



“SREI Infrastructure Finance Limited Q2 FY16 Earnings Conference Call”

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MODERATOR: **MR. VISHAL MODI – MAYBANK, KIM ENG SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the SREI Infrastructure Finance Limited Q2 FY16 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 from Maybank Maybank Kim Eng Securities. Thank you and over to you.

Vishal Modi: Hi, Good afternoon everyone and Welcome to the conference call. Today, we have the management to SREI represented Mr. Sunil Kanoria- Vice Chairman Srei Infra, Mr. D.K. Vyas,- CEO of Srei BNP Paribas, Mr. Sanjeev Sancheti - Chief Strategy Officer, Mr. Kishore Lodha,- the CFO Chief Financial Officer and Mr. Amit Agarwal from the Investor Relations Team. I will now hand over the call to Mr. Kanoria to begin the proceedings. Over to you Mr. Kanoria.

Sunil Kanoria: Thank you, this is Sunil here. Just to start with in terms of the business for this Half-Year vis-à-vis the previous same period on a consolidated basis, the group disbursement was about 7,125 crores compared to previous year same period of 6,594 crores, a marginal increase. In terms of the profitability, the profit before tax in half year 2016 was 53 crores compared to 150 crores previous year. They key difference in the previous year same period we had additional income from the disposal of the Kingfisher shares and realizing all our dues and income, so there was a special income of one time about 60 crores in the previous year same period just for the noting. In terms of the profit after tax after minority is 35 crores against 92 crores in the same period primarily because of the one time last year, there is a forex loss because of the exchanges risk, the dollar rupee of 12 crores impact negative in this year whereas previous year it was 13 crores in the same period.

In terms of the Loan portfolio, Interest Earnings portfolio in Equipment financing was about 18,807 crores and Project finance about 13,587 crores. Net NPA Equipment financing is 3.16% and Project finance is 3.63%. The key development in this period recently as you may have known, we had been making a statement that we are working out to divest some of our investment primarily in our investment in Viom. So finally it took us a long time because of multiple shareholders and multiple negotiations. We have finally agreed and signed definitive agreements to sell our entire stake in Viom and exit Viom as an investment. We will be relinquishing our management control to American Tower Corporation. I must say that the overall transaction had been quite good for us we have been able to extract good value over a period of time. The business is also performing well so if you look at the Kanoria block which is SREI 11.07% in others through our funds about 18.26% overall. We will completely exit. We get a total cash of 2,952 crores, SREIs 11.07% will be 1790 crores. We have also been able to negotiate 339 crores of cash for the Kanoria block exclusively because we are handing over management control and non-compete which is not available to other shareholders. The other

shareholders who are also exiting is Tata's which are exiting by 19.63% and IDFC by 3.05%. Oman and other smaller investors are also exiting almost 10%, so total about 51% is what we sell.

In terms of the sale proceeds we believe this will help us reduce our borrowing and interest cost, release our capital and improve our debt equity and capital adequacy ratio which will help us to further grow our core businesses and improve our profitability going forward. As I said that this 339 crores of the consideration we are getting for non-compete, it comes fully to SREI although it was primarily to the Kanoria family but we basically decided that it should be because the investment is from SREI and its funds so it should come entirely to SREI and its funds. So the family is relinquished in favor of the company.

In terms of individual company if you look at SREI BNP Financials, our income for the half year was about 1,126 crores almost flat than previous year because of the cost of risk going up and the profitability has been lower than previous year, previous year same period was 103 crores and is down to 50 crores this year. Overall economic scenario in the infra is still challenging, we are seeing little off shoot of improvement in last one - one and half months very small but definitely we believe that the downfall has reduced although the recovery process will be slower than what we would anticipate it may take couple of more quarters but definitely the slide has reduced and curtailed. We expect that with the Government expenditure going forward in the infra and lots of bottlenecks getting reduced we may see upside specially both in construction and mining and the core focus of the company would continue to be in the financing, the equipment and assets which we have been doing.

