



Rating Rationale

3 Nov 2022

SREI Equipment Finance Limited

Brickwork Ratings reaffirms the ratings of SREI Equipment Finance Ltd.'s assignee payouts pool of Rs 100.16 Crs. to BWR D (SO) /ISSUER NOT COOPERATING*.

Particulars

Transaction	Previous Amount (Rs. in Crs.)	Present Amount (Rs. in Crs.)	Payout Maturity Date	Previous Rating (Oct 2021)	Present Rating#
Assignee Payouts	100.16	100.16	10 July 2024 (Revised from 10 Jan 2024)	BWR D (SO) /ISSUER NOT COOPERATING* /Downgrade	BWR D (SO) /ISSUER NOT COOPERATING*/ Reaffirmed
Total	100.16	100.16	One Hundred Crores and Sixteen lakhs Only		

#Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

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

Brickwork Ratings (BWR) reaffirms the ratings, assigned to the assignee payouts pool of Rs. 100.16 Crs. issued and originated by “SREI Equipment Finance Ltd” (SEFL) and assigned to ‘Bank of Baroda’, to BWR D (SO) / ISSUER NOT COOPERATING* as tabulated above.

The rating reaffirmation is on account of continuous delays in meeting debt repayment obligations by SEFL, 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 The rating also factors in the fact that the management of SEFL has been superseded by the Reserve Bank of India (RBI) with bankruptcy proceedings being initiated and the case admitted at the National Company Law Tribunal (NCLT).

Analytical Approach

The rating is 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 is 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 have not factored in the PCG while arriving at the assigned rating.

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.

“The ratings of the various PCG transactions undertaken by Srei Equipment Finance Ltd (SEFL) were downgraded to D (SO)/INC* on 14 Oct 2021, following the rating downgrade to D of the issuer, SEFL. The reasons were (i) continuing liquidity issues being faced by SEFL who is also the originator as well as the collection and servicing agent, and (ii) lack of any information about the repayments and non-submission of the payout reports. The factors enumerated in our Previous reports continue. The lenders have classified loans to SEFL & SIFL aggregating to about Rs. 33,000 Crs. as NPA, and have initiated proceedings with the NCLT.

Subsequent Developments:

- As part of the resolution process, Expressions of Interest (EoI) had been called for and 14 applications have reportedly been received; two bids have also been received.. One is by a consortium of Varde Partners and Arena Investors, and the second is by a U.K.-based Investors’ consortium of Shon Randhawa and Rajesh V Shah.
- As per the disclosure dated 01 Oct 2022 by SIFL, an EoI was submitted by AM Mining India P Ltd on 27 Sept 2022, after the due date. The EoI was included in the final list of Prospective Resolution Applicants (PRAs) by the Committee of Creditors (CoC) in its meeting held on 01 Oct 2022. . A. M. Mining India P Ltd is an associate company of ArcelorMittal Group. The deadline for submission of the resolution plans has been further extended till 15 Nov 2022. This is to enable submission of EoI from the Edelweiss Group and Prudent ARC, as an outcome of RBI’s permission to Asset Reconstruction Companies (ARCs) with NOF of Rs. 1000 Crs and above to bid for companies under NCLT proceedings.
- Further, Punjab & Sind Bank and Karnataka Bank - have declared the credit facilities to the SREI Group -SEFL & SIFL - as fraud. Mr Hemant Kanoria, the founder of SREI, has filed for legal action against the banks, and the matter is sub-judice.
- The RBI appointed Administrator had engaged the services of an external Auditor - BDO India LLP - to examine the transactions of the SREI Group. BDO has, in a preliminary report, indicated that some of the transactions within the group could be classified as of fraudulent nature in terms of Sec 60 (5) & 66 of the IBC Act. Some of the group companies listed are Meenakshi Energy, India Power Corporation Ltd, and the Power Trust. The Administrator has duly informed the stock exchange about the development. BDO has submitted further reports, and some more group companies of the SREI Group have also been listed as possibly involved in transactions which could be classified as fraudulent.The Administrator has also declared that there could be further filings, based on the reports of the Transactions Auditor.

- SEFL has 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.

Key Financial Ratios:

Key Indicators	Units	FY21	FY22
		Audited	Audited
Total AUM	Rs in Crs	21857.91	20471.25
Tangible Networth	Rs in Crs	-3228.64	-6000.59
Debt to equity	In times	-4.06	-2.73
Total Revenue from Operations	Rs in Crs	3456	3141
GNPA	%	60.94	71.52
Gearing	In times	-9.75	-5.34
Total CRAR	%	-34.83	-64.77
Profit After Tax	Rs in Crs	-7136	-2773

Key Covenants of the Instruments/Facility rated: Nil

Non-cooperation with previous CRA: NA

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

Sl no	Instrument	Current Rating (2022)			Rating History		
		Long Term/Short Term	Amount (Rs. in Crs.)	Rating	2021	2020	2019
1	Assignee Payouts	Long Term	100.16	BWR D (SO) / INC*	<p>11 Feb 2021 BWR BBB (SO) Credit watch with negative implications Downgrade</p> <p>07 Apr 2021 BWR C (SO) Downgrade</p> <p>14 Oct 2021 BWR D (SO) / INC* / Downgrade</p>	<p>24 Nov 2020 BWR A (SO) Credit watch with negative implications Downgrade</p> <p>7 Jan 2020 BWR AA (SO) (Stable) Affirmed</p> <p>2 Jan 2020 Provisional BWR AA (SO) (Stable) Assigned</p>	NA
Total			100.16	One Hundred Crores and Sixteen lakhs Only			



* 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

Hyperlink/Reference to applicable Criteria

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

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SREI Equipment Finance Ltd
Annexure I: Instrument Details

Instrument	Date of First Pay-out	Amount (Rs in Crs)	Coupon Rate (%)	Maturity date	ISIN
Assignee Payouts	10 Mar 2020	100.16	9.50	10 July 2024 (revised from 10 Jan 2024)	NA