



**“SREI Infrastructure Finance Limited Q3 FY2017
Results Conference Call”**

February 06, 2017



**ANALYST: MR. VISHAL MODI – MAYBANK KIM ENG SECURITIES
INDIA PRIVATE LIMITED**

**MANAGEMENT: MR. SUNIL KANORIA - VICE CHAIRMAN - SREI
INFRASTRUCTURE FINANCE LIMITED
MR. D.K. VYAS - CEO – SREI FINANCE
MR. SAMEER SAWHNEY - CEO - SREI INFRA
MR. SANJEEV SANCHETI - CHIEF STRATEGY OFFICER -
SREI INFRASTRUCTURE FINANCE LIMITED
MR. AMIT AGARWAL - VP (INVESTOR RELATIONS) -
SREI INFRASTRUCTURE FINANCE LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the SREI Infrastructure Finance Limited 3Q FY 2017 results conference call hosted by Maybank Kim Eng Securities India Private Limited. As a remainder, 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 will now hand the conference over to Mr. Vishal Modi from Maybank Kim Eng Securities. Thank you and over to you Sir!

Vishal Modi: Thank you. Good afternoon everyone and thank you for joining this conference call. We will begin with a brief comment by the management followed by question and answers. The management team is presented by Mr. Sunil Kanoria, Vice Chairman, SREI Infrastructure, Mr. D.K. Vyas, CEO, SREI Equipment Finance, Mr. Sameer Sawhney, CEO, SREI Infra, Mr. Sanjeev Sancheti, Chief Strategy Officer, and Mr. Amit Agarwal, Vice President - Investor Relations. I will hand over the conference call to Mr. Kanoria to begin the proceeding. Over to you Sir.

Sunil Kanoria: Good afternoon to everyone. Thank you for joining the call. Just to give a perspective on the Q3 FY17 for SREI on a consolidated basis, the PAT for this quarter was up on a quarter to case quarter basis of 292%. However as you know that the reason for this primary is two, one is buy on divestment which happened in the month of April 2016 and the impact of that with the debt coming down and the second is basically the 100% consolidation of SREI Equipment Business, which in June got consolidated by the BNP’s stake being swapped, which SREI’s stock. So, these two have been the drivers for such a large change. Apart from that we have been seeing a growth in our asset finance business after quite a few years and a quarter-quarter growth has been visible in that segment. That has also helped us to improve our collection and grow our book in the core financing business. We also saw during the demonetization drive because this quarter also had that. The impact on us was very limited because most of our customers were primarily in the government sector where the payments now mostly coming from the government and all is within the system, so therefore we did not have much of an impact in that at all. We also therefore did not have to take support of the RBI’s concession on the nonperforming asset, which was allowed for all banks and nonbanks because of the demonetization, so we did not have to take benefit of that guideline, which came in and we continued to follow our earlier norms of the nonperforming assets. With that, the NPA in our assets finance business was 1.8% and the net NPA for the infra financing was 2.1%. The disbursement grew at about 8% in the asset finance and overall portfolio had a growth of 4% on the trading quarter basis. So if you basically look at the SREI equipment now, this nine months has ended with total portfolio



