

Press Release

Srei Equipment Finance Limited (SEFL)

April 06, 2017

Rating Reaffirmed & Assigned

Total Instruments Rated*	Rs.3600.00 Cr
Long Term Rating	SMERA AA+/Stable (Reaffirmed & Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA AA+' (read as SMERA double A plus)** on the Rs. 1100.00 crore Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures (NCDs) and the Rs. 1100.00 Proposed Secured Unsubordinated Redeemable NCDs of Srei Equipment Finance Limited.

SMERA has reaffirmed the long term rating assigned to **'SMERA AA+' (read as SMERA double A plus)** Unsecured Subordinated Non-Convertible Debentures (NCDs) aggregating Rs.700 cr and Secured Unsubordinated NCDs aggregating Rs. 700 cr issued by Srei Equipment Finance Limited (SEFL). The outlook is **'Stable'**.

SEFL is a NBFC-ND-SI (Systemically Important Non-Deposit Taking Non-Banking Finance Company) engaged in the business of equipment financing and providing leasing solutions for construction, mining, healthcare, agricultural and IT equipments. It is a wholly owned subsidiary of Srei Infrastructure Finance Limited (SIFL), a listed company, engaged in the financing of infrastructure projects.

The rating reflects SEFL's ability to exhibit sustained growth in Assets Under Management (AUM) while improving its asset quality. SMERA expects SEFL to continue the growth momentum in AUM while maintaining its asset quality. SMERA believes that sound risk management practices followed by SEFL, coupled with a favourable economic environment for infrastructure players, will augur well for its credit profile. The rating also factors in improvement in profitability indicators for the nine month ended December 31, 2016 which is expected to be sustained over the near to medium term. The profitability improvement is primarily driven by lower provisioning requirements and is an offshoot of the overall buoyancy in infrastructure spending and consequent improvement in the cash flow profile of infrastructure players. The rating continues to draw support from SEFL's established track-record of operations, diversified loan portfolio and comfortable capitalisation levels. The rating is constrained by susceptibility of SEFL's operating performance to the health of the infrastructure sector.

List of key rating drivers and their detailed description

Strengths:

Established track-record of operations and diversified loan portfolio: SEFL is engaged in the financing of infrastructure assets with focus on construction and mining sectors. The company is one of the leading construction and mining equipment financing companies with 91 offices across 22 states in India. While SEFL was started in 2006, the promoters have been in the equipment financing segment for over two decades.

SEFL has developed strong expertise in understanding and managing risks inherent in the construction equipment financing business. The company also benefits from its longstanding relationships with original equipment manufacturers, like JCB, and equipment dealers, and its ability to support its borrowers throughout the asset lifecycle. The company has developed an ability to track the execution of projects wherever its equipments are deployed and ensure optimal use of these. SEFL has developed an in-house platform to create a secondary market for sale and purchase of used and repossessed equipments.

The government has been increasing the spending in the infrastructure sector. The total allocation towards infrastructure in the recent budget is at Rs. 3.96 lakh cr for the next fiscal (FY2017-18) – primarily driven by an increase in allocation towards transportation infrastructure (11.30 per cent y-o-y increase). SEFL is expected to benefit substantially from the increased capital outlay towards the infrastructure sector by the government. The revived infra spending is expected to provide buoyancy to SEFL's disbursements and asset quality.

SEFL's AUM increased to Rs.20,540 cr on 31 December, 2016 from Rs.18,598 cr on 31 March, 2016. SMERA expects SEFL to benefit from its ability to leverage its well-established market position and expand its Assets Under Management (AUM).

Comfortable liquidity profile and healthy capitalisation: The company's comfortable liquidity profile is evident from the favourable asset-liability profile reflected in the positive mismatch in the near term buckets. SEFL has demonstrated the ability to raise funds from banks and financial institutions, capital market instruments like commercial papers and NCDs (including subordinated debt) and via securitisation/direct assignment transactions. SMERA expects SEFL to benefit from its healthy resource mobilisation abilities and optimise its overall cost of funds.

The capitalisation levels of the company continue to remain healthy at 18.75 per cent on 31 December, 2016 as compared to 19.62 per cent on 31 March, 2016. The tier I ratio stood at 14.05 per cent on 31 December, 2016 as compared to 14.65 per cent as on 31 March, 2016. SMERA believes that SEFL will benefit from its adequate capitalisation levels which is expected to provide SEFL enough headroom to grow its AUM.

Continued improvement in asset quality and RoAA: SEFL typically finances infrastructure, construction and mining players across the country. Driven by substantial increase in infrastructure expenditure and favourable policy environment, the stress in the credit profile for some infrastructure players has abated over the last nine months.

