

IPO Note
L & T Finance Holdings Ltd

Recommendation	SUBSCRIBE With Long Term View	
Price Band	Rs. 51-59	
Bidding Date	27th July – 29th July	
Book Running Lead Manager	JM Financial, Citigroup, HSBC, Barclays, Credit Suisse, Equirus	
Registrar	Sharepro Services Pvt Limited	
Sector	NBFC	
Retail Application- Detail At Cut off Price		
Number of Shares	3,300	
Application Money	Rs. 194700	
Amount Payable	Rs. 194700	
Discount to retail	0%	
Financials (Rs in Crs)	FY10	FY11
Total Income (NII+ OI)	749	1,094
PBT	394	612
PAT	263	393
Valuations (FY12 estimates)	Lower Band	Upper Band
EPS*	3.44	3.50
Book Value*	28.40	28.95
P/E ratio*	14.90	16.90
P/BV*	1.80	2.04
*calculated on diluted equity		
Post Issue Shareholding Pattern		
Promoters	83.9%	
Institutions	9.8%	
Public	6.3%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50.0%	
HNI	15.0%	
Retail	35.0%	
Post issue Equity (Rs. in crore)	1,688.00	
Issue Size (Rs. in crore)	1,245	
Face Value (Rs.)	10	
Silky Jain – Research Analyst Ph –(022)-3926 8178 E-Mail: silky.jain@nirmalbang.com		

Background

L&T Finance Holdings (L&TFH) is financial holding company which offers diverse range of financial products and services across corporate, retail and infrastructure finance sectors through its wholly owned subsidiaries L&T Finance and L&T Infrastructure Finance Company respectively. The company also provides mutual fund products and investment management services, through L&T Investment Management which is also a wholly owned subsidiary of L&T Finance.

The company is promoted by Larsen & Toubro Limited (L&T), one of the leading companies in India, with interests in engineering, construction, electrical and electronics manufacturing and services, information technology and financial services. The company has presence in 23 states in India. The company is registered with the Reserve Bank of India (RBI) as a Systemically Important Non-Deposit Taking Non-Banking Financial Company (NBFC-ND-SI). In July 2011, the company made a pre-IPO placement of 6 crore equity shares to the MACE CIPEF Ltd. (US-based PE fund of Capital International) and MACE Ltd. at a price of Rs 55 per share.

The company has diversified presence across in various product lines financing space and offers infrastructure, retail and corporate financing services. Through its presence in high growth segments, the company is well placed to capitalize on the growth opportunities in these segments.

L&T brand is one of the most well respected brands in India, and this provides the company a significant competitive advantage over its peers, particularly in attracting new customers and accessing capital.

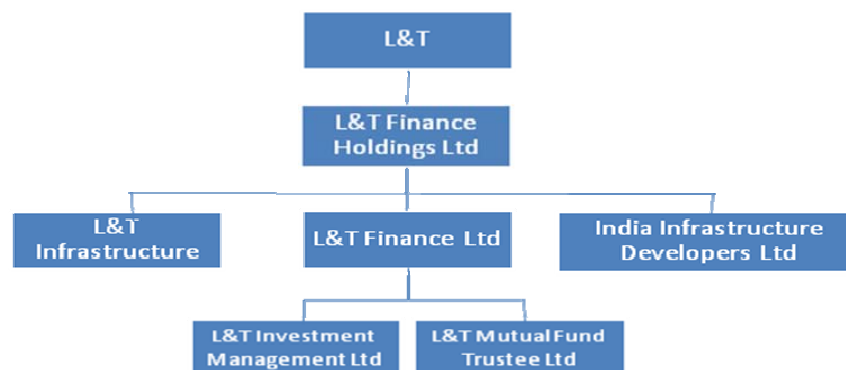
CARE has assigned a '**Grade 5**' to the L&T Finance Holdings Ltd IPO which indicates 'Strong Fundamentals'.