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of about 20,533 Crore rupee and the return on average net worth of about 6.1 and return on average assets on books of 0.9% with a leverage of about 5.1. In terms of the yield on average funds have been about 13.4 with the cost of funds of 10.3, which is also gradually coming down our NIMs have been about 5% approximately and the net NPA of 1.8. In terms of the infra financing book, if you look at our earning assets, are about 14,300 Crore, so it has been more or less constant as we had said that we are not intending to grow as much. In terms of the return on average net worth here is 3.7% and a leverage of 4.9 times. The average yield on average funds is about 12.1% here and the cost of fund of 10.4% and a net NPA of 2.1%. In terms of our investment portfolio, overall investment is about 2029 Crores. Investment in subsidiaries, which is SREI Equipment and others are about 858 Crore and transportation is about 900 Crore. Here just to highlight you may find an increase over the previous quarter, which was about 570 to 900 Crore because part of the debt, which we had in the transportation, which was building in the debt portfolio has what converted into equity. As you know that we are in the process of raising capital in our Road Holdco and we hope that in the next couple of months we are able to make some divestment and get some of our investments back. Apart from that, there is not much of change in the investments. If you come on the Road, which is our unity road assets, which is the transportation portfolio as I said that we are in the process of looking at capital release there for the group and we hope to achieve that in the next couple of months. The business had been growing well in the toll collection. That got impacted due to the demonetization because for almost about 20 days odd or so we were not allowed to collect the toll, but the compensation is expected to come from the government. That should resolve the issue, but otherwise the portfolio is behaving fairly well and we are seeing growth in most of the toll collections post that. The head again now has been growing rapidly in terms of the network and especially with this demonetization; we got impacted because cash earnings and the business at the village level were impacted. However, the positive impact of the demonetization and the digitalization by the government, we have started to see positive movement and we expect that with the drive of digitization the speed at which this business can grow may be much faster than what we had anticipated. So we are doing a wait and watch. We are providing more services and we expect that the speed of growth may be accelerated in the times to come. So these are the thought process and will be - on a consolidated basis, if you look at our return on average network is now about 8.8% and leverage of about 5.9% with a book value of about 89% and profit after tax for the nine months is 181 Crores and the PBT of 261 Crores. These were the basic highlights for the quarter. Thank you.

Moderator: Yes thank you. Should we begin with the question and answer session.

Sunil Kanoria: Yes.



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- Moderator:** We will now begin with the question and answer session. We have the first question from the line of Anita Rangan from HSBC Asset Management. Please go ahead.
- Anita Rangan:** Hi good afternoon. I just wanted to know your gross NPA in your report of presentation was about 2.6%. Sorry I am talking about SREI Equipment Finance is steady at 2.6%, but there is an increase in total AUM, so does this mean that absolute level of NPA has actually gone up.
- Sunil Kanoria:** Marginally yes.
- Anita Rangan:** Can you give the actual value of the gross NPA.
- Sunil Kanoria:** From 431 Crores to 446 Crores.
- Anita Rangan:** 446 Crores and what would be the stock of the repossessed assets.
- Sunil Kanoria:** More or less the same.
- Anita Rangan:** Okay. Sir in that sense how do you see the NPA like trending forward and what would be the drivers for further reduction in NPA here.
- Sunil Kanoria:** See basically driver is to look at the sale of the repo stock and also as I said that although demonetization did not have a major impact on our customers, but their focus became on other areas to manage therefore there were some aberrations during this quarter for a couple of weeks, but basically the collections have been fairly robust. We also expect that from the CDR side we will be releasing... some of the accounts are being released in terms have behaved well during the CDR, so we are also seeing some accounts getting out from there and with the kind of cycle coming into the construction sector we are seeing EPC companies getting jobs now slowly, the cycle coming back, so they are able to take care of this new growth and new business, they are able to take care of the past challenges, which they were going through.
- Anita Rangan:** And your NPA recognition norm is at 150 DPD or 120 DPD.
- Sunil Kanoria:** 120 days.
- Anita Rangan:** 120 days. Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Yash Agarwal from Crest Wealth.



