Transcript

Conference Call of SREI Infrastructure Finance Limited

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Presentation Session

Moderator:
Good evening ladies and gentlemen. I'm Shirley, moderator for this conference. Welcome to the Q4 and FY11 results conference call for SREI Infrastructure Finance Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Ms. Divyanshi Dayanand of SBICAP Securities.

Divyanshi Dayanand: Thank you Shirley. Good evening everyone. On behalf of SBICAP Securities I welcome you to the Q4 FY11 con call of SREI Infrastructure Finance. We have with us the senior management team from the company, headed by Mr. Hemant Kanoria, who is the Chairman and Managing Director. I'll hand over the call to you sir.

Hemant Kanoria: Yeah thank you. Good evening ladies and gentlemen. I have with me here my colleague Sanjeev Sancheti group CFO and Raunak Agarwal. Basically this particular year 2010-11 has overall been a good year for us and there has been a financial rise in the profitability by way of the PBT which has gone up by 33% to Rs 289 crores. Total disbursement has increased by about 60% to Rs 14,400 crores. In the equipment financing business, the disbursement has increased by 67% to about Rs 10,000 crores, project financing by about 46% to Rs 4400 crores and the total balance sheet, the asset under management of the total group, has gone up to about Rs 20,500 crores. The networth has also increased to about Rs 2,641 crores from about Rs 1,279 crores and the total borrowings have increased by 53%. The networth has gone up because of the merger, which we have had in Q4, announced last year and this year it has been consummated. The total income has gone up to Rs 1,638 crores from Rs 972 crores. The profit before tax has gone up by 33% to Rs 289 crores from Rs 217 crores, which was there last year. The PAT, profit after tax has gone up by 15% to Rs 179 crores from Rs 155 crores. And the NII has increased by 12% to Rs 319 crores.

Basically, we are getting into the details of the consolidated balance sheet. The return on average asset is about 1.9%; the return on average networth is about 16.4%. This is on the increased networth, which has taken place after the merger. So there has been a substantial improvement on the total business. The PAT has gone up, the yield on average fund is about 14% NIM is about 4%, gross NPA on a consolidated basis is 1% and net NPA is 0.6%. On a standalone basis, the key financial ratio is about 14% for yield on average fund. The gross NPA is zero, net NPA is zero and the EPS on a highest equity is 2.7. The book value is about Rs 50.7 and the NIM is 4.2%. In the standalone for SREI Equipment Finance, which is a SREI-BNP Joint Venture, the yield on average fund is 13.8%. Gross NPA is 2.9%, net NPA 1.8% and EPS is upto about Rs26.2 from here to Rs17.4 and the book value is Rs220 compared to Rs193, which was there for the last year. This year if we actually look at the list, because you have all the financial which are available as that was put up on the website also for the financial year. But on the whole if you see, that this particular year was a good year, the only stress was on the continuous rise on the interest rates because RBI revised the interest rates upwards almost 9 times during this particular financial year, so this has led to increase in the cost and it does take us time to pass on these costs to the clients because all our agreements are primarily variable interest that we had in our agreement so it does take time to pass that through.

But overall on the performance, there has been a good growth in the business and disbursement has grown by about 60% overall even in the project finance because earlier as it has just been about two years that we are in project finance, 46% increase has been a good increase because this is the disbursements, which we have recorded and almost about a billion dollar disbursement in this particular year. Therefore in the project finance also the team now is fully in place and we will see on a continuous basis, consistent rise in the profits from the project finance business also. So both in SREI, the parent company, and the SREI joint venture all the businesses verticals are in place. They are teams in place; the business has good opportunities as we see that infrastructure is doing quite well in the country. There are certain hurdles which will keep on coming from time to time and that is a part of any business and in India also we see that these kind of situations…hurdles come faster but at the end of the day it gets eliminated over a period of time.

So therefore overall, we are quite sanguine about the way the business is developing. This year also in 2011-12, we should have good growth in both disbursement, the equipment financing business and the project financing business and at the same time on the fee- based income also there is quite a lot of going there and there has been a good rise in the fee-based income last year 2010-11. And in 2011-12 also we propose to have good income coming out of fee business too because what happens is that whenever we are doing the fund based business there are opportunities on the fee-based income also which arises. And at the same time, overall the challenges that we see this particular year in 2011-12 will be primarily on the cost of funds and we do not know how many times RBI is going to increase the interest rates to control inflation, but there is an indication that by the end of this year the interest rates will again start softening.

