



“SREI Infrastructure Finance Limited Q2 FY2018 Earning Conference Call”

October 27, 2017



ANALYST:

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MANAGEMENT:

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Arash Arethna:

Good afternoon to all the participants. On behalf of IIFL Capital we thank the management of SREI Infrastructure Finance Limited for giving us the opportunity to host this call. On the call from the management we have with us Mr. Hemant Kanoria, Chairman and Managing Director, Mr. D.K.Vyas, CEO of Equipment Finance, Mr. Sanjeev Sancheti, Chief Strategy Officer, Mr. Kishore Lodha, CFO and Mr. Amit Agarwal, VP, Investor Relations. I would now like to hand it over to the management for opening comments.

Hemant Kanoria:

Thanks. I am Hemant Kanoria here good afternoon and good morning to people who outside India and to start off with I would just like to mention that this quarter as we have been indicating that there has been an improvement, the PAT for the first half year is Rs.162 Crores, a growth of about 43% compared to what it was in the previous year and also there has been a substantial growth on the disbursement. Disbursement has also grown from Rs.7290 Crores, which was there in the corresponding period last year to Rs.10416 Crores whereas standalone PAT has also gone up to Rs.59 Crores compared to Rs.49 Crores and the consolidated income is higher. We have already circulated the financial figures, so therefore I am not going to take too much of time going into the details of the financial. The consolidated asset under management has gone up to Rs.43,000 Crores compared to Rs.36,000 Crores, which was there last year.

So basically overall if we look at it that there has been a marked improvement in the disbursements, overall the business also. The NPLs have been gradually coming down and that has been the working by the company in a consistent way. So overall there has been a good improvement on the financial. The business environment also what we have seen that in the first quarter in spite of the fact that because of the GST, which was introduced there was some setback for a couple of months on the sales of the construction, mining, etc, but still it has not hampered our business growth because subsequent to that things stabilized and so therefore we have had a decent growth in the last quarter also and overall the infrastructure equipment financing business, which is construction, mining has been growing and we see that this trend is going to continue. Our IT equipment financing, financing of medical equipments and agriculture also in modest manner. All these have overall shown growth and the NPLs are under control and I think that this is the most important thing for a financial institution to ensure that the nonperforming loans do not go up. The risks management processes are in place and that is what we have been able to bring a discipline into the entire risk management procedures and the processes and therefore in the last three to four years we have seen for the new businesses the NPLs have been very, very low, so it has been almost below just 1% in the new businesses. The old business has also where we had the NPLs we are on a recovery path both by selling of the



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assets that we had, which we had repossessed whether it was the construction or mining equipments that we had repossessed or we had the properties also with us. So there has been recovery overall in these particular by selling of these assets and realizing on money. On the NPLs also there have been improvement.

In the infrastructure project financing or the SREI infra book it says as we have given the indication that they are also we are going to go a little slow because the new project financing is not going to come up very soon because the stress in some of the areas of power and all continues, so we have been very cautious and therefore we have not been increasing our exposure in that. Even to the extent that people are quite gung-ho on solar and wind, but we have always been quite apprehensive that what, how that market will be going, so we have been very cautious and we have not had a huge growth in the financing of solar or wind, so therefore that has also helped the company because of our very well thought through risk management procedures that we have an assessment that we did not go into that area because we see that pains have started coming in. So I think that basically last three to four years whatever actions that we have taken in very concise manner we can say that risk assessment and risk control has substantially improved and we are also in a position to preempt where things may go wrong.

Being in the sector for almost about three decades, so we are not making those mistakes, which many other people, new entrants or many people who are there in this particular business may be making, so that one very good news for the company in general because in a financial institution the risk assessment and management is very, very critical, so that we have been able to put in a very strong discipline. So that is why we have seen, the business has also started growing and one major point that we would like to mention is also that since last year we have been giving the indication that we would be divesting some of our portfolio so we did for Viom, which all of you are aware about it. We also have announced on the equipment finance that we would be raising about Rs.2000 Crores there and by doing an IPO in the equipment finance business, which should happen within March. We have also on the BRNL the road portfolio. We did our IPO, which was successfully concluded before September, so therefore last quarter we have been able to complete that too, so basically the disinvestments of our strategic portfolios that we had that also gradually we are monetizing it in a well thoughtful structured manner so therefore that is also on track. Going forward what we see is that equipment financing business will continue to grow it is and the three, four sectors that we have identified for ourselves the construction, mining, IT equipment, agriculture, healthcare, so these four, five areas we are going to stick to it and we are going to grow in this particular business. Yes definitely, there is another good news for us that because earlier when we were doing the financing it could be only loans and the flexibility, which an NBFC usually had about 15 years back when the client wanted any

kind of a loan they could have had options of taking it either through a financial instrument like a loan or it could be lease, hire purchase, so hire purchase is not there anymore, but at least the leasing business has also picked up and leasing what we see is nothing but it is just a financial transaction, so therefore we do not operate that it is just another option, which is available to the client and that is how we have always looked at it and because of the GST now there is no multiplicity of taxes and therefore it has thrown open a new channel of financing to even very large and good client, so therefore we have been able to through this leasing financial mode. We have been able to get a lot of AAA rated clients also coming to us, so which has got clarified through which way the taxes have got clarified through the GST, which has been introduced, so that is another good opportunity for us to grow our financial loan portfolio.

