

L&T Finance Holdings Ltd.

SECTOR: NBFC



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Issue Snapshot

Issue Open	27-Jul-11
Issue Close	29-Jul-11
Price Band (INR)	51-59
Issue Size (INR Mn)	15,750
Pre-IPO Placement (INR Mn)	3,300
Offer for Sale (INR Mn)	12,450
Reservation - L&T E'ees (INR Mn)	500
Reservation - L&T Shareholders (INR Mn)	1,200
Net Issue Size (INR Mn)	10,750
	QIB
	5,375
	Non-Institutional
	3,763
	Retail
	1,613
	Face Value (INR)
	10
	Book Value as of 31.03.11 (INR)
	25.4
Capital Structure	
	Pre Issue Equity (INR Mn)
	14770
	Post Issue Equity (INR Mn)*
	16880

Shareholding Pattern	Pre Issue (%)	Post Issue (%) *
Promoter & Promoter Groups	95.94%	83.94%
Other Institutions	4.06%	3.55%
Public	0	12.50%
Total	100%	100.00%
Total Shares	1,477,024,426	1,688,041,375

Objects of the Issue	Rs Mn.
Repayment of Inter Corporate Deposit	3450
Infusion in L&T Finance Ltd	5150
Infusion in L&T Infrastructure Finance Co Ltd	4850
General Corporate Purposes	[]

Website: www.ltfinance.com

L&T Finance Holding Ltd (L&TFH) was incorporated in 2008, is registered as an NBFC ND SI with RBI. It is a financial holding company offering diverse range of financial products and services across the corporate, retail and infrastructure finance sectors, as well as mutual fund products and investment management services through its wholly owned subsidiaries. The company was promoted by Larsen and Toubro limited which holds 95.94% stake currently.

Investment Rationale

- **Presence in high growth and diversified business** - Company has strong presence in high growth and diversified business which covers core business segments. This has contributed significantly to strong revenue growth and reduces risks associated with product and customer concentration.
- **High Quality Loan Portfolio** - L&TFH's portfolio has high quality loan portfolio which comprises the funding of primarily income-generating assets and activities. Further, it has established a strong credit check and asset valuation framework to monitor credit risk.
- **Strong financial and capital position** - L&TFH has had a strong ability to secure steady source of funds at competitive rates due to a good track record of financials and robust credit ratings. With further infusion of capital, it will ensure L&TFH a robust balance sheet growth in its various businesses through its subsidiaries.

Investment Concerns

- **Exposure to the MFI sector** of about INR 4000mn of which the share of Andhra Pradesh is about 50%. L&TFH has made a provision of INR 600mn during FY2011 of which INR 540mn is towards loans in AP.

Valuation

The issue is priced at 2.3x FY2011 BV (BV; based on post issue equity) which is at a marginal premium to players like IDFC, PFC etc though the business model is not strictly comparable due to L&TFH being a much more diversified play. At CMP, the issue looks fairly priced. However, L&TFH holds significant value for a long term investor based on its sound financials as well as promising growth. We recommend SUBSCRIBE.

Investment Rationale

Presence in high growth and diversified business

Company has strong presence in high growth and diversified business which cover the core business segments like infrastructure finance, construction and equipment finance, transportation equipment finance, rural products finance, microfinance, corporate loans and leases, supply chain finance, capital markets finance, the distribution of financial products and investment management products and services.

The businesses in which L&T Holdings operate such as agricultural and rural development, infrastructure and energy, have been identified by the Government of India as focus area under its latest Five Year Plan.

Company's presence in diversified businesses across asset classes and customer segments has contributed significantly to strong revenue growth and reduces the risks associated with product and customer concentration.

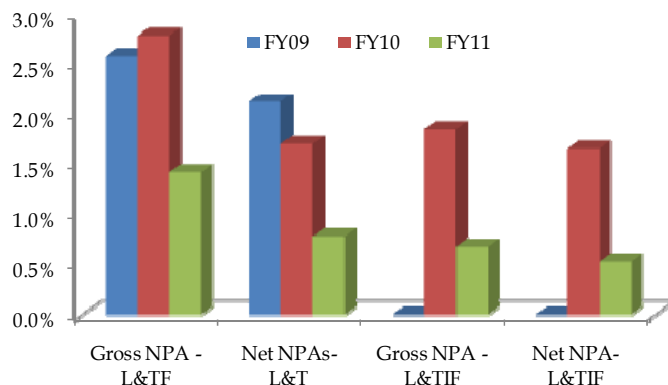
High Quality Loan Portfolio

L&TFH has high quality loan portfolio which comprises the funding of primarily income-generating assets and activities.

