



L&T FINANCE HOLDINGS LIMITED

Issue Opens	Issue Closes
27 th July'11	29 th July'11

An Overview

Promoted by Larsen & Toubro Limited, L&T Finance Holding (L&TFH) is a financial holding company (i.e. no direct operations) offering a 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 direct and indirect wholly-owned subsidiaries. Its wholly-owned subsidiary (WOS) L&T Infra (LTI) is registered with the RBI as an NBFC-ND-SI and an IFC while another WOS L&T Finance (LTF) is registered with the RBI as an NBFC-ND-SI and an AFC. The retail finance is generally towards income generating assets and income-generating activities like construction equipment finance, transportation equipment finance, rural products finance and microfinance. The mutual fund business (acquired from DBS Cholamandalam) is under a wholly-owned subsidiary of LTF.

Co has made strategic investment of <5% in two private banks in South viz, Federal Bank and City Union bank. The Co plans to enter banking in future. Also it holds an 8.90% interest in Invent ARC and 30% interest in NAC Infrastructure & Equipment Limited (equipment leasing to infrastructure and construction sectors)

While L&T Finance Holdings had initially filed its DRHP in September, 2010, looking to raise Rs 1,500 crore, it filed a revised DRHP in March this year, looking to raise Rs 1,750 crore (including a pre-IPO placement). With a pre-IPO of Rs 330cr, the issue will now look at raising Rs 1,075 crore from the public while the remaining Rs 170 crore is reserved for L&T Finance employees and shareholders of the parent firm L&T. L&T hold 96% of the Co and post the issue the same will fall to ~81.7%.

Co has seen a successful pre-IPO placement from a prestigious investor like Capital International at Rs 55 per share which is a healthy indicator. The issue has also received the highest rating of 5 out of 5 which has come only since IPO of Coal India last year. LTF debt also has a strong rating of AA+ from CARE. The loan book of the Co was Rs 17,411cr as at end of FY11. It reported a PAT of Rs.230 crore on total income of Rs.1,398 crore and had a CAR of 16.34% (against required 15%). L&TFH has applied to the RBI for classification as a CIC-ND-SI and if successful it must maintain CAR of 30%.

L&TFH's top management comprises of senior managers having wide experience with the L&T group. Mr. Y. M. Deosthalee, CFO of L&T is the Chairman of L&TFH. The Co has a wide network of 837 points of presence (increased from 226 in August 2006). The Co earns healthy margins with average net interest margin of LTI at 4.95% while that of LTF at 7.88%.

Recommendation

Invest 

Issue Summary

Price Band (Rs)*	51	59
Bid Lot	100 shares	
Face Value	Rs.10	
Total no of shares to be raised	24.4 cr	21.1 cr

Pre-issue share capital	Rs 1477 cr	
Post-issue share capital	Rs 1721.1	Rs 1688.0
Issue Size	Rs 1245 cr	
Post Issue Market Cap	Rs 8,778 cr	Rs 9,960 cr
P/E on FY11	18.5	21.4

Allotment Pattern

Net Issue	No. of Shares	%
QIB's	>=9.1 crs	43.2%
Non Institutional	>=2.73 cr	12.9%
Retail	>=6.38 cr	30.2%
Employees	>=0.85 cr	4%
L&T Shareholders	>=2.03 cr	9.6%
Total	21.1 cr	100%

Strategy

Apart from increasing the market penetration of its existing products and services, Co plans to expand by including new products and services, as well as entirely new lines of business. **Co plans to focus on two key Indian growth stories: infrastructure and rural development.** Co also plans to focus on its retail loan portfolio which has reached at 36% of the total loan in just three years.

Objects of the Issue

- Repayment of inter-corporate deposit issued by Co.s' Promoter to Co.
- augment the capital base of L&T Finance by Rs. 535 cr and L&T Infra by Rs. 570 cr and support growth

