January 08, 2016

Facility	Amount (Rs. Crore)	Rating
Unsecured, subordinated redeemable NCD	**500.00**	**SMERA AA/Negative (Rating Reaffirmed, outlook revised from Stable to Negative)**

SMERA has reaffirmed the long-term rating of **SMERA AA (read as SMERA double A)** on the Rs.500.00 crore unsecured, subordinated redeemable non-convertible debentures of Srei Equipment Finance Limited (SEFL). The outlook is revised to '**Negative**' from 'Stable'.

The revision in outlook takes into account the moderation in the company's profitability and return indicators. In the first half of 2016, the company's profit after tax (PAT) stood at Rs.50.47 crore as against Rs.102.71 crore during the same period last year. Similarly, the company's return indicators, particularly, return on average assets (RoAA) has also moderated in first half of FY2015-16 as compared to the same period last year. This moderation in the profitability indicators can be mostly attributed to increase in operating expenses and provisions requirements, amidst subdued environment in the Indian economy, especially in the infrastructure space. SMERA also takes note of the proposed change in ownership at SEFL with BNP Paribas Lease group (BPLG) (a 100% subsidiary of BNP Paribas) expected to swap its stake in SEFL (50%) for 5 per cent stake in the listed parent company, Srei Infrastructure Finance Ltd (SIFL), thus becoming a passive shareholder in SIFL. The above transaction is subject to regulatory approvals. In light of this development, SEFL's ability to maintain its business and financial risk profiles going forward, will remain a key rating driver.

The rating continues to draws support from the satisfactory track record of Srei Infrastructure Finance Limited, 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 the moderate asset quality 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, SIFL 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'. In December 2015, SEFL applied for a change in its shareholding, with BPLG planning to sell its entire stake in SEFL to SIFL, in lieu of a 5 per cent stake in SIFL. This transaction is subject to regulatory approvals.

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 89 offices and a diverse customer base across various business segments. As on March 31, 2015, the company enjoys presence in approximately 22 states. It has consistently posted growth in its portfolio by extending facilities of asset finance to sectors such as infrastructure construction, mining, technology solution, healthcare to name a few.

The company's comfortable liquidity profile is evident from the favourable asset-liability profile as a result of raising long term funds at competitive rates. SEFL's capitalisation levels have improved with CRAR ratio increasing to 18.02 per cent in 2015-16 H1, up from 16.15 per cent during the same period last year. The net worth of the company improved to Rs.2248.72 crore in 2015-16H1 from Rs.2152 crore in 2014-15H1 on account of retention of profit. Accordingly, 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 income growth has however been muted in the first half of FY2015-16. SMERA also takes note of the improved liquidity position at the SREI group level with the stake sale (for Rs. 2952 crore) in Viom Networks Ltd., which could support the capital requirements for SEFL, going forward.

There has been a recent improvement in SEFL's asset quality, with GNPA (gross non performing asset) improving to 4.17 per cent in September 2015, from 4.73 per cent in March 2015, and NNPA improving to 3.16 per cent in September 2015, from 3.91 per cent in March 2015. Notwithstanding this improvement, the company's asset quality continues to remain moderate, constraining the overall credit profile of the company. The company's moderate asset quality and provisioning requirements have impacted the company's profitability and return indicators. The company's profit after tax (PAT) has been on a downward trend over the past three years, with PAT declining from Rs.269.92 crore in FY2012-13 to Rs.153.02 crore in FY2014-2015. Amidst intense competition in the equipment finance industry, SMERA believes that the company's profitability will continue to remain a key credit factor over the medium term.

Outlook: Negative

SMERA believes that SEFL's credit profile will remain vulnerable to its decreasing profitability and return indicators, especially in light of the increasing competition and subdued environment in the equipment finance business, along with SEFL's moderate asset quality. The outlook may be revised to 'Stable' in case the company is able to achieve sustained improvement in profitability and return indicators, most likely due to lower provisioning and operating expenses or improved interest spreads resulting from increased diversification across niche equipment finance verticals. The rating however, may be downgraded in case of further reduction in profitability indicators, deterioration in asset quality or capitalisation levels.

Rating Sensitivity Factors

- Improvement in the company's capitalization levels, most likely resulting from part of the consideration for Viom stake sale being infused in SEFL
- SEFL's ability to maintain its business and financial risk profile, with BPLG expected to swap its 50% stake in SEFL, for passive shareholding in SIFL
- Increasing scale of operations while maintaining good asset quality
- 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. The company is engaged in the business of asset financing for infrastructure, construction, mining and technology solutions among others. The Kolkata-based company is headed by Mr. Hemant Kanoria, Vice Chairman and Managing Director, and Mr. Didier Jean Chappet, Chairman who possess vast experience in infrastructure equipment finance and related activities.

The company reported profit after tax (PAT) of Rs.153.02 crore on interest income of Rs.2601.44 crore for FY2014-15 as compared to PAT of Rs.225.38 crore on interest income of Rs.2617.93 crore. The assets under management for FY2014-15 stood at Rs.18,825 crore compared to Rs.18,307 crore for the previous year. The net worth improved to Rs.2248.72 crore as on March 31, 2015, as against Rs. 2096.56 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contact	Rating Desk
Antony Jose Vice President – Business Development, Mid Corporate Tel: +91-22-6714 1191 Cell: +91 9820802479 Email: antony.jose@smera.in Web: www.smera.in	Parimal Thakker Associate Vice President – Corporate Ratings Tel: +91-011-4973 1312 Email: parimal.thakker@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in