So we all hope for the best and the other advantage for SREI has been that we have been classified as an infrastructure finance company on 31st March 2011. So, for the year 2011-12 we should be in a position to take benefit of raising long-term resources at reasonable cost and the business that we should be able to raise about some infrastructure bonds, also on the ECB there has been relaxation for infrastructure finance companies and on ECB also we should be in a position to get money at lower cost and…so these are the various indication on the financial that we wanted to share with you. And as I mentioned that for the year 2011-12, we are quite sanguine about the business opportunities, the profitability…we are sure that the profit will be much higher than what we have seen in this particular year in 2010-11 because in 2010-11 continuously the cost of funds has increased, which has impacted the profit to a certain extent otherwise the profits would have been much higher. But next year we think more or less it is stabilized, so maybe that 25 to 50 basis points the interest rates may rise so therefore it is not going to be so frequent rise in the interest rates which will dampen the profitability. So we don't see that kind of a situation happening in this particular year. Overall, last quarter of the financial year basically would see that there has been certain differences on the profitability because a lot of provisions had to be made. RBI also introduced a new guideline in February this year where they said that any that 0.25% has to be provided even for standard asset. So both in SREI and SREI Equipment Finance, we had to provide for 0.25% over and above the NPAs that we provide for on standard assets also. So basically that had its impact and as you would all know that our NPA provisioning norms is quite strict. It is more stringent than the RBI norms. As it is we had a provisioning which was very stringent and over and above we had to provide for this on standard assets also. Therefore you would see that last quarter the profitability to that extent has got affected and there are no other items which are quite different than the other quarter and also the Q4 businesses now have got merged and in the Q4 businesses as you see this in the presentation that we have the telecom infrastructure which is basically having an EBITDA next year of about Rs 1,395 crores and we have a tenancy of 2.37 which is among the highest in the industry.

The construction equipment business had an EBITDA of Rs 43 crores and it had a loss of Rs 6.3 crores. Energy has an EBITDA of about Rs 24 crores and a PAT of Rs 3.4 crores. Oil and gas has Rs 65 crores of EBITDA and Rs 1.8 crores of profit. So all these are profitable businesses which have got more in take excepting construction equipment, which is facing certain challenge and I am sure that this year onwards we will see better situation for the construction rental business too. So, basically on the figure side, these were the figures that we wanted to share with you and as I said, that in disbursement there has been 60% growth so that seems to be quite a good growth on this disbursement and this year onwards we see that…the focus is more on the PAT so we see that we would definitely like to increase the percentage of growth in PAT this year and the business leaders are quite fine with that and we should be in a position to do that. So, I would now open it for questions…so therefore if there are any questions that you have on the financial figures, on the businesses, we will be very happy to address this. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and Gentlemen we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing # key.

First question comes from Mr. Rahul Vekaria from Axis Mutual Fund.

Rahul Vekaria: Hello…Conversation with the question of numbers…only issue is with borrowings…just this quarter they have gone up particularly by 20% and my NIMs have come down by almost 150 basis to 4 and if I see my debt to equity, my networth you said has gone up…increased by 80 odd percentage QoQ with the Quippo merger and if I see my leverage taking my networth for previous quarter…that is if I am excluding the merger of Q4, which as I have, 7.1%. Also my profit this year before tax has been 290 odd crores of which I see a one-off item in non-interest income that's from equipment rental which is almost 230 crores. So net-net if you see, through out the year the profit that you have generated from excluding the equipment rental which I assume to be from Q4 which means Rs 60 crores, am I right with the numbers sir?

Sanjeev Sancheti: Rahul, first of all you were not very audible and secondly, I don't think the numbers we have been able to really exactly understand what you are trying to tell us. If you could either repeat or…?

