



## Rating Rationale

6 Dec 2023

### SREI Equipment Finance Limited SREI BOI DA PSL December 2019 C&P – I

**Brickwork Ratings reaffirms the ratings of SREI Equipment Finance Ltd.’s assignee payouts pool of Rs 57.20 Crs. to BWR D (SO) /Continues to be ISSUER NOT COOPERATING\*.**

## Particulars

Transaction	Previous Amount (Rs. in Crs.)	Present Amount (Rs. in Crs.)	Previous Rating (Nov 2022)	Present Rating**
Assignee Payouts	57.20	<b>57.20</b>	BWR D (SO) /ISSUER NOT COOPERATING* /Downgrade	<b>BWR D (SO) /Continues to be ISSUER NOT COOPERATING* / Reaffirmed</b>
<b>Total</b>	57.20	<b>57.20</b>	<b>Fifty Seven Crores and Twenty lakhs Only</b>	

\*\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\* Issuer did not cooperate; based on best available information.

Brickwork Ratings (BWR) reaffirms the ratings at BWR D (SO) /Continues to be ISSUER NOT COOPERATING\*, for the assignee payouts pool of Rs.57.20 Crs. issued and originated by “SREI Equipment Finance Ltd” (SEFL) and assigned to ‘Punjab National Bank’, as tabulated above.

The rating reaffirmation is on account of continuous delays in meeting debt repayment obligations by SREI Equipment Finance Ltd (SEFL or the ‘Company’), and continued liquidity issues faced by SEFL which is the originator/collection and servicing agent for the said transaction. The rating also factors in the fact that the SEFL and its parent, SREI Infrastructure Finance Ltd, SIFL) have undergone Corporate Insolvency Resolution Process and the National Asset Reconstruction Company Ltd (NARCL) has acquired the asset through the bidding process. NARCL has already paid out Rs. 2580 Crs out of the cash component of the acquisition cost to the lenders. The implementation of the resolution plan approved by NCLT is continuing.

As against the admitted credit of Rs. 33026.31 Crs, the approved settlement is Rs. 14867.50 Crs. The Implementation and Monitoring Committee (IMC) has been set up. The payments to the various parties would be as per the Distribution Mechanism approved by the Committee of Creditors (CoC). The lenders, the assenting secured NCD holders and the assenting unsecured NCD holders are covered under the Distribution Mechanism. The dissenting NCD holders would be paid their share of the liquidation value of the corporate debtor.



### **Analytical Approach**

Initially, the rating was based on the analysis of the past performance of SEFL's portfolio, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool and the credit enhancement available in the transaction.

It was envisaged that for this transaction, the Assignee will avail of the Partial Credit Guarantee (PCG)' under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from NBFCs/Housing Finance Companies (HFCs). Brickwork Ratings has not factored in the PCG while arriving at the assigned rating.

However, with the management of the companies -SIFL & SEFL -being replaced by an Administrator appointed by RBI, and NCLT approving the resolution plan, the assumptions which formed the basis of the ratings, have ceased to be relevant.

### **About the Originator – SREI Equipment Finance Limited (SEFL)**

SREI Equipment Finance Ltd (SEFL) is a 100% subsidiary of SREI Infrastructure Finance Ltd (SIFL). SEFL is a non-deposit-taking systemically important NBFC. The company is also registered with the RBI and is classified as an Asset Financing Company (AFC). The company is a leading financier in the Construction, Mining and Allied Equipment (CME) sector in India, offering loans and leases for new and used equipment. The lending business, interest-earning business and lease business of SIFL have merged with the company w.e.f 1 October 2019 pursuant to the slump exchange. The Company is currently rated at BWR D.

In October 2021, the rating of 11 assignee payout transactions of SREI Equipment Finance Ltd (SEFL) were downgraded from BWR C (SO) to BWR D (SO) on account of continuous delays in meeting debt repayment obligations by SEFL, continued liquidity issues faced by SEFL who is the originator/collection and servicing agent for the said transactions coupled with very limited pool level information being shared by SEFL. The rating also factored in the fact that the management of SEFL has been superseded by the Reserve Bank of India (RBI) which appointed an Administrator, bankruptcy proceedings being initiated and the case admitted at the National Company Law Tribunal (NCLT).

