

L&T Infrastructure Finance Infra Bond Issue

Issuer	L&T Infrastructure Finance Company Ltd
Issue	Public issue of long term infra bonds of FV of Rs.1,000 each, in the nature of secured, redeemable, non-convertible debentures, for an amount aggregating up to Rs.300 Crores with an option to retain an oversubscription upto the Shelf Limit (including the amount received against the allotment of the Tranche I Bonds) to be issued at par.
Recommendation	SUBSCRIBE
Acceptance	ON FIRST COME FIRST SERVE BASIS
Issue Date	10 th January 2012 – 11 th February 2012
Book Running Lead Manager	ICICI Securities, JM Financial, Karvy
Co Lead Managers	RR Investors Capital Services, Bajaj Capital, SMC Capitals and Integrated Enterprises Ltd
Registrar	Sharepro Services Pvt Ltd
Stock exchange proposed for listing	BSE after 5 years
Trading lot	1 Bond
Depositories	NSDL and CDSL
Rating	“(ICRA)AA+” from ICRA and “CARE AA+” from CARE
Sector	NBFC

Source: Company data, Nirmal Bang Research

Details of the issue		
Tranche II Bonds Series	I	II
Tenor (in months)	120	120
Frequency of Interest payment	Annual	Cumulative
Minimum Application	Rs 5,000	Rs 5,000
In Multiples of	Rs 1,000	Rs 1,000
Face Value	Rs 1,000	Rs 1,000
Lock in period	5 years	5 years
Buyback option I: 5 years		
Buyback Amount	Rs 1,000/ bond	Rs 1,517.57/ bond
Effective yield	8.7%	8.7% comp annually
Buyback option II: 7 years		
Buyback Amount	Rs 1,000/ bond	Rs 1,793.11/bond
Effective yield	8.7%	8.7% comp annually
Maturity options		
Maturity Amount	Rs 1,000/ bond	Rs 2303.01/bond
Effective yield	8.7%	8.7% comp annually

Company data, Nirmal Bang Research

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About the issue

L&T Infra bonds will have a lock-in period of five years. Post five years, these bonds will be traded on BSE. At the same time, the company can also exercise the buyback option. The buyback option can be exercised both at the end of five years and seven years. Bond investors will get the income tax benefits under 80CCF wherein a maximum investment of Rs 20,000 would fetch tax exemptions to the tune of Rs 2,060 (10.3% of 20,000) - minimum and 6,180 (30.9% of 20,000) - maximum.

L&T Infrastructure Finance is looking to raise at least Rs 300 crore by way of issuing the second tranche of tax-saving bonds in the current financial year. The company has already collected Rs 530 crs in the first tranche in November 2011.

The interest rates are lower than the previous issue as the coupon rates have to be at par with the yield on benchmark securities, and the decrease is in sync with the yield movement over the last month.

Objects of the Issue

The funds raised through the Issue will be utilized for infrastructure lending (after providing for issue related expenses), business operations and working capital requirement. Approximately 75% of the issue will be utilized for infrastructure lending.

Credit Rating

The long term debt instruments of the company enjoy ratings of CARE AA+ from CARE and ICRA AA+ from ICRA. ICRA has also reaffirmed the earlier AA+ assigned to earlier issues, term loan and cash credit limits of the company.

Recommendation:

We believe that the tax saving bond issue from L&T Infra is a good long term investment opportunity as well as a tax saving instrument for investors. As the interest rates are at the peak and the rates are expected to go down this is the best time to enter in the bond market and lock in investments at a higher rate.

Key Concerns

- **Change in interest rates**
Increasing rates of interest, resulting from higher inflation are likely to have a negative effect on the price of the bonds.
- **Lack of liquidity**
Though these bonds are listed on the stock exchange, there is a problem of liquidity in the markets.

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