Rahul Vekaria: Okay let me start with leverage. If I see this quarter, the leverage is 3.8 compared to the previous quarter 5.7 however my networth which I am taking…when I redo my debt equity, networth has gone up by almost Rs 1,200 crores on account of the Quippo merger. Now from the merger is also what I am getting my income from equipment rental which is almost 230 crores. Now with a PBT of Rs 290 crores for the whole year, I see a one-off item in the non-interest income…that is income from equipment rental of Rs 230 crores, so what you are saying here is that the income generated for the year on operations has been Rs 60 crores for 2010-11?

Sanjeev Sancheti: I think you are comparing the top line with the bottom line? Two crores of top line does not translate into Rs 2 crores of profit. So there are expenditures of different…which are included… operating expenditure is also double in the current year from Rs 154 crores to Rs 387 crores so a lot of this is because of the equipment rental business. Now if you go to the presentation which we have circulated, and go to slide number 14 you will see and if you compare this with the consolidated PAT then you will appreciate that what has gone into bottom line is given there in the PAT numbers for each of the equipment businesses.

Rahul Vekaria: Alright sir so what are the major components in the operating expenditure here?

Sanjeev Sancheti: Operating expenditure will be the whole of the…in Q4 the expenditure would be cost of site rentals, interests, depreciation…mainly depreciation is very large because this is a CAPEX intensive business, so finally if you put all of them together then Q4 construction Equipment had a loss of Rs 6.34 crores, energy had a profit of Rs 3.4 cores and oil & gas had a profit of Rs 1.8 crores. So net-net this is the effect which would go in the bottom line. If you gross it up for tax you will get the numbers. So you are going to take the total top line away from the PBT then obviously that will not give the correct picture. That is the reason also why we have also given separately the standalone and the SREI-BNP profitability so that it is easier for you to understand how the numbers have moved.

Rahul Vekaria: Right. And sir coming to our NIM margins, now I feel we will be passing our cost to our end borrower then with the NIM as you know post this quarter, going ahead do we see this sustainable or we might see some pressures by some project…?

Hemant Kanoria: No, I think overall we should be in a position to maintain this. There may be some 10, 20 basis points down in some quarter, maybe higher in some quarter, but overall we should be in a position to maintain this because as I mentioned it so happens that by the time that we are borrowing and the interest rates on our vendors went in three ways, it is with immediate effect, but the time that we pass it on to our clients, there is a lag on that so therefore you will see 10, 20 basis points plus, minus always.

Rahul Vekaria: So sir, just to get an idea, assuming the rates go up and again in the next week you see what is the lag, what is the time we take to pass on the cost to the end borrowers.

Hemant Kanoria: It is between…about a quarter…

Rahul Vekaria: Sorry sir, I couldn't hear you?

Hemant Kanoria: About a quarter, one quarter.

Rahul Vekaria: And with regard to loans and advances, how much is floating and fixed?

Hemant Kanoria: Basically most of our loans and advances are all floating. We have hardly any fixed which will be close to about 5% to 10% because generally as a matter of policy we usually want to have all the loans and advances to be floating because on the lending side…on the borrowing side also it is floating so therefore it is much better because it helps us to maintain our arbitrage and without compromising on the NIM.

Rahul Vekaria: Right. So what is our incremental cost of borrowing be in this quarter?

Hemant Kanoria: This quarter the average cost of borrowing would be about….

Rahul Vekaria: Incremental cost of borrowing sir…

Hemant Kanoria: Incremental would be about 10-1/2…

Rahul Vekaria: Compared to previous quarter's 8-1/2?

Sanjeev Sancheti: No, not so much difference, it would be anywhere between 50 to 75 basis points…

Rahul Vekaria: Okay. Alright sir, that's it from my side, thanks a lot sir.

Hemant Kanoria: Thanks. Are there any further questions?

Moderator: Yes sir. The next question comes from Mr. Sameer Dalal of Natverlal Sons and Stock Brokers.

Sameer Dalal: Hi Sanjeev, one question I have actually on your standalone business…I wanted to know what is the cost of borrowing that you currently…your standalone is 10.5 is that the number you gave or is that the consolidated number?

Sanjeev Sancheti: The standalone number is there separately. My average cost of borrowing is presently about 10%.

Sameer Dalal: Okay. Again on the standalone only…I want to discuss a bit on the standalone. You have done provisioning of about 12 crores…close to Rs 12 crores is the standalone numbers if I am correct?

Sanjeev Sancheti: Correct.

