"SREI Infrastructure Finance Limited Q1 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the SREI Infrastructure Finance Q1FY18 earning conference call, hosted by Edelweiss. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sandeep Raina from Edelweiss. Thank you and over to you Sir!

Sandeep Raina: Thank you Janice. On behalf of Edelweiss Broking we welcome the management of SREI Infra and all the participants in the call. We have with us the senior management of SREI Infra represented by Mr. Sunil Kanoria, Vice Chairman SREI Infra, Mr. D.K. Vyas, CEO SREI Infra Equipment, Mr. Sameer Sawhney, CEO SREI Infra, Mr. Sanjeev Sancheti, Chief Strategy Officer SREI Infra, and Mr. Kishore Lodha, CFO SREI Infra, Mr.Amit Agarwal, VP – Investor Relations. I now hand over the call to the management for the opening comments. Over to you Mr. Kanoria!

Sunil Kanoria: Thank you. Good afternoon everyone just to highlight the performance of this quarter, on a consolidated basis the profit after tax has grown 48% year-on-year from the previous year same quarter. On a trailing quarter basis, it has been about 21% growth over the March 2017 quarter. In terms of the disbursement on the asset finance side it has grown 44% year-on-year and trailing quarter almost 11%. In the profit after tax the asset finance has grown 53% year-on-year and on a trailing basis 19%. The net NPA also in the asset finance business, the equipment finance is down to 1.6% from a base of 1.9%. In Infra portfolio, as we had highlighted that we are not growing this book much so we have not had any growth in our portfolio is a marginal negative growth, but the profit after tax has grown by 10% year-on-year and a PAT growth of trailing quarter of 38%. The net NPL has come down to 1.1% in June quarter. As you know in the infra book the portfolio is large chunky so we have been able to resolve one case, therefore the NPA level came down so here you see a little more volatility on a quarter-to-quarter basis and is quite different than the asset finance book, which is a steady reduction in the NPA from quarter-to-quarter.

In terms of the business side, just to give a perspective that SREI Equipment business is showing strong growth in the first quarter also and therefore our disbursements were also very strong and growth was good there. We see the momentum continuing for the future too with the kind of investments and expenditure we made in the Infra by the government and that is what is driving the growth primarily in the road sector, irrigation, little bit mining, now the railways, even some of the smart city projects, and the Swachh Bharat projects are providing good opportunities for equipment demand.

Also to highlight on the consolidated basis, it will be difficult to compare the quarter-to-quarter earnings from the previous year same quarter because we had the divestment on Viom and then last year during the last quarter we also sold our treasury stocks so we had some lumpy income during that time, but if we eliminate that then there is a steady growth in the equipment finance business both on the income side and the profitability side. The cost of risk in the equipment side you see a marginal increase because in this quarter again the prudential norm change from RBI from 120 days to 90 days, so we had a marginal impact of that and the standard provisions as per RBI increased from 0.35% to

0.4% so both these two added had a marginal impact into the cost of risk during this quarter, but overall the business looks strong. In the Infra book as said earlier we continued to be cautious and focused more on the recovery and we believe that in coming quarters gradually we will, see improvement, but will take some more time before we get addressed all our past problems. However, on analysis we have also seen the last three years whatever new business we have done post April 2014 the cost of risk has been fairly low and much below what we see today in our overall book. So the trends broadly look positive, we continue our focus on the business side and you see good growth in the coming quarters and years.

Also the BRNL some of the divestments, which we have been working out on the road portfolio, the process is on and we hope to release some capital out of that in the next month or two. We have got our SEBI approval for the listing of the road portfolio and we hope that we should be able to release some capital during this quarter. In terms of Sahaj, the business has started to build well, now we are almost on EBITDA positive now on a month-on-month basis and we also expect that with the kind of growth happening in the rural India and the financial inclusion and the financial services buildup, which we have done, we hope that during this financial year we should be able to release some capital again in that business. These are the broad perspectives and we open to questions.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Good afternoon. Thank you for the opportunity. I just had questions regarding your provisioning policy. Basically for SREI Infra, I am observing that your provisioning cost has come down significantly from almost like Rs.200 Crores, which you provided last quarter Rs.14 Crores whereas it is kind of reverse for SREI Equipment and from Rs.50 Crores to like Rs.84 Crores so should we assume that going forward by equipment you will still continue to maintain that high provisioning policy right for Infra you are almost like done with like provisions and write-offs?

