



## RATING RATIONALE

10 Sep 2019

### *SREI Equipment Finance Ltd*

**Brickwork Ratings downgrades the ratings for the Non-Convertible Debentures, Perpetual Debt Instrument and Commercial Paper programme aggregating to ₹ 6,230 Crores of Srei Equipment Finance Ltd. [hereafter referred to as “SEFL” or the “Company”]**

#### Particulars:

Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (July, 2019)	Present
Secured NCD	2,650	2,650	Long Term	BWR AA (Negative)	BWR A+ (Negative)
Unsecured NCD	2,380	2,380	Long Term	BWR AA (Negative)	BWR A+ (Negative)
IPDI	200	200	Perpetual	BWR A+ (Negative)	BWR BBB+ (Negative)
Commercial Paper	1,000	1,000	Short Term	BWR A1+	BWR A1
<b>Total</b>	<b>6,230</b>	<b>6,230</b>	<b>INR Six Thousand Two Hundred Thirty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of NCD/IPDI/Commercial Paper is provided in Annexure-I&II

#### RATING ACTION / OUTLOOK

The rating of Srei Equipment Finance Ltd (SEFL) has been downgraded considering the decreasing asset base, deterioration of asset quality due to weak credit profile of the portfolio, significant decrease in profitability due to increasing interest cost and higher provisions, declining capital adequacy ratio, 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 and adequate liquidity profile.

The outlook continues to be negative considering the risk of further weakening in asset quality, declining profitability and Asset base 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.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experienced Promoters with Established Track record:** 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. Long track record of operations in construction equipment financing, existing client relationships in infrastructure space and market knowledge of the promoters have helped the company in effectively managing the infrastructure portfolio, as demonstrated through the notable growth in its business volume over the last few years.
- **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.
- **Moderate capitalisation:** As on 30 June 2019, Total CRAR and Tier 1 CRAR of SEFL stood at 16.17% and 11.47% respectively which is very close to the RBI prescribed minimum CRAR requirement of 15% constraining the growth of loan book. However, the company has informed that they have started co-lending along with scheduled commercial banks which will reduce the capital requirements.
- **Liquidity:** Company has shared Dynamic liquidity profile as on 30 June 2019 which demonstrates sufficient liquidity and has no negative mismatches across the buckets upto 6 months. Company has Cash balances aggregating to Rs 321 Crs as on 30 June 2019 and unutilised credit lines of Rs 830 Crs as on 30 July 2019. Moreover, the company is also present in securitisation market which provides additional comfort.

## Credit Risks:

- Declining Asset Base:** Consolidated AUM has decreased from Rs 41,476 Crs in FY18 to Rs 40,909 Crs and further to Rs 39,853 Crs in Q1FY20. This is mainly due to SIFL strategically deciding to curtail disbursements due to the stress in infrastructure segment and to maintain sufficient liquidity. At the same time, SEFL has curtailed its disbursements in Q1FY20 mainly due to CRAR being very close to the regulatory requirement of 15% and the shift in focus on co lending model. This has resulted in shrinking consolidated AUM. We expect further decrease in consolidated AUM due to curtailed disbursements due to CRAR constraints and challenges faced by the company in raising funds.

On a standalone basis, SEFLs AUM witnessed a QoQ degrowth of 5% in Q1FY20 to Rs 28,492 Crs when compared to Rs 29,921 Crs in Q4FY19 due to slow down of disbursements from Rs 4,061 Crs in Q1FY19 to Rs 2,478 Crs in Q1FY20.

- Significant decline in Profitability:** On a consolidated basis, for Q1FY20 SEFL has reported PAT of Rs 42.67 Crs when compared to Rs 139.55 Crs in Q1FY19. The decline in profitability is mainly on account of increase in cost of borrowings from Rs 890.28 Crs in Q1FY19 to Rs 971.69 Crs in Q1FY20 and increase in provisions from Rs 103.32 Crs in Q1FY19 to Rs 220.70 Crs in Q1FY20. Consolidated ROA & ROE for Q1FY20 stood at 0.40 % & 4.20 % respectively when compared to 1.10% and 12.20% in Q4FY19. Given the weak credit profile of top 20 borrowers and its exposure to group companies/joint ventures, we expect a further decline in profitability due to possible slippages.