Sameer Dalal: This is against a loan book…you said your outstanding loan book is about Rs 4,600 crores…correct? That does not add up to the provisioning of 2% which is required right?

Sanjeev Sancheti: 0.25%.

Sameer Dalal: Okay you will need that much…okay.

Sanjeev Sancheti: That's the requirement.

Sameer Dalal: Okay so that's the requirement. So there is no other provisioning you have done in the current quarter?

Sanjeev Sancheti: No, there is no other provisioning because there is no NPA Asset in the books of standalone.

Sameer Dalal: Okay and you said your current outstanding loans are how much you said in that? 4,600 if I am correct

Sanjeev Sancheti: Yeah.

Sameer Dalal: The next question on the…is you tax rate. You have a tax rate on your standalone business for the full year of 37%, 36.7%. Can you…any particular…last year you paid I think 25%...why is that there is a sudden increase in this?

Sanjeev Sancheti: This year in the last quarter we moved from the MAT to normal tax. Normal tax is about 10% higher than MAT. As the whole impact came and sat into the third quarter. Generally we are into MAT…in the last two, three years we have been in MAT, because we have come out of the MAT, there is extra which you see now has come into the tax.

Sameer Dalal: Okay so going forward also, you will now have to…

Sanjeev Sancheti: No, going forward next year, we expect that we will be again in MAT because we are going to have more operating led business which is going to help us to be in MAT.

Sameer Dalal: Okay so again next year…but wouldn't you have that option this year as well because you finished the merger.

Sanjeev Sancheti: The option also depends on whether we are getting quality operating linked portfolio and we will not do a business just for the tax bay. So this time from the beginning of the year we are looking for such business. So I am sure that we will be able to do that.

Sameer Dalal: Okay, the last question that I had is what if for your infrastructure business, on your standalone business what kind of projects are you looking to enter into because a lot of these patients…I am not seeing a lot of investment in the current moment for the sole purpose that the government has been going slow. So where are you focusing on in the present moment and what is your targets for FY12 in disbursements in the standalone?

Hemant Kanoria: See in the standalone basically there is still scope and opportunities in the power sector in the road, taking…

Sameer Dalal: There is opportunity yes, we agree, I mean we all know that if there is…but all these projects are getting delayed quite a bit and because of which a lot of off-take is getting delayed of your funds. So what is your take on it going forward?

Hemant Kanoria: See what has happened is also, the banks are going quite slow now in sanctioning the loans because many of the banks have reached their exposure limit whether it be power or roads etc… so therefore there is still an opportunity and we are basically catering to that gap which exists in the markets because as we see in the market, the kind of project we are looking at and the size which we are looking at is not huge. The market if it is like suppose Rs 200,000 crores or Rs 150,000 crores which is taking place, we are looking at 5, 6, 7,000 crores of disbursement. Therefore that is quite small compared to the large size of the market. Therefore we don't see that should be a problem in getting the business. And we would expect that this year we should have a growth of about 25% to 30% minimum in our disbursement in the standalone, for the standalone portfolio…

Sameer Dalal: This is your net disbursements or your gross disbursements?

Hemant Kanoria: Net disbursements.

Sameer Dalal: And the current disbursements that you have given in the presentation are your gross disbursement growth right?

Sanjeev Sancheti: Yeah, these are gross disbursements.

Sameer Dalal: Okay that's it from me at the moment; I will come back if I have something else.

Hemant Kanoria: Thank you.

Moderator: Thank you sir. Next question comes from Ms. Rachna Doshi from SPA Securities.

Rachna Doshi: Hello…? Good evening everybody. I just needed a clarification on the kind of provisioning that you have on your books apart from the RBI's standard provisioning norms. If you could just run me through that?

Hemant Kanoria: Yeah because it is a standalone and SREI parent, we do not have any provisioning which hides the RBI because our gross and net NPA has been zero in the case of SREI BNP which is SREI Equipment Finance business where our provisioning has been on the standard asset and bad debtor taking together about 98 crores. Out of that standard assets would be about 20. 20 crores is the standard assets and 78 crores is the otherwise.

Rachna Doshi: Okay and if you could run me through the percentages or the standard provisioning that you maintain on your books apart from the 0.25%; I mean the 78 crores how would you go about providing that…what percentage?