Overall, I think that these are the major noteworthy update, which is there in this particular quarter especially on the Bharat Road Network and also the announcement of raising Rs.2000 Crores in SREI Equipment Finance. One more point, which before we get into the details of the financials and then the question answers. We would like to mention is that raising money in SREI Equipment Finance is a very thoughtful decision because we see that there is a growth in the equipment financing business, so it is appropriate and today we think that the market is ripe to take up this particular issue and to absorb it and it is better for the company to raise money at the right time and today we feel it is a right time because by the time we are in a position to get the money into our bank, it will be March 2018, so therefore we are well capitalized for the growth for even next year and years subsequent to that and that is the reason why we have announced this and we are moving quite fast. Our objective is that within March we should be in a position to raise this money for next year. Our growth does not get stilted and we are in a position to maintain the pace of growth, which we have been having for the last many quarters in the last couple of years. That has been the reason for our announcement for this Rs.2000 Crores of equity issuance from SREI Equipment Finance. So these were the major updates, so what I would now request is that on the financials Mr. D. K. Vyas, my colleague will just give download on the important financial parameters and what we have achieved.

D. K. Vyas:

Good afternoon to all of you. On the equipment finance our profit has increased from Rs.69 Crores in the first six months of the last year to Rs.110 Crores in the first six months of this financial year. For this quarter the profit has increased from Rs.37 Crores to Rs.60 Crores so there has been a jump in profitability by 64% and year-on-year it is nearly 59% jump in our profit. Our gross NPA continued to show the declining trend. Last year September end we had gross NP of 2.6%, which is reduced to 2.1% and if you look at June 18, 2017 also from gross NPA was 2.3%, which has been further reduced to 2.1% and also the net NPA continued to showing the downtrend where it was last year it was 1.8%, which has come

down to 1.5% and from June it has come down from 1.6% to 1.5%. Cost of risk also has come down from 2.1% last year this quarter to current year this quarter to 1.6%.

Our disbursement growth on equipment financing in this quarter has been 67% and year-on-year basis it is around 55% so as Mr. Hemant said that we are experiencing the growth in equipment financing with improvement in asset quality, which is reflected by way of continued decrease in our NPAs and continued increase in our profitability. If we look at last five to six quarters continuously quarter-on-quarter there has been increase in our profitability as well as decrease in our NPA and improvement in the asset quality. Our return on equity also has gone up on this. If you look at quarter-on-quarter interest earning asset on equipment financing from March 2016 quarter, which was Rs.18,766 Crores, as quarter-on-quarter has improved and today we are at Rs.25,197 Crores and there has been a consistency in improvement in both interest earning asset as well as PAT. The PAT, which was Rs.27 Crores in March 2016 quarter as quarter-on-quarter improved for this quarter Rs.60 Crores and it is not in one quarter the last eight quarters consistently there has been improvement on this asset quality from 2.8%, which was NPA March 2016 and quarter-on-quarter we have been decreasing it gradually from 2.8 and then now it is 2.1%. ROE, which came down to 5.10% due to some challenges, which we had two years back in March 2016, which has gradually been improving and today it is 8.7% and we see the growth trends to continue in these parameters. So that speaks about our growth and growth in terms of asset quality in terms of disbursement and assets in the management and profitability.

Hemant Kanoria: So we have already shared the figures so we are not getting into the numbers anymore and while we are having the Q&A so if there are any questions on the numbers we will be very happy to address them, but if there are no other points from our end, we would like to open it for the question and answers now, so if you can just mention your name and questions will be very happy to address then.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Congrats on the decent set of performance. A couple of questions from my side. First if you can talk about like we are hearing in the media and there is a confirmation also by the company that your company is going to bid for Electrosteel and they are one of the lenders. So what was the thought process there obviously we have been talking in the past that we will not go for the investment so that is one question. Second question is related to like leasing business. Last quarter we spoke that we are going to say leasing business coming in



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after a gap of 15-20 years so what is the potential you are seeing for this leasing business over the next two to three years in? What I mean is that let us say out of today we are 100% financing company, do we expect that may be 50%-60% in leasing company going forward next two to three years. I have one more question I will ask once you reply that.

Hemant Kanoria:

Just to address the two points, which you have raised, one is on the Electrosteel as we have lent money to Electrosteel so the EOI which has been given it is not from the perspective of making further investment for taking over the company, so as a financial institution because we have other companies who are interested, so therefore we are working along with them so that a proper resolution can be given for this particular asset and that as a strategy we see that it is a good strategy because many times the bankers who are there and other lenders, they are not aware about how to deal with an asset. Our biggest advantage in SREI has been that we are just not only a financial institution, but besides being a financial institution we have the detailed operational expertise because we have team members within our team who have the expertise and experience on the asset itself and which we have proven in many of the assets. In this particular case there is no investment, which is going to be made and which we want to clarify that it will be only because there is a partner on the technical side who is coming, so it will only ensure that our money, which is there will be saved and we will get our money along with return plus we will also make a good fee based income on this. The second point, which was mentioned, was about leasing. As I mentioned that leasing is a financial product for us that are how we look at it. It is not that we will be becoming leasing company because we already do equipment rental through Quippo, so SREI will remain as a financial institution. Leasing is only a financial product for our client and you see it gives them an option because many times AAA rated clients, AA rated clients we are not able to reach them because the interest rates requirement for them is so low that it is not worthwhile, but leasing as a product gives them an option to keep it off balance sheet. For us it does not make a difference because when we do our calculation, we do our calculation based on what is the IRR that we are going to get. What is the return on the loan that we are giving, so we considered this also almost like a loan. It is financial product for us and we have structured it in that particular manner. The only advantage that we see now after post GST is that they were multiplicity of taxes, so initially about for the last 10-15 years many of the companies wanted to do this kind of business of leasing AAA rated client, but they were not able to do it because there was tax whammy everywhere, but now there is a clarification because there is just one GST to give an example before 2002-03 before all these multiplicity of taxes came in the leasing business we used to do leasing for IDBI banks that time it was owned by the government directly it was not listed. We did for Tata Steel and all the top companies in India. We used to do a lot of leasing for them, it was a very good financial product, so that is what has given us an option to introduce the



same product, but it will remain as a financial product, it will be assessed as a financial risk that we are assessing as if we are giving a loan so there is just no difference.

