"Srei Infrastructure Limited Q1 FY19 Earnings Conference Call"

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MODERATORS: **MR. VISHAL MODI – MAYBANK KIM ENG SECURITIES**

Moderator: Good day and welcome to the Srei Infrastructure Finance Limited Q1 FY19 Earnings Conference Call hosted by Maybank Kim Eng Securities India Private Limited. As a reminder, 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, please signal the 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 Kim Eng Securities. Thank you and over to you sir.

Vishal Modi: Good afternoon everyone and welcome to this Conference Call to Discuss Q1 FY19 numbers. From the Management Team we have Mr. Hemant Kanoria – CMD, Srei Infrastructure Finance, Mr. Devendra Kumar Vyas – CEO, Srei Equipment Finance, Mr. Sanjeev Sancheti – the Chief Strategy Officer, Mr. Sandeep Kumar Sultania – the CFO and Mr. Amit Agarwal – Vice President - Investor Relations.

So, we will begin with a brief management commentary and then we can open it up for question and answers. I would hand over the proceedings to Mr. Hemant Kanoria to begin the call. Over to you, sir.

Hemant Kanoria: Good afternoon and good evening ladies and gentlemen. Basically, just to start off with the first quarter results for Srei Infra Combine consolidated this as we had indicated earlier that the company is doing well, the business has had a good growth. Profitability has been good and on track and this year unfortunately for the first quarter our results got a little delayed because of the IndAS which has been introduced for NBFCs (non-banking finance companies) and for banks it will be starting from next year onwards, but for NBFC it has already been introduced and that was the reason for a few days delay that we have had this time.

To start off with the profit after tax for the first quarter consolidated has been approximately about 140 crores and the PBT 192 crore the total income from the financial activities has been 1,232 crore against the first quarter last year 1,000 crore and the PAT against last year first quarter which was 65 crore this year it has been 140 crore for the first quarter. So, mostly all the accounts there has been a good development, the borrowing the total amount portfolio also that we have, has also grown. It is now approximately about it has grown to the interest earning assets from 30,000 crores has grown to 38,000 crores growth and the total AUM (asset under management) is now 49,000 crore against 39,766 crore which was there in the last year in the first quarter.

The ROE also has had a growth which was last year first quarter it was 7.13% where it is 18.36% in the first quarter this year. Last year, the disbursement also in the first quarter was 4,400 crores whereas this quarter it is 5,941 crore. So, generally we have seen that there has been a good growth in almost all the areas which were the main pointers and wherein in the last two - three years the company has been concentrating on improving the ROE, improving the businesses and the sector that we have been focusing on as we have mentioned earlier also that the construction and mining equipments sales have been steady and there has been good growth in healthcare equipments also which we are financing, the IT equipments and over and above that what has also helped the company and in general has been the introduction of the GST because after the introduction of GST we have started leasing activities which almost for 10 years, 15 years were closed and leasing activity has also given us a better reach in the market because many of the clients they were looking at some other products also.

So, here we have been able to offer them product which is different than just a loan product and that has been the differentiator for Srei right from the beginning that we have been able to anticipate and preempt what are the requirements of the clients and present to them before they come to us because of having this specialty of understanding the sector very well. Most of the construction manufacturing companies also are basically this quarter also we have added more MOU and agreements with most of the manufacturers who have been selling their equipments here in India and who have tie ups with us so that we have more of a structured transaction with them.

There can be event that there is any default etcetera then we get all the support from them in reselling the equipment whichever category it may be. So, that has been an ongoing process for the company. In general what we see from the economy perspective that now there is an election this is the election year so the government will be putting in more money into the infrastructure sector which we have seen a flurry of activities happening in the last two, three quarters already which is going to accelerate now because of the election the government wants that more the work which is left is all completed whether it has been the road sector or irrigation or it may be in the railways also we have seen that there is a good pickup in the railway sector also more of the airport buildings which the government was planning it is also under implementation.