Sanjeev Sancheti: Pardon? Can you repeat the question?

Rachna Doshi: Rs 78 crores as a figure…the comment that you made apart from the standard provision…

Hemant Kanoria: It will be about 1.8% net NPA.

Sanjeev Sancheti: Oh you are saying apart from the standard?

Rachna Doshi: Yeah apart from the standard what kind of rates do you use I mean apart from the RBI…whatever RBI has guided. Do you follow the same rates that RBI has guided for provisioning?

Hemant Kanoria: Yeah we have a different provisioning policy. Our provisioning policy is that above 90 days 20%, above 180 days 50%, and 360 days 100%. So that is the provisioning…

Sanjeev Sancheti: That is our minimum provisioning but this year what we have also done is that we have also provided extra on the basis of our estimation of our future cash flow which is more aligning towards the IFRS. So for that itself our provisioning this year is almost about 50 crores; more than what it would have been if we had followed last year's policy.

Rachna Doshi: Alright okay great that's it from me thank you.

Sanjeev Sancheti: Thank you.

Moderator: Thank you sir. I request the participants to press * and 1 for your questions.

Next question comes from Mr. Aditya Singhania from Enam Holdings.

Aditya Singhania: Hi. I just wanted to check on the comment in reply to the previous question about provision for NPL based on expectation of future cash flows. So on IFRS's issue why have you chosen to move to IFRS and is this your…do you sort of actually expect these loans to go bad and hence you have taken provisions or is it just because it is IFRS and this is how it was supposed to be and that you will expect to get write backs in the next couple of years?

Hemant Kanoria: Yeah you are right. We expect to get write backs but you see as far as IFRS because this company is also a joint venture with BNP Paribas. And BNP Paribas are already aligning their accounts as per IFRS globally so therefore they were taking the accounts and doing that. So what we are doing is that we are also bringing that particular gap with the accounting policies which they were following in Paris and what we are doing here. So basically that aligns it to their policies too so that's the reason why we have taken particular steps and you don't see that whatever we have provided for everything will be a write off. The money will definitely come back but this is the most prudent way of accounting that we thought that we would follow.

Aditya Singhania: But if you don't expect them to be problem assets in the future then why the expectations since anyway it is based on management expectation then surely you should have factored that in now?

Hemant Kanoria: Yeah but that is being more conservative because basically we have a separate recovery team. Therefore when we go to the market we recover…sometimes we may recover 80%, sometimes 70%, sometimes 60% so it is very difficult to say that what percentage we will be able to recover. In IFRS you cannot take the past trend and say that this is the percentage that you will be in a position to recover, you just take a call.

Sanjeev Sancheti: So basically as you told yes, this is probably as conservative as one could be on the provision.

Aditya Singhania: But sir, just to understand I appreciate that you have a joint venture and hence you should be in line with what the MNC does, but you have banks in India which are branches of foreign banks and obviously they follow different accounting norms at least the ones that were reported to RBI versus what they have internally. So why have you not chosen to do that? Surely BNP can have their own norms globally and yet, since this is a joint venture, they can have accounting norms for accounting treatment based on local laws because in India no one is going to move to IFRS before FY13.

Hemant Kanoria: No but that is difficult to say because the point is that there is always the talk that is going on as to when the IFRS will get implemented. We don't know, suppose it gets implemented next year only or if it is getting implemented year after that. So it is much better to do the training and get the things factored; so therefore there are no surprises which come up later on and that is what we have always been as a policy following in SREI that we want to be conservative on the provisioning and then when we get our money back then you know it is always taken in income.

Aditya Singhania: Of course, thank you. Just one question on the standalone business and on the BNP actually. In the standalone one knows that there is a reasonably sharp decline in net interest income quarter over quarter so are there any one-offs here or is it just merely a lag of cost of funds and yield and on the BNP side there is actually a sharp increase in NII for about 48% QoQ, so if one could understand the drivers in each of the cases?

Sanjeev Sancheti: That of course in the parent if you see, the yield…last year of course because of the high interest portfolio, getting liquidated as explained earlier, the yield has obviously gone down and now it is more at a stable position. As far as the net margins are concerned, obviously the cost of it is there as the costs of have gone up and in SREI tenant we have not increased the PLR, which we have just increased now and the effect of which is going to come in the current quarter. Not this quarter, but the next quarter we will probably catch up on the…as far as the parent is concerned.

