"SREI Infrastructure Finance Limited Q2 & H1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to SREI Infrastructure Finance Limited Q2 & H1 FY2020 Earnings Conference Call hosted by Maybank Kim Eng Securities. As a reminder, all the 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. Asitav Sahoo from Maybank Kim Eng Securities. Thank you, and over to you, Sir!

Asitav Sahoo: Thank you Nirav. Good afternoon everyone. Maybank Kim Eng Securities welcome you all to SREI Infrastructure Finance Q2 FY20 Earnings Conference Call.

We have with us from the management Mr. Sunil Kanoria, Vice Chairman, SREI Infrastructure Finance Limited, Mr. D.K. Vyas, MD, SREI Equipment Finance Limited, Mr. Rakesh Bhutoria, CEO, SREI Infra, Mr. Sandeep Sultania, CFO, SREI Infra, Mr. Manoj Beriwala, CFO, SREI Equipment, Mr. Amit Agarwal, VP, Investor Relations.

Mr. Kanoria will give us a brief overview of the results and the business. Thank you and over to you Sir!

Sunil Kanoria: Thank you. Good afternoon to everyone. Thank you for joining this earnings call.

Friends as we have highlighted in the past, SREI is reworking on its business model post the challenges, which the sector based last year December and we are progressing well towards our evolution in this journey of focusing on the cash flows, focusing on the bottomline and focusing on managing our NPLs and recovery and in terms of the business refocusing primarily on the asset financing business.

Given that for the quarter we have been able to sustain and improved our profitability in the equipment financing by a margin of about 10% to Rs.44 Crs. Our consolidated net NPA has marginally come down to 6.2% overall. We expect this number to improve in the next two quarters further and that is where the focus has been to recover wherever possible and find solutions and resolutions in various cases. We have also initiated our co-lending program which we started late last year and the momentum is picking up through the i-Quippo platform in the first half of this year, we have already crossed about Rs.300 Crs and we have now last month crossed Rs.155 Crs a month, so we expect this to grow further in the coming months now that many of the banks have come on the platform.

We have already eight lenders who have come on platform doing the co-lending program and the model is getting well accepted by the lenders and by the market. We expect that to build up. We have also been able to re-engage with our multilateral institutions internationally who had been supporting the group over the last 25 years and we have been able to get approvals during this quarter for almost $180 million of new sanctions from these institutions.

We have also sold about Rs.2000 Crs of our portfolio during this half-year to institutions, also in terms of our liability side, which has been the major challenge in the sector we have been able to fairly manage that primarily because our liability mix is fairly robust out of total Rs.33000 Crs of borrowings almost Rs.18000 Crs of borrowing is by the way of working capital from banks that is primarily almost like a CASA for the company which can be reused continuously for its business and the rest is primarily term loans. We hardly have very negligible Rs.500 Crs of short-term borrowing overall.

Apart from that we have no short-term funds from either mutual funds or money markets so that has given us a fair stability on our liability side. In terms of our assets as I said that focus is on managing the portfolio strongly. We have created a financial solution group to work with customers finding solutions and getting recoveries in a stronger way.

We expect that going forward the profitability should start to show better signs of improvement. Overall if you see the equipment financing business in the market the sales growth in the equipment sector is definitely has been low.

Overall growth has been negative in this first half by about appx around 25% and therefore we have also ensured that we keep are risk management stronger and therefore we have done business but overall volumes have been low. One area which has been a challenge is with the NBFC sector the cost of fund is going up with the banks increasing the cost of funds substantially for NBFCs and we had similar impact as a result of that in our recent ALCO and Board, we have announced increase in our PLR by 1%. As you know, most of our loans are linked to our benchmark day so we hope that in the coming quarters, we will be able to pass on part of the cost to our borrowers and balance our earnings and spreads, I would say.

The focus for the next few quarters will be primarily to manage the existing portfolio better focused on the co-lending program on the asset financing and recycle whatever capital we are able to release into asset finance. Further on the slump exchange, which had announced that we are able to bring in all our financial services fund-based business into one entity which is SREI Equipment there the progress is also good. We have received our approvals from our shareholders, we have received approvals from all the NCD holders. We have also received the approval from the lead bank and now just a few lenders pending which is the processes on. We hope that should get completed in the next few weeks. The effective slump exchange would happen October 1, 2019 so we hope to have December 31, 2019 accounts as one single balance sheet for the fund-based business in SREI Equipment. Post that considering the environment which we hope in the next quarter or post 2020, the environments may improve, so various options capital raise would be strategic investors to come into the SREI Equipment business, develop the leasing business on the asset side would be the key focus area post consolidation. These are some of the highlights.

