Srei Equipment Finance Limited: Reaffirmed

Facilities	Amount (Rs Crore)	Rating/Outlook
Unsecured Subordinated Redeemable Non-Convertible Debentures	500.00	SMERA AA/Stable (Rating Reaffirmed,outlook revised to Stable from Negative)
Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures	200.00	SMERA AA/Stable (Assigned)

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 has been revised to **'Stable'** from **'Negative'.**

SMERA has also assigned long term rating of '**SMERA AA' (read as SMERA double A)** on the proposed secured unsubordinated Redeemable Non-Convertible Debentures of Rs.200 crore. The outlook is '**Stable'.**

The revision takes into account the improvement in profitability (first quarter of FY2016-17), asset quality (reduction in NPA levels) and liquidity profile of the company. The rating continues to draw support from the satisfactory track record of SEFL, large customer base, diversified credit portfolio, well-established market position with long standing experience in equipment financing as also in providing ancillary advisory solutions. The rating also factors in the stable interest income, comfortable asset-liability maturity profile, moderate capital structure and robust capitalisation

However, the rating is constrained by the continued moderation in y-o-y profitability and the competitive equipment financing industry, coupled with muted growth in the overall portfolio of assets. Notwithstanding the improvement in Gross Non Performing Advances (GNPA) to total assets ratio to 2.80 per cent as on March 31, 2016 from 4.77 per cent as on March 31, 2015, SEFL's asset quality continues to be constrained on account of challenges in the infrastructure sector, leading to stress on the credit profile of its large borrowers.

SEFL was set up in 2006 as 'SREI Infrastructure Development Limited' (SIDL), 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. It was converted into a 50:50 joint venture 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 June 2016, SEFL became a wholly owned subsidiary of SIFL, as BPLG transferred its 50% stake in SEFL to the SREI group, in lieu of 5 per cent stake in SIFL.

SEFL is engaged in financing of infrastructure assets including those related to construction and mining, technology, healthcare, rural infrastructure among others. It is one of the largest construction and mining equipment financing companies with 91 offices across India and a diverse customer base across business segments. As on March 31, 2016, the company established its presence in approximately 22 states. It has consistently posted growth in its portfolio by extending facilities of asset finance to infrastructure and construction sectors, apart from diversifying into mining, information technology, rural, infra, medical healthcare among others.

The company's comfortable liquidity profile is evident from the favourable asset-liability profile as a result of raising of long term funds at competitive rates. SEFL's capitalisation levels have improved with CRAR ratio increasing from 17.05 per cent in March, 2015 to 19.62 per cent in March, 2016. This improvement in capitalisation levels is on account of reduction in risk weighted exposure and increase in Tier II capital. SMERA further believes that given the sale of stake in Viom Networks Limited (Viom), the future ability of SIFL to infuse funds in SEFL can be expected to improve significantly.

The company registered improvement in the Gross Non-Performing Assets (GNPAs) of total assets from 3.70 per cent in the third quarter of FY2016 to 2.80 per cent at the end of the last quarter of FY2016. The asset quality continues to remain moderate on account of a high delinquency risk in the top accounts by total exposure as on 31st March, 2016. Additions to Gross NPAs has fallen to Rs.227.02 crore in FY2016 against Rs.507.62 crore in FY2015. In FY2016, SEFL wrote off Rs.393.69 crore of bad loans as compared to Rs.294.55 crore in the previous year. The growth in SEFL's assets under management has also been muted at around 2.12 per cent in FY2016, an increase from Rs.17,716 crore in FY2015 to Rs.18,093 crore in FY2016.

Outlook-Stable

SMERA believes that SEFL will maintain a stable outlook on account of its healthy capitalisation, large scale of operations and an expected improvement in the infrastructure and equipment industry. The outlook may be revised to 'Positive' with robust growth in the asset portfolio along with sustained improvement in profitability and asset quality. However, the outlook may be revised to 'Negative' in case of significant deterioration in the asset quality and sustained pressure on profitability indicators.

Rating Sensitivity Factors

- Sustained increase in asset portfolio while maintaining profitability indicators
- Improvement in the company's capitalisation levels
- Credit profile of large borrowers

Criteria applied to arrive at the rating:

- Non-Banking Finance Companies

About the Company

The Kolkata-based SEFL, incorporated in 2006 is a wholly owned subsidiary of SREI Infrastructure Finance Limited and has a pan India presence. The company, headed by Mr. Hemant Kanoria, Vice Chairman and Managing Director is engaged in asset financing for infrastructure, construction, mining and technology solutions among others.

The company reported profit after tax (PAT) of Rs.115.26 crore on interest income of Rs.2,228.66 crore for FY2015-16 as compared to PAT of Rs.153.02 crore on interest income of Rs.2,241.56 crore. The Assets under Management for SEFL as on 31st March, 2016 stood at Rs.18,093 crore compared to Rs.17,716 crore as on 31st March, 2015. The net worth improved to Rs.2,363.98 crore as on March 31, 2016, as against Rs. 2,248.72 crore a year earlier.

Rating History

Date	Rating Type	Amount (Rs Crore)	Rating Assigned
08 January, 2016	Unsecured Unsubordinated Non-Convertible Debentures	500.00 (Reaffirmed)	SMERA AA/Negative (Outlook Revised from 'Stable' to 'Negative')
18 August, 2015	Proposed Unsecured subordinated Redeemable NCD	500.00 (Enhanced from Rs.300 crore)	SMERA AA/Stable (Reaffirmed)
04 August, 2015	Proposed Unsecured Subordinated Redeemable NCD	300.00	SMERA AA/Stable (Assigned)

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ABOUT SMERA

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