standard, we do mark-to-market immediately.

Mr. Anand: Sir, not so much in terms of accounting and more in terms of how do we manage that risk?

Sunil Kanoria: Okay, that we basically what we do is certain portion we do a hedging.

Mr. Anand: Okay.

Sunil Kanoria: We get long-term hedges.

Mr. Anand: Okay.

Sunil Kanoria: At the moment, the last five to six months, the markets are distorted. So, the hedgings or the pricings are not at all attractive.

Mr. Anand: Okay.

Sunil Kanoria: It is explored market.

Mr. Anand: Okay.

Sunil Kanoria: The premiums are at 5%, 4.5% to 5%.

Mr. Anand: Okay.

Sunil Kanoria: But in the past generally, we do a back-to-back hedging of our principal, and certain portion, we keep it open because we know that we take a sense of the market and because these are long-term, it gets averaged out over a period of time. You see, what happens, you may be doing a mark-to-market, on a quarterly basis in my books of account…..

Mr. Anand: Sure.

Sunil Kanoria: ……but say for example, normally on a dollar loan LIBOR is 3%. My spreads are 18%. So, my actual cost is 5%…..

Mr. Anand: Yeah.

Sunil Kanoria: …and then whatever the exchange risk is there, either by way of premium I paid fixed or I am exposed to the market.

Mr. Anand: Sure.

Sunil Kanoria: The way we have seen in the last 15 years, if I have a long-term loan, when all our loans are long-term…..

Mr. Anand: Okay.

Sunil Kanoria: ….seven to eight years, over a period of seven to eight years, we are averaging. It is never more than 2% to 3%.

Mr. Anand: Sure.

Sunil Kanoria: It may be say this quarter was high, very high…but then the next quarter, it will not be high.

Mr. Anand: Okay.

Sunil Kanoria: It will be zero.

Mr. Anand: Sure.

Sunil Kanoria: So, in that sense it gets just balanced out….

Mr. Anand: Okay.

Sunil Kanoria: ….and we find that as a cash flow basis, it is much more beneficial and cheaper for the……

Mr. Anand: You end up making more money…

Sunil Kanoria: Yeah, yeah.

Mr. Anand: Fair. Sir, so the typical loan that we would take is six to seven years, we cannot buy six to seven years hedging also for certain proportion of this?

Sunil Kanoria: Yeah, yeah, yeah.

Mr. Anand: Okay, fine. Sir, just lastly, now that it is actually under JV, does the BNP name help us in raising money overseas?

Sunil Kanoria: No, not exactly.

Mr. Anand: Not really….

Sunil Kanoria: Little bit or may be partly, but we have been raising at that pricing.

Mr. Anand: Okay sir, great sir. Thanks so much.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on their telephone keypad. I repeat, participants who wish to ask questions, kindly press *1 on their telephone keypad. Next we have a followup question from Mr. Ajinkya. Please go ahead sir.

Ajinkya Dhavale: Sir, can you throw some numbers and the business development under Quipo level?

Sunil Kanoria: Well Quipo has about six businesses….

Ajinkya Dhavale: Okay.

Sunil Kanoria: …the telecom business is there…..

Ajinkya Dhavale: Yeah, I mean, how many towers we have there now?

Sunil Kanoria: We have over 4200 towers now…..

Ajinkya Dhavale: Okay.

Sunil Kanoria: …..as per the last, and we have now about 1200 rollouts from Spice which now has gone to Idea…..

Ajinkya Dhavale: Okay.

Sunil Kanoria: ….which is now Idea, and we are in the process of the acquisition of the Tata….

Ajinkya Dhavale: Okay.

Sunil Kanoria: So, that process is on.

Ajinkya Dhavale: So, by the end of this year, where do we see this total towers?

Sunil Kanoria: Without the Tata transaction, we would be about on a standalone basis, we should be closer to 10,000.

Ajinkya Dhavale: Okay.

Sunil Kanoria: Between 8500 and 10,000 towers.

Ajinkya Dhavale: Okay.

Sunil Kanoria: Independently and that was our target by March 2009.

Ajinkya Dhavale: Okay.

Sunil Kanoria: And if the Tata transaction happens, then it could be touching to 25,000.

