



L&T Finance Holding Ltd

23 July 2011

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Issue Details

Issue Opens	April 27, 2011
Issue Closes	April 29, 2011
Price Band (INR/Share)	51-59
Face Value (INR/Share)	10
No of Equity Shares (Mn)	211
Size of the Issue (INR mn)	12450/10762
IPO Grading Agency	CARE
IPO Grade	5/5

Source: RHP, Unicon Research

Shareholding Pattern (%)

Group	Pre IPO	Post IPO*
Promoters & Promoter Group	95.9	83.9
Others	4.1	16.1
Total	100	100

Source: RHP, Unicon Research

Objects of the issue

- The objective of the issue is to augment the capital base of its wholly owned subsidiaries, L&T Infra and LTF which will enable them to meet the expected growth in their loan portfolio and meet regulatory requirements.
- L&TFH plans to infuse INR 5.7 bn in L&T Finance Company Ltd., INR 5.35 bn in L&T Infrastructure Finance Company Ltd, INR 3.45 bn to repay inter corporate deposit issued by L&T
- The remaining amount would be spent for general corporate purposes.

Financial Summary	(INR mn)	
	FY10	FY11
Income	14239	21148
EBIDTA	3941	6116
PAT	2600	3982

* Source: RHP, Unicon Research

L&T Finance Holdings Ltd. (L&TFH) offers 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 direct and indirect wholly-owned subsidiaries. The company has presence in 23 states in India.

Investment Rationale

Diversified and balanced mix of high growth businesses: The companies diversified presence in various product line, catering to the needs of a diverse customer base, from construction equipment hirers, truck owners, farmers and shopkeepers and large infrastructure developers and companies, including multi-national corporations.

Strong distribution network, with presence throughout India: Its extensive network enables them to maintain and grow business, diversify risk profile and service and support customers from proximate locations, thus providing customers with convenient access to products and services.

High quality loan portfolio: For each of businesses, they have established a strong credit check and asset valuation framework to evaluate and monitor credit risk at the time of origination. The recovery process is tailored specifically to each of lines of business and is not outsourced, which allow them to directly control the slippages improving its asset quality.

Good financial and capital position, as well as access to multiple sources of capital: CARE has assigned a 'Grade 5' to the L&T Finance Holdings Ltd IPO which indicates 'Strong Fundamentals'. L&TFH with CARE rating of AA+ and an ICRA rating of LAA+. & status as a Public Financial Institution (PFI) can access new sources of funds (such as insurance companies, public trusts and pension funds) easily and at competitive rates going forward.

Concerns

It faces asset-liability mismatches which could expose it to interest rate and liquidity risks.

Any changes in regulatory requirement for NBFCs by RBI may impact its business.

Outlook & Valuation

In terms of valuation, the issue is offered at 2.4x and 2.1x its book value at upper and lower price band respectively. Other stocks within the same sector currently trades in the range of 2x-3x. The regulatory risks in the sector and the other macro factors are concerns, but we believe with diversified credit portfolio, better accounting norms L&T Finance can weather these issues better than its peers. Considering promoter's leadership position in the market, visible brand, better operational parameters & diversified credit portfolio, we expect L&TFH can command higher premium going ahead. SUBSCIRBE

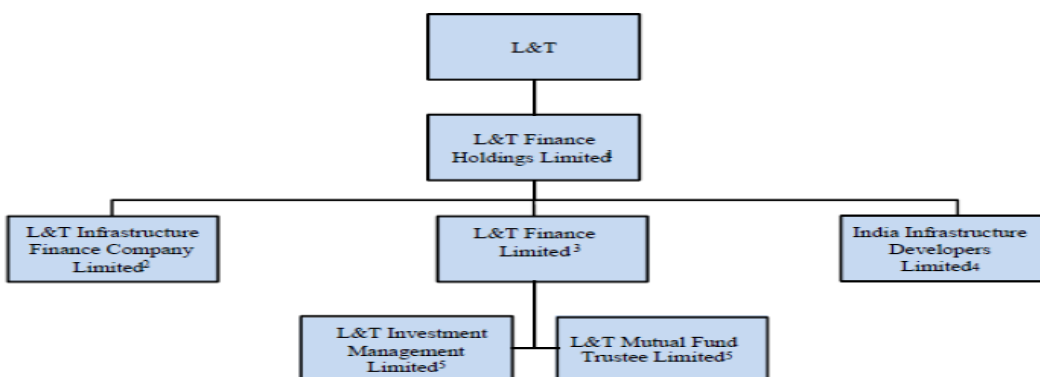


L&T Finance Holding Ltd

Company Background

L&T Finance Holdings Ltd. offers 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 direct and indirect wholly-owned subsidiaries. The company has presence in 23 states in India. The operations are arranged into four business groups, as follows