Sunil Kanoria: Just to explain which I said in my discussion a little while ago. Both the business are a little different, in the SREI Equipment business it is primarily equipment financing business whereby when we had our challenges and the overall economy, the cost of risk went up this quarter the cost of risk has gone up primarily because of the RBI NPL norms bringing down from 120 to 90 days and the standard provision going up from 0.35% to 0.4% and as the loan book has grown on and so on the standard asset the provision also went up, so these two brought in certain factor, but broadly the trend in the equipment financing business is downwards on a quarter-to-quarter basis in terms of the cost of risk and we expect that to continue going forward. At the SREI Infra level it is a little different because the loan book is bulky, these are in the Infra assets side so generally what happens is that many time if one asset becomes bad it has a larger hit and if one gets resolved it again comes down, so therefore you see a little more of volatility at the SREI Infra level in the cost of risk so in the previous quarter we had one or two cases, which became negative so we had a higher provisions. This quarter we were able to resolve one of the cases so therefore the cost of risk came down because we could write back some part of the write off, so therefore both look at a different trajectory, SREI Infra being little more lumpy, it follows that kind of a trend and therefore you see that difference, but otherwise now in both the companies we follow the RBI norms of 90 days overdue.

Anita Ranjan: Okay, just one thing on SREI Infra, how do you see like the disbursement going forward?

Sunil Kanoria: As we have said in the SREI Infra we do not want to grow our loan book substantially, so therefore this quarter also we have done a small business of about Rs.500 odd Crores only, our entire focus at this juncture is in our equipment financing book.

Anita Ranjan: Okay so going forward what kind of assets will you like finance in the infra space, would it be like working capital or what will be the…

Sunil Kanoria: Not exactly working capital, it will be limited to little bit of structure financing in the infra sector where either a last mile financing or existing asset where you need support or refinancing of some assets, which in the past they have had some mismatch in the cash flows, so look at the cash flow, the project is over and then get in into it, so limited environment, very risk controlled way is what we will do the funding there.

Anita Ranjan: Okay. Thank you very much.

Moderator: Thank you. We take the next question from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: Hi Sir. I wanted to understand in your equipment finance the yield on your loan funds have gone up sharply from 13.3% to 13.7%, so what has led to this and do you know how sustainable this increase is basically?

D.K.Vyas: This has gone up one because of good growth in volumes, so a lot of fee income has come, so we had over 40% growth in disbursement, large amount of fee income has come in this quarter, some amount which we written off in the past we have created a separate focus for recovery of our write off, so we have recovered some amount of write offs in this quarter reasonable amount and then the overdue charges of delayed payment interest this quarter a few customers they have been able to get a reasonable amount in this quarter, so all three, four factors has really increased our gross income in the equipment financing business.

Yash Agarwal: So how much would be this recovery to the tune of because that would be a onetime income I would believe?

D.K.Vyas: That is around Rs.6 Crores.

Yash Agarwal: Also in the infra finance book this one account, which has been resolved – what is the size of that account?

Sunil Kanoria: About 140 crs.

Yash Agarwal: So it has been resolved, so basically has it been prepaid or something or you have upgraded it.

Sunil Kanoria: This is an asset takeover. We have taken over the assets.

Yash Agarwal: Also I have been reading that you are all looking to acquire stressed asset so will it be part of the listed entity or will it be the acquisition or will it be?

Sunil Kanoria: **We are** Working on some funds, third party fund which we are managing and we are looking at building up that book and then working out opportunities in that space. Because expertise we had buildup in this area is really strong more particularly in the overall infra space that relationship and expertise on revival and we see good revival happening, yes once you get on asset of 100 if you are able to structure it at 50 or 60 as the viability is strong because advantage in infra is that you do not have to keep on demarketing the product, if the asset is done then it works well, the cash flows are there, you have to just match the cash flows with the returns.

Yash Agarwal: So in what form would this acquisition be like, would you form a private equity fund or some sorts…?

Sunil Kanoria: Acquisitions would be more of supporting credit into such kind of assets. It is not like buying and taking an equity that is not our business, we do not intend to increase any investments in anything.