So, from the government side both at the state level and the center we see that there is a lot of activity which has started happening on the infrastructure and which will keep on getting accelerated up to the elections and therefore it augers well for the company because we are in the equipment financing business. If a contractor gets more work the basic advantage for them is one their old money or wherever they were stuck with they did not have that much of losses that they had some losses and also will get made up because now there is not aggressive bidding which is happening. So, I think that this is what the advantage for the company will be going forward. Yes, there has been slow down on the private sector investment in infrastructure and that is the reason why strategically as we have been mentioning again and again that for the last two, three and half years we have also done a reconstruct for our entire strategy and we have been focusing more on the equipment financing business and on the infrastructure side we have said that we would do more of transactions which are for operating assets, Brownfield projects so therefore we are not financing new projects in infrastructure that has also been good from our perspective because there is not so much of investments which is happening by the private sector in putting up new infrastructure projects. So, therefore, it is absolutely in tandem with whatever our strategy has been. So, that has been another I would say positive take away for the company.

And as we see more and more cases the other positive has been with the IBC that many of the companies they have gone into IBC and resolutions have started happening some were the resolutions have been fast, some were the resolution has been slow, but nevertheless there would be resolution that we have seen inside within a particular timeframe. Earlier what used to happen where the cases used to go on and linger for a longer period of time. So, IBC is also affiliated the financial sector tremendously and especially our company also because wherever we have financed equipment we are in a position to take away those equipment easily and resell it so that we do not get into any kind of losses there.

In general we see that also the other advantage for the company has been that many other players who are there in this particular sector in NBFCs or banks they are all shying away from this sector because they have not been able to understand or manage the risks whereas our advantage has been for the last three decades being a very focused company in this particular sector we have been able to understand what the risks are and seeing the ups and downs and accordingly we have been able to navigate ourselves much better vis-à-vis the other players and that gives us again a very big advantages. What we have been trying to do is leverage on all these particular advantages that we have and moving forward at present we have a very clear cut focus which we had articulated some years back and we are on track with that particular focus of the equipment financing, construction, mining, healthcare, agriculture, IT equipment both financing products and leasing products to the clients and in the infrastructure book we have mentioned that our objective has not been to increase the book size, but to have more of velocity so that we can improve the ROE and we are on track on that.

So, therefore, if you see that if we have had a good growth in the ROE also for this particular quarter which we see that will continue to happen and this we have also taken another person on the board as a non-executive, non-independent director Mr. Bala Swaminathan. He was with Standard Charted Bank earlier and before that with ICICI Banks. His last employment was as President Westpac in Singapore. So, he has also joined he is coming with a lot of experience in this space because of ICICI and Standard Chartered also because he was doing corporate financing. So, he has good experience and expertise and also the network both the domestic and international in the infrastructure and wholesale financing because ICICI was specializing in that particular area. So, he also brings in those skill set to the company and from the board. So, he would be also looking after and helping the company in this direction to focus more on understanding the risks, getting the right kind of clients and improving the ROE and the business. Sameer Sawhney, who was there as the CEO, has been looking after the infrastructure financing because we do not have a desire at present it is only velocity and improving the ROE. So, he would be shifting to Singapore and we are looking at group because a large number of investor who are wanting to come into India and make investments in these particular sectors where Srei has the experience so we thought that it would be a good idea to look at some fee based income getting these particular funds and helping them to put in money because they may not see or they are not very much interested in bringing in money and putting into the balance sheet and we are also not interested in taking too much of loans and the balance sheet in the infrastructure financing it is better that we are in a position to advise and manage the funds so that we are able to get some more fee based income which will again be working towards our strategy of improving the ROE for Srei because improving the fee based income will also help in that.

