

Rating Rationale

Brickwork Ratings assigns “BWR AA” for SREI Infrastructure Finance Limited’s proposed unsecured subordinated Debenture (Tier II) Issue of ₹ 250 Cr (INR Two Fifty crores only) and NCD Issue of ₹ 500 Cr (INR Five Hundred crores only)

Unsecured Subordinated Debenture (Tier II)

Issue ₹ 250 Cr Rating : BWR AA

NCD Issue ₹ 500 Cr Rating : BWR AA

Outlook : Stable

Brickwork Ratings (BWR) has assigned the rating of BWR AA (Pronounced BWR Double A) with a stable outlook for the proposed Unsecured Subordinated Debenture (Tier II) issue of ₹ 250 Cr and long term NCD issue of ₹ 500 Cr of SREI Infrastructure Finance Ltd (SIFL).

The rating “BWR AA” stands for an instrument that is considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

The rating, inter alia, factors experience of Promoter group in infrastructure financing business, Company’s market share in equipment finance, asset quality, capital adequacy ratio, conservative provisioning norms and Infrastructure Finance Company status as per RBI norms.

However, the rating is constrained by high interest rate environment, competition in equipment leasing and financing business, high exposure to power sector and high exposure to subsidiaries.

BWR has essentially relied upon the audited half yearly financial results of the Company for FY12, projected financials, publicly available information and information and clarifications provided by the Company.

Background: SREI Infrastructure Finance Limited (SIFL) is a Kolkata based NBFC, incorporated in 1985. The Company is involved in financing infrastructure in telecom, oil & gas, roads, power, ports, industrial parks and rural IT infrastructure, and is also engaged in equipment leasing, rentals & auctioning, project financing, project development, advisory and fund management.

In March 2011, SIFL was classified as an Infrastructure Finance Company (“IFC”) by RBI within the overall classification of NBFC. As of March 2011, SIFL had disbursements amounting to ₹14,400 crores and AUM of ₹20,505 crores on a consolidated basis. As on September 2011, the Promoter and promoter group holds 46% stake in company, FII’s hold 15%, individuals hold 11% and Trusts hold 21%.

Business Model: SIFL is mainly into infrastructure finance business and generates revenue from fund based and fee based activities and strategic investments. In fund based activity, the Company is majorly into equipment financing and project financing. While the project financing part is wholly run into parent Company, the equipment financing part is majorly driven from SREI Equipment Finance Ltd which is a 50-50 JV between SREI and BNP Paribas India. As part of fee based activities the Company has project advisory, insurance broking, investment banking, venture capital and project development. SIFL has also done some strategic investments in telecom, transportation, power, Rural IT Infra, Oil & Gas and SEZ’s. The fee based activities and other strategic investments are executed through various subsidiaries and sub subsidiaries. At a standalone level SIFL’s portfolio is majorly into energy, followed by transport, SEZ & Industrial Parks, and telecom.

In 2008, SREI spun off its equipment finance division into 100% subsidiary, in which BNP Paribas leasing group took 50% stake. Hence, this subsidiary became a JV and was renamed as SREI equipment finance Pvt Ltd (SEFPL). BNPP infused Rs 775 Cr as net worth in exchange for a 50% stake in an asset financing joint venture. SEFPL looks at funding loans where equipment cost is less than Rs 15 Cr. Equipments above this cost are funded by SREI parent company. The SREI BNP Paribas portfolio grew at a CAGR of 25% from March 2008 to March 2011 on a larger base compared with 30% growth in the SREI portfolio between 2001 and 2007, notwithstanding growing competition

BNP Paribas also helped Srei introduce two new sub businesses - financing Technology Solutions and Healthcare equipment. Srei leveraged BNP Paribas’ existing international

relationships with large reputed IT vendors like Oracle, EMC, and Fujitsu among others and with medical equipment vendors like GE, Siemens and Philips.

