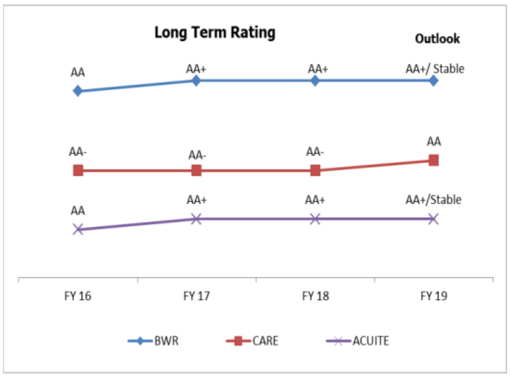
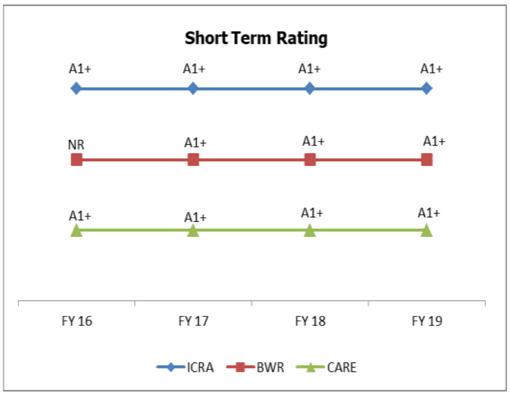
Shareholding pattern as on Dec 31, 2018

SREI Infrastructure Finance Limited (Promoter)	100%

Credit Rating History



**CARE LT Outlook: Watch with developing implications*



Financial Performance Rs. Bn

Particulars	9M 19	9M 18	% chg
NII	9.85	8.61	14%
Operating Exp (excl. Int)	3.13	2.83	11%
PAT	2.68	1.92	40%
Networth	28.17	24.55	15%
Total Debt	212	188	13%
Debt/Equity (x)	7.5	7.7	-
Cost to income (%)	NA	NA	-
ROA (%)	1.39	1.29	-
RONW (%)	13.32	10.89	-
CAR (%)^	15.24	15.9*	-
Tier I (%)^	10.04	10.7*	-
GNPA (%) #	4.0	4.2	-
NNPA (%) #	2.6	2.6	-

*^As on September 30, 2018; *As on March 2018*

 # as per on-book gross total assets

Source: Company Reports

As per IND-AS wherever applicable

Credit Drivers:

- Leadership position in equipment financing business: SREI Equipment Finance Limited (SEFL) is the market leader in the construction, mining and other allied equipment (CME) financing segment with a market share of ~33% as on FY2018 and customer base of around 67,000.
- Average Asset quality: While improvement in asset quality indicators was witnessed in FY2018, as reflected in gross and net NPA (as percentage of Gross and net advances) of 2.37% and 1.68% respectively from 2.95% & 2.12% respectively in FY2017, the asset quality remained average. Gross and net NPA (as percentage of earning assets) as per Ind-AS stood at 4.0% & 2.6% respectively as on December 31, 2018.
- Higher dependence on bank borrowings: SEFL continued to have relatively higher dependence on bank & financial institution (FI) funding. Bank borrowings constituted ~43.5% of the total borrowings followed by securitization/assignment which forms 26.3% of the total resource profile as on December 31, 2018. Borrowings from financial institutions were ~10.8% as on December 31, 2018.
- Weak capitalization: Weak capitalization profile is reflected in Tier 1 and overall capital adequacy ratio (CAR) of 10.04% and 15.24% as on September 30, 2018, marginally above the regulatory requirement of 10.00% and 15.00% respectively. Further, SEFL's gearing sharply increased to around 7.5 times as on December 31, 2018 from 5.0 times as on March 31, 2017 mainly driven by rise in borrowings to fund the significant growth in its loan portfolio.
- Improving earnings profile: SEFL reported a significant rise in profit after tax (PAT) to Rs. 2.68 billion on net interest income (NII) of Rs.9.85 billion during nine months period ended on December 31, 2018 from PAT of Rs.1.92 billion on NII of Rs.8.61 billion in the corresponding period of the previous year. SEFL reported return on assets (RoA) of 1.39% during 9MFY19 compared to 1.29% during 9MFY18.