SEFL's stringent underwriting standards, proactive recovery policies and healthy collection from restructured accounts has resulted in an improvement in SEFL's GNPA ratio to 2.72 per cent on 31st December, 2016 from 2.95 per cent on 31st March, 2016. SEFL has been following the 120+ DPD norms for NPA recognition for the current financial year. While a marginal increase in the GNPA ratio is expected in FY2018 due to the regulatory transition from 120+DPD norms to 90+DPD norms, SMERA expects the asset quality to remain comfortable due to overall buoyancy in the infrastructure sector.

SEFL also provides large ticket loans to infrastructure players. The top 20 borrowers accounted for 21.03 percent of the total loan portfolio as on 31st December, 2016 as compared to 20.07 per cent as on 31st March, 2016. While the credit profile for most of these borrowers has been under stress,

SEFL has been able to maintain low delinquencies in this portfolio through its efficient credit monitoring mechanism.

SEFL's provisions and write-offs declined significantly in the nine months ended 31st December, 2016 to Rs. 203 cr against Rs. 273 cr for the same period in the previous financial year. This is expected to result in substantial improvement in profitability indicators, Return on Average Assets (RoAA) of the company over the near to medium term. SEFL's Profit After Tax (PAT) increased to Rs. 109 cr for the nine months ended December, 2016 against Rs.88 cr for the same period in the previous financial year.

Weaknesses:

Susceptibility of operating performance to the health of the infrastructure sector: SEFL primarily caters to borrowers in the infrastructure sector with primary focus on mining and construction. Additionally, SEFL also finances healthcare, IT and agriculture equipments.

The capital expenditure program of infra players is largely influenced by their order book and level of expected infrastructure spending in the economy. This is in turn driven by the quantum of government and private expenditure along with other macro-economic variables. Investment in the infrastructure sector is, inter alia, dependent on availability of funding, regulatory approvals among others.

The credit profile of borrowers is largely dependent on the overall performance of the infrastructure sector – which is primarily driven by the quantum of government and private expenditure along with other macro-economic variables (interest rate, fiscal deficit etc.). SMERA believes that SEFL's performance shall remain susceptible to the inherent cyclicalities in the infrastructure spending and macroeconomic trends.

A significantly lower than expected capital outlay towards infrastructure projects by the government/private players will impact the cash flows of existing borrowers and the demand for infrastructure equipment. This in turn will affect the overall credit offtake from players like SEFL – thereby affecting their ability to maintain the growth momentum in their AUM over the near to medium term.

Analytical approach: SMERA has taken a standalone view of the above entity.

Applicable Criteria

- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>

Outlook: Stable

SMERA believes that SEFL will maintain a Stable outlook on account of overall increase in infrastructure expenditure which is expected to augur well for players like SEFL and result in sustained growth in AUM and improvement in asset quality. The outlook may be revised to Positive with significantly higher than expected 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 slowdown in AUM growth or sustained pressure on profitability indicators and/or asset quality.

About the Rated Entity

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.

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instruments	Scale	FY2017										FY2016					
		Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	500.00	SMERA AA+/Stable (Reaffirmed)	14 Mar, 2017	SMERA AA+/Stable (Upgraded from SMERA AA/Stable)	09 Nov, 2016	SMERA AA/Stable (Reaffirmed)	02 Nov, 2016	SMERA AA/Stable (Reaffirmed)	31 Aug, 2016	SMERA AA/Stable (Reaffirmed; Outlook Revised from Negative to Stable)	08 Jan, 2016	SMERA AA/Negative (Reaffirmed; Outlook Revised from Stable to Negative)	18 Aug, 2015	SMERA AA/Stable (Reaffirmed)	04 Aug, 2015	SMERA AA/Stable (Assigned)
Secured Unsubordinated Redeemable Non-Convertible Debentures	LT	200.00	SMERA AA+/Stable (Reaffirmed)	14 Mar, 2017	SMERA AA+/Stable (Upgraded from SMERA AA/Stable)	09 Nov, 2016	SMERA AA/Stable (Reaffirmed)	02 Nov, 2016	SMERA AA/Stable (Reaffirmed)	31 Aug, 2016	SMERA AA/Stable (Assigned)	-	-	-	-	-	-
Proposed Unsecured Subordinated Redeemable Non-Convertible Debentures	LT	200.00	SMERA AA+/Stable (Reaffirmed)	14 Mar, 2017	SMERA AA+/Stable (Upgraded from SMERA AA/Stable)	09 Nov, 2016	SMERA AA/Stable (Reaffirmed)	02 Nov, 2016	SMERA AA/Stable (Assigned)	-	-	-	-	-	-	-	-

