

# “SREI Infrastructure Finance Q3 FY-16 Results Conference Call”

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**MODERATOR:** **MR. VISHAL MODI – RESEARCH ANALYST, MAYBANK  
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**Moderator:** Ladies and gentlemen good day and welcome to the SREI Infrastructure Finance Q3 FY16 Results Conference Call hosted by Maybank Kim Eng Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Modi-Research Analyst from Maybank Kim Eng Securities. Thank you and over to you sir.

**Vishal Modi:** Good afternoon everyone and welcome to this conference call. We at Maybank are pleased to host this call to discuss the 3<sup>rd</sup> Quarter FY16 Earnings of SREI Infrastructure Finance. From the management team we have Mr. Sunil Kanoria, Vice Chairman, Mr. D. K. Vyas, CEO of SREI Equipment Finance Limited, Mr. Sanjeev Sancheti, Chief Strategy Officer, Mr. Kishore Lodha, Chief Financial Officer and Mr. Amit Agarwal, AVP, Investor Relations. I would like to now hand over the proceedings to the management. They will make a brief comment and then we will move to question and answers. Over to you Sir.

**D.K. Vyas:** Good afternoon to all of you, I am DK Vyas here. Our business group disbursement during these nine months was Rs 10,540 crores compared to Rs 9,457 crores for the same period last year so there is a small growth. Equipment Finance business disbursement was Rs 6611 crores compared to Rs 6200 crores and the project finance disbursement was Rs 3929 crores compared to Rs 3257 crores so in both the verticals the business has grown. Our net worth consolidated stood at Rs 3232 crores compared to Rs 3183 crores and the borrowings consolidated stood at Rs 21,201 compared to Rs 20,530 crores. Our consolidated profit before tax is Rs 81 crores for nine months and PAT after minority is Rs 52 crores and Forex loss for nine months was more or less flat on year on year basis. Our net NPA on Equipment Financing has reduced to 2.75% and there is also a marginal decrease in the net NPA in SREI Infrastructure Finance to 3.57%. Both the gross and net NPA's have decreased in Equipment Finance business as well as in Infra Finance business. If we come to individual number of SREI Equipment Finance, our profit for this quarter has been Rs 37 crores in this quarter compared to Rs 34 crores in the corresponding period last year, so there is a growth in the profitability. If we look at quarter-on-quarter growth, there has been a consistent rise in profitability in Equipment Finance business over the last three quarters. Similarly, both gross and net NPA's have been declining consistently over the last three quarters. Gross and Net NPA's have witnessed consistent decline, in the Infrastructure Project finance also, The profit in SREI Infrastructure Finance Limited for first nine months of this year has been Rs 43 crores compared to last year Rs 74 crores.

Last year, in the first quarter we had the Kingfisher income which was a one-time income which had led to the increase in profit last year, if you remove that then the profit has been slightly higher than the last year. Obviously, the NPAs have been more or less at the same level although the net NPAs decreased slightly.



**Sunil Kanoria** This is Sunil Kanoria. Basically if we look at the trends in the sector, on the Equipment Financing side we have seen a gradual upswing since October-November and we are starting to see activity happening primarily driven by the road sector, where a lot of work is being undertaken. We believe that from coming quarter onwards, we should start to see improvement in the growth, primarily on the road and mining equipment side.

On the project side, basically it will still take its time and our entire focus as a core equipment financing company since last 26 years, our strategy going forward is to continuously focus on our equipment side and keep growing that as the market evolves and grows. We have added more equipments and asset classes for the last couple of years in our portfolio like medical equipment, technology solutions, and agricultural equipment very specifically with vendors and all, so that has started to show results. This now comprises of around 14%-15% of our portfolio, and is steadily growing. We will continue to focus on that as we see a gradual positive trend here going forward. Now, we will be happy to answer any questions that you may have.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.

**Anitha Rangan:** Of these stressed asset portfolio can you also give us a sense on what is the repossessed stock at this point, the end of December? Another thing was in December you'd announced BNP exiting the stake so when is the timeline likely to get completed and SREI being like 100% subsidiary because still in your results you're reporting as SREI BNP?