- Yash Agarwal:** Hi I just wanted to know this, basically your road investment, so what was the quantum of loan, which has been converted into equity and what is basically the procedure followed. Is there any regulation by the RBI regarding conversion at what cost and all?
- Sunil Kanoria:** No it is at the cost book value only. So basically about 300 odd Crores of debt has been moved into equity, so that we are able to then do the divestment and get some of our money back.
- Yash Agarwal:** So this was done because the servicing availability was not there in that particular project or is it I do not know like I mean.
- Sunil Kanoria:** No it is in the Road Holdco. So you see what we had done, we had investments in six, seven road individual SPVs. So we have brought all the SPVs under one umbrella, which is Bharat Road Network and that Bharat Road Network is there. It is going in for a capital raise. So what the loans, which we had overall in order to get the right debt equity mix, we have structured in a manner where earlier the debt equity was smaller and the debt was higher because in road access as we know the cash flow keeps coming in, so now in order to lift the Road Holdco, we had to have the adequate capital. So appropriately we have reorganized the debt and equity structures.
- Yash Agarwal:** Sir if I understand correctly this load got repaid to the SREI Infra Finance and then this loan was invested as equity. Is that a right understanding?
- Sunil Kanoria:** Yes.
- Yash Agarwal:** So you do not require any incremental provisions or anything for this.
- Sunil Kanoria:** No nothing.
- Yash Agarwal:** And by when can we expect this stake sale or that is...
- Sunil Kanoria:** Well the process is on, let us hope; our target is at the earliest.
- Yash Agarwal:** Yes thanks. If I have any more questions, I will come back in the queue.
- Sunil Kanoria:** Sure.
- Moderator:** Thank you. Our next question is from the line of Mihir Dalal from Natwarlal & Sons Stock Brokers. Please go ahead.



- Mihir Dalal:** Hi it is Mihir. Sir just a continuing of the question that was just asked. The loan, which was given to Bharat Road Networks, was converted to equities if I understand that correctly.
- Sunil Kanoria:** No the loan, which was given to the various SPVs because you see we are bringing all the SPV under the Road Holdco. We created this Road Holdco, so therefore the loans, which were given to the SPVs that has been moved into the Road Holdco and the SPVs have repaid us and we have invested in the Road Holdco because Road Holdco once it goes for the divestment, we will get our money back.
- Mihir Dalal:** Second question is to do more with the provisioning. You know provisioning continues to remain at higher level. Now when can we expect the provisioning to start reducing by what would you like to say the provision coverage ratio to if you can give us some guidance and by when would you start lowering the provision coverage?
- Sunil Kanoria:** See let me tell you the past challenges, which emerged that will take some time to go. What has happened in the last few quarters is the growth is coming back in this sector and that will help us to mitigate some of our past losses and risks. For the past risks, we must be clear that it will take time to resolve. So we will see the past challenges continuing for some more quarters. Gradually the projects will start to pay off. You see when the problem happens, it happens and after that the resolution takes quite a bit of time. So gradually it is getting settled. Slowly, the recoveries would happen. So we expect this to continue for some more quarters before it really comes down, but the growth is what will help us, but growth of the portfolio, a new business will help us to reduce the percentage of NPA.
- Mihir Dalal:** Sure. What is the provision coverage ratio at the moment and where would you like it to be say at the end of FY18.
- Management:** On Equipment Financing our coverage ratio is 33%. Gross NPA and net NPA difference is 33%
- Mihir Dalal:** Sorry I cannot hear you. Can you speak a little loud?
- Sunil Kanoria:** You see on my asset finance book, the coverage is about 33%, so we would like to see it around 40% to 45% and on the infra side, it will be almost the same.
- Mihir Dalal:** You only want to take the provision coverage to 40%, but based on that theory then the provision should start falling because now there is not much left right.
- Sunil Kanoria:** It will take. As I said, it will take another few quarters.