Giriraj Daga: Just a followup there. When you say technical partner do you mean by another steel company or like what kind of a technical partner?

Hemant Kanoria: Yes another steel company we cannot disclose at this particular juncture for confidential reasons, but I can only assure you that there is no investment that we are going to make because as we said that all the investments that we have had for the last two to three years our strategy has been for harvesting and not reinvesting so therefore we are still on the harvest mode.

Giriraj Daga: Understood. Sir where is the data point like what is the credit cost guidance for FY2019 in equipment finance and for IPO like you are already sitting on a higher CAR so what is the growth expectation for 2019 and 2020, are we looking at a substantially higher growth in 2019-20 in equipment finance business?

Hemant Kanoria: Because if you see the trend, which has been there now for the last six-seven quarters there has been continued growth in the equipment finance business and if we do not go in for raising equity at the right time we feel that in 2018-19 as I said that we feel that in 2018-19 and 2019-20 we may be constrained for capital and therefore we do not want to get into a situation where we will get constraints from the capital because today very clearly we have the largest market share in this particular business and we do not want that there should be any event, which should happen, which is going to compromise us on a market share and therefore we want to be well prepared.

Giriraj Daga: I understood. What is the credit cost guidance for FY2019?

Hemant Kanoria: I think we have today the cost of risk is 1.6%. Generally we do not give any guidance on that, but we should be improving on this.

Giriraj Daga: Understood. Thanks a lot Sir! All the best.

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

Sameer Dalal: Congratulations on good set of numbers. Couple of questions. The first this lease model that you discussed because of that I think the depreciation is showing higher or is there some other reason for the spike in depreciation?

- Sanjeev Sancheti:** Yes because of that.
- Sameer Dalal:** So going ahead now if you do this lease model how do you see the numbers panning out, would it make more sense to look at the way you present your NIs on your presentation minus the depreciation that would be a true NII or also if what percentage of depreciation is attributed to the lease model and what percent is the normal depreciation of the company would have?
- Hemant Kanoria:** I think the way we present investor presentation that is the right way to look at because in lease the depreciation is part of your installment in principal repayment and the second thing is that as far as you are saying what is the second part of the question?
- Sameer Dalal:** If you can just bifurcate what is the depreciation of the company versus the depreciation of this lease model?
- Sanjeev Sancheti:** Company depreciation is very small because it is just office assets and all I mean large part of the depreciation is for the lease.
- Sameer Dalal:** Now coming back to the first question, the gentlemen was asking earlier the Electrosteel you said there is some sort of partnership, but you would not be making an investment and just wanted to know so if you are not going to be making an investment what would you be doing, you see funding the new person who is buying out Electrosteel how exactly would the deal be structured?
- Hemant Kanoria:** See it is too early to say that because it was only an expression of interest, which was invited. The partner that we have partnered with, which is a steel company, they are financially quite robust, so therefore there would be more it will be like a fee based income for us may be some loan that we can give to them if there is an opportunity, which arises because it will be very safe loan that we can give and also it will protect our loan because the company is good company and it has gone into fall because of very high interest so therefore once the paring down of interest and the restructuring takes places in the company, the company will be back to normal because we have done a detailed assessment and evaluation and as I said that the only guidance that we can give at this particular juncture is that it is not an investment proposition for us.
- Sameer Dalal:** What is the exposure to Electrosteel steel Sir?
- Hemant Kanoria:** We are basically in the group we have Electrosteel Steel, we have Electrosteel casting so we have properties, so therefore overall if you look at it we have about Rs.500-600 Crores, but

then there is also in Electrosteel casting will be about Rs.150 Crores then we have property against which all the money and all is coming so the only problem, which has been there in Electrosteel Steel Steel, but we have not had any issues because they have been servicing our loans regularly.

Sameer Dalal: What is that exposure if you can quantify that?

Hemant Kanoria: We can get back to you on the exact amount because there have been some repayments and all which has happened on September 30, 2017 also, , we do not want to go wrong on the figures so we will get back to you on the exact figures.

Sameer Dalal: The last question you mentioned that you want to raise Rs.2000 Crores in subsidiary that is your equipment financing business it might still be early days, but what kind of equity dilution we are looking at? Given that the parent company's market cap itself is about it is closer to Rs.5000 odd Crores, so if you are looking to raise Rs.2000 Crores how much of the equity of the subsidiary would you be looking to that?

Hemant Kanoria: So basically we have to dilute 25% to make it listed, so therefore there will be 25% offer, which will be there and into the market so we have not yet decided how what will be the proportion between the primary and the secondary, but 25% is mandated by SEBI so therefore, we have to offer it and we expect that for Rs.2000 Crores 25% will be about Rs.2000 Crores.

Sameer Dalal: There will be listing subsidiary at Rs.8000 Crores for market cap and the parent market cap is Rs.5000 so I am just wondering it would be possible to raise those kinds of funds in those valuation.

D. K. Vyas: That is what the investment bankers have all been gung-ho about it because if you see that as you very rightly mentioned that the market cap of the parent is low so therefore how do we expect that, but therefore we feels the market cap or we have always been feeling the market cap of the parent has been low so therefore may be that this will also make people see the market could see that investment that we have in various subsidiaries all the businesses, which we have promoted they have value till now. It is not having a value, so it is only when you allow your children to go out and to start working and be on their own that you can see the true colours so that is what is going to happen, otherwise they get the discount because of the parent.

Sameer Dalal: One last question before I get back in queue it was relating to your NPAs. They have been steadily declining. Now how much of it has been recovery and how much of it has been

write off that you have had to take from the recovery or the accounts that you have started closing now?