So, therefore, strategically we have taken these particular decisions, we have a good team both in Srei Infra and Srei equipment and with Bala Swaminathan coming in also it will help us to improve the profitability and the business reach much more than what we were having earlier. So, I would now like to move on to my colleague Mr. Devendra Kumar Vyas, CEO - Srei Equipment Finance and he will go into the details of the Srei Equipment Finance Business.

Devendra Kumar Vyas: Good afternoon and good evening to everyone. As Mr. Hemant Kanoria said sale growth has been continuing in our country. I think the continued government spending in the road sector, the irrigation sector, urban infrastructure and the railway side has been driving the growth for the sale of equipments. These sectors are continuously driving the growth and the good news is the spending has been not only by the Central Government, the spending has been happening at both at central level as well as the state government level and the local bodies level. So, therefore, the equipment demand has been growing at all these levels at the local level, central level, the large contractors start covering all the segments of the customers starting from the smallest one which is a first time user first time buyer small contractor to the largest contractor the corporate ones. Everyone is growing the EPC most of the projects being done on the EPC has helped the improvement in the cash flow of these contractors which has further actually reduced the risks in the system, reduce the stress in the system.

If you look at sale of equipment the growth first quarter has been in the range of 25% to 30% and the key growth driver in the equipment segments has been the road equipment which has grown over 40% the material processing the crushing and screening plant growth has been abnormal I think it is growing at over 50%. The backhoe loader and excavators, etc., growth has been at around 25%. So, overall growth has been good and that is the reason that with a good growth even our portfolio if you look at it Srei equipment finance standalone on book portfolio has grown over 40% compared to June 17 of 18, 548 crore it has gone to 26,396 crore and the asset under management has grown to 31,767 crore compared to 23,000 crore, which is a growth of over 36%. We have continuously been trying on strengthening our risk framework by using technology in terms of investing in technologies continuously working strengthening our risk framework by realigning our credit policies based on the learning in the past, the technology the data analytics has been put into place so we get lot of triggers there are risk matrices been developed and have been further improved every quarter-on-quarter and that can be seen by way of continuous improvement in our cost of risk and equipment financing business.

We have been investing in IOT most of our equipment today are connected to our offices where our collection officers know where the equipment are working, and they can go and see the equipment it helps us into tracking the equipment to reposes required to maintain the equipment well. So, the IOT are helping. We have also improved through technology our customer engagement area where we are able to deal with them, engage more and more with them through technology. We have also focus on a process improvement, automation of process that has been a continuous improvement. With all these things if you see our portfolio growth has been good our cost operation efficiency has been improving because our OPEX has reduced from 2% and the first quarter of last year to 1.4% in this quarter and the cost of risk also has come down from 2.4% last year to 1.6% in this year first quarter and the growth has not only been coming from construction and mining equipment of course that is the key growth driver, but our growth has also been very good in IT equipment portfolio in the first quarter IT portfolio has grown over 30% and healthcare also had a very good growth the healthcare portfolio.

The growth has been coming from across all the segments of the equipments and we have also been working on adding new assets classes they have been working on as Mr. Hemant SAID, working on strengthening risk selling models with our OEM where we see the equipment which do not have good demand. We work with them on the risk selling models accordingly we realign our risk policies. So, overall the growth has been good the profits have been improving on quarter-on-quarter for last many quarters there has been a continuous improvement in the profitability. For this year first quarter, equipment finance business has grown by around over a 140% and written off equity also has improved to 15.7%. So, I think overall the growth has been good the equipment finance business has been doing good, equipment sale has been improving and that a good news for and we see this growth to continue because the government spending has been continuing and there are lot of work already are there with most of the customers and the kind of pipeline that the customers already have and the kind of announcement which have been happening for the government spending in terms of infrastructure creation in the work order we see the growth to continue. This is broadly about equipment financing.

Sanjeev Sancheti: You just heard Mr. Vyas on the equipment finance business. I would now like to take you through the IndAS transition which we have done and some of the important aspects regarding that.

