



“SREI Infrastructure Finance Limited Q4 FY 2015 Earning Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Srei Infrastructure Finance Limited Q4 FY 2015 earning conference call, hosted by IDFC Securities Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Mahrukh Adajania from IDFC Securities. Thank you and over to you, Madam!

Mahrukh Adajania: Good morning everyone. Welcome to this conference call on Srei Infra results. We have with us Mr. Sunil Kanoria, and his team to discuss Srei Infra’s results. I will hand over the session to them now. Over to you Sunil Sir!

Sunil Kanoria: Thank you very much. This is Sunil Kanoria. If you look at the last year, it had been a challenging year especially for the infrastructure financing business. The group disbursements have been almost flat around Rs.12546 Crores compared to Rs.12706 Crores in the previous year. The equipment finance out of that was Rs.7719 Crores, and project finance of Rs.4827 Crores. In terms of the profitability, again the overall income was almost flat with a few percentage increase and the profit after tax on a consolidated basis was Rs.129 Crores against Rs.139 Crores of the previous year primarily because of the cost of risk and the provisions, which have hit the bottomline in the current year. The net NPA for equipment financing is 3.64% and for project financing it is 3.75% and overall gross NPA is closer to 4.7% and 4.6% in respective cases.

Basically, if you look at the year which went by although we have had a new government, there is a good positive talk, but on the ground, we have seen slow improvement, the regulatory systems are evolving and changing, but the impact of that has not yet reached the ground level, especially in the roads and power sector it has been slow, we were anticipating in the roads sector the regulatory framework would change, exits would be allowed, but that has not yet happened, we are hoping that in the next couple of months, we may see that. As a result of that some of the projects in the road sector became NPA in the previous year in the year ended March 2015. We are hoping that some of those projects should revive and we may be able to recover the dues and the project going forward.

In terms of the balance sheet of Srei BNP, the interest earning assets was about Rs.18300 Crores. The return on average networth came down to 7.2% compared to the previous year of 11.3% and capital adequacy of 17.1% with the leverage of 5.28%, the leverage almost was also at the same level. In terms of the income in Srei BNP, the profit came down to Rs.153 Crores after tax from Rs.225 Crores primarily because of the provisions and higher write-off and reversal of interest income during the year. In the infrastructure project side

again the assets were almost flat with a very nominal growth and return on average networth was 3.4%. Primarily where we had a little income was from our investments. Our leverage was almost flat and capital adequacy of 17%. In terms of profitability we had a higher PAT on an overall basis, although for the quarter it was low at Rs.91 Crores against Rs.59 Crores for the previous year primarily due to the income we had in June, July last year out of the exit from our Kingfisher loan from the investment which we had, also exit from one or two investments helped us to have the profitability, the major was MTM provisions and reversal of income which hit the top bottomline in the current year.

In terms of our investments primarily our Viom as a business, the business has done very well, we have had a record profit after tax in the business of almost Rs.250 Crores, the EBTIDA of over Rs.1800 Crores, which we had anticipated and the business was in a strong footing with the data growth we are seeing tenancy growth continuously happening. In terms of our strategy as we have said in the past that we are exploring various options, we are working hard towards it in terms of selling some of our stake either through an IPO process or through a strategic sale, we have not yet been able to finalize any of the working but the work is in progress and we are hoping that we should be able to do it as soon as possible.

In terms of the road investments, we are hoping that some of the exit policies in the current year by the government will be allowed and with that we would want to dispose off, divest some of the other investments, which have been completed. Overall whatever projects have got completed, the tolling is happening well except in one project, which is slightly lower than the projection, but it is overall satisfactory. In terms of power investment with the power distribution that is also doing steady.

Our Sahaj business is hoping to reach EBITDA positive in the current year. We are almost close to that, some of the markets and states have turned EBITDA positive and the revenues have steadily grown.

On a consolidated basis we have closed the year with Rs.129 Crores of profit after tax vis-à-vis Rs.139 Crores. Thank you, these are some of the highlights and if there are any questions, I will be happy to answer.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Vishal Modi from Maybank. Please go ahead.

Vishal Modi:

Good morning. I would like to know about the Rs.177 Crores one time provision or impact that you have done. What does it relate to and whether we have adjusted the full amount against the interest income line?

