

L&T Finance Ltd NCD Issue

Summary:

L&T Finance Ltd is coming up with the 1st tranche of public issue of secured, redeemable non-convertible debentures of face value of Rs 1,000 each for an amount of Rs 500 Crore ("Base Issue Size") with an option to retain oversubscription up to Rs 1000 Crore (totaling Rs.1,500 Crore) within the Shelf limit of Rs. 5,000 Crore.

The issue will open for subscription from **December 16, 2019 to December 30, 2019** (The Issue shall remain open for subscription during the period indicated above except that the Issue may close on such earlier date or extended date as may be decided by an Authorised personnel authorized by the Board of Directors of the Company ("Board"). The company will be paying an interest ranging between **8.25% and 8.65 % p.a.** on these bonds.

The NCDs proposed to be issued under this Issue have been rated "**CRISIL AAA/Stable**", **CARE AAA and IND AAA / Stable**". Instruments with this rating are considered to have highest degree of safety regarding timely servicing of financial obligations. Such instruments carry very lowest credit risk.

Objects of the Issue: The Company is in the business of financing, and as part of the business operations, it raise/avail funds for onward lending, for repayment/prepayment of borrowings and general corporate purposes.

1. For the purpose of onward lending, financing, refinancing the existing indebtedness of Company (payment of interest and/or repayment/prepayment of principal of borrowings); and
2. General Corporate Purposes (upto 25%)

Issue Details

Series	I	II	III	IV*	V	VI
Frequency of Interest Payment	Annual	NA	Monthly	Annual	Monthly	Annual
Tenor	36 Months	36 Months	36 Months	60 Months	60 Months	84 Months
Coupon (% per annum) for NCD Holders in Category I and II	8.25%	NA	7.96%	8.45%	8.15%	8.50%
Coupon (% per annum) for NCD Holders in Category III and IV	8.45%	NA	8.15%	8.60%	8.29%	8.65%
Effective Yield (% per annum) for NCD holders in Category I & II	8.24%	8.25%	8.25%	8.44%	8.45%	8.49%
Effective Yield (% per annum) for NCD holders in Category III & IV	8.44%	8.45%	8.45%	8.59%	8.60%	8.64%
Call and Put Option	NA					
Amount (Rs / NCD) on Maturity for NCD Holders in Category I & II	1000	1268.76	1000	1000	1000	1000
Amount (Rs / NCD) on Maturity for NCD Holders in Category III & IV	1000	1275.81	1000	1000	1000	1000
Minimum Application	Rs 10,000 (10 NCDs) across all Series collectively					
In Multiples of thereafter	Rs 1,000 (1 NCD)					
Face Value / Issue Price (Rs Per NCD)	Rs 1,000					
Mode of Interest Payment	Through various options available					
*L&T Finance would allot the Series IV NCDs, to all valid Applications, wherein the Applicants have not indicated their choice of the relevant Series of NCDs.						

Issuer	L&T Finance Limited
Type of instrument/ Name of the security/ Seniority	Secured Redeemable Non-Convertible Debentures
Issue Size	Public issue of secured, redeemable non-convertible debentures of face value of Rs 1,000 each for an amount of Rs 500 Crore (“Base Issue Size”) with an option to retain oversubscription up to Rs 1000 Crore (totaling Rs.1,500 Crore) within the Shelf limit of Rs. 5,000 Crore.
Issue opens	Monday , December 16, 2019
Issue closes	Monday, December 30, 2019
Allotment	First Come First Serve Basis, Compulsory in demat form
Face Value	Rs 1000 per NCD
Issue Price	Rs 1000 per NCD
Nature of Instrument	Secured Redeemable Non-Convertible Debenture
Minimum Application	Rs 10,000 (10 NCDs) collectively across all Series and in multiple of Rs 1,000 (1 NCD) thereafter across all Series
Listing	NCDs are proposed to be listed on BSE and NSE
Rating	“CRISIL AAA/Stable” by CRISIL Limited, CARE AAA / Stable by CARE Ratings Ltd. (“CARE”) and IND AAA y India Ratings and Research Private Limited (“India Ratings”)
Security and Asset Cover	The principal amount of the Secured NCDs to be issued in terms of this Tranche 1 Prospectus together with all interest due on the NCDs in respect thereof shall be secured by way of exclusive and/or pari passu charge in favour of the Debenture Trustee on specific present and/or future receivables/assets of the Company as may be decided mutually by L&T Finance and the Debenture Trustee. L&T Finance will create appropriate security in favour of the Debenture Trustee for the Secured NCD Holders on the assets adequate to ensure 100% asset cover for the Secured NCDs (along with the interest due thereon).

Who Can Apply?

