

July 26, 2011

L&T Finance Holdings Ltd

Grading Agency	IPO Grade
CRISIL	5/5
CARE	5/5

The Company

L&T Finance Holdings Ltd (LTFHL), promoted by Larsen & Toubro, is a holding company of fully owned non-banking finance companies named L&T Finance and L&T Infrastructure Finance. LTFHL offers a wide range of financial products and services across the corporate and retail financial sectors. It also has a mutual fund business, which acquired from DBS Cholamandalam and an infrastructure advisory business as well as financial products distribution. The company aggressively expanded its network since the last three years and currently has a presence in 23 states in India through 890 points-of presence, comprising 113 branches, 330 meeting centers, 33 Sales points and 414 customer care centers.

The Offer

The company has come out with an IPO to raise Rs 1245 - 1076 crore (depends on allotment price) through issuance of shares in the price band of Rs 51- 59 per share. The company has reserved some portion of the issue to the L&T Group employees as also to the existing L&T shareholders, both of them will get a discount of Rs 2 to the issue price. Issue will open on 27th July 2011 and closes on 29th July. LTFHL plans to use the proceeds for repayment of inter-corporate deposit issued by parent company, infusion of capital in L&T Finance and L&T Infrastructure Finance.

JM Financial Consultants Private Limited, Citigroup Global Markets India Private Limited and HSBC Securities and Capital Markets (India) Private Limited are the book running lead managers to the issue.

Strength

Being one of the fast growing NBFC companies in India, LTFHL is enjoying a high reputation in the industry among its peers with the name of its parent company, L&T. It also has a strong balance sheet, superior quality of loan book and higher interest rate spreads.

In July, 2011, the company has raised Rs 330 crore through a 4% stake sale to Capital International Group at Rs 55 per share. With the Pre-IPO placement and the current IPO proceeds, the company plans to repay Rs 345 crore of inter-corporate deposit, which was taken from the parent company and the balance amount is to be deployed to long term capital requirement for L&T Finance and L&T Infrastructure Finance.

Incorporated in 2007, L&T Infrastructure Finance, as its name suggests, is concentrating in financing to power, road, telecom, oil and gas, ports and urban infrastructure sectors. It has a loan portfolio size of over Rs. 7000 crore as on March 2011. This division got a net interest margin of 4.95 per cent for the year ended March 2011 and its net NPA is negligible 0.5%. Recently, the company has become a public financial institution, thus it will allow to borrowing from public institutions such as insurance companies and pension funds. Going forward, this will enable the company to raise low cost funds.

L&T Finance was established in 1994 as a SME financing company to fund its parent company's vendors and distributors. Later it was converted as a full-fledged NBFC company which provides equipment finances and Agri and commercial-vehicle financing. It also has a small presence in micro-financing. As of March 2011, L&T Finance has a loan book size of over Rs. 10000 crore. L&T Finance owns close to a 5 per cent stake in Federal Bank and City Union Bank. L&T Mutual Fund business also falls into this kitty which has an asset base of Rs 5,200 crore as on June 2011.

LTFHL has strong credit ratings from both CARE and ICRA. On Feb, 2011, L&T Finance had a CARE rating of AA+, ICRA rating of LAA+ and L&T Infra runs on a CARE rating of AA+, which all refers high safety for the timely servicing of debt obligations. These credit ratings, coupled with strong brand equity enables the company to access funds at competitive rates.

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

Financials

LTFHL has registered a healthy net profit growth of 53% in 2011 on the back of 49% growth in net sales. The company had reported a Net Profit of Rs 392 crore in FY 2011 as against Rs. 262 crore in the previous fiscal. For the FY 11, EPS stood at Rs. 2.83.

Concerns

LTFHL would have to pay 5 per cent of the consolidated profits or 0.15 per cent of the assets whichever is lower for using Larsen and Toubro's trademark, will dent the profitability margins of the company. The high exposure in the infrastructure sector may adversely affect any slowdown in the economy.

Valuation and Recommendation

With a price band of Rs 51-59 per share (depending on the allotment price), on the post IPO Book value of shares will stand between Rs 25.9 and Rs 26.5. Correspondingly, the price to book value (P/BV) ratio will work out between 2 and 2.2. At the offer price band, P/E works to 18Xs on lower band and 21Xs on upper price band for FY 2011 EPS of Rs 2.83. P/E of other strictly comparable listed players are; M&M Financial (15.5Xs), Shriram Transport Finance (12.8 Xs), and Bajaj Finance (11Xs). Thus, **LTFHL issue is aggressively priced and long term investors may benefit it.**