"SREI Infrastructure Finance Limited Q2 FY-17 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to SREI Infrastructure Finance Limited Q2 FY17 Results Conference Call hosted by Maybank Kim Eng Securities Private Limited. As a reminder, all participants' 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. Vishal Modi – Research Analyst from Maybank Kim Eng Securities. Thank you and over to you, sir.

Vishal Modi: Good afternoon everyone. Welcome to this conference call to discuss second quarter FY17 Earnings of SREI Infrastructure Finance.

The management team will be represented by Mr. Hemant Kanoria – the CMD. We also have Mr. D. K. Vyas – CEO of SEFL; Mr. Sanjeev Sancheti – The Chief Strategy Officer; Mr. Kishore Lodha – the CFO of the company and Mr. Amit Agarwal from the Investor Relations team.

So to begin with we will have a brief comment by Mr. Kanoria and we can move to question-and-answers after that. Over to you, Mr. Kanoria.

D K Vyas: Good afternoon. I am D. K. Vyas here. Sorry, I think Mr. Kanoria's numbers are getting disturbed. It seems he is finding it difficult to connect himself. But I am sure he is trying, he will connect at the earliest. So in the meantime, I would like to run you through the current quarter performance.

I think this quarter has been very good both for equipment financing and infrastructure financing perspective. The consolidated profit after tax in this quarter has seen a growth of over 436% and our equipment finance profit has increased by 33%. And if you look at our first half April to September, it is cumulatively 36% higher. Our disbursements for the first half April to September have grown by 35% in equipment financing. And the current quarter is 18%. The current quarter growth rate was little low because of monsoon etc.. So it is in line with the market trend.

Our portfolio assets under management and equipment finance have increased by 5% and we continue to see the declining trend in our NPAs which was last year 3.2% which is quarter-on-quarter coming down and we see now it is 1.8%. And we expect this trend to continue. And as far as infrastructure finance, our profit has grown by standalone 182% in this quarter and 58% on year-on-year basis.

Our net NPA has reduced this quarter as compared to last year's corresponding quarter. But stabilized compared to previous quarter and we expect this trend to continue going forward also in this. So asset quality has been improving in both equipment financing business particularly equipment financing we see continuous improvement in the asset quality. Our return on equity on consolidated basis has improved to 8% plus range, 8.3%. Our capital adequacy ratio has been 19.3% and the equipment finance also is around 19%. And just to inform the Tier 1 capital for equipment financing is 14% plus which we believe seems to be highest among the NBFC space. So we are at more than adequately capitalized and our leverage also has come down. So that speaks about the balance in quality.

So overall it has been a good performance in terms of disbursements growth in terms of profitability, in terms of decrease in NPA in both the businesses and we expect the improvement to continue.

So this is broadly about the highlights of our performance for the quarter. And may bewe would like to take specific questions from the participants.

Hemant Kanoria: I am Hemant Kanoria here. So just as my colleague mentioned about the financial highlights he has given and just to give you a trend as to what we have been doing in for the last one-and-a-half years, the kind of directions and the guidance that we have been giving to all the investors in the market is that there has been a gradual recovery in the business especially in the business of construction and mining equipments. So we have seen the growth also, we have seen the business has been growing continuously and gradually the NPLs are coming down because of the focus that the organization has given to that. And also in the first quarter of this financial year we have been able to complete both the Viom transaction and also the equipment financing. In the equipment business, BNP Paribas has moved in to SREI.

So as we mentioned, the equipment financing business has started picking up and also with the BNP Paribas' stake which has moved up into SREI as the 5% shareholder, SREI Equipment Finance will become a 100% subsidiary. This good news which has been there which we have been giving direction on has already completed. The business is on track. So, going forward now we are very sanguine and the economy has started picking up. The road construction segment especially, the government has taken a decision about on tracks on EPC basis.

So therefore, in the infrastructure space things have started picking up and from the company's perspective also the areas of stress which were there more or less if you look at it has been taken care of. Substantially half of the company that you own and from the disbursement perspective the equipment financing disbursements have picked up. On the project finance we will be a little careful because in spite of the fact that things have started looking up but we want to move in a cautious manner in the project financing business.

So, going forward in the next two, three quarters, the trend is that we are looking at from the perspective of the road sector the portfolio that we have, we are planning to either dilute it also going for an IPO to see what the market conditions are. But we are in the state of preparedness there. Sahaj also now because it is come to an EBITDA positive stage. So therefore we would look at some dilutions in Sahaj. So that will also bring in more equity into the company continuously.