- Sunil Kanoria:** This is primarily due to some road projects where we have financed and that has gone into challenges and delays, so as a result we have had to reverse the income from the interest income of the tenure and make provisions during this quarter. We were hoping that things would get resolved by the government this quarter, so we were expecting that in the next couple of months the project should get sorted out and resolved.
- Vishal Modi:** So is this one road project?
- Sunil Kanoria:** Two road projects.
- Vishal Modi:** And the provision against it is 164 Crores?
- Sunil Kanoria:** That is right. One is the reversal of income which is the major portion and then the provision on the principals.
- Vishal Modi:** So that is actually leading to increase in your standalone GNPL number, right?
- Sunil Kanoria:** That is right.
- Vishal Modi:** Sir the second question is on the Srei BNP part, despite around 3% - 4% loan growth and increase in margins, the NII is negative 14% YoY so what explains that?
- Sunil Kanoria:** Again primarily it is income reversal you see when you have provisions and the cost of risk. Firstly, you do a reversal of the interest and then you make a provision on the principal and that basically reflects the interest income coming down and shows the negative NII.
- Vishal Modi:** But that should reflect in your yields on funds as well, but that has not dropped substantially so I just was wondering since margins have increased so what has led to this?
- Sunil Kanoria:** We will get it examined.
- Sanjeev Sancheti:** You are talking on net of provision or gross of provision?
- Vishal Modi:** Gross of provision, so 209 Crores is NII for this year last year it was 243, and our margins have gone up from 4.6 to 4.9 so that margins have not decreased so I was just wondering what happened?
- Sunil Kanoria:** But this quarter income reversal primarily.
- Sanjeev Sancheti:** New NPA accounts would result in reversal of income.

- Vishal Modi:** Sir lastly on the fee income part, this quarter we had around 91 odd Crores of fee income, roughly our rate is around 20 odd Crores so what led to this, is it a onetime thing or can we see the sustainable growth of such kind?
- Sanjeev Sancheti:** Generally, it is sustainable but quarter-on-quarter it is difficult to tell because fee income will happen once the stage is completed and it is ready for billing.
- Vishal Modi:** So fourth quarter had that large amount of billing that is what you are saying?
- Sanjeev Sancheti:** Yes, absolutely.
- Vishal Modi:** Similarly the investment income has been increased so this is like we have booked lot in the fourth quarter?
- Sanjeev Sancheti:** Yes, that will always be lumpy.
- Sunil Kanoria:** Both fee and the investment income is both lumpy and difficult to say on a quarter-to-quarter basis.
- Vishal Modi:** That is it from me.
- Moderator:** Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.
- Anita Rangan:** Good morning. Couple of questions on Srei BNP, one thing I would like to know is what is the quantum of restructured assets in this quarter?
- Sunil Kanoria:** We do not immediately have that data in the Srei BNP because that being equipment finance we keep on possessing the asset and disposing or giving it back, but I will just give you the number.
- Sanjeev Sancheti:** On an overall gross basis, I think the restructured book is only about 43 Crores.
- Anita Rangan:** In terms of the gross NPA evolution it is around 4.7% and last quarter it was 4.8% but couple of your competitors have reported like very sharp increase in NPA so what steps have you taken to keep NPAs at this level or is it like a different geographic mix because of fixed NPAs are contained, if you could throw some light?
- Sunil Kanoria:** You see basically because we have been in this equipment financing business for over 25 years now our working is based on the equipment and if the customer does not pay generally we go and repossess the equipment and that is our capability and we are able to

remarket and sell the equipments fairly fast. Secondly which models and which makes we do like we primarily work with good manufactures with better quality machines which are there and that can be sold in the international market basically global manufactures like Caterpillar, Volvo, Komatsu, Hitachi, JCB, so these mostly are able to sell also in the international markets. So therefore what we have done as a group we have auction company, we have a rental company where we rent out the equipment, we auction out not only in India but internationally in the Middle East, in Africa, in South East Asia, so therefore our ability because of our strength in understanding the equipment is strong, our ability to repossess and remarket the asset is where our strength lies in and that has helped us to manage our cost of risk. Yes it has gone up substantially in the last two years with the overall economic environment, but still we have the ability to manage at this, that is what we believe in.

Anita Rangan: What would be the quantum of such repossessed assets in this quarter if you could throw some light?

Sunil Kanoria: Our total repossessed assets about approximately 500 Crores.

Anita Rangan: So what is the timeline in which you can turnaround the assets and typically what is the amount you can recover like entire 500 Crores you can recover or it is like some portion?

Sunil Kanoria: No, we do a mark-to-market, as soon as we repossess an asset, we do a valuation, we have almost 100 yards all over the country, we get an independent assessment done and based on the present market value we make a provision, our provision generally is around 30% and this 500 Crores is post that provision which we make.

Sanjeev Sancheti: So this is mark-to-market every reporting quarter.

Sunil Kanoria: Yes every quarter we keep on making a provision on the repossessed assets and we generally have a stock of three to six months, at times some assets goes a little more but mostly it is between three to six months.

Anita Rangan: Just to understand will this repossessed assets of 500 Crores be a part of the gross NPA or it will be outside of this?

Sunil Kanoria: No, it will not be part of whatever we make a provision for because those assets belong to the company. Now with a mark-to-market we have taken over the asset, so we make impairment test and the valuation test and if the value is lower, we make provision that goes in my provisions. Rest is my assets whenever I am able to either rent it out or refinance or sell, so we have various options in that and that is the way our business model is and that is what differentiate us from a bank. We are an equipment financier, we understand

equipments and assets very well whether the customer survives or not we survive through the equipment.

