



Rating Rationale

SREI Equipment Finance Ltd.

5 July 2019

Brickwork Ratings downgrades the long term rating from BWR AA+ (Stable)/BWR AA- (stable) to BWR AA/BWR A+ and revises the outlook from Stable to Negative and reaffirms short term rating of BWR A1+ of SREI Equipment Finance Ltd (“SEFL” or the “Company”)

Particulars

Instrument	Previous Amount (Rs in Crs)	Present Amount (Rs in Crs)	Previous Rating	Present Rating*
IPDI	200	200	BWR AA- (Pronounced as BWR Double A Minus) (Outlook:Stable)	BWR A+ (Pronounced as BWR A Plus) (Outlook:Negative)
Unsecured, Subordinated (Tier II) Redeemable NCD issue	1100	1100	BWR AA+ (Pronounced as BWR Double A Plus) (Outlook: Stable)	BWR AA (Pronounced as BWR Double A) (Outlook:Negative)
	100	100		
	350	350		
	100	100		
	30	30		
	100	100		
	100	100		
	300	300		
200	200			
Total Unsecured NCDs	2,380	2,380	INR Two Thousand Three Hundred Eighty Crores only	
Secured Long Term NCD Issues	500	500	BWR AA+ (Pronounced as BWR Double A Plus) (Outlook:Stable)	BWR AA (Pronounced as BWR Double A) (Outlook:Negative)
	1100	1100		
	50	50		
	500	500		
	500	500		
Total Secured NCDs	2,650	2,650	INR Two Thousand Six Hundred Fifty Crores Only	



Grand Total	5,230	5,230	INR Five Thousand Two Hundred Thirty Crores Only
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*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Brickwork Ratings also reaffirms the ratings for the Commercial Paper Programme as follows:

Instrument	Previous Amount (Rs in Crs)	Present Amount (Rs in Crs)	Previous Rating	Present Rating*
Commercial Paper Programme	1000	1000	BWR A1+ (Pronounced as BWR A One Plus)	BWR A1+ (Pronounced as BWR A One Plus) (Reaffirmed)

Rating Downgrade/Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Company's audited financials up to FY19, projected financials for FY20 and FY21, publicly available information and information and clarification provided by the Company. For arriving at the ratings, BWR has combined the business and financial risk profiles of all companies of the SREI group because of their strong operational and financial integration.

The rating revision factors, deterioration of asset quality due to weak credit profile of the portfolio, low profitability, continued high gearing against an expectation of significant reduction in gearing through capital infusion and liquidity stress faced by NBFC sector affecting the borrowing capacity of the company.

However, the rating continues to derive comfort from the experience of the promoter group in the line of infrastructure financing and equipment financing businesses, established market position and brand name, sizeable AUM and adequate liquidity profile.

Also, the outlook is revised to negative considering the risk of further weakness in asset quality and to monitor the ability of SEFL to borrow for continued growth while maintaining its cost of funds and profit margins. The ability to reduce its gearing is also a key monitorable.



Description of Key Rating Drivers

Credit Strengths:

- **Experienced Promoters:** Mr Hemant Kanoria , Chairman & Managing Director & Mr Sunil Kanoria, Vice Chairman, who have more than 3 decades of experience in the financial services industry are spearheading the business operations and work closely with management in effectively managing the company.
- **Dominant market share:** SEFL has strong relationship/tie ups with OEMs developed over the years coupled with its strong distribution network and operates out of 89 branches, four offices and 77 satellite locations across 21 states, and has 120 SREI Entrepreneur Partners (SEPs) across India, which enables the Company to sustain its dominance in the equipment financing market. SEFL's market share was 33% which was highest amongst its peers.
- **Sizeable AUM:** As on 31 Mar 2019, Gross Portfolio stood at Rs 19,195 Crs when compared to Rs 18,161 Crs in FY18. The growth in AUM was curtailed in FY19 due to the challenges faced by SEFL in raising funds. The company has reported total operating income of Rs 4,403 Crs and PAT of Rs 306 Crs for FY19 when compared to Rs 3,473 Crs and Rs 296 crs respectively for FY19.
- **Comfortable ALM & Liquidity profile:** SEFL has comfortable ALM profile with cash and cash equivalents of Rs. 1848 Crs as on 31 Mar 2019 and also maintains unutilised bank lines to the tune of Rs 2,013 Crs to further strengthen liquidity position. ALM profile as on 31 Mar 2019 demonstrates sufficient liquidity and has no cash flow mismatches in the near to medium term.