In terms of the liquidity position basically as I said that we are fairly well reasonably matched in terms of our ALM and whatever our recoveries and billings are, we are in a comfortable zone and that is the reason we have been able to say strong in spite of multiple challenge in the sector.

With this I think I will open up for any questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sameer Dalal from Natverlal & Sons Stockbrokers Private Limited. Please go ahead.

Sameer Dalal: A few questions, the first I want to understand so I was just looking that the equipment finance number, you are borrowings from Q1 to Q2 having actually come down to Rs.21200 Crs and Rs.20400 Crs but the finance cost has been increasing, so how much has the incremental cost of borrowing increased because the cost of your interest, your finance charges have gone up from Rs.556 Crs to Rs.572 Crs, can you just give brief on how the borrowing profile is moving going forward and also how it moved currently?

Sunil Kanoria: As I was mentioning in my statement that the interest cost has gone up considerably to a couple of factors and in the past we used to have short-term borrowings against our bank borrowing and working capital, which was helping us to reduce our cost and do an arbitrage on the interest cost; however, that has gone away since September last year and gradually an interest rates have gone up. Second is most of the banks because of their perception about the NBFC sector, there have increased the interest rates in many cases substantially as a result our effective cost of fund if you see FY2019 initially equipment was 9.5% average, it has gone up to 10.1% or so but actually as we move forward if I take my old loans coming down, the new working capital rates have all gone up and that is the reason why we increased our interest PLR by 1% this week, when we saw this trend, which we hope to pass on now in the next future quarters so that has impacted the interest cost in spite of the overall borrowing coming down and also in the overall borrowing coming down one of the other factor is securitization, we have done about Rs.2000 Crs of securitization as a result it goes off my book on the borrowing side.

Sameer Dalal: I am actually looking at slide #23 showing securitization, last year securitization was about Rs.5400 Crs and this year is about Rs.5700 Crs so it is not showing Rs.2000 Crs increase in securitized loans that is question one so why is that? Question two when it comes to it is even if I look at your interest income you say you have increased your lending rate by 100 basis point, but from the last year to this year, your interest income is actually lower as well I mean I am not able to understand where that 100 basis points increases?

Sunil Kanoria: One is on the securitized portfolio you see there is repayment also and there is NPAs also. This is outstanding on the balance sheet number, which you see on slide 23 that is outstanding as on that date of Rs.5700 but there is run down which happens on securitized portfolio and new so Rs.2000 Crs is the new securitization, we did during this six months; however, the old Rs.5000 has also come down so therefore overall balance has not gone up much since almost the same.

Sameer Dalal: Sure and second question which has to do with the fact that interest income if I look at net revenue on page #24, I did in Q2 Rs.842 Crs net revenue from operation versus Q2 last year was Rs.894 Crs so is Rs.50 Crs decline if you increase interest rates by 100 basis points on the overall book ideally your interest income should be rising even if there is a small decline in the gross earnings asset which can be seen so can you explain why that is the case?

Sunil Kanoria: This 1% we have only done three days back in our board meeting so effective was that will happen from January 1, 2020.

Sameer Dalal: Okay so now we can expect that interest income will also start to increase?

Sunil Kanoria: Yes so on my existing loan book it will get reprised from effective because our policy is that January 1 and July 1, is when we fixed the increase on my existing book because otherwise operationally it is a challenge so all our contract basically for the last 20 years, 25 years is basically increased happens in the next January 1 and July 1 so now we have announced so from January 1 it will get reprised.

Sameer Dalal: Okay so it will only get reprised in January 1, so impact that will one only come in March quarter?

Sunil Kanoria: That is right.

Sameer Dalal: Okay now just to understand can you just quantify in actual numbers how much your new borrowing rate is what percentage are your borrowing are you fresh additional fund?

Sunil Kanoria: Well it is anywhere ranging from 10% to 11.5%.

Sameer Dalal: 10% to 11.5% this is your working capital loans that you are talking about?

Sunil Kanoria: Correct which used to be around between 9.5% and 10%.