Anita Rangan: Thank you very much.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: Sir just want to know on your standalone business what portion of advances are not yielding any returns as on date like something which is as a form of mezzanine equity which has been for Viom and something is also for the road projects, so if you could broadly tell us that what portion is not yielding any returns will be helpful to gauge the actual return or to gauge the actual spread on the advances book?

Sunil Kanoria: Basically if you see approximately 3000 odd Crores at the Srei level is where we do not yield any income on a quarter-to-quarter basis.

Bajrang Bafna: But this 3000 Crores is purely in the advances book, which is not yielding anything?

Sunil Kanoria: No, investments and advances.

Bajrang Bafna: Could you just provide the breakup of this how much is the investment and how much is the advances?

Sunil Kanoria: Well that would not be there immediately, well you can say that investments is about 2600 and 2700 Crores so the rest would be advances.

Bajrang Bafna: So around 300 to 400 Crores?

Sunil Kanoria: Yes.

Bajrang Bafna: Viom, how much is there in the advances book as a form of mezzanine equity sort of thing?

Sanjeev Sancheti: No, that is around 300 Crores.

Bajrang Bafna: In roads I think in some of earlier conferences we have highlighted that amount in road is also around 200 to 250 Crores?

Sanjeev Sancheti: Not mezzanine that is interest earning.

Sunil Kanoria: That is interest earning, that is not mezzanine.

- Bajrang Bafna:** No Viom is mezzanine, correct?
- Sanjeev Sancheti:** Viom is not interest earning but the other one is interest earning.
- Bajrang Bafna:** Okay roads are interest earning only?
- Sanjeev Sancheti:** Yes it is interest earning.
- Bajrang Bafna:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.
- Sameer Dalal:** Quick couple of questions. You discussed that one of your road assets has turned into an NPA in the standalone books of a total of 177 Crores including provision, can you break that up was 164 Crores the provisioning for it and what was the write-back of interest on it and can you just give a full breakup of that please?
- Sunil Kanoria:** 30 Crores was the provision and the rest would be the write-back.
- Sameer Dalal:** What was the total funding done to this corporate?
- Sanjeev Sancheti:** 300 Crores.
- Sameer Dalal:** 300 Crores was total funding.
- Sanjeev Sancheti:** That is in the gross NPAs.
- Sameer Dalal:** Sorry, that 300 Crores has gone into gross NPAs of which 30 Crores you provisioned for and you have written back almost 147 Crores of interest income, is it?
- Sunil Kanoria:** Yes.
- Sameer Dalal:** Now you also said that in your Srei BNP 500 Crores is your repossessed book so the NPAs are in addition to that so you have 500 Crores of repossessed plus the NPAs at about 4.8% of the total book?
- Sunil Kanoria:** Yes, that is right.
- Sameer Dalal:** So almost over a 1000 Crores of NPAs there as well, not NPAs but whatever you recovered also at the end of the day was an NPA?

- Sunil Kanoria:** Well that is not the way in this business because that asset is belonging to me and we have impaired the assets so that NPA whatever value was has deteriorated that we have already provided 100% and rest is the asset which we have and it is in my custody and with us.
- Sanjeev Sancheti:** It is being impaired regularly and it is the rolling stock, it is not a stationary stock.
- Sunil Kanoria:** So that is not part of my, I do not have to recover anything, I will deploy it, I will generate earning out of it that is what we will have to do.
- Sameer Dalal:** Now on Viom also I have a question. Viom it shows that you have got a cash profit of a 1000 Crores if I see you have repaid debt of about say closer to 400 Crores that leaves 600 Crores of cash on the balance sheet, what are the plans with that 600 Crores of cash, are you going to payout some sort of dividends from Viom which has not happened in the last four years or what exactly is plan with that?
- Sunil Kanoria:** Well for March 2015 we have not proposed any dividend, the board will like to retain this money in the company at this stage. We see a good growth happening going forward both in the data side and also we would look at inorganic growth and looking at some possible acquisitions so therefore we would like to retain the cash in the company.
- Sameer Dalal:** So can you tell us what the cash levels are in Viom at the moment as of FY 2015?
- Sunil Kanoria:** As you rightly said that 500 – 600 Crores we have surplus.
- Sameer Dalal:** It is about 600 right now?
- Sunil Kanoria:** Yes, and we have the ability because my debt has come down I have the ability to grow further, my EBITDA can sustain because my EBITDA is growing at 15% - 18% from 1800 Crores for March 2015 so therefore we see a good strong growth happening going forward plus also what we have been able to do is our debt which was at an average maturity of three, three and a half years we have been able to because we have a steady long-term cash flow we have been able to work with the banks to do some securitization and expand it to ten years, so therefore I do not have any stress at all on cash flows on my repayments going forward, it is well balanced, we should continuously throw good cash year-on-year going forward.
- Sameer Dalal:** Now on the Viom also another question in your presentation you said that you have got some reengineered ultra light towers with 50% lower capex requirement, you have 1500 those kind of towers, can you give us what exactly is the cost of those towers, what kind of occupancy can be taken on these towers, are they roof top based, are they ground based, what exactly are these towers in some?

