

RATING RATIONALE

6 April 2021

SREI Infrastructure Finance Limited

Brickwork Ratings downgrades its ratings on the IPDI issue of SREI Infrastructure Finance Limited to ‘BWR D’.

Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Nov,2020)	Present
Innovative perpetual debt instrument (IPDI)	10	10	Perpetual	BWR BB Credit watch with negative implications	BWR D
Total	10	10	Rs. Ten crores only		

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

** ISIN-wise details of NCDs are provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has downgraded the long-term ratings of SREI Infrastructure Finance Ltd (SIFL) on the innovative perpetual debt instrument to ‘BWR D’ from ‘BWR BB’/credit watch with negative implications as tabulated above.

The rating downgrade is on account of continuous delays in meeting the debt repayment obligations by SREI Equipment Finance Ltd (SEFL), a 100% subsidiary of SIFL and on applicability of BWRs cross default policy which is in line with SEBI guidelines. BWR has also taken note that the company has restructured the coupon payments of Perpetual debt instruments by taking the consent of the investors prior to the due date in line with RBI guidelines.

BWR was restrained from treating the non-payment of interest or principal as default earlier, given the restrictive order of the Hon. NCLT Kolkata dated 30 Dec 2020, specifically Para 34 directing credit rating agencies (CRAs) to maintain SEFL’s rating at least in investment grade and directing CRAs to not treat any non payment of debt obligations as default.

BWR appealed against the Hon. NCLT order dated 30 Dec 2020 and the Hon. NCLAT (National Company Law Appellate Tribunal) Delhi order dated 5 April 2021 has stayed the aforesaid Hon.



NCLT, Kolkata's order. BWR has therefore recognised the continuous delays in debt repayment obligations of the company as default in line with SEBI guidelines.

The Hon. NCLAT, Delhi order dated 5 April 2021 states that “ considering the averments in appeal and general nature of the concerned Order the benefit of order passed on 02.03.2021 in Company Appeal (AT) No. 31 of 2021 with regard to stay of the concerned paragraph 34 of the Impugned Order may enure to the benefit of the Appellant in this Company Appeal (AT) No. 34 of 2021 also, till next date”.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at these ratings, BWR has considered a consolidated financial profile, wherein the financial performance of SIFL and its key operating subsidiary SEFL (because of their strong operational and financial integration, common promoters and management, along with the two sharing a common brand name) is considered. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

COMPANY PROFILE: SREI Infrastructure Finance Limited

SREI Infrastructure Finance Ltd (SIFL), on a consolidated basis, with its wholly owned subsidiary SREI Equipment Finance Ltd (SEFL), has a presence majorly in the financing of the infrastructure sector and Construction and Mining Equipment (CME), besides the financing of IT, medical and farm equipment and Loans against Property (LAP). In October 2019, SIFL transferred all its assets and liabilities to SEFL through a slump sale. Post the transfer of business to SEFL, SIFL operates as a holding company and is involved in infrastructure and financial solutions advisory.

Company Profile: SREI Equipment Finance Limited

SEFL is a 100% subsidiary of 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 CME sector in India, offering loans and leases for new, as well as used equipment. The lending business, interest earning business and lease business of SIFL merged with the company w.e.f 1 October 2019 pursuant to the slump exchange.

SIFL, the parent company of SEFL has reported a consolidated net loss of Rs 3,783 crores during 9MFY21 when compared to PAT of Rs 158.40 Crs during 9MFY20 on account of higher and accelerated provisioning. Its revenues from operations for the 9MFY21 stood at Rs 2841.64 crores as against Rs 4477.13 crores in the corresponding quarter last year.

The company's total consolidated provisioning for 9MFY21 was Rs 3,100 crore due to which the consolidated net worth has decreased to Rs 296 crore for 9MFY21 which includes accelerated provision aggregating to Rs. 1,542.13 Crores of SEFL, which is over and above the normal ECL provision. BWR believes that such erosion in networth would have resulted in breach of regulatory requirements in terms of CRAR (i.e., minimum CRAR of 15%).



The company has disclosed in its 9MFY21 results that SEFL is carrying out review and reconciliation of its borrowers/operating lessees under stress and to whom the moratorium/resolution plan was granted and the corresponding ECL/regulatory provisioning as mandated by RBI. Based on the review, SEFL has, as a prudent measure, decided to make accelerated provision aggregating to Rs 1542.13 Crs which is over and above the normal ECL provision. Consequently, SEFL has reported loss after tax of Rs 3,784.27 Crs for Quarter and Rs 3,762.41 Crs for the nine months period ended on 31 Dec 2020.

