Larsen & Toubro (LARTOU)

ICICI direct Research

CMP: ₹ 1390 | Target: ₹ 1675 (21%) | Target Period: 12-15 months | BUY

July 24, 2019

Strong execution, order inflows continue…

L&T's standalone revenues for Q1FY20 grew 16.3% YoY to ₹ 17672 crore (above our estimate of ₹ 16716.2 crore). Proforma standalone revenue grew 16.7% to ₹ 16498.9 crore (excluding E&A business). On a consolidated basis, revenues (excluding E&A business) grew 9.7% to ₹ 29636 crore YoY. On a standalone basis, infrastructure & heavy engineering segment revenues grew 16.8% to ₹ 13356.7 crore and 163% to ₹ 991 crore YoY, respectively. L&T registered strong order inflows of ₹ 38700 crore at the group level, up 11% YoY while the order backlog was at ₹ 294014 crore, up 9% YoY. Standalone EBITDA margins came in at 7.4%, down 100 bps owing to stage of execution and job mix. Consolidated PAT came in at ₹ 1473 crore, up 21% YoY. Net working capital ratio deteriorated 200 bps to 23% YoY. **Note:** E&A business reported as discontinued operations.

Strong order inflows despite cautious stance

L&T registered strong order inflows of ₹ 38700 crore, up 11% YoY at the group level, predominantly led by domestic orders that grew 15.5% to ₹ 29700 crore. Key drivers for order inflows were infrastructure (₹ 17492 crore) and hydrocarbon segments (₹ 3444 crore) and power (₹ 6700 crore). While orders from the central and state governments were impacted during general elections, strong PSU and private sector orders enabled growth for the quarter. The expected strong bid pipeline of ₹ 8.5 lakh crore is expected to ensure 10-12% order inflow growth in FY20E.

Reasonable performance across business verticals

The management has maintained its guidance of 12-15% revenue growth in FY20E. During the quarter, net working capital as percentage of sales deteriorated 200 bps to 23%, YoY, due to sluggishness of payments from state, central governments and vendor support on account of liquidity crunch in the system. Borrowings (ex-services) was at ₹ 41400 crore, an increase of ₹ 7000 crore in Q4FY19, on account of Hyderabad metro, stacking up balance sheet liquidity and Increase in working capital. Given the strong backlog, L&T is well placed to deliver 12.2% revenue CAGR (ex-E&A business) and 12.6% PAT CAGR on a standalone basis over FY19-21E.

Valuation & Outlook

L&T has consistently been delivering in terms of bagging orders, strong order execution, though with some temporary concerns on working capital management owing to tight liquidity scenario. However, we believe revenue, PAT CAGR of 12.2%, 12.6% in FY19-21, respectively, coupled with improvement in return ratios should be value accretive for the stock. We value L&T on SoTP (with base business at 20x FY21E EPS) with a target price of ₹ 1675 and maintain **BUY** on L&T.

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Particulars

Particular	Amount
Market Capitalization	₹ 195330 crore
Total Debt (FY18)	₹ 10191.6 Crore
Cash and Investments (FY18)	₹2733.4 Crore
EV	₹202788.2 crore
52 week H/L	₹1606/ ₹ 1183
Equity capital	₹ 277.5 Crore
Face value	₹ 2

Key Highlights

- Q1FY20 order inflow was at ₹ 38700 crore at the group level, up 11% YoY led by domestic orders across segments
- Net working capital as % of sales deteriorated 200 bps to 23% YoY, owing to payment delays from state, central governments and tight liquidity situation in the system
- We value L&T on SoTP (with base business at 20x on FY21E EPS) with a target price of ₹ 1675 per share and maintain our BUY rating