Yash Agarwal: Okay so you will be basically lending…

Sunil Kanoria: Lending in wherever distress situation have come in and they have to get out of it and if there are good structured credits available, so through fund which we are also developing to manage that is where we would like to look at those opportunities, so I think there is where next couple of years India is going to throw a good opportunity in that especially now with the bankruptcy law being in place, there can be good returns possible.

Yash Agarwal: Okay, all right Sir. Thank you.

Moderator: Thank you. We take the next question from the line of Giriraj Daga from KM Visaria. Please go ahead.

Giriraj Daga: Couple of things, in terms of guidance on disbursement we have seen a very strong guidance in the equipment finance business, so what would the full year number would you be guiding for that?

Sunil Kanoria: Well we would like to avoid any guidance, but we believe that we would have strong growth in the sector and we should be able to grow our assets under management in the double digits during this financial year.

Giriraj Daga: And you are talking about asset management would combine entity or equipment finance?

Sunil Kanoria: I would say combined you take it or individual both would be growing.

Giriraj Daga: Okay, so what is the repayment schedule this year for the equipment finance number?

Sunil Kanoria: Well okay you are talking about the maturity?

Giriraj Daga: Correct.

Sunil Kanoria: Average maturity would be about 30-32 month.

Giriraj Daga: Okay, so it could be like similar amount can be on a yearly basis we can assume that will be maturing in this year itself.

Sunil Kanoria: Around one-third of it.

Giriraj Daga: Around one-third of it.

Sunil Kanoria: Less than one-third you can say.

Giriraj Daga: Okay and we have not taken on the question of higher yield we have not taken any increase in the rate side basis, it has been a function of fees plus recovery plus late fees dues.

Sunil Kanoria: If you have a volume growth that helps.

Giriraj Daga: That helps, so ideally after the next quarter other than the volume growth we should not get the other supports what we got?

Sunil Kanoria: So fee income would continue.

Giriraj Daga: No Sir, other than the fee income, the other two legs which get to higher yield will not be down in the coming quarters?

D.K.Vyas: I think that these three continues plus our continued delayed payment charges, etc., it is not part of our interest, so these two growths will continue because other part were very small, the last claim was just Rs.6 Crores that is not much, so rest all related to business, so as the business growth it will continue to grow.

Giriraj Daga: Understood, in terms of our credit cost obviously this quarter you have an actual reason also so what should it normalize to for the rest of the period?

Sanjeev Sancheti: I can say that the one time – this time the impact was about Rs.24 Crores, so about 1.25%-1.3% should be the credit cost on an average basis on the total book.

Giriraj Daga: You said the one time impact was Rs.24 Crores for both the impact, the standard provisioning increasing from 0.35 and the change in DPD norms from 120 to 90.

Sunil Kanoria: For the equipment financing.

Giriraj Daga: Correct. Both would be as Rs.24 Crores okay, in terms of one account which you were talking about Rs.140 Crores what sector it was pertaining to if you can just throw some light?

Sunil Kanoria: Not appropriate to give names I think here.

Giriraj Daga: Okay, and we say in the same group has taken away that asset.

Sunil Kanoria: Yes.

Giriraj Daga: Okay. Thanks a lot Sir and all the best.

Moderator: Thank you. We take the next question from the line of Vishal Modi from Maybank Kim Eng Securities. Please go ahead.

Vishal Modi: Good afternoon, just one question on your cost of funds particularly in the equipment financing business, so it has been in this 10.3%-10.4% range for around five, six quarters now. So I think in the last one year we have seen the interest rate fall, so do you think that there is a scope for this to go down and help some kind of NIM expansion plus it would be good if you could give some light on what is the incremental cost of fund that we are borrowing, I see that we plan a retail NCD at around 9.5%, so some bit of idea on cost of fund would be helpful?

Sunil Kanoria: Yes, so basically as you rightly said that our marginal cost of fund is definitely coming down and we are raising marginal cost of funds anywhere from 8.5% to 10%, some of the old loans which are there that continues, the terms loans etc., some of the working capital limits. Secondly we also see that those can come down with a improvement in our rating now that the growth has come back and the profitability is getting better, we hope that in the next one or two quarters we should be able to improve our rating and therefore we are working towards it to see that how we can bring our cost of fund down by at least 50 basis to 100 basis points and we are hopeful that we should be able to improve that in the coming quarters.