[illegible]

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Secured Unsubordinated Redeemable Non- Convertible Debentures	31-Mar-16	10.00%	31-Mar-26	20.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	28-Apr-16	10.00%	28-Apr-20	1.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	24-Aug-16	9.50%	24-Aug-26	30.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	6-Oct-16	9.95%	6-Oct-21	5.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	25-Oct-16	9.80%	25-Apr-26	50.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	28-Oct-16	9.95%	28-Apr-20	1.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	4-Nov-16	9.85%	4-Nov-26	10.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	2-Dec-16	9.00%	2-Dec-23	5.00	SMERA AA+/Stable (Reaffirmed)

Secured Unsubordinated Redeemable Non- Convertible Debentures	20-Dec-16	9.00%	20-Dec-26	10.00	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	8.90%	17-Jan-20	0.43	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	9.12%	17-Jan-20	15.55	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	9.25%	17-Jan-20	38.25	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	9.50%	17-Jan-20	79.48	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	0.00%	17-Jan-20	0.11	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	9.11%	17-Jan-22	50.72	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	9.35%	17-Jan-22	47.72	SMERA AA+/Stable (Reaffirmed)
Secured Unsubordinated Redeemable Non- Convertible	17-Jan-17	9.50%	17-Jan-22	43.09	SMERA AA+/Stable (Reaffirmed)

Debentures					
Secured Unsubordinated Redeemable Non- Convertible Debentures	17-Jan-17	9.75%	17-Jan-22	179.46	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non- Convertible Debentures	13-Aug-15	10.75%	13-Aug-22	50.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non- Convertible Debentures	13-Aug-15	10.75%	13-Aug-25	150.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non- Convertible Debentures	20-Aug-15	10.50%	20-Aug-25	10.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non- Convertible Debentures	24-Sep-15	10.50%	24-Sep-25	5.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non- Convertible Debentures	24-Sep-15	10.30%	24-Apr-21	23.60	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non- Convertible Debentures	24-Sep-15	10.40%	24-Apr-23	12.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non- Convertible Debentures	11-Jan-16	10.60%	11-Jan-26	15.00	SMERA AA+/Stable (Reaffirmed)

Unsecured Subordinated Redeemable Non-Convertible Debentures	20-Jan-16	10.60%	20-Jan-26	5.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	1-Feb-16	10.15%	1-May-21	7.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	5-Feb-16	10.60%	5-Feb-26	5.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	18-Mar-16	10.70%	18-Mar-26	5.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	29-Mar-16	10.70%	29-Mar-23	2.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	25-May-16	10.75%	25-May-26	20.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	26-May-16	10.25%	26-May-26	3.50	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	4-Oct-16	10.75%	4-Oct-26	15.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible	7-Oct-16	10.75%	7-Oct-26	40.00	SMERA AA+/Stable (Reaffirmed)

Debentures					
Unsecured Subordinated Redeemable Non-Convertible Debentures	17-Jan-17	0.00%	21-Feb-18	1.50	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	17-Jan-17	0.00%	21-Feb-18	6.46	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	17-Jan-17	0.00%	17-Jan-20	19.82	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	17-Jan-17	0.00%	17-Jan-22	0.15	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	17-Jan-17	0.00%	17-Jan-22	17.28	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	1-Mar-17	10.40%	1-Jun-24	5.00	SMERA AA+/Stable (Reaffirmed)
Unsecured Subordinated Redeemable Non-Convertible Debentures	9-Mar-17	10.18%	9-Jun-22	5.00	SMERA AA+/Stable (Reaffirmed)
Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures	N.A.	N.A.	N.A.	113.19	SMERA AA+/Stable (Reaffirmed)

Proposed Unsecured Subordinated Redeemable Non- Convertible Debentures	N.A.	N.A.	N.A.	276.69	SMERA AA+/Stable (Reaffirmed)
Proposed Secured Unsubordinated Redeemable Non- Convertible Debentures	N.A.	N.A.	N.A.	1100.00	SMERA AA+/Stable (Assigned)
Proposed Unsecured Subordinated Redeemable Non- Convertible Debentures	N.A.	N.A.	N.A.	1100.00	SMERA AA+/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head –Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Manager Tel: 022-67141160 Email: varsha.bist@smera.in
Pooja Ghosh Primary Rating Analyst Tel: 033-66201203 Email: pooja.ghosh@smera.in	
Arindam Som, Secondary Rating Analyst, Tel: 011-49731321 Email: arindam.som@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*