Company Initiation
INDIA
FINANCIALS

18 June 2013

HOLD

TP: INR 85.00
▲ 9.2%

L&T Finance Holdings

LTFH IN

Strong growth prospects to support premium valuations

We initiate coverage on LTFH with a HOLD rating and a Sep'14 TP of Rs 85/sh. We like LTFH for its diversified product profile, strong parentage (subsidiary of L&T) and skilled management. This coupled with a low base will ensure industry-leading growth in the medium term. LTFH is also a leading contender for a new banking licence which will further accelerate growth. Valuations (lending businesses trading at 2.2x FY14E BV) are expensive given subdued ROEs, but we are long-term positive and advise buying on declines.

- **Building a comprehensive product portfolio:** LTFH, through its two key subsidiaries LTF and LTIF, has developed a strong and comprehensive lending portfolio which caters to the infrastructure, industrial, consumer and rural segments. This coupled with a low base resulted in a 39% CAGR in advances over FY08-FY13 to Rs 333bn. While total advances are in line with other NBFCs, LTFH's market share in different products is still low, implying ample opportunities for growth. We factor in 25% CAGR growth in advances over FY13-FY15. A banking licence, if granted, will further boost long-term growth. The acquisition of Fidelity MF has also positioned LTFH as a strong asset management company.
- **Robust earnings trajectory; ROEs to improve:** Lower wholesale rates are likely to boost NIMs in the lending business. This together with lower credit costs in LTF (FY12/FY13 costs were higher due to microfinance losses and provisions on some corporate assets) and reduced losses in the MF business should boost consolidated profitability. We expect consolidated earnings to grow at a 31% CAGR over FY12-FY15 and ROE to improve by 320bps to 15% over this period.
- **Valuations expensive but banking licence key catalyst:** Valuations (lending business trading at 2.2x FY14E BV) appear expensive given relatively lower ROEs. However, strong business growth potential and the likely award of a banking licence will support premium valuations, in our view. Our FY14/FY15 SOTP stand at Rs 77/Rs 91 (assuming ~2.2x Sep'14 P/BV for the lending business and 5% of AUM for the AMC).

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income (INR mln)	10,781	12,737	16,243	20,931	26,005
Net revenues (INR mln)	10,963	13,001	16,740	22,360	27,697
Pre-provision profits (INR mln)	7,784	8,677	10,424	14,498	18,086
Adj. PAT (INR mln)	3,971	4,548	5,588	8,190	10,288
Adj. EPS (INR)	2.8	2.7	3.3	4.8	6.0
ROE (%)	n.a	11.9	14.3	13.9	15.1
ROA (%)	n.a	2.0	2.3	2.0	2.0
Gross NPA (%)	n.a	2.5	2.7	2.7	2.7
CAR (%)	n.a	16.7	16.5	15.3	14.8
P/BV (x)	n.a	n.a.	2.4	2.1	1.8
P/E (x)	n.a	n.a.	23.9	16.3	13.0

Source: Company, Bloomberg, RCML Research

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PRICE CLOSE (18 Jun 13)
INR 77.85

MARKET CAP
INR 133,650 mln
USD 2,274 mln

SHARES O/S
1,716.8 mln

FREE FLOAT
17.5%

3M AVG DAILY VOLUME./VALUE
1.3 mln/ USD 1.8 mln

52 WK HIGH	52 WK LOW
INR 79.60	INR 76.10

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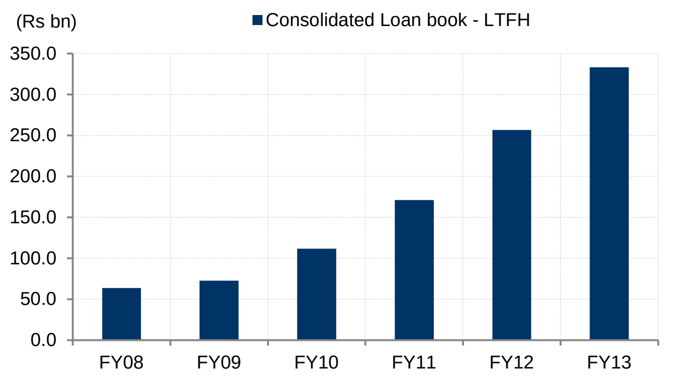
Evolving into a comprehensive financial services player

LTFH – the financial services arm of India's largest infrastructure developer Larsen & Toubro (L&T) – is one of the fastest growing financial players in India. The company has invested in strategic acquisitions to build expertise in a wide range of financial products, including lending to the infrastructure, industrial, retail and rural segments and asset management. A low base and diversified product profile have fuelled a strong 39% CAGR in consolidated advances over FY08-FY13 to Rs 333bn.

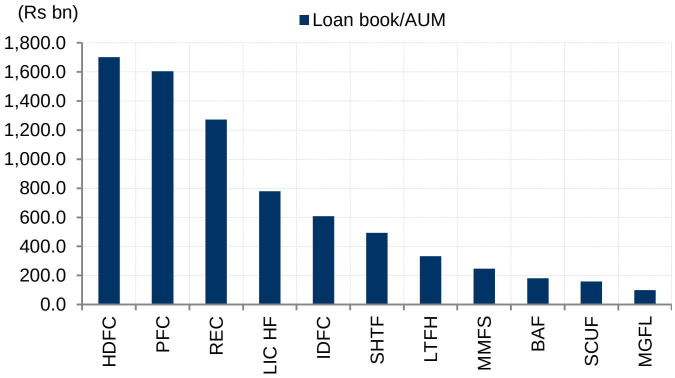
Diverse product offerings have led to 39% CAGR in advances over FY08-FY13 to Rs 333bn

Fig 1 - Strong growth in loan book



Source: Company, RCML Research

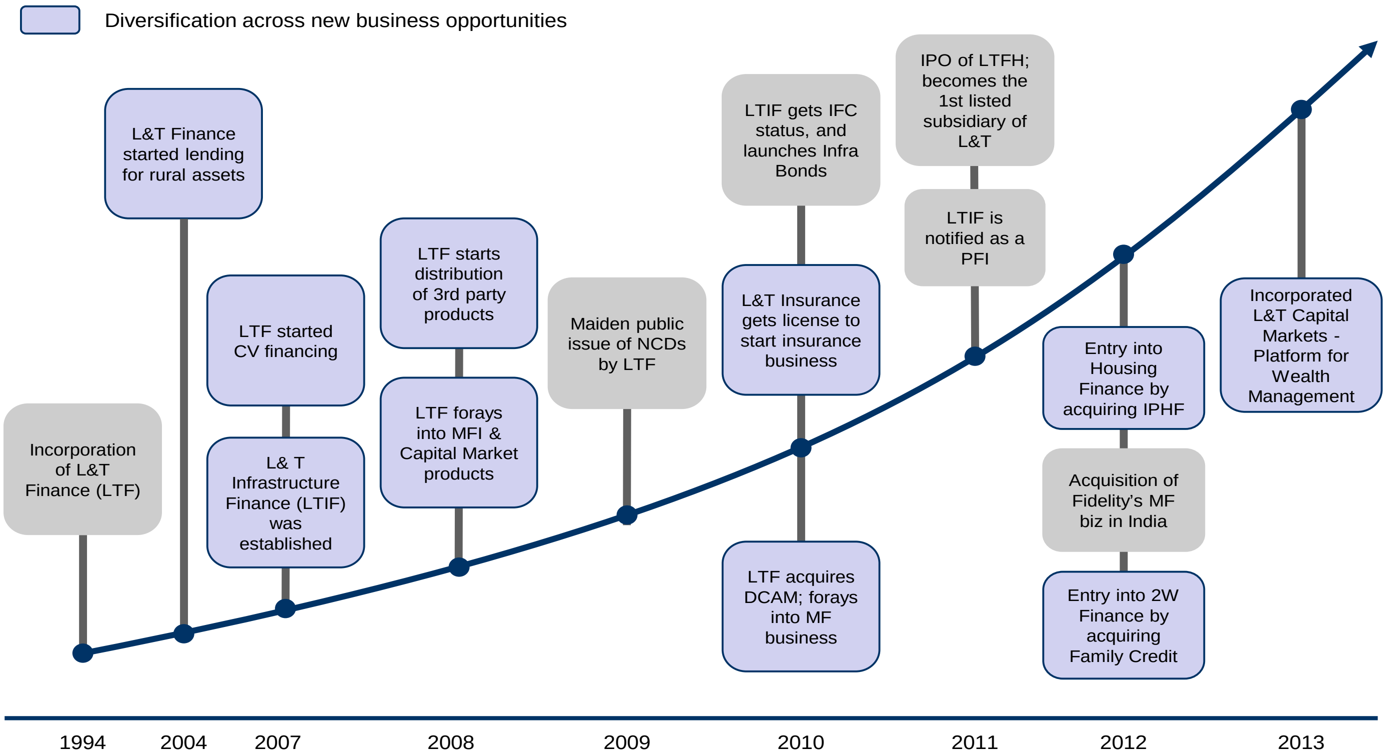
Fig 2 - Loan book compared to other NBFCs – FY13



Source: Company, RCML Research

The sharp growth in loan book has been driven by rapid expansion of product portfolios and distribution network. We note that L&T first ventured into financial services in 1994 with L&T Finance (LTF, currently a wholly owned subsidiary of LTFH), but the group started to focus on the business in earnest only after 2005.

Fig 3 - Product evolution – LTFH



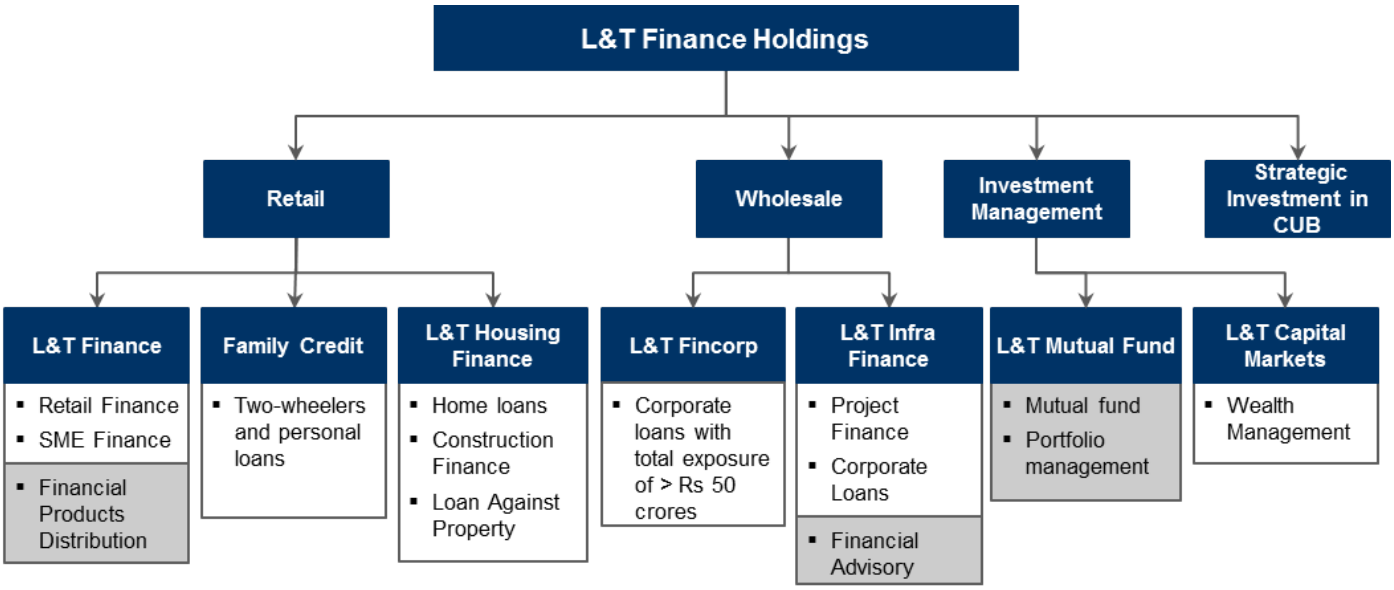
Source: Company, RCML Research

Over the past decade, the group has engineered rapid expansion in its financial services portfolio and distribution network through LTFH, as follows:

Portfolio developed via slew of acquisitions over the past 10 years

- Ventured into **rural segments** in 2004.
- Entered into **commercial vehicle (CV)** and **infrastructure financing** in 2007, besides strengthening its distribution and sales team across segments.
- 2010 marked an entry into **asset management** via the acquisition of DBS Cholamandalam Mutual Fund. Acquired Fidelity's MF business in FY12.
- Recently acquired Indo Pacific Housing Finance (IPHF) and Family Credit (owned by Societe Generale) which will enable entry into **housing finance** and **two-wheeler financing/auto loans**.