**Sunil Kanoria:** Repossessed stock is about Rs 900 crores as on December.. In terms of the transaction with BNP, we are waiting for the RBI approvals and all the other statutory approvals. Once that comes in then that transaction will be consummated. We are hoping that in the next month or two, we get approvals then we go ahead.

**Vinita Rangan:** What would be your restructured assets at the end of this quarter, December quarter?

**D.K. Vyas:** The restructured asset which was restructured under the CDR mechanism which has been shown as standard assets is around Rs 683 crores in the portfolio.

**Anitha Rangan:** In terms of growth the AUM is just about 300 crores odd growth I mean it is slow but can you give us some color as to which segments actually, there are increasing disbursements and are there more like your strategic customers or you are seeing more retail kind of customers who are stepping in?

- Sunil Kanoria:** Mostly it is retail because the strategic as it is we are not growing. We are putting our restriction there internally too, and of course on the market also it is primarily in the SME segment, MSME segment where the growth is happening.
- D.K. Vyas:** Actually the strategic customers are getting work and they are outsourcing to most of the SME and retail customers. So due to this outsourcing model, our business is growing in SME segment.
- Anitha Rangan:** What would be the ticket size of these loans going forward, these SME kind of customers?
- D.K. Vyas:** Average ticket size is around Rs 1 to Rs 1.5 crores average.
- Moderator:** The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.
- Sudhakar Prabhu:** My first question is again on the Equipment Finance business. We have seen that sequentially the NPAs have more or less stabilized so what is your sense on NPAs? Do you think NPAs have peaked out and can we see NPAs falling in the years to come?
- D.K. Vyas:** I think NPAs have been decreasing quarter-on-quarter we also believe that we peaked at 5%. Since, then we have been working hard on reduction of NPA's that is the reason for the decline quarter-on-quarter. Our net NPA have now come down from 3.73% to 2.8%. We feel for the next year or so it should be within the similar range.
- Sudhakar Prabhu:** So you are saying next year too you will be at similar range FY17?
- D.K. Vyas:** We will try to reduce but it's very difficult to comment in such a dynamic environment. But, let's keep it that it could be in the similar range.
- Sudhakar Prabhu:** What kind of growth do you foresee in FY17?
- Sunil Kanoria:** We expect to see double-digit growth. We are witnessing positive trends, from the manufacturers also we are getting positive signals about the demand for the equipments and that's what is linked to us also, particularly in mining segment which is expanding, and the construction particularly driven by roads. I'm sure that going forward we will see lot of increased public spending with the way the government is focusing on the railways; that sector has not even started. So we are positive that we should see mid to high double-digit growth next year in our portfolio.
- Sudhakar Prabhu:** My third question is on your credit cost; your credit cost for nine months is roughly around 2% so how should we look at credit cost for next year?

- Sunil Kanoria:** As D.K. Vyas was saying that overall credit cost may not come down dramatically next year because the impact of all what has happened in the past it will have some impact before it starts to see reduction. We are more hopeful for FY 17-18 than FY16-17.
- Sudhakar Prabhu:** My other question is on your project finance business. This year we have seen sequential fall in the yield so was there any interest reversal in the quarter?
- Sunil Kanoria:** Not in this quarter, very marginal. Basically, most of our capital is stuck in the investments. We hope that the Viom cash flow should come in this quarter and that should start to improve things going forward.
- Sudhakar Prabhu:** The reason I'm asking is your yield on average funds have fallen also your interest spread has fallen in spite of almost 20% growth in AUM.
- Sunil Kanoria:** Actually if we compare with the previous year, in the corresponding period previous year, we had a substantial income coming in from Kingfisher so that distorts the numbers a little.
- Sudhakar Prabhu:** The Kingfisher income was included in your interest income?
- Sunil Kanoria:** Yes, it was all included in interest income and it came for a few years lump sum.
- Sudhakar Prabhu:** Again coming back to this Viom deal, so you expect the funds to be come at end of this quarter, before March?
- Sunil Kanoria:** Yes, because the CCI approval has come in, FIPP has approved now, just a Cabinet nod is required which is more of a process so we hope that should happen fairly fast.
- Sudhakar Prabhu:** My last question is on the consolidated net worth, what kind of net worth should we expect once all this transaction is done, once the Viom sale is done and even 100% of the BNP is consolidated into the books.
- Sunil Kanoria:** In terms of the Viom transaction, it will not have much of an impact on the net worth, because the investments are there, it will get released now. Once 100% of BNP is consolidated in the books, the consolidated net worth would go up by Rs 1100-1200 crores.
- Sudhakar Prabhu:** My last question is on the treasury share. I understand that you are placing 5% to BNP and you will be still left with 5% of treasury shares so any plans of raising money in coming years?
- Sunil Kanoria:** We have not thought at the moment, we don't know about the future but at this juncture we have not thought of that.
- Moderator:** The next question is from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.