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19	FY20E*	FY21E*	CAGR (FY19-FY21E)*
Net Sales	66,301.4	74,454.4	86,987.9	92,403.8	103,270.7	9.0%
EBITDA	6,425.2	7,407.7	8,498.6	9,010.2	10,243.5	9.8%
EBITDA Margin (%)	9.7	9.9	9.8	9.8	9.9	
Net Profit	5,453.8	5,387.1	6,677.9	7,766.6	8,471.9	12.6%
EPS (₹)	39.3	38.8	48.1	56.0	61.1	
P/ E (x)	35.4	35.8	28.9	24.8	22.8	
RoNW (%)	11.9	11.0	12.7	13.5	13.6	
RoCE (%)	9.2	10.6	11.8	11.5	12.2	

**E&A business has been now reported as discontinued operations at PAT level. Numbers restated for FY20E, FY21E*

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (Chg %)	Q4FY19	QoQ (Chg %)	Comments
Revenue	16,498.9	16,716.2	15,173.7	8.7	30,822.4	-46.5	E&A business has been classified as discontinued operations. Like to like revenue has grown 16.7% YoY owing to better execution
Other Income	462.1	464.7	546.7	-15.5	796.6	-42.0	
Employee Expenses	1,448.0	1,579.7	1,496.1	-3.2	1,538.0	-5.9	
Raw Material Expenses	11,319.5	13,398.1	11,759.0	-3.7	25,424.8	-12.5	
Other Operating Expenses	545.3	598.4	680.2	-19.8	398.7	36.8	
EBITDA	1,216.5	1,405.0	1,238.4	-1.8	3,460.9	-64.9	
EBITDA Margin (%)	7.4	8.4	8.2	-79 bps	11.2	-386 bps	Margins below our estimates on account of stages of execution and job mix
Depreciation	233.9	276.5	254.3	-8.0	285.9	-18.2	
Interest	481.6	346.9	347.0	38.8	436.1	10.4	Interest costs were higher than our estimates on account of increased borrowings
PBT (befor exp. Item)	963.0	1,246.4	1,183.9	-18.7	3,535.6	-72.8	
PBT (after exp. Item)	1,589.6	1,246.4	1,186.7	-	3,510.9	-	
Total Tax	315.8	301.9	274.8	14.9	1,133.4	-72.1	
PAT	1,392.1	944.5	911.9	52.7	2,377.5	-41.4	
Adj. PAT	890.0	944.5	909.7	-2.2	2,394.2	-62.0	Adjusted PAT below our estimate
Key Metrics							
Order inflows	26,780.4	31,390.0	31,334.8	-14.5	42,640.7	-37.2	Reasonable order inflows despite slower tendering activities due to general elections
Order backlog	253,722.0	268,180.0	243,443.2	4.2	253,497.6	0.1	Backlog provides strong visibility for next two to three years

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E*			FY21E*			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	97,322.5	92,403.8	-5.1	108,865.3	103,270.7	-5.1	*Revised due to exclusion of E&A business, which is now reported as discontinued operations
EBITDA	9,905.0	9,010.2	-9.0	11,145.9	10,243.5	-8.1	*Revised due to exclusion of E&A business, which is now reported as discontinued operations
EBITDA Margin (%)	10.2	9.8	-45 bps	10.2	9.9	-32 bps	
PAT	7,410.2	7,766.6	4.8	8,484.8	8,471.9	-0.2	
EPS (₹)	53.4	56.0	4.8	61.2	61.1	-0.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20E*	FY21E*	FY20E	FY21E	
Order Inflow growth	9.8	33.6	-0.6	12.4	2.5	12.3	
Order Backlog growth	0.6	6.0	18.0	21.1	21.8	20.3	
Revenue growth	12.3	16.8	6.2	11.8	11.9	11.9	E&A business has been now reported as discontinued operations at PAT level. Numbers restated for FY20E, FY21E
EBITDA Margins	9.9	9.8	9.8	9.9	10.2	10.2	E&A business has been now reported as discontinued operations at PAT level. Numbers restated for FY20E, FY21E