Fig 4 - Organization structure – LTFH



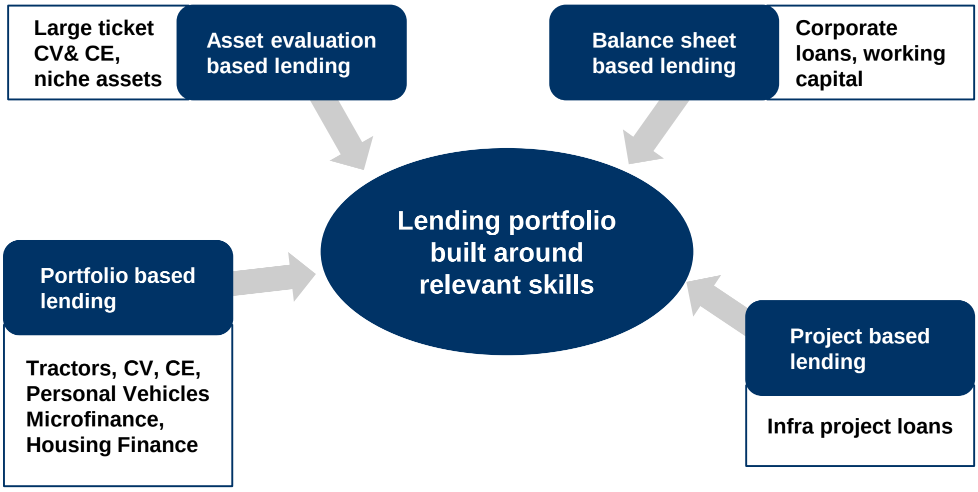
Source: Company, RCML Research

Lending business – low base and diversified products to drive industry-leading growth

Business model based on 3 delinked business cycles – rural, infra and industry – aiding consistent growth

LTFH's lending business is spread across the infrastructure, corporate and retail segments (vs. the niche presence of other NBFCs), which enables it to offer a wide range of products to customers. As per management, the business model is based on three delinked business cycles – the rural, infrastructure and industry cycles – to achieve consistent growth and returns.

Fig 5 - Lending strategy – LTFH

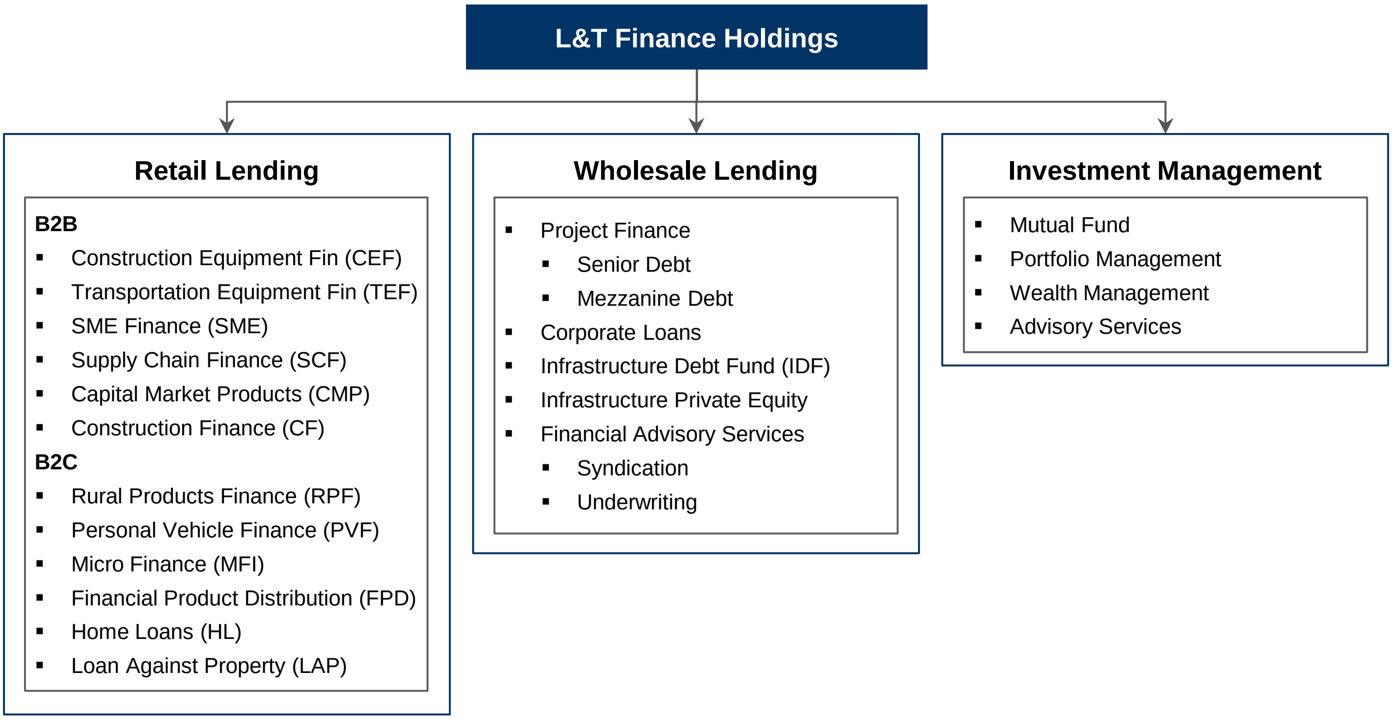


Source: Company, RCML Research

A diversified loan portfolio also means that while the overall loan book is in line with other mid-sized NBFCs, growth opportunities are higher for LTFH as its market share in the individual segments is much lower.

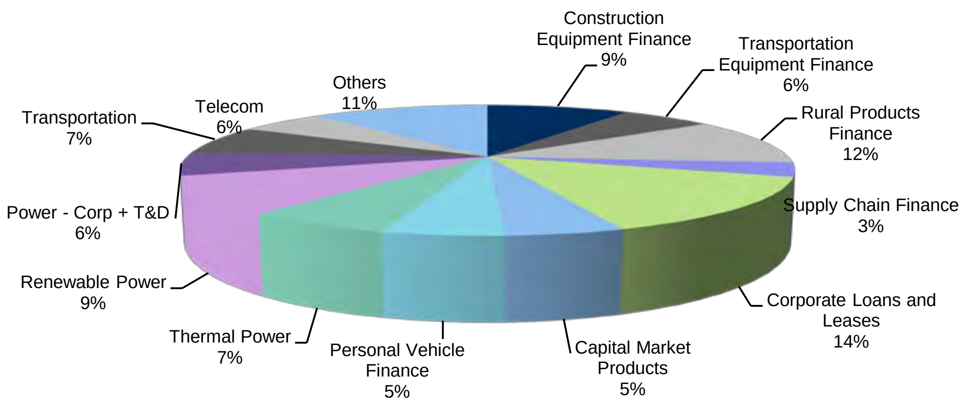
Significant scope to expand market share

Fig 6 - LTFH has a diversified product portfolio



Source: Company, RCML Research

Fig 7 - Loan book composition – LTFH – Mar 2013



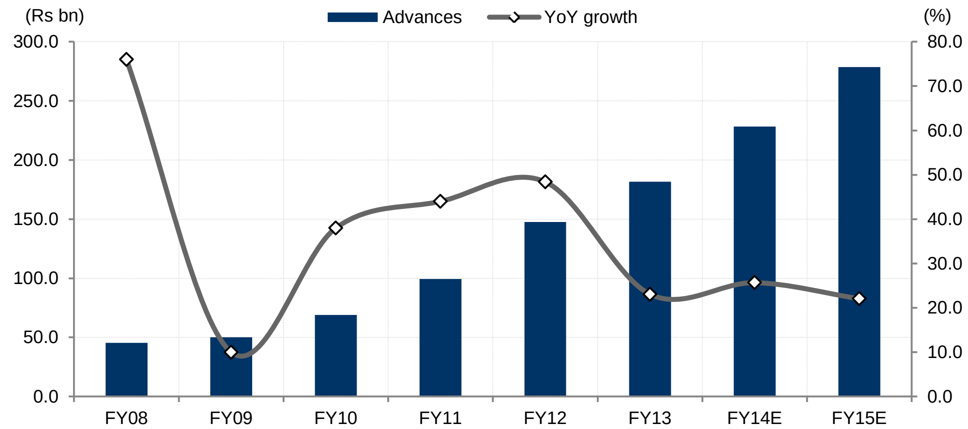
Source: Company, RCML Research

Retail and Corporate finance – large bouquet of products

L&T Finance (LTF) is a wholly-owned subsidiary of LTFH involved in lending to the retail and corporate segments. The company has clocked a strong 32% CAGR in advances over FY08-FY13 driven by a diversified product portfolio, low base and robust demand in the rural and consumer loan segments. LTF started SME financing in 1994 and ventured into the rural segment with products such as tractor, car and small CV financing, farm equipment and diesel gen-set financing, working capital financing for rural entrepreneurs and commodity lending for warehouse receipts. It recently forayed into two-wheeler financing and consumer loans by acquiring Family Credit.

LTF's advances grew at 32% CAGR over FY08-FY13 driven by a strong portfolio, low base and high rural demand

Fig 8 - Loan book growth – Retail and Corporate Finance



Source: Company, RCML Research

LTF (including Family Credit) has a varied product portfolio spread across the corporate, consumer and rural segments. Key business lines are:

- **Construction equipment finance:** LTF finances a wide range of construction equipment such as earth-moving equipment, cranes and road pavers, for construction companies and contractors. The company offers short- and medium-tenor loans with monthly/quarterly repayment and has tied up with several equipment dealers and manufacturers (including L&T Construction Equipment Ltd) for loan origination.

Slowdown in construction and transport equipment financing in FY13

Given the sharp slowdown in infrastructure projects, LTF has been cautious on lending to this segment in FY13. As a result, its disbursements to construction equipment finance declined by 31.5% YoY to Rs 15bn. Advances also declined by 6.9% YoY to Rs 30.2bn, falling from a 22% share of LTF's overall advances in March'12 to 16.6% in March'13.