Financial Performance: SIFL's consolidated tangible networth increased 106% from Rs 1,279 crore as on FY10 to Rs 2,641 crore as on FY11, this was mainly due to amalgamation with QUIPPO which was previously promoted by SIFL. Borrowings increased from Rs 6569.5 Cr in FY10 to Rs 10064 Cr in FY11. The growth in debt was largely due to an increase in term loans (24.25 %) and working capital loans (167.52%). Of the outstanding term loans, 53.45% was rupee-denominated debt and 46.55% was from international sources. The adjusted gearing stood at 3.8x in FY11 vs 5.1x in FY10, this was mainly due to Quippo amalgamation which increased company's consolidated networth.

Asset under management increased from Rs 13,779 crore in FY10 to Rs 20,505 crore in FY11, registering a growth of 49%. Disbursements increased 60% from Rs 9,017 crore in FY10 to Rs 14,400 crore in FY11. The disbursement recorded by equipment financing business was Rs 10,010 crore whereas that for project finance was Rs 4,389 crore in FY11. SIFL's capital adequacy was at 29.3% in FY11 which is well above RBI's prescribed minimum of 15% for Infrastructure finance companies. The adjusted leverage increased from 5.5 in FY10 to 5.1 in FY11 due to increase in borrowings.

SIFL consolidated revenue is a combination of revenue from SIFL Standalone (46% of total income), SEFPL - JV with BNP Paribas (36% of total income) and other subsidiaries (18% of total income). The SIFL standalone contributed 75% to profit after tax, 36% was contributed from SEFPL and overall contribution from other subsidiaries was negative to the tune of 11% of total profits.

Total interest income increased 43% from Rs 850 crore in FY10 to Rs 1212.8 crore in FY11. Finance charges increased 56% from Rs 534 crore in FY10 to Rs 830 crore in FY11. This lead to consolidated NII of 383.67 Cr, an increase of 21% since FY10. Company reported NIM of 3.76% in FY11 vs 3.99% in FY10. The other operating income increased 250% in FY11; this was mainly

due to amalgamation of Quippo with Srei wef 1st April 2010, where equipment rental income from the merged entity contributed Rs 232 crore. Profit after tax and minority interest increased 15% from Rs 156 crore in FY10 to Rs 179 crore in FY 11.

Gross NPA on a consolidated basis remained more or less constant at around 1%, whereas net NPA increased slightly from 0.45% to 0.65%. However, the provisions increased from Rs 50Cr to Rs 87 Cr, which was due to RBI's new regulation to provide for 0.25% on standard assets.

Half yearly Results: In H1FY12, Asset Under Management increased to ₹ 26,001 Cr from ₹14,944 Cr in H1FY11, resulting in an increase of around 74%. Tangible Networth increased by 95% from ₹ 1399 Cr in H1FY11 to ₹2726 Cr in H1FY12. Outstanding borrowings increased by 71% in same period from ₹ 7672 Cr to ₹ 13,135 Cr. The total operating income stood at ₹ 1091 Cr in H1FY12 vs ₹677 Cr in H1FY11. However, net profit has reduced from ₹125 Cr in H1FY11 to ₹79 Cr in H1FY12, mainly due to notional mark to market forex losses of around ₹39 crores.

On a standalone level, SIFL's capital adequacy was 23.03% as on 30th September 2011. For H1FY12, Gross NPA as well as net NPA on a standalone basis was 0.1%.

Rating Outlook: SIFL mainly generates revenue from project finance and equipment finance activities. Though the Company has invested substantial amount in subsidiaries in the form of strategic investments, its value is yet to be realized. Higher interest rates environment coupled with competition in equipment leasing and financing business may lead to compression in NIM. SIFL's ability to remain adequately capitalized, scale up its operations in highly competitive equipment financing market while maintaining the quality of the assets and earnings profile are key rating sensitivities.