In addition, company's current provisioning and write-off policies and principles exceed the minimum required standard for NBFCs set by the RBI. Also, L&TFH has an established collection system which helps to manage recoveries efficiently and minimize the losses, thereby preserving the value of their assets. It has established a strong credit check and asset valuation framework to evaluate and monitor the credit risk at the time of origination till the final servicing of loan assets.

Better Asset Quality

The provisioning and write-off policies of the company are more stringent and conservative than those prescribed by the RBI for NBFCs.

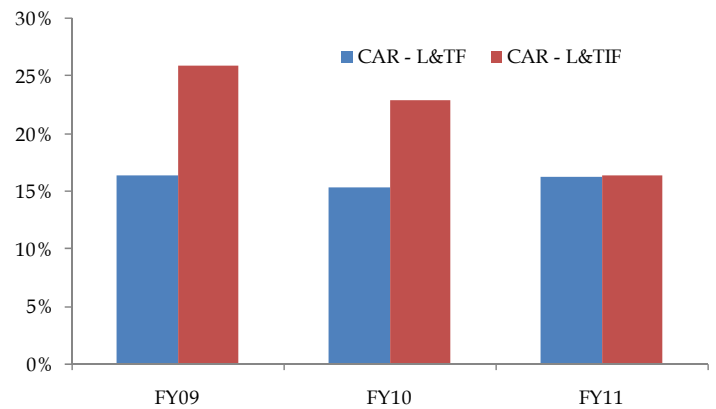


Source: RHP, SPA Research

Strong financial and capital position

L&TFH has had a strong ability to secure steady source of funds at competitive rates due to a good track record of financials and robust credit ratings.

With further infusion of capital, it will ensure L&TFH a robust balance sheet growth in its various businesses through its subsidiaries.