Sameer Dalal: Okay so actually my question was December quarter we could actually see further drop in the net interest income correct because your increase in interest rate will only happen starting January but for the next three months, your interest expense has already gone up because your borrowing at a higher rate is that fair to assume?

Sunil Kanoria: To some extent but most of those interest costs has been now factored, they would be on an overall basis supposed this 10.1% is my weighted average cost in September end that weighted average could become 10.2% or 10.1% around the same similar because the most of that loans and secondly what as I said that we have got sanctioned of $180 million of ECBs from my international institutions because what we have done is on liability side and also to share with you that SREI basically way back in 1997 when India had similar challenge what we had last year in 1997, CRB failure had happened in NBFC sector, it was just after that we got investments from IFC Washington, FMO, DEG from government multilateral institutions and that helped us to sustain for many years and those days also Indian banking system, financial markets are completely shut off for NBFC sector and but what helped us was our international institutions who came in. Similarly again in the last six months many of the international institutions who have had faith with us and we have been there for the last 25 years and they realized that there is challenge in the country and that is why now we need to support. When we become stronger in the early 2010 or so that time they saw that their role for us to develop has come down but when they saw this challenge so therefore with our engagement we have been able to get in spite of the overall negative environment for the NBFC and these are long-term facilities we have got sanctions, all of our between 5 to 10 years facilities so this is where we believe will also helped us to reduce our cost of fund because these are available at even after hedging our cost comes below 9.5% to 10% so this gives us further cushion on that. On a weighted average we believe that we should be able to be around 10.1%, 10.2% around the same rate.

D.K. Vyas: Just to add one more point last year income has shown because of the Ind-AS adjustment because earlier for the assignment in securitization portfolio we used to take the income across the tenure of the contract and Ind-AS last year accounting norms got changed and there has been to be taken upfront so we were to readjust all the previous portfolio and that is getting normalized now so that aberration will not be there going forward so that is because last year upfront which is getting normalized so that negative impact also comes.

Sameer Dalal: You tell us what that actual number so then we can work on like-to-like basis?

Sunil Kanoria: We can share exact details, that what is the impact has come because reversal of the assignment portfolio income.

Sameer Dalal: That will help us.

Amit Agarwal: I will take this offline with you.

Sameer Dalal: Two more questions one on the asset liability you mentioned that you are quite comfortable; can you just give us a breakup if possible? What is the asset liability maturity profile for the one-month even six months and one year? If you can share that with us it will help us get a clear picture how much is repayable over the next one year?

Sunil Kanoria: We will give that details offline.

Sameer Dalal: Okay and one more thing what is the actual gross NPA and net NPA number? I mean, you have given a percentages, but that has been your always basis on your total outstanding which includes your investments and all, if you can just share the actual number of gross NPA and net NPA?

Sunil Kanoria: For infra, it is Rs.2,275 Crs as a gross and net is Rs.1,763 Crs and for equipment Rs.1,207 Crs is the gross NPA and net is Rs.783 Crs.

Sameer Dalal: Given the NPA levels are still net level quite elevated, what kind of provisioning can we expect for the remainder of the year and going forward?

D.K.Vyas: Just to share that net NPA which was there in March it has come down, net NPA was around Rs.1300 Crs, March 2019 for SREI Equipment which has come down to now Rs.783 Crs and the provision coverage which was approximately in the month of March was around 25% has gone to 33%, I think adequate provision coverage has been done and the NPA improvement has been happening quarter-on-quarter, it is from March, June there was improvement and then September further has been improved.

Sameer Dalal: Correct but my question is how much more provisioning will you have to factor in for the next two years, because your provisioning is also something that is affecting the profitability, so just trying to understand that?

Sunil Kanoria: We are hoping for and there are many cases which are in the final stages of resolutions in the NCLT for many of these cases, the NCLT cases and many of them like if we take an example of Essar, it has been going on and on we are now in the final stage in Supreme Court that itself will release me a good amount of cash and likewise there are five more cases which are in the final stages in the NCLT process, so we are hoping that we will get a fair amount of recovery from there in the next few months and therefore my overall slippages we are expecting not to go up in the next two quarters.

Sameer Dalal: If you have time, one last question, since you mentioned Essar, we have always wanted to know what is the total exposure you have to Essar and how much is the provision done and if you can just give us that number, so we know how much to assume Rs.2,275 Crs in the infra, what is the exposure to Essar?