So the equity which has come into SREI is basically utilized at this juncture towards curbing interest and which we will adjust given some positive results on the financial side of it. So overall, this is what we are trying to do. And we are on the right track. Also at the same time last Saturday it was announced that Mr. Sameer Sawhney who is joining the group as a CEO for the project finance company and he comes with a lot of experience and so therefore this should also add the value to the profitability because he will concentrate on structured finance sector which was under project finance book.

So these are some of the things that we are looking up. And we will be very happy whatever questions that you have we will be able to answer, my colleagues are also there. So any of the questions which anyone has then we will be very happy to answer that.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: If you could give a sense on which segments in the market are picking up and what kind of equipments you are seeing like more enquiries and what kind of disbursements are you seeing like every month? That would be my first question. And secondly, if you can give, what will be your absolute gross NPA numbers, the absolute level of Repo assets and restructured assets?

Hemant Kanoria: So on the equipment finance side the pick up we have seen is in the road sector. So construction and mining, these are two segments where there is a good growth because more road projects are getting awarded and many of the states the irrigation project which has been taken up, so that also requires a similar kind of equipments. The other area is the mining equipment because the government has given a thrust on improving the production of coal and also the private sector companies which allocates the mines they have to also start, they have started their activities too. So therefore we have seen a surge in demand of mining equipments and road construction, irrigation construction and so on. My colleague Sanjeev Sancheti will just give the answers on the gross NPAs and other disbursements. So Sanjeev, if you could kindly?

Sanjeev Sancheti: Yes, so in equipment finance the gross NPA is at Rs. 431 crores in September 2016. The net NPA is Rs. 296 crores, Repo stock is about Rs. 830 crores, restructured is Rs. 477 crores and assets required under debt is and all these there has been a reduction in absolute terms the NPA and equipment finance business has been reducing quarter-on-quarter. So both in absolute terms and in percentage, so as you see the last quarter the gross NPAs for Rs. 439 crores, this quarter it has further reduced to Rs. 131 crores. And the net NPA was Rs. 300 crores which is reduced further Rs. 296 crores. Repo stock is Rs. 832 crores last quarter, it is around Rs. 830 crores this time. And March it was Rs. 893 crores. So compared to March quarter-on-quarter both our gross NPA and net NPA and Repo stock has been reducing a bit, on a quarterly basis and restructured advance which was Rs. 525 crores the CDR restructured which has come down to Rs. 477 crores. So we see a good recovery in those accounts as well. So in the equipment finance and in infrastructure finance also, the gross NPA which was Rs. 804 crores in March has come to Rs. 523 crores in September and from Rs. 619 crores to a net NPA has come down to Rs. 357 crores and restructured account as well from Rs. 396 crores it has come down to Rs. 203 crores. So all these three categories we are able to see quarterly reduction in these accounts.

Anita Rangan: Okay and how do you see the trend going forward like when do you see that there will be like a material reduction like say from Rs. 430 crores it comes down to like say Rs. 200 crores that kind of levels when do you see in how many more quarters do you see that kind of levels reaching?

Hemant Kanoria: Yes please go ahead.

Sanjeev Sancheti: So, what we see in equipment financing business there has been an improvement in equipment sales, the growth in equipment sale as Mr. Hemant said is coming from road sector, irrigation sector and contract mining sector. And the road equipment mostly today road projects are coming on EPC basis, not on BoT basis, and that is giving good amount of cash flow coming to the system because contractors are able to get the monthly work monthly cash flow by submitting their bills. Apart from that we also expect the decision of the Cabinet Ministry on the award that disputed awards also you can get the money by submitting BG. With these initiatives getting implemented over a period of few quarters maybe in a year's time you should really target the gross NPAs to be somewhere around below 2% and net NPAs would be around below 1%. That should be a one year kind of perspective.

Hemant Kanoria: And also, what we are also doing is that we are also recovering money out of the properties etc. which we had as collateral security from the clients. So therefore that has also been every quarter we have been recovering. So as my colleague mentioned that over a period of time it will substantially come down but it will take some process for that to happen. But it is on the right track.

Moderator: Thank you. The next question is from Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Now sir, you mentioned about the road sector dilution and the Sahaj dilution. So what kind of valuation you are looking at for each of these segments like inflows in terms of cash flows?

Hemant Kanoria: So I think the valuations we are still going through with investment bankers on the valuation for both the road sector because we have pooled all the road projects together now and Sahaj also. So I think that in the next one quarter or so we should be in a position to get an indication of the valuation. We do not want to just make a conjecture on the figure at this juncture.