Hemant Kanoria: Now, this is a first time that we are having this IndAS so therefore I will request Sanjeev that he would go through the entire IndAS and what are the differences between IGAAP and IndAS and how the accounts are getting reflected in compliance to the IndAS requirements.

Sanjeev Sancheti: As you are aware that for NBFCs the provisioning requirement which has changed from what should be the rule-based RBI directed provisioning to now expected credit loss model which gives us lot of levy in being able to create polices for providing for expected future loss and beyond. So, what we have done during this transition is that we have our policy the way we have framed is apart from the Stage-1 and Stage-2 and Stage-3 which is required to be defined where in Stage-3 we have been very conservative. To define Stage-3 not just accounts which were NPA which means 90 DPD and above we have also considered accounts where the lenders have decided to take it to IBC or to cases where there has been restructuring where the proposed restructuring or where there is an asset which has been acquired against debt.

All these have been downgraded to Stage-3 and provisioning has been done on those assets as well that has resulted in reasonably higher Stage-3 accounts otherwise would not have been. Apart from that even the provisioning has been very conservative while we have provided for all Stage-3 accounts on the rates which has come out for ECL. We have also taken some accelerated provisioning on certain sectors which we have defined in a policy and for those sectors we have provided 50% of our total exposure for NPA. Apart from that existing NPA accounts whose DPD are more than three years. We have taken 100% provisioning. So, doing this we have taken almost about 900 crores of provisioning through transition provision in FY17 under IndAS for SIFL. For SEFL also we have done about 250 crores of Stage-3 extra provisioning based on the policy which we have adopted apart from that because the standard provisioning has also increased for both the company because under the ECL model the standard provisioning is beyond 40 basis points (0.4%) which was a directive of RBI it has moved up between 1.1% to 1.3%.

So, that also has an impact of about 300 - 400 crores on the extra provisioning which we have done. So, this is broadly what we have done on the ECL model and hence if you look at the equity reconciliation the equity has moved down from 4900 crores in FY17 to net impact of 1200 crore which has come down to 3630 crore. This is the main impact on ECL there obviously are such other impact like the assignment income had to be taken upfront as required under the ECL model under IndAS and there has been deferred tax provisioning which has been done that asset has been created and all the upfront income which used to be taken upfront earlier has now been amortized hence that is a hit which you have taken in the opening results.

Going forward all processing fees and upfront income will be amortized over the period of the contract. This is broadly what has happened in IndAS. Now if you look at the provisioning percentage I think what has happened with this is our coverage ratio is increased significantly to 45% on a consolidated basis SIFL has been above 47%. However, the Stage-3 assets are now about 2600 crore, but we are very well adequately covered with a 45% provisioning on these assets. I would now like to take about five to seven minutes to take you to the financial highlights. In consolidated financial highlights if you look at the balance sheet you will see that our ROE has post the transition and because of the increase in profitability in the current quarter the ROE has moved up from 7.1% in quarter one of FY18 under IndAS to 13.9% in the present quarter. Now this compares to about 11% in FY18 under IndAS under iGAAP in FY18 the ROE was about 7.9% in FY18 and FY17 was 5.3%. So, if you look at the trajectory of ROE it has grown significantly over the last one and half to two years and we believe that this is the threshold from where we will continue to grow over the next few years. This is what I had to say, and we are now open to question and answers from the participants.

Moderator: We will now begin 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: I have some questions in terms of understanding this new provision norms the ECL provision norms, so basically in terms of impact on say Srei equipment finance so what will be the reduction in net worth, does this provision go through the P&L or it goes directly to the net worth and how does it impact like the actual net worth as on like Q1 like what will be the reduction in the net worth if you can just clarify for both Srei equipment and Srei infra at standalone levels?

Sanjeev Sancheti: For equipment finance the net worth impact would be about 209 crore which will get routed through the reserves through the net worth.

Anita Rangan: And Infra for standalone impact there is some bit called fair valuation of loans and other financial assets, so what is that line item can you elaborate?