Sunil Kanoria: My book value would be about Rs.400 Crs odd, but the recovery which I am expecting is could be anyway from close to Rs.600 Crs to Rs.700 Crs.

Sameer Dalal: I will try to understand this offline, but thanks. If I have something more I will come back in queue. Thank you.

Moderator: Thank you very much. The next question is from the line of Kedar Wagle from Maybank. Please go ahead.

Kedar Wagle: Thank you. Can you just give some more colour on the asset quality trends going forward, you earlier mentioned in your opening remarks at you expect to see NPAs coming off in the coming quarters. Is that coming entirely from the NCLT recovery you just talked about because the economic environment is quite anaemic, so I just wanted to get more color on where you see that improvement from and additional question on the equipment finance business, what are the trends you are seeing in terms of the health of your customers, any color on that would be useful? Thank you.

Sunil Kanoria: If you look at on the recovery side as I said that major cases which we have in our NPA is already in the NCLT processes and that is what has taken more time than what we had anticipated and therefore we are expecting more recoveries as those resolution happen in the next couple of months, so that will be the key driver, otherwise the smaller cases mostly we are able to repossess the assets, it is in my repo stock etc., and all therefore it is an ongoing journey, but broadly majority now the recovery processes is primarily I would say majority of the cases either you repossess the equipment and sell it or it is in the NCLT. These are I would say gradually it is moving towards that direction. In terms of the health of our customers, let me tell you in the construction sector, one thing is there this is the lot of work there out there by the government coming out and the work is there and wherever government's work are there, money is also flow into the contractors, so we are not seeing problems in existing projects where money is coming or government is coming, the challenge here basically facing why the slowdown in the sales of equipment has happened, two, three things, one real estate has got impacted, secondly industrial construction is virtually negligible and thirdly what is happening is that many projects which are coming up and contracts being awarded the contractors are not able to give bank guarantees because when they get a project, they need to give big bonds and guarantees, so therefore even if there is a lot of work being issued by the state government, local government and the federal central government, the challenge is happening is that people are not able to do much and this is a bottleneck which has got created as a result the sales also has got impacted. We have had engagements with the government a lot and we are exploring various ways of overcoming this bottleneck either by reducing the requirement of bank guarantee or doing away with the requirement of bank guarantees in certain cases and that will gradually then hopefully start to open up the tap because government is putting a lot of emphasis on giving contracts and like for example in some sectors, the work which is coming out is very large even the margins have improved a lot, because not too many competition is there, not too many people are able to give the bid, so you have an opportunity, but you have the financial sector challenges, which is not allowing the smooth flow of the economy and that is where I see other predicament in the country today, the bottleneck is not when you talk about that economic growth is not happening I believe that majority of the economic growth is is suppressed growth, suppressed demand it is not on its own as soon as the financial system starts to get unlocked gradually that movement will start to happen better.

Kedar Wagle: If you look at gross slippages for both the infra business and for the equipment finance business, what kind of trend should we look at?

Sunil Kanoria: I do not see it growing much. I see it gradually coming down. There may be a few accounts which are basically projects and all where they have been some of the old cases, otherwise generally we are not seeing much of this thing.

Kedar Wagle: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: Thanks. Just wanted to check with you in terms of the disbursement that was there in the last quarter, can you give a breakup of this?

D.K. Vyas: We have disbursement numbers from Equipment Finance approximately for the last quarter was around Rs.4,200 Crs odd last quarter compared if you look at the six months we had total disbursement of 6,767 Crs in equipment financing compared to Rs.8,572 Crs in the last year first half corresponding quarter, so there has been a degrowth in the disbursement in equipment business.

Shubhankar Ojha: In terms of the capital adequacy of these two businesses, if you can give us and can you also talk a little bit more about fund raising plan that will be helpful?

Sunil Kanoria: Capital adequacy is the basically in SREI Equipment is about little over 16%.

D.K. Vyas: 16.9% today is around, 17% for SREI Equipment financing and the leveraging has improved from 8 to 6.9 times now for the equipment financing now.

Sunil Kanoria: For infra it is closed to about little over 15% but as you know that with the slump exchange from October 1, 2019, SREI Infra my capital adequacy, because we will hardly have any debt, very limited debt and all assets and liability will come into Srei equipment, so that will be also comfortable.