Objects of the Issue

- Repayment of inter corporate deposit issued by the company's promoter.
- Augment its capital base to meet its future capital requirements to provide for funding of loans to the customers
- General corporate purpose
- Reap the benefits of listing on the stock exchanges like easy access to funds and lower cost of accessing funds

Business

L&T Finance Holdings is financial holding company which offers diverse range of financial products and services across corporate, retail and infrastructure finance sectors through its wholly owned subsidiaries L&T Finance and L&T Infrastructure Finance Company respectively. The company also provides mutual fund products and investment management services, through L&T Investment Management which is also a wholly owned subsidiary of L&T Finance. The company is promoted by Larsen & Toubro Limited (L&T), one of the leading companies in India, with interests in engineering, construction, electrical and electronics manufacturing and services, information technology and financial services. The company has presence in 23 states in India.

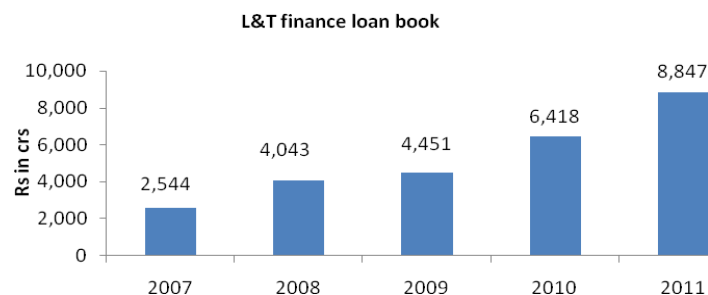


Source: Company data, Nirmal Bang Research

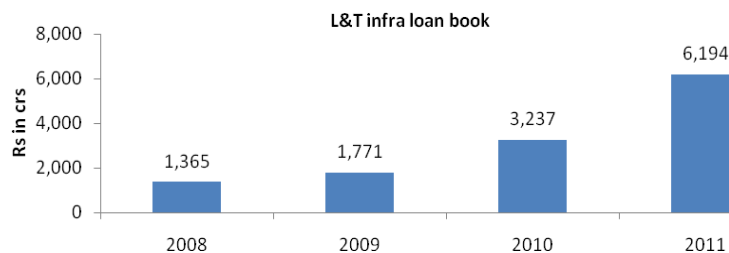
Investment Rationale

Diversified and balanced mix of high growth businesses:

The company has diversified presence across in various product lines financing space and offers infrastructure, retail and corporate financing services. Through its presence in high growth segments, the company is well placed to capitalize on the growth opportunities in these segments. During FY09-11, loan book of the company has grown at a CAGR of 56.6%, with the infrastructure financing book grew at a CAGR of 78.1% and retail & corporate book grew at a CAGR of 41.2% respectively. Management believes that this balanced mix of high growth businesses will provide the company with the ability to produce a steady and a growing revenue stream.



Source: Company data, Nirmal Bang Research



Source: Company data, Nirmal Bang Research

Strong distribution network, with presence throughout India:

The company has extensive network which helps the company to grow business, diversify risk profile and providing customers with convenient access to products and services. It has established presence in 23 states in India. The company had 837 points-of-presence across India, comprising 117 branch offices, 269 meeting centers, 37 KGSK centers and 414 customer care centers across all of its business groups and segments as on 31 May 2011. It has been able to increase its geographic coverage from 226 points-of-presence in March 2008 to 837 points-of-presence as at May 31, 2011. Such wide distribution network will enable the company to garner large business share.

Strong parentage and brand equity of L&T:

L&T brand is one of the most well respected brands in India, and this provides the company a significant competitive advantage over its peers, particularly in attracting new customers and accessing capital.

Healthy asset quality

The asset quality of the book is healthy. 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. In the infrastructure financing business, the gross NPAs declined from 1.84% in FY10 to 0.67% in FY11. The gross NPAs in the retail and corporate finance book declined to 1.42% in FY11 from 2.78% in FY10. The company's microfinance exposure (Rs 400 crs with AP exposure of Rs 200 crs) is one of the major concern.

Strong funding profile for the company

L&T Finance as well as L&T Infra enjoys a CARE rating of AA+ and an ICRA rating of LAA+ for its long term debt. RBI has also granted L&T Infra the status of an Infrastructure Finance Company (IFC), which enhances the ability to raise funds at lower costs compared to other NBFCs. The company was also given a PFI status (public financial institution) in June 2011. The company carries high credit rating from these rating companies which helps it have access to funds at highly competitive rates which helps the company in cushioning the margins.