Deepak Poddar: Okay. And in two to three quarters you want to get through with this dilution of both road projects?

Hemant Kanoria: Yes, that is what we are sanguine about. But one quarter here and there as last time also last year we were trying to get the Viom one which got extended we were looking at the BNP transaction also which got extended by another quarter. So one or two quarters here and there it is very difficult to say but most probably we should be in the next two, three quarters, we should see the results coming out on both these two accounts.

Deepak Poddar: Right and is there any kind of other investment plan we have on the SEZ front?

Hemant Kanoria: No, at present we are not going in for any further investments. So there may be some nominal investments here and there but there is no substantial investment which we are looking at in any of the sectors.

Deepak Poddar: Okay and in this the new project that Delhi water treatment that $85 million investment we have planned for next 15 years, right?

Hemant Kanoria: In the?

Deepak Poddar: That Delhi Water Treatment Project?

Hemant Kanoria: Yes, but that is all debt funded and therefore that funding has already been arranged in the financial closure.. As I said that from SREI's perspective on the strategic investment we are not looking at any large investment at present. It is more on the harvest mode that we are in, so dilutions harvesting is what we are doing with the investment.

Deepak Poddar: Right, but from SREI how much investment would be there in this project?

Hemant Kanoria: From SREI I would, Sanjeev, is it in front of you?

Sanjeev Sancheti: Yes, I think it is about SREI in totally it is about Rs. 100 crores.

Deepak Poddar: SREI bought only Rs. 100 crores out of this entire?

Sanjeev Sancheti: And there is no.

Deepak Poddar: Has this Rs. 100 crores been on debt or equity?

Sanjeev Sancheti: Equity.

Hemant Kanoria: Equity would be about Rs. 15 crores and balance is debt in the water project.

Deepak Poddar: And in one of the recent interviews I was just reading that equipment finance business we are targeting our book should double to about Rs. 37,000 crores to Rs. 38,000 crores in three years, right?

D.K.Vyas: Yes, on the equipment financing business.

Deepak Poddar: Yes on the equipment financing business. So at that point in time what sort of ROA we might be targeting?

D.K.Vyas: I think when the equipment finance market which is expected to grow at 25% to 30% CAGR for next three years which will help us to double the volume we should be looking at ROA of close to 2.5% somewhere between 2% to 2.5%.

Deepak Poddar: Between 2% to 2.5%, sure fair.

Hemant Kanoria: What we are trying to do just to interrupt that strategically also what we are trying to do is that in the equipment financing side because we have almost close to 30% market share as an organization and there are very few companies which can come in and compete with us at that level. So we are also adding more services on the equipment. So, one is the financing then we are also tied up with manufacturers to provide more services so which will result in a higher return on equity and will give us better not only NIMs in fact which are on the funding perspective but also fee based income will get generated.

So we are looking at avenues to increase the fee based income on the equipment side because we are in the right position to do that not very many companies have that market size and the share to be in a position to leverage those advantages which we can.

Deepak Poddar: Right and this 2% to 2.5%?

Hemant Kanoria: Clearly our direction is clearly our objective is to see that how do we increase the return on equity and the ROA not only through the financing side on equipment but also from services.

Deepak Poddar: Right so this ROA of 2%, 2.5% which we might be targeting is the post-tax ROA will be deducting, right?

Hemant Kanoria: Yes.

Deepak Poddar: Okay and my final thing is on the credit cost. What sort of outlook you have? You have already mentioned that you are looking at a gross NPA of less than 2% and net NPA of less than 1%. But in terms of credit cost any kind of outlook you want to share both in infra segment as well as in equipment finance segment?

Hemant Kanoria: On the credit cost I think that we are at a reasonable level and we have also after we put the transactions of Viom and the equipment finance with BNP has taken place there can be an upgradation in our ratings. So, going forward I think that is always an objective for us to see how do we reduce our cost of funds we have expanded on the liability side we have very many products not only limiting it to the banks that we had earlier. ECB which has been opened up and so the bond insurance which we are doing. So we are continuously in the market we are reducing the products to reduce the cost, Yes.

Deepak Poddar: No, sorry to interrupt. I was not asking about the cost of borrowing I was asking about the credit cost? Basically what cost will you incur on your NPAs on an annual basis?

Hemant Kanoria: Sanjeev, do you have that figure in front of you?