- Sunil Kanoria:** Well we are talking about ground based. It costs around Rs.10 lakh to Rs.11 lakh and we basically are able to take two tenant easily and for the third we have to do a modular because it is a modular structure I can take third, fourth, fifth also, I would just have to do a very small capex on it to upgrade my power capacity that is it.
- Sameer Dalal:** So you have now reached 1500 towers of this size, would it be safe to assume that the 650 towers that you added in the current financial year were all of this nature?
- Sunil Kanoria:** Well yes more or less all that except a few may be upgrades of the existing towers otherwise mostly that now we only build the low cost towers.
- Sameer Dalal:** Lastly you had signed up with Reliance Jio for the telecom towers, can you give us some light, have they started occupying any of your towers yet or still it is in under process and under consideration from them?
- Sunil Kanoria:** No I think they are our largest customers now last year and they have already hung their equipments and they are paying us our rentals on a regular basis.
- Sameer Dalal:** So this 2.37 tenancy that you have come is inclusive of everything that you have signed with them or it can the tenancy actually go up right now with Reliance Jio?
- Sunil Kanoria:** Yes, it is going up month-on-month. It is continuously rolling, we have done I think 7000 – 8000 already till March and the progress is continuously on, on a monthly basis.
- Sameer Dalal:** And how many have they committed to use your towers how many of the 43000 that have they committed to you?
- Sunil Kanoria:** Well see it is basically we have signed up an open agreement wherever my site is and wherever they need they come and take it, so it is a continuous ongoing process, the commitment is an open agreement. If I have a site I can build a site for them, they come and take it, it is a master agreement, in these things we do a master agreement and then wherever they need a site they see if my site is there they take it.
- Sanjeev Sancheti:** It is 4000 plus already.
- Sunil Kanoria:** 4500 they have already hung and 7000 is where we were working on till March where they have given us that these are the places where we have to hang their equipments.
- Sameer Dalal:** Can you repeat that Sanjeev, 2500 you said you already done and how much have they committed?

- Sanjeev Sancheti:** 4500 is already there.
- Sunil Kanoria:** 4500 is where our revenue has started, they have identified 7000 total by March, what happens in the process here once they take lat long, they identify and they confirm and then they start to work onto put their equipment so there is a time lag of maybe 30 to 60 days in finally hanging the equipment. So overall till March end 7000 sites have been identified and confirmed by them, 4500 approximately they have already hung and the revenue started, rest the revenue will start in the next one or two months.
- Sameer Dalal:** Sunil, one last question when we had last spoken you had mentioned that because of the deallocation of the coal blocks there were three corporates that you are lent who would face some sort of problems which could lead to further NPAs increasing in your infrastructure lending book, can you give us some information on what is happening with those three accounts, do you see any problems, do you see further NPA problems increasing for your standalone book in the current financial year?
- Sunil Kanoria:** Well it is very difficult to say at this stage. We are closely watching. We are hoping that various policies of the government would help in resolving many of the projects, which are stuck. In terms of coal my sense is that in sometime whether it takes six months, one year, eighteen months, difficult to say but in sometime there will be reasonably enough coal available to all the power plants existing today and the price may go up through auctions or whatever process but the availability of coal would be there so the PLF should start to go up maybe by end of this year we may see that. So slowly issues are getting resolved, it has been slow but we believe that power is something, which would get addressed, in the next year or so.
- Sameer Dalal:** Can you give us the numbers on what kind of loans have been given to companies which have been affected by this coal de-allocation, what is your exposure to that?
- Sunil Kanoria:** Difficult to say at this juncture, I am sorry.
- Sameer Dalal:** That is fine. I will come back to queue if I have any further. Thanks.
- Moderator:** Thank you. The next question is from the line of Parag Jariwala from Religare Capital Market.
- Parag Jariwala:** Thanks for the question. You highlighted that you have repossessed CE stock is around 500 Crores and you take write off on a quarterly basis or monthly basis, so I just wanted to understand say because currently you also highlighted and we also largely know that things have not yet improved so far as the ground reality is concerned. So can you just bifurcate say if there is as specializing equipment what kind of write off you generally take till you

put it to some different use or till you sell it in the market, would it be different for a specialized equipment and something which is widely used like dumpers, tippers, etc?

Sunil Kanoria: Well as I said that average what we have experienced is about 30% is the impairment we do on the overall assets, some assets has an impairment of only 5% to 10%, some can go up to 40% - 50%, but average in the last couple of years, earlier it used to be about 20% to 25% in the last two years it has gone up to around 30%.