Ajinkya Dhavale: Okay and on the assets under management under venture units and debt funds, are there any developments on that front?

Sunil Kanoria: No, not yet. Venture in this quarter, there had been no development.

Ajinkya Dhavale: Okay.

Sunil Kanoria: Markets have been little difficult….

Ajinkya Dhavale: Yeah, yeah. Right, and on the Quipo, any numbers or any kind of independent valuations which you have been engaged and all…

Sunil Kanoria: No, not yet.

Ajinkya Dhavale: Not yet?

Sunil Kanoria: No, not yet.

Ajinkya Dhavale: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Madhukar from Tricolor Advisory.

Mr. Madhukar: Hello?

Sunil Kanoria: Yeah.

Mr. Madhukar: Hi Sunil and hi Bajrang.

Sunil Kanoria: Hi.

Bajrang Choudhary: Hi.

Mr. Madhukar: Just a couple of questions. One, what is the progress on the SEZs?

Sunil Kanoria: It is the land acquisition is going on. We should get the major portion completed by end of this year.

Mr. Madhukar: In terms of investments, how much have we invested in them?

Bajrang Choudhary: As of now, is a couple of crores because the major acquisitions and the land is like we will see it happening in this coming quarter….where for the auto SEZ investment will come close to around 200 to 225 acres of land.

Mr. Madhukar: Okay.

Bajrang Choudhary: Okay the Quipo….. you wanted…..so, there also we would be close to that probably by the coming….

Sunil Kanoria: By September-October….

Bajrang Choudhary: …..September-October of the next quarter.

Mr. Madhukar: So, what would be the estimated investment?

Bajrang Choudhary: The land combined both will come to about INR 52….50 crores, but with is the total size of the project, auto SEZ will be somewhere around 2000 crores and the other one would be somewhere around 500 crores. That is the total project cost on the two SEZs as of now

Mr. Madhukar: Okay, okay and land would be around INR 50 to 60 crores for both put together?

Bajrang Choudhary: No, no, land would be one aspect, and the investment immediately, next few months….

Mr. Madhukar: Okay, okay.

Bajrang Choudhary: The total SEZ would be around INR 150 to 200 crores.

Mr. Madhukar: Alright, no….because that number seemed to less?

Bajrang Choudhary: Which one?

Mr. Madhukar: The INR 50 to 60 crores..

Sunil Kanoria: Yeah, that is just what I am saying this quarter which it would be…

Mr. Madhukar: Right. The other thing on Quipo, we had plans of raising our stake in Quipo. What is the progress on that?

Sunil Kanoria: We are still looking at working out…..let us see if something works out, then we will be informing….

Mr. Madhukar: Alright, that is it from me.

Sunil Kanoria: Thanks.

Mr. Madhukar: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Bhavin from Reliance Mutual Fund.

Mr. Bhavin: Hello sir. Hello?

Sunil Kanoria: Yeah.

Mr. Bhavin: Sir, I wanted to know the capital adequacy ratio at the JV level?

Sunil Kanoria: A little over 16%.

Mr. Bhavin: 16%, so in order to maintain new RBI guidelines, what will be the leverage that you will be able to take?

Sunil Kanoria: Eight times is what we have been doing.

Mr. Bhavin: Okay.

Sunil Kanoria: We will continue to….within eight times, we can still do, and that has been our policy for many years now…

Mr. Bhavin: Okay. So, we will be leveraging eight times average?

Sunil Kanoria: Yeah, yeah.

Mr. Bhavin: Okay. Yeah, that is it I have. Thanks.

Moderator: Thank you very much sir. Next we have a followup question from Mr. Anand from Kotak.

Mr. Anand: Sir, I have just a few other questions. You have mentioned three to six months lag between the time interest cost go up and you are actually able to pass it on to clients?

Sunil Kanoria: Right.

Mr. Anand: Just wanted to understand, do you mean that this is the kind of gap which it takes to, you know, we increase the PLR or once we have increased the PLR, by the time we actually managed to go down to each client level and actually….

Sunil Kanoria: Both combined. You see, one is that, our PLR we increase only twice a year…..….

Mr. Anand: Sure.

Sunil Kanoria: ….which is on effective first of July and first of Jan.

Mr. Anand: Okay.