- 1) wholly-owned subsidiary, L&T Infrastructure Finance Company Limited ("L&T Infra") which is classified as Infrastructure Finance Company (IFC), provides financial products and services to customers engaged in infrastructure development and construction, with a focus on the power, roads, telecommunications, oil and gas and ports sectors in India.
- 2) L&T Finance is registered as NBFC-ND-SI and classified as an AFC. L&T Finance is the entity through which they conduct the operations of Retail and Corporate Finance Groups. Distribute third party financial products such as insurance and mutual fund etc.
- 3) India Infrastructure Developers Limited ("IIDL") is registered as NBFC-ND. IIDL was originally established as a special purpose vehicle for financing a captive power plant for Indian Petrochemicals Limited. IIDL plans to support the working capital requirements of small and medium enterprises and of other corporate entities.
- 4) L&T Investment Management Limited, L&TIM, is the entity through which they conduct operations of Investment Management Group.
- 5) In addition to the above, they have made the following investments:
 - Hold less than 5% interest in each of Federal Bank Limited and City Union Bank Limited; Hold an 8.9% interest in Invent ARC (having made an equity investment of INR 159.75 mn), an ARC which is permitted to resolve and/or reconstruct NPAs under and in terms of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002. L&T Finance Holdings Limited holds a 30% interest in NAC Infrastructure & Equipment Limited, which was formed as a joint venture between India Infrastructure Equipment Limited, the National Academy of Construction, Nagarjuna Construction Company Limited and L&T Finance, with the main object of leasing equipment to the infrastructure and construction sectors.



L&T Finance Holding Ltd

Investment Rationale

Diversified and balanced mix of high growth businesses: The company has diversified presence in various Product line across India. This will help,

1. to cater to the needs of a diverse customer base, from construction equipment hirers, truck owners, farmers and shopkeepers in the small-business segment, to medium-sized vendors, dealers, contractors and fleet owners and large infrastructure developers and companies, including multi-national corporations.
2. dealing with adversity of economic cycles

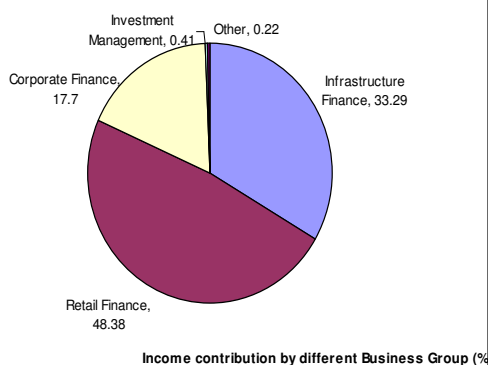
Strong distribution network, with presence throughout India: As on February 28, 2011, they have 113 branch offices, 330 meeting centers, 33 KGSK centers and 414 customer care centers across all of its business groups and segments. The pan-India of the company presence allows them to cater to a large customer base across various business segments, from retail customers and small and medium enterprises to large companies.

Its extensive network also enables them to maintain and grow business, diversify risk profile and service and support customers from proximate locations, thus providing customers with convenient access to products and services.

In particular, they have established strong reach in rural areas in India, where they maintain more than 500 points of presence (predominantly in the form of meeting centers, KGSK centers and customer care centers) in order to service the customers of the rural product finance and microfinance segments of Retail Finance Group.

High quality loan portfolio: For each of businesses, they have established a strong credit check and asset valuation framework to evaluate and monitor credit risk at the time of origination. They also have an established collection system which helps to manage recoveries efficiently and minimize losses, thereby preserving the value of assets.

The recovery process is tailored specifically to each of lines of business and is not outsourced, which allow them to directly control the recovery process. This will help to improve its asset quality and keep slippages as low as possible.



L&T Finance Holding Ltd

Good financial and capital position, as well as access to multiple sources of capital:

- CARE has assigned a 'Grade 5' to the L&T Finance Holdings Ltd IPO which indicates 'Strong Fundamentals'.
- It has strong credit ratings from both CARE and ICRA, as at May 31, 2011, L&T Finance had a CARE rating of AA+ and an ICRA rating of LAA+. L&T Infra's status as a PFI will, going forward, provide it with access to new sources of funds (such as insurance companies, public trusts and pension funds) not otherwise available to companies without PFI status.
- Credit ratings, coupled with strong brand equity enables it to access funds at competitive rates from a wide variety of market participants across a diverse array of products, including secured and unsecured loans from banks and financial institutions, commercial paper and long term debentures in the institutional and retail markets.

Strategy

Continue to expand its business to include new products and services, as well as entirely new lines of business:

It intends to explore opportunities to expand its operations by developing new products and services within existing lines of business as well as selectively identifying opportunities to expand into new lines of business. L&TFH to expand financial products segment in Retail Finance Group, financial advisory services segment in Infrastructure Finance Group and Investment Management Group to increase the contribution of fee-based income to total income. Diversification of products and services provides greater opportunities for cross-selling and to offer increasingly innovative and tailored financial solutions to its customers.

Increase the market penetration through rural focus

L&TFH seeks to expand its business by increasing the penetration in the rural and semi-urban hinterlands of India and create new markets where there exists a significant opportunity to increase revenue. Existing range of rural products includes, Kisan Gaurav and Kisan Mitra, Kisan Vanijya, Kisan Bandhu, TracFin etc.

