



INDEPENDENT **EQUITY** **RESEARCH**

**Lakshmi Finance and Industrial
Corporation Ltd**

Q3FY11 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

Disclaimer:

This **Exchange-commissioned Report** (Report) is based on data publicly available or from sources considered reliable by CRISIL (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. The Data / Report are subject to change without any prior notice. Opinions expressed herein are our current opinions as on the date of this Report. Nothing in this Report constitutes investment, legal, accounting or tax advice or any solicitation, whatsoever. The Report is not a recommendation to buy / sell or hold any securities of the Company. CRISIL especially states that it has no financial liability, whatsoever, to the subscribers / users of this Report. This Report is for the personal information only of the authorized recipient in India only. This Report should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person – especially outside India or published or copied in whole or in part, for any purpose.

Lakshmi Finance and Industrial Corporation Ltd

A market-linked play

Fundamental Grade 1/5 (Poor fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Capital Markets

Lakshmi Finance and Industrial Corporation Ltd's (Lakshmi Finance's) Q3FY11 results were in line with CRISIL Equities' expectations, driven by lower booking of profits on the investment portfolio. In the past two months, equity markets have tanked on concerns over high inflation, rising crude prices, tight monetary policies and political turmoil. However, our outlook for the next two months remains stable. Consequently, we largely maintain our earnings estimates for FY11. We continue to retain our fundamental grade of '1/5' as Lakshmi Finance's business model is not supported by professional research and, therefore, provides limited value to investors.

Q3FY11 result analysis

- Lakshmi Finance's Q3 revenues dropped 16.6% y-o-y (up 10.6% q-o-q) to Rs 16.0 mn primarily on account of lower booking of investment profits.
- Operating cost, excluding loss on sale of investments, was stagnant at Rs 2 mn in Q3FY11.
- PAT fell by 7.7% y-o-y (up 9% q-o-q) to Rs 13.3 mn following a contraction in total income as majority of its costs remain fixed (employee costs, depreciation and other expenses).
- Net asset value (NAV) of its portfolio declined from Rs 97 per share to Rs 91 per share q-o-q primarily on decline in market value of its investment portfolio.

Valuations: Current market price has strong upside

We continue to use the NAV method to value Lakshmi Finance. Based on the performance of the portfolio for the first nine months of FY11, we revise our fair value to Rs 58 per share after applying a liquidity discount of 30% to NAV and adjusting for portfolio expenses. Based on the current market price, our valuation grade is '5/5'.

KEY FORECAST

(Rs mn)	FY07	FY08	FY09	FY10	FY11E
Total Income	62.1	77.0	25.5	-1.8	43.0
PAT	57.3	30.8	-19.6	60.1	32.6
EPS (Rs)	25.5	13.7	-6.5	20.0	10.9
EPS growth (%)	25.4	-46.2	-147.67	nm	-45.7
Book value per share	95.3	105.5	70.8	88.0	96.0
Book value growth (%)	28.8	10.7	-32.9	24.3	9.0
Dividend yield (%)	8.8	8.8	3.8	6.3	6.3
RoE (%)	30.1	13.6	-8.7	25.2	11.8
PE (x)	1.6	2.9	nm	2.0	3.7
P/BV (x)	0.4	0.4	0.6	0.5	0.4