Source: Company, ICICI Direct Research

Key financial results highlights

- L&T's standalone revenues for the quarter grew 16.3% YoY to ₹ 17672 crore, above our estimate ₹ 16716.2 crore. Proforma standalone revenue grew 16.7% to ₹ 16498.9 crore (excluding E&A business). On a consolidated basis, revenues from continuing operations (excluding E&A business) grew 9.7% to ₹ 29636 crore YoY. On a standalone basis, infrastructure segment has delivered strong performance with revenue growth of 16.8% to ₹ 13356.7 crore YoY. Heavy engineering segment revenues grew 162.8% to ₹ 991.5 crore on a YoY basis. Electrical and automation segment (discontinued) grew 10.7% to ₹ 1173.1 crore YoY. Defence engineering segment revenue grew 37.6% to ₹ 967.4 crore. On the weak side, power segment revenues continue to decline 48% to ₹ 563 crore. **Note: With CCI providing its approval for acquisition of electrical & automation business by Schneider Electric subject to certain conditions, L&T has classified this business as 'discontinued operations', consolidating it at profit level in its P&L account. Accordingly, we restate our forward estimates**

- On a consolidated basis, infrastructure segment net revenues grew 13.8% to ₹ 14037.6 crore owing to robust order book conversion across business verticals while power segment revenues declined significantly by 48% to ₹ 563 crore due to aggressive competition, limited opportunities and overcapacity continues to impact order inflow and reduced order book. Heavy engineering segment registered robust net revenue growth of 163% to ₹ 991.5 crore predominantly driven by the oil & gas sector while electrical & automation segment grew 7.6% to ₹ 1630.0 crore. Hydrocarbon segment registered robust revenue growth of 7.2% to ₹ 3768.7 crore while IT & technology segment grew 14.6% to ₹ 3844.4 crore for the quarter

- For Q1FY20, L&T registered strong order inflows at the group level worth ₹ 38700 crore, up 11% YoY, predominantly led by domestic orders which grew 15.5% to ₹ 29695 crore YoY while international orders contributed 23% to order inflows amounting to ₹ 9005 crore YoY. While orders from the central and state governments were impacted by general elections, strong PSU, private sector orders enabled growth for the quarter. L&T's order backlog is at ₹ 294014 crore, up 21% YoY

- During the quarter, consolidated net cash flow from operations were at ₹ -3820 crore compared to ₹ -1340 crore in Q1FY19. Net working capital deteriorated 200 bps to 23% YoY. Borrowings (ex-services) were at ₹ 41400 crore as on Q1FY20, an increase of ₹ 7000 crore over Q4FY19

- During the quarter, standalone EBITDA margins came in at 7.4%, declining 100 bps (vs. our estimate of 8.4%) on a YoY basis owing to stages of project executions and job mix. On a consolidated basis, EBITDA margins came in at 11.1%. From a segmental perspective, infrastructure segment margins recorded a decline of 40 bps to 6.4% owing to stage of execution and job mix, power segment EBITDA margin declined 80 bps to 3.3%, heavy engineering segment margins came in at 19.5%, with global competence, cost efficiencies yielding strong margins

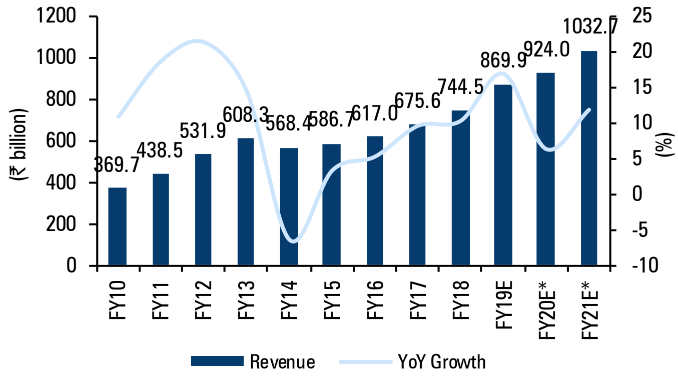
- Consequently, standalone adjusted PAT came in at ₹ 890 crore (adjusting for exceptional item of ₹ 626 crore) registering growth of 5.4% YoY (below our estimate of ₹ 944 crore). Consolidated PAT for Q1FY20 came in at ₹ 1473 crore, up 21% YoY