Credit Risks:

- **Moderate asset quality:** Due to weak credit profile of the loan book and adoption of IndAs accounting standards, the NPAs have increased sharply in FY19. GNPA & NNPA as on 31 Mar 2019 stood at 6.20% & 4.80% respectively when compared to 3.40% and 2.0% respectively for FY18. Provision coverage ratio has also decreased from 41% in FY18 to 23% in FY19. Going forward, reducing the NPA levels with sustained growth in AUM will be a key rating sensitivity.
- **Moderate capitalisation and high gearing:** As on 31 Mar 2019, total CRAR and Tier 1 CRAR of SEFL stood at 16.08% and 11.72% respectively which is marginally above the RBI prescribed minimum CRAR requirement of 15%. Given the growth potential of the equipment financing, the company will require capital infusion to maintain adequate CRAR levels. However, the company has informed that they have started co-lending along with scheduled commercial banks which will reduce the capital requirements.



On the back of growth in AUM, the total debt in SEFL, as on 31 Mar 2019, stood at Rs 20,967 Crs against Tangible Network of Rs 2,849 Crs resulting in a high gearing of 7.36x. On a consolidated basis, the tangible network stood at Rs 4,097 Crs against total debt of Rs 33,224 Crs resulting in a high gearing of 8.1x. Going forward, reducing the debt levels coupled with capital infusion will be a key rating sensitivity.

- **Low Profitability:** Due to the high competition in equipment financing, SEFLs profitability remains low with ROA & ROE of 1.2% & 11.30% for FY19 which has decreased from 1.40% and 12.30% respectively for FY19. Net interest margin remained low at 5.7% for FY19.
- **Inherent Risks:** Currently, NBFC sector in India is facing liquidity challenges, resulting in increased borrowing costs and potential ALM mismatches in the short term. This will adversely affect spread for NBFCs. Also being in the competitive landscape of NBFCs, the Company is exposed to inherent risks associated with the industry like high competition and regulatory responsibilities.

Analytical Approach

For arriving at its ratings, BWR has taken consolidated financial profile wherein the financial performance of SIFLs subsidiaries including SREI Equipment Finance Ltd (complete list of subsidiaries provided in annexure) and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Negative

The negative outlook is indicative of potential downside in the financial risk profile of SEFL due to weak credit portfolio resulting in further slippages in asset quality, impacting the provisions and capital adequacy. The rating may be downgraded if the asset quality weakens further resulting in pressure on profitability or if SEFL is unable to reduce its gearing. The rating outlook may be revised to Stable if the asset quality and gearing show significant improvement.

About the Company

SREI Equipment Finance Ltd (SEFL) is a 100 % subsidiary of SREI Infrastructure Finance Ltd. The Company is a Non-deposit taking Systemically Important NBFC, registered with RBI. The Company is classified as an Asset Financing Company (“AFC”). SREI Infrastructure Finance Ltd (SIFL) is a Kolkata based NBFC, incorporated in 1985, and is classified as ‘Infrastructure Financing Company’ (IFC) by RBI since March 2011. SEFL is the leading financier in the Construction, Mining and allied Equipment (“CME”) sector in India with around 33.0% market share. Current customer base of 68,000 plus spread across India.

Company Financial Performance

SEFL reported Total Income from Operations of Rs 4,403 Crs for FY19 and PAT of Rs 306 Crs when compared to Total Income from Operations Rs 3,473 Crs and PAT 296 Crs which resulted in Net Interest Margin (NIM) of 5.70 % in FY19 as compared to 5.60 % in FY18. Approximately 72% of income is generated from financial assets and round 26% is from operating lease.

Key Financial Indicators

Key Parameters	Units	2017	2018	2019
Result Type		Audited	Audited	Audited
Gross Portfolio	₹ Cr	12,989	18,161	19,195
Net Income from Operations	₹ Cr	1,161	1,851	2,254
PAT	₹ Cr	149	296	306
Tangible Net worth	₹ Cr	2,520	2,552	2,849
Gearing	Times	4.76	7.66	7.36
CRAR	%	18.66	15.94	16.07
GNPA	%	2.4	3.4	6.2
NNPA	%	1.7	2.0	4.8

Rating History for the last three years

Sl. No.	Instrument /Facility	Current Rating (June 2019)			Rating History		
		Type	Amount (Rs Crs)	Rating	2018	2017	2016
1	Commercial Paper Programme	Short Term	1000	BWR A1+	BWR A1+	-	-
2	Perpetual Debenture	Long term	200	BWR A+(Negative)	BWR AA-(Stable)	-	-

3	Secured Redeemable NCD Issue	Long Term	500	BWR AA (Negative)	BWR AA+ (Stable)	BWR AA+ (Stable)	-
5	Secured Redeemable NCD Issue	Long Term	1100				-
6	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	1100				-
8	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	200				BWR AA (Stable)
9	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	300				
10	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	100				
11	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	100				
12	Secured NCD (Public Issue)	Long Term	500				
13	Secured NCD (Private Placement)	Long Term	500				
14	Secured NCD	Long Term	50				
15	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	30				