NM: Not meaningful; CMP: Current Market Price

Source: Company, CRISIL Equities estimate

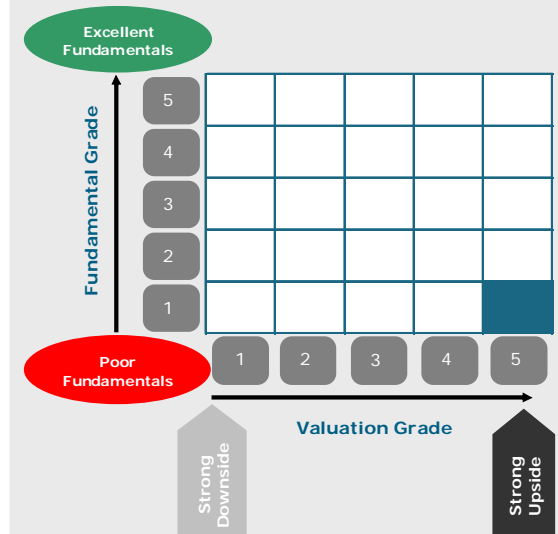


February 28, 2011

Fair Value Rs 58

CMP Rs 40

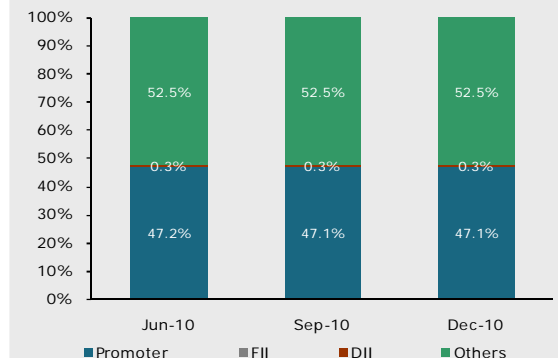
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5417
NSE ticker	LAKSHMIFIN
Face value (Rs per share)	10
Shares outstanding (mn)	3
Market cap (Rs mn)/(US\$ mn)	120/3
52-week range (Rs) (H/L)	94/21
Free float (%)	52.8
Avg daily volumes (30-days)	117
Avg daily value (30-days) (Rs mn)	0.0

SHAREHOLDING PATTERN



(Permitted to trade on NSE since June 2010)

PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
LAKSHMI FINANCE	-15%	-42%	-34%	N.A.
NIFTY	-5%	-9%	-2%	12%

ANALYTICAL CONTACT

Chetan Majithia (Head) chetanmajithia@crisil.com
Vishal Rampuria vrampuria@crisil.com
Elizabeth John ejohn@crisil.com

Client servicing desk

+91 22 3342 3561 clientservicing@crisil.com

Q3FY11 Result Summary

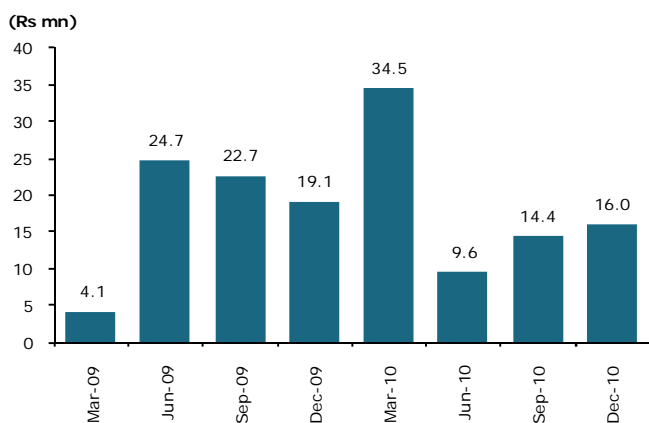
(Rs mn)	Q3FY11	Q2FY11	Q3FY10	q-o-q (%)	y-o-y (%)
Total Income	16.0	14.4	19.1	10.6	-16.6
Employees cost	1.2	1.1	1.2	10.5	5.4
Other expenses	0.6	0.7	0.5	-17.6	18.8
Loss on sale of investments	0.0	0.0	4.1	n.m.	-100.0
Depreciation	0.2	0.1	0.2	41.8	17.6
Total Expenditure	2.0	2.0	5.9	2.7	-65.8
Operating Profit	13.9	12.5	13.2	11.8	5.4
Other Income	1.1	1.0	1.2	3.1	-10.2
PBT	15.0	13.5	14.4	11.1	4.1
Tax	1.7	1.3	0.0	30.8	n.m.
PAT	13.3	12.2	14.4	9.0	-7.7
No of equity shares (mn)	3.0	3.0	3.0	-	-
EPS (Rs)	4.4	4.1	4.8	9.0	-7.7