Aditya Singhania: Okay and on the BNP JV?

Sanjeev Sancheti: On the BNP JV there are a couple of things. One is that there is a difference in the yield and one of the reasons could be on because we do the yield calculation on an average basis. So unless we look at an actual daily yield kind of a situation. It is difficult to be analyzing that. As I had spoken to you, we will come back to you on the exact working of that yield.

Aditya Singhania: Okay and just to take the next 12 to 24 months ahead what is the normalized level of NIM or sort of margins in whatever way you look at them, spreads or margins for the next 12 to 24 months? In each of these businesses if you could give us some sense?

Sanjeev Sancheti: I think the Equipment Finance should be closer to 4% and the Project Finance may be about 25 basis points lower than that. 25 to 50 basis points lower than that.

Aditya Singhania: Okay thank you.

Moderator: Thank you sir. I request the participants to press * and 1 for your questions. Next question comes from Mr. Abhishek Soni from Canara Robeco Mutual Fund.

Abhishek Soni: Good evening sir. I have a couple of questions, first on the SREI-BNP Joint venture. The latest number showing a leverage of 7 times and we have also seen a connection from an agency rating so is there any plans of capital infusion into the JV in immediate terms?

Hemant Kanoria: Yeah we are looking at it and both the partners, the shareholders will be deciding what to do. But definitely we are going to and I think we are going to get from both SREI and BNP we would be in a position to participate since I now equity or whatever is required.

Abhishek Soni: Okay and the second question is on the road map for monetization of various road projects what we are having today…so what kind of strategy management we have on that?

Hemant Kanoria: You see basically on the road projects past monetization would take place and as many of the road projects are in the process of starting the toll therefore we are just waiting for it and as soon as the toll of some of the projects start further then the valuation we should be getting better. So therefore getting the appropriate value is what we are waiting for and this year we may see…we are looking at it and we are speaking to some of the strategic investors, some of the key investors all who have shown interest in the portfolio. So this year we definitely would look at part monetization.

Abhishek Soni: Okay fine thanks a lot that's it from my side.

Moderator: Thank you sir. Next question comes from Mr. Ritesh Nambiar from UTI Mutual Fund.

Ritesh Nambiar: Good evening sir. Part of my question regarding leverage was answered earlier. The other part is regarding the same…SREI-BNP JV, wanted to know…in fact if I look at the gross NPA and the net NPA, the PCR looks quite low unlike the provisioning which you have done that we discussed earlier, unlike any bank which has a 70% norm. Generally it is quite abysmally low for your JV so any thoughts on that?

Sanjeev Sancheti: What is low? Can you just repeat? What is low?

Ritesh Nambiar: In fact provision cover ratio, if I look into the gross and net NPA…

Sanjeev Sancheti: Okay…net to gross? It would really depend on what bucket of NPA…if it is a 90-day bucket, then obviously the provisioning will only be 20%. So it is really dynamic you know. So if some portion of it is in 90 days, it is a very dynamic calculation but these are the actual numbers and then whatever…in fact our provisioning is more than what is stipulated by RBI). So I don't…see the other thing is that because we have started main provisioning on man-management estimates. So even on a conservative basis if we have made a small presentation on companies, the whole of that asset becomes an NPA asset. So as per the management estimates we have made 10% provision, the 100% itself will become a NPA. So it could be because of that also.

Ritesh Nambiar: Because I was looking at the net NPA level from a capitalization point of view also…suppose 1.8% of the asset is stripped off from the networth also the leverage also increases quite high…in fact becomes nine times the borrowing. So coming to the earlier question which my colleague had asked, you are definitely planning for an equity infusion and what kind of quantum are you planning to raise.

Hemant Kanoria: It would be basically…that is what we are in the process of discussion with the…between the share holders and it would be just to allow us that this year's growth and so that the growth is not impeded in any manner so therefore we would try to bring in the equity…it can be in…we don't have to bring the entire equity at one-time. So we will see…it can be anywhere between 100 and 200 to start off with.

Ritesh Nambiar: And BNP is 100% there in the JV no plans for their…?