On a standalone basis, SEFL has reported PAT of Rs 40.26 Crs for Q1FY20 when compared to Rs 102.60 Crs in Q1FY19 mainly due to increase in Interest cost from Rs 486.88 Crs in Q1FY19 to Rs 602.35 Crs in Q1FY20. Net interest margin, ROA and ROE has considerably decreased to 4%, 0.60% and 5.54% respectively for Q1FY20 from 5.98%, 0.98% and 11.97% respectively for Q4FY19.

- Weak Asset Quality:** On a consolidated basis, Due to fresh slippages in Q2FY20, Gross Stage III & Net Stage III assets percentage has increased to 14.27 % 11.18 % respectively from 13.25% % & 10.61% respectively for FY19. Further the weak credit profile of top 20 standard accounts which amounts to ~30% of the total portfolio increases the risk of further deterioration of asset quality.

On a standalone basis, SEFLs Gross Stage 3 and Net Stage 3 assets percentage for FY19 have substantially increased to 8.38% & 6.70% respectively from 4.51 % & 2.71 % respectively for FY18 mainly on account of adoption of IND AS and increase in



delinquencies. Asset quality continues to remain stressed with Gross Stage 3 and Net Stage 3 assets percentage of 8.04% & 6.11% respectively as on 30 June 2019.

- **High Gearing:** As on 30 June 2019, SEFLs standalone tangible networth stood at Rs 2,888 Crs against standalone debt of Rs 21,204 Crs resulting in a high gearing of 7.34 x. As on 30 June 2019, at consolidated level, SIFLs tangible networth stood at Rs 4,111 Crs against total debt of Rs 34,424 Crs resulting in a high gearing of 8.37x. Going forward reducing the gearing levels by infusing capital and improving the profitability will be a key rating sensitivity.
- **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 AND APPLICABLE RATING CRITERIA**

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) because of their strong operational and financial integration. and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **RATING SENSITIVITIES:**

Going Forward, on a consolidated basis, the company's ability to improve the asset quality, profitability and reducing the debt levels by infusing capital with sustained improvement in overall performance of the company in the next 2-3 quarters will be key rating sensitivities.

**Positive:** The outlook may be revised to stable if on a consolidated basis, the company is able to improve its asset quality and bring down the Gross Stage III Assets below 8%, reduce its gearing below 5x and improve its profitability with ROA and ROE improving to 2 - 2.5 % and 10-12% respectively with sustained improvement in overall performance of the company.

**Negative:** The rating may be downgraded if the asset quality, profitability and asset base further deteriorates and the company is unable to reduce its gearing levels.



## **LIQUIDITY POSITION: Moderate**

Company has shared Dynamic liquidity profile as on 30 June 2019 which demonstrates sufficient liquidity and has no negative mismatches across the buckets upto 6 months. Company has Cash balances aggregating to Rs 321 Crs as on 30 June 2019 and unutilised credit lines of Rs 830 Crs as on 30 July 2019. Moreover, the company is also present in securitisation market which provides additional comfort.

## **COMPANY PROFILE**

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.