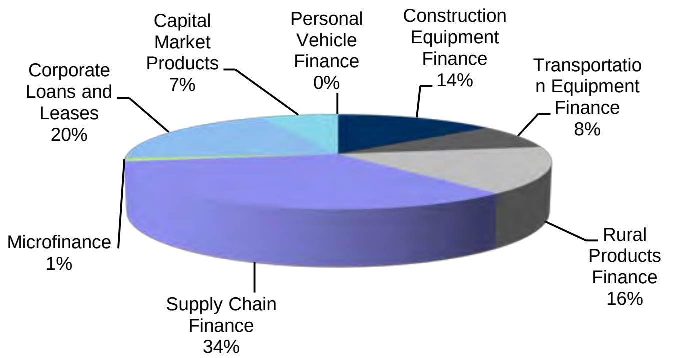
- **Transport equipment finance:** LTF has tied up with CV dealers and manufacturers for transport equipment finance. It normally offers 3-5-year loans with LTV of 85-90%. Given muted IIP growth, high interest rates and the sharp increase in fuel costs from diesel hikes, truck operators' profitability has come under pressure. As a result, GNPLs in this segment have increased, particularly in the small and medium fleet owner category. Thus, LTF exercised caution in lending to this segment as well and disbursements declined 40% YoY in FY13 to Rs 7.7bn. Advances also dipped 7.0% YoY to Rs 19.4bn and the proportion to LTF's total advances fell from 14% in March'12 to 10.6% in March'13.

Strong disbursal growth in rural segment at 42% YoY to Rs 35bn in FY13

- **Rural product finance:** LTF finances tractors, small commercial vehicles and cars in the rural segment. Given strong economic growth in the rural segment and financial under-penetration, this segment is showing robust growth. Disbursements grew by 42% YoY in FY13 to Rs 35bn, thereby constituting ~22% of total disbursals in FY13 vs. 16% in FY12. Total advances have also posted impressive growth of 33% and now constitute ~21% of the overall loan book. Given the small base, low market share and healthy rural demand, we believe the rural segment will continue to grow at a 35% CAGR in the near term.

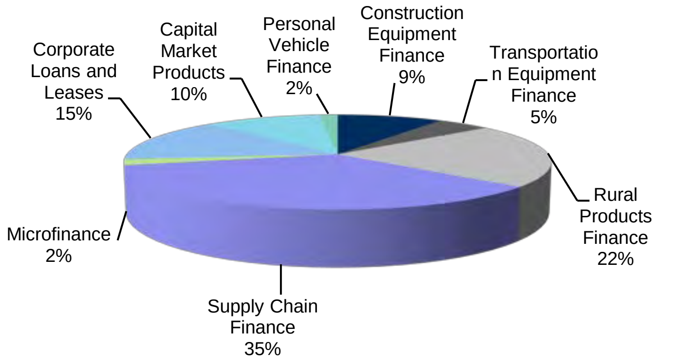
- **Supply chain finance:** The company provides vendor financing by discounting invoices, and dealer financing via short-term credit facilities to dealers of large companies. Supply chain finance constituted ~35% of total disbursements in FY13, but only 6% of the total loan book.

Fig 9 - Composition of disbursements – FY12



Source: Company, RCML Research

Fig 10 - Composition of disbursements – FY13



Source: Company, RCML Research

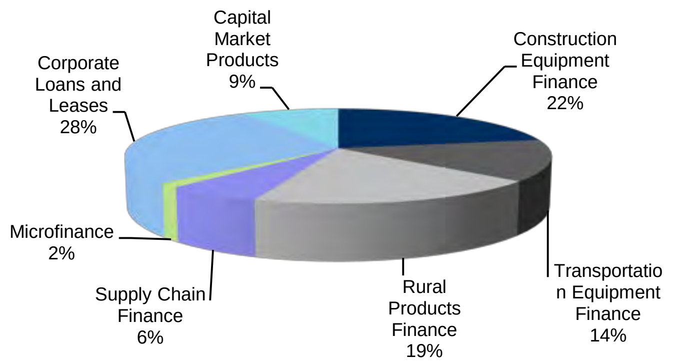
Corporate loans and leases to be a key driver for growth

- **Corporate loans and leases**: Corporate loans and leases (which include asset-backed term loans to corporates and SMEs for purchase of plant and machinery, IT equipment and transportation) currently constitute 26% of the loan book. While disbursements declined by 21% in FY13 and loan growth also moderated to 13% YoY, we believe this segment would remain a key growth driver in coming years.

- **Personal vehicle finance**: With the acquisition of Family Credit in 2012, LTF has ventured into two-wheeler financing (Family Credit was also present in auto financing). Currently this constitutes ~9% of the loan book. Given the favourable base, we expect this book to grow at a much faster pace than overall advances.

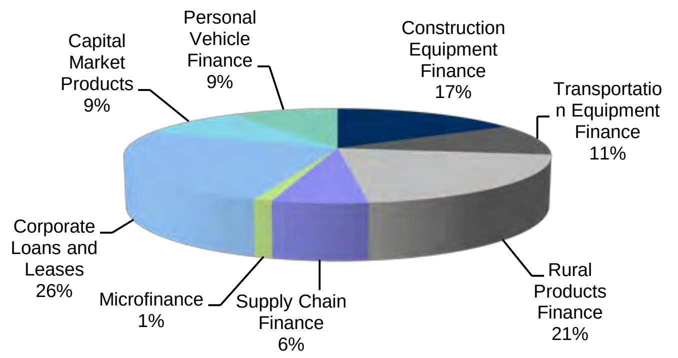
- **Microfinance**: LTF scaled up its microfinance portfolio in 2010; however, post Andhra Pradesh's Microfinance Act, the company went slow in this segment. LTF has already made provisions on the Andhra Pradesh portfolio (total provisions in the segment stood at Rs 750mn/Rs 600mn for FY12/FY13; with these, the Andhra Pradesh portfolio has now been completely provided for). The company currently has a small presence in six states (total portfolio of Rs 2,150mn/Rs 1,790mn) and primarily engages in lending on joint liability basis.

Fig 11 - Composition of loan book – FY12



Source: Company, RCML Research

Fig 12 - Composition of loan book – FY13



Source: Company, RCML Research

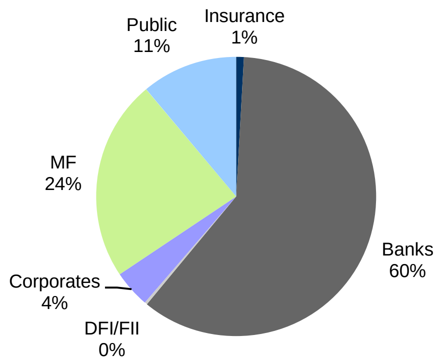
LTF's overall disbursement growth has been muted in FY13 at 4% YoY to Rs 161.8bn due to a sharp decline in construction and transportation equipment finance disbursal as well as subdued growth in supply chain finance (+ 9% YoY). As a result, loan book growth has moderated from 48% YoY in FY12 to 23.3% in FY13. We expect disbursements to pick up to a 24% CAGR over FY13-FY15 driven by robust growth in rural product finance, healthy growth in other product segments and the low base of Family Credit (where total disbursement was just Rs 2.6bn in FY13 as the acquisition was completed only on 31 Dec 2012). Adjusted for Family Credit, we expect disbursements to grow at a 20% CAGR over FY13-FY15. The loan book is likely to grow at a 24% CAGR over FY13-FY15 to Rs 279bn.

Expect LTF's disbursements to pick up to a 24% CAGR over FY13-FY15

Decline in wholesale rates and Family Credit acquisition to help NIMs

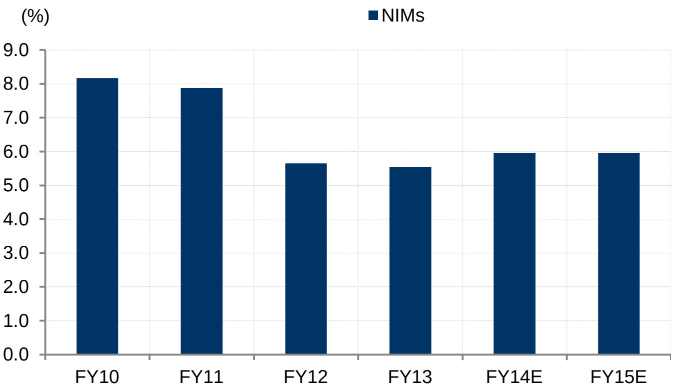
LTF's NIMs have been under pressure in FY12/FY13 due to the sharp increase in wholesale rates. The company's borrowing profile is skewed towards bank borrowings (currently 60-62% of borrowings). Consequently, a higher cost of bank borrowings in FY12 led to a sharp decline in NIMs from ~8% in FY11 to 5.5-5.6% in FY12/FY13.

Fig 13 - Composition of borrowings – FY13



Source: Company, RCML Research

Fig 14 - NIMs came under pressure in FY12

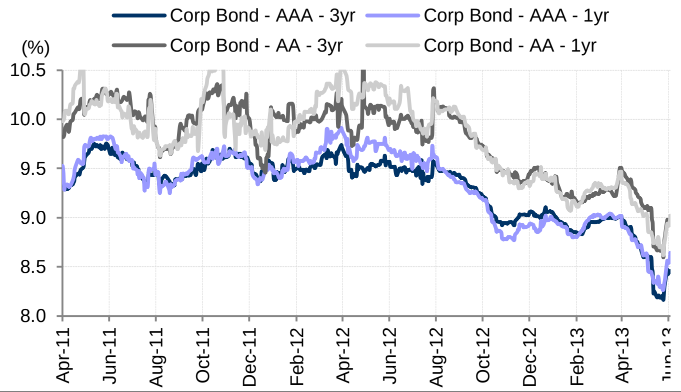


Source: Company, RCML Research

Over the last 6-9 months, wholesale rates have declined sharply which should help NIMs, as the cost of funds will come down more than the yield on assets (as advances are primarily fixed in nature). We note that yields on 3-year AAA/AA rated corporate bonds have declined by 110bps/135bps since August'12. Banks' base rate/PLR have come off by less during this period (SBIN's PLR down 30bps) as banks have been reluctant to pass on policy rate cuts due to high deposit rates.

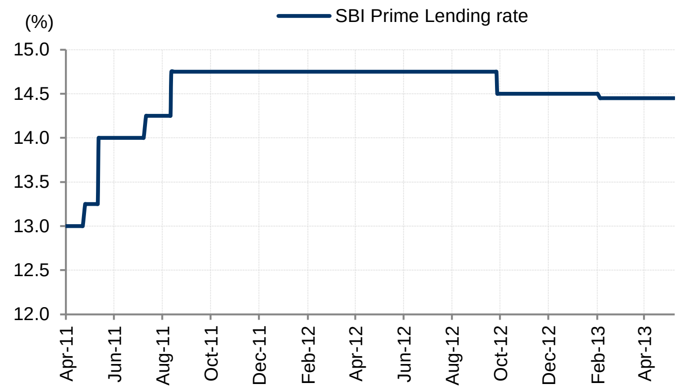
Fall in wholesale rates to aid NIMs as cost of funds will come down more than yield on assets

Fig 15 - Wholesale rates have declined in last 9 months



Source: Company, RCML Research

Fig 16 - Banks' PLR and base rate have also come down



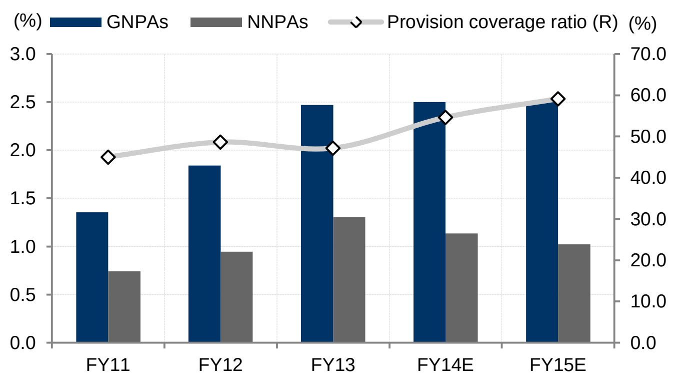
Source: Company, RCML Research

The acquisition of Family Credit will also help NIMs as average yields on the two-wheeler and consumer loan portfolio are higher than LTF's blended yields. With the inclusion of Family Credit's portfolio, reported NIMs improved by 68bps QoQ in Q4FY13. We expect calculated NIMs to improve from 5.5% in FY13 to 6.0% in FY14/FY15.