Parag Jariwala: This 30% is till it has been put to a different use may it be three months or six months whatever it is on an average?

Sunil Kanoria: But every quarter we do the impairment test not on a monthly basis but every quarter we assess that if we have stocks, which are not sold or not disposed off and if we find that the value is lower then we make that provision.

Parag Jariwala: Correct even after accounting all these things, it is just 30%, right?

Sunil Kanoria: That is right.

Parag Jariwala: Is it fair to assume that assets which can be easily put to a different use there the impairment would be slightly, lower?

Sunil Kanoria: It basically depends on the model. I will give you an example, we sold off whole lot of mining equipments of Komatsu, Caterpillar and all into Indonesia I made a profit out of that. So that profit retains with me because once I have repossessed the asset, asset is mine and whatever price I get is my earning, so it depends on the product, depends on the manufacturers and that is why I said that we specialize in understanding the product yes tides in the markets are low it sells less, we have started to see a little improvement in the last one month on used equipment demand is picking up in the last month or so and we expect that what many of the contractors medium and small contractors would do is to do a blend now going forward because there are capital constraints which people have to get used equipment to do the project as the economy starts to pick up. And if not here as I said that we have set up a base now in Dubai, we are selling the assets in Africa through our Dubai network, we have a strong auction house through which we do and we also rent out equipments so many equipments out of this we have taken and rented it out and earning money on a monthly basis through our Quippo rental.

Parag Jariwala: And can you in terms of assets whichever is there presently in the construction equipment business roughly can you bifurcate in terms of which of the states are geographies where the problem is higher and which of the geographies are performing better than the average?

Sunil Kanoria: Well Andhra is the most challenging, if we look at the overall country because Andhra is where the major sales of construction equipment happens and that is where the largest number of construction companies and contractors emanate from, so Andhra is definitely a challenge and then with the bifurcation of two states that pose the challenge so there have been lot of disturbances there which has had an impact there.

Parag Jariwala: How about the performance of the mining belt like Odisha or Karnataka, Goa states?

Sunil Kanoria: Well mining has started to improve now in the last month or so only. Odisha a few mines started to open up but overall if I see last year and that is where the problem happened. We are the largest, we must be the largest financiers of equipments to the mining sector in the country and therefore we saw challenges in the last two, two and a half years with the kind of mines closing down that hit our customers heavily. We have had small contractors committing suicide in the last two years, which never gets reported, so it has been very, very challenging time. In our 25 years of experience, I have never seen such challenging times as what we saw in the last two, to three years. We are hoping with the mining sector opening up with the new bill coming up there is a good hope and I would say that in the equipments business it is the mining sector which will show the first signs of growth before the construction equipment sector.

Parag Jariwala: One last question, I know that you cannot strictly comment on the competition, but what has been reported by one of the large CV financier in terms of their equipment finance subsidiary so they said that around 5000 odd contract has defaulted so that is extremely distinguished between what kind of NPAs you are reporting, but do you see because of such a high delinquency there may be a huge selling of equipments which may get repossessed and sold in the market, do you see some pressure on resale price or in terms of whatever you can highlight in terms of that episode?

Sunil Kanoria: Well we have seen the pressure on the resale price in the last two, two and a half years I would say it would start to improve now. To my mind, we have seen the worst, we may see another in terms of next two to three more quarters, the recovery is slow but I think post September we should start to see a little better result.

Parag Jariwala: Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Jigar Shah from Maybank. Please go ahead.

Jigar Shah: My question pertains to the investment portfolio. Apart from Viom and the Sahaj and the SEZ property portfolio, what is the future outlook for that and what kind of clarity is

available in terms of return on investment as well as on the monetization of some of the investment if you can share some light on that that will be important?

Sunil Kanoria: As I said our major investment is in the telecom tower, Viom, and my roads both we are intending to divest partly to encash some of the investments, the efforts have been on in both, markets have not been so strong and supportive in the road sector. Telecom yes it has become very strong and we are in work-in-progress, it takes time, many a times to do certain transactions with certain business with the processes on. We had thought that by March we should be able to close it but it has not happened, we hope that in this year we should be able to do it. Roads again we are exploring various possibilities, I feel that once the government comes out with a clear policy on exits that is when the markets would start to see the demand for such assets. Today to do a transaction in a road becomes very difficult because the amount of approvals and clearances which is required is very very challenging and time consuming so we are evaluating in both these to focus during this year to get some encashment.

Jigar Shah: What about Sahaj and the property assets that you have?

Sunil Kanoria: The SEZ will take time, these are good assets, we have completed our land acquisition etc., now it is the development we have to do, so we have started work on it to do certain development there and start to build up. I would say we have kept it more from a two to four years of horizon.

