

Larsen and Toubro Finance Holdings (LTFHL) – IPO Note: “Subscribe”

26th July, 2011

Incorporated in 1994, Larsen and Toubro Finance Holdings is registered with the RBI as an NBFC- Non-Deposit Taking-Systemically Important (ND-SI). It offers diverse range of financial products and services across the corporates, retail and infrastructure finance sectors, mutual fund products and investment management services, through its direct and indirect wholly-owned subsidiaries. The company enjoys strong parentage as it 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 established its presence in 23 states in India. As on May 31, 2011, it had 837 points-of-presence across India, comprising 117 branch offices, 269 meeting centers and 37 KGSK centers.

LTFHL's has strong credit ratings from both CARE and ICRA. As on May 31, 2011, company had a CARE rating of AA+ and ICRA rating of LAA+ coupled with strong brand equity enables it to access funds at competitive rates from a wide variety of market participants.

With due consideration to the factors like a) strong parentage and synergies with parent in terms of domain knowledge in infrastructure space b) brand equity, c) diversified loan book, d) robust distribution network, e) strong resource raising ability, access to low cost funds and healthy margins, f) pre ipo placement of shares to MACE CIPEF Ltd. and MACE Ltd. at Rs. 55 per equity share raises confidence on the valuation front, g) highest IPO grade of 5 by CARE and ICRA indicating strong fundamentals, we recommend investors to “SUBSCRIBE” the issue.

Financial summary

Y/e 31 Mar (Rs. mn)	FY10	FY11
Net Interest Income	7,309	10,657
NII as % of total income	98%	97%
Operating profit	5,366	7,767
Profit after tax	2,630	3,926
EPS	2.17	2.87
Capital Adequacy ratio (%)	12	15
RoA (%)	2.5	2.4
RoE(%)	12	13.8
Book value per share (Rs.)	17.3*	20.4*

Source: RHP, * reported book value, Ajcon Research

Peer Analysis

Company	CMP/Issue Price (Rs.)	Book Value(Rs.)*	OPM (%)	P/BV(x)	RoE(%)
L&T Finance Holdings Ltd.	51-59	24.3**	71	2.10-2.45	13.8
Shriram Transport Finance	671	216	59	3.10	24.9
IDFC	134.5	71	71	1.89	12.2
M&M Finance	686	248	54	2.76	19.4
Sundaram Finance	544	325	39	1.67	21.5

Source: Ajcon Research, *latest Book value, ** post issue book value, CMP as on 26th July, 2011 – 12.29 pm

Issue date	27 th July, 2011- 29 th July, 2011	
Issue size	Rs.12.45bn at upper end of the price band	
FV	Rs.10	
Price Band	Rs. 51-59 per share	
Fresh issue	211-244.1 mn equity shares	
Issue structure	50% - QIBs 35% - Retail 15% - Non Institutional Bidders	
Lot size	100 shares	
Equity shares prior to issue (mn)	1,477	
Equity shares post issue (mn)	1,688-1,721	
Post issue market capitalization	Rs.87.7-99.5bn	
IPO Grading	CARE and ICRA grade of 5 indicating strong fundamentals	
Book Running Lead Managers	JM Financial, Citigroup, HSBC, Barclays, Credit Suisse, Equirus	
Registrar to the issue	Sharepro Services (India) Pvt. Ltd.	
Shareholding (%)	Pre Issue	Post Issue
Promoters	95.9	82.3-83.9
Others	4.1	3.5-3.6
Public	-	12.5-14.2
Total	100	100

OBJECTS OF THE ISSUE

Particulars	Amount (Rs. in mn)
Repayment of inter – corporate debt	3,450
Capital infusion in L&T Finance	5,150
Capital infusion in L&T Infrastructure	4,850
General Corporate purposes	-

Source: RHP

MEANS OF FINANCE

Particulars	Amount (Rs. in mn)
Pre IPO placement	3,300
IPO issue	12,450
Total	15,750