KEY FINANCIAL INDICATORS: Consolidated

Key Financial Indicators	Units	FY19	FY20
Result Type		Audited	Audited
Consolidated AUM	Rs in Crs	47,070	44,836
Net Income from operations	Rs in Crs	2,963	2,325
PAT	Rs in Crs	487	89
Networth	Rs in Crs	4,097	4,006
Gearing	Times	8.11	8.07
Gross NPA	%	9.42	8.60
Total CRAR	%	15.60	15.70

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (2021)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable			
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crores)	Rating	Date(s) & Rating(S) assigned in 2019	Date(s) & Rating(s) assigned in 2018	Dates(s) & Rating(s) assigned in 2017	
1				Apr 2021	7 Sep 2020	10 Sep 2019	17 Dec 2018	13 Oct 2017
	Secured NCDs	Long Term	0.00	Nil	Withdrawn	BWR A+ Negative	BWR AA+ Stable	BWR AA+ Stable
	Unsecured NCDs	Long Term	0.00					
	Innovative Perpetual debt instrument (IPDI)	Perpetual	10	BWR D	BWR BBB-Negative	BWR BBB+ Negative	BWR AA-Stable	Nil
	Commercial Paper	Short Term	0.00	Nil	Withdrawn	BWR A1	BWR A1+	BWR A1+
2					20 Nov 2020	25 July 2019		
	Secured NCDs	Long Term	0.00		Nil	BWR AA Negative		
	Unsecured NCDs	Long Term	0.00					
	Innovative Perpetual debt instrument (IPDI)	Perpetual	10		BWR BB Credit watch with negative implications	BWR A+ Negative		
	Commercial Paper	Short Term	0.00		Nil	BWR A1+		
3						5 July 2019		
	Secured NCDs	Long Term	0.00			BWR AA Negative		
	Unsecured NCDs	Long Term	0.00					
	Innovative Perpetual debt instrument (IPDI)	Perpetual	10			BWR A+ Negative		

	Commercial Paper	Short Term	0.00				BWR A1+	
4								
	Secured NCDs	Long Term	0.00					
	Unsecured NCDs	Long Term	0.00					
	Innovative Perpetual debt instrument (IPDI)	Perpetual	10					
	Commercial Paper	Short Term	0.00					

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Commercial Paper](#)

Analytical Contacts	
<p>Sree Harsha Manager - Ratings B :+91 80 4040 9940 Ext :361 sreeharsha@brickworkratings.com</p>	<p>Vidyashankar Senior Director- Ratings B :+91 80 4040 9940 vidyashankar@brickworkratings.com</p>
1-860-425-2742	media@brickworkratings.com

SREI Infrastructure Finance Limited
ANNEXURE I: Details of Instruments

Instrument	Issue date	O/s Amount (Rs in Crs)	Maturity Date	ISIN
IPDI	05/Mar/19	10.00	Perpetual	INE872A08DL0

Total Rs Ten Crores Only

SREI Infrastructure Finance Limited
ANNEXURE II

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
SREI Capital Markets Ltd	100%	Full	Subsidiary
Trinity Alternative Investment Managers Ltd	100%	Full	Subsidiary
Controlla Electrotech Pvt Ltd	100%	Full	Subsidiary
SREI Mutual Fund Asset Management Pvt Ltd	100%	Full	Subsidiary
SREI Mutual Fund Trust Pvt Ltd	100%	Full	Subsidiary
SREI Insurance Broking Pvt Ltd	100%	Full	Subsidiary
Bengal SREI Infrastructure Development Ltd	51%	Full	Subsidiary
Hyderabad Information Technology Venture Enterprises Ltd	51%	Full	Step down subsidiary
Cyberabad Trustee Company Pvt Ltd	51%	Full	Step down subsidiary
SREI Finance Ltd	100%	Full	Subsidiary
SREI Equipment Finance Ltd	100%	Full	Subsidiary
E-Village Kendra Ltd	49.47%	Full	Partial
IIS International Infrastructure Services, GMBH, Germany	49.13%	Full	Partial
SREI Mutual Fund Trust	100%	Full	Trust



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 11,400 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. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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. 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.