Jigar Shah: The other question that I have is regarding the increase in NPL it will have in FY15 versus FY14, so in the current year do you expect something similar like what happened with one of the road projects last year, so are there any potential risk areas that you see or you believe that the incremental basis the NPL should come down?

Sunil Kanoria: I still see next few more quarters to be challenging before things move up.

Jigar Shah: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan.

Saurabh Kumar: Good morning. My question is on the repossessed stock of Rs.500 Crores. So, you said that you basically mark it down by about 30% and then try to either rent it out or maybe sell it, but I would assume this would be rolling. So over a period of maybe under what timeframe do you think you basically sell this entire stock off?

Sunil Kanoria: It is a rolling stock as you rightly said and therefore as I said my average age of my repo is three to six months.

- Saurabh Kumar:** So, in six months you can sell the stock?
- Sunil Kanoria:** Yes, in six months you sell, then you repossess more. Now it depends on, whether your inflow is higher or your lift rate is higher. Based on that the quantum will get determined. In the past, two years back our average stock used to be about 200 to 250 Crores. If I take the last five to seven years, today my portfolio is large and as a percentage of the overall portfolio and given the slowdown in economy, the quantum of repossessed assets is higher. So your inflow is higher, but it keeps on circulating. It is rolling stock.
- Saurabh Kumar:** Basically for this repossession of 500 Crores which is there, basically when you try to sell this to a customer, so I am assuming 30% is the impairments you have taken, the valuation of this would be more like 600 to 700 Crores. I mean that would happen?
- Sunil Kanoria:** Absolutely right.
- Saurabh Kumar:** Okay and this valuation is done by you internally every quarter. That is your own estimate?
- Sunil Kanoria:** Yes, we have the database for the last 25 years, there is no other valuer or entity who has that database.
- Saurabh Kumar:** Sir, the NPA on this road project which has come in, so you said that you have provided some thing and you do expect this to probably turnaround, so I am trying to get your thoughts. Under what timeframe do you think that assets starts becoming performing again now?
- Sunil Kanoria:** It depends on the government.
- Saurabh Kumar:** So where is this project struck? Is it like last mile funding you did on this?
- Sunil Kanoria:** No, it was not a last mile funding. The projects you know in India so many projects are struck, roads, power and all, but primarily in the roads, for land issues, or environment issues or clearances...
- Saurabh Kumar:** Term loans?
- Sunil Kanoria:** The normal term loan on the project, these are project finance loans.
- Saurabh Kumar:** Okay and then on your infrastructure book Sir, your disbursements have been largely flattish but my understanding was like in these books normally, the repayment is not very high. So your loan book can still grow even if your disbursements are flat, but our loan

book has also not grown. So maybe our repayments are very high. Is that understanding correct?

Sunil Kanoria: You see because all our loans are not for a period of 10 to 15 years, we do a match-to-match to our liability side, therefore we work out in assets where we get them refinanced.

Saurabh Kumar: So most of this will be mixed financing?

Sunil Kanoria: This all is mixed. I would not say that, some mix some secured. It is different forms.

Saurabh Kumar: And just forecasting on the communications book has grown significantly obviously. It is still not huge, 12% of your overall book, but why would that happened over the last two years. This is on slide #24.

Sunil Kanoria: Communication, I will have to get it examined. I do not see that we have done much there, but we will get it examined.

Saurabh Kumar: Just last two questions; one is on Sahaj can you share some revenue and profits for this year, I mean, how much, we are just trying to assess what is the potential value of this entity?

Sunil Kanoria: Revenue was about 80 Crores.

Sanjeev Sancheti: 80 Crores of revenue, EBITDA was about 6 to 7 Crores.

Sunil Kanoria: About 80 Crores of revenues, 6 to 7 Crores of EBITDA overall.

Saurabh Kumar: Revenue would have grown by what percentage year-on-year?

Sanjeev Sancheti: Revenue over the last CAGR would be about 45 over the last three years.

Sunil Kanoria: 60 to 80.

Saurabh Kumar: 45% over FY 2014.

Sunil Kanoria: Yes. We have seen a good growth in the rural India especially in some of the services which we are offering like insurance, mutual fund, financial institution, banking correspondence, these activities are picking up well. It gets kind of skewed to some of this thing, as I said wherever government services have started to come in like UP, we are the overall state we have about 7000 -8000 centers, it is doing quite well, because there is a lot of government digitization, which has happened. In states like Assam and Bihar, digitization by

government is very slow. So therefore the revenue growth is slow. We do not make that much of money in the government services but what happens that it gives you the footfall and then you are able to sell lot of to other services.

Saurabh Kumar: Sir, just lastly on Viom, I am just trying to understand what can be the potential accretion to you in case this does get listed. So, can you confirm of this 1598 Crores which is invested in Viom how much will be by way of equity and how much will be by way of financing?

Kishore Lodha: This 1598 is full equity.