NPLs to stabilise at current levels; credit costs to decline

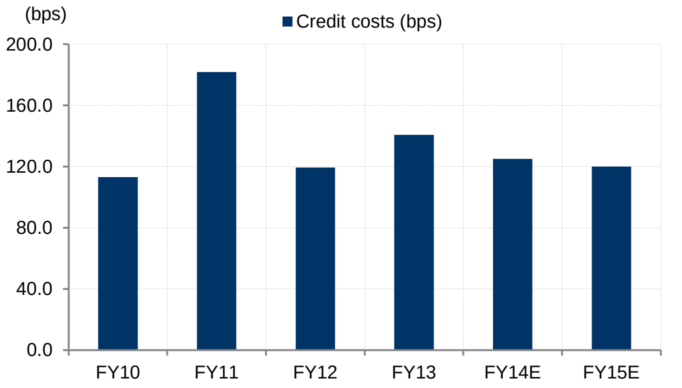
LTF's asset quality was under pressure in FY13 as the sharp slowdown in macroeconomic activity affected customers, particularly in the transportation and construction equipment segment. As a result, GNPLs/NNPLs increased from 1.8%/0.95% in March'12 to 2.5%/1.3% in March'13.

Fig 17 - GNPLs have increased in FY13



Source: Company, RCML Research

Fig 18 - Credit costs likely to decline in FY14/FY15



Source: Company, RCML Research

Credit costs in the retail and corporate finance business stood at 120bps/140bps in FY12/FY13; however, this included provisions for the microfinance portfolio and some adjustments for corporate assets. Adjusted for microfinance provisions, credit costs stood at 105-110bps in FY13. While provisions on the two-wheeler and consumer loan portfolio will be higher, we expect overall credit costs to decline from 140bps in FY13 to 120-125bps in FY14/FY15 due to lower losses on the microfinance portfolio.

LTF's credit costs to decline 20bps in FY14/15 due to lower losses on microfinance and corporate loans

Profitability lower in FY12/FY13 but likely to improve

ROE/ROA of the retail and corporate finance business declined from ~16%/2.4% in FY10 and FY11 to ~10%/1.5% in FY12 and FY13 due to NIM compression and higher provisions towards the microfinance and corporate loan portfolio. We expect ROE to increase to 14%/15% in FY14/FY15 as improvement in NIMs (led by lower wholesale rates and an increasing proportion of higher yield assets in the total loan book) and normalization of credit costs boost profitability.

ROE to rebound to 14%/15% in FY14/FY15 on NIM improvement and credit cost normalization

Fig 19 - Du pont analysis – Retail and Corporate Finance

Y/E 31 Mar (%)	FY10	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income / Assets	7.8	7.5	5.5	5.4	5.8	5.9
Non-interest income / Assets	0.2	0.3	0.3	0.3	0.3	0.3
Operating expenses / Assets	3.4	2.5	2.5	2.4	2.3	2.4
Provisions / Assets	1.0	1.6	1.1	1.3	1.2	1.1
Taxes / Assets	1.2	1.2	0.7	0.5	0.6	0.6
ROA	2.3	2.4	1.5	1.5	2.0	2.0
Equity / Assets	14.7	15.1	15.1	14.8	14.2	13.4
ROAE	15.9	15.7	9.7	10.4	13.9	14.9

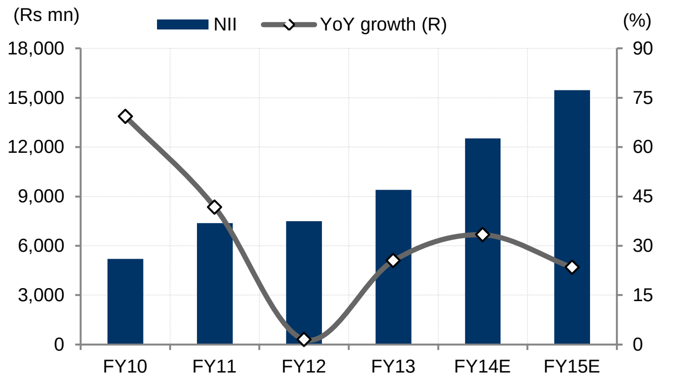
Source: Company, RCML Research

Expect 40% earnings CAGR over FY13-FY15

We expect NII to grow at a 28% CAGR over FY13-FY15 driven by a 24% CAGR in advances and ~50bps improvement in NIMs. We are factoring in a stable cost-to-asset ratio (at 2.35-2.4%); however, the cost-to-income ratio is expected to decline from ~42% in FY12/FY13 to 38-39% due to strong revenue growth. PAT is likely to grow from Rs 2.7bn in FY13 to Rs 4.2bn/Rs 5.2bn (40% CAGR) in FY14/FY15 due to reduction in credit costs.

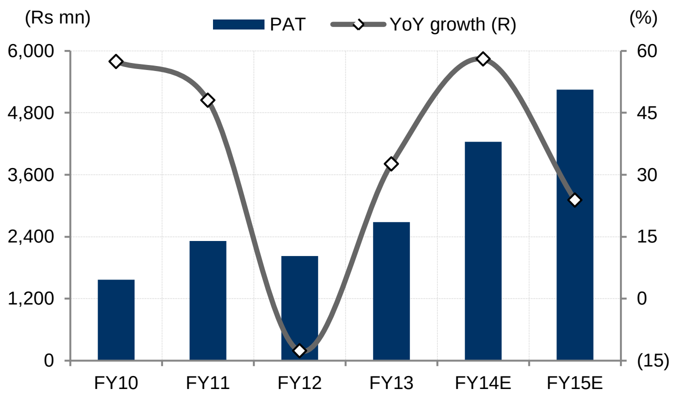
Lower credit cost should support 40% earnings CAGR for LTF through FY15

Fig 20 - NII to grow by 28% CAGR



Source: Company, RCML Research

Fig 21 - PAT to double by FY15



Source: Company, RCML Research

Profitability lags peers but earnings growth higher

Despite an expected improvement in ROE in FY14/FY15, LTF's profitability is lower than that of other retail NBFCs. However, we expect earnings growth to remain above its peers driven by a diversified product portfolio and favourable base.

Fig 22 - LTF's ROEs are lower than other retail NBFCs

(in %; Yr-end: Mar)	FY13 Advances (Rs bn)	Advances CAGR (FY12-FY15E)	PAT CAGR (FY12-FY15E)	Avg. NIMs (FY13-FY15)	Avg. ROA (FY13-FY15E)	Avg. ROE (FY13-FY15E)
HDFC	1,700	19.0	17.8	3.5	2.9	22.0
LICHF	778	21.8	19.2	2.3	1.5	18.4
SHTF	359	23.2	13.9	8.6	3.3	20.4
MMFS	240	26.8	28.0	9.3	3.8	22.7
BAF	167	29.6	30.6	10.3	3.7	20.9
LTF (Retail/ Corporate financing)	182	23.6	37.5	5.8	1.8	13.1
SCUF	134	25.4	29.0	10.4	4.1	20.4

Source: Company, RCML Research

Financial statements & Key financial ratios – Retail and Corporate Finance

Financial ratios - Retail and Corporate Finance

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Spread Analysis					
Interest spreads	6.0	3.6	3.4	4.0	4.1
Yield on advances	15.6	14.2	14.5	14.7	14.7
Yield on assets	14.1	13.0	13.3	13.7	13.8
Cost of funds	8.1	9.4	9.9	9.7	9.7
NIMs	7.9	5.6	5.5	6.0	6.0
Operating ratios					
Operating cost to income	32.7	42.9	41.7	38.3	38.7
Operating expenses / Avg assets	2.5	2.5	2.4	2.3	2.4
Asset quality and capital					
Gross NPA	n.a.	1.8	2.5	2.5	2.5
Net NPA	n.a.	0.9	1.3	1.1	1.0
CAR	n.a.	16.4	17.5	16.3	15.6
Growth ratios					
Net interest income	41.7	1.5	25.5	33.3	23.4
Non-interest income	71.9	56.0	28.8	15.9	15.9
Pre-provisioning profit	67.6	(12.4)	28.3	40.2	22.3
Net profit	48.0	(12.7)	32.6	58.0	23.9
Assets	49.6	34.0	22.4	23.5	21.7
Advances	48.8	36.3	23.1	25.6	22.0

Du Pont analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income / Assets	7.5	5.5	5.4	5.8	5.9
Non-interest income / Assets	0.3	0.3	0.3	0.3	0.3
Operating expenses / Assets	2.5	2.5	2.4	2.3	2.4
Provisions / Assets	1.6	1.1	1.3	1.2	1.1
Taxes / Assets	1.2	0.7	0.5	0.6	0.6
ROA	2.4	1.5	1.5	2.0	2.0
Equity / Assets	15.1	15.1	14.8	14.2	13.4
ROAE	15.7	9.7	10.4	13.9	14.9

Income statement – Retail and Corporate Finance

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Interest income	13,801	17,807	23,289	29,494	36,466
Interest expense	6,425	10,320	13,894	16,967	21,008
Net interest income	**7,375**	**7,487**	**9,395**	**12,527**	**15,458**
Non-interest income	246	384	494	573	664
Net revenues	**7,621**	**7,870**	**9,889**	**13,099**	**16,121**
Operating expenses	2,495	3,377	4,123	5,018	6,240
Pre-provisioning profit	5,126	4,493	5,766	8,082	9,881
Provisions	1,610	1,495	2,267	2,507	2,976
PBT	3,516	2,998	3,499	5,575	6,905
Income tax	1,201	976	817	1,338	1,657
Reported PAT	**2,316**	**2,022**	**2,682**	**4,237**	**5,248**

Balance sheet - Retail and Corporate Finance

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Advances	105,943	144,432	177,787	223,360	272,603
Investments	3,158	3,060	3,672	4,406	5,288
Current assets	3,335	3,285	3,713	4,204	4,767
Fixed assets	4,474	5,022	5,522	3,522	4,022
Other assets	465	1,488	1,786	2,143	2,572
Total assets	**117,374**	**157,288**	**192,480**	**237,635**	**289,251**
Share capital	3,320	4,084	4,084	4,084	4,084
Reserves and surplus	14,956	19,185	24,270	28,506	33,754
Networth	**18,276**	**23,269**	**28,354**	**32,591**	**37,839**
Total borrowings	93,620	126,313	154,812	193,792	237,835
Other liabilities	5,277	7,614	9,129	10,954	13,145
Provisions	301	470	563	676	811
Deferred tax liabilities	(99)	(379)	(379)	(379)	(379)
Total liabilities	**117,374**	**157,288**	**192,480**	**237,635**	**289,251**

Infrastructure finance – strong parentage to support growth

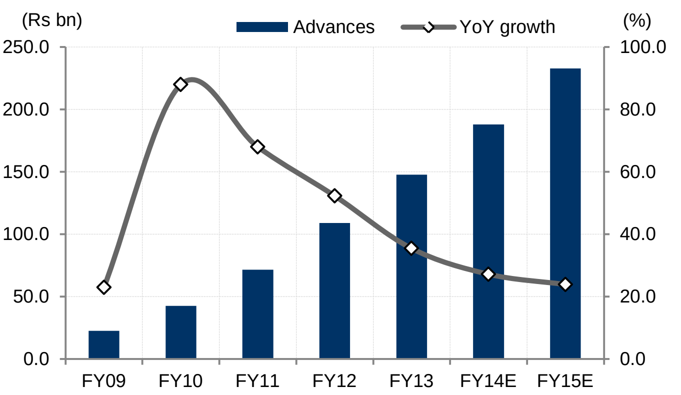
L&T's project execution skills, domain expertise and client relationships give LTIF a solid competitive edge

L&T Infrastructure Finance (LTIF) was established in FY07 to tap financing opportunities in the infrastructure segment. The company has registered strong business growth since inception with advances logging a 52% CAGR over FY08-FY13 to Rs 148bn. Parent company L&T's robust project execution capabilities, domain expertise and strong client relationships give LTIF a solid competitive edge, in our view.