- Mihir Dalal:** Ok I will just come back in the queue if I have further questions. That is it from me.
- Moderator:** Thank you. We have the next question from the line of Anil Sarin from Edelweiss. Please go ahead.
- Anil Sarin:** Hi everybody. Great performance. I had a couple of data-oriented questions. One is that what is the current ownership in Bharat Road, so the percentage is what I want to know, what it was earlier, and what is it now and another followup question on that is when you do go for a listing, how much funds will come into the holding company that is SREI and what it would do to the debt levels within SREI.
- Sunil Kanoria:** So if we really look at well along with the SREI and its funds, it would be virtually owning 85% almost. 85% is held either through SREI or its funds.
- Anil Sarin:** SREI or its funds meaning... as a SREI shareholder what would be my exposure to BRNL.
- Sunil Kanoria:** About 50%.
- Anil Sarin:** And what was it prior to this conversion of loan into equity.
- Sunil Kanoria:** It will have to be examined. I am sorry. I cannot answer that. We can step back and let you know.
- Management:** Because you see the holding worth into different SPVs, now those are consolidated into... so the mathematical is slightly different.
- Sunil Kanoria:** It is not that easy too because you see BRNL was not our this thing, we had investment directly into various SPVs, so all that we have brought it under in order to create a liquidity event at the Holdco level, so we have done the reorganization of the capital structure.
- Anil Sarin:** Sir if you can just at a higher level if you can just summarize that through either directly or indirectly prior to this event not the liquidity event prior to this conversion of SPV debt into equity at the BRNL level, prior to debt that particular event what was the overall holding of SREI Infrastructure in BRNL and now after that conversion of loan into equity, what is it now.
- Sunil Kanoria:** We will come back to you on that. We would not have the exact numbers at this juncture.
- Anil Sarin:** And the other part was that once this listing happens, how does SREI Infrastructure benefit from it?



Sunil Kanoria: See overall let me tell you. Both equity and debt investments from SREI into the overall road portfolio would be almost about 1400 odd Crores. We expect through this liquidity event, which we are planning, we should get anywhere between 500 and 700 Crores out at the first instance.

Anil Sarin: So this should be debt repayment I mean whatever money that you have lent to BRNL will come back to you.

Sunil Kanoria: Both. It will be both debt and equity. So as I said that today let us assume 900 now, 900 Crores is the equity and about 500 odd is debt, so part equity and part debt would come back, so that we get almost about between 500 Crore and 700 Crores of liquidity at the SREI level.

Anil Sarin: Okay, fine and again this is at a broader level the question if I look at the performance of the company over the past three, four years, I find that at a consolidated level a large part of the pre-provision operating profiting is provided. It is taken away by provisions. Now that the situation has changed for the better would the pressure on PPOP reduce going forward and if yes, if you can provide some guidance as to like what percentage of PPOP would now need to be provided for compared to the roughly 70% level that was there in the case of fiscal 2016.

Sunil Kanoria: Well I think as I said that SREI the equipment finance business show a little reduction. In the project finance as we make more provisions of the past, it may continue for a few more quarters to be high before it comes down.

Anil Sarin: Alright thank you very much.

Moderator: Thank you. Next question is from the line of Sohani Doshi from Edelweiss. Please go ahead.

Sohani Doshi: Sorry my questions have been answered.

Moderator: Alright. Thank you. We will move to the next question. The next question is from the line of Kush Sonigara from Mahindra Mutual Fund. Please go ahead.

Kush Sonigara: Hi Sir. Sir sequentially I was just checking the finance cost and AUM growth. So our AUM growth on a consolidated basis has grown at around 2.7% where as our finance cost has grown at around 4.11%. Now my rough calculation says that your capital market borrowing rate should have pulled down your total finance cost by 1%, so what is that component, which is actually pushing up the finance cost by 5% or am I missing something.



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- Management:** I think you should instead looking at a consol, my suggestion is that you look at both the business individually that is say SREI Infrastructure and SREI Equipment because in consolidation there will be a lot of knock off. We have a lot of subsidies, etc. So that will be a better way to look at it. It will be very difficult to explain on a consolidated basis, it is better if you could look at essentially on SREI Equipment separately and SREI Infra separately, which are the two large main businesses where the fund raising is being done.
- Kush Sonigara:** Okay fine we will do it and Sir we saw major cut in MCLR this Jan, so how much of that you have passed it to our customers.
- Sunil Kanoria:** Well that we have not yet take any call because this has happened last month. Once we do our ALCO and then we will review it. As it is our reduction to our customers happen twice a year, 1st January and 1st July.
- Kush Sonigara:** Okay and Sir one book keeping question what is the size of restructured book for both the entities.
- Management:** It is about 500 Crores in equipment finance and it is about 200 Crores in Infra finance, this is more of same level.
- Kush Sonigara:** Fine Sir. Thanks.
- Moderator:** Thank you. We have the next question from the line of Aditya Singhania from Enam Holding. Please go ahead.
- Aditya Singhania:** Thank you. There was a very large disbursement in the infra finance business I think it was almost 2000 Crores in the quarter, could you give us some color as to what it was.
- Sunil Kanoria:** Primarily, we have done some in hospitals and some in energy and we got some repayments also, heavy repayments, so wherever we got some heavy repayments and against that we also funded some cost in order to maintain the overall book.
- Aditya Singhania:** What kind of yields would we be getting now incrementally if I may ask?
- Sunil Kanoria:** About 13% to 13.5%.
- Aditya Singhania:** 13% to 13.5%.
- Sunil Kanoria:** Yes including fees and all.