16	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	100				
17	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	350				
18	Unsecured, Subordinated (Tier II) Redeemable NCD	Long Term	100				
	Commercial Paper Issue	Short Term	-	-	-	BWR A1+ (Withdrawn)	BWR A1+
Total Amount rated			6,230	INR Six Thousand Two Hundred Thirty Crores only			

Annexure I : List of Subsidiaries getting consolidated

Subsidiary/Associates	SIFLs Holding (%)
Controlla Electrotech Pvt Ltd	100%
Quippo Energy Ltd	100%
Quippo Oil & Gas Infrastructure Ltd	100%
SREI Alternative Investment Managers Ltd	100%
SREI Asset Reconstruction Pvt Ltd	100%
Srei Capital Markets Ltd	100%
SREI Equipment Finance Ltd	100%
SREI Insurance Broking Pvt Ltd	100%
SREI Mutual Fund Asset Management Pvt Ltd	100%
SREI Mutual Fund Trust Pvt Ltd	100%
Quippo Drilling International P Ltd	74%
Bengal SREI Infrastructure Development Ltd	51%
Cyberabad Trustee Company Pvt Ltd	51%



Hyderabad Information Technology Venture Enterprises Ltd	51%
Sahaj E-Village Ltd	49.47%
IIS International Infrastructure Services, GMBH, Germany	49.13%

Instrument Details:

ISIN	Date of Allotment	Maturity Date	Issued (Rs in Crs)	Outstanding (Rs in Crs)
INE881J07DG4	13-Jun-14	13-Jun-24	10.00	10.00
INE881J07DH2	20-Jun-14	20-Jun-24	10.00	10.00
INE881J07DV3	11-May-15	11-May-20	8.48	8.48
INE881J07DW1	11-May-15	11-Aug-20	23.23	23.23
INE881J07DX9	11-May-15	11-May-22	32.15	32.15
INE881J08169	17-Dec-12	17-Dec-22	17.00	17.00
INE881J08045	31-Mar-10	31-Mar-20	74.50	74.50
INE881J08037	19-Mar-10	19-Mar-20	25.50	25.50
INE881J08011	23-Dec-09	23-Dec-19	100.00	100.00
INE881J08219	7-May-13	7-May-23	20.80	20.80
INE881J08235	29-Jun-13	29-Jun-20	10.00	10.00
INE881J08227	29-Jun-13	29-Apr-19	25.00	25.00
INE881J08243	24-Jul-13	24-May-19	15.00	15.00
INE881J08250	27-Sep-13	27-Sep-20	16.00	16.00
INE881J08268	29-Nov-13	29-May-19	15.00	15.00
INE881J08276	20-Dec-13	20-Dec-20	10.00	10.00
INE881J08284	16-Mar-15	16-Mar-25	5.00	5.00
INE881J08292	31-Mar-15	30-Jun-20	36.00	36.00
INE881J08300	13-Aug-15	13-Aug-22	50.00	50.00
INE881J08318	13-Aug-15	13-Aug-25	150.00	150.00
INE881J08326	20-Aug-15	20-Aug-25	10.00	10.00
INE881J08359	24-Sep-15	24-Sep-25	5.00	5.00
INE881J08334	24-Sep-15	24-Apr-21	23.60	23.60
INE881J08342	24-Sep-15	24-Apr-23	12.00	12.00
INE881J08367	11-Jan-16	11-Jan-26	15.00	15.00
INE881J08375	20-Jan-16	20-Jan-26	5.00	5.00
INE881J08383	1-Feb-16	1-May-21	7.00	7.00