Saurabh Kumar: Full equity. So there is no financing over and above this?

Sunil Kanoria: No financing.

Saurabh Kumar: The percentage stake that Srei will own in this will be how much?

Sunil Kanoria: This 1598 is about 11%.

Saurabh Kumar: 11% at cost?

Kishore Lodha: Yes.

Saurabh Kumar: Thank you very much.

Moderator: Thank you. The next question is from the line of Yash Agarwal from Crest Capital.

Yash Agarwal: When I last met, I think Sanjeev you had told me about the road companies you are going to make a holding company and do a stake sale or IPO, so anything about that plan?

Sanjeev Sancheti: That work is also going on. We are working on that, but you see the thing is that the sector has to show positive sign and that sector is still waiting for some of the policy changes by the government. You see what happened is that when the old concession agreements, which were there in the past on the roads, the exit were not allowed. What the industry is seeking from the government is government is working on that and has assured that they are going to come out fast is to allow exit to people who want to get out or who want to sell their stakes. So that is what the change if it happens and plus some of the land acquisition issue is a big issue. We are seeing the bill is still pending in the Parliament and delays in land acquisition delays the project heavily.

Yash Agarwal: Any outlook for FY 2016 in terms of loan book growth or anything?

Sunil Kanoria: Well we have a very cautious approach for the current year, we would want the government to, see that how things are able to shape up, I would say the growth still this year would be subdued. We may see a better improvement in the second half of this year depending on how the government is able to work on in the next few months, but we would like to have a cautious approach.

Yash Agarwal: Can we expect the Viom stake sale to happen in this financial year?

Sunil Kanoria: Well, I would love to do that.

Yash Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Sir, off late it has been talked about so many times from Srei that we will have a firm policy in place that what percentage of networth post exit of couple of investments like Viom and all, we will have a firm policy in place that what proportion should be invested in nonrelated assets. So any sort of that has already been decided or can we hear in this financial year that either 25% or 30% of our networth will be invested in the nonrelated businesses, which will provide a lot of comfort to investors?

Sunil Kanoria: Let me tell you we do not make investment in nonrelated assets. All our investments, our entire business model and we have shared it in the past also, our entire business model is into financing infrastructure assets and that are equipments and projects and that is where our focus would continue to happen going forward also. Now the investments can be by way of loan, by way of mezzanine or by way of equity. These are only methods and products of investing in the sector. Yes, the equity does not give us a quarter-to-quarter return but it can give us a good return over a period of time to help us to generate capital gains into the company and whenever I need capital we can look at that rather than going and diluting and raising capital again and again. So our overall business model comprises of investments, equity investments, loans, and mezzanine all, so that we are able to give a product mix. Yes in the past due to the merger of Quippo into Srei, the investment book has gone up, the equity investment book, which we would like to correct so that we are able to sustain those investments once we are able to exit Viom so therefore the board and the company is cognizant of that and continuously monitoring. You will find that we have not increased the investment book over the March 2014 to March 2015 book. We would continue to do so to reduce it to be able to ensure that we are in a balanced portfolio.

- Bajrang Bafna:** But any percentage that you put in place so that your return on equity on an overall basis should commensurate with other NBFCs because that is something which is really needed for this market capitalization to swell otherwise you know if we will keep reporting 4% to 5% ROE and we will then probably keep trading below price to book value of 1 because normally that sense prevails in the investors community, so if you could put in place a firm policy that either 25% or 30% or even 50% that will give a lot of comfort because anybody can then do this modeling in their excels and probably can work out with projections in a much better manner. So I think that will be very helpful in long run for the company.
- Sunil Kanoria:** We take your point. We agree that we have to put this thing although at the moment we are very closely monitoring our investments through our investment committee and the board is very cognizant of that and we will ensure we would want to improve our return on equity to ensure that ROEs are improved overtime and the investment book does not impact that. So that endeavor will be there going forward.
- Bajrang Bafna:** Sir, last question is could you just share because since the ground realities are not as per the expectation what probably all of us are thinking of but in terms of your book, both in standalone business as well as in the equipment finance business how much further stress that you could envisage over the next two to three quarters?
- Sunil Kanoria:** As I said earlier, I see that the next few quarters still, I would be very cautious and we could have impacts if things do not start to pickup.
- Bajrang Bafna:** Any headline cases that you have currently, which you are monitoring closely?
- Sunil Kanoria:** Very difficult to say that, but we are monitoring the entire portfolio very closely and trying to find solutions to various companies and customers, but yes we feel that next few quarters will continue to be challenging.
- Bajrang Bafna:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.
- Amitabh Sonthalia:** Actually this is Amitabh Sonthalia on behalf of Shubhankar. I must appreciate your continued honesty with which you have always conducted these calls in the past. Srei as a company has managed the risks well in a challenging environment and you have always been quite frank with the investors on these calls, so I must commend you for that. The question I had was on the outlook for FY 2016 the current year. You mentioned in your opening remarks that the environment continues to be challenging and there is not much movement on the ground. So, do you feel that we are still in a cyclical downturn or do you

see any green shoots, number one. Secondly, as far as Srei's business now that you have aggressively provided for lot of NPAs or potential NPAs what is the outlook for the provisioning for the current year? Are you likely to see any uptick in that and some sense on the numbers etc., what one can expect and lastly I must also commend you are probably only NBFC or the financial company in India which has not diluted equity in the last several years as long as one can remember as opposed to other NBFCs who frequently dilute capital and come back to the capital markets almost every year, so I commend you for that? Thanks.