Conference call highlights

- The management has maintained its guidance for 10-12% order inflow growth and 12-15% revenue growth for FY20E backed by a strong bid pipeline and execution pick-up. EBITDA margin at the group level is expected to remain stable. The company is confident of achieving its RoE target of 18% by 2021
- Despite robust growth of 11% in order inflows, the company still foresees ordering pipeline of ₹ 840000 crore in the remainder of FY20E out of which international opportunity is pegged at ₹ 165000 crore (mostly hydrocarbon, power T&D and some infra). In terms of segment, infrastructure opportunity is at ₹ 540000 crore, hydrocarbon at ₹ 120000 crore, power generation at ₹ 50000 crore, power T&D at ₹ 100000 crore and heavy engineering & defence at ₹ 10000 crore
- Out of current backlog of ₹ 294000 crore, domestic backlog is at ₹ 230000 crore. The share of private sector in the domestic backlog has been pegged at 23%. The management commentary suggests that private sector capex is visible in airport, healthcare and commercial buildings space while other capex is still being driven by the public sector
- The company removed non-moving orders to the tune of ₹ 6000 crore from the backlog. These orders belonged to MMH and real estate segment
- Working capital as a percentage of sales rose 200 bps YoY to 23%. The increase was mainly on account of sluggishness of payments from state governments (respective budgets not being passed), central government (general elections) and vendor support on account of liquidity crunch in the system
- The increase in debt was to the tune of ₹ 7300 crore. The same was on account of 1) operational phase of Hyderabad metro, 2) stacking up liquidity in the standalone balance sheet and 3) increase in working capital on account of liquidity support to vendor
- In the domestic power segment, L&T expects a bid pipeline of around 7 GW of projects and expects a winning 15-20% run rate. Flue gas Desulphurisation (FGD) tender pipeline of 30 GW is expected to create another opportunity for L&T
- In the real estate business, the company currently has 2900 flats under construction out of which 1900 have been sold while the remaining 1000 are in inventory. The same will come for revenue billing over the coming quarters. Hence, we believe real estate revenues will be less lumpy than anticipated. However, L&T is exploring a lease and rental model for remaining commercial buildings to have steady rental income in coming years
- As of Q1FY20, total 55 km of Hyderabad Metro is operational while the next phase is expected to reach 68 km by September 2019
- Given the issues related to infrastructure orders awarded in Andhra Pradesh likely to go for a cancellation and rebid, L&T has 2-3% of its backlog (orders wherein execution is less than 25% of order value) exposed to such risks

Financial Story in Charts

Exhibit 4: Trend in revenue growth



*E&A business has been restated as discontinued Ops.

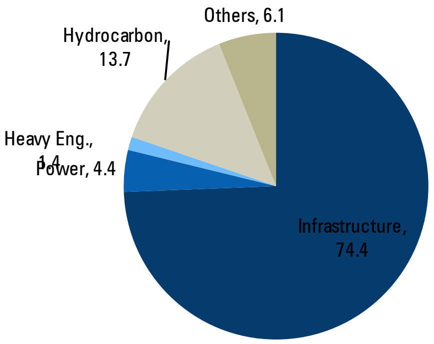
Source: ICICI Direct Research, Company

Exhibit 5: How L&T has fared across business cycles

	Inflow Growth (%)		Revenue Growth (%)	
	Guidance	Achievement	Guidance	Achievement
FY08	30	40	30-35	45
FY09	30	28	30	47
FY10	25-35	41	15-20	14
FY11	25	14	20	19
FY12	5	-12	25.00	21
FY13	15-20	25	15-20	15
FY14	15-20	15	15	10
FY15E	20	22	15	3
FY16	0	-13	15	12
FY17	15	10.9	15	10
FY18	0	7	10	9.5
FY19	10%-12%	16	12%-15%	18
FY20E	10%-12%		12%-15%	