Category I (Institutional Investors)	Category II (Non-Institutional Investors)	Category III (High Net-worth Individual, (“HNIs”), Investors)	Category IV (Retail Individual Investors)
<ol style="list-style-type: none"> Public financial institutions scheduled commercial banks, Indian multilateral and bilateral development financial institution which are authorized to invest in the NCDs; Provident funds, pension funds with a minimum corpus of Rs 2,500 lakh, superannuation funds and gratuity funds, which are authorized to invest in the NCDs; Mutual Funds registered with SEBI; Resident Venture Capital Funds/ Alternative Investment Fund registered with SEBI subject to investment conditions applicable to them under Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012; Insurance Companies registered with IRDA; State industrial development corporations; Insurance 	<ol style="list-style-type: none"> Companies within the meaning of section 2(20) of the Companies Act, 2013; Statutory bodies/ corporations and societies registered under the applicable laws in India and authorised to invest in the NCDs; Co-operative banks and regional rural banks; Public/private charitable/ religious trusts which are authorised to invest in the NCDs; Scientific and/or industrial research organisations, which are authorised to invest in the NCDs; 	<p>High Net-worth individuals which include Resident Indian individuals or Hindu Undivided Families through the Karta applying for an amount aggregating to above Rs 10 lakhs across all series of NCDs in Issue</p>	<p>Retail Individual Investors which include Resident Indian individuals and Hindu Undivided Families through the Karta applying for an amount aggregating up to and including Rs 10 lakhs across all series of NCDs in Issue</p>

<p>funds set up and managed by the army, navy, or air force of the Union of India;</p> <p>7. Insurance funds set up and managed by the Department of Posts, the Union of India;</p> <p>8. Systemically Important Non-Banking Financial Company, a nonbanking financial company registered with the Reserve Bank of India and having a net worth of more than Rs50,000 lakh as per the last audited financial statements; and</p> <p>9. National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India.</p>	<p>6. Partnership firms in the name of the partners;</p> <p>7. Limited liability partnerships formed and registered under the provisions of the Limited Liability Partnership Act, 2008 (No. 6 of 2009);</p> <p>8. Association of Persons; and</p> <p>9. Any other incorporated and/ or unincorporated body of persons.</p>		
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All categories of persons who are individuals or natural persons (including Hindu Undivided Families acting through their Karta) including without limitation HNIs and Retail Individual Investors who are eligible under applicable laws to hold the NCDs are collectively referred to as “Individuals”.

Who are not eligible to apply for NCDs?

The following categories of persons, and entities, shall not be eligible to participate in the Issue and any Applications from such persons and entities are liable to be rejected:

- Minors without a guardian name;
- Foreign nationals, NRI inter-alia including any NRIs who are (i) based in the USA, and/or, (ii) domiciled in the USA, and/or, (iii) residents/citizens of the USA, and/or, (iv) subject to any taxation laws of the USA;
- Persons resident outside;
- Foreign Institutional Investors;
- Foreign Portfolio Investors;
- Qualified Foreign Investors;
- Overseas Corporate Bodies; and
- Persons ineligible to contract under applicable statutory/regulatory requirements.

Allocation Ratio

Institutional Portion	Non-Institutional Portion	High Net Worth Individual Portion	Retail Individual Investor Portion
10% of the Overall Issue Size	10% of the Overall Issue Size	35% of the Overall Issue Size	45% of the Overall Issue Size

Credit Rating:

The NCDs proposed to be issued under this Issue have been rated “CRISIL AAA/Stable” (pronounced as CRISIL triple A with Stable outlook) for an amount of Rs 5000 crores, by CRISIL Limited (“CRISIL”) vide their letter dated November 14, 2019 and further revalidated vide revalidation letter dated December 5, 2019, CARE AAA / Stable (pronounced as CARE triple A with Stable Outlook) for an amount of Rs 5, 000 crores, by CARE Ratings Ltd. (“CARE”) vide their letter dated November 15, 2019 and further revalidated vide revalidation letter dated December 6, 2019 and IND AAA / Stable (pronounced as IND triple A with Stable outlook) for an amount of Rs 5,000

crores, by India Ratings and Research Private Limited (“India Ratings”) vide their letter dated November 18, 2019. The rating of NCDs by CRISIL, CARE and India Ratings indicate that instruments with this rating are considered to have highest degree of safety regarding timely servicing of financial obligations and carry lowest credit risk.

Liquidity and Exit Options: The Bonds are proposed to be listed on the BSE and NSE.

Allotments in case of oversubscription: In case of an oversubscription, allotments to the maximum extent, as possible, will be made on a first-come first-serve basis and thereafter on proportionate basis, i.e. full allotment of the Secured NCDs to the Applicants on a first come first basis up to the date falling 1 (one) day prior to the date of oversubscription and proportionate allotment of Secured NCDs to the applicants on the date of oversubscription (based on the date of upload of each Application on the electronic platform of the Stock Exchanges, in each Portion).

Company Background:

L&T Finance Ltd is one of the leading private non-banking financial services companies in India in terms of total loans outstanding, as of September 30, 2019. Its promoter is registered with the RBI as a Non-Banking Finance Company Core Investment Company (“NBFC-CIC”) conducting business through its wholly-owned subsidiaries.