- Sameer Dalal:** The first one is on the NPAs which actually came down in the Equipment Finance business, can you tell us how much of that was because of upgradations and how much of that was because of repossession of assets?
- D.K. Vyas:** We don't have that figure, we do not monitor that way. We basically see recovery and then the closing stock of my repo assets, so closing stock of our repo assets is about Rs 900 crores.
- Sameer Dalal:** How much was that in the previous quarter if you can re-share that number?
- Sunil Kanoria:** About Rs 810 crores.
- Sameer Dalal:** Rs 90 Crores was repossessed in the current quarter and any asset that was sold in the current quarter?
- D.K. Vyas:** It's an outflow, so the net impact is Rs 900 crores.
- Sameer Dalal:** Can you quantify what was the amount of assets sold from the repossessed assets in the current quarter?
- D.K. Vyas:** About Rs 300 crores of sale and Rs 100 crores got added in this quarter.
- Sameer Dalal:** So, Rs 390 crores of assets were repossessed so that's why the gross NPA number is actually little lower?
- D.K. Vyas:** Yes.
- Sameer Dalal:** Second thing you mentioned right now that you all are quite hopeful and the Cabinet nod is all that you require for the Viom deal. So has the money by ATC been put in to an Escrow account and by when exactly would this deal has to be completed, is there any deadline for this deal in particular?
- Sunil Kanoria :** Deadline is June or July. They don't have to put the money in the Escrow, they are well capitalized but Cabinet nod should come in and then in another week, 10 days we should close.
- Sameer Dalal:** And you said you have got the CCI clearance and you've got the clearance from FIPB?
- D.K. Vyas:** Yes.
- Sameer Dalal:** Then it comes to the question on the NPAs for infrastructure book, it still remains at 4.6%, can you give us any guidance what is the outlook, what is the probability of the movement of NPAs? You have been having Deccan which is been on your books for a while, you have KS Oils which you have been looking to resolve, any progress on those?



**Sunil Kanoria:** Not that easy, it is tough. We are working on each transaction, each case and exploring. It will take some time.

**Sameer Dalal:** Anytime from you can give us because it's been now more than two years for both of these companies?

**Sunil Kanoria :** It's very difficult to say.

**Moderator:** The next question is from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.

**Ashwin Balasubramaniam :** I had a couple of questions, one related to the consolidated book and one related to the Equipment Finance. First I just wanted to understand post the receipt of the funds from Viom, what is the plan in terms of how you plan to utilize it? Is there any sort of plan on any inorganic acquisition because I guess there was a news report today in one of the financial dailies which referred to one such plan? The second question is on the Equipment Finance business, I just wanted to understand like how does the accounting work when you repossess an asset? Do you take it at the value at which you have lent it or how does it exactly work? Just to add on to that these Rs 900 crores what will be the vintage in terms of the asset like when was it repossessed, what will be the oldest sort of asset in that? Do you periodically revalue these assets and would that comes in your provisioning line as well?

**Sunil Kanoria:** Basically coming on the first one, whatever money we get it will go to repay our current debt levels and we will focus on our lending book, primarily the equipment financing and whatever little in the infra projects side, basically it will be to do that. In terms of what newspaper and all you have seen, it's not the correct news. Our Quippo Telecom which is the sponsor of Viom, they are exploring opportunities as advisors in the telecom tower space internationally because they have built up the expertise, that's all. There is no intent of any investment from SREI at all, and SREI is not involved at all in that. In terms of SREI equipment business, the equipment which is repossessed, we do assessment of our past risk analysis and we make provision. Traditionally about 30% to 35% provision we make on the assets when we repossess. Then, we periodically value the assets and provide for the depreciation and the provision. .. So that is the process and the guideline we follow.