The ratings were reaffirmed at BWR D (SO) and continued under the INC Category on 03 Nov 2022, as the defaults continued, some of the lenders had classified the accounts of SEFL as 'Fraud' and the NCLT proceedings had commenced with submissions of Expressions of Interest by the interested parties. The RBI -appointed Administrator had engaged the services of BDO India LLP, an external Audit firm to examine the transactions of the SREI Group. The Audit firm reported that the transactions within the group could be classified as of fraudulent nature in terms of Sec 60 (5) & 66 of the IBC Act. Further reports by BDO stated that more group companies of the SREI Group have also been listed as possibly involved in transactions which could be classified as fraudulent.

### Subsequent Developments:

- The lenders had classified loans to SEFL & SREI Infrastructure Finance Ltd (SIFL), aggregating to about Rs. 33000 Crs as NPA, and had initiated proceedings with the NCLT.
- Of the EoI received, the serious contenders were NARCL, Authum Investments and a Consortium of Varde Partners and Arena Investments. The consortium of Arena-Varde was disqualified from Round 2 of the bidding. The plan by NARCL envisaged an NPV of Rs. 5555.50 Crs, whereas that by Authum, Rs. 5526.00 Crs. Finally, the bid by NARCL was accepted by the CoC. These were against the admitted claim by the lenders of Rs. 32749.26 Crs, and operational and other creditors of Rs. 277.05 Crs. The aggregate admitted claim was Rs. 33026.31 Crs.
- The NCLT approved the RP of NARCL as under:

SL. NO.	PARTICULARS	AMOUNT (Rs. Crs)
1	AFCs Cash Portion (1A+1B)	3180
A	Estimated Cash and Cash Equivalents of Corporate Debtor	2580
B	Cash Portion of the Assignment Payments	600
2	Equity stake in SIFL to Financial Creditors (20%)	200
3	Deferred Payment	
A	Security receipts of upto INR 1800 Crores (i.e., 75% share) from ARC Trust** backed by committed NCDs redeemable from recoveries of underlying assets of SEFL	3487.50
B	Optionally Convertible Debentures (OCDs) from SEFL	8000
	<b>TOTAL</b>	<b>14867.50</b>

- The plan has been implemented partly, and NARCL has disbursed Rs. 2580 Crs to the lenders, out of the cash portion of Rs. 3180 Crs.
- Meanwhile, the losing bidder, Authum Investments, has filed appeals against the NCLT decision in the courts, and the hearings are on.
- SEFL had informed the Debenture Trustee (DT) that payment of any amount is possible only as per the Resolution Plan, if any, once approved by the Competent Authority.

One of the steps for the implementation of the Approved Resolution Plan is the delisting of the Non-Convertible Debentures (“NCDs”) of the Company from the Exchanges. Accordingly, the record date for delisting of the NCDs issued by the Company was fixed on Friday, October 6, 2023 and the Company has filed a Delisting application dated September 28, 2023 with the exchanges.

Hence, no principal/interest payment was made by the Company which was due on 4th Oct, 2023 and therefore no interest is accrued and payable after this date.

**Key Covenants of the Instruments/Facility rated: Nil**

**Non-cooperation with previous CRAs: NA**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal and suspended)**

Sl no	Instrument	Current Rating ( 2023)			Rating History			
		Long Term/Short Term	Amount (Rs. in Crs.)	Rating	2022	2021	2020	2019
1	Assignee Payouts	Long Term	57.20	BWR D (SO) / ISSUER NOT COOPERATING* (Reaffirmed)	2 Nov 2022 BWR D (SO) / ISSUER NOT COOPERATING*	11 Feb 2021 BWR BBB (SO) /Credit watch with negative implications Downgrade	24 Nov 2020 BWR A (SO) /Credit watch with negative implications Downgrade	NA
						7 Apr 2021 BWR C (SO)/ Downgrade	7 Jan 2020 BWR AA (SO)/ (Stable) Affirmed	
						14 Oct 2021 BWR D (SO) / INC*/ Downgrade	2 Jan 2020 Provisional BWR AA (SO) / (Stable) Assigned	
<b>Total</b>			<b>57.20</b>	<b>Fifty Seven Crores and Twenty lakhs Only</b>				

\* Issuer did not cooperate; based on best available information.

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Rating Criteria for Securitisation Transactions](#)





**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

### **About Brickwork Ratings**

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,560 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner.

### **DISCLAIMER :**

Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect,



incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, [www.brickworkratings.com](http://www.brickworkratings.com). More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.

---