The gross NPA has marginally come down to 4.2% against 4.6% previous year. On a SREI standalone if you look at basically again the PAT has come down from 58 crores to 31 crores primarily because last year as I said in the standalone we had a onetime income from Kingfisher transaction of approximately 60 crores which had higher income previous year.

Here the gross NPA has gone up from 2.9% to 4.7%. We believe that we should not see any further slide but the recovery of this may take couple of more quarters. Very clearly we are also making our efforts as the environment improves to now look at our road portfolio and explore opportunities to divest or dilute our stakes through some capital market action whether strategic sale, or whether capital raise. We hope that in the next six months or one year we should get an opportunity in the market place to dilute our stake and encash our investments in some of our road projects too.

The other businesses in terms of our investment in Sahaj started to build up with terms of the digital and E-governance program through Government. We are seeing improvement on a month-on-month basis in performance and at the appropriate time we will look at attracting a strategic investor or a private equity investment in that. Other businesses are under

development in terms of the industrial park etc and will take time for maturity.. These were basically the updates if there are any questions I will be happy to answer them

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Anita Rangan from HSBC Asset Management. Please proceed.

Anita Rangan: Just wanted to know from SREI equipment side, if you could give us some color as to how things are moving on the ground and what positive signs are you seeing if at all and in terms of like couple of data points if you could give us what is the proportion of the restructured assets at the end of this quarter and what is the stock of repossessed assets? Thank you.

Sunil Kanoria: In terms of the business side as I was saying that since September we are seeing improvement in our demand pick up, enquiries coming in both for Construction Equipment and Mining Equipment side because we see that contractors are now starting to get jobs on EPC basis from various sector and people have started to mobilize. This gives an indication that we may see an improvement in the next few quarter in terms of the demand growth, we do not expect a major jump but we expect a marginal improvement because most of the contractors there balance sheet are heavily leveraged. So the capacity to take on much is low therefore we see more of the contractors going in for rental of Equipment's rather than buying of Equipment's in order to reduce their leverage and not take on further debt. So we see also new opportunities coming in by small and medium contractors who did not have the leverage and who had been doing basically or mostly on their money on small leverage so we see them becoming the major drivers for the growth so the SME business in the Construction and Mining Equipment is where we are seeing some improvement and growth potential happening going forward. In terms of the stock of repossession and the restructured, I will have D.K. Vyas the CEO to share.

D.K. Vyas: I think all our restructure accounts are CDR account which restructured and the CDR schemes are approximately 783 crores and repo stock on our portfolio is approximately 809 crores as of September 2015.

Anita Rangan: Just one more question, on the NPL side there seems improvement in this quarter. Do you see the improvement sustaining since you also said that there is some marginal improvement at the ground level, do you see that improvement sustaining as we go along?

Sunil Kanoria: I think what we are seeing is that lot of our used equipment is now in demand and through auctions and all now we are disposing the equipments better. So we should be able to reduce our stocks of Repo assets also in next few quarters and with the basically demand picking up lot of the equipments which are there with contractors are starting to go into usage which were lying idle as project were stuck etc, so as a result cash flow should start to come up and help in reducing our NPLs.