Sunil Kanoria:

Basically I feel that next few quarters are going to be challenging before things start to turnaround on the numbers part. On the ground I feel the government is trying to do a lot of work. They have made statements, they have understood the issues and all. The overall roll out of the changes and effect is happening slowly. Some of the environment clearances have happened, some land issues have been sorted out, but unless some of the key things that the Parliament supports this government to resolve some of the key issues, I think it will be still slow there is a challenge on the liquidity to the infra companies, the banking system has virtually got paralyzed to this sector, so that needs to be opened up, so that people can get working capital. Today a construction company does not even have working capital to do a job, most of them, so that those are challenges, which will take its own course to resolve. Government has to be the first driver for initiating the infra investments and once the money flow starts to happen, lot of money is stuck up in arbitration issues, payment by the government authorities to the contractors, if that starts to pickup I think once that flow happens we can start to see a revival. The advantage is that there is a lot of job to be done. There is a lot of work to be done, projects are there, but if some of these bottlenecks are resolved we can see a hockey stick growth in the next two to three years, but I would say that it could start only post September or October. So with that perspective in this current year in the next few quarters we may continue to have higher NPLs.

Amitabh Sonthalia:

So you do not think for Srei as a group the NPLs have peaked yet?

Sunil Kanoria:

I do not think so.

Amitabh Sonthalia:

You would imagine that the same argument to hold for the sector as a whole?

Sunil Kanoria:

I would say so, at least for the next two to three quarters, yes. Turnaround can happen very fast, if some of the government policies get corrected.

Amitabh Sonthalia:

Just one last quick one on the interest in the banking license which we had earlier, I believe we had applied for the licenses as well is that still pending with the RBI or have we revised

it? Are we looking at the other forms of banking for like payments bank license etc., what is our interest in that sector per se?

Sunil Kanoria: Our banking licensing that chapter is closed. Two companies were given license. I do not think unless new policies and all come up, so that is a whole story and not to be revived at the moment.

Amitabh Sonthalia: Thank you.

Moderator: Thank you. The next question is from the line of Sameer Dalal from Natwarlal & Sons Stock Brokers. Please go ahead.

Sameer Dalal: Just one quick clarification. You said Srei owns 11% of Viom. I mean there has been a lot of disparity. Some say 18%, some people have said 13%, 15% you are saying 11%, can you give us the full breakup of what Srei owns directly, indirectly, how it has owned the Viom. So that clarity comes once in for all please?

Sunil Kanoria: That is the group. The family Srei, everyone holds combined about 18% plus, Srei directly holds 11.5%, which we told you. Rest is sold through our funds, various funds, the family, so all combined we hold effective about 18%.

Sameer Dalal: So, if I were to say if you were to sell this asset outright and if whatever Srei would get only 11.5% and does Srei invest in and has Srei invested in any of the funds, which owns any stake in Viom?

Sunil Kanoria: The fund owns another about 3.5.

Kishore Lodha: Close to 3%.

Sameer Dalal: So for all practical purposes Srei would have direct benefit to 14.5%, is that what you are saying?

Sunil Kanoria: Yes.

Sameer Dalal: In those funds also Srei has the 100% stake or Srei's stake in that is much lower? That is what I am trying to get, if you were to sell how much money of the hundred would come to Srei directly or indirectly?

Sunil Kanoria: Almost all.

Sameer Dalal: Which is what 14.5%?

- Sunil Kanoria:** 14.5.
- Sameer Dalal:** Okay. Thanks that is it.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from IDFC Securities Limited. Please go ahead.
- Mahrukh Adajania:** Sir, I had a question on this road asset, would that be a consortium account because one or two banks said that they had restructured some road assets?
- Sunil Kanoria:** Yes, it is, most of them are consortium.
- Mahrukh Adajania:** But would you have a sense whether some have restructured it or it would be NPL for all?
- Sunil Kanoria:** I cannot comment on that.
- Mahrukh Adajania:** Thank you. Thanks a lot.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Ms. Mahrukh Adajania for closing comments.
- Mahrukh Adajania:** Thank you everyone for participating in this call. Thank you Mr. Sunil Kanoria and his team. Thanks a lot.
- Sunil Kanoria:** Thank you.
- Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.