Sunil Kanoria: ….because the operational cost this is. As you know, it is a major operational challenge. It is not very easy to keep implementing the changes.

Mr. Anand: Sure.

Sunil Kanoria: So, we do not do that frequently and we keep absorbing it. So, when there is a gap of six months in that…..

Mr. Anand: Okay.

Sunil Kanoria: …..and once we assess the cost and we see that yes the cost has gone up, and you know on a sustained basis, it is not going to come down or it is not a short-term phenomena, so then we implement the change….

Mr. Anand: Okay.

Sunil Kanoria: ….and that change takes a couple of months because we have to inform our customers individually and each work out their installments, implement the changes into the system and to the customer. So, that process takes anywhere between three and six months.

Mr. Anand: Sir historically have you seen any kind of strong resistance when you have increased PLR?

Sunil Kanoria: About two years back, yes, there was when we were doing it.

Mr. Anand: Okay.

Sunil Kanoria: When we had initially started off more aggressively.

Mr. Anand: Okay.

Sunil Kanoria: It has reduced considerably over time.

Mr. Anand: Okay.

Sunil Kanoria: And again, it is a selling and assessing how much the customer can bear also. So, we amortize the cost over a period, the cash flows are structured to his cash flows basically and the financing yields are improved on that basis.

Mr. Anand: Okay sir. Sir, you have also mentioned about a 3000 crores target in terms of disbursements in project finance. Any key sectors or if you could give some kind of a broad sectroal kind of target or what are the key sectors you are looking at lend to?

Sunil Kanoria: Primarily, it is the infrastructure space. The other things which we do, one is the equipments in the infrastructure project side, larger equipments into that…..

Mr. Anand: Okay.

Sunil Kanoria: The second is the project by itself….

Mr. Anand: Sure.

Sunil Kanoria: The focus is more on the equipment side presently……

Mr. Anand: Okay.

Sunil Kanoria: ….plus some projects, which are getting to closure or they are in a little more advanced stage….

Mr. Anand: Okay.

Sunil Kanoria: ….is what we assess at and primarily roads, power, telecom, airport, ports….

Mr. Anand: Any key sector or any key kind of an equipment which is going to be a larger part or a particular focus thereof because otherwise it could get crowded or diluted?

Sunil Kanoria: See, one is mining we are seeing a good opportunity because mining is… …..another area is mining.

Mr. Anand: Okay.

Sunil Kanoria: Mining we are seeing a good opportunity.

Mr. Anand: Okay.

Sunil Kanoria: There is a lot of work going on there and mechanization is coming in, and it is not impacting…….. the economic scenario is not impacting that much…..

Mr. Anand: Sure.

Sunil Kanoria: …..because the raw materials are needed. The growth is happening in the whatever sectors, and it only helps in reducing cost the cost and bringing efficiency.

Mr. Anand: Okay.

Sunil Kanoria: So, mining sector is one area. Second area is the port equipments……

Mr. Anand: Okay.

Sunil Kanoria: ….we are seeing, some power equipments in the power side. We are exploring opportunities in the telecom space……

Mr. Anand: Okay.

Sunil Kanoria: ….in a little different way, in certain types of equipments….

Mr. Anand: Okay.

Sunil Kanoria: And then, well it is the road sector where it is the project finance for BOT.

Mr. Anand: Okay. Sir, traditionally, project finance, the core financing activity on its own does not make as much money as compared to the ability to actually bundle a range of services and earn fee income around that.

Sunil Kanoria: That is right.

Mr. Anand: Would that also be true for this larger equipment financing or is that more in line with our traditional business?

Sunil Kanoria: That is more into the project finance side. On the equipment side, we take over. That is our core expertise in the last 20 years, so…..

Mr. Anand: Sure.

Sunil Kanoria: ….that we do not face a challenge because one we are able to utilize ECBs a lot because most of these equipments are imported. So, we use our external commercial borrowing lines of credit….

Mr. Anand: Okay.

Sunil Kanoria: …..which we have and that helps us to manage our cost flows also better.

Mr. Anand: Sir, approximately of the INR 3000 crores disbursals, what amount do you believe could be in from larger equipment and….

Sunil Kanoria: This is a very difficult question….

Mr. Anand: Okay, something we would actually have to see as it goes through.