Hemant Kanoria: So I think the NPAs the recovery is by way of recovering assets and selling the equipment as well as cash recovery like that so I think it is a mix of asset and cash both put together, so we see the NPA coming down from that perspective.

Sameer Dalal: My question is what is like all the NPAs that have been there, what kind of losses you have had to take, how much you have had to provide on the asset, the NPAs that have been closed out. What is the loss ratio that you have seen after recoveries?

Hemant Kanoria: So basically what happens is that we have almost when we are taking the repossession of the asset and we are selling it so we are making the provision as per the financial norms, but at the end of the day there is always a write back also, which happens because on the asset we can get about 30% loss max that is what we look at it on an average.

Sameer Dalal: Yes what has been the historical, how much have you had been able to write back that is the I am trying to ask or how much have you had to provide for?

Hemant Kanoria: Write back sorry we understood write off.

Sameer Dalal: Write off or write back, whichever of the two ways I mean..

Sanjeev Sancheti: As far as the write-off is concerned, I think anywhere between 25%-30% is what we generally get lower than the value with the assets are acquired, but also that we mark to market in every quarter so what do we do is that we repossess an asset we make 30%, 32% provision straight cut and take that as a cost of risk. When we sell the asset sometimes you get profits from that. The overall net loss comes 20%-25% so we recover on 5%-7%.

Sameer Dalal: Sure and one quick last question I just squeeze through. Bharat Road Network you had Rs.372 Crores outstanding loan, which were only going to earn interest if that come those BOTs made money respectively. Now as their money come back to us if that was part of the original scheme?

Hemant Kanoria: Yes that is fully come back on September 30, 2017 after the Bharat Road Network issue closed that money has come back and that was what we had mentioned that it is going to reduce our exposure into Bharat Road Network so that has what happened so it is no loan outstanding.

Sameer Dalal: So now what is the proceed with that money?



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- Hemant Kanoria:** So that money has come back to Srei. SREI now utilized it for whatever known business.
- Sanjeev Sancheti:** We repaid the loan immediately, so the borrowings have come down to that extent.
- Hemant Kanoria:** SREI does not have any exposure by way of any loan in Bharat Road Network.
- Sameer Dalal:** Now it is just equity. Thank you. I will come back in queue. Thank you.
- Moderator:** Thank you. We take the next question from the line of Megha Hariramani from Pi Square Investments. Please go ahead.
- Megha Hariramani:** Thank you for the opportunity. Couple of questions. When we open the remarks we mentioned the AUM for the quarter if you could just repeat that number I missed out on that one.
- Hemant Kanoria:** AUM at the end of September 30, 2017 is Rs.43,125 Crores compared to Rs.36,513 Crores last year.
- Megha Hariramani:** And what would be the breakup between equipment finance and Infra?
- Hemant Kanoria:** Equipment finance is Rs.26,660 Crores and SREI Infrastructure Finance is Rs.17,142 Crores.
- Megha Hariramani:** And comparable?
- Hemant Kanoria:** Comparison if you look at last year September it was for equipment finance it was Rs.20,216 Crores and SREI Infra finance Rs.16,907 Crores. So equipment finance AUM compared to last year it has grown by 32% and for infrastructure finance more or less flat.
- Megha Hariramani:** That leaves us with more than 25% growth that we were estimating for equipment finance?
- Hemant Kanoria:** Yes.
- Megha Hariramani:** Another question on the Infra finance the breakup on PAT that you have given shows that infra has degrown for the quarter year-on-year Rs.39 Crores versus this quarter we have Rs.26 Crores so why the infra segment degrowing in that proportion?
- D.K.Vyas:** PAT for SREI infra is last year corresponding quarter was Rs.23 Crores and this year this quarter is Rs.30 Crores, so there has been a growth of 32% in the PAT of SREI infra on quarter-on-quarter basis, and if you look at H1 last year, corresponding period of Rs.49

Crores and this year is Rs.59 Crores so there has been a growth of 20% in PAT of SREI Infra on year-on-year basis.

Megha Hariramani: I was looking for September 2017 versus September 2016 so that gave me degrowing number?

Hemant Kanoria: That is also grown, 2016-17 and 2017-18 if you look at September six months there is growth of 20%, if you look at three months Q2 last year versus this year Q2 32% in PAT of SREI Infra.

Megha Hariramani: That makes sense and ROE calculation, we have mentioned in the footnote we calculated based on standalone numbers so why standalone in a consolidated network?

Sanjeev Sancheti: If you look at the reason for that is if you see the entire amount, which is invested by the parent is really the amount, which is the networth of standalone hence that is a representation. Now you can always calculate on consolidated also obviously the growth there also the growth is going to be similar. For us we really look at individual business separately and that is how we track the businesses.

Megha Hariramani: The numbers that **we calculate is of** both the businesses combined together?

Hemant Kanoria: Yes absolutely you are right.

Megha Hariramani: Yes but the networth is only of one single business and not both combined?

Hemant Kanoria: Because it is 100% subsidiary all the investment in SEFL has come through hat happened only through it network.

Megha Hariramani: Any guidance on the infra segment going forward because we see lot of other infra companies growing exceptionally well in terms of fair outlook in terms of the performance is so how do we stand on that front?

Hemant Kanoria: So infra companies where do you see that there has been a good growth in the profit for infra financing company or infrastructure companies?

Megha Hariramani: Infrastructure Company.

Hemant Kanoria: Infrastructure company is a little different because in the infra company basically these companies are all EPC construction companies. EPC construction company's profitability is reflected by the contracts, which they are getting and they are getting a lot of contracts from

the road sector, from irrigation, so therefore that is the reason why the EPC contractor the contracting companies have started doing much better and because of all the mistakes they also had made earlier by diverting their money into road, power, ports, concessioners, being concessioners also they have collapsed that and they are not doing that anymore so therefore that is also good news for us from SREI Equipment Financing because if you see SREI Equipment Financing we have had a good growth only because of the fact that the EPC construction companies are growing, they have more contracts, they want more equipment, so we can finance them more equipment, so therefore we have seen that particular growth.