LTIF currently offers corporate loans as well as project loans to infrastructure developers. It also provides equity-related financing to a few projects. As on 31 March 2013, corporate loans/project loans/equity investments constituted 38%/60%/2% of the total book. Of total project loans, ~50% was towards projects currently under development.

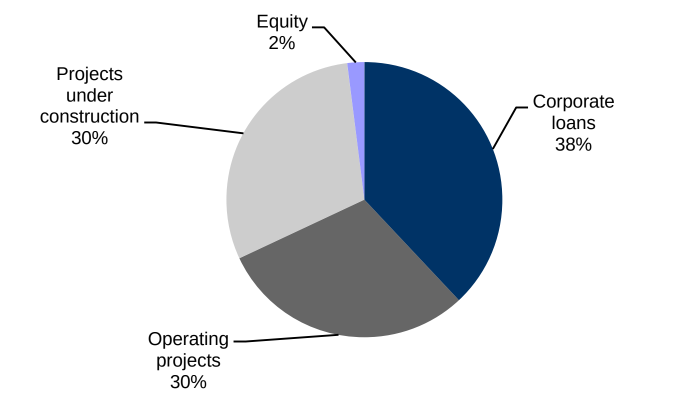
Despite strong advances growth since inception (partly due to a low base), LTIF's base remains low when compared to other infrastructure financing NBFCs like PFC/REC (Rs 1.6tn/Rs 1.3tn in Mar'13), IDFC (Rs 608bn in Mar'13) and banks. As a result, we expect strong growth to continue in the near-to-medium term.

Fig 23 - Loan book growth – LTIF



Source: Company, RCML Research

Fig 24 - Portfolio breakup – FY13

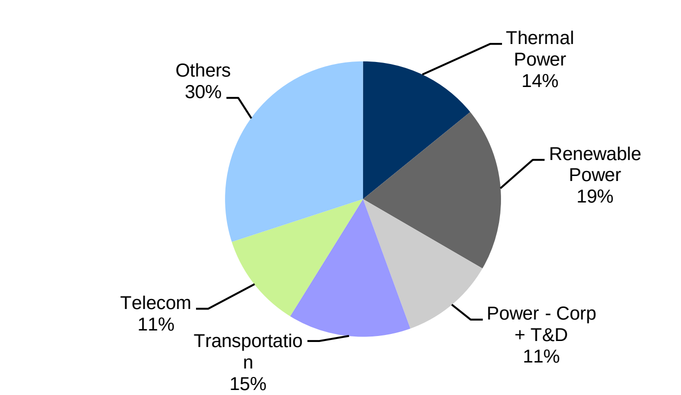


Source: Company, RCML Research

Diversified loan book provides comfort

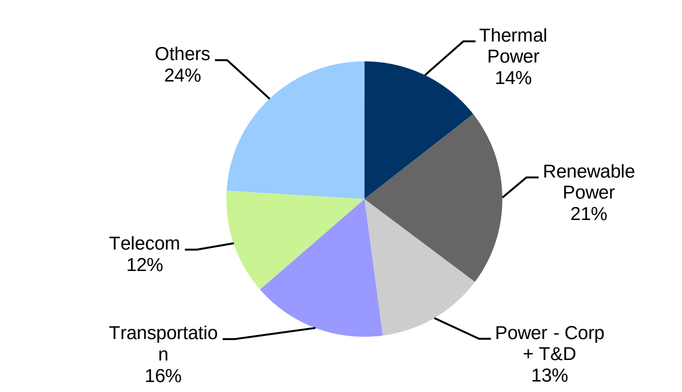
A sharp slowdown in infrastructure spend, regulatory constraints, high leverage of infrastructure developers and cash flow mismatches have raised concerns over the infrastructure loan quality of banks and NBFCs. However, we believe a diversified loan book and strong project appraisal skills (due to L&T's domain knowledge and an experienced management team) provide comfort in the case of LTIF.

Fig 25 - Composition of advances – FY12



Source: Company, RCML Research

Fig 26 - Composition of advances – FY13



Source: Company, RCML Research

We note that management has been cautious towards thermal power projects (which are facing several hurdles such as availability of coal and regulatory clearances) and hence disbursements towards these projects have declined from Rs 12.1bn in FY12 to Rs 7bn in FY13. LTIF is focusing on renewable power projects which now constitute ~21% of the total loan book. Given no fuel supply concerns and lower regulatory overhang, we believe underlying risks on these projects are much lower. This apart, exposure to transportation/telecom stood at 16%/12% at the end of March'13.

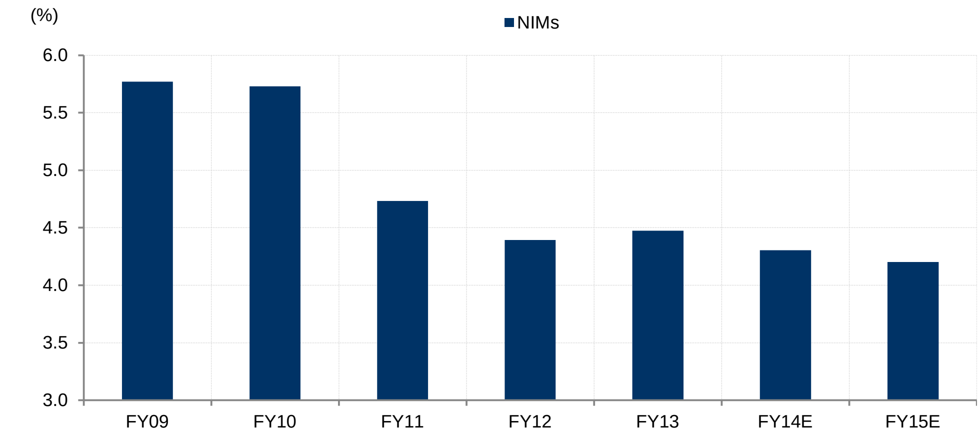
LTIF has been cautious on infra-related disbursements in FY13

On the whole, LTIF has been cautious on infrastructure-related disbursements in FY13. Total disbursements grew by only 8% YoY to Rs 66.5bn. However, total advances grew by 35% YoY to Rs 148bn due to a low base. We expect an 18% disbursement CAGR over FY13-FY15 and advances CAGR of 26% to Rs 233bn by March'15.

Factoring in marginal decline in NIMs

While lower wholesale rates are likely to support NIMs, we note that incremental loan addition is likely to come from large and better rated corporates. As a result, we expect yield on assets to come under pressure and NIMs (calc) to decline from 4.5% in FY13 to 4.3%/4.2% in FY14/FY15.

Fig 27 - LTIF: NIMs likely to decline in FY14/FY15



Source: Company, RCML Research

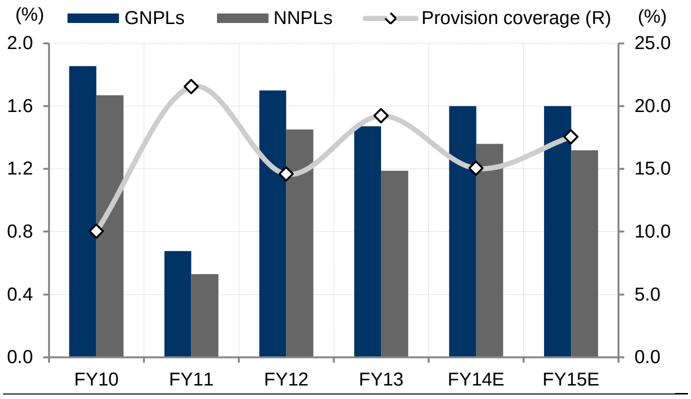
Credit costs to stabilise at current levels

Given concerns on infrastructure projects and large ticket sizes of loans, we believe the underlying risks on LTIF are higher than that on LTF. However, we derive comfort from a diversified loan book and the management's cautious approach in the last two years (disbursal to thermal power projects has declined 42% YoY in FY13 to Rs 7bn and loan book exposure is down to 14%).

Credit costs to remain stable given management's conservative approach and focus on large, high quality loans

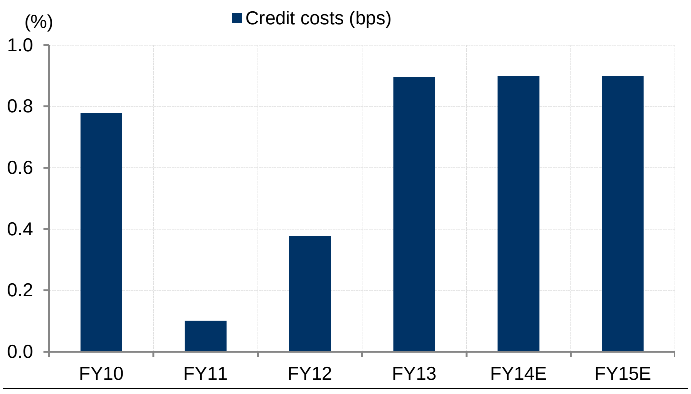
LTIF's total provisions increased from Rs 332mn in FY12 to Rs 1.1bn in FY13 (up from 38bps in FY12 to 90bps in FY13) given higher stress in the infrastructure portfolio. Considering the management's conservative approach and focus on high quality, large ticket loans, we expect credit costs to remain largely stable at 90bps in FY14/FY15.

Fig 28 - GNPL trends – LTIF



Source: Company, RCML Research

Fig 29 - Credit costs likely to remain stable



Source: Company, RCML Research

ROE to remain in 16-17% range

LTIF's ROA has declined from 3.3% in FY10/FY11 to 2.8%/2.6% in FY12/FY13 due to NIM compression and higher provisions. ROE, however, has remained at ~17% due to higher leverage. We expect a further decline in ROA but believe the higher leverage will keep ROE largely stable.