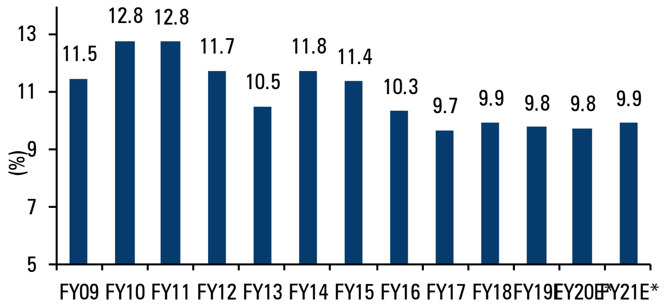
Source: ICICI Direct Research, Company

Exhibit 6: Break-up of consolidated backlog…



Source: Company, ICICI Direct Research

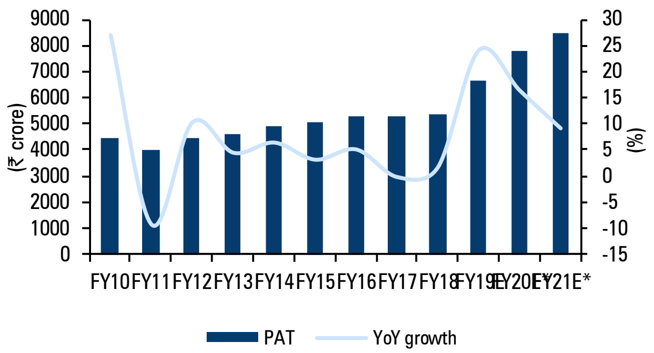
Exhibit 7: Trend in EBITDA margins…



*E&A business has been restated as discontinued ops.

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability…



*E&A business has been restated as discontinued ops.

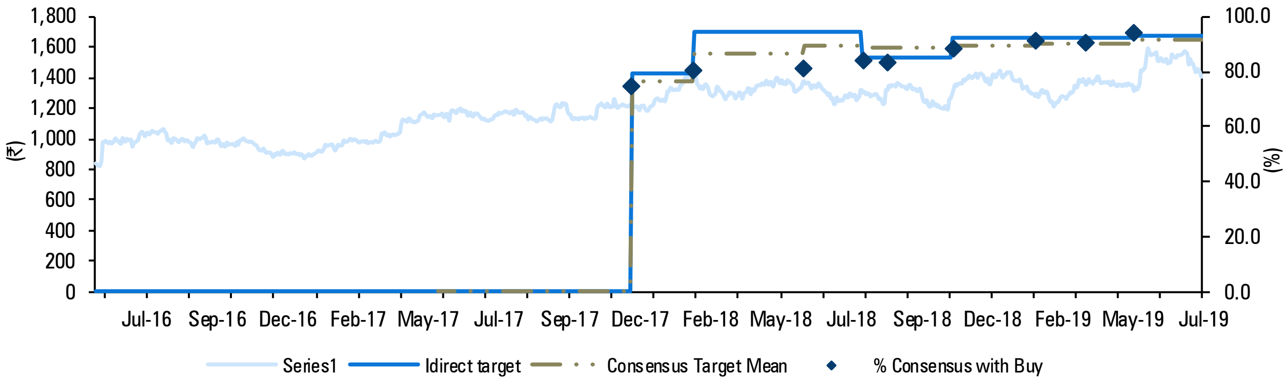
Source: Company, ICICI Direct Research

Exhibit 9: SoTP valuation of L&T

Company (₹per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	1408	68.6	1222.0	73.0	795.6	72.9
L&T Finance Holdings	112	5.5	68	4.1	67	6.2
L&T Infotech	225	11.0	180	10.7	112.4	10.3
L&T Power Development	18	0.9	11.5	0.7	7.7	0.7
L&T MHI JV	13	0.6	7.6	0.5	5.7	0.5
L&T IDPL	176	8.6	105.4	6.3	56.2	5.2
Other E&C, MIP & E&E Sub	29	1.4	20.4	1.2	15.0	1.4
Hydrocarbon	31	1.5	24	1.4	6	0.6
Others	42.1	2.1	34.3	2.0	24.8	2.3
Total	**2053**	**100.0**	**1673**	**100.0**	**1091**	**100.0**