Sanjeev Sancheti: So, what happens is that there are certain assets like if we have lets say an asset which has been given to ARC or if there is an asset acquired against debt those have to be fair valued and we have fair valued and done a loss provisioning which has been taken to the reserves.

Anita Rangan: Just in terms was like the total provision which you have taken for Q1 that also adds up to like about say 1600 crore at a consolidated level, so the entire of that goes directly only through the reserves so what is there in the P&L is just a very small number so that is irrespective of what is there in the reserve, is that correct?

Sanjeev Sancheti: Q1 the results are based on IndAS there is no transition impact, all the transition impact has happened in up to FY18. So, what you see in the Q1 results is the actual financial working of the company for that quarter so I think in equipment finance.

Devendra Kumar Vyas: For the current quarter it is around 101 crore for this quarter which is approximately 1.4% which has come down compared to the last year first quarter from 2%.

Anita Rangan: So, if I just do a math in terms of subtracting the consolidated number versus the standalone infra number, the rest of that should be the equipment provision number, so then the gross Stage-3 for equipment is 900-odd crore is my understanding correct?

Sanjeev Sancheti: So, you are talking of the Stage-3. Stage-3 for equipment finance in Q1 would be about 892 crores.

Devendra Kumar Vyas: And the provision is 362 crores.

Anita Rangan: So, this now includes your Repo assets and the restructure bid and the asset acquired and satisfaction of debt all of that put together is 800 or those numbers would be like different now?

Sanjeev Sancheti: So, Repo will still be different but now there is nothing called the restructured. All the restructured has been substituted into Stage-3. Actually, if you take the total risk in spite of all the IndAS norms for SEFL, the total amount more or less remains same to little less than 1000 crores or around 1000 crores.

Devendra Kumar Vyas: So, all this what you are saying Repo stock the Stage-3 accounts put together what was there in the March quarter which was around 962 or 965 crore which is around 1000 crore now it is more or less same in spite of ECL impact and if you look at compared to June 17 it has reduced from 1300 crore it has come down to 1000 crore so there has been a reduction actually compared to the last year first quarter and compared to March it is more or less flat for overall basis. So, there has not been an increase in this.

Anita Rangan: Just one more questions in terms of like capital adequacy at the end of March your total capital adequacy was around 15.9 which was reported in the financials because of the write-off the net worth in Q1, will that actually have an impact of the capital adequacy for the quarter does that increase your leverage?

Devendra Kumar Vyas: Equipment finance business our capital adequacy is 15.2% as of June.

Anita Rangan: So, then what is the plan for like because it is almost like 15% is the threshold so what is the plan in the interim period to shore up capital?

Hemant Kanoria: So, basically, we have already planned for the IPO and also in the meantime we have been doing because there is an opportunity to do securitization transactions. So, therefore, we have not reduced the business but there is a lot of appetite in the market for these portfolio which also helps us in our profitability. So, while not compromising on the business, not comprising on the profitability, we have done the securitization also. So, we are in a position to look at our capital adequacy and maintain it as per RBI standard and already we have been discussing about the IPO so once we do the IPO then it will be in a position to shore up our capital further.

Anita Rangan: Just one last question what will be your overall debt and what will be the composition of your gross debt at the equipment level, can you give some color there?

Devendra Kumar Vyas: At the moment I will just tell you just give me few seconds I will tell you.

Anita Rangan: Just qualitatively also if you can tell me in terms of is there any pressure from the banking side or in terms of like getting credit from the banking sector or on the non-fund based limit or fund-based limit or are you seeing anything there?

Devendra Kumar Vyas: Just to give you data our total bank borrowing in equipment financing is 21,383 crore as of June '18.

Anita Rangan: In terms of just the bank side, are you seeing any pressure in terms of bank giving credit because of the whole PCA issue or in the non-fund based limit are you seeing any pressure there?