Analysts	Media		
<p>Michelle Lobo michelle.l@brickworkratings.com</p> <p>Rachit Seth rachit.s@brickworkratings.com</p>	<p>Anitha G media@brickworkratings.com</p> <tr> <th colspan="2" data-bbox="753 541 1442 583">Relationship Contact</th> </tr> <p>K N Suvarna Senior VP – Business Development kn.suvarna@brickworkratings.com</p>	Relationship Contact	
Relationship Contact			

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Key Financials

Annexure I: SREI Infrastructure Finance Ltd – Consolidated Balance Sheet

Rs. Crs.	H1 FY12	H1 FY11	FY 2011	FY 2010	FY 2009
Share Capital	503.24	116.29	503.24	116.29	116.29
Reserves & Surplus	2661.88	1297.12	2,564.82	1,173.38	1,033.09
Shareholders' Funds	3165.12	1413.41	3,068.06	1,289.67	1,149.38
Minority interest	81.58	21.91	73.79	23.61	22.11
Loan Funds	13135.48	7672.21	10,064.10	6,569.59	4,282.29
Deferred Tax Liability	102.61	100.43	101.50	73.63	27.43
Total	16,484.79	9,207.96	13,307.45	7,956.50	5,481.21
<u>Application of Funds</u>					
Fixed Assets Net block	1697.93	612.74	1,461.78	317.08	313.87
Goodwill	439.02	14.41	425.34	6.22	6.22
Investments	2085.62	742.1	2,031.44	670.74	443.82
Deferred Tax Assets	34.16	0.22	35.83	0.84	0.22
<u>Current Assets</u>					
Inventories	16.59	6.6	16.91	10.07	24.01
Sundry debtors	303.76	142.05	228.70	108.44	67.59
O/s for more than 6 months			113.94	59.63	16.11
Others			114.76	48.81	51.48
Cash & bank	570.66	307.62	317.65	290.97	483.08
Financial & other current assets	5,200.63	4,226.71	4,553.04	3,401.15	2,972.15
Loans & Advances	6679.73	3367.88	4,760.47	3,618.51	1,367.71
Total current assets	12,771.37	8,050.86	9,876.77	7,429.14	4,914.54
Total current liabilities	544.50	215.81	599.61	471.78	200.06
Net Current Assets	12,226.87	7,835.05	9,277.16	6,957.36	4,714.48
Misc exp not written off	1.19	3.44	1.40	4.26	2.6
Total	16,484.79	9,207.96	13,307.45	7,956.50	5,481.21

Annexure II: SREI Infrastructure Finance Ltd – Consolidated Profit & Loss

in Rs Cr	H1 FY12	H1 FY11	FY11	FY10	FY09
Total Interest Income	788.30	572.5	1,212.87	850.04	615.86
Interest Expense	612.4	364.8	829.20	532.79	522.21
Net Interest Income	175.9	207.7	383.67	317.25	93.65
Other operating income	250.40	72.7	418.80	119.53	224.95
Total operating Income	426.3	280.4	1632	970	841
Personnel Expenses	83.3	45.5	123.44	62.59	53.83
Operating Expenses	63.2	39.1	190.83	86.23	106.65
Depreciation	88.5	25.4	124.09	43.28	36.58
Misc exp written off			2.28	0.73	0.44
Pre provisioning operating profit	191.3	170.4	361.83	243.95	121.10
Provision for losses	27.25	17.1	79.28	28.88	26.88
Operating income after provisions	164.1	153.3	282.55	215.07	94.22
Other income	14.20	13.0	6.42	2.59	8.40
PBT before Forex M2M	178.3	166.3	288.97	217.66	102.62
Forex M2M Gain / (Loss)	(38.9)	20.2			
PBT after Forex M2M	139.4	186.5	288.97	217.66	102.62
Tax	53.3	67.3	92.79	60.86	22.37
PAT	86.0	119.2	196.18	156.80	80.25
Minority interest	6.9	(5.6)	16.94	0.94	0.49
Net Profit	79.1	124.8	179.24	155.86	79.76