Megha Hariramani: So the infra segment growth has nothing to do with our infra growth we provide loans for those segments at all is it?

D.K.Vyas: We do, we provide them equipment financing, because these are EPC contractors, so EPC contractors they take basically what do they require, they require machines, which we finance or they require working capital, which is against receivables, which we do not finance.

Megha Hariramani: That makes sense. Alright I will come back in the queue if I have some further questions.

Moderator: Thank you. We take the next question from the line of Vinay D from Kuber Capital. Please go ahead.

Vinay D: Congratulations on having great results. Sir my question is related to the news item about SREI acquiring an oxygen plant from JSPL, could you throw some light on it and what is the vision around it?

D.K.Vyas: We have not acquired any oxygen plant; you see basically the media does not understand many things, many times, so therefore they give their own stories. Here it is very clear as we have been mentioning that we are in the business of financing. Financing through loans, financing through leasing, so this is financing through leasing that is simple as that.

Vinay D: Thank you Sir and my next question is about BRNL. How much equity does SREI hold in BRNL either directly or through one of its funds and if you could give the split between direct equity and indirect one through funds?

D.K.Vyas: Directly we are holding 19.84% and for the funds it is difficult to mention because the funds are third party so basically we are only an asset manager, SREI asset Management



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Company is only an asset manager so therefore in those particular cases we can get back to you, but SREI hold 19.9%.

Vinay D: Sir how much did you say we received as part of our debt equity from BRNL, what is the quantum of amount?

Hemant Kanoria: We received Rs.370 Crores approximately, which was the loan, which was given to BRNL so that whole money came back after their issue was over in September.

Vinay D: My next question is about some of the subsidiaries we have. My understanding is we have Attivo, which is a subsidiary related to special economic zone and we have a subsidiary called India Power Corporation, which is around thermal power primarily. If you could give throw some light on how much equity do we holding either of these subsidiaries?

D.K.Vyas: Basically these are not subsidiaries first of all, they are in the strategic investment portfolio and in the power sector we have an investment of about Rs.15 Crores if I remember correctly, so that is very small and in the Attivo there is an investment of about Rs.80 Crores to Rs.100 Crores, so these are the two other investments, which are there and most of the larger investments we have already disinvested and diluted that is what our strategy holds for the last few years, so we have been doing that. At present we do not see that for the Power because it is just Rs.15 Crores investment that we want to dilute that because it is Rs.15 Crores is worth about close to Rs.1000 Crores plus, so therefore it is worthwhile holding it and whenever we need cash so therefore it is a currency, which will be available and today as you know that the power sector is not the darling of the stock market, so therefore there is no use selling that of, so it is just Rs.15 Crores of investment in the books.

Vinay D: My last question is about the IPO of SREI equipment finance, so what are we planning to do with the money, will the money come to flow into SREI the parent company or will it go to SREI equipment for its future growth?

Hemant Kanoria: It is both basically we have not decided the percentage, which will be on because we are doing an offer for sale also so it will be both primary and secondary, so whatever money is going to some portions will come into SREI and most of the portion will go into SREI equipment and the money, which is going to go into SREI equipment is primarily to be in a position to help its growth.

Vinay D: Thank you Sir! That is all from my side.



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Moderator: Thank you. Next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: I just wanted to know that what structure are we planning for the IPO, will SREI yet hold this 75% stake in the equipment finance or you will give one share to the minority shareholders and it will be a clean demerger or will SREI be holding company?

Hemant Kanoria: SREI will be holding 75% of the equity of the equipment finance company.

Yash Agarwal: The SREI holders would not get a share basically in the equipment finance?

Hemant Kanoria: SREI holders are having 75% in the equipment finance.

Yash Agarwal: What was the timeline for this IPO?

Hemant Kanoria: Before March we want to complete it.

Yash Agarwal: March 2018 right?

Hemant Kanoria: Yes. We want to get the money into the bank before March.

Yash Agarwal: Thank you so much.

Moderator: Thank you. We take the next question from the line of Moid Ansari, Individual Investor. Please go ahead.

Moid Ansari: We are a group of retail investors, long term retail investors in SREI, we have seen that SREI has sold off its stake in Viom, they have sold off BRNL. We are going to do divestment in equipment finance and what will be the future of SREI infra, from where growth is going to come to SREI infra. There is going to be any expansion in renewable sector, power sector or we do not see any growth coming into SREI infra as a parent company of which we are all shareholders. So can you throw some light on their growth prospects?

D.K.Vyas: Yes, sure. Basically by growth there are two ways of looking at it, one are you meaning growth in the book or you meaning the growth in the profit.

Moid Ansari: No, growth in the book how is the business going to expand everywhere we have infra is contracting..



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Hemant Kanoria: You should first of all look at the growth in the profit and return on ROE. The ROE how is it going up, so that is the first thing, which we are looking at, so therefore in SREI infra basically our strategy, which we have articulated many times in the last couple of years and again I am repeating it is to ensure that in SREI infra whatever funding that we are doing we will improve when increase, it is not that we are not doing funding, but we will increase the velocity by virtue of that, our book may not grow, but our profits will grow. So we will keep on doing business, we will keep on down selling it, we will keep on bringing in other people along with us, so therefore our risk reduces and whereas the risk will reduce, but the profit will increase, so the ROE will increase. So therefore for the SREI infra shareholders it is good news because the return on equity is going to grow and which is already growing, so we are doing all the actions, which have been taken whether it is Viom sale, whether it is dilution of the road portfolio, whether bringing in more capital into SREI equipment finance, every step has been taken to ensure that the ROE of SREI infra improves and therefore the shareholders value improve.