Hemant Kanoria: No, we are actually not seeing much because you see what has happened is especially on the equipment financing side the way we are growing they like this portfolio and the assets a lot, the bankers. So, therefore, we are not having any challenge to be in a position to place it with them or get lines of credit also and more so because they see that last 30 years there has been a good track record of both the companies and the portfolio that we have been financing.

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

Deepak Poddar: Sir just wanted to understand that what is the current status on the IPO front basically I think we were targeting March?

Hemant Kanoria: Unfortunately, though we were targeting March, but with SEBI it has taken a longer time than we had expected because there have been queries and being a large company. So, therefore, there are certain queries that were there which we have answered and then again there were certain queries. So, I think that it has been going on and we should be expecting it very soon because that is what we have been informed by SEBI.

Deepak Poddar: So, is there any concern like or it is a general delay that SEBI does?

Hemant Kanoria: One is general and then what happens is that once they ask a question they do not ask all the questions at one time. So, they will ask a question for one particular thing and then we have replied and again it has to go through the entire process when it comes down then by that time there is some other question which they would come out with. So, that is why it has unfortunately got delayed, but there is nothing which is very serious about it. There was only one thing which had taken a little longer time and that had already been reported also earlier which was on the Srei Alternative Investment Fund that we manage there. There were some from the third party money that the company manages where Srei has nothing to do as it has third party money which it manages. It had also taken over a portfolio which was for loans and all, they had imposed a penalty for that because there was no guidelines that it cannot be done. So, therefore, that took them a longer time to basically dispense it off because they also did not have any precedent for that or neither there was any guidelines saying that you cannot take over the portfolio through innovation and all for loans. To get that resolved unfortunately took a longer time there was nothing which was negative about it because there was nothing which Srei had done it, it was with the consent of the investors whose fund was being managed.

Deepak Poddar: What is the valuation that you are looking at for equipment finance?

Hemant Kanoria: It is difficult to say now because as soon as we come out once we get the SEBI approval then again the investment bankers will have to discuss informally with some of the investors or they have a process so I think we will run that through that process and then come back to you on that because it is very difficult to make conjectures on that.

Deepak Poddar: Even a range would do if you can give some indication that this is the range of valuation that we are looking at basically?

Hemant Kanoria: As investors we would welcome you to suggest that what should be the range.

Deepak Poddar: Sir any thought process you have to basically rather than coming up with the IPO, the demerger thought process anything on that front?

Hemant Kanoria: At present I think that we have already discussed extensively about the IPO so therefore we would like to follow that path and complete that process and subsequent to that we will see that what should be the right strategy because as we have mentioned again and again that our objective is to improve the ROEs, to improve the shareholders' value and so anything which is accretive towards that we will definitely take a step to do it, but today it will be too early to comment on anything specifically.

Deepak Poddar: In terms of our basically overall ROAs I think currently at a consolidated level at 1.3% right, so given the strong growth that we are seeing in our equipment finance business, so overall what sort of ROA are we kind of targeting maybe next two, three years?

Sanjeev Sancheti: I would say that on a consol basis we should be looking at least (+2%) is what we are striving for.

Deepak Poddar: And the growth that we are currently seeing in terms of 20%, - 25% kind of growth is that the momentum we are likely to continue?

Sanjeev Sancheti: I would just brief and probably then DKV can expand. I think we are looking there is a significant amount of tailwind in the construction equipment business and we believe that construction equipment business would drive the overall growth both at the entity level and at the consolidated level. We do expect 25% growth volume continuously for two to three years. DKV if you want to add on to that.

Devendra Kumar Vyas: I think I agree the sector like road, irrigation as I said has been driving the growth and the railway has been opening up and we see lot of demand coming from the railway sector so next two to three years the industry has been quite upbeat and we have been meeting all the industry players and everybody feels that growth in the equipment finance would continue and 20% to 25% should be kind of normal growth for next two to three years.

Sanjeev Sancheti: The industry itself should grow around that range.

