August 18, 2015

Facility	Amount (Rs. Crore)	Rating
Proposed Unsecured, subordinated redeemable NCD	**500.00 (Enhanced from Rs. 300 crore)**	**SMERA AA/Stable (Reaffirmed)**

SMERA has reaffirmed a long-term rating of **SMERA AA (read as SMERA double A)** to the Rs.500.00 crore Proposed unsecured, subordinated redeemable non-convertible debentures of Srei Equipment Finance Limited (SEFL). The outlook is '**Stable**'. The rating continuous to draws support from the satisfactory track record of both the joint venture partners (Srei Infrastructure Finance Limited and BNP Paribas Lease Group), well-established market position with a large customer base and diversified credit portfolio. The rating also factors in the healthy growth in interest income, comfortable asset-liability maturity profile and moderate capital structure. However, the rating is constrained by moderation in asset quality with increasing provisions leading to pressure on profitability and an increasingly competitive equipment financing industry.

SEFL was set up in 2006 under the name 'Srei Infrastructure Development Limited' (SIDL) as a subsidiary of Srei Infrastructure Finance Limited (SIFL) for financing and developing infrastructure projects. The Kolkata-based SIFL has over two decades of experience in leasing, hire purchase and hypothecation financing of construction, mining equipment and infrastructure projects. Later, in April 2008, SIDL ceased to be the holding company of SEFL and was converted into a 50:50 joint venture company with BNP Paribas Lease Group (BPLG), a wholly owned step down subsidiary of BNP Paribas Bank. In November 2013, the company's name was changed to Srei Equipment Finance Limited and RBI classified SEFL as a 'Systemically Important Non-deposit Taking Asset Finance Company'.

SEFL is engaged in the business of leasing and hypothecation of infrastructure assets including those related to construction and mining, technology, healthcare, rural infrastructure among others.

SEFL is one of the largest equipment finance companies in India, with a wide network of 87 offices and a diverse customer base across business segments. As at March 31, 2015, the company enjoys presence in approximately 22 states. The company has consistently posted decent growth in its portfolio by extending facilities of asset finance to sectors such as infrastructure construction, mining, technology solution, healthcare, agriculture among others. The interest income of the company has grown at a compounded annual growth rate (CAGR) of 13 per cent to Rs.2,601.44 crore in FY2014-15 from Rs.1,817.79 crore in FY2011-12.

The company's comfortable liquidity profile is evident from the comfortable asset-liability profile arising out of raising of long term funds at competitive rates. SEFL has moderate capitalisation level with CRAR ratio at 17.05 per cent as on March 31, 2015 as compared to 17.13 percent in the previous year. SEFL's net worth improved to Rs.2248.72 crore in FY2014-15 from Rs.2096.56 crore in FY2013-14 on account of retention of profit. The net interest income and net interest margin stood at Rs.1159 crore and 4.90 per cent in FY2015, as compared to Rs.1086 crore and 4.60 per cent respectively in FY2014.

However, the ratings are constrained due to moderation in its asset quality with increase in net non-performing assets (NNPA) ratio to 3.83 per cent in FY2014-15 as compared to 2.0 per cent in FY2011-12, leading to higher provisioning requirements impacting profitability. SEFL's profit after tax declined to Rs.153.02 crore in FY2014-15 as compared to Rs.225.38 crore in the previous year. The rating is also constrained due to increasing competition in the infrastructure equipment financing business.

Outlook: Stable

SMERA believes the outlook on SEFL's rated facilities will remain stable over the medium term on account of its experienced management and well established business network. The outlook may be revised to 'Positive' in case the company achieves sustained growth in its asset books while maintaining healthy returns and asset quality. The outlook may be revised to 'Negative' in case of significant deterioration in its asset quality, profitability or capitalisation levels of the company.

Rating sensitivity factors

- Improving the scale of operations while maintaining the asset quality and regulatory requirements
- Efficient asset liability management
- Diversification of loan portfolio

About the Company

SEFL, a 50:50 joint venture company between SIFL and BNP Paribas Lease Group, was incorporated in 2006 and is engaged in the business of providing asset finance to infrastructure construction and mining, technology solution, healthcare, agricultural sectors among others. The Kolkata-based company is headed by Mr. Hemant Kanoria, Vice Chairman and Managing Director, and Mr. Didier Jean Chappet, Chairman who possesses vast experience in the field of infrastructure equipment finance and related activities.

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