INE881Jo8391	5-Feb-16	5-Feb-26	5.00	5.00
INE881Jo8409	18-Mar-16	18-Mar-26	5.00	5.00
INE881Jo8417	29-Mar-16	29-Mar-23	2.00	2.00
INE881Jo8425	31-Mar-16	31-Mar-26	20.00	20.00
INE881Jo8433	28-Apr-16	28-Apr-20	1.00	1.00
INE881Jo8441	25-May-16	25-May-26	20.00	20.00
INE881Jo8458	26-May-16	26-May-26	3.50	3.50
INE881Jo8466	24-Aug-16	24-Aug-26	30.00	30.00
INE881Jo8474	4-Oct-16	4-Oct-26	15.00	15.00
INE881Jo7DZ4	6-Oct-16	6-Oct-21	5.00	5.00
INE881Jo8482	7-Oct-16	7-Oct-26	40.00	40.00
INE881Jo8490	25-Oct-16	25-Apr-26	50.00	50.00
INE881Jo8508	28-Oct-16	28-Apr-20	1.00	1.00
INE881Jo8516	4-Nov-16	4-Nov-26	10.00	10.00
INE881Jo7EA5	2-Dec-16	2-Dec-23	5.00	5.00
INE881Jo7EB3	20-Dec-16	20-Dec-26	10.00	10.00
INE881Jo7EF4	17-Jan-17	17-Jan-20	0.43	0.43
INE881Jo7EG2	17-Jan-17	17-Jan-20	15.55	15.55
INE881Jo7EH0	17-Jan-17	17-Jan-20	38.25	38.25
INE881Jo7EC1	17-Jan-17	17-Jan-20	79.48	79.48
INE881Jo7EI8	17-Jan-17	17-Jan-20	0.11	0.11
INE881Jo7EJ6	17-Jan-17	17-Jan-20	19.82	19.82
INE881Jo7EK4	17-Jan-17	17-Jan-22	50.72	50.72
INE881Jo7EL2	17-Jan-17	17-Jan-22	47.72	47.72
INE881Jo7EM0	17-Jan-17	17-Jan-22	43.09	43.09
INE881Jo7EN8	17-Jan-17	17-Jan-22	179.46	179.46
INE881Jo7EO6	17-Jan-17	17-Jan-22	0.15	0.15
INE881Jo7EP3	17-Jan-17	17-Jan-22	17.28	17.28
INE881Jo8524	1-Mar-17	1-Jun-24	5.00	5.00
INE881Jo8532	9-Mar-17	9-Jun-22	5.00	5.00
INE881Jo8557	30-Mar-17	30-Mar-27	50.00	50.00
INE881Jo7EQ1	26-May-17	26-May-24	20.00	20.00
INE881Jo7ER9	31-May-17	31-May-24	10.00	10.00
INE881Jo7ES7	22-Jun-17	22-Jun-24	20.00	20.00
INE881Jo8565	23-Jun-17	23-Jun-27	5.00	5.00



INE881Jo8573	8-Aug-17	8-Nov-22	176.48	176.48
INE881Jo8581	8-Aug-17	8-Nov-22	150.53	150.53
INE881Jo8599	8-Aug-17	8-Nov-22	30.91	30.91
INE881Jo8607	8-Aug-17	8-Aug-24	9.32	9.32
INE881Jo8615	8-Aug-17	8-Aug-24	11.51	11.51
INE881Jo8623	8-Aug-17	8-Aug-24	2.81	2.81
INE881Jo8631	8-Aug-17	8-Aug-27	116.64	116.64
INE881Jo8649	8-Aug-17	8-Aug-27	45.78	45.78
INE881Jo8656	8-Aug-17	8-Aug-27	17.99	17.99
INE881Jo7ET5	15-Sep-17	15-Sep-24	20.00	20.00
INE881Jo7EU3	3-Oct-17	3-Oct-24	6.00	6.00
INE881Jo7EW9	28-Dec-17	28-Dec-20	5.00	5.00
INE881Jo7ET5	9-Jan-18	15-Sep-24	2.50	2.50
INE881Jo7ET5	17-Jan-18	15-Sep-24	1.00	1.00
INE881Jo7EX7	18-Jan-18	18-Jan-28	10.00	10.00
INE881Jo7EY5	14-Mar-18	14-Mar-23	5.00	5.00
INE881Jo7EZ2	26-Mar-18	26-Mar-25	16.50	16.50
INE881Jo8565	31-Mar-18	23-Jun-27	40.00	40.00
INE881Jo7A2	4-Apr-18	4-Apr-23	5.00	5.00
INE881Jo7A2	6-Apr-18	4-Apr-23	5.00	5.00
INE881Jo7A2	12-Apr-18	4-Apr-23	4.00	4.00
INE881Jo7FB0	25-May-18	29-Jun-19	11.16	11.16
INE881Jo7FC8	25-May-18	29-Jun-19	82.67	82.67
INE881Jo7FD6	25-May-18	25-May-21	22.61	22.61
INE881Jo7FE4	25-May-18	25-May-21	60.88	60.88
INE881Jo7FF1	25-May-18	25-May-21	17.36	17.36
INE881Jo7FG9	25-May-18	25-May-23	28.39	28.39
INE881Jo7FH7	25-May-18	25-May-23	112.37	112.37
INE881Jo7FI5	25-May-18	25-May-23	11.15	11.15
INE881Jo7FJ3	25-May-18	25-May-28	23.25	23.25
INE881Jo7FK1	25-May-18	25-May-28	133.94	133.94
INE881Jo7FL9	25-May-18	25-May-28	6.03	6.03
INE881Jo8664	03-July-2018	03-May-2024	50	50
INE881Jo8672	10-Oct-2018	10-Oct-2028	5	5
INE881Jo8680	13-Dec-2018	Perpetual	100	100



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)
- [Short Term Debt](#)
- [Commercial Paper](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

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