- Aditya Singhania:** Including fees and all, and these would be what standalone clinics or you know hospitals.
- Sunil Kanoria:** It was hospital.
- Aditya Singhania:** So hospitals are paying 13% to 13.5% to borrow.
- Sunil Kanoria:** Yes. This was the large chunk, which we had done.
- Aditya Singhania:** And just on the interest cost side of which we have seen a large reduction in interest rates by banks, how do you see that going through in your cost of funds.
- Sunil Kanoria:** We are seeing a marginal reduction as because also we had been raising bonds in the last sometime and the bond cost is a little higher because we are just starting to develop that market, although as a percentage the bonds are still much smaller than the overall, so we are seeing a little reduction in the banks, but not dramatic because the overall NBFC favor to the banks also and the exposure is high, so they are not that supportive in terms of providing very low cost money, so through market borrowings and some short-term arbitrages, we are able to reduce the cost of that...
- Aditya Singhania:** So you are saying that banks are not reprising loans to you.
- Sunil Kanoria:** Reluctant. In some cases it happens, but reluctant for NBFCs.
- Aditya Singhania:** And if I may ask on the tenure of the reprising, are you all mostly on the one year MCLR or shorter tenure.
- Sunil Kanoria:** One year. See major of my lending is from banks on a working capital. So the working capital changes whenever that is in. So if you look at our total loan book combined consolidated about 38,000 odd Crores plus so almost 20,000 Crore is working capital.
- Aditya Singhania:** So that reprises immediately.
- Sunil Kanoria:** That reprises immediately.
- Aditya Singhania:** So there you would have got the full 70 to 80 basis point benefit.
- Sunil Kanoria:** But they do not pass on because they increase as I said.
- Aditya Singhania:** So roughly what kind of cost reduction would we have seen, if you can give me a...?
- Sunil Kanoria:** About 0.3%.



- Aditya Singhania:** On the overall book?
- Sunil Kanoria:** Yes.
- Aditya Singhania:** Thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much Sir. Sir my first question is on your rental business basically Q4. So can you give some sense on how that business is currently doing whether it is currently have come into green.
- Sunil Kanoria:** Yes well we have primarily three businesses, Quippo Energy Rental and Quippo Oil and Gas. So the Quippo Oil and Gas has come into positive. Most of the rigs have now been deployed, the assets which were there. We expect that now from the coming quarter, this should start to contribute positively more and energy is basically on a breakeven basis. With the gas started to get available, we have started to see enquires becoming positive. We hope in the next year those enquires should convert into realization.
- Deepak Poddar:** Understood. Some sort of figures you have like what sort of revenue and basically margins we are currently doing may be in the last quarter we did basically some.
- Sunil Kanoria:** I think overall on a PAT basis we have now PAT positive on an overall basis compared to the losses, which we had last year. Obviously the EBITDA margins have improved because as soon as you start deploying your EBITDA margins improve significantly.
- Deepak Poddar:** Right. What is the revenue that we have seen last quarter for this entity?
- Sunil Kanoria:** Nine months I would say the revenue from both would be close to about 100 Crores.
- Deepak Poddar:** For the nine months you are talking about. Okay, right. My second thing is on your equipment finance business. Basically we are talking about that our growth is coming back into this equipment finance business. So over the next three to four years what are two to three drivers that you see basically that will drive the growth in your equipment finance?
- Sunil Kanoria:** I will give you a perspective of the construction and mine equipment fields in India, I highlighted earlier also. In 1990, the total sales of construction mining equipment in India were about Rs.125 Crore. In March 2012, it went to 34,000 Crores. In March 2016, it came down to 21,000 Crores. This year in the first nine months we have seen it, after a gap of