Total income fell 17% y-o-y on lower booking of investment profits

PAT down 8% y-o-y on contraction in income as most of its costs are fixed

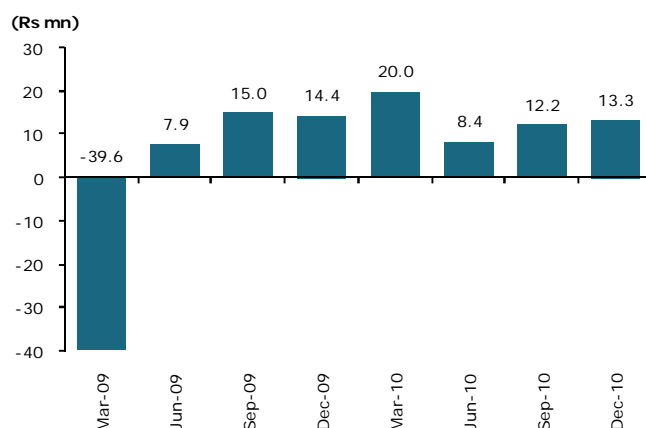
Source: Company, CRISIL Equities

Total income down 17% y-o-y, up 11% q-o-q



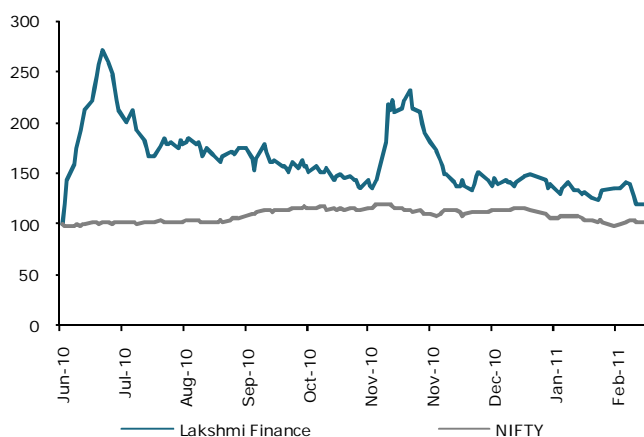
Source: Company, CRISIL Equities

PAT down 8% y-o-y, up 9% q-o-q



Source: Company, CRISIL Equities

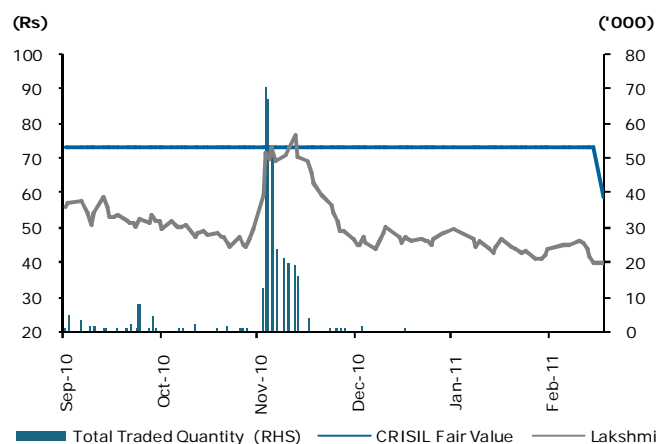
Share price movement vis-à-vis NIFTY



-Indexed to 100

Source: NSE, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

VALUATION

We continue to use the NAV method to value Lakshmi Finance. The broader market has given a return of 4% this year, post the recent correction. Our outlook for the next two months remains unchanged due to the ongoing concerns. Based on this expectation and performance in its portfolio for the first nine months of FY11, we arrive at a NAV of Rs 91 per share. After adjusting for portfolio expenses and applying a 30% discount for liquidity reasons to the calculated NAV per share, we arrive at a fair value of Rs 58 per share.

Valuation is expected to move in line with NAV, linked with equity market performance

CRISIL IER reports released on Lakshmi Finance and Industrial Corporation Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
8-Sep-10	Initiating coverage*	1/5	Rs 73	5/5	Rs 56
11-Nov-10	Q2FY11 result update	1/5	Rs 73	3/5	Rs 72
28-Feb-11	Q3FY11 result update	1/5	Rs 58	5/5	Rs 40

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income Statement

(Rs mn)	FY07	FY08	FY09	FY10	FY11E
Total Income	62.1	77.0	25.5	-1.8	43.0
Expenditure	5.0	6.7	7.0	9.1	9.4
Operating Profit	57.1	70.3	18.4	-10.9	33.6
Provisions & write-offs	-0.1	39.5	37.5	-77.5	0.9
PBT	57.3	30.8	-19.0	66.6	32.7
Tax	-0.1	-0.1	0.6	6.5	0.0
PAT	57.3	30.8	-19.6	60.1	32.6

Ratios

	FY07	FY08	FY09	FY10	FY11E
Growth					
Total Income (%)	25.7%	23.9%	-66.9%	-107.0%	nm
PAT	25.4%	-46.2%	-163.6%	-406.7%	-45.7%
EPS (%)	25.4%	-46.2%	-147.7%	nm	-45.7%
Return ratios					
Return on average equity (RoAE) (%)	30.1%	13.6%	-8.7%	25.2%	11.8%
Return on average assets (ROAA) (%)	27.4%	12.5%	-8.0%	23.4%	11.2%
Dividend					
Dividend per share (Rs)	3.5	3.5	1.5	2.5	2.5
Dividend payout ratio (%)	13.7%	25.5%	nm	12.5%	23.0%
Dividend yield (%)	8.8%	8.8%	3.8%	6.3%	6.3%
Valuation Multiples					
Price-earnings (x)	1.6	2.9	nm	2.0	3.7
Price-book (x)	0.4	0.4	0.6	0.5	0.4

Per Share

	FY07	FY08	FY09	FY10	FY11E
Earnings Per Share (Rs)	25.5	13.7	-6.5	20.0	10.9
Book Value per share (BVPS)	95.3	105.5	70.8	88.0	96.0
Dividend per share (Rs)	3.5	3.5	1.5	2.5	2.5
Actual O/s Shares	2.3	2.3	3.0	3.0	3.0