Shubhankar Ojha: And can we hear on the fund raising something on it?

Sunil Kanoria: As you are aware the overall environment and climate for the NBFC sector is still negative, there is a lot of uncertainty etc., so as I said that we are rejigging the entire business model through co-lending, focusing on the assets, reducing our old book, but parallelly we have been in discussions internationally with strategic partners who are showing interest in India, they have a long-term plan more particularly in developing leasing of equipment and assets in the country; however, I believe that it will take a couple of months for the Indian ecosystem and the macros to improve, so I think post our slump exchange is when we can go to investors, because they are also seeking one balance sheet and one entity on which we would like to raise and therefore we are engaging both with our multilateral institutions and also with some strategic investors is where we hope that in next year in 2020 we are able to get some capital.

Shubhankar Ojha: Thank you and good luck Sir.

Moderator: Thank you very much. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank very much Sir. I actually joined late in the call, so just wanted to understand have you kind of given any kind of outlook for next year?

D.K. Vyas: We have not given.

Deepak Poddar: And also anything you want to share on that?

Sunil Kanoria: As I said that our focus is on managing the existing book, reducing that book post the slump exchange which happens will have one financier will be able to reduce our operative cost substantially over the next year, so bringing in more operational efficiency in managing the existing portfolio and second focusing on the growth through co-lending program mostly focusing on developing leasing as a tool, which has been our core forte and growing with the economy as the economy evolves, as the economy develops I would say that as this juncture, they have so many uncertainties on the macro level in India, we want to just focus on our core and allow us to grow with the environment.

Deepak Poddar: But at least we want to maintain kind of the book if not growth at least maintain the book we have right now?

Sunil Kanoria: It is all a factor of liability side, in the nonbank, in the financial sector, the key is your liability side, Indian liability sides are limited, advantage with us has been that we have almost 50%-55% of my borrowings are through working capital facilities and that is like kind of CASA for me, because this is a stable cash facilities on working capital where I can keep on using as I get my repayments, so that is one. Second balance part which is that is my term loans, which gets regularly repaid over the period of time, average term loan tenures are three, five years period, so as that comes down run down it depends on how the environment allows you to take further, in the domestic markets to get further facility at the moment is low whether it will improve in the next three months, six months, don't know. Government is making a lot of effort to support the NBFC if certain things happen it can help us; however, where we are focussing is our international borrowings, where we have had relationship with international institutions, also one more thing which is unique for us is that lot of our asset financing, equipment financing we do is from international companies like Volvo, Caterpillar, Komatsu, Hitachi, etc. So we have reengaged with EXIMs of these countries whether it is Japan EXIM or Korea EXIM or Germany, US and we have been getting lines of credit from them for supporting their manufacturers and this is the way we had grown in late 1990s, early 2000 and again we have engaged with them and we have already concluded almost over $180 million of lines from international institutions and we hope that that will help us to bring some liability for us to be able to grow till the time the environment does not improve.

Deepak Poddar: Okay, fair enough, understood and in terms of profitability where do you see the trough for us, is this quarter that trough or may be the third quarter, because your high interest income will basically start accruing only from January 1 right?

Sunil Kanoria: What we are trying to work out is as I said this cut down our operational cost and seeing whether we can sustain and manage the profitability and with the increase in volume on my co-lending, co-lending had much better of profitability to us. The volumes are increasing it is almost doubling every month, so if that picks up in the next few months also, the endeavour is to at least have some growth on a quarter-to-quarter basis from the profitability.

Deepak Poddar: Some growth in Q2, so the September quarter can be the trough right?

Sunil Kanoria: Yes.

Deepak Poddar: Thank you.

Moderator: Thank you. The next question is from the line of Sudhakar Prabhu from NeteSoft India Limited. Please go ahead.

Sudhakar Prabhu: Good afternoon. My first question is on your exposure to NCLT cases, so can you share us the figure of what is the total exposure to NCLT cases and the provision which you have on those accounts?

Sunil Kanoria: I do not have the specific on how much of NCLT cases, I have shared what is my total gross and net NPA in both the companies; out of that I would say majority of them would be NCLT cases.

Sudhakar Prabhu: When you say majority can it be more than 50%?

Sunil Kanoria: Yes easily.

Sudhakar Prabhu: What would be the provision outstanding on these accounts?