four years, started to grow again and we expect that this year by March it should go to about 25,000 to 26,000 Crores. First time we will see a good growth of overall average of about 25% plus in the current year. We expect that in the next three years, by 2020, when the industry is targeting it can go up to 70,000 to 75,000 Crores, I am looking at even 60,000 Crores which we were talking about in the good hail days. I am giving you a perspective that, say for example the government has announced that during 2017-18, they will spend about 4 lakh Crores in the infrastructure space. Average equipment requirement is anyway from 15% to 20% of the infra spend is your equipment cost which you need. Last few years people have not replenished their stocks also. A lot of the assets have become quite old. So, we expect that next few years we should see a sustained level of 25% growth Y-o-Y, for the next three years at least.

Deepak Poddar: Is there any particular sector, which will see good growth because I think a lot of government initiatives have also been there in the mining and all?

Sunil Kanoria: We have already seen roads pick up well, irrigation, to some extent mining, rural infra like they are going to expand the requirement for ponds on the MNREG to more than double, 5 lakh ponds that needs only excavators and nothing else, only backhoe loaders and excavators. That is the key requirement, so earth moving equipment demand is what the government has highlighted in the budget and if really that money gets spend you have no choice but these equipment will be required.

Deepak Poddar: Right, I understood. As you are talking about that the entire industry will basically may double to about 60,000 Crores in next three to four years, so ideally if we maintain our market share we should also kind of look at doubling the book in three to four years. So what is our focus, are we looking to gain the market share or maintaining the market share is our prime thing?

Sunil Kanoria: Maintaining the market share because we don't want to take too much of risk in one asset class. I would say that we know the space; we will continue to grow cautiously, managing the risk. Now today you see we can manage risk in many other ways than what we didn't have in the past. Today, the new equipment, which we are financing, has sensors attached. So I know very well where my machine is, how it is performing. So therefore for me it becomes much more easier to manage my asset risk today better than what I could do in the past.

Deepak Poddar: Right. I understood, fair enough. My final thing is that we have also spoken about improvement in our margins and ROA because of operating leverage and reduction in cost of borrowing, so any kind of comment on that would be helpful?



- Sunil Kanoria:** We are working towards bringing in more operational efficiency using technology, maybe initially my investment in technology will be high and that we write-off as expenditure so it would be higher, but it will give me longer term benefits over a period of time. So we will definitely look at bringing in productivity levels higher, operational levels higher, and our cost of risk needs to be brought down and that is with better risk management.
- Deepak Poddar:** Okay. Fair enough Sir. Thank you very much Sir. All the best.
- Moderator:** Next question is from the line of Sameer Panke from Deep Financial. Please go ahead.
- Sameer Panke:** Thank you for an opportunity. Sir my question is on SREI Equipment Finance Limited. You just outlined the growth prospects are very good for this company. I am just wondering is there any plan on mind as far as creating a shareholders' wealth or a value out of this company, any plan of divestment or something like that?
- Sunil Kanoria:** We obviously have that in mind and we keep evaluating what are the ways it can help improve stakeholders' value. We will keep on examining those opportunities and definitely reward in case we are able to come across something which can help unlock and improve value for the shareholders.
- Sameer Panke:** Okay. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Mihir Dalal from Natwarlal & Sons Stock Brokers. Please go ahead.
- Mihir Dalal:** I just have a question on bookkeeping numbers, you mentioned earlier the numbers what is the repossessed assets in the equipment finance. Can you also tell us what was the additional that you took in repossession in the last quarter and what was the sale for the last quarter?
- Sunil Kanoria:** We basically repossessed about 65 Crores and sold about 61 Crores.
- Mihir Dalal:** The final tally number what you said 800 are it.
- Sunil Kanoria:** 850.
- Mihir Dalal:** 850 odd Crores. Any plans of selling down further on that equipment?
- Sunil Kanoria:** What happened is that because of the demonetization, the sales of used equipment had an impact because people were so busy in their own things, and that we couldn't do much of