The Board of Directors of SIFL and SEFL, at their meeting held on July 4, 2019, have called off the above restructuring scheme and decided to consolidate the lending business of SIFL and SEFL into one entity. The Boards have approved transfer of Lending Business, Interest Earning Business & Lease Business ("Transferred Undertaking") of SIFL into SEFL, together with associated employees, assets and liabilities (including liabilities towards issued and outstanding nonconvertible debentures issued by SIFL), as a going concern basis by way of slump exchange, for a lump sum consideration, without values being assigned to the individual assets and liabilities, which shall be discharged by SEFL by way of issue and allotment of equity shares of SEFL to SIFL ("Slump Exchange"). The total income of the transferred undertaking constitutes 95.52% of the total income of SIFL and net assets of the transferred undertaking (representing the difference between total assets & total liabilities of Transferred undertaking) represents 32.64% of the net assets of SIFL. SIFL will remain as the 100% shareholder of SEFL and continue to operate as an investment company. It will generate only fee based income/income from investments and all lending will be done through SEFL. Further, debt level in SIFL is expected to reduce substantially with transfer of same to SEFL. The transfer of assets/liabilities is expected to be completed by September 2019. The company is in the process of getting the approvals and preparing the merged accounts of SEFL and the resultant accounts of SIFL.

**STANDALONE KEY FINANCIAL INDICATORS (in ₹ Cr)**

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Standalone AUM	Rs in Crs	27,744	29,921
Net Income from Operations	Rs in Crs	1,851	2,254
PAT	Rs in Crs	296	306
Tangible Net worth	Rs in Crs	2,552	2,849
Total Debt	Rs in Crs	19,547	20,967
Gearing	Times	7.66	7.36
CRAR	%	15.94	16.07
Gross Stage III Assets	%	4.51	8.38
Net Stage III Assets	%	2.71	6.70

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: N.A.**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY - NIL**

**RATING HISTORY**

Sl. No.	Instrument/ Facility	Current Rating ( Sept, 2019)			Rating History		
		Type	Amount (Rs in Crs)	Rating	July 2019	2018	2017
	<b>Instrument</b>						
1	Commercial Paper Programme	Short Term	1000	BWR A1	BWR A1+	BWR A1+	-
2	Perpetual Debenture	Long term	200	BWR BBB+ (Negative)	BWR A+ ( Negative)	BWR AA- (Stable)	-
3	Secured Redeemable NCD Issue		500	BWR A+ ( Negative)	BWR AA ( Negative)	BWR AA+ (Stable)	BWR AA+ (Stable)
5	Secured Redeemable NCD Issue		1100				

6	Unsecured, Subordinated (Tier II) Redeemable NCD		1100				
7	Unsecured, Subordinated (Tier II) Redeemable NCD		200				
8	Unsecured, Subordinated (Tier II) Redeemable NCD		300				
9	Unsecured, Subordinated (Tier II) Redeemable NCD		100				
10	Unsecured, Subordinated (Tier II) Redeemable NCD		100				
11	Secured NCD (Public Issue)		500				
12	Secured NCD (Private Placement)		500				
13	Secured NCD		50				
14	Unsecured, Subordinated (Tier II) Redeemable NCD		30				
15	Unsecured, Subordinated (Tier II) Redeemable NCD		100				
16	Unsecured, Subordinated (Tier II) Redeemable NCD		350				
17	Unsecured, Subordinated (Tier II) Redeemable NCD		100				
<b>Total</b>			<b>6,230</b>	<b>INR Six Thousand Two Hundred Thirty Crores only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

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

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***SREI Equipment Finance Ltd***