Sunil Kanoria: Individual, I cannot say, but as I said that in SREI Equipment Infra, my gross NPA is Rs.2,270 Crs and net is Rs.1,700 Crs odd, so Rs.500 Crs odd is the provision in the book in September end and in equipment is about Rs.1,200 Crs approximately is the gross NPA and net is about Rs.780 Crs.

Sudhakar Prabhu: Your consolidated gross NPA is roughly around Rs.3500 Crs, so 50% of that I would presume around Rs.1800 Crs should be an NCLT, right?

Sunil Kanoria: Yes.

Sudhakar Prabhu: Other that Essar which are the other big accounts where you see recovery in this year?

Sunil Kanoria: Well, Essar was a public name I would suggest that it will not be prudent to share individual names as such, but we are expecting couple of recoveries which is in kind of final stages either in Supreme

Court or NCLAT where we may strikes it final orders and we can get that immediate some recoveries, fair amount of recoveries.

Sudhakar Prabhu: Sure. My next question is on your provision coverage ratio from numbers it seems your PCR is well below the comfortable 50%, 60% ratio, where can you see the PCR in the coming quarters? Do you plan to aggressively provide raise the provision to 60%, 70% or are you comfortable with the current levels?

Sunil Kanoria: I think presently we are comfortable because as I said that in many cases we are expecting recoveries through the NCLT process also, we have made analysis of that and based on that only we have made the provisions.

Sudhakar Prabhu: Can I ask you just what the kind of recovery do you see this year from the NCLT cases?

Sunil Kanoria: Overall, quantum I expect almost about anyway from Rs.1000 Crs to Rs.1500 Crs can come in.

Moderator: We move onto the next participant. The next question is from the line of Saumya Bansal from CRISIL Research. Please go ahead.

Saumya Bansal: Good afternoon everyone. Sir my question is regarding the construction equipment industry per se, past six months we have been hearing that there has been slowdown in the industry mainly because of the payment delay from the government front, any existing project there has been some delay from the payments and that is why there was a slowdown; however, as highlighted earlier by you, it is majorly because there is an issue in obtaining the bank guarantee by the contractors, so what would be your stance on that? Has the issue of payment being resolved and now it is moving to bank guarantees and how is it?

Sunil Kanoria: Our experience with most contractors we engage with and we work with, payments have not been a major issue in some projects, some sectors, some governments where, government state goes into elections and two, three months when India was into elections, there were challenges because everything work stop, people are not there in the offices, government people are all in election mode, so there were challenges and all, but wherever projects have been awarded and work has started not a major payment issue except say like Andhra we have seen government change, so we had payment issue in terms of political reasons in the irrigation sector, so those are instances which happens because of some government changes etc., and all where the slowdown to my mind has happened primarily is one when the government is getting our contract, bidders are very limited, because bidders are not able to give bank guarantees, today banks are seeking 100% cash margin for a bank guarantee, so you will find that many bids you have just one or two bidders on many cases, it is just going, no bidders are there.

Saumya Bansal: Okay, so where the banks are not asking for this 100% cash margins earlier like is it a recent trend?

Sunil Kanoria: No, earlier it is used to be 10%, 10% deposit, 15% that is the way the bank guarantee market was going on and which is why the government is working quite a bit on, internationally when you get contracts, there is no bank guarantee concept, because there are performance guarantees, these are performance guarantees primarily, 10% to 15% of the project cost, internationally it is an insurance bond which the contractor gives from insurance companies. In India that product has not got developed, but we have been lobbying hard and lot with the government and even through the Prime Minister's Office and there is now recognition, very strong recognition that we need to create some kind of a solution there or else if the government comes up with Rs.1 Crore of project you need about Rs.10000 Crs to Rs.15000 Crs of bank guarantees, it is not available that the package is not there, more than the capacities the willing is not there. These are bottleneck today which needs to be resolved through policy changes and we are making effort with the government to make those changes happen.

Saumya Bansal: Also Sir what would be any outlook that you would have on the industry that took effort in H1 we have seen degrowth of almost 25%, any outlook on the entire year FY2020 outlook do we have anything on the construction equipment industry?