Higher leverage to keep ROE stable at ~17%

Fig 30 - Du pont analysis – LTIF

Y/E 31 Mar (%)	FY10	FY11A	FY12A	FY13A	FY14E	FY15E
Net interest income / Assets	5.7	4.7	4.4	4.5	4.3	4.2
Non-interest income / Assets	0.3	0.7	0.6	0.5	0.5	0.5
Operating expenses / Assets	0.4	0.4	0.6	0.6	0.6	0.6
Provisions / Assets	0.8	0.1	0.4	0.8	0.9	0.9
Taxes / Assets	1.6	1.5	1.2	0.9	0.9	0.8
ROA	3.3	3.3	2.8	2.6	2.5	2.4
Equity / Assets	24.3	19.1	16.6	15.9	14.9	14.1
ROAE	13.5	17.5	16.9	16.6	16.7	17.1

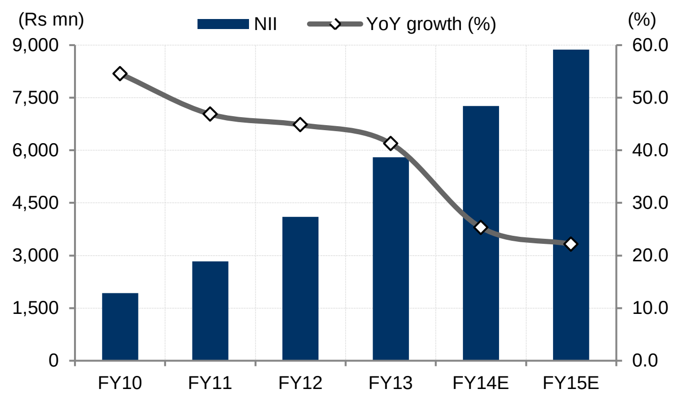
Source: Company, RCML Research

Expect 22% earnings CAGR over FY13-FY15

We expect NII to grow at a 24% CAGR over FY13-FY15 driven by a 25% CAGR in advances. PAT is likely to grow at a 21.5% CAGR during the same period (from Rs 3.4bn in FY13 to Rs 5.1bn in FY15) as we conservatively factor in a 28% CAGR in provisions.

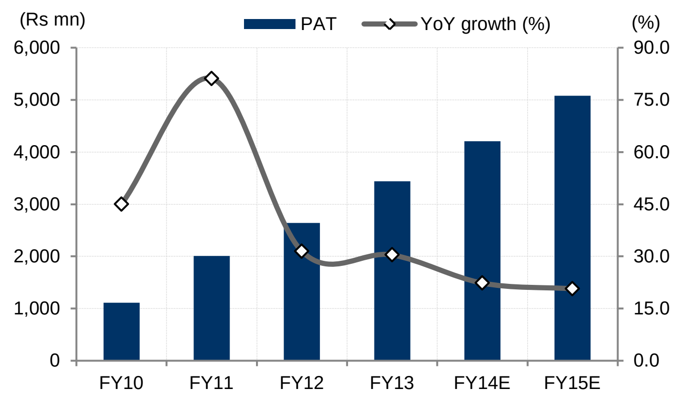
Earnings growth to be ahead of peers

Fig 31 - NII to grow at 24% CAGR



Source: Company, RCML Research

Fig 32 - PAT to grow at 22% CAGR



Source: Company, RCML Research

Profitability in line with peers but growth likely to be higher

LTIF's NIMs are largely in line with peers; however, ROA is marginally lower due to higher credit costs. ROE is better than IDFC's but lower than PFC and REC due to lower leverage. We expect earnings growth to be stronger than peers in the medium term supported by a low base.

Fig 33 - LTIF – operating performance compared to other IFCs

(in %; Yr-end: Mar)	FY13 Advances (Rs bn)	Advances CAGR (FY12-FY15E)	PAT CAGR (FY12-FY15E)	Avg. NIMs (FY13-FY15)	Avg. ROA (FY13-FY15E)	Avg. ROE (FY13-FY15E)
LTIF	142	28.4	24.1	4.4	2.5	16.8
PFC	1,605	18.1	26.1	4.4	3.0	20.1
REC	1,265	23.9	24.0	4.6	3.2	24.2
IDFC	608	18.7	16.9	4.0	2.8	14.9

Source: Company, RCML Research

Infrastructure Debt Fund – Likely to boost earnings in the long term

IDF not factored into our numbers; could boost consol. earnings from FY15 onwards

LTIF is setting up an infrastructure development fund (IDF) through the NBFC route and is in the advanced stage of discussions with prospective investors. We believe an IDF will complement LTIF's existing business by giving it access to foreign investors by way of various tax incentives (Govt. has announced tax-exempt status to IDF NBFCs and lower tax for foreign debt investors with a withholding tax cap of 5%).

As per management, the IDF is likely to focus on low yielding projects and could boost returns due to access to cheaper funds and lower risk weights (RBI has announced 50% risk weights for assets under IDF NBFCs, implying higher leverage). We are not factoring in any earnings from the IDF for now though this could boost consolidated earnings from FY15 onwards.

Financial statements & Key financial ratios – Infrastructure Finance

LTIF Financial ratios

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Spread Analysis					
Interest spreads	3.0	2.5	2.8	2.8	2.8
Yield on advances	11.6	12.8	12.6	12.4	12.3
Yield on assets	11.0	12.0	12.0	11.8	11.7
Cost of funds	8.1	9.5	9.2	9.0	8.9
NIMs	4.7	4.4	4.5	4.3	4.2
Operating ratios					
Operating cost to income	7.4	11.8	12.1	12.1	12.4
Operating expenses / Avg assets	0.4	0.6	0.6	0.6	0.6
Asset quality and Capital					
Gross NPA	n.a.	1.7	1.5	1.6	1.6
Net NPA	n.a.	1.5	1.2	1.4	1.3
CAR	n.a.	16.4	15.8	14.7	14.3
Growth ratios					
Net interest income	46.9	44.8	41.3	25.3	22.2
Non-interest income	260.7	38.6	27.3	20.0	20.0
Pre-provisioning profit	57.2	37.2	39.1	24.7	21.6
Net profit	81.2	31.4	30.4	22.3	20.7
Assets	77.4	43.8	34.8	26.7	23.7
Advances	68.4	45.9	35.6	27.0	23.8

Du Pont analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income / Assets	4.7	4.4	4.5	4.3	4.2
Non-interest income / Assets	0.7	0.6	0.5	0.5	0.5
Operating expenses / Assets	0.4	0.6	0.6	0.6	0.6
Provisions / Assets	0.1	0.4	0.8	0.9	0.9
Taxes / Assets	1.5	1.2	0.9	0.9	0.8
ROA	3.3	2.8	2.6	2.5	2.4
Equity / Assets	19.1	16.6	15.9	14.9	14.1
ROAE	17.5	16.9	16.6	16.7	17.1

LTIF Income statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Interest income	6,635	11,278	15,582	20,032	24,832
Interest expense	3,802	7,174	9,784	12,766	15,956
Net interest income	**2,833**	**4,104**	**5,798**	**7,266**	**8,876**
Non-interest income	405	561	714	857	1,028
Net revenues	**3,238**	**4,665**	**6,512**	**8,123**	**9,904**
Operating expenses	240	551	790	986	1,225
Pre-provisioning profit	2,998	4,114	5,722	7,138	8,679
Provisions	58	332	1,104	1,449	1,814
PBT	2,940	3,781	4,618	5,689	6,865
Income tax	932	1,142	1,176	1,479	1,785
Reported PAT	**2,008**	**2,639**	**3,442**	**4,210**	**5,080**

LTIF Balance sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Advances	71,655	104,567	141,820	180,092	222,985
Investments	3,500	4,228	5,286	6,607	8,259
Current assets	1,279	1,537	1,767	2,033	2,337
Fixed assets	25	52	72	92	112
Other assets	535	314	225	225	225
Total assets	**76,993**	**110,699**	**149,170**	**189,048**	**233,918**
Share capital	7,022	7,959	7,959	7,959	7,959
Reserves and surplus	5,862	10,381	15,070	19,280	24,360
Networth	**12,884**	**18,340**	**23,029**	**27,239**	**32,319**
Total borrowings	61,935	89,421	123,732	159,006	198,335
Other liabilities	1,986	2,498	1,749	2,011	2,313
Provisions	187	440	660	792	951
Total liabilities	**76,993**	**110,699**	**149,170**	**189,048**	**233,918**

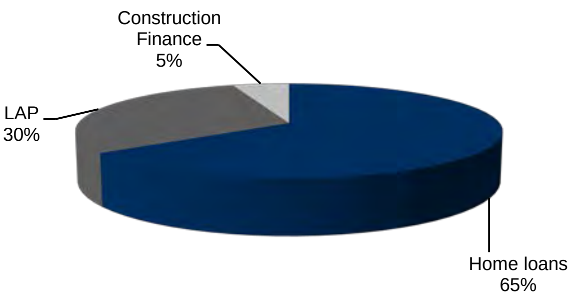
Housing finance – lending a further boost to growth

Housing finance subsidiary plans to leverage on L&T's expertise and LTF's rural network to expand loan book

LTFH ventured into the housing finance segment by acquiring Indo Pacific Housing Finance in FY12. Advances stood at just Rs 3.3bn in March'13 and comprised home loans (75%), loans against property (30%) and construction finance (5%). The company ventured into construction equipment finance in Q4FY13 with first disbursals in March'13.

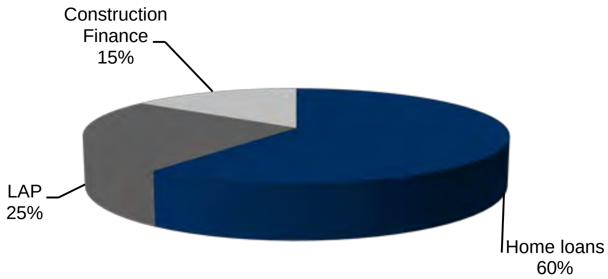
Going forward, the housing finance subsidiary plans to leverage on L&T's expertise (and relationships with builders) and LTF's distribution network in rural areas to expand its loan book. As per management, in the medium term, the proportion of home loans and LAP are likely to decline to 60% and 25% respectively whereas the proportion of construction finance could increase to 15%.

Fig 34 - Loan book composition – FY13



Source: Company, RCML Research

Fig 35 - Likely composition in the medium term



Source: Company, RCML Research

Expect 10-fold increase in housing finance advances to Rs 30bn by FY15

Given the low base and a large market, we believe advances will grow at a rapid pace in the medium term, to ~Rs 15bn/Rs 30bn by FY14/FY15 constituting 3.5%/5.5% of total advances. To fund its growth, we expect LTFH to infuse equity capital of ~Rs 1.5bn/ Rs 1.2bn in L&T Housing Finance in FY14/FY15.

Fig 36 - Key details – L&T Housing Finance

Rs mn	FY12	Q2FY13	Q3FY13	Q4FY13	FY14	FY15
Loan book	1,667	1,817	1,953	3,264	~15,000	~30,000
GNPA (%)	9.0	7.6	1.4	0.7		
NNPA (%)	0.1	0.1	0.7	0.2		
PAT	28	40	11	(1)	~150	~350
Networth	1,189	1,245	1,442	1,434	~3,000	~4,500

Source: Company, RCML Research

AMC business – losses to decline in FY14

AMC losses likely to fall to Rs 300mn in FY14 and Rs 100mn in FY15

LTFH forayed into asset management by acquiring DBS Cholamandalam Asset Management in January 2010 and later taking over FIL Fund Management Pvt Ltd in FY12. With the FIL acquisition, total assets under management increased from Rs 39bn in March'12 to Rs 112bn in March'13. The asset mix also improved with Equity/Hybrid Funds (which generate higher yields and are therefore more profitable) now constituting ~47% of total AUM. The asset management business reported losses of Rs 585mn in FY13 which included one-time integration expenses of Rs 139mn. While management aims for break-even in this business by Q4FY14, we conservatively build in reduced losses of Rs 300mn in FY14 and Rs 100mn in FY15.