**ANNEXURE I**

**INSTRUMENT (NCD) DETAILS**

Instrument	Amount (Rs in Crs)	Issue Date	Maturity Date	ISIN Particulars
NCD	10.00	13-Jun-14	13-Jun-24	INE881J07DG4
NCD	10.00	20-Jun-14	20-Jun-24	INE881J07DH2
NCD	8.48	11-May-15	11-May-20	INE881J07DV3
NCD	23.23	11-May-15	11-Aug-20	INE881J07DW1
NCD	32.15	11-May-15	11-May-22	INE881J07DX9
NCD	17.00	17-Dec-12	17-Dec-22	INE881J08169
NCD	74.50	31-Mar-10	31-Mar-20	INE881J08045
NCD	25.50	19-Mar-10	19-Mar-20	INE881J08037
NCD	100.00	23-Dec-09	23-Dec-19	INE881J08011
NCD	20.80	7-May-13	7-May-23	INE881J08219
NCD	10.00	29-Jun-13	29-Jun-20	INE881J08235
NCD	16.00	27-Sep-13	27-Sep-20	INE881J08250
NCD	10.00	20-Dec-13	20-Dec-20	INE881J08276
NCD	5.00	16-Mar-15	16-Mar-25	INE881J08284
NCD	36.00	31-Mar-15	30-Jun-20	INE881J08292
NCD	50.00	13-Aug-15	13-Aug-22	INE881J08300
NCD	150.00	13-Aug-15	13-Aug-25	INE881J08318
NCD	10.00	20-Aug-15	20-Aug-25	INE881J08326
NCD	5.00	24-Sep-15	24-Sep-25	INE881J08359



NCD	23.60	24-Sep-15	24-Apr-21	INE881J08334
NCD	12.00	24-Sep-15	24-Apr-23	INE881J08342
NCD	15.00	11-Jan-16	11-Jan-26	INE881J08367
NCD	5.00	20-Jan-16	20-Jan-26	INE881J08375
NCD	7.00	1-Feb-16	1-May-21	INE881J08383
NCD	5.00	5-Feb-16	5-Feb-26	INE881J08391
NCD	5.00	18-Mar-16	18-Mar-26	INE881J08409
NCD	2.00	29-Mar-16	29-Mar-23	INE881J08417
NCD	20.00	31-Mar-16	31-Mar-26	INE881J08425
NCD	1.00	28-Apr-16	28-Apr-20	INE881J08433
NCD	20.00	25-May-16	25-May-26	INE881J08441
NCD	3.50	26-May-16	26-May-26	INE881J08458
NCD	30.00	24-Aug-16	24-Aug-26	INE881J08466
NCD	15.00	4-Oct-16	4-Oct-26	INE881J08474
NCD	5.00	6-Oct-16	6-Oct-21	INE881J07DZ4
NCD	40.00	7-Oct-16	7-Oct-26	INE881J08482
NCD	50.00	25-Oct-16	25-Apr-26	INE881J08490
NCD	1.00	28-Oct-16	28-Apr-20	INE881J08508
NCD	10.00	4-Nov-16	4-Nov-26	INE881J08516
NCD	5.00	2-Dec-16	2-Dec-23	INE881J07EA5
NCD	10.00	20-Dec-16	20-Dec-26	INE881J07EB3
NCD	0.43	17-Jan-17	17-Jan-20	INE881J07EF4
NCD	15.55	17-Jan-17	17-Jan-20	INE881J07EG2
NCD	38.25	17-Jan-17	17-Jan-20	INE881J07EH0
NCD	79.48	17-Jan-17	17-Jan-20	INE881J07EC1
NCD	0.11	17-Jan-17	17-Jan-20	INE881J07EI8
NCD	19.82	17-Jan-17	17-Jan-20	INE881J07EJ6
NCD	50.72	17-Jan-17	17-Jan-22	INE881J07EK4
NCD	47.72	17-Jan-17	17-Jan-22	INE881J07EL2
NCD	43.09	17-Jan-17	17-Jan-22	INE881J07EM0
NCD	179.46	17-Jan-17	17-Jan-22	INE881J07EN8
NCD	0.15	17-Jan-17	17-Jan-22	INE881J07EO6
NCD	17.28	17-Jan-17	17-Jan-22	INE881J07EP3
NCD	5.00	1-Mar-17	1-Jun-24	INE881J08524
NCD	5.00	9-Mar-17	9-Jun-22	INE881J08532
NCD	50.00	30-Mar-17	30-Mar-27	INE881J08557
NCD	20.00	26-May-17	26-May-24	INE881J07EQ1
NCD	10.00	31-May-17	31-May-24	INE881J07ER9