Sunil Kanoria: Yeah, yeah, yeah, very difficult question.

Mr. Anand: Fine. Sir, IDFC has been mentioning as in they have mentioned on their con call that CRISIL has actually tightened the kind of standards for the triple A rating….

Sunil Kanoria: Okay.

Mr. Anand: …and they are talking of possibly coming out to raise money sooner than expected in the market because of CRISIL basically taking a stronger view with regard to the kind of capital adequacies etc., that are required. Have we seen any similar kind of moves by our rating agencies towards like these stricter standards in terms of capital adequacies or any other such moves?

Sunil Kanoria: Well, with the environment and the beating that they have seen, the rating agencies and the other markets in US and all, there is definitely a much higher level of caution….

Mr. Anand: Okay.

Sunil Kanoria: ….but because of our huge capital infusion presently, we are seeing………we are not seeing that impact at the moment on us…..

Mr. Anand: Okay.

Sunil Kanoria: ……and it is stable, and the same scenario exists. They are not questioning that much because my capital is strong at the moment.

Mr. Anand: Sure, perfect. Sir, and just lastly if you could just me the, you have mentioned INR 400 crores is the total investment. Could you just give a breakup of that across the different kind of verticals, Quipo, the SEZs, the port projects, road projects, how much have we actually invested in each?

Sunil Kanoria: Yeah, I will just tell you. Our subsidiaries is about INR 47 crores.

Mr. Anand: Subsidiaries?

Sunil Kanoria: Yeah, which is my Germany, next is Russia….

Mr. Anand: Okay.

Sunil Kanoria: Then capital market, etc. Primarily, the investment out of this is about INR 35 to 36 crores is Russia itself.

Mr. Anand: Okay.

Sunil Kanoria: Then the joint venture company is INR 25 crores.

Mr. Anand: The JV company?

Sunil Kanoria: The JV company with the BNP.

Mr. Anand: Okay.

Sunil Kanoria: My book value is INR 25 crores.

Mr. Anand: Okay sir, okay.

Sunil Kanoria: Quipo is about INR 18.5 crores.

Mr. Anand: Okay.

Sunil Kanoria: The book value.

Mr. Anand: Okay.

Sunil Kanoria: Then is the road projects are…it is about INR 250 crores is various infrastructure projects.

Mr. Anand: INR 250 crores?

Sunil Kanoria: Yeah.

Mr. Anand: Could you just give up the breakup between roads, ports, and SEZ?

Sunil Kanoria: Mostly is roads, post would be about INR 20 to 25 crores in that, not even that, INR 15 to 20 crores, mostly roads.

Mr. Anand: Okay sir. That is mostly and?

Sunil Kanoria: And the rest of liquid securities stocks in the market.

Mr. Anand: Okay thanks, and sir just wanted to understand. As per my understanding of the Infra investments that we have, the idea is not really to build up an infra book, but to actually keep joining and basically moving down the risk curve.

Sunil Kanoria: Right.

Mr. Anand: And then actually once discounting rates improve, actually going out and selling that and moving on to the next one.

Sunil Kanoria: Right.

Mr. Anand: So, are we on any kind of projects, are we reaching those kind of levels where we are looking turning out of the woods and moving into….

Sunil Kanoria: Not this year, I think, but may be early next year.

Mr. Anand: Early next year.

Sunil Kanoria: Yeah, because all these investments had been made in the last 1 year, 8 to 9 months or so.

Mr. Anand: Okay sir, and what is the maximum amount we would invest in this activity or is there a percentage of the net worth, percentage of total assets, is there any such…

Sunil Kanoria: Well, we would look at closer to the net worth maximum.

Mr. Anand: Okay, maximum being net worth.

Sunil Kanoria: Yeah, because definitely we will not borrow and invest…

Mr. Anand: Okay.

Sunil Kanoria: …which is basically out of the net worth is what we would invest.

Mr. Anand: Okay sir. Thanks so much sir and all the best for going forward.

Sunil Kanoria: Thanks.

Moderator: Thank you very much sir. Next in line, we have Taraka from Kotak Securities.