Vishal Modi: Right Sir it would be helpful if you could give your borrowing mix, so it used to be in your presentation, but I think it is not there now, so if you can give this year and last year's mix then it would be…

Sunil Kanoria: Sure. It is a good point. We will work it out. I think we have it here. I will just give the perspective. In SREI Equipment almost about 77% is the bank borrowing and then we have about 1.8% commercial paper, ECB is about 4.7% and debenture is about 16.5% and in SREI it is about 70% bank borrowing and 2.5% CP and 22% debentures and ECB about 4.5% to 5%.

Vishal Modi: So our endeavour is to probably move the retail NCD proportion higher from here as well right?

Sunil Kanoria: That is right. The bank borrowing is where the hit happens that is the high cost. So that is where we need to bring down the bank borrowings as a percentage and that is what we are working on. So banks normally charge anywhere from 10% to 11.5%.

Vishal Modi: Yes plus that would be like fix for a little longer time.

Sunil Kanoria: That is right. So those are things, which are increasing our average cost of fund.

Vishal Modi: All right. That is helpful. Thank you.

Moderator: Thank you. We will take the next question from the line of Sameer Dalal from Natverlal & Sons. Please go ahead.

Sameer Dalal: Sunil, you talked about Rs.140 Crore asset being taken over. Can you explain now when you have taken over this asset, the loan will still remain as a loan outstanding or you have converted that into equity, because your investments are not showing an increase proportionally of Rs.140 Crores?

Sunil Kanoria: These are properties, so we have taken over the properties. Now we will dispose off and sell and recovery our money.

Sameer Dalal: And can you tell us the properties that you have taken over what kind of value you could assume from those?

Sunil Kanoria: That is why we have taken at 140 crs, our dues were 240 crs, so we saw the value what we can realize and based on which we have taken to realize this full value.

Sameer Dalal: Okay, are there other assets that you have collateral against that other Rs.100 Crore NPA or now the remaining Rs.100 Crores will have to be written off completely?

Sunil Kanoria: Well, it has already written off in the past itself, so it is nothing more to write off, but we hope that that also in sometime we should be able to realize.

Sameer Dalal: Okay.

Sunil Kanoria: But at the moment that is already written off.

Sameer Dalal: Okay. The other question comes in NPA provisioning that has continued to remain high, you did mention the fact that there are some changes in the guidelines which, but still on the equipment book the number have increased quite a bit so, has that been a bit more of stress in the NPA even though you had recoveries. Any particular reason why such a big differences I mean NPA provision has been so high?

Sunil Kanoria: If you really see provision not been high, it has been a little lower only, the only impact has happened from the 120 days to 90 days and the additional standard asset provisioning which has gone up. But otherwise if you see the loan book has gone up and the percentage as such has come down even in the gross basis from last year from 2.7 to 2.3 and from March trailing was 2.4 to 2.3 even after the overall changes …

Sameer Dalal: No absolutely that is my point. The NPAs has come down but the provisionings have gone up, so that is why I mean there is a bit of disconnect coming through that is I guess where confusion is.

D.K.Vyas: If you exclude 24 Crores of incremental impact, the provision has not increased. The provision increase is primarily for the 24 Crores of extra provision has come due to regulatory norm change. If you see equipment finance in a perspective from September 15 onwards every quarter there has been a gradual decrease in NPA and the cost of risk also has been coming down, but only this quarter because of the regulatory change impact 24 Crores has increased. If you neutralize that then there is not much of increase, in terms of percentage it will be lower.

Sunil Kanoria: Also I must say that in the past also we have shared is that you see we have two Eras. There was in Era from 2009, 2010 till 2012, 2013 which is where the biggest challenge happen, those business done during that time is what we faced the problem in 2015, 2016, 2017 even continue and that will take another couple of quarters to keep on getting addressed. Where we are seeing a strong this thing as I said when we look at business, which we have done since April 2014 till April 2017, our cost of risk on that has been only less than 0.5%. So that gives a good comfort that yes we are now getting onto a good trajectory and my cost of risk are coming down. The past which will be there I would say that some more quarters it would keep on making some impact and then gradually just get away, reduce.

Sameer Dalal: Okay and a couple more questions. The first one is on operating expenditure. There is a big jump from year-on-year or quarter-on-quarter on your opex. Any exceptional items there or if this is the standard rate of opex further we can expect for the full year?

