

## Rating Rationale

14 October 2021

### SREI Equipment Finance Limited

**Brickwork Ratings the ratings of SREI Equipment Finance Ltd.'s assignee payouts pool of Rs 54.13 Crs to BWR D (SO) / Issuer Not Co-operating.**

#### Particulars

Transaction	Previous Amount (Rs in Crs)	Present Amount (Rs in Crs)	Payout Maturity Date	Previous Rating (Apr 2021)	Present Rating*
Assignee Payouts	54.13	<b>54.13</b>	10 June 2024 (Revised from 10 Dec 2023)	BWR C (SO)	<b>BWR D (SO) / Issuer Not Cooperating (INC)#</b>
<b>Total</b>	54.13	<b>54.13</b>	<b>INR Fifty Four Crores and Thirteen lakhs Only</b>		

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

# Issuer did not cooperate; based on best available information.

Brickwork Ratings (BWR) downgrades the ratings, assigned to assignee payouts pool of Rs 54.13 Crs issued and originated by “SREI Equipment Finance Ltd” (SEFL) and assigned to ‘Bank of Baroda’, to BWR D (SO) / INC as tabulated above.

The rating downgrade is on account of continuous delays in meeting debt repayment obligations by SEFL, continued liquidity issues faced by SEFL who is the originator/collection and servicing agent for the said transaction coupled with very limited pool level information being shared by SEFL. Rating also factors in the fact that the management of SEFL has been superseded by Reserve Bank of India (RBI) with bankruptcy proceedings being initiated and the case admitted at National Company Law Tribunal (NCLT).

BWR would also like to inform that the company and the debenture trustee have failed to provide the latest pool performance data even after repeated follow up and hence the rating is based on the available information as on 31 Oct 2020 provided by the company. It is also pertinent to mention here that BWR is finding it difficult to obtain feedback from the investors and the debenture trustees about the conduct of various facilities and meeting of repayment obligations on time.

BWR was restrained from treating the non-payment of interest or principal as default earlier given restrictive order of the Hon. NCLT Kolkata dated 30 Dec 2020, specifically Para 34 directing credit rating agencies (CRAs) to maintain SEFL's rating at least in investment grade and directing CRA's to not treat any non payment of debt obligations as default.

BWR appealed against the Hon. NCLT order dated 30 Dec 2020 and the Hon. NCLAT (National Company Law Appellate Tribunal) Delhi order dated 5 April 2021 has stayed the relevant portion of the aforesaid Hon. NCLT, Kolkata's order. BWR has therefore recognised the continuous delays in debt repayment obligations of the company as default in line with SEBI guidelines.

On 09 Sep 2021, the Hon. NCLAT upheld the plea of UCO Bank made u/s 421 of the Companies Act 2013, challenging the order of Hon. NCLT Kolkata dated 21 Oct 2020, especially Section 23 (xviii) of the said order, which stated that the creditors to the company (SEFL) would maintain status quo and are estopped from taking any coercive action. The NCLAT held that the direction of the NCLT not to classify accounts as NPAs is not in order. Hence the directions under Section 23 (viii) of the Hon. NCLT order dated 21 Oct 2020 have been set aside. Based on the said order of the NCLAT, the lenders have declared nearly Rs. 33000 Crs of debt of the SREI Group (SEFL & SREI Infrastructure Finance Limited, mainly) as NPAs. The banks have also approached RBI for resolution of the debt.

BWR believes that it is reasonable to expect similar orders favouring other lenders also in due course.

### **Analytical Approach**

The rating is based on the analysis of the past performance of SEFL's portfolio, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool and the credit enhancement available in the transaction.

It is envisaged that for this transaction, the Assignee will avail the Partial Credit Guarantee (PCG)' under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from NBFCs/Housing Finance Companies (HFCs). Brickwork Ratings has not factored in the PCG while arriving at the assigned rating.

### **About the Originator – SREI Equipment Finance Limited (SEFL)**

SREI Equipment Finance Ltd (SEFL) is a 100% subsidiary of SREI Infrastructure Finance Ltd (SIFL). SEFL is a non-deposit taking systemically important NBFC. The company is also registered with the RBI and is classified as an Asset Financing Company (AFC). The company is a leading financier in the Construction, Mining and Allied Equipment (CME) sector in India offering loans and leases for new, as well as used equipment. The lending business, interest earning business and lease business of SIFL have merged with the company w.e.f 1 October 2019 pursuant to the slump exchange. The Company is currently rated at BWR D.

SIFL reported a consolidated net loss of Rs 3,783 crores during 9MFY21 when compared to PAT of Rs 158.40 Crs during 9MFY20 on account of higher and accelerated provisioning. Its revenues from operations for the 9MFY21 stood at Rs 2841.64 crores as against Rs 4477.13 crores in the corresponding quarter last year.

The company's total consolidated provisioning for 9MFY21 was Rs 3,100 crore due to which the consolidated net worth has decreased to Rs 296 crore for 9MFY21 which includes accelerated provision aggregating to Rs. 1,542.13 Crores of SEFL, which is over and above the normal ECL provision. BWR believes that such erosion in networth would have resulted in breach of regulatory requirements in terms of CRAR (i.e., minimum CRAR of 15%).

The company has disclosed in its 9MFY21 results that SEFL is carrying out review and reconciliation of its borrowers/operating lessees under stress and to whom the moratorium/resolution plan was granted and the corresponding ECL/regulatory provisioning as mandated by RBI. Based on the review, SEFL has, as a prudent measure, decided to make accelerated provision aggregating to Rs 1542.13 Crs which is over and above the normal ECL provision. Consequently, SEFL has reported loss after tax of Rs 3,784.27 Crs for Quarter and Rs 3,762.41 Crs for the nine months period ended on 31 Dec 2020.

#### Key Financial Ratios:

Key Financial Indicators	Units	FY19	FY20
Result Type		Audited	Audited
Consolidated AUM	Rs in Crs	47,070	44,836
Net Income from operations	Rs in Crs	2,963	2,325
PAT	Rs in Crs	487	89
Networth	Rs in Crs	4,097	4,006
Gearing	Times	8.11	8.07
Gross NPA	%	9.42	8.60
Total CRAR	%	15.60	15.70

**Key Covenants of the Instruments/Facility rated: Nil**

**Non-cooperation with previous CRAs if any: Nil**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal and suspended)**

Sl no	Instrument	Current Rating (Oct 2021)			Rating History		
		Long Term/Short Term	Amount (Rs in Crs)	Rating	2021	2020	2019
1	Assignee Payouts	Long Term	54.13	<b>BWR D (SO) / INC</b>	<b>11 Feb 2021</b> BWR BBB (SO) Credit watch with negative implications Downgrade <b>07 April 2021</b> BWR C (SO) Downgrade	<b>24 Nov 2020</b> BWR A (SO) Credit watch with negative implications Downgrade <b>28 May 2020</b> BWR AA (SO) (Stable) Affirmed <b>13 Mar 2020</b> Provisional BWR AA (SO) (Stable) Assigned	NA
<b>Total</b>			<b>54.13</b>	<b>INR Fifty Four Crores and Thirteen Lakhs Only</b>			

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

**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](#)
- [Rating Criteria for Securitisation Transactions](#)

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### **SREI Equipment Finance Ltd** **Annexure I: Instrument Details**

<b>Instrument</b>	<b>Date of First Pay-out</b>	<b>Amount (Rs in Crs)</b>	<b>Coupon Rate (%)</b>	<b>Maturity date</b>	<b>ISIN</b>
Assignee Payouts	10 Apr 2020	54.13	9.50	10 June 2024 (revised from 10 Dec 2023)	NA