Promising candidate for banking license.

According to RBI draft guidelines for banking license, L&TFH is a promising candidate to get banking license as it has the required net worth and it is managed by professional organization.

Key Concerns

Regulatory changes:

As the company is being regulated as an NBFC, it has to adhere to RBI regulations. Any change in the RBI policy will have an impact on the company's performance.

Exposure to MFIs a cause of concern:

The company has micro finance institution (MFI) exposure of about Rs 400 crs of which Andhra Pradesh accounts for nearly 50%. We believe that this can have a negative impact on the asset quality of the bank.

Power exposure:

Of the total loan book of L&T Infra Finance, 28.7% is to the power sector. Large part of the power sector exposure is towards the generation companies. We believe in the current scenario for power sector in the country it acts as an asset quality threat for the company.

Valuation and Peer Comparison

We are comparing L&TFH with two set of companies. For the retail and consumer financing division we have compared L&TFH with Shriram Transport Finance and Mahindra & Mahindra Finance. Whereas for the Infrastructure financing we are comparing L&TFH with IDFC, PFC. Compared to all these companies L&TFH is a relatively newer and smaller player though it has a strong backing by the parent company, L&T Limited. Being promoted by L&T Limited, L&TFH enjoys strong brand name and have access to management talent and professionals with deep industry knowledge particularly in the infrastructure and construction equipment finance segments.

	STFC FY12 (E)	M&M FY12 (E)	IDFC FY12 (E)	PFC FY12 (E)	L&TFH FY12 (E)
PAT (Rs crs)	1494	631	1571	3184	591
EPS	66.0	58.2	10.0	25.0	3.5
Book Value	272	284	79.55	159.51	28.9
P/E (x)	10.27	11.85	13.46	8.06	16.9
P/BV (x)	2.49	2.43	1.70	1.26	2.04

Source: Bloomberg, Company data, Nirmal Bang Research

L&TFH shares is offered at 2.04x P/BV and 16.9x P/E calculated at higher band of price for FY12E as compared to its peers the offer looks fairly priced for near term and does not offer a potential upside on listing. However, we believe with diversified credit portfolio, 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. Therefore, we recommend a **"SUBSCRIBE from a long term perspective"**.

Income Statement

Rs. In crs.	FY 2009A	FY 2010A	FY 2011A
Net Interest income	0.00	731	1,066
Other income	0.03	18	28
Net total income	0.03	749	1,094
Total expenses	0.04	260	372
Pre provisioning profit	-0.01	489	723
Provisions and contingencies	0.00	95	111
Profit before tax	-0.01	394	612
Tax expenses	0.00	134	213
Profit after tax	-0.01	260	398
Profit/loss from subsidiaries/associates	0.00	2	-1
Exceptional items	0.00	-2	-6
Prior period items	0.00	-1	0
Net profit before adjustments	-0.01	259.6	391.2
Adjustments	0.00	4.3	2.1
Tax impact on adjustments	0.00	-1.0	-0.7
Net profit	-0.01	263.0	392.6

Source: Company data, Nirmal Bang Research

Balance Sheet

Rs. In crs.	FY 2009A	FY 2010A	FY 2011A
Share capital	2	1,354	1,417
Share application money	1,077	275	0
Reserves and surplus	455	718	1,472
Net worth	1,534	2,347	2,891
Loan funds	6,220	9,727	15,916
Secured Loans	4,155	7,447	13,178
Unsecured Loans	2,065	2,281	2,739
Deferred tax liabilities (net)	26	9	-6
Current liabilities	179	291	725
Provisions	43	92	202
Total liabilities	8,001	12,466	19,728
Net block	243	398	453
Goodwill	17	47	42
Investments	169	309	732
Loans and advances	7,098	10,949	17,411
Current assets	474	763	1,090
Total assets	8,001	12,466	19,728

Source: Company data, Nirmal Bang Research

NOTE

Disclaimer

This Document has been prepared by Nirmal Bang Research (A Division of Nirmal Bang Securities PVT LTD). The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in any way be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document