Sunil Kanoria: We have been working on two areas. One with the growth coming back, we have been adding people to strengthen and secondly we are also spending a good amount in technology. We are investing in technology and in people with the growth coming in. These are the two major and also one more thing has been there that some of the leases which we had written. So that the loss on operating leases comes into operating expenditure and not in provisions as per the accounting norms. So if you take Rs.9 Crores to Rs.10 Crores out of the sale of lease asset, it is not that high.

Sameer Dalal: Okay, what can be expect of the standard operating, will it be lower than the current, so the consolidated you had about Rs.165 Crores of operating expenditure as per your presentation. Can we expect standard rate to be around anywhere between 145 crs and 155 crs for the full year?

Sunil Kanoria: Yes, that is the expectation.

Sameer Dalal: Okay. The last question I asked you earlier is your investments have seen a bit of an increase if you look at in your books. What is the increase in the investments and you have always stated that now you are looking at divesting and in fact your Bharat Road Network is coming for an IPO soon. The first question is why have they increased and second once you do the issue IPO of Bharat Road Networks, what kind of release of investments will happen to SREI?

Sunil Kanoria: There has been no increase. The way it happened was the road portfolio where our investment was into equity mostly by way of sub-debt, that sub-debt because we are coming out with an IPO a part of the sub-debt got converted into equity and which will get released post the sale. So therefore there has been no new investment, it is the existing investment which has moved from the sub-debt, which was coming in the loan part, has got into the investment side.

Sanjeev Sancheti: For the last two, three quarters, it just has been stagnant.

Sunil Kanoria: It has been same. There has been no change since last October or September I think.

Sameer Dalal: In your presentation it is showing an increase of about Rs.18 Crores to Rs.20 Crores that is why I asked you and the second thing is once you list Bharat Road Networks. Can you explain how the money would come up to SREI? How it SREI be? What kind of funds can you expect to be released for SREI from its investments?

Sunil Kanoria: So close to around Rs.400 Crores is expected to be released immediately post the listing out of the proceeds 375 to be precise exactly and then what happens is with that equity coming in, many of the projects are going in for a refinancing because now COD is over and as you know in the road asset once you get a refinancing, based on the cash flow, you are able to release some more cash and that will repay some of our sub-debts further. So overall we are expecting about Rs.700 Crores to come in, but immediate close to about Rs.400 Crores.

Sameer Dalal: And this will be released of equity to SREI or this will be just repayment of debt that is the question.

Sunil Kanoria: Partly equity partly debt.

Sameer Dalal: So can you give us the equity component if possible for just calculating?

Sunil Kanoria: 370 is the equity.

Sameer Dalal: 370 is equity. Okay, perfect. Thanks Sir. I will come back in queue if I have more. Thanks a lot and good set of numbers. Congrats guys.

Moderator: Thank you. We will take the next question from the line of Anil Sarin from Edelweiss. Please go ahead.

Anil Sarin: Good afternoon Sir. First on the opex side. In your consolidated financial statements, the cost is coming out to around Rs.286 Crores, but the presentation mentions that Rs.165 Crores, so can you please help explaining how come?

Sunil Kanoria: Of which one?

Anil Sarin: In the opex, in consolidated financial statements if I add up depreciation employee expenses and other expenses it comes to around Rs.286 Crores, but in the presentation it is Rs.165 Crores?

Sunil Kanoria: That is because depreciation on operating lease is reduced from the income.

Anil Sarin: Sorry.

Sunil Kanoria: Deprecation on the operating lease is reduced from the income because that is a part of the, in an operating lease depreciation is netted off with the income on the rental because you are getting rental income and then the deprecation gets reduced from that.

Sanjeev Sancheti: It is like your capital recovery.

Sunil Kanoria: It is like a capital recovery.

Anil Sarin: And just another question when you earlier mentioned that in that Rs.140 Crores of recovery, the principal amount was Rs.240 Crores, so you have written off Rs.240 Crores entirely or the balance amount?

Sunil Kanoria: No we have written off about Rs.97 Crores to Rs.98 Crores and about Rs.140 Crores asset, which we have taken over the properties that is in my assets, which we have taken over. Rest Rs.96 Crores to Rs.95 Crores is what we have written off.

Anil Sarin: That is it from my side.