Moid Ansari: Do you see any growth or any prospects of lending to a renewable energy sector, what is your view on renewable lending?

Hemant Kanoria: We have two views that we have. One is an institutional view, which is as a government says that renewable energy is very good. Second is our personal view where we are not going to be overenthusiastic about the renewable energy.

Moid Ansari: Thanks.

Moderator: Thank you. We take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. My first question pertains to your basically the IPO that we are planning for the equipment finance business. Now do not you think if we kind of do this holding company structure wherein SREI will hold 50% in equipment and then will left it, would not you be getting a holding company discount because it is a main business where 80% of your profit comes from this business, so will it not be a value destruction for the shareholders?

D.K.Vyas: No, it is not because actually if you look at it what are the options. The one option is that we raise money in SREI and then put it into SREI equipment, so what are we doing, we are also by virtue of doing that the return, the equity, the net worth of SREI will get knocked off to that particular extent because the RBI guidelines, which we are governed with. So therefore it will impact both the parent and the child. So when the child becomes an adult as



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you say that you have to let it go and you have to let it grow, you cannot keep them, so therefore we are letting the child grow and raise with own equity, but at the same time we are having 75% investment, which is there by SREI in SREI equipment. For SREI shareholders I think that it is a huge value accretion.

Deepak Poddar: Do not you think even demerger could be a right idea in that sense?

D.K.Vyas: No, but you see that we can have demerger, etc., but all these are long drawn processes because as you know that the capital is needed now, the market is good, the capital is needed now, if we do not raise it by March then what will have we do not know where the markets will go, we do not know what will happen because we have to get prepared for the 2018 and 2019, so we must have enough ammunition for 2018 and 2019 by way of our equity, so that 2018 and 2019 our growth does not get stilted. So therefore we can as you very rightly said that we did evaluate the demerger option also, but it would have taken us at least one-and-a-half to two years by the time it would have got implemented because we had to go through so many, the courts, which are there and then after that once we get into the legal part of it then it takes so much longer time, so this was the fastest mode, so we have evaluated everything and because this was the fastest mode we took it.

Deepak Poddar: I understood that point just my thoughts on it. I understand that you might take one-and-a-half years to two years for this demerger thing, which is a long term process, but in terms of structuring for example even if you take an example of Vedanta they are the holding company for the Hindustan Zinc. They do not get that value of Hindustan Zinc into Vedanta, the complete value. In terms of structuring, do not you think even if it takes time that demerger would be a much better idea as compared to this holding structure?

Hemant Kanoria: You are right. It would have been, but then after that next one year, one-and-a-half years, our business would have reduced, so therefore the value of SREI itself would have come down because SREI equipment would not be in a position to maintain the market share. The SREI equipment would not be in a position to grow, so the value of, if you are saying the SREI equipment is one of the major subsidiaries of SREI and if it did not grow then as it is SREI value would have come down no. So if you examine that what was the better thing to do and which is faster, so therefore the option that we have taken is the faster route and it will not be I can assure that it will not be destroying value for SREI shareholders it will be value accretive.

Deepak Poddar: Right, understood that point. In terms of even the demerger is that also an option where once we do this IPO for and then give the shareholders to the existing shareholders rather than keeping 75% because that will be holding company discount that we will get in?



- Hemant Kanoria:** Excuse me if you can kindly repeat it?
- Deepak Poddar:** What I was trying to ask is once we do the IPO, so we are keeping about 75% to the shareholders and 25% like the shareholders of SREI will get right?
- Hemant Kanoria:** No, shareholders of SREI will have 75%, 25% will be other shareholders because to get it listed we have to offer 25% to the public because that is the listing requirement, for SREI equipment so 25% will be offered, 75% will be retained by SREI.
- Deepak Poddar:** Absolutely, I understood. Is there a thought process that this 25% can go higher basically?
- Hemant Kanoria:** No, it is 25% only.
- Deepak Poddar:** I understood and in terms of on your financial part I think we have been guiding for about 20% CAGR and 2.5% ROA for equipment finance business, so are we looking to change given the strong growth outlook we are seeing in the equipment finance business especially the Bharatmala like also that project that government is starting?
- D.K.Vyas:** Yes, government is only announced 36 hrs back, I think it is too early to change our guidance in 36 hrs then you know that there is a lot of slip between the cup and the lip, so we have to see there are no slips before we change any guidance.
- Deepak Poddar:** I understood. That is it from my side. Thanks.
- Moderator:** Thank you. We take the next question from the line of Anil Sarin from Edelweiss. Please go ahead.
- Anil Sarin:** Thanks for the opportunity and congratulations to the team excellent performance. I had some questions on the leasing part. While I hear you loud and clear the details one of the options, but is there a plan to have certain portion of your portfolio coming from leasing vis-à-vis coming from the regular funding, which we have been doing so far?
- Hemant Kanoria:** No, that is not there. Basically I would like to reiterate that we are only doing financing. The option is open to the client. The client in many cases want leasing, some cases they may want just a pure loan, so therefore we are happy to do what the client want. This is a financial instrument for us that are how we look at it. Now it opens a better opportunity for us because many AAA, AA clients also we are able to attract who leasing, which earlier we were not able to because of the interest rate they had low interest rate requirement, which we are not able to service, but because of the leasing at least that opens up, so therefore there are two advantages, which will have. One will have the advantage on the growth;



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second we will have the advantage, one on growth, which will be very important. Second advantage will be there, the options that we can give two more options to the client.

Anil Sarin: The second question I had was that you mentioned that in terms of your investment portfolio, the strategic investment in power business that is currently worth in the market place at Rs.1000 Crores?

