

### Srei Equipment Finance Limited: Reaffirmed

Instrument	Amount (Rs. Crore)	Ratings/Outlook
Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures	500.00	SMERA AA/Stable (Assigned)
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	200.00	SMERA AA/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	500.00	SMERA AA/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non-Convertible Debentures	200.00	SMERA AA/Stable (Reaffirmed)

SMERA has assigned a rating of **SMERA AA (read as SMERA double A)** to the Rs.500.00 crore Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures. The Outlook is '**Stable**'.

SMERA has also reaffirmed the rating of **SMERA AA (read as SMERA double A)** to the Rs. 500.00 crore Unsecured Subordinated Redeemable Non-Convertible Debentures, Rs. 200.00 crore Secured Unsubordinated Redeemable Non-Convertible Debentures and Rs. 200.00 crore Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures. The Outlook is '**Stable**'.

The rating 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 the equipment financing and providing ancillary advisory solutions. The rating also factors in the stable interest income, comfortable asset-liability maturity profile and moderate capital structure and robust capitalization.

However, the rating is constrained by the continued moderation in y-o-y profitability and presence in a 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 has transferred its 50% stake in SEFL to the Srei group, in lieu of 5% 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 sectors primarily to the infrastructure and construction sector, besides diversifying into the mining, information technology, rural, infra and medical healthcare segment, among others.

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 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) to 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 31<sup>st</sup> March, 2016. Additions to the 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.

### **Rating Sensitivity Factors**

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

### **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 any sustained pressure on profitability indicators.

### **Criteria applied to arrive at the ratings:**

- Non-Banking Finance Company

### About the Company

SEFL, headquartered in Kolkata has a pan India presence. The company was incorporated in 2006 and is a wholly owned subsidiary of SREI Infrastructure Finance Limited. 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 31<sup>st</sup> March, 2016 stood at Rs.18,093 crore compared to Rs.17,716 crore as on 31<sup>st</sup> 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.

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### ABOUT SMERA

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