D.K.Vyas: So, the cost of risk from the equipment financing side is declining. If you see it was last year cost of risk was somewhere around 2.4% in the equipment financing which this year in first six months has come down to 2.1%. I think this year we do not expect to see major reduction but going forward we expect the cost of this to come down to below 1%. That has been our historical trend in terms of cost of risk. We usually manage it between 75 basis points to 100 basis points. And we expect to reach the same number maybe one, one-and-a-half years down the line. But this year we expect it to continue around the same level.

Deepak Poddar: Okay so FY17 may be close to 2%, 2.1% but in FY18 less than 1% is what we might be looking at?

D.K.Vyas: So FY18 somewhere between 1% to 1.5% and then maybe below 1%.

Deepak Poddar: And a similar trend for like what kind of trend for infrastructure growth in that business?

Sanjeev Sancheti: So the infrastructure also if you see our cost this year has been high because of some abnormal because we got Viom income and as we said in the last quarter, we took extra write-off being conservative in nature. So this quarter the cost of this has come down to 40 basis points. I think last year we had 130 basis point cost of risk, so we expect this year to continue 100 basis to 130 basis points and then we should see. So one year down the line in both the businesses we should be able to have a cost of risk which should be sub 1%.

Deepak Poddar: Okay so basically you expect the cost of risk to increase like as compared to what we are seeing in this quarter in infrastructure finance business?

D.K.Vyas: No, we do not see increase, we see the similar level what we have during this year.

Deepak Poddar: Okay and then what is the write off you have done this quarter? Any kind of write off you have done either in infrastructure or finance business?

D.K.Vyas: I think closure and write off is more of accounting impact because it gives us the other advantage so it is a.

Hemant Kanoria: No, write off in the sense?

Sanjeev Sancheti: The increase in cost of risk, Yes.

Sanjeev Sancheti: You see it is a part of cost of risk.

Deepak Poddar: Yes, I know that but I just wanted to know if you have a figure**?**

Sanjeev Sancheti: No, we do not have the exact data at the moment maybe we can share it with you later.

Moderator: Thank you. The next question is from Sohani Doshi from Edelweiss. Please go ahead.

Suhani Doshi: Can you please give me an idea as to how could the yields go forward in both the businesses, equipment finance and project finance? With the equipment finance growth rate increasing, so are we seeing any traction in the yields as well?

D. K. Vyas: Yes, so if you look at more than the yields, I think it is important to look at NIM because the cost that we have in equipment financing business floating interest rate. So when it goes up we pass on that charge to the customer and when it comes down we pass on the benefit to the customers who are regular in their repayment. So if you look at our NIM, Net Interest Income margin in the equipment financing business, it has improved to 5.1% compared to 4.7% in the previous quarter and we expect the NIM to be in the range of 5% to 5.5% in this business, the equipment financing business. And the interest spread in project finance business which we expect it to be around 2% for this year.

Sohani Doshi: Okay, this would be also say two years down the line because do we see that you have done diversification into other types of equipment finance so because of that any improvement in NIMs to 6%, 7%?

D. K. Vyas: If you heard Mr. Hemant said that in the equipment financing business we are adding lot of services which will give us extra income. So we expect our NIM to go up to between 6% to

6.5% in two years down the line. So we are expecting 100 basis NIM coming from non-interest income which will be coming due to addition of various services in our equipment financing business. So somewhere two years down the line we should expect 6% to 6.5% NIM in this business. And the project finance business since we are not willing to grow, we would like to grow that business without putting our capital at risk so that will be mostly coming from fee income. So it is somewhere between 2% to 2.5% by the end of two years.

Sohani Doshi: Okay and another point is, do we see the borrowings reducing going forward on the consollevel because of the monetization because as we see in the presentation it has gone up YoY some Rs. 20,000 crores to Rs. 25,000 crores?

Hemant Kanoria: The borrowings is just a derivative of the part of the business that we are doing. So we are in the financing business. So as the equipment financing business picks up and as we mentioned that the project financing business will not be picking up to that extent because we want to do more of structured finance. So we would be doing the financing but at the same time if the other companies or other banks and all also share the risk with us but we reduce our risks. But from the equipment financing side definitely the business will increase because we want to retain our market share. We are very clearly seeing that there is an upsurge in the market, we see that profitability will be better. Going forward we would be having a lot of space if we have already started adding now on and it will add more to our NIM. So therefore you may not see in absolute terms that the debt is coming down but in the various businesses where debt is required it will be there, where debt is not required it will not be there.

Sanjeev Sancheti: Just to also clarify that you are seeing a higher borrowing in the consolidated accounts is because SREI equipment finance business is now 100% consolidated. That is the reason it is so if you have to look at the individuals that are coming then you will see that the leveraging has come down in both the companies.