Moderator: Thank you. We take the next question from the line of Giriraj Daga from K M Visaria. Please go ahead.

Giriraj Daga: Sir a followup there, so what will the value of repossess stock as of March 31, 2017 and as of June 30, 2017?

D.K.Vyas: So repossess stock has reduced from Rs.807 Crores on March 31, 2017 to Rs.731 Crores on June 30, 2017.

Giriraj Daga: Sir if you look at the rental income obviously income has gone up implying, the yields have improved, is that a right assumption?

Sunil Kanoria: You are talking about the consolidated.

Giriraj Daga: Sir we normally give a line item for income from the equipment rentals?

Sunil Kanoria: So that is from Quipporentals that is a different business Quippo.

Giriraj Daga: Normally these rentals will show in the equipment financing business only?

Sunil Kanoria: Yes that is shown on the equipment financing.

Giriraj Daga: So how are the yields there?

Sunil Kanoria: Operating lease would be somewhere around same and the way we do the loan business 13% to 14%, 14% plus, so there is not much a difference the yield between loan and lease, but lease it gives a lot of advantage in terms of our right to repossess and managing the assets better.

Giriraj Daga: Sir like we have what are the pluses and minuses like this has completely sold off or we added any repossess stock and sold as higher if you can give the bridge basically from 807 to we added, deducted, and this is the right number?

Sunil Kanoria: Repossess stock has been floating as I said it has come down from Rs.807 Crores to Rs.731 Crores. Keep repossessing keep selling, so we mentioned it has come down, it means there a number of repossesses have come down that is the reason we have been able to manage the inventory lower than what it was in the month of March.

Giriraj Daga: I understood Sir. The idea that what would be let us say if I have to sell this stock what would the present value of this Rs.731 Crores?

Sunil Kanoria: So this is mark to mark whenever we make provisions around 30% to 33% in every repossess, which we do as an accounting policy. That is based on our historic recovery rate, so the entire repossess stock is mark to mark.

Giriraj Daga: So this is mark to market Rs.37 Crores to Rs.31 Crores. Sir thanks a lot.

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

Anita Rangan: Sir this is a followup question. Just can you give the absolute number of your gross NPA and your restructured portfolio?

D.K.Vyas: Equipment panel gross NPA has been Rs.439 Crores on equipment financing and restructured portfolio standard is Rs. 293 Crores.

Anita Ranjan: So the restructured book on the equipment,l there is not any change right?

Sunil Kanoria: No, so it will be more or less same level.

Anita Ranjan: And just one other thing in your annual report, there is something called as assets required in satisfaction of debt, so how different it would that be from your repossessed assets?

Sunil Kanoria: So those are various properties, etc., which were acquired from the customers, so whatever collateral mortgage we had or even non-mortgage, so when we set up with them we have taken the property and now we are selling and realizing that from by selling it, disposing it off.

Anita Ranjan: So that will be as a net realisable value right?

Sunil Kanoria: Yes absolutely.

Anita Ranjan: Alright thank you.

Moderator: Thank you. We take the next question from the line of Anil Sarin from Edelweiss. Please go ahead.

Anil Sarin: Hi I just wanted to know about this Quippo or iQuippo what is the longer-term plan for this line of business?

Sunil Kanoria: iQuippo is a platform, which we are in a process of creating for providing the equipment services to our customers and also be able to bring in better stickiness and use the technology platform that is our overall strategy to see how we can use the technology platform parallel to what we are doing today to enhance customer experience and building up more relationship.

Anil Sarin: Maybe if you can elaborate a little bit more, is there some kind of an equipment bank or is this is a data base or what exactly does it do for your customer?

Sunil Kanoria: So it is basically a platform on which customers can come and buy used equipment, sell their used equipment, could get financing also, could buy parts, could do valuation of their assets, and any services relating to equipments what they need, we will have both buyers and sellers on this platform and they come and do the transaction on the platform and the platform earns a certain revenue.

Anil Sarin: And are you in a position to share some metrics as to like number of visits, trades, or…?

Sunil Kanoria: As I said this business is just starting, so not at this stage.

Anil Sarin: All right thank you.

Moderator: Thank you. We take the next question from the line of Saurabh Kataria from BOI AXA. Please go ahead.