About the Company:

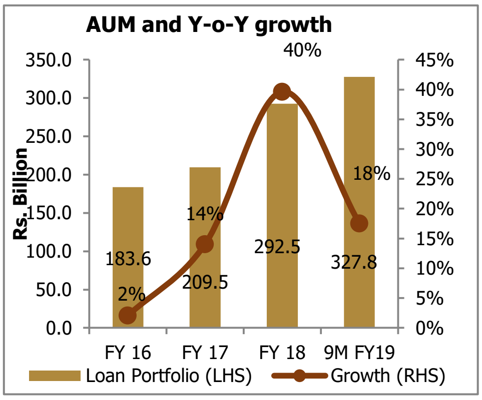
Srei Equipment Finance Limited (SEFL) was incorporated on June 13, 2006, under the name of 'Srei Infrastructure Development Ltd.' as a subsidiary of Srei Infrastructure Finance Ltd (SIFL) for financing and development of infrastructure projects. SEFL is engaged in leasing and hire-purchase financing/hypothecation of construction equipment, IT equipment, healthcare equipment and rural infrastructure.

Industry Outlook:

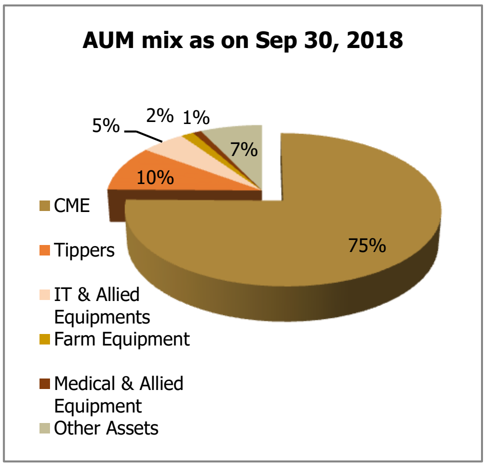
Growth in NBFC sector is expected to be impacted in FY20 given the liquidity situation, which is expected to continue in first half of FY20. NBFCs are expected to witness growth of 12-14% in FY20 with a continued competition, especially from private banks and potentially from large PSU banks. Retail segment, of which vehicle finance is the largest, will fare relatively better. From an asset quality perspective as well, while overall, the quality of retail assets is expected to remain steady, segments such as SME lending, especially loan against property (LAP), and construction/infrastructure finance could witness some pressure. Further, the wholesale book typically has significant concentration risks, which could result in chunky NPAs.

NBFCs are expected to reorient their funding mix given the current environment. On one side, securitisation has proved to be the preferred source of financing; NBFCs have also been tapping alternate sources such as public issuances of NCDs and ECBs. Relatively lower reliance on short-term borrowings while maintaining on-balance sheet liquidity is expected to impact the profitability of the sector; however, ability of NBFCs to pass on the increase in borrowing costs to their customers would define the extent of the impact. The capital position of NBFCs remains adequate with gearing levels expected to remain under control.

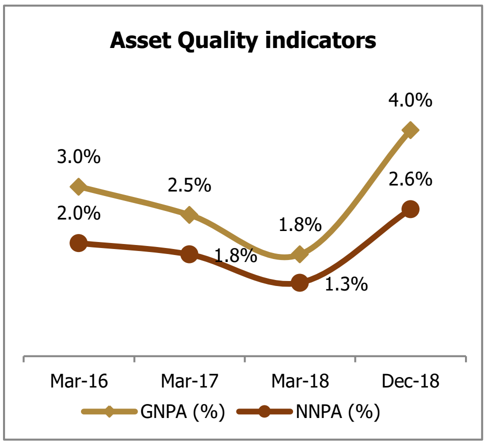
Key Credit Drivers:



<ins>Leadership position in equipment financing business</ins>: SEFL is a market leader in CME financing business with a_sound knowledge & a long track record. It had a market share of ~33% as on March 31, 2018. The loan portfolio of SEFL remains geographically diversified with a presence across 21 states in India. Further, SEFL in order to diversify its portfolio has ventured into new segments such as Medical and Allied Equipment, Farm Equipment, and IT and Allied Equipment, though its track record in these segments remains limited. The company's portfolio remains highly concentrated, with CME and Allied Equipment financing accounting for 77-82% of the total portfolio during FY16 to FY18. As on September 30, 2018, the CME and Allied Equipment segment accounted for 75.3%, followed by Tipper 9.9%, IT and Allied Equipment at 4.8%, Farm Equipment at 1.7%, Medical and Allied Equipment at 1.1% and others at 7.2%. Company witnessed strong growth in the company's assets under management (AUM) at a compounded annual growth rate (CAGR) of 27% during FY16 to FY18 to Rs. 292.48 billion as on March 31, 2018 and further to Rs. 327.76 billion as on December 31, 2018 The disbursement level of SEFL witnessed robust growth of 45% from Rs.117.1 billion in FY17 to Rs.169.9 billion in FY18 driven mainly by growth in the CME segment arising out of higher demand from infrastructure sector. During 9MFY19, the disbursements of the company declined on a Y-o-Y basis by 13% and stood at Rs.109.3 billion. The off-book portfolio forms 19% of the total AUM as on March 2018 (FY17: Off-book portfolio formed 195 of the total AUM). SEFL's assets under management of Rs.327.76 billion as on December 31, 2018 had securitized assets of around Rs.58.58 billion.

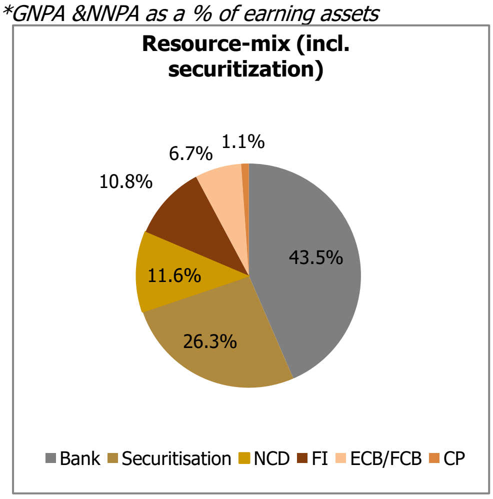


<ins>Average Asset quality:</ins> Despite SEFL's migration to the tighter NPA recognition norms of 90+dpd during FY2018 from 120+dpd during FY2017, SEFL reported an improvement in its asset quality parameters. Gross and net NPA declined to 2.37% and 1.68% respectively from 2.95% & 2.12% respectively in FY2017. The decline in asset quality parameters was on account of significant growth in the loan portfolio in FY18 (i.e. denominator effect), lower delinquencies in recent disbursements and recoveries in NPA accounts. The asset quality indicators (gross & net NPA) as reported by the company in terms of percentage of earning assets stood at 1.8% and 1.3% respectively as on March 31, 2018 (2.5% & 1.8% in FY2017). On account of slippages of a few large accounts, the gross and net NPA as on December 31, 2018 increased sharply to 4.0% & 2.6% (under Ind-AS). As per Ind AS, the company has a high share of advances in the Stage 2 assets category (i.e. overdues in 61-90 days bucket) which renders the portfolio exposed to asset quality risks. SEFL takes adequate collateral in addition to the primary security i.e. equipment to reduce the ultimate loss given default. Besides, the secured nature of asset financing, SEFL through its group companies has the ability to dispose off the repossessed assets of the defaulting borrowers.