**Ashwin Balasubramaniam:** This Rs 900 crores will then be what, a net kind of number, is it?

**Sunil Kanoria:** Yes, this is the net number.

**Ashwin Balasubramaniam:** If I could just get some sense in terms of how much would have been provided in the first H1 or maybe in last year also if you can give, how much would be the provision you will make in terms of...



**Sunil Kanoria:** If you look at the nine months, we have added new assets worth about Rs 400-500 crores, so we would have made 30% provision of that.

**Ashwin Balasubramaniam:** 30% of that would be around Rs 120 crores, right?

**Sunil Kanoria:** Yes.

**Ashwin Balasubramaniam:** In that case there would be a write-back or something because your overall provision in the Equipment Finance book is only like Rs 103 crores, right?

**Sunil Kanoria:** No this is only for the NPL. I talked about the nine months; your Rs 100 crores is just one quarter.

**Ashwin Balasubramaniam:** When the equipment is sold, you typically make a loss on it or....

**Sunil Kanoria:** We would have already mostly provided for it. So we generally don't but in some cases yes we may because our estimate may be the 30% which we provide. So in some cases we make some earnings, some cases we lose.

**Ashwin Balasubramaniam:** This quarter there has been decrease in terms of the gross NPA from September till now but the provisioning number is still remained at Rs 100 crores odd the increase as compared to the last quarter so is this coming because of more of right up in repossessions rather than recoveries and upgradations which are happening in your book?

**D.K. Vyas:** It's a combination of both; we make the provisions based on our estimates. We make extra provisions beyond RBI guidelines as well so whenever we see there is any existing NPA, we have to increase our coverage, we increase the coverage and there also been recovery from the retail SME portfolio because those NPAs are more of floating population. Because sometimes the payment is delayed in one quarter, it comes in the NPA and then you recover the money next month or next quarter, it goes out of NPA.

**Ashwin Balasubramaniam:** Your disbursements have gone up a bit; it's Rs 2600 crores, that's not reflected in the AUM in the Equipment Finance book.

**Sunil Kanoria :** That's because, the repayments also happened.

**Ashwin Balasubramaniam:** But there is been substantial increase in repayments this quarter.

**D.K. Vyas:** Yes, cash flow has improved.

**Moderator:** The next question is a follow up from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.

- Sameer Dalal:** The question was actually on your SEZ business, I wanted to know what was the investments you made for the SEZ business? Second the question on the same thing is what was the outstanding debt that was given to the three different SEZ projects that you have?
- Sunil Kanoria :** SEZ investment is about Rs 90 crores.
- Sameer Dalal:** And where it showing in the investments because if you look at the presentation that doesn't show up in any of the major investments.
- Sunil Kanoria:** It is the subsidiary / JV, so therefore part of that Rs 679 crores.
- Sameer Dalal:** How much of that JV is for the SREI BNP investment value?
- Sunil Kanoria :** Around 88 crores.
- Sameer Dalal:** Rs 88 crores is SREI BNP and.
- Sunil Kanoria:** Rs 173 crores is the investment in the JV.
- Sameer Dalal:** What is the outstanding debt to the SEZ business that you have at the moment, as of December 15?
- Sunil Kanoria:** That data is not there at the moment. We can share that with you later.
- Moderator:** The next question is from the line of Vishal Modi from Maybank Kim Eng Securities. Please go ahead.
- Vishal Modi:** This is on your non-interest items, particularly equipment rental income; it's been quite low so when can we see some kind of pick-up in this? How are we seeing the demand for this equipment rental is going ahead in next 3-4 quarters, what's the scenario there?
- Sunil Kanoria:** We should see an improvement next year because some of the equipment which was oil rigs where there were no earnings from April to December; it has just got deployed about a week back. So we should get some revenue for the next two months and then the whole of next year we will get the revenue there, so we expect the revenue to substantially grow from the rental business next year.
- Moderator:** The next question is a follow up from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.
- Sameer Dalal:** I want a broader view on the infrastructure space. There has been a lot of talk of the things picking up, stuck projects picking up, new infrastructure investments from the government,

can you give us some clarity on what you all are seeing from your end? When do you see a pickup or how these projects are picking up and just a broader view on the full infrastructure side if possible?