Saurabh Kataria: Hi. Thank you for the opportunity. Sir my first question, we are kind of getting out of these noncore investments and releasing the capital, but our repossess inventory if I look at is still at Rs.750 odd Crores and there are again infrastructural related investments, so if you can give us a broad understanding of what kind of eventually ROA are we expecting and regarding leveraging of different assets, what kind of ROE you can expect not immediately, but just some framework with which we can work on, so that we understand where capital release is happening and where it is getting allocated?

Sunil Kanoria: See primarily as we have said in the past also that our entire focus is to see how we grow our loan book primarily driven by the equipments financing business and some part structure financing. In this area, we see a strong growth coming in the past challenges, which are there, gradually is coming down. It will take some more quarters for the past to sort. However, with the strong growth coming in, we expect that we should be able to improve our return on equity and our focus is that in the next two to three years how do we again cross the double digit return on equity in the mid teens, in the next two to three years that is the basic driver and the target, so whether it is by the way of divestments of various investments we may have, whether whatever assets we may have to reduce and dilute and improve our earnings is where the focus is.

Saurabh Kataria: And Sir second question is so how the operating environment in terms of competition is because in your presentation you have mentioned that equipment growth are North of 30 odd percent, so how is competitive intensity there. Are we seeing that there is no pressure there?

Sunil Kanoria: Well competition is there. It will be wrong to day competition is not there. Our closest competitor in that space is HDFC Bank and some of the other banks are there in some way, but definitely is there. The way it is there, the strength, which we have for the last 28 years is the strength with relationship with the manufactures, vendors, customers, all across and our focused attention in this area. It helps us to keep a market share of 33% to 34%. As a matter of fact in this quarter actually we have improved our market share to almost 35% plus. So, secondly what is helping us also going forward now with the GST coming in, we are bringing back the leasing as a product into this market, which had got lost out in the last 16 years because of multiple taxes, which came in 2001. Earlier, SREI was a leasing company and we believe that, that is one product, which will help us to differentiate in the market place better, improve our yields and give a better offering to our customer, because leasing, as a tool is definitely a beneficial product globally in this kind of a space. It is just that in India, it got killed in the past.

Saurabh Kataria: And Sir, correct me, my understanding is this leasing model, our yields and again return ratios issues are similar. There is just a difference of on whose book it lies?

Sunil Kanoria: Not exactly. You do not sell apple-to-apple, you sell apples and oranges. Those are some of the nuances of and that is where the SREI's strength is. We know this business well. We know the asset well and we do not give money. We give an asset and therefore by bringing in leasing, I have a value, which I can create on the asset, which I was not able to do it so easily in pure loan book.

Saurabh Kataria: Okay and in terms of regulatory requirement for that, are they capital efficient, this leasing model?

Sunil Kanoria: Yes, absolutely a lot more capital efficient. For the customer, substantially; for the customer, is not a debt and today most of the customers are over leveraged or leveraged, but they have jobs and contracts, they want to execute. We firmly believe that, that is a tool, which will help us going forward to differentiate ourselves and improve ourselves.

Saurabh Kataria: Sir, I am just trying to understand, will it be same in terms of return on equity? Will it be commensurate to our existing operations?

Sunil Kanoria: It will be, it is the same. It is just that our ability to get better returns, fight the competition better, give a better customer experience and service will be far more beneficial. So, therefore the threat which you are seeing, the risk which you are seeing from the competition and spread, which I may be facing and I will be facing there. So, how do I counter that, I counter with a different product experience to my customer.

Saurabh Kataria: Okay and this repossessed vehicle, again inventory book, what are the estimates, how soon this can be liquidated if you can give some…

D.K.Vyas: So, the repossess inventory has been part of our normal business and part of recovery. You know, when the customer is not able to pay on time, we repossess and we release it back once he pays or if it does not we sell it. So, if your see our stock had been Rs.800 Crores to Rs.900 Crores in the past, which has come down to Rs.731 Crores. We expect it to settle down little better in few quarters later around Rs.500 odd Crores, but this will be continue to be part and parcel of our business process, it is a part of our business process.

Saurabh Kataria: Okay, so Rs.500 Crores is what we should expect?

Sunil Kanoria: Yes.

Saurabh Kataria: Okay, thanks a lot Sir. Congratulation on good performance. Thank you.

Sunil Kanoria: Thank you.