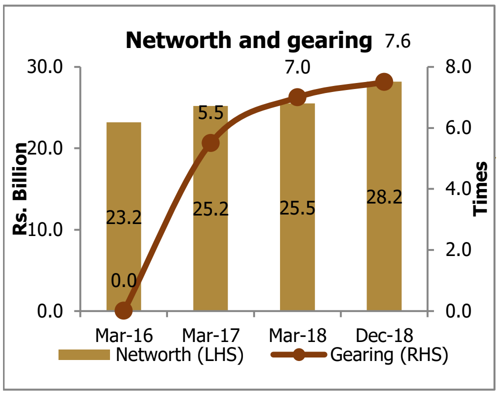


**GNPA &NNPA as a % of earning assets*

<ins>High dependence on bank borrowings:</ins> SEFL continued to have relatively higher dependence on bank & financial institution (FI) funding. Hence, there is need to diversify its resource mix. However, access to securitisation market supports the funding requirements of the company. The share of securitised assets in AUM increased to 23% (December 31, 2018) from 12% (March 31, 2015) in order to support high growth of 42% in its loan portfolio. This high reliance of securitisation was also on account of weaker capital ratios of the company and limited enhancements in working capital limits from banks/fresh term loans. As on December 31, 2018, more than half of SEFL's borrowings were loans from banks and financial institutions. The securitised assets grew at a CAGR of 39% during FY2015-FY2018 to Rs. 55.71 billion as on March 31, 2018 mainly due to funding and capital constraints. In order diversify its resource mix, SEFL mobilised long-term debt funds of Rs.6.95 billion via public debt issue (NCD) route during FY2019.

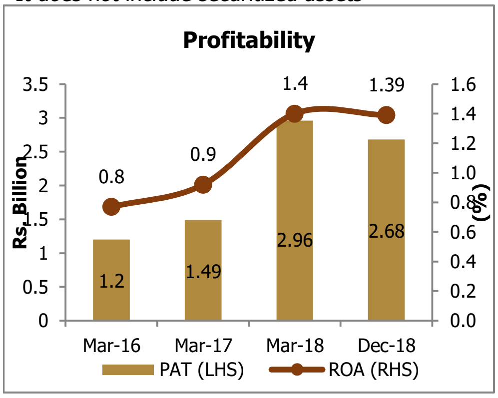


Weak Capitalization: SEFL's weak capitalization profile is reflected in a Tier I and CAR of 10.04% and 15.24% as on September 30, 2018, marginally above the regulatory requirement of 10.00% and 15.00% respectively. Further, company's debt to equity ratio increased sharply to 7.6 times as on Dec 31, 2018 on account of robust growth of 42% in its loan portfolio mainly funded by rise in overall debt of the company. The total debt level increased significantly from Rs.129.31 billion as on March 31, 2017 to Rs.195.47 billion as on March 31, 2018 to support the significant increase in disbursements during FY18. The total debt further increased to Rs.212.17 billion as on December 31, 2018. Consequently, the overall gearing increased and stood at 7.6x as on December 31, 2018. SEFL plans of raising equity through initial public offering (IPO) in order to reduce its overall gearing level got cancelled on account of ongoing scheme of arrangement and amalgamation.



It does not include securitized assets

Improving earnings profile: SEFL recorded a robust growth of about 33% in total income on a y-o-y basis in FY18. This was mainly on account of sharp increase in the loan portfolio of the company resulting in concomitant increase in interest income. Net interest income increased from Rs. 7.96 billion in FY17 to Rs. 11.54 billion in FY18. Net Interest Margin of the company improved from 4.92% in FY17 to 5.6% in FY18 (5.1% during 9MFY19) along with improvement in interest spread with better yield on advances and marginally lower cost of borrowings. The company reported PAT of Rs.2.68 billion during nine months ending December 2018 vis-a-vis Rs.1.92 billion in the corresponding period of the previous year. While SEFL's profitability indicators showed some improvement during nine months ended on December 31, 2018 as reflected in RoA of 1.39% (1.29% in 9MFY18) & RoNW of 13.32% (10.89% in 9MFY18), these profitability parameters remained relatively low compared to its compared to its peers. Further, company's ability to control its credit costs while growing its loan portfolio will be the key determinant of the return indicators going ahead.