- Moderator:** Thank you. Our next question is from the line of Vinod Sharma who is an Individual Investor. Please proceed.
- Vinod Sharma:** This is Vinod Sharma here, sir basically you know I have couple of questions with respect to Viom. So in last few conference calls you have been saying us that your stake in Viom basically in SREI Infra listed entity has an 11% stake and SREI also have 3.5% stake through funds which is 14.5% direct and indirect interest of SREI. So if you look at like 51% you sold for an evaluation of 7,296 so 14.5% of that value works at somewhere 2100 crores. But your presentation is showing that SREI's will be getting about 1,800 crores if you can give me the calculations again how you have reached to the 1,790 crores?
- Sunil Kanoria:** 1,800 crores is only for the 11% calculation because that is the direct investment so that 1,800 which you are reading is only for that 11.01% the rest is for which is held through fund.
- Vinod Sharma:** So how much SREI will get from this...
- Sunil Kanoria:** I have mentioned this before the total money which we SREI gets is 2,952 crores directly or indirectly.
- Management:** So it is upstream ultimately money gets upstream...
- Sunil Kanoria:** It is ultimately, all the money gets upstream to SREI.
- Vinod Sharma:** So you mean the entire 3,000 crores will come SREI?
- Sunil Kanoria:** That is right. Ultimately the cash flow will get into SREI.
- Vinod Sharma:** That is great. Secondly sir, so now the deal will take probably three months to four months after all approvals. What is and how are you going to create value for us, after patiently holding for such a long time. Are you planning for any special dividend anything for us?
- Sunil Kanoria:** No, I think we are in financial service business, we cannot comment anything on dividend anything at this juncture but basically as I have said that we will reduce our borrowing, we will be able to reduce our borrowings and use it effectively to release my capital, use it effectively to grow our core business of financing.
- Vinod Sharma:** That is great, so basically your cost of borrowing right now are around 10.5%?
- Sunil Kanoria:** Yes, a little over 10.5%
- Vinod Sharma:** So this 3,000 crore is going to save 300 crores of interest?
- Sunil Kanoria:** Hopefully.

- Vinod Sharma:** So, basically you know from current 3%-4% of return on equity probably before FY16 you will get this money. So FY17 what kind of return on equity do you expect?
- Sunil Kanoria:** Well I would not like to give any guidance at this stage, but we expect that we should be able to improve ourselves as we go forward.
- Vinod Sharma:** Great. And finally, if you can give a directional view on your assets quality which is not so great for such a long time?
- Sunil Kanoria:** I think we have been impacted due to the infrastructure challenges in the last couple of years in India and to tell you very frankly the sector has not come out of the problem, it is still in the problem. The challenges will take its time as the projects are getting completed, overtime the cash flow happens, the sale of the assets starts to happen only then we are able to recover the dues till then we have to patiently wait and support the project wherever can be supported and wherever we have to take over we are going to take over the projects and realize our assets and realize our dues over the period of time it will be a profit we are not seeing new add-ons but definitely the existing ones will take its time to evolve and recover.
- Vinod Sharma:** I am sure FY16 is very challenging for us, do you expect any growth in our loan book for FY17, I mean is there expectation of recovery in the second half FY17 for us?
- Sunil Kanoria:** I think so, as I was saying that for equipment financing business last two months we have seen improvements in some product line has shown even +15% growth. So I expect that this strength with kind of EPC jobs are coming in and mind you for last four years replacement of equipment has not happen so therefore there is pent-up demand because people everything was stuck so the pent-up demand would start to come in and therefore, I expect a decent growth it could be anywhere from 10% to 20% in the overall growth of the Construction Mining Equipment.
- Vinod Sharma:** Sir, finally we get back to Viom deal, so what is our tax liability on this? I mean post tax how much are you going to get out of this deal?
- Sunil Kanoria:** The tax implication is very negligible.
- Vinod Sharma:** So you mean entire 3,000 cores will come to SREI directly, indirectly?
- Sunil Kanoria:** Yes, mostly.
- Moderator:** Thank you. The next question is from the line of Amitabh Sonthalia from SKS Capital. Please proceed.
- Amitabh Sonthalia:** So just to clarify once again there seems to a little bit of disconnect between what you mention in your call to the previous question as well as what is in presentation. So our understanding

was the SREI owns 14.5% stake economic interest in Viom and so far. But now, your presentation says 11% and now you are saying the entire amount will accrue to SREI listed entity. So could you please explain this little better?

Sunil Kanoria: Yes, basically SREI directly holds 11.07% and it was always there, the rest is through the fund.

Amitabh Sonthalia: 3.5% is there through fund the last con call...

Sunil Kanoria: That is right then there are cretin loans which have been given, which was there against the share so, the loan will get returned. And therefore the overall entire cash flow comes into SREI, as a result of the repayment of the loans against the share.

Amitabh Sonthalia: Okay. So in terms of equity value that SREI will get is 14.5% right?

Sunil Kanoria: That is right.

Amitabh Sonthalia: So that would amount to how much, Sunil if you can please give us the break-up because that would result in SREI loan getting repaid or SREI making a fresh loan is part of the business but I am just trying to understand what you...