Sunil Kanoria: Overall, whatever we talked the people say that now the first quarter was election, so it was down, the second quarter was monsoon, it was down, this next six months is the peak for construction activity in the country. This is a prime period. I feel it would be definitely much better than the first half, but whether it will have an overall growth over previous year I have my doubts even if we are able to cover up the negative of 25% by 10%, 15% in the six months I think that will be fairly good. There is a lot of effort by the governments to drive that, we hope that would happen and if I see my October numbers, we also doubled our business in terms of my coal ending program and all, so with that we are seeing some uptake and we hope that it will be better.

Saumya Bansal: Thank you so much Sir.

Moderator: Thank you very much. The next question is from the line of Hardik Sodha from Cresta Investments. Please go ahead.

Vijay Sarda: This is Vijay here. I joined a call late. Sir I just wanted to understand two things. One is on the overall continuation of your existing commentary on the sector in terms of the growth going forward, so what kind of growth that you see in terms of the next six months, because till date we have not seen any big momentum or push from the government side in terms of the order allotment, but given the fact that the companies are sitting on a huge order book so will that not create some positivity on the ground? Second is on the equipment demand so looking at these kind of activity on metro, urban infrastructure as well as on the construction side, are we seeing demand uptick, you already said October you are tripled that but do you see that sustainable demand going four, six months more than a short term borrowing or all that coming for the long term kind of demand?

Sunil Kanoria: As I said I firmly believe that there is a huge potential and demand there. Demand is not a problem, the problem is the demand is not being met, so the demand is getting suppressed, when we interact with our contractors and our customers, they come to us basically they say that we know you will give me the equipment, but before the equipment I need a performance give to the government, so that I can get the letter of award and start the work. So this is the policy change which is required, this is the correction which is required and which is what if that gets corrected or reduced, even see a kind of hockey stick growth in the six, nine months. Just a few tinkering of the policy which is what when we have interacted with the government authority is we have been saying that, you do not need to do anything else, you just remove some of these bottlenecks in the policy, you see now the mining contracts have been awarded, the mines are being awarded, the auction has started, so it is bound to bring in activity on the ground in the next three, six, nine months, all this will have that positive impact. It may take six months, it may take nine months to start the gradually pickup, but what is required today in the economy is just removing some of these clauses which are there, which is not allowing that growth to happen.

Vijay: If I understand correctly this clause since last six, eight months the banks have been asking or quite rejigging in terms of asking for this BG of 10%, but earlier also these kind of players they were asking, but now the major thing is because of this also there is a reason for the slowdown and apart from that there is another reason which is causing the slowdown on the ground?

Sunil Kanoria: Two things are there. One, very limited large contractors are left now very few are there who has the capacity to do large projects, so there is a massive capacity erosion in the country in the construction sector which has happened in the last couple of years, because if you see many of them have gone bankrupt, many of them have gone under or they do not have the financial wherewithal etc., so what is happening is that lot of new players are coming into the market, but they are still small, they do not have that eligibility criteria and therefore you will find and if you take the couple of large construction companies who are very strong even now like L&T etc., the order book is massive, the amount of orders they are getting is huge, humongous, but problem is that just a few cannot handle the country needs, you need lot more larger capacities which are there, so I believe that one there will be some international construction comes who will start to see the opportunity; however, in order to do that or partnering with some small or big sized one who will gradually build up or basically you need to relax some of the policy initiatives here changes like as I said the need for the bank guarantee if you replace it with the insurance bond then people know that okay I can take the insurance policy, pay certain premium for it my cost is there, but at least I get it and that is how the world works the develop environment, so these are few things which can unclog and the growth can happen I would say these are some of the major factors, but otherwise the government has started to work, government wants to give more contracts, there is a huge emphasis by the central government and many states who are competing, so I do not see that as a major challenge.

D.K. Vyas: Just to add when Mr. Sunil said in the beginning may be missed it, he said the first six months the slowdown was primarily because the election time and heavy monsoon, flood, and first quarter was completed due to election, so may be industry expects a good recovery in this next six months, we already saw that in October happening as Mr. Sunil said also, so I think you will see growth happening from this quarter onwards going forward.

Moderator: Thank you. As there are no further questions I will now hand the conference over to the management for closing comments.

Sunil Kanoria: Thank you very much everyone for joining the call and look forward for your continued support. Thank you.

D.K. Vyas: Thank you.

Moderator: Thank you very much. On behalf of Maybank Kim Eng Securities we would like to thank the management of SREI Infrastructure as well as the other participants. Good day. Thank you for joining us and you may now disconnect your lines. Thank you.