Hemant Kanoria: Yes.

Anil Sarin: In this depressed time it is about Rs.1000 Crores if there was some improvement presumably you will be able to sell it for a higher price?

Hemant Kanoria: Should be, that is what we keep our fingers crossed.

Anil Sarin: The last question I had was on the infra side. We understand the equipment finance business now fairly well, but on the infra side what exactly do you do. If you do not fund construction equipment, do you give working capital loans or what is the nature of this business?

Hemant Kanoria: Of the equipment financing, equipment that we are financing is basically construction, mining equipments, but in infra the opportunity that we have today is basically for Brownfield projects, we are not doing Greenfield at present. So we are doing basically Brownfield projects so where they require any extra funding for their growth where they require extra funding for modernization, where they require extra funding for any kind of major refurbishment, etc., where there is a cash flow, which is there already established in that particular company, it is going to augment their cash flow, so that is how we look at it and do the infrastructure financing and in infra financing because we do not want to grow the book so therefore we want to only improve our ROE by velocity, so what we usually like to do is that bring in consortium partners, we try to bring in if we have taken it on books also we would like to down sell it, so we prepare and see that we only take those kind of risks we can also partially down sell. In infra book it is very clearly increasing the velocity so that we can increase the ROE and profit.

Anil Sarin: So if it is all structured finance then the yield should be much higher than what has been seen over there if you are giving a bridge loan, if you are making a difference with a small amount of capital that entrepreneur can make a big difference in his operations then the yield should be higher in this line of work?



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Hemant Kanoria: Yes, it will keep on improving. Basically as I said that we have just started the strategy has been since last year only, so therefore it takes time for building that up because those opportunities are also not too many in the market and gradually things are setting right and we also want to have very strong risk management, we have very strong risk management processes, so we do not want to go wrong, so that is the reason why we are very cautious about those, we just do not want to grow for the sake of growth. What you rightly said is that we will see the higher margins coming in; we will gradually see also more transactions happening in the market.

Anil Sarin: This is helpful. One last point, there was somebody before me who was on the same point I think you should remain open at some stage in the future if there is a holding company discount that persist post the listing of SEFL post that for a period of time if there is a holding company discount then we would urge you to consider an option where you can spin off the shareholding of the parent company into the hands of the shareholders of the parent company, any thoughts on that?

Hemant Kanoria: Thought is very clear that whatever is going to create higher shareholders value we will definitely do that.

Anil Sarin: Great. Thank you and all the best.

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

Dhaval Gada: Congratulations on a decent performance. Couple of questions. Firstly you mentioned on the fund raising at SREI equipment to be both offer for sale as well as a fresh infusion of funds, while the quantum has not been decided I just wanted to know the intent of that fund that will come at SREI infra, will we look to reduce that debt level and are we do look to sort of utilize for some other investment, so that was the first question.

Hemant Kanoria: Again I will just reiterate that we have mentioned that we are not looking at any investment opportunity, any investment options at this juncture from SREI infra, so what we would be doing is that whatever money comes immediately will go towards the reduction of the debt then the business that we are doing in SREI infra in that business itself whatever money will be required will be used again. So the business for SREI infra as again I am just repeating it, it is basically to do funding for those particular structured funding for those particular companies where whatever loans that we are giving, we are in a position to either down sell it or bring other consortium partners with us so that we reduced our risk and we improve our ROE.



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- Dhaval Gada:** Internally at SREI infra how do we see debt levels at what point would you think the leverage has gone beyond and you would like to reduce debt, I am just trying to understand given that one cash cow is going to get listed separately so fungibility of capital may not be so easy beyond that point, so I am just trying to understand that part.
- Hemant Kanoria:** But that is not going to impact anything because once SREI equipment finance less that does not mean that it is the end of the world for SREI infra, SREI infra when we are holding 75% of SREI equipment finance, so therefore there is no difference between 100% holding or 75% earlier just look at the position that before June last year we were only holding 50%. BNP was holding 50%. Now we will be holding after the dilution, after raising Rs.2000 Crores into the company, after getting it listed, we will still be holding 75%. It is much better situation that what we are going to be from SREI infra, what we were pre June last year.
- Dhaval Gada:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Kush Sonigara from Mahindra Mutual Fund. Please go ahead.
- Kush Sonigara:** Sir if you can just help me with absolute NNPA numbers and restructured numbers and repo stock number for equipment business?
- D.K.Vyas:** For the equipment finance business, net NPA as on date is Rs.323 Crores and the repo stock, which has reduced to Rs.658 Crores.
- Kush Sonigara:** So from Rs.731 Crores last quarter right?
- D.K.Vyas:** NPA has reduced and repo stock was also reduced from Rs.731 Crores to Rs.658 Crores.
- Kush Sonigara:** So NPA is up from Rs.307 Crores to Rs.323 Crores right Sir?
- D.K.Vyas:** In absolute term, it is increased by Rs.16 Crores, but in percentage it has come down.
- Kush Sonigara:** What about restructure, last quarter it was I think Rs.147 Crores?
- D.K.Vyas:** Restructured asset it was I think Rs.205 Crores last quarter it is Rs.183 Crores now.
- Kush Sonigara:** Thank you Sir!



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Moderator: Thank you. We take the next question from the line of Rajiv Patuck from Gee Cee Investments. Please go ahead.

Rajiv Pathak: Good evening Sir and congrats on a great set of numbers especially on the construction part. On the construction equipment now that we have been the market leaders, over the next two or three years do you see as a case to increase our market share that is number one and number two that there will be a demand improvement in the second hand equipment also. Do you think there will be some kind of a pricing power coming into us and a case to improve our yields on the construction equipment part?