Continue to focus on two key Indian growth stories: infrastructure and rural development

L&TFH believe the infrastructure sector in particular has demonstrated consistent growth over the years, driven by increases in government and private sector spending, and there is potential for continued growth in spending. This will have positive consequences for its Infrastructure Finance Group, as well as for the construction equipment segment of its Retail Finance Group. In order to capitalize on this growth in rural development, it will increase its presence in rural finance in general, while maintaining commitment to corporate social responsibility and the aim of achieving financial inclusion.



L&T Finance Holding Ltd

Concerns

It faces asset-liability mismatches which could expose it to interest rate and liquidity risks. For instance, as at March 31, 2011, L&T Infra's loans and advances portfolio had a substantial portion of long-term (i.e. over five years) assets, for which an exactly matching funding profile of similar maturity may not be available. Such mismatches may, as a consequence, have a material and adverse effect on its business, future financial performance and results of operations. Any changes in regulatory requirement for NBFCs by RBI may impact its business.

Peer Valuations

	Latest Price	P/E	P/BV	ROA (%)	ROE (%)	RONW (%)
L&T Finance Holding Ltd	51	42.9	2.17	3.45	18.02	13.58
IDFC	59	49.6	2.41	3.16	15.03	15.03
Mahindra & Mahindra Financial Services Ltd.	140	16.4	2.01	4.55	21.97	21.97
PFC	697	15.4	2.87	3.24	19.03	19.03
REC	213	10.4	1.84	3.39	23.18	23.18
Shriram Transport Finance Company Ltd.	224	11.0	1.99	5.22	28.40	28.40

Source: Ace equity, RHP

In terms of financial parameters we find L&T Infra and L&T Finance Ltd (contributing ~80% of revenue) has higher NIMs (4.9% & 7.8% respectively) which are higher than its peers like PFC (4%), Shriram Transport (6.2%).

Outlook & Valuation

In terms of valuation, the issue is offered at 2.4x and 2.1x its book value at upper and lower price band respectively. Other stocks within the same sector currently trades in the range of 2x-3x. The regulatory risks in the sector and the other macro factors are concerns, but we believe with diversified credit portfolio L&T Finance can weather these issues better than its peers.

We recommend **Subscribing** to this issue on following parameters: a) promoter's leadership position in the market, visible brand, b) better operational parameters, diversified credit portfolio, c) scalable business model, c) lower Tier II capital provides unlocking of ROE in future, d) banking foray in future to unlock its value. We expect L&TFH can command higher premium in future.



L&T Finance Holding Ltd

Financials

Particulars (INR million)	As at March 31,	
	2011	2010
Assets		
Fixed Assets – Gross block	9,954.80	9,378.52
Less : Depreciation	3,243.62	3,044.80
Net Block	6,711.18	6,333.72
Less : Lease adjustment	2,362.89	2,362.89
Net Block after lease adjustment	4,348.29	3,970.83
Capital Work-in-progress	180.36	13.70
	4,528.65	3,984.53
Goodwill (on consolidation)	416.01	464.98
Investments	7,324.18	3,087.60
Deferred Tax Assets (net)	56.66	-
Loans & Advances towards financing activities	174,112.32	109,490.87
Current Assets, Loans and Advances		
Sundry Debtors	3,671.59	3,888.33
Cash and Bank Balances	1,634.65	1,168.95
Loans and Advances	4,394.42	1,934.71
Other Current Assets	1,204.04	638.18
	10,904.70	7,630.17
Liabilities and Provisions		
Secured Loans	131,777.76	74,467.62
Unsecured Loans	27,386.90	22,805.81
Deferred Tax Liabilities (net)	-	89.76
Current Liabilities	7,253.17	2,906.67
Provisions	2,019.12	921.91
	168,436.95	101,191.77
Net Worth	28,905.57	23,466.38
Represented by		
Shareholders funds		
-Share Capital	14,170.24	13,535.92
-Share application money	-	2,750.00
-Employee stock options outstanding	12.26	-
-Reserves and Surplus	14,723.07	7,180.46
Less : Revaluation Reserve	-	-
Reserves (net of Revaluation Reserve)	14,723.07	7,180.46
Net Worth	28,905.57	23,466.38

Particulars (INR million)	For the year ended March 31,	
	2011	2010
Income		
Income from operations	20,863.76	14,055.96
Other income	284.67	183.19
Total	21,148.43	14,239.15
Expenditure		
Employee cost	962.38	596.81
Administration and other expenses	2,163.24	1,504.19
Provisions and contingencies	1,109.18	948.61
Interest and other finance charges	10,206.55	6,747.08
Depreciation and amortisation	542.10	475.45
Amortisation of goodwill	48.98	24.79
Preliminary expenses written off	-	0.52
Total	15,032.43	10,297.45
Operating profit	6,116.00	3,941.70
Current tax (including wealth tax)	-2,286.42	-1,523.41
Deferred tax	153.40	182.50
Provision for fringe benefit tax	0.01	-0.04
Net profit	3,982.99	2,600.75



L&T Finance Holding Ltd

Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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