L&T Finance Ltd is a part of the larger L&T group which is one of the leading business conglomerates in India, with presence across infrastructure, power, heavy engineering, electrical and automation, hydrocarbons, IT and technology services, financial services, project development, metallurgical and material handling, realty, shipbuilding, construction equipment, machinery and industrial products sectors. Its rural business comprises of farm equipment finance, two-wheeler finance and micro loans. As of September 30, 2019, our total adjusted loans and advances under our rural business were Rs 26,596.52 crores, with Rs 7,747.22 crores, Rs 6,008.77crores and Rs 12,840.53 crores of adjusted loans and advances under our farm equipment finance, two-wheeler finance and micro loans businesses, respectively.

Its housing business comprises of loans against property and real estate finance. As of September 30, 2019, its adjusted total loans and advances under its housing business were Rs 11,258.21 crores with Rs 289.16 crores and Rs 10,969.05 crores of adjusted loans and advances under its loans against property and real estate finance, respectively. L&T Finance Ltd’s operations are spread throughout India and the company has 216 branches in 211 cities across 21 states and 2 union territories, as of September 30, 2019. In addition, for its micro loans business it has 1,337 meeting centres covering 310 districts across 16 states in India, as of September 30, 2019. The company has 22,090 employees as of September 30, 2019. Each of its businesses are led by senior executives who are, generally, also responsible for certain organizational functions at the group level. Together, they have demonstrated the ability to manage and grow its operations.

The following table sets forth certain key details of the Company, for the periods indicated:

(Rs in cr)

	As of / For the Period Ended September 30, 2019	As of / For the Period Ended March 31, 2019
Total Adjusted Loans & Advances Outstanding	51,382.46	51,094.29
Total Disbursements	13,573.01	39,288.19
Average Assets Under Management	48,430.28	43,490.52
Total Income	4,453.07	7,382.59
Profit for the Period	141.36	845.96
Gross Stage 3 Assets (GS3) (%)	5.48%	3.77%
Net Stage 3 Assets (NS3) (%)	2.59%	1.27%
Total Adjusted Loans & Advances Outstanding	41,019.14	31,419.06
Total Disbursements	49,858.82	31,770.85
Average Assets Under Management	34,195.03	17,198.24
Total Income	5,245.69	4,144.98
Profit for the Period/Year Attributable to the Shareholders of our Company	289.92	16.04
Gross NPA (%)	6.07%	6.51%
Net NPA to Net Advance (%)	2.81%	3.99%

Financial Performance:

(Rs in Cr)

Particulars	*Half Year ended September 30, 2019	Fiscal 2019
Networth	8,978.92	8,995.50
Total Borrowings of which	45,115.83	46,335.88
Debt Securities (I)	18,977.74	23,071.60
Borrowings (Other than debt securities) (II)	24,956.01	22,139.86
Subordinated liabilities (III)	1,182.08	1,124.42
Property, plant and equipment	41.26	49.34
Intangible Assets	1,038.54	1,364.60
Non-Financial Assets	1,898.68	2,332.48
Investments	2,008.18	4,788.96
Non-Financial Liabilities	68.12	94.61
Cash and Cash Equivalents	2,043.15	1,530.51
Financial Asset other than Investment and Cash & Cash Equivalents	48,641.18	47,289.43
Financial Liabilities	45,529.34	46,841.68
Assets Under Management	49,025.12	47,835.43
Off Balance Sheet Assets	3.36	9.81
Interest Income	4,105.17	7,011.72
Finance Costs	1,951.64	3,327.92

Net Gain /(Loss) on Fair Value Changes	100.29	(8.62)
Net loss on derecognition of financial instruments under amortised cost category	80.10	324.97
Impairment on financial instruments	931.28	637.06
Profit for the period	141.36	883.20
Gross Stage 3 Assets (%)	5.48%	3.77%
Net Stage 3 Assets (%)	2.59%	1.27%
CRAR - Tier I Capital Ratio (%)	16.21%	15.22%
CRAR - Tier II Capital Ratio (%)	1.81%	1.76%

*= Standalone nos

Debt Equity Ratio of the Company:

Before the issue of debt securities as at September 30 2019	5.02
After the issue of debt securities as at September 30, 2018	5.57

Competitive Strengths of the company

- Significant presence across diversified businesses
- Strong appraisal, structuring and syndication capabilities
- Robust risk management framework
- Experienced and professional management team
- Brand recall and synergies with L&T

Strategy

- Grow key businesses
- Emphasise fee income and cost efficiency to deliver improved performance metrics
- Further enhance technology systems and data analytics as a competitive advantage

Key Risks and Concerns:

- Ability to manage credit quality.
- Interest rates and inflation in India;
- Volatility in interest rates for lending and investment operations as well as the rates at which L&T Finance Ltd borrows from banks/financial institution;
- General, political, economic, social and business conditions in Indian and other global markets;
- Ability to successfully implement its strategy, growth and expansion plans;
- Competition from L&T Finance Ltd's existing as well as new competitors;
- Change in the government regulations;
- Availability of adequate debt and equity financing at commercially acceptable terms;
- Performance of the Indian debt and equity markets;

- Demand for products and services;
- Performance of the new and pre-owned vehicles industry;
- OEM and employee relationships;
- L&TF's ability to comply with certain specific conditions prescribed by the GoI in relation to its business changes in laws and regulations applicable to companies in India, including foreign exchange control regulations in India;

Disclosure:

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

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