Source: RHP, SPA Research

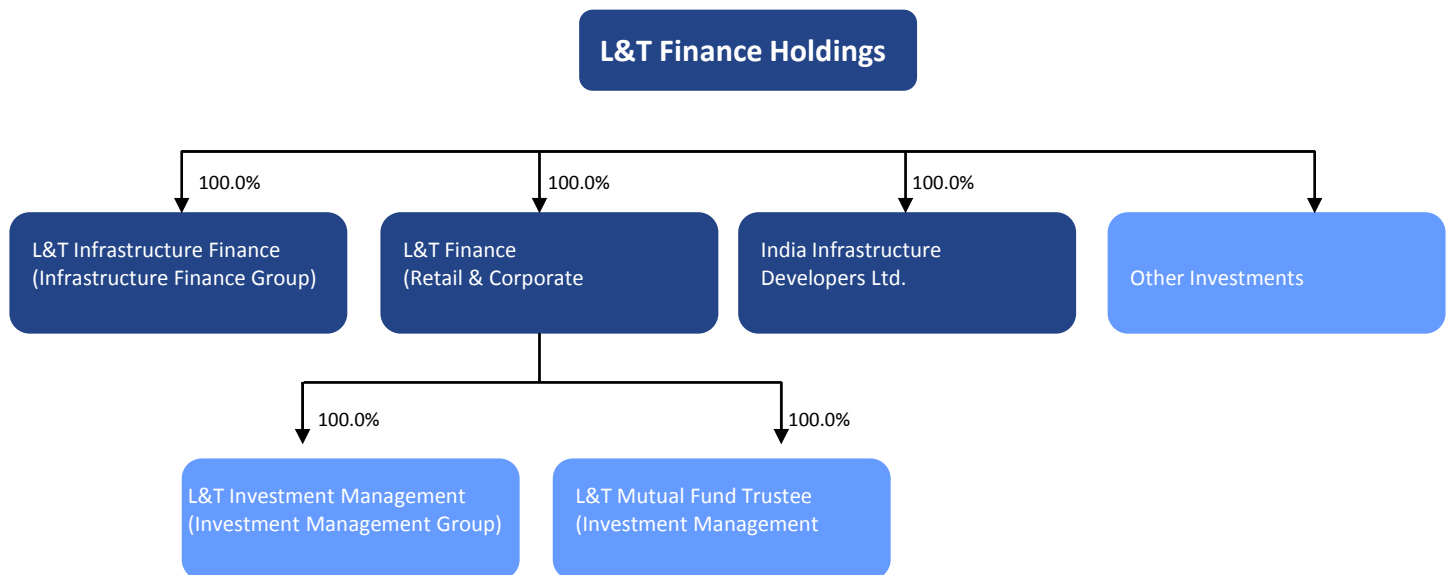
Investment Risks

- **Exposure to the MFI sector** of about INR 4000mn of which the share of Andhra Pradesh is about 50%. L&TFH has made a provision of INR 600mn during FY2011 of which INR 540mn is towards loans in AP.
- **Macro Economic Risks** like persisting inflationary situation and increasing interest rate scenario can pose a challenge to company's operating environment
- **Regulatory Risk** of any changes in its regulatory classifications or changes in RBI's policies can impact its business environment
- L&THF has filed an application with the RBI for being granted a status of CIC-ND-SI. However, it has yet to receive any communication from the RBI regarding this. In the event that its application is rejected, it may be subject to regulatory actions by the RBI including the levy of fines or penalties and/or the cancellation of Company's registration as an NBFC-ND-SI.

Company Background

L&T Finance Holding Ltd was incorporated in 2008, is registered as an NBFC ND SI with RBI. It is a financial holding company offering diverse range of financial products and services across the corporate, retail and infrastructure finance sectors, as well as mutual fund products and investment management services through its wholly owned subsidiaries. The company was promoted by Larsen and Toubro Ltd which holds 95.94% stake currently. It has pan India presence with 103 branch offices, 221 meeting centres, 27 KGSK (Kisan Gaurav Seva Kendra) centres and 364 customer care centres. Company operates through four business groups, the Infrastructure Finance Group, the Retail Finance Group, the Corporate Finance Group and Investment Management Group under its wholly owned subsidiaries.

Corporate Structure



L&T Infrastructure Finance Company Ltd

Incorporated in 2007, L&TIFC is a wholly-owned subsidiary of L&T Finance Holdings which provides financial products and services for clients engaged in infrastructure sector. It was granted Infrastructure Finance Company (“IFC”) status by RBI in July 2010. It provides finance with a diversified focus in various segments of infrastructure like power, roads, telecommunications, oil and gas and ports sectors in India.

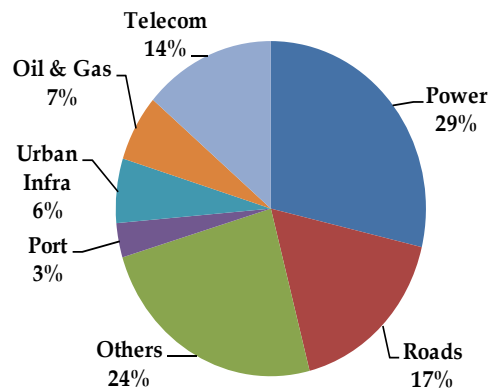
As on 31st March 2011, L&TIFC had a total loan book of INR 71.7bn and disbursements of INR 51.6bn. It contributes ~32% to consolidated entity’s total income. L&TIFC has a well diversified loan book which has witnessed improved asset quality and steady return ratios.