Source: RHP

ABOUT THE COMPANY

L&T Finance Holdings Limited

L&T Finance Holdings Limited (LTFHL) was originally incorporated as L&T Capital Holdings Ltd on May 1, 2008 and subsequently changed its name on September 6, 2010. The company is promoted by Larsen & Toubro Limited (L&T) as the holding company of the group's financial services companies; L&T holds a 99.99% shareholding in the company as on September 30, 2010. In March 2009 L&T transferred its investments in L&T Finance Limited (LTF) and L&T Infrastructure Finance Company Limited (LTIF) to LTFHL and these companies subsequently became wholly owned subsidiaries of LTFHL. Besides LTF and LTIF, LTFHL's third wholly owned subsidiary is India Infrastructure Developers Limited (IIDL). LTFHL through its subsidiaries offers a diverse range of financial products and services across the corporate, retail and infrastructure financing segments. The company also offers fund management services through L&T Mutual Fund and other non fund based services such as Insurance and mutual fund distribution and Financial Advisory services (project finance advisory, Pre-bid Advisory and Equity Syndication) through its subsidiaries. As on May 31, 2011, the company through its subsidiaries had 837 points-of-presence across India, comprising 117 branch offices, 269 meeting centers, 37 KGSK centers (Kisan Gaurav Seva Kendra) and 414 customer care centers across all of its business groups and segments.

Major subsidiaries of L&TFH are given in the table below:

Name of the company	LTFH shareholding (%)	Business
L&T Finance Ltd.	100	Asset Financing (Corporate and Retail Financing)
L&T Infrastructure Finance Company Ltd. (L&T Infra)	100	Infrastructure financing
L&T Investment Managers (L&T IM)*	100*	Asset Management Company of L&T Mutual Fund
L&T Mutual Fund Trustee Ltd. (L&T MFT)*	100*	Trustee to L&T Mutual Fund
India Infrastructure Developers Ltd. (IIDL)	100	SPV to finance captive power plant for Indian Petrochemicals Ltd.

Source: RHP, Ajcon Research, *denotes 100% subsidiaries of LTF (therefore are indirect subsidiaries of L&TFH)

ABOUT THE SUBSIDIARIES

L&T Finance Limited

L&T Finance Limited (LTF) (rated by ICRA at LAA+/Stable), was formed as a 100% subsidiary of Larsen & Toubro Limited (L&T) in 1994. L&T formed L&T Financial Holdings Ltd (formerly known as L&T Capital Holdings Ltd) to hold all investments in financial services including L&T Infra and L&T Finance. Consequently, the entire shareholding was

transferred to L&T Finance Holdings Ltd, a subsidiary of L&T in March 2009. LTF is registered as a systemically important Non-Banking Finance Company, and its core business segments are divided into corporate finance group (CFG) and Retail finance group (RFG). LTF has traditionally been engaged in financing construction equipment and providing working capital finance to mid-sized corporates. During the past seven years, LTF has also diversified into Commercial Vehicle (CV), tractor finance, finance of dealers and vendors, Microfinance, loan against securities and distribution of financial products.

LTF on January 20, 2010 acquired DBS Cholamandalam Asset Management Limited, DBS Cholamandalam Trustees Limited, and DBS Chola Mutual Fund. These companies were subsequently in February 2010 renamed L&T Investment Management Limited (LTIM), L&T Mutual Fund Trustee Limited and L&T Mutual Fund respectively. As on March 31, 2011 total Assets under Management (AUM) under the various equity, debt and hybrid schemes offered aggregated to Rs. 33.3bn. LTF's reported a 47% growth in net profits to Rs. 2.3bn for the year ended March 31, 2011, on a reported asset base of Rs. 114.3 bn. The gross NPA% of the company stood at 1.42% as on March 31, 2011 while the net NPA stood at 0.78%.

L&T Infrastructure Finance Company Limited

Its wholly-owned subsidiary, L&T Infrastructure Finance Company Limited, conducts its infrastructure finance business, which provides financial products and services to its customers engaged in infrastructure development and construction, with a focus on the power, roads, telecommunications, oil and gas, urban infrastructure and ports sectors in India. Its Infrastructure Finance Group comprises the segments of project finance and corporate loans, equity investments and financial advisory services. L&T Infra is registered with the RBI as an NBFCND- SI and an IFC, which allows it to optimize its capital structure by diversifying its borrowings and accessing long-term funding resources, thereby expanding its financing operations while maintaining its competitive cost of funds.

In addition, L&T Infra has been notified as a Public Financial Institution ("PFI") under Section 4A of the Companies Act. The total income of its Infrastructure Finance Group for FY 2011 and FY 2010 was Rs.7.04 bn and Rs. 4.5 bn, respectively, which accounted for 33.29 % and 31.63% of its total income, respectively. The total gross loans and advances outstanding of its Infrastructure Finance Group as on March 31, 2011 were Rs. 71.8 bn (including Rs. 5.84 bn in respect of subscriptions of debentures in the normal course of business activity in non-related companies) and total disbursements for FY2011 were Rs. 51.5 bn(excluding Rs. 2.25 bn for subscriptions of preference shares in the normal course of business activity in non-related companies). The company's gross NPA% stood at 0.67% while the net NPA% was 0.53%as on March 31, 2011.