auctions in all in that and many of the sales happened in cash when you sell used equipment, so that got impacted. So, we hope that in the next few months we should accelerate this.

Mihir Dalal: Okay. When you sell these equipments you are obviously funding the person who is buying it to some extent. What is in the interest you will be charging?

Sunil Kanoria: Very limited may be a few percentages, maybe not more than 5% to 6%.

Mihir Dalal: That is the funding you do.

Sunil Kanoria: The rest is all cash.

Mihir Dalal: Okay. I think that is it from me at the moment. Thank you.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Thanks for the opportunity, good afternoon. My question is have you resorted to any RBI dispensation?

Sunil Kanoria: No. We said that, nothing.

Jigar Valia: Okay. Fair enough, thank you Sir.

Moderator: Thank you. Before we take the next question a reminder to our participants that you press “*” and “1” to join the question queue. The next question is from the line of Saurav Kataria from BOI AXA Mutual Fund. Please go ahead.

Saurav Kataria: Thanks for the opportunity. Sir my first question is regarding what is the business plan now on Sahej?

Sunil Kanoria: Well, as I said we got some impact in the revenues during the demonetization drive because there was no cash in the villages who come and pay for the services, but with the digitization drive of the government, we are seeing positive trend there and we are working towards two things, one definitely to grow the platform with more services and strengthen more particularly the financial inclusion part and the financial services angle which we see growing very rapidly, and second along with that going forward our strategy would be to look at capital release in Sahej too as a next step post our roads.



- Saurav Kataria:** Sir what are the losses now we are making?
- Sunil Kanoria:** At EBITDA, we will probably be close to break-even this year, may be 2 Crores here and there.
- Saurav Kataria:** Okay. Sir, what is the capital deployed total in Sahej?
- Sunil Kanoria:** About 280 Crores including debt.
- Saurav Kataria:** Overall I think 170 odd Crore in five years cumulative losses we have run on that, right?
- Sunil Kanoria:** Yes.
- Saurav Kataria:** Okay. Sir my next question is regarding how do we intend to improve our return on assets, so for that I need to understand how much of our capital is earning income for us for example either through spread business or through collection of toll and how much is still stuck into these investments which are not earning anything to us?
- Sunil Kanoria:** Basically if you see my toll interest earning assets on a consolidated basis is close to 30,000 Crores. Investments are about 2000 odd Crores.
- Saurav Kataria:** Sir this doesn't include toll earning assets of 2000 Crores?
- Sunil Kanoria:** Yes. That includes toll earning assets. Obviously at this point in time they don't get consolidated. So, in terms of a consolidated profit I think you can see about 1400 to 1500 Crores of my investment does not earn the income today on my consolidated profit, that is what you wanted.
- Saurav Kataria:** Yes, so that brings the Viom stake sale got us around 3000 odd Crores, how is that capital, which line of the business the debt is reduced because both the businesses are making almost similar ROS?
- Sunil Kanoria:** If you see the 3000 odd Crores which we got, almost 1300 to 1400 Crores were in terms of debt repayment and there anyway the return was happening and we just got our money back and 1500 to 1600 Crores which was equity portion is what we got back. If you really see the earnings on that 1500 Crores is what started to come back and with that is where the little change which has happened in this two quarters post that.
- Saurav Kataria:** Sir the debt of 1400 odd Crores payment that you are saying that was sitting in investment book at that time?



Sunil Kanoria: No, it was the loan books, so loan book got reduced and my debt got reduced. The marginal spread, which was there, that was there. Just the asset and liabilities both got reduced.