Devendra Kumar Vyas: Just to share with you JCV has been growing this year at (+15%) so everybody is quite upbeat there has been huge demand supply gap on the equipment. Road equipment today if somebody wants to buy has to wait to take the delivery which was not the case few months back.

Moderator: The next question is from Sameer Dalal from Natwarlal & Sons. Please go ahead.

Sameer Dalal: Just coming back to the provisioning side I had a couple of questions there, so you have taken a provision of about 1600-odd crores in your consolidated book in the previous year and when I go to the consolidated provision that you are holding on the book I mean if you look at the total provision it is about the same level 471 is in the Stage-1, Stage-2 and about 1200 in the Stage-3. Now what about the previous provision that was done?

Sanjeev Sancheti: So, what happens is the way IndAS works is that you create a completely new way of provisioning and then the old provisions reverses so the provision which the net total provisioning is what we carry and what has happened also is that both in 2016-17 and 2017-18 we had to apply the model on the entire portfolio. So, I have just given an example, if there was a particular portfolio which was falling under 100% provisioning in 2016-17 and if that portfolio got partly repaid in 2017-2018 then it will automatically have a reversal of provisioning because you cannot have more than 100% provisioning. So, this dynamically would have changed so actually '17 provisioning was more than '18 provisioning.

Sameer Dalal: Still not clear exactly if you can just help me you are saying all the previous provisions I mean that you have written-back because as per the new standard only the new provision will come and the old one, but then if I am going through the consolidated reconciliation sheet I do not see the add back of provisions happening anywhere?

Sanjeev Sancheti: That is net.

Sameer Dalal: That is the net amount additional provisioning that you did 163.

Sanjeev Sancheti: That is the net on March '17 not on March '18. So, what happens is in March 18 there may have been some reversals which would have reduced the overall carrying provisions in the balance sheet as on 30th of June. What I can tell you is that what is the provision and carrying as on 30th June I have that detail with me which I can tell you. So, as on 30th June I am on a consolidated basis carrying a Stage-3 provisioning of about 1200 crore and I have a Stage-1 and 2 provisioning of about 470 crore that is what we are carrying.

Sameer Dalal: So, that is what I am trying to ask you so 1638 crore if I look at the Slide #5 of your presentation you have provisioning from expected of about 1638 crores that is the provisions that are there. If I add up provisions that are there adjusting it roughly to the same. I am asking all the provisions you made in FY15 and FY16 which you are carrying on your books what happens to those?

Sanjeev Sancheti: So, what happens to those because those get reversed and then you create new provisioning.

Sameer Dalal: If I am looking at the reconciliation sheet you are saying you add that back so which line item have you added back?

Sanjeev Sancheti: That 1630 is net of all that.

Devendra Kumar Vyas: This is incremental Sameer 1638 is the incremental net of debt.

Sameer Dalal: I will take this further offline and understand.

Sanjeev Sancheti: I will explain it to you because there is a year-on-year movement also so I can explain you offline every bit of it.

Sameer Dalal: Yes, I think we will do it offline. The second question I heard Hemant saying that in the Srei Infra book now we are going to look at more fee based income and do more advisory kind of business there, so wanted to better picture this current you have about 14,000 crore of interest earnings assets would you run those down or would you only just maintain the Infra book at 14,000 going forward what exactly is the plan there?

Hemant Kanoria: No actually you see that I never meant that what I have mentioned was that we have been mentioning it for the last two and half years that in Srei Infra we are doing the business, but the objective for us is to have velocity so by that I mean that when we are doing businesses, we are also getting other people to participate or down sell our loans only those kind of loans we are taking in because we do not want to increase the loan book in Srei Infra. We are wanting to increase the ROE in Srei Infra. So, the direction to the team is not that do not do businesses, do those businesses which we can down sell where we can also syndicate with other people. So, therefore, it improves our profitability and the ROE because in Infra whatever we are taking on the books there is always a risk whatever we may do to mitigate those risks, there will be certain element of risk to reduce the risk on our books. So, that has been the strategy for the last two and half years and we would continue on that strategy.