Moderator: Thank you very much. The next question is from Tirthankar Ghosh from ICICI Bank. Please go ahead.

Tirthankar Ghosh: I have two questions. Sir, where do we see the disbursement target in infra because of the half year that has gone that has come to Rs. 1,935 crores? So are we looking at somewhere us up Rs. 4,000 crores disbursement target for SREI Infra? And my second question is, could you throw some light on the investments done by SREI Infrastructure Finance that is to the tune of around Rs. 1,701 crores in this half year?

Hemant Kanoria: Yes, basically you see that on the infrastructure finance as we mentioned that we are very clear that there is no strategy for us to grow the book. So therefore whatever disbursements which you may see we are looking at those disbursements which can bring in more from the structured finance perspective. So which could be down sold because the strategy is to improve our ROE in the infrastructure financing company also. So therefore and that is not going to come out of the disbursements.

But we would be in business because we have the unique advantage of understanding the project finance business of infrastructure sector which very few banks or institutions have. So we would like to leverage that. It will be more of cerebral work than just doing disbursement. So you may see some disbursement from quarter to quarter but whereas in the equipment financing side you will see that there is a steady growth in the disbursements.

Tirthankar Ghosh: Okay sir. And my second part is regarding the investments part?

D. K. Vyas: There is no addition of Rs. 1,700 crores investment in this quarter. It is the total investment which you are talking about?

Tirthankar Ghosh: Yes sir, total investment?

D. K. Vyas: Total investment, if you look at there is a slide in the presentation which give you the breakdown of the investments. These are the ones which are in subsidiary then in transportation, in subsidiaries etc.. So these are the total investments the breakdown of which is already there in the presentation. Do you want me to go through the entire list?

Hemant Kanoria: No, I think what I will suggest is that I will just put down the strategy for it, that we do not want to grow our investment book at this juncture in the strategic investment. So need some investments which may have come out of the BNP transaction which has also happened where the investments in the SREI equipment business would have increased. But going forward we are clear about it that we want to reduce our investment book. So we are looking at dilutions or strategic sales, IPOs etc.. So you will not see a growth there.

Tirthankar Ghosh: Okay so going forward these investments also will cover?

Hemant Kanoria: Yes.

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

Sameer Dalal: First a book keeping question. Can you give us for the current quarter in the equipment financing what was the total number of assets that were sold by you all? And what was the total assets repossessed by you all I mean for the change that has happened?

Hemant Kanoria: The number of equipments?

Sameer Dalal: No, the value?

Hemant Kanoria: DK, would you please.

D. K. Vyas: See what we have in stock here. I do not have. So I think we had approximately addition and deletion of around Rs. 80 crores to Rs. 100 crores in Repo and Rs. 80 crores to Rs. 100 crores was sold during this quarter. And compared to the previous quarter of around Rs. 160 crores. So this year it is around Rs. 100 crores; Rs. 80 crores to Rs. 100 crores in between. I do not have exact numbers but this is the range I have in front of me. But the inventory has not gone up it has decreased a bit.

Sameer Dalal: Yes, but that brings me to the question which I wanted to ask is you are not seeing any slowdown in the equipment I mean the equipment finance business continues to have these NPA issues even though your Repo raising a Rs. 100 crores worth of equipment your NPAs are not coming down and even though you are able to sell them neither of your Repo. So, you are not seeing any slowdown in collections. I mean you are seeing any improvement in the asset quality are you?

D. K. Vyas: So if you look at our previous quarter it was Rs. 166 crores approximately which were Repo and sold and this year if you see my Rs. 80 odd crores in this quarter and mostly the assets have been released then they sold because when you see the improvement in the economy people come back with the money and they say okay he pays his entire dues to you and he takes the asset back. So more than sale, number one. Number two, the average realization of my Repo stock sales has improved. The percentage wise which was the average realization so the Repo asset has improved by 7% to 8% in totality. Asset category wise it has improved for few asset categories quite a lot.

So because of the increase in deployment and because of asset liability gap, today if you look at road equipment, there has been a huge demand, the manufacturer does not have the equipment to deliver. So this we just saw and because of monsoon there was a bit of a slowdown otherwise now you will see stock moving faster because there is a huge gap between demand and supply which was not the case earlier. So that will help us to reduce our inventory as well as this will also help us to improve our realization.

And third thing is repossession is not actually indicating its NPA because it is more of recovery pressure the guy if he is not paying you repo and then you release it back immediately when he pays your money back. It may happen within one week time also. So there has not been much of losses getting booked in this because the realization has and demand supply gap is also helping up now onwards.