Ms. Taraka: Yeah. Sir, just wanted to know about the fee part which you would be receiving from Ganga Expressway Project Advisory. So, how actually this kind of fee income is structured and secondly fee pertaining this particular project, how would we see the inflow in our books going forward?

Sunil Kanoria: Well, fee income, normally what we do is we only account on a cash basis and the services has almost been completed and we are expecting the money this quarter.

Ms. Taraka: As in, in the second quarter?

Sunil Kanoria: Yeah, that is the second quarter, yeah.

Ms. Taraka: Okay, so this would be based on the total project cost, as in related to that only?

Sunil Kanoria: Yeah, yeah.

Ms. Taraka: Okay. And it is structured as in going forward, you would be taking any…advising any such project, so how that would be structured, can you just explain it in a bit detail please.

Sunil Kanoria: Basically, every project which we finance, they are different types, generally it is linked to the project cost and we complete the project and we get a fee on the project cost. In certain cases, it is the fixed amount which the government will get depending on the size and the complexity of the project.

Ms. Taraka: Okay.

Sunil Kanoria: Like, in Ganga, we should be getting almost about INR 70 crores, INR 60-70 cores…

Bajrang Choudhary: At the gross level.

Sunil Kanoria: …gross level. Net will be 40-50, that is…

Bajrang Choudhary: Which will be split within the partner, so…

Sunil Kanoria: Yeah.

Bajrang Choudhary: … our stake will be somewhere around…

Sunil Kanoria: INR 30-40 crores.

Ms. Taraka: Okay. So, that would be the total amount you would be realizing from that particular project you have advised.

Sunil Kanoria: Yeah, that is that project only.

Ms. Taraka: Okay, okay, fine. That is it. Thanks.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Hiren from Goldman Sachs.

Mr. Hiren: Hi, can you tell us about like what was the last benchmark valuation for Quipo?

Sunil Kanoria: Well, that was two years back when we raised from GIC IDFC, lot of change since then, it was August 2006.

Mr. Hiren: But we were looking at some deal happening in Quipo somewhere around June 2008 if I am not wrong.

Sunil Kanoria: That which we are working on if the Tata happens then we need to raise money.

Mr. Hiren: Yeah, but I mean, in the last earnings call, it was indicated that the valuation is about USD 1.4 billion now.

Sunil Kanoria: Could be closer to that, that is what I estimate is 2.
Mr. Hiren: Okay, but that is not based on a transaction.

Sunil Kanoria: If you look at one of the business only and like the tower business. The tower business would be closer to a billion.

Mr. Hiren: Sure. What I was trying to get is not based on any transaction which has happened.

Sunil Kanoria: It has not yet concluded, it is in process.

Mr. Hiren: Secondly, the parent company is the deposit taking entity, right?

Sunil Kanoria: Yes, yes.

Mr. Hiren: But the BNP JV will not be deposit taking entity.

Sunil Kanoria: At the moment, no, but to make it a deposit taking, it does not need to…

Mr. Hiren: Sure, so does it mean that it has to follow the 15% CAR norms…..

Sunil Kanoria: Again 2010.

Mr. Hiren: Okay, but…..

Sunil Kanoria: But as it is you see because we follow 8 times maximum leverage, so 8 times is basically within 15%, so indirectly the company internal regulation is around that, and if we have to, it is always feasible to make it a deposit taking and….

Mr. Hiren: But do you get any benefit being classified as an asset financing company or something.

Sunil Kanoria: We thought we would be, that the industry is fighting with the government with RBI for that, and we did not see that change in the recent guidelines which were issued.

Mr. Hiren: Sure.

Sunil Kanoria: And we would be continuing our lobbying with the government because whatever we understood from them during our interactions, their main concern was not with the asset finance companies but with the other companies who are doing all kinds of other loans, investments and all so.

Mr. Hiren: In the present set of guidelines, even the asset financing companies will have to maintain 15% CAR by 2010, is that right?

Sunil Kanoria: Yeah, yeah, presently, whatever the guidelines says at the moment which is issued last week, that is the meaning.

Mr. Hiren: Okay, thanks a lot.

Moderator: Thank you very much sir. 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.

Kunal Shah: Thank you sir for taking your time out, and thank you all the participants for participating in the call. Have a pleasant evening. Thank you.

Sunil Kanoria: Thank you.

Moderator: 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.