**Sunil Kanoria:**

If you look at sector wise, on the road sector as I have been saying continuously that in the last couple of months we have started to see improvement. People have started to mobilize the equipments and people at the site. Work has started in many projects. Most of the projects which we were stuck due to regulatory issues have got released. However, the reason of slowness is that most of the construction companies, their capacities have got reduced. They do not have much of working capital so they are literally like hand to mouth. While they have started work they are working very cautiously and slowly. As the first instance of cash flow starts to come in, people will start to generate and mobilize more and because the banking system is not able to support the contractors because most of them are over leveraged so therefore when a person works with no capital or also even bid bonds, when they have to give is not there much. So, the process is moving a little slow. Your bottleneck from the government has been resolved, no doubt the government has worked a lot in terms of addressing those issues, and new projects are being announced. So give it one or two more quarters, as the rotation starts, as some work starts, cash flow starts more vigorously we would start to see the momentum. I see the road sector being positive and we should see a quarter-to-quarter improvement. Second is the mining, Coal India and the mining companies are increasing production. The mines which were shut are slowly opening. Iron Ore is also gradually opening to a certain extent. We are hoping that there again more mines would be open so I see momentum picking up there, MDOs being given. I expect that sector to also grow which will boost the demand for the equipments both in construction and mining and that's the reason why we are saying that we should see a double-digit growth in that space next year. In Irrigation, also we are seeing boost happening, money is been flowing from the government. The public spending by the government in infra is what is being talked about. We expect that the budget would focus on that and provide more spending in the public side in creating real assets. In the railways, there is a good momentum happening, of course on the ground I would say it may start from May-June-July quarter. But definitely lot of jobs are being started to give in and large plans are there. So I would say that the trigger for the infra going forward would be the government. Private sector investment will be there but much more limited and in some certain sectors only but it will be largely driven by the government itself which is what we had seen in the 90s and the early 2000's. Our entire growth used to come from government projects coming up and I expect that kind of a scenario to emerge again from the next year or so.

**Sameer Dalal:**

In the light of all of this can you give us any idea or guidance, for your consolidated book what kind of growth you could expect and how would a finance company such as ourselves be able to participate in some of these government-funded projects? How would we be able to benefit from some of those projects?



- Sunil Kanoria:** That is our biggest strength, if you look back in the 90s our entire growth in 90s and early 2000 came in from government projects, paid jobs from the government. Then the contractor is able to pay us their EMIs on time because they are not dependent upon capital and their own project. What has happened in the last 5-9 years is that lot of the construction companies turned sponsors of infra projects and their margins got stuck in the equity plus they borrowed money at the hold co and they invested in equity of BOT projects and that sucked their entire liquidity system and made them over leveraged. Projects got delayed so they became more leveraged because of interest on interest and kept on accumulating and that's the status which is there. Now when the projects from the government is coming, in this business of contracting you only need bid bonds and you need small working capital otherwise you do not need any money. The equipment is required which you can get it financed that is where our core business would be. That's the way we had seen the growth in the economy and in our business in the entire 90s, early 2000, so we are going back to basics. I'm sure contractors have learned that they can't be infra owners, they are infra creators and if they stick to their focus job then gradually over the years things will pick up.
- Sameer Dalal:** Any guidance you can give us and what you are expecting for your loan book growth over FY17?
- Sunil Kanoria:** I expect double-digit growth, now whether it will be in the mid-teens or early teens or late teens would depend upon how much would be the government spending and how fast it happens.
- Moderator:** As there are no further questions, I would now like to hand the floor over to Mr. Vishal Modi for closing comments.
- Vishal Modi:** Thank you everyone for joining us on this conference call. Thanks to the management team as well.
- Moderator:** Thank you. On behalf of Maybank Kim Eng Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.