Sameer Dalal So are you saying that you say by the end of the current year financial year your repo book should be much smaller than the current Rs. 830 crores that you are talking of at the moment?

D. K. Vyas: So you already see the declining trend happening and in few more quarters we are hopeful to see a good decline in this repos stocks.

Sameer Dalal: So any target you can give us to where you would see that number coming to?

D. K. Vyas: Very difficult to put the number because it is all floating stocks but we just see good declining trend.

Sameer Dalal: The second question is just a continuation towards someone was talking about the investments. I do not want to make further investments but if you see from Q1 to Q2 your investments book has gone up from Rs. 1,576 crores to about Rs. 1,700 crores. So you are talking of additional investment of Rs. 140 crores. Can you tell us where this money went?

Hemant Kanoria: No, as I mentioned that you see it is basically from the equipment financing side because we have made an investment in the equipment finance company because of the 5%stake of BNP which has moved into SREI Infra. So this has become a 100% subsidiary.

Sameer Dalal: Okay so it is just because of that, it is not fresh investment anywhere?

Hemant Kanoria: No, we are not making any fresh investment.

Sameer Dalal: Okay and Hemant, since I have been tracking the company for some time maybe three plus years and we have constantly talked about selling of land parcels against NPAs that we have. There has been no resolution for the longest time. Can you give some guidance on how you are going to tackle this because some of these assets have been stuck with you for the longest time?

Hemant Kanoria: No, but we have been telling every quarter that we have been selling land and we have been realizing money out of the property. So it is not that the realization is not taking place.

Sameer Dalal: So can you quantify how much have you all sold for some of the NPAs that you have in the land parcels I mean?

Hemant Kanoria: We have the whole list which we can share with you that how much is the amount. I do not know whether we will be able to. Whether Sanjeev will have the exact amount in front of him. Otherwise we will definitely be able to. Because what happens is that when the realization of the land happens the NPL against that particular company reduces because the money has already been realized whereas just through the equipment sale all the realization of money through the sale of property. And we have been doing sale of property on a continuous basis. It is not that it is not a fast moving product because it is slow where the land sales are concerned but still it is happening. And it is not happening in small amounts but it is happening in reasonable sums.

D. K. Vyas: Just to add on I think to clarify and add on that if you look at our CDR portfolio and NPA portfolio and equipment finance which was some Rs. 800 crores around NPA, gross NPA of Rs. 816 crores in restructuring which has come down by 50% in both the categories. It just stands at Rs. 477 crores and that amount has come by monetizing the properties because in CDR accounts and no other institutions have been able to do larger recovery, we could reduce it by 50% primarily by monetizing our property which we had and doing effective recovery by capturing the cash flows.

And similar is the case in case of gross NPA in both the organizations. So as Hemant said it has been a continuous process. We have a dedicated team to work on the property side to keep monetizing and that is the reason we have could reduce both restructured accounts as well as NPAs.

Sameer Dalal: So even on the infra side you had those five land parcels against the Rs. 300 crores NPA that you have. Any monetization there?

D. K. Vyas: So yes, there has been a monetization on infra side also. You will see the results in the reduction in NPA there also. There also NPA has come down by 50%. So there has been a reasonable amount of property monetization in both the organizations.

Sameer Dalal: Sorry, you said your gross NPA was Rs. 693 crores for the infra book versus Rs. 804 crores last year. So how has it come down by 50% I am sorry I am missing some number here?

D. K. Vyas: On the infra side Rs. 639 crores was net NPA not gross. It has come down to Rs. 357crores. The gross was Rs. 778 crores, it has come to Rs. 523 crores.

Moderator: Thank you. The next question is from Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: If you can let know what would be the scheduled repayments in the project finance book for the coming two quarters?

Hemant Kanoria: What payment?

Jigar Walia: Scheduled repayments or in terms of?

Hemant Kanoria: We need to get those numbers I think.

Sanjeev Sancheti: Probably we do not have the number right now.

Management: We need to get those numbers.

Jigar Walia: Other thing is sir, is it possible for you to help reconcile the PAT. We believe that the losses which were coming from quippo, etc., I mean those have completely gone this quarter and probably there is a net positive impact of 4-5 crores. That is probably my reading. But if you can help reconcile and also if you can give the breakup in terms of the key contributors?