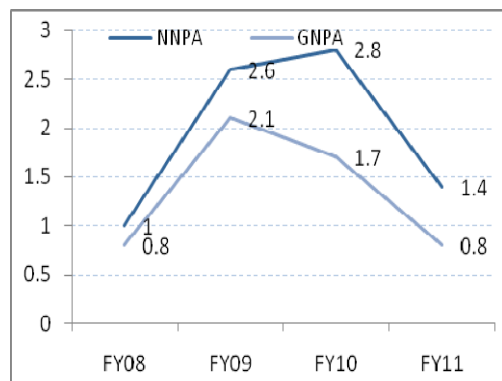
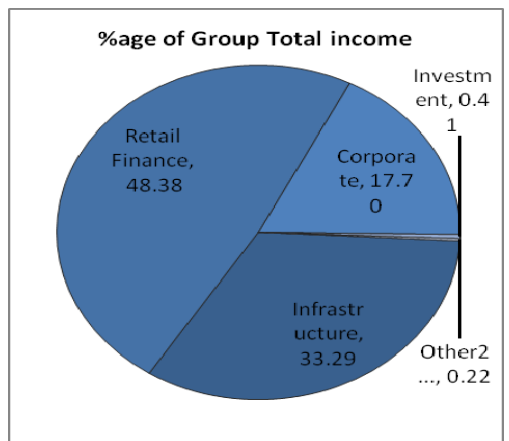
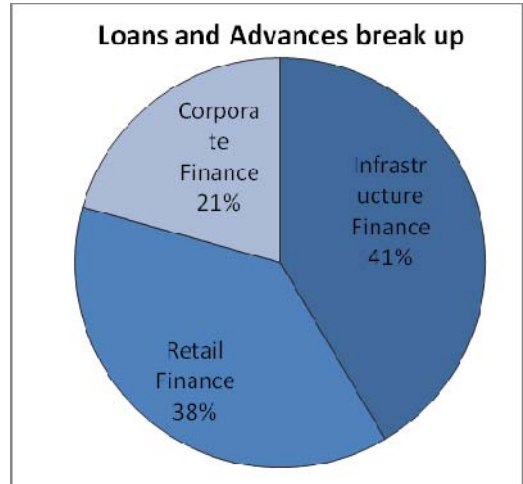
Investment Positives

- Diversified and balanced mix of high growth businesses**– L&TFH has a diverse business but yet complimentary business mix with good growth potential. Most of the business are in core areas which are also key focus for the Government of India. Also as an IFC, Co is entitled to various benefits such as a lower risk weight on their bank borrowings, higher permissible bank borrowings, permission to raise external commercial borrowings on lending to the infrastructure sector and permission to have a higher loan exposure than other NBFCs.
- Strong distribution network and workforce**- In the last few years, Co has increased its geographic coverage to 837 points-of-presence across 23 states in India along with a strong workforce of 4,395 as at May 31, 2011. Out of this more than 500 points of presence in rural areas with a focus to explore opportunities in small towns where access to organized financial channels is limited. Since inception Co has acquired talent pool from the financial services industry.
- High quality loan portfolio comprising the funding of mainly income-generating assets and activities** – One of the derisking strategy adopted by Co is to concentrate on financing of primarily income-generating assets and activities which allows generating sufficient revenue and cash flow to service the loan. On a consolidated basis the unsecured book is ~16% of the total loan book as at FY11. However it is to be noted that apart from own sales staff the Co also secures financing business from third-party intermediaries.

Apart from a strong recovery mechanism, Co also follows a stricter policy for provisioning and write-offs. The GNPA subsidiaries which increased in FY10 has been brought in control in FY11. The GNPA of LTI which was 1.84% in FY10 has reduced to 0.67% in FY11. Similarly, GNPA in LTF has reduced from 2.78% to 1.42%. The overall coverage has improved from 20% in FY08 to 43% in FY11.

- Strong Sources of funds**–
 - strong credit ratings from both CARE and ICRA helps the Co garner varied resources at competitive rates.
 - IFC and PFI status helps in widening the scope of instruments as well as sources.
 - Strong parentage and brand equity of L&T also helps
 - Co has good headroom to raise additional Tier II capital (Leverag is at a 5.51 times, while the Tier 1 capital % for LTF and LTI is at

Book Running Lead Managers



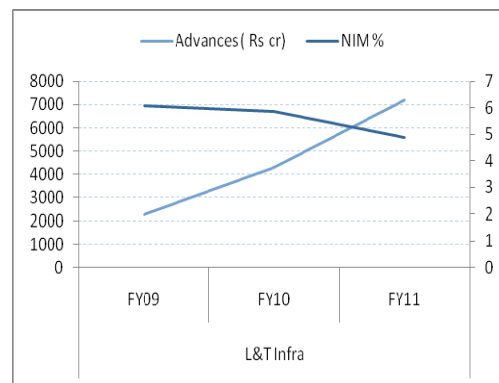
15.44% and 16.26% respectively as against the regulatory requirement of 10%)

The competitive funding keeps the cost of funds under control and helps post healthy margins. The margin improvement has been substantial over the last two years for LTF (5.2% in FY09 to 7.9% in FY11) while it has declined from LTI (6.1% in FY09 to 5% in FY11)

Concerns

Most of the concerns for the Co are related to economic scenario in general and applicable to an NBFC like Liquidity, interest rate, tightening regulations etc-

- **Interest Rate Risk** – Given the high interest rate on one hand, if the Co has ALM mismatch the cost pressure will increase and on the other hand the increased interest burden on already reeling borrowers can have adverse implication on asset quality.
- **Concentration of Borrowers and loans** – 27% of the total outstanding infrastructure loans as at end of March 2011 came from top 10 borrowers.
- **Execution Risk in Infra Projects** – The opportunities in infrastructure is very high in India but the delay in execution, remains a risk.