Saurav Kataria: Both were reduced, okay. So, Sir what is the path forward to improve the ROS?

Sunil Kanoria: Primarily two things are there. One is we have two divestments, release of capital for on the roads in Sahej which we have working on towards, that is one. Second, basically do we have to look out our past NPA and see how we can recover that. Many of those assets which are not earning today, we are losing earnings on that, so we have to bring that down on absolute numbers. So, the effort basically is that and as we release that, if both the businesses combined we would have assets including repossessed, structured, and NPA will be almost 2000 Crore plus, so therefore we need to bring that down substantially. That effort is on. That plus my release of capital in these two will help me to improve my return on assets.

Saurav Kataria: Sir one last question from side, we expressed that there will be no further equity investments. Are there any other commitments that are outstanding where we may have to invest more?

Sunil Kanoria: As I said, there is nothing at this juncture. Even if we stay off the investment side, it is basically the roads where we have just move the debt into equity because now we are going for a listing, it is being structured and consolidated into one platform and that is the reason why we had to change from debt to equity, but otherwise overall investments have not gone up.

Saurav Kataria: Okay Sir. Thanks a lot.

Moderator: Thank you. Next we have a follow up question from the line of Anil Sarin from Edelweiss. Please go ahead.

Anil Sarin: Sir, this is in continuation of the immediately preceding question, roughly at an overall level we have now I think 4600 some odd Crores of net worth, out of which around 1400 to 1500 Crores is invested in strategic assets. Is my impression correct?

Sunil Kanoria: Investment is almost 2000 Crores. Assets around 1500.

Anil Sarin: 1500, so basically around one-third or a little bit more than one-third of the net worth is not into interest-bearing assets, so that from an outsider's perspective it makes it hard to sort of value the company, so I wanted to know what is being done to simplify this kind of a



structure, how should we look at SREI, it is investment-making company or is it lending-oriented entity?

Sunil Kanoria: The focus is on lending. What unfortunately in the past happened is various investments were made through the funds and investment on a short-term, medium and big-term basis, but the overall environment became challenging and is kept on getting accumulated, so one-by-one our objective is to sell our investments which are there, except the strategic which remains in our book which is my SREI Equipment, investment and the financial services. Apart from that, the other investment primarily which is there, is road, Sahej, some (inaudible) 46:07 businesses, these of them I see, which are there. (Inaudible) 46:12 will take its time, the objective is basically now that it has started to turn profitable, so we will look at how it evolves, but roads and Sahej in these two which our target is to see how we can divest as early as possible. The investment on strategic is about 1100 Crores.

Anil Sarin: If you can guide us for the future, what is the thinking regarding investment in strategic assets going forward?

Sunil Kanoria: Very clearly we do not want to make investments, except in my financial services if I need capital in SREI Equipment we will support it because we will not allow growth to get impacted and that is my core business, but in terms of the others, our intention is not to make further investments. Not at all. Going forward, even four to five years down the line, it will remain a lending-focused entity. Our full focus will be lending. Investments would need to be done through third-party funds.

Anil Sarin: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Sir, I have a followup question here. You said that your borrowing, you had used proceeds from Viom to reduce the debt, but if I look at the consolidated borrowing numbers it has actually increased from FY16 to nine months of FY17, so how do we look at these numbers?

Sunil Kanoria: I think the some of which has increased because of the growth in the lending book as well. Most of the increase has happened because of the growth in the lending book.

Anita Rangan: Okay that would have contributed to the increase in borrowing numbers. Thank you.



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Moderator: Thank you. That was the last question. As there are no further questions, I would like to hand the conference back to Mr. Vishal Modi for closing comments.

Vishal Modi: Thank you everyone for joining us in this conference call. Thank you to the members of the management team as well. Have a good day. Thank you.

Sunil Kanoria: Thanks a lot.

Moderator: Thank you. On behalf of Maybank Kim Eng Securities India Private Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.