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Equities estimate

Balance sheet

(Rs mn)	FY07	FY08	FY09	FY10	FY11E
Sources of Funds					
Equity capital	22.5	22.5	30.0	30.0	30.0
Reserves and surplus	192.0	214.9	182.4	234.0	257.9
Networth	214.5	237.4	212.4	264.0	287.9
Deferred Tax Liability (net)	0.2	0.0	0.1	0.0	0.0
Current Liabilities and Provisions	19.2	22.2	19.5	18.0	14.6
Total Liabilities	233.8	259.6	232.0	282.0	302.5
Applications of Funds					
Net Fixed Assets	10.4	9.7	9.1	9.2	10.0
Investments	201.6	207.5	188.0	245.6	268.5
Current assets, loans & advances	14.7	25.8	25.7	3.4	7.9
Cash & Bank Balance	7.1	16.6	9.2	23.8	16.1
Total Assets	233.8	259.6	232.0	282.0	302.5

Quarterly financials

(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Total Income	19.1	34.5	9.6	14.4	16.0
Change (q-o-q)	-16%	80%	-72%	51%	11%
PAT	14.4	20.0	8.4	12.2	13.3
Change (q-o-q)	-4%	39%	-58%	45%	9%
EPS	4.8	6.7	2.8	4.1	4.4
Change (q-o-q)	-4%	39%	-58%	45%	8%

CRISIL Independent Equity Research Team

Mukesh Agarwal	Director	+91 (22) 3342 3035	magarwal@crisil.com
Tarun Bhatia	Director, Capital Markets	+91 (22) 3342 3226	tbhatia@crisil.com
Chetan Majithia	Head, Equities	+91 (22) 3342 4148	chetanmajithia@crisil.com
Sudhir Nair	Head, Equities	+91 (22) 3342 3526	snair@crisil.com
Nagarajan Narasimhan	Director, Research	+91 (22) 3342 3536	nnarasimhan@crisil.com
Ajay D'Souza	Head, Research	+91 (22) 3342 3567	adsouza@crisil.com
Aparna Joshi	Head, Research	+91 (22) 3342 3540	apjoshi@crisil.com
Manoj Mohta	Head, Research	+91 (22) 3342 3554	mmohta@crisil.com
Sridhar C	Head, Research	+91 (22) 3342 3546	sridharc@crisil.com

CRISIL's Equity Offerings

The Equity Group at CRISIL Research provides a wide range of services including:

- ☞ Independent Equity Research
- ☞ IPO Grading
- ☞ White Labelled Research
- ☞ Valuation on companies for use of Institutional Investors, Asset Managers, Corporate

Other Services by the Research group include

- ☞ CRISINFAC Industry research on over 60 industries and Economic Analysis
- ☞ Customised Research on Market sizing, Demand modelling and Entry strategies
- ☞ Customised research content for Information Memorandum and Offer documents

About CRISIL

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company.

About CRISIL Research

CRISIL Research is India's largest independent, integrated research house. We leverage our unique, integrated research platform and capabilities spanning the entire economy-industry-company spectrum to deliver superior perspectives and insights to over 750 domestic and global clients, through a range of subscription products and customised solutions.

To know more about CRISIL IER, please contact our team members:

Vinaya Dongre – Head, Business Development
Email : vdongre@crisil.com | Phone : 9920225174

Ashish Sethi – Head, Business Development
Email : asethi@crisil.com | Phone : 9920807575

Sagar Sawarkar – Senior Manager, Business Development
Email : ssawarkar@crisil.com | Phone : 9821638322

Regional Contacts:

Ahmedabad / Mumbai / Pune

Vishal Shah - Manager, Business Development
Email : vishah@crisil.com | Phone : 9820598908

Kolkata

Priyanka Agarwal - Manager, Business Development
Email : priyagarwal@crisil.com | Phone : 9903060685

Bengaluru / Chennai

Anand Krishnamoorthy - Manager, Business Development
Email : ankrishnamoorthy@crisil.com | Phone : 9884704111

New Delhi

Vipin Saboo - Manager, Business Development
Email : vsaboo@crisil.com | Phone : 9820779873

Hyderabad

Kaliprasad Ponnuru - Manager, Business Development
Email : kponnuru@crisil.com | Phone : 9642004668



Head Office: CRISIL House, Central Avenue, Hiranandani Business Park,
Powai, Mumbai - 400 076
Phone : 91-22-3342 3000

Web: www.crisil.com
Download reports from: www.ier.co.in