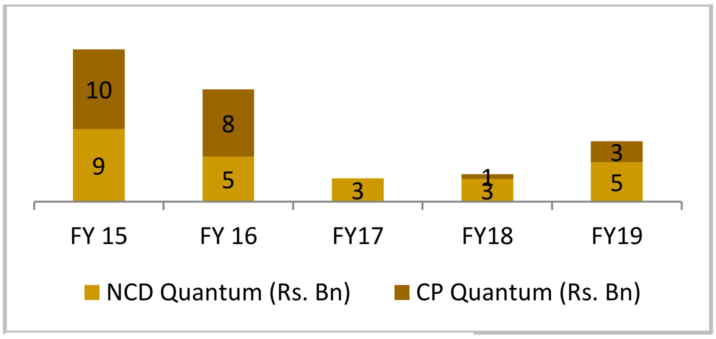


**Return on Average Earning Assets(ROA)(%) is calculated as PAT for the relevant year/period as a percentage of Average Earning Assets for such year/period*

Comfortable liquidity position:

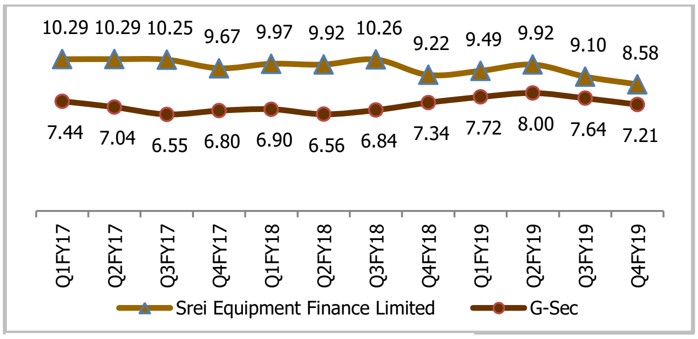
The company had comfortable liquidity profile with no cumulative mismatch in any of the less than one year buckets as on September 30, 2018. Further, the company has cushion in the form of undrawn fund based limits. To meet fund requirement and improve liquidity, the company has been doing significant amount of securitization/assignment. Further, it is also looking at raising funds through NCDs, perpetual debt, ECBs, etc.

NCD & CP Issuances over the past 5 years



*Source: Prime Database, NSDL

Credit Spread over 5 year G-sec



*Source: Reuters

Name	Designation	Name	Designation
Mr. Devendra Kumar Vyas	CEO	Mr. Pavan Trivedi	Chief Operating Officer
Mr. Indranil Sengupta	Chief Risk Officer	Mr. Manoj Kumar Beriwala	Chief Financial Officer

Latest Issuances:

Name	Type	Date	Tenor	Coupon (%)	Quantum (Rs. Bn)
Srei Equipment	Secured	Jan 30, 2019	5 Years	10.50 p.a.	30.0

Other Information:

Auditors	M/s G.P. Agrawal & Co

Financials: (Standalone as per IGAAP)

Profit & Loss Statement

Particulars (in Bn)	FY16	FY17	FY18
Operating Income	26.14	24.93	33.10
Other Income	0.01	0.07	0.12
Total Income	26.15	25.01	33.21
Employee Cost	1.46	1.55	1.89
Operating & Establishment Expenses	0.83	0.89	0.84
Administrations & Other Expenses	0.78	0.84	1.16
Provisions and Contingencies	3.96	2.53	3.42
Miscellaneous Expenses	0.12	0.09	0.20
Total Expenditure	7.15	5.90	7.52
Operating Profit	19.00	19.10	25.69
Interest	14.17	13.35	15.95
Depreciation	3.23	3.59	5.80
Profit Before Taxation & Exceptional Items	1.60	2.16	3.94

Key Ratios

Particulars	FY16	FY17	FY18
Spread Analysis (%)			
Interest Earned/Avg. Assets (%)	13.59	12.35	11.56
Interest Expended/Avg. Assets (%)	8.64	8.01	7.65
Net Interest Margin(NIM (%))	4.95	4.35	3.92
Other income/Avg. Assets	2.36	2.65	4.35
Opex/Avg. Assets	6.33	5.70	6.38
Provisions/Avg. Assets	2.37	1.52	1.64
Net SpreadPre-tax (%)	-1.40	-0.22	0.25
Operational & Financial Ratios			
Earnings Per Share (Rs)	19.32	24.95	44.17
DPS(Rs)	0.00	0.00	0.00
Book Value (Rs)	396.24	422.46	466.04
Performance Ratios			
ROA (%)	0.70	0.89	1.26
ROE (%)	5.00	6.09	9.94
Financial Stability Ratios			
Total Debt/Equity(x)	5.01	5.13	6.77

