

NCD Issue Note
L&T Infra Finance Company Ltd

Issuer	L&T Infrastructure Finance Company Ltd
Issue	Public Issue of NCDs aggregating to Rs.1,100 crs
Recommendation	SUBSCRIBE
Acceptance	ON FIRST COME FIRST SERVE BASIS
Issue Date	25 th November 2011 – 24 th December 2011
Book Running Lead Manager	ICICI Securities, JM Financial, Karvy
Co Lead Managers	RR Investors Capital Services, Bajaj Capital, SMC Capitals
Registrar	Sharepro Services Pvt Ltd
Stock exchange proposed for listing	BSE after 5 years
Trading lot	1 NCD
Depositories	NSDL and CDSL
Rating	CARE AA+ by CARE and ICRA AA+ by ICRA
Sector	NBFC

Source: Company data, Nirmal Bang Research

Details of the issue

NCD Options / Series	1	2
Tenor (in months)	120	120
Interest payment	Annual	Cumulative
Minimum Application	Rs 5,000	Rs 5,000
In Multiples of	Rs 1,000	Rs 1,000
Face Value of NCDs (Rs/NCD)	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 1,539/ bond
Effective yield	9%	9% comp. annually
Buyback option II: 7 years		
Buyback Amount	Rs 1,000/ bond	Rs 1,828/bond
Effective yield	9%	9% comp. annually
Maturity options		
Maturity Amount	Rs 1,000/ bond	Rs 2,367/ bond
Effective yield	9%	9% comp. annually

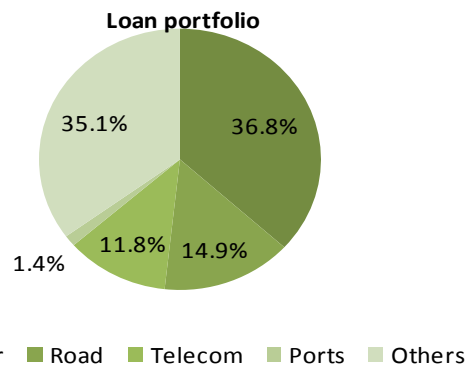
Source: Company data, Nirmal Bang Research

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Background

L&T Infrastructure Finance Company Ltd., incorporated in 2006, is registered as a Non Banking Financial Company (NBFC) under the Reserve Bank of India (RBI) Act 1934, and is among the select few financial institutions classified as an Infrastructure Finance Company (IFC). It was set up with an initial capital of 500 crore (US\$111 million) and has expanded at a rapid rate since inception.

L&T Infra is in the business of providing financial products and services to its customers engaged in infrastructure development and construction, with a focus on power, roads, telecommunications, oil and gas and ports sectors in India. L&T Infra has played a fundamental role in financing projects, funded through long term investment instruments. L&T Infra also provides customized financial solutions such as Term Loans, Mezzanine Debt, Debentures and Securitised Debt. The company's loan portfolio as on September 2011 stood at Rs 8,790.3 crs.



Company data, Nirmal Bang Research

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.

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 crore per year 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. The tax adjusted yield ranges between 11.4%-19.1%. This is over and above the existing investment limit of Rs 1 lakh.

<i>Tax adjusted yield on buy back (with tax benefits upto Rs 20,000)</i>				
Tax Slab	1		2	
	Buy Back after 5 years	Buy Back after 7 years	Buy Back after 5 years	Buy Back after 7 years
30.90%	19.14%	16.84%	17.36%	14.91%
20.60%	15.17%	13.77%	14.15%	12.65%
10.30%	11.85%	11.20%	11.40%	10.71%

Company data

- ✓ **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 NCD issue, term loan and cash credit limits of the company.
- ✓ **Asset quality**
L&T Infra's asset quality remains reasonably sound with gross and net NPA levels low at 0.88% and 0.73% respectively as on September 30, 2011.
- ✓ **Debt to equity ratio**
The debt-equity ratio prior to this Issue is 5.11 times which is based on a total outstanding consolidated debt of Rs 7601.7 crs and consolidated shareholder funds amounting to Rs 1486.54 crs as on September 30, 2011. The debt equity ratio post the Issue, (assuming subscription of NCDs aggregating to Rs 1100 crs) would be 5.85 times.

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.

Key Concerns

- Increasing rates of interest, resulting from higher inflation are likely to have a negative effect on the price of the NCDs.
- Though NCDs are listed on the stock exchange, there can be problem of liquidity for sale or purchase of NCDs on the exchange.
- Slowdown in the infrastructure sector and delay in projects is another key concern.

NOTE

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