L&T Finance Ltd

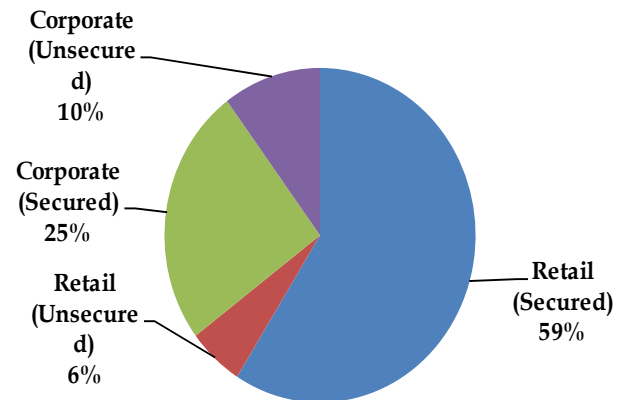
Incorporated as an NBFC in 1994, L&TF is a wholly-owned subsidiary of L&T Finance Holdings with a primary focus on short to medium term asset backed financing. It has been classified as an “Asset Finance Company” by RBI. It conducts the retail finance business and corporate finance business, both secured and non-secured. Company’s retail finance business provides financing to retail customers for transportation equipment finance, rural products finance and microfinance. L&TF’s corporate finance portfolio consists of corporate loans and leases, supply chain finance and capital market products.

The total loan book outstanding as at March 31, 2011 were INR 96.5bn and total disbursements were INR 91.8bn. L&TF has a mix of secured and non secured loan book, which has witnessed a healthy growth coupled with improved asset quality and improving return ratios.

Loan Book as on 31st Mar 11 - L&TIF



Loan Book as on 31st Mar 11 - L&TF



Source: RHP, SPA Research

L&T Investment Management Ltd

L&TIM forayed into the business in January 2010 through the acquisition of DBS Cholamandalam AMC. This wholly owned indirect subsidiary (a wholly-owned subsidiary of L&T Finance) conducts its investment management business, which comprises the mutual fund segment (including the management, administration and distribution of L&T Mutual Fund) and the portfolio management services segment (including portfolio management and sub-advisory services). The total Asset under Management of L&T Mutual Fund as of 31st March 2011 was INR 33bn.

India Infrastructure Developers Ltd

IIDL was incorporated in 1997 and is registered with the RBI as an NBFC-ND. IIDL was originally established as a special purpose vehicle (SPV) for financing a captive power plant for Indian Petrochemicals. The company does not currently conduct any material financing operations through IIDL, but plans to do so in the course of FY2012.

Valuation and Outlook

The issue is priced at 2.3x FY2011 BV (BV based on post issue equity) which is at a marginal premium to players like IDFC, PFC etc though the business model is not strictly comparable due to L&TFH being a much more diversified play. The company is present in high growth businesses (construction equipment finance, transport equipment finance, infrastructure, micro finance and rural finance) through its four subsidiaries and would generate higher return on equity (RoE) in future. Further, with a better source of funding its growth in future, we can expect to see better interest cost ratios, which will support net income as well as return ratios. At CMP, the issue looks fairly priced. However, L&TFH holds significant value for a long term investor based on its sound financials as well as promising growth. We recommend SUBSCRIBE.

Financials - L&T Finance

Income Statement (INR.Mn)	FY09	FY10	FY11
Interest Income	821	951	1373
Interest expended	514	431	641
Net Interest Income	307	520	732
Growth %		69%	41%
Other Income	9.2	14.3	24.5
Growth %		55%	71%
Net total income	317	535	756
Total Expenses	165	229	303
Pre Provision Profit	152	306	453
Provision	7	70	104
Profit Before Tax	145	236	349
Tax	47	80	119
Profit After Tax	99	156	230

Valuation Ratios	FY09	FY10	FY11
EPS (Rs)	5	7	10
BVPS (Rs)	45	53	75
ADBVPs	40	48	72

Asset Quality (%)	FY09	FY10	FY11
Gross NPAs	2.56%	2.78%	1.41%
Net NPAs	2.11%	1.70%	0.78%
Provision	17.60%	38.66%	45.03%

Balance Sheet (INR.Mn)	FY09	FY10	FY11
Share capital	187	212	230
Reserve & Surplus	634	915	1501
Net Worth	820	1127	1731
Loan Funds	4451	6418	8847
Deferred Tax Liabilities (Net)	31	22	0
Total Liabilities	5302	7567	10579
Net Fixed assets	230	394	431
CWIP	12	1	16
Investments	7	170	309
Loans & Advances	4840	6694	9646
Net Current Assets	238	308	178
Total Assets	5302	7567	10580

Profitability Ratio (%)	FY09	FY10	FY11
Yield on Funds	16%	15%	16%
Cost of Funds	12%	8%	8%
NI Spread	4%	7%	7%
NIMs	6%	8%	8%