Peers Comparison

FY11 (Rs Cr)	I D F C	M & M Financial	PFC	REC	Shriram Transp	L&T FH
Loans	1,676	12,682	3,522	2,464	24,597	17,971
EPS	8.16	46.37	18.84	19.45	52.73	2.76
GNPA%	0.1\$	4.0	0.01	0.02	2.64	1.42 & 0.67 #
NIM%	3.8*	11.3%	4.0	4.41	8.06^	7.88& 4.95#
Book Value	71.22	248.41	116.42	112.45	216.19	20.40
RoNW%	14.31	22.93	17.94	23.38	27.86	14.98
RoA %	3.2	4.6	3.2	3.4	5.2	3.5
P/BV	2.02	2.85	1.82	1.99	3.25	2.89
P/E	17.6	15.2	11.2	11.5	13.3	21.4
CMP	143.6	706.8	211.6	224.0	701.7	59.0

*Q4, ^ on total assets, # LTF & LTI resp, \$ net NPA

Financials

Key Financials of L&T Infra		(Rs cr)		
Year ended / As on	31.03.09	31.03.10	31.03.11	
Total Income (net of lease depn)	296	450	704	
PAT	76	111	201	
Net Worth	624	1,000	1,235	
Total Assets	2,407	4,329	7,646	
Overall Gearing	2.84	3.24	5.02	
Return on Total Assets (ROTA) (%)	3.53	3.29	3.35	
Return on Net Worth (RONW) (%)	13.04	13.65	17.97	

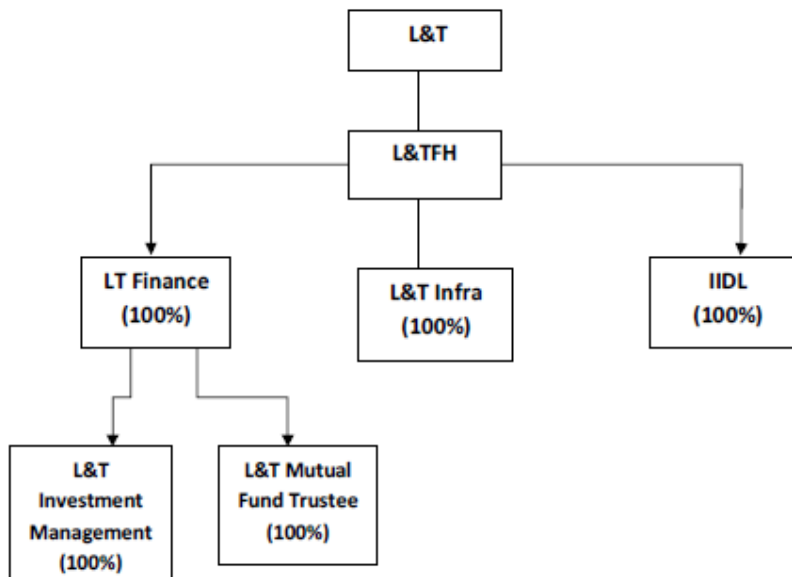
Key Financials of L&T Finance

(Rs cr)

Year ended / As on	31.03.09	31.03.10	31.03.11
Total Income (net of lease depn)	830	966	1,398
PAT	99	156	230
Net Worth	845	1,127	1,722
Total Assets	5,529	7,847	11,275
Overall Gearing	5.26	5.70	5.14
Return on Total Assets (ROTA) (%)	1.85	2.33	2.40
Return on Net Worth (RONW) (%)	12.61	15.87	16.17

Our View

L&TFH has a strong parentage support and an established business set-up. The management team of the Co is experienced and has good track record. As an NBFC and catering to rural and infrastructure segment holds future growth promise and visibility. The Co has shown healthy CAGR growth in past with healthy margins and controlled asset quality. The success of the Co is critical to L&T which has similar delisting plans for other businesses. The issue looks expensive at a P/BV of 2.89 times FY11 book value. Post issue book value will be around 2.2 times but at the same time the RoE will also pull down further. However the premium can be partially justified given the strong base and some locked value in the investments made in banks.



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CLICK | www.arihantcapital.com
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ARIHANT capital markets ltd67 Nehru Road, 3rd Floor Krishna Bhavan, Vile Parle (E), Mumbai - 400057

Tel: 022.42254800, Fax: 022.42254880

www.arihantcapital.com