D.K.Vyas: So if you see the profit for the Srei Infrastructure the standalone basis has gone up from Rs. 8 crores to Rs. 23 crores in Quarter 2. And Srei Equipment Finance assuming that 50% profit will come which was the case last year. So from Rs. 13.81 crores it has gone to Rs. 18.4 crores in Q2 and because it has become 100% in this quarter the entire incremental 50% of Rs. 18.4 crores has come. And apart from that the Quippo Group of Company which had a loss last year of around Rs. 10 crores in this quarter has made a profit of Rs. 2 crores. So this total makes it Rs. 61.84 crores from Rs. 11.49 crores.

Jigar Walia: Any other key entity sir notable apart from quippo?

Sanjeev Sancheti: No, so there are a lot of small entities that all put together now we do not have any entity which has given any significant losses which will be a profit rubber. So there is no other significant entity obviously but all put together there are no companies which have given any significant losses at all.

Hemant Kanoria: Yes, and basically see strategically what we have tried to do in the last one, one-and-a-half years that all the subsidiaries etc. and all the investments that we had so there has been a full focus which has been given. And whichever entity we have found that is not going to add value and is going to reduce the profits of the company. We have either tried to dilute, disinvest, close it down. So therefore that has been a very structured move from the side of the management to ensure that there is nothing which drives down, there is no driving down our profit out of any entity. So wherever a small thing here and there I am not mentioning which may be just decimaled out in crores. But otherwise or which is strategically required to be there so but there is nothing which is going to drag the profits down.

Jigar Walia: So this quippo and this positive Rs. 10 crores is kind of a sustainable number and not a one off, right?

D. K. Vyas: No, it is not Rs. 10 crores. Last year there was a loss of Rs. 10 crores, this year we have a profit of about Rs. 1.5 crores.

Jigar Walia: Sir, last question is if you can please revisit the provisioning policy and any change expected and when that change is expected?

D. K. Vyas: So this year we have already implemented the provisioning policy of 120 days in both the organizations and you can see in spite of reducing the provisioning policy from 150 days to 120 days we have been able to reduce the NPA both in absolutely terms as well as in percentage terms. And next year March onwards, from April next year it will be reduced to 90 days. So we will be at par with and we will be able to comply with all the credential norms.

Jigar Walia: And from 120 to 90 we would still have some cushion in terms of extra provisions made on management's expectation basis?

D. K. Vyas: Yes, so we already have extra provision in the equipment financing business also. So we will definitely have the cushion.

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

Vishal Modi: My question is a bit strategic in nature. So given that we are taking various initiatives to reduce credit cost and improve margins. So what in your opinion would be a sustainable ROE level that we are targeting may be not from FY17 but from a bit longer term perspective? And do you see any kind of risk to this number? That would be helpful, if you can answer that.

Sanjeev Sancheti: So we have reached ROE of 8.3%. And two to three years down the line we are hopeful of achieving ROE somewhere near 18% or somewhere between 16% to 18% three years down the line. So this should be sustainable reaching that level. So you will see gradual increase in ROE. We may not able to see sudden jump in ROE in one year down the line. But two to three years down the line we should be able to see a reasonable ROE of good double digit number which will be somewhere between 15% to 18%.

Hemant Kanoria: Basically the main focus of the company is towards the improvement of ROE. And that is a very clear cut direction we have on towards the ROE improvement. So therefore whatever steps are being taken either own recoveries of these NPLs, reengineering of the business model that we had. Improving the fee based income for the equipment financing side, doing more of structured finance then to take the risk on the project finance in our books and downside it. So therefore the team members also have been brought in accordingly who are geared up to do these kinds of activities and with a clear-cut direction towards improvement of ROEs.

But it is very difficult to say that whether it will happen in the next quarter or the quarter after the next but it can definitely speed up successively quarter-by-quarter there is an improvement. And as DK mentioned that we are targeting 18% to 20% ROE. Faster it is better for us and all the investors and shareholders. So that is what our target would be. And we are challenging ourselves. We are in a unique position as an organization because there are a very few companies in this particular sector has this kind of market share on the equipment financing side.

Vishal Modi: Sure, that was helpful. Thank you.

Hemant Kanoria: Okay so thank you. So I think if there are any other questions on pertaining to any financial figures etc. I would request that if you can kindly send it to Sanjeev Sancheti and our team then we will be in a position to answer that. And because there would be a lot of financial points which someone may have in mind. So we will be very happy to do that. So I would like to again thank everyone to being on this particular call and taking the time out.

And let me just assure all of you that we are on the track the company is doing everything which is possible to improve the ROE. We are positioned to take advantage of the situation in the country because there are very few companies which are basically competing with us at the level that we are now operating. So thank you everyone once again.