Sameer Dalal: My question was would the 14,000 crore above anything that you do business about that would down sell that so would you maintain that book at around 14,000 level?

Hemant Kanoria: It would be between 14,000 to 16,000 sometimes it can increase sometimes it can reduce it will be (+/-10%) to (+/-20%). The objective is that as I have said when we are writing loans that time it is to see that whether we have other people coming along with us or it is down sellable.

Sameer Dalal: And the last question on the Infra books the yield on average funds have seen a drastic drop in Q1 and even if I look at your spread they have come down to 1.3% and can you give us some thoughts on how do you see that moving?

Sanjeev Sancheti: I think there is one impact which has come which is that you see in the normal accounting regime these NPAs were all (+90) days account where we used to stop accruing income. Now Stage-3 has been defined as 90 DPD plus there are other triggers like if the JLF has decided to go to NCLT or if there is an AAD or if there is a restructuring proposal with the banks are mooting, we are upgrading it to say three and hence the recognition of income stops and once they come out of Stage-3 then only the income starts accruing so I think that is one of the impacts. The second impact which we may see in the next couple of quarters is that we do not have assignment here. So, there is nothing upfront which comes while the fee income is now getting amortized so you will see a one or two quarter impact will come on income, but as the cycle continuous this smoothens out. We believe that the net spread should move towards closer to 1.9% to 2%. Presently it is down because of certain dynamic changes which is happening because of IndAS implementation.

Sameer Dalal: And then one more question on the consolidated book so you have done a provision of about 100 crores in Q1 how should we see the provisioning and credit cost for the remainder of the year would they be around similar level or because you have taken a big hit in your balance sheet are the provisions should start coming down on the P&L impact for the remainder of the year, how should we look at the credit losses for the remainder of the year basically?

Sanjeev Sancheti: At least from a Srei Infra point of view I think we have taken a very aggressive provisioning policy where we have written off all exposures above 3 years to 100% certain three or four industry sectors we have taken 50% write off irrespective of the account not even being a 6 months old account and NPA account. So, I do not foresee significant NPAs going forward because we have taken a large part of it and is already accounted aggressively for equipment finance I will just ask DKV to kind of elaborate.

Devendra Kumar Vyas: So, on the equipment finance if you see a cost of risk which was around 2.4% last year in the June quarter has come down to 1.6% and there has been continued decrease and we expect it to further decrease continuously quarter-on-quarter and may be few more quarter you will see we should be able to stabilize at around 1% to 1.2% around going forward. So, we will see continuous improvement in this because in this business also we have taken kind of hit of around reasonable amount from the net worth so we see stabilization of cost of risk going forward around 1% to 1.2% which is around 1.6% today.

Sameer Dalal: I mean you are saying both put together roughly the provision will continue at the same level for the reminder of the year?

Devendra Kumar Vyas: No it is decreasing. So, as I said equipment panel there has been a continuous decrease every quarter this has been decreasing.

Sameer Dalal: And you are maintaining it at 1.2 so you have done 1.2 in the current quarter as well?

Devendra Kumar Vyas: It is a 1.6% for the current quarter. Current quarter is 1.6% which will come down to around 1.2 in between so there will be decrease.

Moderator: As there are no further questions I would like to hand the conference back to the management for closing comments.

Hemant Kanoria: Thank you very much for the questions and my team and I would be available if you have any questions further which crop up in your mind and overall, I think that we are on the right track, the company is doing well and the company's objectives are very, very clear and we want with the agenda that we have put down to improve the profitability, the ROE, the shareholders' value, we will continue to do that. And also, from the business perspective that we are in a stable business and a business which we understand very well so we maintain our large market share in this which is the lion's share of the market. Thank you very much. Thank you for your support.

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