Banking licence – LTFH a strong contender but organization structure still uncertain

Strong contender for banking licence given L&T's track record, diversified shareholding and rural presence

The RBI released its final guidelines on new banking licences in February'13 and issued further clarifications on queries in June. As per the final guidelines, promoter/promoter groups keen on applying for banking licences should have sound credentials, strong integrity and a successful track record of running their businesses for at least 10 years. Promoters should also have a diversified shareholding.

We believe the business model of NBFCs could also be under consideration and models focused on financial inclusion could benefit. Given L&T's track record, diversified shareholding at the parent level (L&T) and LTFH's strong rural presence, we believe the company could be one of the strongest candidates for a new banking licence.

Fig 37 - LTFH well placed to win a banking licence

	L&T Fin	MMFS	Bajaj Fin	IDFC	SHTF	ABNL
Promoter track record	●	●	●	●	●	●
Diversified shareholding	●	◕	◕	●	◕	◕
Lending track record	●	●	●	●	●	◕
Rural penetration	●	●	◕	◔	●	◕
Financial inclusion	◑	●	◔	○	●	◑

Source: Company, RCML Research

While LTFH is among the best placed to apply for a banking licence, we note that the company might have to change its ownership structure for this purpose. The RBI has clarified that a listed NBFC cannot become a holding company as a non-operating financial holding company (NOFHC) has to be wholly owned by the promoter/promoter group. Given uncertainty over the final ownership structure and banking licence approvals, our valuation takes the current ownership structure into account.

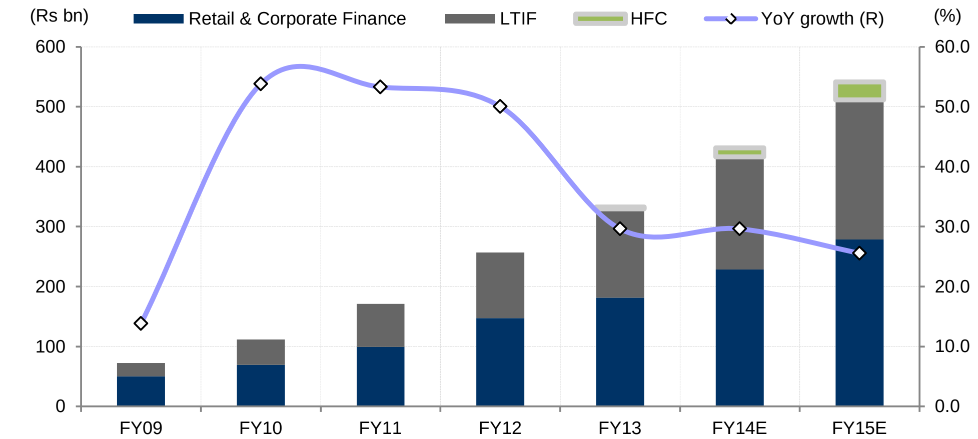
Financial review

Consolidated loan book to grow at 25% CAGR through FY15

LTFH has reported a strong 39% CAGR in overall advances over FY08-FY13 driven by a low base and diversified product portfolio. We expect robust growth to continue given its low market share in different product segments, and factor in an advances CAGR of 25% over FY13-FY15 to Rs 520bn.

Ample scope for growth given diverse products and low market share

Fig 38 - Consolidated loan book to grow at 25% CAGR



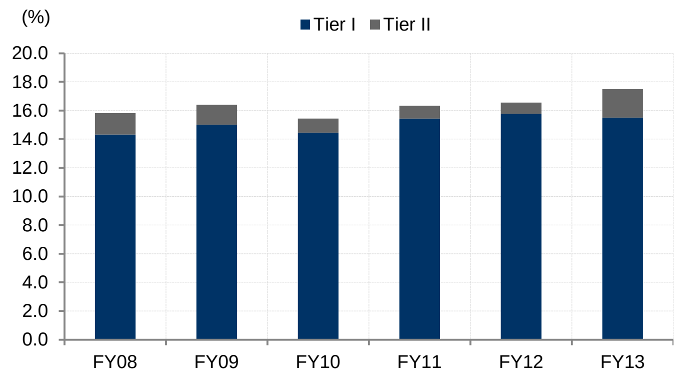
Source: Company, RCML Research

Capital position comfortable

LTF/LTIF's capital position is comfortable with tier I ratio at 15.5%/14.8% in March'13 (vs. ~10% required). As a result, we are not factoring in any further equity infusion in LTF and LTIF. But as discussed above, we expect LTFH to infuse capital of ~Rs 1.5bn/Rs 1.2bn in the housing finance subsidiary in FY14/FY15 to finance growth. We note that LTFH has recently raised Rs 7.5bn by issuing three-year compulsorily redeemable preference shares at dividend yield of 8.75% p.a. This is in line with management's strategy of maintaining upto 20% of consolidated net worth as leverage to optimise the capital structure and reduce dilution of earnings to investors. We believe the company is adequately capitalised for growth in the near term.

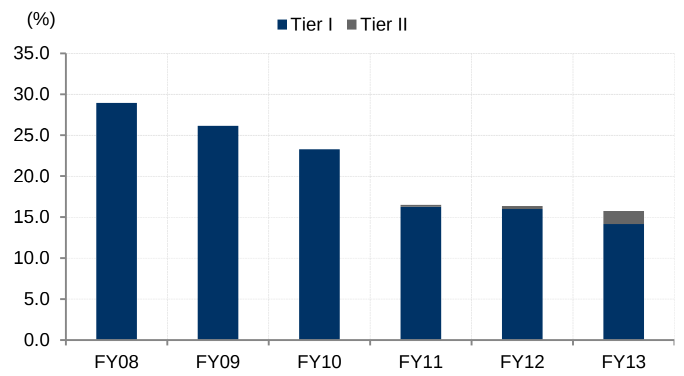
No further equity infusion likely in LTF/LTIF

Fig 39 - Loan book growth – LTF



Source: Company, RCML Research

Fig 40 - Capital position – LTIF



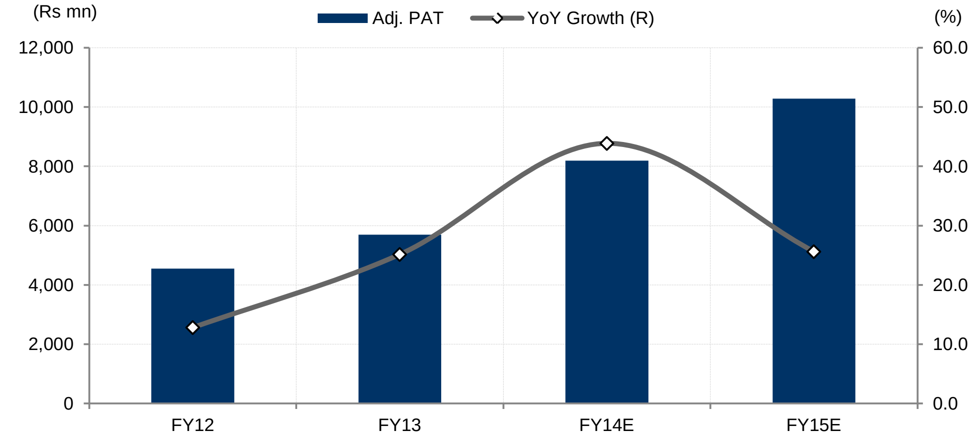
Source: Company, RCML Research

Consolidated earnings to grow at 34% CAGR to Rs 10.3bn

Strong business growth and NIM expansion to boost earnings

LTFH reported PAT of Rs 7.3bn; of this, ~Rs 1.7bn was on account of the Federal Bank stake sale. Adjusted for stake sale, reported PAT grew at a 19% CAGR over FY11-FY13 (as against 39% growth in advances). Profitability was under pressure during this period due to NIM pressure and higher credit costs. Losses in the asset management business also impacted profitability. However, we expect consolidated PAT to grow at a 34% CAGR through FY15 to Rs 10.3bn (27.6% CAGR growth in advances) driven by strong business growth and improvement in NIMs.

Fig 41 - Consolidated earnings to grow at 34% CAGR



Source: Company, RCML Research

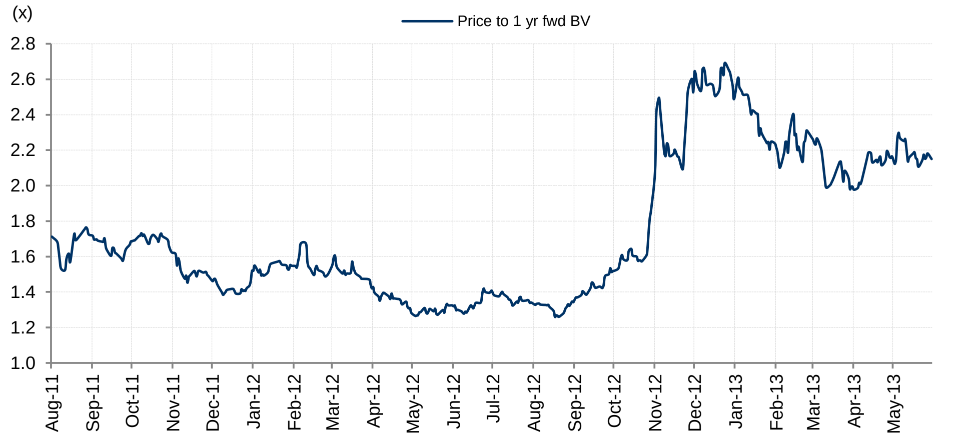
Valuations

Expensive but strong growth prospects to provide support

Valuations expensive at 2.2x FY14E BV

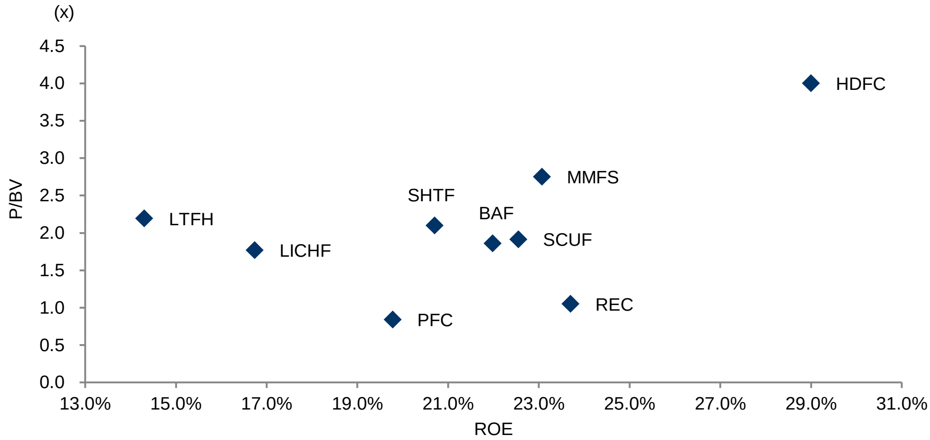
The LTFH stock has performed well in the last 12 months on expectations of the company securing a banking licence. After adjusting for its stake in the asset management business, the stock is currently trading at 2.2x FY14E BV – this is expensive compared to peers (Fig 43) given lower ROEs in the retail and infrastructure businesses.

Fig 42 - P/1-yr fwd BV trend – LTFH



Source: Company, RCML Research

Fig 43 - P/BV vs ROEs for NBFCs under our coverage



Source: Company, RCML Research

...but strong earnings growth ahead to support valuation premium

However, we believe LTFH will grow at a much faster rate than other NBFCs given its diversified product profile and low penetration in each segment. As a result, its earnings growth will likely move much higher than peers in the long term. A banking licence will further accelerate the company's growth profile in the long run and enable LTFH to fully leverage its diversified product profile and customer relationships.