Moderator: Thank you. Next question is from the line of Giriraj Daga from K M Visaria. Please go ahead.

Giriraj Daga: Sir follow up on the business such as leasing, like how meaningful do you expect these business to be like in three to five years or the internal growth assessment and internal thought process on this business?

Sunil Kanoria: Let me just correct myself, you see just to understand, if you go back up to 2000, we used to only write leases and hire purchases. We never used to write loans at all. Then what happened in 2001 or so you had VAT coming in, you had interest tax coming in and you had service tax coming in. These three taxes killed this particular product. So, the entire industry moved into loans, so that these taxes do not hit you. Today, what is happening is with the GST coming in an all these taxes getting over and getting merged in GST, it is a value added tax. It has again revived leasing as a product. So, therefore what we intend to do, is to gradually see and give a better customer experience. That is so how, that time also we used to fight, any competition used to come with us and we were the pioneers and the reason why it is just to give you a perspective is that we understand the asset. We do not give money to our customer. Even when we are giving loans, always look that giving an asset to our customer and therefore our understanding of the asset is much better than just a pure bank who is providing money, who provides cash credit, provides working capital to the customer, I cannot provide a working capital. I provide a different solution to him and if I am able to now with this GST, I am able to differentiate, I would be happy if I am able to go back to my 1990s or early 2000, which I used to do only lease and hire purchase transactions.

Giriraj Daga: I understood. Sir, while we could just understand the mechanism like a we are just now we are started giving the offers to the customer that instead of taking a loan from us, you can have a lease or will they still take time to reach to that stage?

Sunil Kanoria: Well, we have started giving. People still understand GST has just come in. We have done our entire homework and that now it is a good environment for leasing to be evolved, but it will take some quarters to get developed. Customers have to realize, we have to make this sell again, it got killed for 16 years to 17 years. So, now again to revive it, it will take some few quarters, but the focus is basically to drive that and that is why I said that the answer to the question that how do I face my competition. If my competition is selling oranges, I have to sell apples.

Giriraj Daga: No, I understood given that how you have spoken, given the possibility if you are able to manage it well, we can see in three to four years, we might be in significant position in leases, right?

Sunil Kanoria: Absolutely.

Giriraj Daga: I understood Sir. Thanks a lot and all the best.

Moderator: Thank you. We take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Sir, how you expect the equipment finance book to grow?

Sunil Kanoria: Yes. Well, I had mentioned that I expect that we should be in double digit growth on our AUM portfolio, overall portfolio of my equipment book should grow in hire teams.

Dhaval Gada: Okay, Sir one more thing, what would be the capital allocated towards that leasing business?

Sunil Kanoria: Well, as I said that, what I said is instead of loans, I will start to write. So, capital allocation, I am not differentiating between the loan and the lease. I am giving an asset to a customer. I had to, because of tax issues, I had to give a loan, I will offer a lease also. So, whatever he takes, for me it is indifferent.

Dhaval Gada: So what would be the yield on the asset, actually on a leased asset?

Sunil Kanoria: That will be the same and I will protect my yield.

Dhaval Gada: It will be around same 13%?

Sunil Kanoria: Yes, same. **Dhaval Gada:** whatever we give, we buy that; assets would be in our name, right Sir?

Sunil Kanoria: The Assets will be in my name, but my post tax returns will improve. I will save on my taxes.

Dhaval Gada: Okay. So, ROE would be relatively better compared to the normal business, right Sir.

Sunil Kanoria: Yes.

Dhaval Gada: Okay, so over two to three years, how you see this Sir actually like what proportionate of our…?

Sunil Kanoria: Let us start the journey; I think it is just beginning this month. Let us start the journey. Let us see how it evolves.

Dhaval Gada: Okay Sir, all the best Sir for your new venture. Thank you.

Sunil Kanoria: Thank you Dhaval.

Moderator: Thank you.

Sunil Kanoria: Hello, I think if there is no one, we can close it.

Moderator: Alright. Well I now hand the floor over to Mr. Sandeep Raina for his closing comments. Over to you Sir.

Sandeep Raina: Thank you all. Thank you management for coming on the conference and over to you Sir.

Sunil Kanoria: Thank you very much everyone. Thanks Sandeep and Thanks everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss that concludes this conference. Thank you for joining us. You may now disconnect your lines.