NCD	20.00	22-Jun-17	22-Jun-24	INE881J07ES7
NCD	5.00	23-Jun-17	23-Jun-27	INE881J08565
NCD	176.48	8-Aug-17	8-Nov-22	INE881J08573
NCD	150.53	8-Aug-17	8-Nov-22	INE881J08581
NCD	30.91	8-Aug-17	8-Nov-22	INE881J08599
NCD	9.32	8-Aug-17	8-Aug-24	INE881J08607
NCD	11.51	8-Aug-17	8-Aug-24	INE881J08615
NCD	2.81	8-Aug-17	8-Aug-24	INE881J08623
NCD	116.64	8-Aug-17	8-Aug-27	INE881J08631
NCD	45.78	8-Aug-17	8-Aug-27	INE881J08649
NCD	17.99	8-Aug-17	8-Aug-27	INE881J08656
NCD	20.00	15-Sep-17	15-Sep-24	INE881J07ET5
NCD	6.00	3-Oct-17	3-Oct-24	INE881J07EU3
NCD	5.00	28-Dec-17	28-Dec-20	INE881J07EW9
NCD	2.50	9-Jan-18	15-Sep-24	INE881J07ET5
NCD	1.00	17-Jan-18	15-Sep-24	INE881J07ET5
NCD	10.00	18-Jan-18	18-Jan-28	INE881J07EX7
NCD	5.00	14-Mar-18	14-Mar-23	INE881J07EY5
NCD	16.50	26-Mar-18	26-Mar-25	INE881J07EZ2
NCD	40.00	31-Mar-18	23-Jun-27	INE881J08565
NCD	5.00	4-Apr-18	4-Apr-23	INE881J07A2
NCD	5.00	6-Apr-18	4-Apr-23	INE881J07A2
NCD	4.00	12-Apr-18	4-Apr-23	INE881J07A2
NCD	22.61	25-May-18	25-May-21	INE881J07FD6
NCD	60.88	25-May-18	25-May-21	INE881J07FE4
NCD	17.36	25-May-18	25-May-21	INE881J07FF1
NCD	28.39	25-May-18	25-May-23	INE881J07FG9
NCD	112.37	25-May-18	25-May-23	INE881J07FH7
NCD	11.15	25-May-18	25-May-23	INE881J07FI5
NCD	23.25	25-May-18	25-May-28	INE881J07FJ3
NCD	133.94	25-May-18	25-May-28	INE881J07FK1
NCD	6.03	25-May-18	25-May-28	INE881J07FL9
NCD	50	03-July-2018	03-May-2024	INE881J08664
NCD	5	10-Oct-2018	10-Oct-2028	INE881J08672
IPDI	100	13-Dec-2018	Perpetual	INE881J08680

## ANNEXURE II

### List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
SREI Capital Markets Ltd	100%	Full	The Consolidated financial statements of the Group, associates and trust are presented as per Schedule III (Division III) of the Companies Act, 2013 applicable to NBFCs, as notified by the Ministry of Corporate Affairs (MCA).
SREI Alternative Investment Managers Ltd	100%	Full	
Controlla Electrotech Pvt Ltd	100%	Full	
SREI Mutual Fund Asset Management Pvt Ltd	100%	Full	
SREI Mutual Fund Trust Pvt Ltd	100%	Full	
SREI Insurance Broking Pvt Ltd	100%	Full	
Bengal SREI Infrastructure Development Ltd	51%	Full	
Hyderabad Information Technology Venture Enterprises Ltd	51%	Full	
Cyberabad Trustee Company Pvt Ltd	51%	Full	
SREI Asset Finance Ltd	100%	Full	
SREI Equipment Finance Ltd	100%	Full	
Sahaj E-Village Ltd	49.47%	Full	
IIS International Infrastructure Services, GMBH, Germany	49.13%	Full	
SREI Mutual Fund Trust	100%	Full	

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