India Infrastructure Developers Limited ("IIDL")

IIDL was incorporated in 1997, and is registered with the RBI as an NBFC-ND. IIDL was originally established as a special purpose vehicle for financing a captive power plant for Indian Petrochemicals Limited. While it does not currently conduct any material financing operations through IIDL, we intend to begin doing so in the course of FY 2012. Subject to applicable regulatory approvals, IIDL plans to support the working capital requirements of small and medium enterprises and of other corporate entities. IIDL would initially provide non asset-backed loans and facilities as a part of its Corporate Finance Group's supply chain finance segment, which are currently provided through L&T Finance, and may consider extending its operations to include other types of non asset-backed financing. In order for IIDL to meet the capital requirements arising out of planned growth in its loan portfolio, the Company has, on March 28, 2011, infused equity capital by way of subscribing to equity shares aggregating to Rs. 450 mn in the share capital of IIDL.

Larsen and Toubro Investment Management Limited

L&TIM, formerly DBS Cholamandalam Asset Management Limited, was acquired by L&T Finance on January 20, 2010, together with DBS Cholamandalam Trustees Limited, the trustee company for DBS Chola Mutual Fund. DBS Cholamandalam Asset Management Limited, DBS Cholamandalam Trustees Limited and DBS Chola Mutual Fund were renamed "L&T Investment Management Limited", "L&T Mutual Fund Trustee Limited" and "L&T Mutual Fund"

respectively in February 2010. L&TIM is the entity through which it conducts the operations of its Investment Management Group.

KEY POSITIVES

Diversified and balanced mix of high growth businesses

It has a highly diversified business model covering a variety of many complementary, high growth business segments across its four core business groups, including infrastructure finance, construction equipment finance, transportation equipment finance, rural products finance, microfinance, corporate loans and leases, supply chain finance, capital markets finance, the distribution of financial products and investment management products and services. Many of its businesses operate in industries or sectors, such as agricultural and rural development, infrastructure and energy that have been identified by the Government of India as focus areas under its latest Five Year Plan. Furthermore, the company also believes that some of its business segments, such as rural finance and microfinance, are not always directly affected by cyclical in macroeconomic and industry activity.

The company with this balanced mix of high growth businesses has provided it with the ability to produce a steady, growing revenue stream. As it offers a broad spectrum of financial products and services, the company is also better able to cater to the needs of a diverse customer base, from construction equipment hirers, truck owners, farmers and shopkeepers in the small-business segment, to medium-sized vendors, dealers, contractors and fleet owners and large infrastructure developers and companies, including multi-national corporations.

Strong distribution network, with a presence throughout India

It has established its presence in 23 states in India. As on May 31, 2011, it had 837 points-of-presence across India, comprising 117 branch offices, 269 meeting centers, 37 KGSK centers (customer care centers across all of its business groups and segments). In the last few years, it has increased its geographic coverage from 226 points-of-presence in March 2008 to 837 points-of-presence as at May 31, 2011. Its investment management business alone has increased its number of branch offices from 19 to 58 since January 2010, when it acquired L&TIM. Furthermore, by maintaining such an extensive network, it has been able to accrue a portable knowledge base and apply the experiences and best practices developed in one region in order to further develop business in other regions. In particular, it has established a strong reach in rural areas in India, where it maintains more than 500 points of presence (predominantly in the form of meeting centers, KGSK centers and customer care centers) in order to service the customers of the rural product finance and microfinance segments of its Retail Finance Group.

KEY NEGATIVES

Exposure to microfinance segment: As on March, 2011 the company's exposure to microfinance segment stood at Rs. 4.6 bn which accounts for 4.53% of the total unsecured loans and advances of Retail Finance group. The company currently does not have any NPAs. We believe, payment issues from Andhra Pradesh (major beneficiary state in terms of microfinance provided) may pose a risk in terms of asset quality.



For research related queries contact Mr. Akash Jain at ajconresearch@ajcon.net

Disclaimer

This document has been prepared by Ajcon Global Services Ltd and is meant for the recipient for use as intended and not for circulation. This document should not be reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such. Ajcon Global, its directors and employees, will not in any way be responsible for the contents of this report. This is not an offer to sell or a solicitation to buy any securities. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment based on their own investment objectives, goals and financial position and based on their own analysis.