Sunil Kanoria: But if you really see the 11.07% is the pure equity, rest is the loan and investment into the fund so that the money comes back with the non-compete additional money which we are getting proportionate to that amount. Otherwise for the SREI's 11.07% it is 1,790 crores,

Amitabh Sonthalia: Right. Just to understand the impact on SREI's balance sheet I believe this investment was capitalized at roughly 1,500 crores in your books, right?

Sunil Kanoria: Yes, 1,598.

Sanjeev Sancheti : Yes, 1,598, about 1,600.

Amitabh Sonthalia: So that investment gets converted to SREI equity which is cash so 1,600 goes to whatever 1,800 let us say so you have a marginal impact on taxes from a book profit point of view but the 3.5% that you hold through funds gets redeemed again as equity right so, the 3.5% what was our understanding was that equity in certain funds which own Viom so that again gets redeemed and that comes back as equity to you right?

Sunil Kanoria: Those are the kind of debt funds so, it was basically the funds we get our money back period with the interest.

Amitabh Sonthalia: Okay. So you do not get any equity upside out of that I mean it does not impact your net worth really?

- Sunil Kanoria:** No. it is a cash which we get released.
- Amitabh Sonthalia:** Okay. And the non-compete that you are getting is any of that going to accrue to the listed entity or is it going to accrue to SREI?
- Sunil Kanoria:** Yes, that 1,790 includes the portion of 11% out of the 336 crores.
- Amitabh Sonthalia:** Okay. So 1,790 is inclusive of the stake as well as the proportionate share of the non-compete.
- Sunil Kanoria:** That is right.
- Amitabh Sonthalia:** Okay. So I mean, so essentially when you say entire 3,000 crores is going to come to listed entity can you explain the math there. So how does it accrue to SREI? SREI still gets a benefit of 1,800 crores, right, the listed entity?
- Sunil Kanoria:** There are two things one of the cash flow, what I have been saying that the entire cash comes out of this transaction will ultimately flow into SREI partly by way of the equity release and partly by way of repayment of loans.
- Amitabh Sonthalia:** Right. So SREI has basically you are trying to say that the balance 1,200 crores is loans advance by SREI to internal entities to hold these Viom shares.
- Sunil Kanoria:** Yes.
- Amitabh Sonthalia:** And those will get return to SREI in terms of...
- Sunil Kanoria:** Those all the loans and investments will get repaid, no.
- Amitabh Sonthalia:** Yes, but those were asset those were interest bearing asset that SREI
- Sunil Kanoria:** Yes, those were interest bearing asset.
- Amitabh Sonthalia:** So it is going to be basically placing an asset with cash so it is going to reduce your income as well as expense. That balance 1,200 crores will be neutral to SREI in some sense in terms of income and expenses both?
- Sunil Kanoria:** Yes, but my debt comes down and I get that cash to de-lever myself and be able to grow again.
- Amitabh Sonthalia:** Okay. So I guess I mean the way to look it is that the SREI still gets economic benefit of only 1,800 crores which is 11% not the 14.5% that we had thought that it would get the economic interest of. Is that the right way to look at it?
- Sanjeev Sancheti:** Yes, so if you are looking at how the earnings would improve? Yes, on 1,800 crores, you are actually saving net funding cost.