Peer Comparison as on March 31, 2018

Particulars(in Bn)	SREI Equipment Finance	L&T Infradebt	PTC India
Total Income	33.21	5.67	11.9
NII	8.17	1.35	4.4
PAT	2.63	1.49	0.3
Equity	27.80	10.16	32.19
Debt	188.19	59.20	102
CRAR (%)	15.94	-	21.2
GNPA (%)	2.20	Nil	6.5
NNPA (%)	1.30	Nil	4.2
ROE (%)	9.94	18.54	1.0
ROA (%)	1.26	2.61	0.2
Leverage (x)	6.76	5.82	4.4

Source: Company Reports, ACE Equity, GNPA & NNPA as % of Gross and Net Advances; Figures are on standalone basis

Information Source: Ace Equity, Company Reports, IBEF, NSDL, Prime Database, Bloomberg, Thomson Reuters, Rating Agencies, CRISIL

Balance Sheet

Particulars (in Bn)	FY16	FY17	FY18
EQUITY AND LIABILITIES			
Share Capital	0.60	0.60	0.60
Shareholder's Funds	23.64	25.20	27.80
Long-Term Borrowings	27.79	42.33	59.68
Other Non-Current Liabilities	3.76	4.63	8.66
Total Non-Current Liabilities	31.54	46.95	68.34
Other Current Liabilities	29.64	24.80	36.56
Short Term Borrowings	76.31	75.34	112.31
Total Current Liabilities	105.95	100.15	148.87
Total Liabilities	161.14	172.30	245.02
ASSETS	0.00	0.00	0.00
Net Block	14.18	23.37	44.50
Capital Work in Progress	0.00	0.00	0.00
Other fixed assets	0.00	0.00	0.00
Non Current Investments	0.02	0.00	0.00
Long Term Loans & Advances	0.25	87.19	120.38
Other Non Current Assets	79.60	0.76	2.59
Total Non-Current Assets	94.05	111.32	167.48
Cash and Bank	2.08	3.61	6.38
Other Current Assets	60.20	38.36	44.15
Short Term Loans and Advances	4.80	19.01	27.01
Total Current Assets	67.09	60.98	77.54
Miscellaneous Expenses not written off	0.00	0.00	0.00
Total Assets	161.14	172.30	245.02

Cash flow Statement

Year End-March (in Bn)	FY16	FY17	FY18
Profit Before Tax	1.60	2.16	3.94
Adjustment	21.58	19.37	25.09
Depreciation	3.23	3.59	5.80
Dividend Received	-0.01	-0.01	-0.11
Interest Income	0.00	0.00	0.00
Provision & Written Off	0.00	0.09	0.00
Bad debts irrecoverable written off	3.96	2.44	3.42
Provision for doubtful debts & advances	0.00	0.00	0.00
Other Adjustments	14.40	13.26	15.98
Changes In working Capital	4.79	-11.48	-45.30
Cash Flow after changes in Working Capital	27.97	10.05	-16.27
Tax Paid	-0.68	-0.58	-0.46
Extra & Other Item	-13.55	-13.68	-15.88
Cash From Operating Activities	13.75	-4.21	-32.61
Cash Flow from Investing Activities	-2.31	-7.81	-26.45
Purchase of Fixed Assets	-2.45	-8.09	-27.02
Sale of Fixed Assets	0.05	0.00	0.00
Purchase of Investment	0.00	0.00	-0.23
Sale of Investments	0.00	0.06	0.37
Investment in Subsidiaries	0.00	0.00	0.00
Dividend Income	0.01	0.01	0.11
Interest Income	0.00	0.00	0.00
Other Investment Activities	0.07	0.21	0.32
Cash from Financing Activities	-11.98	12.48	58.59
Net proceeds from borrowings & pref. shares	-14.04	5.61	39.42
Net proceeds Equity Share Capital	0.00	0.00	0.00
Other Financial Activities	2.06	6.87	19.17
Net Cash Inflow / Outflow	-0.54	0.46	-0.47
Opening Cash & Cash Equivalents	1.46	0.92	0.72
Closing Cash & Cash Equivalent	0.92	1.38	0.25