Hemant Kanoria: Basically increasing the market share has never been a strategy per se and it is not going to be a strategy going forward. We will keep on doing the right thing because we are in the business of lending. In the business of lending if we get carried away with market share because here we will be giving money we need to get the money back it is not like selling soaps, selling shampoo, etc., because if you increase your market share then you get more people and it is just a onetime sale after that whether the guy gets dandruff on his hair or does not it does not make any difference to us, but here we have a long term relationship, so that is why we have to be very, very conscious about the quality of the client, quality of the portfolio. So when we are doing business that is prime most after that market share fine, market share does come in so let suppose that the market share in the last couple of years has grown again, it has come down, it is again grown, it came down because the markets are not doing well, so we decided that before we will be exposing our company to high risk, so therefore we were not going all out, so as the business keeps on coming we do not allow the business to go, but at the same time the business has to make sense for us once it has to be profitable, second it has to when we take a client it has to be profitable for us and also we must be in a position to access and mitigate that risk.

Rajiv Patuck: Thanks a lot Sir and all the best.

Moderator: Thank you. We take the next question from the line of Vinay D from Kuber Capital. Please go ahead.

Vinay D: My question is related to the split of your loan, how much of it is with healthcare, agriculture and IT equipments?

Hemant Kanoria: Construction, mining equipment is the major part, technology will be 4.8% **Hemant Kanoria:** 90% at present is construction and mining and approximately about 10% would be technology, agriculture, healthcare everything taken together.



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Vinay D: In these three domains, what are the types of clients we are serving to and what are the type of equipments in finance, if you can give an example?

D.K.Vyas: On IT equipment, we finance hardware, software, etc., to all our corporate from AA and AAA companies only, we finance to large AA and AAA rated companies, on healthcare we finance the diagnostic equipment, etc., only equipments, beds, hospitals, etc., all the equipments only we finance and that to all the big hospitals and diagnostic centre.

Hemant Kanoria: And also strategically what we are doing that in the IT equipments it is primarily that is why we have been mentioning that you see leasing make so much of sense because most of the AAA rated, AA rated clients they want to take it on lease these particular IT equipments because it is off balance sheet, so it makes sense for them. For us also it is a good option because we are the only company, which are in, we are one of the only companies who are in a position to offer this option to them that instead of taking loans you can take lease. In healthcare also as my colleague mentioned that in the healthcare business also we are very careful, we only finance those equipments we have ended tie up with GE, Philips, Siemens, all the larger companies. So if anything goes wrong with the equipment then we have someone who is going to come and support in refurbishment of the equipment, reselling of the equipment, so that is key for us when we are looking at any financing.

Vinay D: Thanks Sir! My second question is related to growth of infrastructure business the parent company of Srei. So how do we see the growth going forward and do you see that with this Bharatmala coming up in future will have opportunities to fund say BOT projects, etc.?

Hemant Kanoria: It is too early days to say all about Bharatmala, and I am just reiterating that Bharatmala has just been announced very recently, so therefore we have to see that what is the detail plan of the government, it is very early days to make any comments on that and also for SREI infra, we are not looking at growing the book, but we are looking at growing the profit, we are looking at growing the ROE.

Vinay D: Have you seen some of the old NPA account getting resolved?

D.K.Vyas: Yes, lot of them we are seeing it almost every day.

Vinay D: Great. Sir my next question is about this recently what the government has done related to PSU recapitalization. Do you see that your very good market share can erode because of this with PSU banks now going to lend more aggressively in future?



- D.K.Vyas:** No, I do not think so with this recapitalization any of the PSU banks are going to lend aggressively.
- Vinay D:** My last question is related to cost of fund, how do you see going forward and if you could give some rough breakup of how much of your funds are coming from banks and how much from the public through NCDs, etc.?
- Hemant Kanoria:** We just give it to you basically going forward this is a continuous effort for us to keep on seeing how do we reduce a cost of funds so we keep on coming out with various products on the liability side whatever innovative products and all also there, what is ready for the market to accept and all towards reducing the cost of funds and at present..
- D.K.Vyas:** 70% approximately comes from the banks and then you have around 20% odd coming from bonds and debentures balance from ECB External Commercial Borrowing, etc, so that is a kind of breakup.
- Vinay D:** Thanks Sir! That is all from my side.
- Moderator:** Thank you. Next question is from Mitesh Jain, Individual Investor. Please go ahead.
- Mitesh Jain:** Presently the promoter holding 60.80, so now since the management thinks that the valuation is very low and the market is not giving at the right valuation. So why do not the promoters buy from the open market?
- D.K.Vyas:** This is a very good question, but we have already come to 60% and 75% is a max that we can go up to. We do not want to hear it is basically for a financial institution, RBI's pressure is always to see that the promoters do not have a high shareholding. So I think that we are already balanced, if we increase it further then we may cause with RBI may not look at us in a very happy way because as you see that RBI has definitive guidelines for banks to reduce their promoter holding. So here also there is no dictat of RBI, but there is a soft guidance, so therefore we try to maintain that balance.
- Mitesh Jain:** What I mean is even symbolic 1% or 2% increases would make the market proceed the stock very differently, so not to go to all the way to 75%, but this 1% or 2% increase would send the right signal to the market.
- Hemant Kanoria:** Yes, but you see that we are already at 60%, almost 61%, now 1% or 2% we can buy and then we can sell so again as you know that when you buy or sell there are so many problems of inside the trading this that so that is the reason why we do not want to get into



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all those particular issues, so the promoters have decided that all this particular share they have purchased, it has been purchased, it is kept in the locker, forgotten.

Mitesh Jain: Thank you Sir!

Moderator: Thank you. Well that was the last question. I now hand the floor back to the management for closing comments.

Hemant Kanoria: Thanks a lot and thanks to everybody for coming and joining the call and have a nice weekend. Thank you.

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