Balance Sheet Ratio (%)	FY09	FY10	FY11
Credit/Deposit	109%	104%	109%
CAR (%)	16%	15%	16%

Financials - L&T Infra Finance

Income Statement (INR.Mn)	FY09	FY10	FY11
Interest Income	2878	4392	7022
Interest expended	1630	2456	3802
Net Interest Income	1248	1935	3220
Growth %	0	551%	664%
other income	82	113	18
Growth %	0	369%	-842%
Net total income	1330	2048	3238
Total Expenses	133	116	265
Pre Provision Profit	1248	1991	3080
Provision	77	254	58
Profit Before Tax	1140	1653	2940
Tax	375	545	931
Profit After Tax	765	1109	2009

Balance Sheet (INR.Mn)	FY09	FY10	FY11
Share capital	5000	6834	7022
Reserve & Surplus	1212	3271	5321
Net Worth	6212	10105	12342
Loan Funds	17712	32368	61935
Deferred Tax Liabilities (Net)	-51	-130	43
Total Liabilities	23873	42342	74320
Net Fixed assets	7	8	10
Capital WIP	0	0	15
Investments	1150	250	3500
Loans & Advances	22583	42554	71655
Net Current Assets	132	-470	-860
Total Assets	23873	42342	74320

Valuation Ratios	FY09	FY10	FY11
EPS (Rs)	1.5	1.6	2.9
BVPS (Rs)	12.4	14.8	17.6
ADBVPs	12.4	13.7	17.0
Asset Quality (%)	FY09	FY10	FY11
Gross NPAs	0%	2%	1%
Net NPAs	0%	2%	1%
Provision	0%	10%	22%

Profitability Ratio (%)	FY09	FY10	FY11
Yield on Funds	14%	13%	12%
Cost of Funds	10%	10%	8%
NIS	4%	4%	4%
NIMs	6%	6%	6%
Balance Sheet Ratio (%)	FY09	FY10	FY11
Credit/Deposit	1.28	1.31	1.16
CAR (%)	26.16	23.27	16.50

Financials - L&T Finance Holdings (Consolidated)

Income Statement (INR.Mn)	FY09	FY10	FY11
Interest Income	0	14056	20864
Interest expended	0	6747	10207
Net Interest Income	0	7309	10657
Other Income	0.0	183	285
Net total income	0	7492	10942
Total Expenses	0	2602	3717
Pre Provision Profit	0	4890	7225
Provision	0	949	1109
Profit Before Tax	0	3942	6116
Tax	0	-1341	-2133
Profit After Tax	0	2601	3983
Profit/ Loss of Subsidiaries	0	16	-11
Exceptional items	0	-25	-67
Prior period Items	0	-5	0
Changes in Account policies	0	43	21
Adjusted Net Profit	0	2630	3926

Balance Sheet (INR.Mn)	FY09	FY10	FY11
Share capital	10786	16286	14183
Reserve & Surplus	4550	7180	14723
Net Worth	15336	23466	28906
Loan Funds	62202	97273	159165
Deferred Tax Liabilities (Net)	258	90	-57
Total Liabilities	77796	120830	188014
Net Fixed assets	2311	3971	4348
CWIP	120	14	180
Goodwill	167	465	416
Investments	1690	3088	7324
Loans & Advances	70984	109491	174112
Net Current Assets	2524	3802	1632
Total Assets	77796	120830	188014

Peer Comparison

Peer Comparison	CMP (INR)	M Cap (INRMn)	EPS (INR)	BV (INR)	RoE (%)	RoA (%)	P/E (x)	P/BV (x)
L&TFH @ 51	51	14615	2.8	25.4	4.28	2.95	18.21	2.01
L&TFH @ 59	59	15739	2.8	25.4	4.28	2.95	21.07	2.32
PFC	206	272160	24	140	19.3	3	8.58	1.47
REC	219	216300	25	130.4	20.8	3.2	8.76	1.68
IDFC	135	198130	9	71	15.1	3.1	15.38	1.90
M&MFSL	688	71510	48	237	21.9	3.8	14.37	2.90

* All the above figures are for FY11

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Disclosure of Interest Statement

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock - No
3. Broking relationship with company covered - No

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