Hemant Kanoria: They are there…they are totally there with us.

Ritesh Nambiar: Okay then thanks a lot sir.

Moderator: Thank you sir. Next question comes from Mr. Kunal Shah from Edelweiss.

Kunal Shah: Good evening sir. Sir, two questions, firstly on the standalone side, if I look at the networth, networth is approximately Rs 2,500 crores. If I look at the specific investments, those are almost like Rs 2,000 crores. So if I were to really look at the pre-networth which would be evaluated by certain credit rating agencies, that is what is limited for the targets of loan book which we are planning to scale up. Have we heard anything from credit rating agencies with respect to these kinds of investments against the networth of Rs 2,500 crores and mostly strategic long-term investments which are there?

Hemant Kanoria: No that is not an issue because if you see the quality of the portfolio is very good and that is the reason why the rating institutions and they have evaluated it and they have seen the quality and the value which lies…the latent value which is there in that particular portfolio is quite high which brings in the comfort both for the rating institution and for us that it is a heavy portfolio and therefore it is not going to affect the rating in any manner.

Kunal Shah: Okay and sir the other thing is…definitely in this quarter also the volatility in earnings still continue prior three, four quarters we have been seeing M to M, last quarter again mainly because the Q4 thing not being there, then NIMs were lower and this time again the hedge I think has incurred a huge loss of 14 odd crores which is taking the consolidated profits lower…and I think the networth in Sahej is now negative so any guidance with respect to how much was the and what is there…and could we see any kind of unexpected things coming through on the integration of Quippo with SREI, maybe this quarter definitely there is not much of loss apart from Indian operations…L&T has got…besides this do we see any negative coming through in the coming quarters from Quippo or say some other subsidiary like Sahaj or something.

Hemant Kanoria: No we don't see that in the coming quarters that there will be something that will be substantially different than what we are projecting and there are no surprises which is going to come from either side. It is the hedge…what has basically happened that there was a certain write-offs and all which had been taken as a one-time and it is not going to be a continuous kind of a thing. So with the kind of investment which has been made, in Sahaj, we see that it has a good future, but initially they are investments, which need to be made and that is what is being done and if there are certain write-offs on certain accounts which had happened only as a one-time…

Kunal Shah: Okay and now sir, say there is a networth of say negative Rs 12 crores in Sahaj and against that there is debt of almost 150 odd crores, so do we see some kind of equity infusion also coming through because there does not seem to be like much profit or the breakeven kind of level in FY12. So is it like we are expecting good profitability in Sahaj or do we need to put in more money from SREI in order to fund this negative networth and see that service them?

Hemant Kanoria: No we don't need to increase any equity further in Sahaj. What we are going to do is that since the business is already on track and because there was certain government subsidies and all which are available in that and which is coming in and that is sometimes, time to time it gets a little delayed; so therefore on a very conservative basis, we do not take it into income and tell it unless we are sure about it that it is going to come in. Therefore we have seen this kind of effect for this year but for the next year we don't see that there would be any equity infusion required or we don't see that there will be losses that we will get into.

Kunal Shah: Okay and sir, how much would be the debt of Q4 which would have come into the consolidated balance sheet because the standalone debt is…

Sanjeev Sancheti: About Rs 800 crores.

Kunal Shah: Okay. Sir of this borrowing which is there in the joint venture of the Rs 7,700 crores, that 50% would be say another 3,800 and our standalone borrowing is say Rs 5,200 so almost Rs 9,000 is that and another Rs 1,000 is coming from say Quippo…Rs 800 odd crores?

Sanjeev: Yes.

Kunal Shah: Okay sir.

Sanjeev: Thank you.

Moderator: Thank you sir. I request the participants to press * and 1 for your questions. There are no further questions. Now I had over the floor to Ms. Divyanshi Dayanand for closing comments.

Divyanshi Dayanand: On behalf of SBI Cap Securities, I thank the management of SREI Infrastructure for joining the call. Thank you sir. Thank you everyone for being on the conference call. I think we can close the call now.

Sanjeev Sancheti: Thank you.

Hemant Kanoria: Thank you.

Moderator: Thank you madam, thank you sir. Ladies and gentlemen this concludes your conference for today, thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.