- Amitabh Sonthalia:** Right, that is the only way to look at it because rest is all about whether it is assets and liabilities getting netted off. But in terms of I think where the bit of confusion is coming in amongst investors is because we have maintained all this while that the SREI's economic interest was 14.5% which normally means that SREI's equity interest in Viom was 14.5%. So I think there seems to be some miscommunication on that front. You might want to check your record previous con-call on that and if there could be some clarification that would be helpful.
- Moderator:** Thank you. The next question is from Pritesh Bumb from Prabhudas Lilladhar. Please proceed.
- Pritesh Bumb:** Your provisions cost has increased quarter-on-quarter despite the asset quality improving in both the businesses so what is the reason for that?
- Management:** The gap between the gross NPA and the net NPA, so we are making more provision on the existing asset. So that is increasing, therefore the cost amount in absolute number is going up. but the overall gross NPA is not going up.
- Pritesh Bumb:** Okay. No, basically what I was trying to make a sense is, is it moving under the buckets or is it like is it moving in a doubtful two category and three category or write-off that is what I wanted to understand.
- Sunil Kanoria:** Yes, that is right.
- Pritesh Bumb:** So we are doing higher write-offs or how we should look at it?
- Sunil Kanoria:** We are making write-off as per the process of RBI as it gets into different buckets.
- Pritesh Bumb:** Okay. So what should we see ahead in terms of credit cost going ahead?
- Sunil Kanoria:** As I have said that we believe that it will take a couple of more quarters before we see a reduction in the cost of risk.
- Pritesh Bumb:** Okay. And second, there has been spike in fee based income in the infra business. Is it seasonal basically does it come in second quarter and third quarter only?
- Sunil Kanoria:** The advisory income is definitely seasonal any transaction anything happens that will be on completion so therefore we book it also only on completion.
- Sanjeev Sancheti:** It is on cost to completion basis. we will compute the income recognized.
- Pritesh Bumb:** Okay. But generally we see this because first quarter generally I was saying you do not get such kind of income so you initiate first quarter and that flows into second quarter that will be...

- Sanjeev Sancheti:** That is more coincidental than anything else I do not think that is part of any plan as such.
- Pritesh Bumb:** So and this toll revenue flows into which business if I kind of get that clarity.
- Sanjeev Sancheti:** The Toll businesses does not get consolidated.
- Sunil Kanoria:** Toll business we have our investment so those are in the SPVs in each project which the investments have been made by the fund so it does not get consolidated at the SREI level.
- Pritesh Bumb:** Okay. So it get consolidate right at the SREI level?
- Sunil Kanoria:** It does not get consolidated.
- Pritesh Bumb:** But the investments will have flowed from the SREI, right?
- Sunil Kanoria:** Investments are from the fund.
- Pritesh Bumb:** Okay, from the fund so that is why it does not get consolidated.
- Sunil Kanoria:** Yes.
- Pritesh Bumb:** Okay. And third thing on this money which you are going to receive about 2,900 crores or 3,000 crores what will be your take going ahead? I mean I got your point that borrowings will reduce and equity will be released but there is not a lot of opportunity in the market still so will it be still lying in our books or how it will be because it is also a negative carry if you put up a lot of liquidity in your balance sheet?
- Sunil Kanoria:** Well as I said it is our negative carry. We had our financial institution so we have borrowings, we have our liability side so, day one we will just immediately reduce our liability side and reduce our debts. And as and when we will grow we will draw down and grow. We do not have cash lying in the bank separately as such.
- Moderator:** Our next question is from the line of Jigar Walia from OHM Group. Please proceed.
- Jigar Walia:** Sir, my first question is when in the presentation you gave the value of the strategic investment so the transportation segment has seen a decline Q-on-Q from 456 to 307 crores so, if you can explain that?
- Sunil Kanoria:** Well some of them basically we have transferred direct investment into fund so basically those investments are through the fund.
- Jigar Walia:** Okay, perfect. And equity investments unquoted also reduced from 66 to 6.
- Sanjeev Sancheti:** That is because of the redemption of the mutual fund.



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Sunil Kanoria: Yes, we had redeem some investments from mutual funds and we had a small stake in National Stock Exchange so, that also we have sold.

Jigar Walia: Perfect, sir. Sir any comments on the exit of Mr. Moses Harding?

Sunil Kanoria: Not as such, but basically he was from Bombay and we had brought him when we were planning our banking application and the banking application did not happen so therefore need for building up that treasury like a bank was not there.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Vishal Modi for closing comments. Over to you.

Vishal Modi: So, thank you all for participating in the conference call. Thanks to the management team. Have a good day. Thanks.

Sunil Kanoria: Thank you.

Moderator: Thank you very much Mr. Modi and members of management. Ladies and gentlemen, on behalf of SREI Infrastructure Finance Limited that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines now.