Given likely strong earnings growth, we believe the company will continue to trade at a premium to other NBFCs. We value the lending businesses at 2.2x Sep'14 BV (after adjusting net worth for investments in the AMC business) and the AMC at 5% of AUM given a higher proportion of equity in total AUM. We thus arrive at an SOTP valuation of Rs 77/sh for FY14 and Rs 91/sh for FY15. Our Sep'14 target price stand at Rs 85/sh.

Fig 44 - SOTP – FY14

Businesses	Val. Method	AUM/BV (Rs mn)	Multiple	Valuation (Rs mn)	Stake	Per share Value (Rs)
Retail & Corporate Finance	P/BV	32,591	2.2	71,700	100	42
Infrastructure Finance	P/BV	27,239	2.2	59,925	100	35
Housing Finance	P/BV	3,000	2.5	7,500	100	4
Asset Management	% of AUM	137,500	5.0	6,875	100	4
Less: Excess Networth	P/BV					(8)
FY14 SOTP						**77**

Source: Company, RCML Research

Fig 45 - SOTP – FY15

Businesses	Val. Method	AUM/BV (Rs mn)	Multiple	Valuation (Rs mn)	Stake	Per share Value (Rs)
Retail & Corporate Finance	P/BV	37,839	2.2	83,245	100	49
Infrastructure Finance	P/BV	32,319	2.2	71,102	100	41
Housing Finance	P/BV	4,500	2.5	11,250	100	7
Asset Management	% of AUM	150,000	5.0	7,500	100	4
Less: Excess Networth	P/BV	(4,500)	2.2	(9,900)	100	(10)
FY14 SOTP						**91**

Source: Company, RCML Research

Key risks

High power sector exposure a key risk

- **Exposure to power sector:** Of LTFH's total advances of ~Rs 333bn in March'13, ~Rs 71bn is towards power projects or corporates in the power sector (21% of total advances). Exposure to thermal power projects stood at Rs 21bn. We note that power sector projects (particularly thermal power) are under stress due to high leverage, execution delays, regulatory issues and poor financial health of state electricity boards (SEB). While management remains confident of asset quality of the underlying book, higher NPLs from this segment could result in above-expected provisions and lower profitability.

- **Spike in wholesale rates and tight liquidity:** Wholesale rates have fallen in the last six months and we expect rates to remain low in the coming quarters. While liquidity has remained tight, the pricing power of banks is low which we believe will benefit NBFCs. However, tight liquidity and a consequent increase in wholesale rates will impact NIMs.

- **Nascent nature of some businesses:** LTFH has forayed into several segments in the last five years (including asset management, housing finance, consumer loans). We expect these businesses to scale up in the coming quarters; however, any adverse developments in these businesses will impact our growth and profit assumptions.

- **Sharp economic slowdown:** We are assuming asset quality would remain largely stable and credit growth robust at a 25% CAGR over FY13-FY15 driven by a low base and ~6% GDP growth. However, a sharp slowdown in the economy will lead to lower credit growth and higher provisions (on account of higher delinquencies).

- **Regulatory changes could impact profitability:** LTF was impacted by regulatory changes in the microfinance segment and had to make significant provisions on its Andhra Pradesh portfolio. Any significant change in regulations (related to exposure, LTV, lending rates or capital requirements) could significantly impact the company's profitability.

Fig 46 - RCML financials coverage universe: Valuation snapshot

Bloomberg Code	CMP (Rs)	Target (Rs)	Reco	MCAP (Rs bn)	P/BV (x)		P/E (x)		EPS growth (%)	Average RoE (%)	Average RoA (%)	CASA (%) FY13
					FY14E	FY15E	FY14E	FY15E	FY13-15E	FY13-15E	FY13-15E	
PSU Banks												
SBIN IN	2,044	2,600	BUY	1,398	1.3	1.1	8.4	7.6	13.4	15.8	1.0	43.7
SBI #	1,508	2,064		1,031	1.0	0.9	6.4	5.6	15.5	16.6	0.9	43.7
PNB IN	725	900	Hold	256	0.7	0.7	4.9	4.1	15.1	16.7	1.0	39.2
BOB IN	617	875	BUY	260	0.7	0.6	4.8	4.0	19.5	16.6	0.9	25.3
BOI IN	280	425	BUY	167	0.7	0.6	4.7	4.0	22.9	14.3	0.7	24.6
CBK IN	383	440	HOLD	170	0.7	0.6	5.1	4.5	14.0	13.6	0.7	24.2
DBNK IN	86	140	BUY	30	0.5	0.4	2.8	3.0	11.2	20.7	0.8	31.0
UNBK IN	216	310	BUY	129	0.7	0.6	4.7	4.2	19.3	15.7	0.8	31.0
OBC IN	235	380	BUY	68	0.5	0.4	4.0	3.3	24.4	12.5	0.8	23.9
Private Banks												
ICICIBC IN	1,091	1,225	HOLD	1,259	1.7	1.6	13.3	11.3	15.4	13.9	1.7	41.9
ICICI#	866	1,010		999	1.7	1.6	11.4	9.7	15.8	16.0	1.6	41.9
HDFCB IN	657	740	HOLD	1,570	3.6	3.0	17.9	14.4	27.0	21.8	1.9	47.4
AXSB IN	1,287	1,380	HOLD	603	1.6	1.4	9.8	8.2	18.9	17.9	1.7	44.4
YES IN	475	600	BUY	171	2.1	1.7	11.1	9.0	20.8	22.8	1.5	18.9
IIB IN	478	525	BUY	250	2.9	2.5	18.5	14.8	26.2	17.3	1.6	29.3
NBFCs												
HDFC IN	834	1,000	BUY	1,293	4.5	4.0	22.3	19.1	18.1	22.0	2.9	
HDFC #	602	768		933	4.6	3.8	17.4	14.9	17.7	29.8	2.8	
LICHF IN	268	300	BUY	135	1.8	1.6	10.1	8.7	23.8	18.4	1.5	
SHTF IN	765	825	BUY	173	2.0	1.7	10.9	9.2	17.5	20.4	3.4	
POWF IN	165	260	BUY	218	0.8	0.8	4.2	3.6	17.6	19.8	3.0	
RECL IN	205	300	BUY	202	1.0	1.0	4.2	3.7	20.0	23.7	3.3	
MGFL IN	15	30	HOLD	12	0.4	0.4	3.0	2.5	27.8	14.7	2.7	
MMFS IN	267	250	BUY	152	2.9	2.4	14.1	11.5	21.8	6.7	1.4	
SCUF IN	1,040	1200	BUY	58	1.9	1.6	11.8	9.0	19.2	20.4	4.1	
BAF IN	1,439	1590	BUY	72	1.8	1.5	9.9	7.9	25.2	20.8	3.6	

Source: RCML Research, Bloomberg # Adj. for subsidiaries

Disbursements

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Disbursements	n.a.	216,660	228,240	279,898	341,922
Growth (%)	n.a.	n.a	5.3	22.6	22.2
AUM/Sanctions	n.a.	256,690	329,460	416,298	511,505
Growth (%)	n.a.	n.a	28.3	26.4	22.9

Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	2.8	2.8	4.2	4.8	6.0
Adjusted EPS	2.8	2.7	3.3	4.8	6.0
Book value	20.4	27.7	31.9	36.6	42.6
Adjusted book value	19.0	26.1	29.8	34.3	42.6

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
P/E	n.a.	n.a.	23.9	16.3	13.0
P/BV	n.a.	n.a.	2.4	2.1	1.8
P/ABV	n.a.	n.a.	2.6	2.3	1.8

Financial Ratios

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Spread Analysis					
Interest spreads	5.1	4.6	4.0	3.9	3.8
Yield on advances	n.a.	13.8	13.7	13.8	13.8
Yield on assets	n.a.	12.8	12.5	12.4	12.6
Cost of funds	5.9	8.5	8.9	9.0	9.1
NIMs	5.6	5.6	5.3	5.2	5.2
Operating Ratios					
Operating cost to income	29.0	33.3	37.7	35.2	34.7
Operating expenses / Avg assets	1.6	1.9	2.0	1.9	1.9
Asset Quality and Capital					
Gross NPA	n.a.	2.5	2.7	2.7	2.7
Net NPA	n.a.	1.6	1.7	1.6	1.5
CAR	n.a.	16.7	16.5	15.3	14.8
Growth Ratios					
Net interest income	n.a.	18.1	27.5	28.9	24.2
Non-interest income	n.a.	45.0	88.2	187.6	18.4
Pre-provisioning profit	n.a.	11.5	20.1	39.1	24.7
Net profit	n.a.	14.5	22.9	46.6	25.6
Assets	n.a.	37.6	35.8	26.5	23.0
Advances	n.a.	43.9	32.1	31.2	25.6
Book value	n.a.	35.8	15.0	15.0	16.4
EPS	n.a.	(5.4)	22.7	46.6	25.6

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income / Assets	n.a.	5.5	5.1	5.1	5.0
Non-interest income / Assets	n.a.	0.1	0.2	0.3	0.3
Operating expenses / Assets	n.a.	1.9	2.0	1.9	1.9
Provisions / Assets	n.a.	0.8	0.9	0.8	0.8
Taxes / Assets	n.a.	1.0	0.8	0.7	0.7
ROA	n.a.	2.0	2.3	2.0	2.0
Equity / Assets	n.a.	16.4	16.1	14.2	13.2
ROAE	n.a.	**11.9**	**14.3**	**13.9**	**15.1**

Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Interest income	20,987	29,809	39,568	51,497	64,978
Interest expense	10,207	17,072	23,324	30,566	38,973
Net interest income	10,781	12,737	16,243	20,931	26,005
Non-interest income	182	264	497	1,430	1,692
Net revenue	10,963	13,001	16,740	22,360	27,697
Operating expenses	3,179	4,324	6,316	7,862	9,611
Pre-provisioning profits	7,784	8,677	10,424	14,498	18,086
Provisions & contingencies	1,668	1,834	2,734	3,356	4,090
PBT	6,104	6,842	7,703	11,142	13,997
Extraordinaries	(59)	0	2,196	0	0
Income tax	2,133	2,295	2,594	2,953	3,709
Reported PAT	3,912	4,548	7,305	8,190	10,288
Adj. net profit	**3,971**	**4,548**	**5,588**	**8,190**	**10,288**

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Advances	127,324	183,248	242,144	317,648	398,922
Investments	7,324	7,699	18,427	22,696	26,258
Current assets	55,015	69,540	89,644	106,084	127,077
Net block (inc CWIP)	4,524	5,111	12,201	12,701	13,201
Goodwill	416	416	0	0	0
Other assets	1,163	3,314	3,399	3,496	3,612
Total Assets	**195,768**	**269,328**	**365,815**	**462,624**	**569,069**
Share capital	14,170	17,148	17,168	17,168	17,168
Options/warrants/others	0	0	0	0	0
Reserves & surplus	14,742	30,380	37,535	45,724	56,012
Net worth	28,912	47,527	54,702	62,892	73,179
Total borrowings	131,307	177,650	222,301	294,260	370,442
Current liabilities	34,132	41,449	74,903	89,862	107,811
Provisions	576	1,018	2,832	3,639	4,549
Deferred tax liabilities	0	0	0	0	0
Other liabilities	840	1,683	3,576	4,471	5,588
Total Equity & Liabilities	**195,768**	**269,328**	**365,815**	**462,624**	**569,069**

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