Moderator: Thank you. Vishal, any comments you would like to make?

Vishal Modi: If there are any more questions we can address them or we close the call?

Sanjeev Sancheti: We can address them if there is anything in queue.

Hemant Kanoria: Yes, because now it will be if anything is on the financial side because strategically I think that we have covered all the points and if any specific mention?

Moderator: We have got one question from the line of Anil Sarin from Edelweiss. Please go ahead.

Anil Sarin: I had one observation and one question. The observation was that while there is this desire and movement towards reducing the amount of strategic investments and putting them into lending business however there was a mention of a water treatment plant. So I wanted to know what that was and that would be going towards the investment side again and not into the lending side?

Hemant Kanoria: That is not a water treatment plant. This is an investment about three years back which was done in a joint venture project with Violia and this is a water treatment and distribution in Delhi. So it requires and the project is already funded from the banks. So we had lent some money to that by way of debt and made a small equity investment in that particular project. So that project is already operational, the cash flow is already coming in. But it is an ongoing project and a joint venture with Veolia. And where they own 51% and the fund owns about 49%.

Anil Sarin: The observation was that while the NPA as a percentage are coming down but if you still take provisioning as a percentage of the pre-provisioning operating profit, the PPOP figure still the amount of provisioning is such that it is taking a big bite out of the PPOP. Even in the current quarter for which we are discussing the results around 50% of the profits are sort of provided away. So when does this situation reach a place where we are like where only a modest kind of reduction happens to the operating profit because after all you are working so hard to grow the business and then the provisioning comes in and sort of robs you of the profits because otherwise it would have gone to the PBT line?

Sanjeev Sancheti: Sanjeev here. See as D. K. Vyas said that our NPAs have started coming down somebody had asked the question of credit cost we were at 2.4%, we are at 2.1% I think in about 12 to 18 months we do believe that we can come to about sub 1%. And I think really speaking this profit on provisioning is a derivative of your credit cost. And if the credit cost comes down over the next 16 to 18 months to 1% or sub 1% then this ratio is going to be much better. And I think our endeavor is towards that.

Management: And it has come down from 2.4% to 1.8%. There is a declining trend.

Sanjeev Sancheti: And we are targeting that in next one, one-and-a-years it comes down to 1%, sub 1%.

Anil Sarin: So the last observation which I had was that typically players who are leading in an industry or leaders in an industry, within NBFCs I am saying. Those that are leaders in their particular segment of finance they tend to have quite high margins. Whereas your leadership is not in doubt at all. I mean SREI is the undisputed leader in infrastructure lending. However you are talking about 2% to 2.5% ROA whereas there are other companies NBFCs in different kind of financing may be consumer financing, may be home lending things of that sort. They have materially higher return on assets. So somewhere I feel that the leadership should translate into better profitability than the figure which you have been guiding us for?

Hemant Kanoria: Yes, you see basically in the past from the last three, four years because of the infrastructure sector going through the problem and also I am not saying that we as an organization we have not made mistakes. We have also made mistakes and we have learned from there. So therefore as we move forward you would see that the ROE and ROA both are going to improve. But we do not want to make any conjuncture on the absolute figure. But I can assure you one thing that whatever can be done by an organization which are market leaders we are aware about it and we have on every particular point on that.

Moderator: Thank you. Sir, we have got one last question. The last question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.

Mihir Ajmera: Just a small question. Just wanted to know what would be our NPA if it had been on 90 days DPD level like how much would be difference versus 120 days?

D.K.Vyas: I think that we are not really calculated that is that the difference would not be significant because internally in an organization as all our people's behavior has been driven there will be a 90 days NPA. So all our people work on 90 days NPA for the business side. So I presume there would not be significant difference between both 90 and 120 days. Because as you saw it from 150 to 120 also we have been able to decrease the NPA. So we are still hopeful that when we shift to 90 days there would not be any increase in the NPA.

Mihir Ajmera: And just lastly, the guidance for AUM remains the same around 20%?

Sanjeev Sancheti: So AUM in equipment finance business expected to grow this year because the market is expected to grow. And project finance we are not it is expected to be flat. So overall it should expect to grow. We had only seen a growth of 4% now. So we should be able to have a higher growth at the end of the year.

Moderator: Thank you very much. That was the last question. I now hand the conference over to Mr. Vishal Modi for closing comments.

Vishal Modi: Thank you for taking out to join this call. Have a good day. Thank you everyone.

Moderator: Thank you very much. Ladies and gentlemen, with this we conclude the conference call for today. Thank you for joining us and you may now disconnect your lines.