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Life Insurance Corporation of India	31-Mar-19	17.6	246.7	-9.9
2	L&T Employees Welfare Foundation	31-Mar-19	12.3	172.1	0.0
3	HDFC Asset Management Co., Ltd.	31-Mar-19	5.0	70.2	11.3
4	SBI Funds Management Pvt. Ltd.	30-Jun-19	2.5	35.1	0.7
5	ICICI Prudential Asset Management Co. Ltd	31-Mar-19	2.3	32.3	3.7
6	ICICI Prudential Life Insurance Company Ltd	31-Mar-19	1.8	25.1	-1.3
7	General Insurance Corporation of India	31-Mar-19	1.7	24.4	0.1
8	Reliance Nippon Life Asset Management Li	30-Jun-19	1.6	23.1	-0.3
9	BlackRock Institutional Trust Company, N.A	30-Jun-19	1.1	15.0	-0.1
10	Nomura Asset Management Co., Ltd.	31-Oct-18	1.0	14.4	0.0

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
HDFC Asset Management Co., Ltd.	+226.03M	+11.29M	Life Insurance Corporation of India	-198.50M	-9.91M
ICICI Prudential Asset Management Co. Ltd.	+74.27M	+3.71M	Norges Bank Investment Management (NBIM)	-55.98M	-2.71M
BlackRock Asset Management North Asia Limited	+55.20M	+2.85M	ICICI Prudential Life Insurance Company Ltd.	-26.33M	-1.31M
Fidelity Management & Research Company	+27.52M	+1.23M	Axis Asset Management Company Limited	-21.14M	-0.94M
T. Rowe Price Hong Kong Limited	+27.21M	+1.21M	DSP Investment Managers Pvt. Ltd.	-11.64M	-0.52M

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	0.0	0.0	0.0	0.0	0.0
FII	18.7	18.9	18.8	19.0	20.0
DII	39.1	38.6	39.4	38.8	37.6
Others	42.2	42.4	41.8	42.2	42.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore

(Year-end March)	FY18	FY19	FY20E*	FY21E*
Total operating Income	**74,454.4**	**86,987.9**	**92,403.8**	**103,270.7**
Growth (%)	12.3	16.8	6.2	11.8
Raw Material Expenses	8,938.6	10,135.1	11,423.3	12,674.2
Employee Expenses	5,710.9	6,137.2	7,141.3	8,103.1
Other Operating Expenses	43,158.5	51,643.0	53,048.4	59,062.5
Sales, administration & Other Exp	2,853.1	2,599.8	3,152.8	3,505.1
Other Manufacturing Expenses	6,385.6	7,974.2	8,627.8	9,682.2
Total Operating Expenditure	67,046.6	78,489.3	83,393.6	93,027.2
EBITDA	**7,407.7**	**8,498.6**	**9,010.2**	**10,243.5**
Growth (%)	15.3	14.7	6.0	13.7
Depreciation	1,049.2	1,067.7	1,224.3	1,318.0
Interest	1,432.2	1,641.3	1,675.0	1,678.4
Other Income	1,905.4	2,954.1	2,657.0	3,098.1
PBT	7,262.2	9,218.6	9,942.4	10,945.6
Others	0.0	0.0	0.0	0.0
Total Tax	1,875.1	2,540.6	2,175.9	2,473.7
PAT	**5,387.1**	**6,677.9**	**7,766.6**	**8,471.9**
Growth (%)	-1.2	24.0	16.3	9.1
EPS (₹)	**38.8**	**48.1**	**56.0**	**61.1**

**E&A business has been restated as discontinued ops.*

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	5,387.1	6,677.9	7,766.6	8,471.9
Add: Depreciation	1,049.2	1,067.7	1,224.3	1,318.0
(Inc)/dec in Current Assets	-11,157.8	-8,119.1	-4,334.4	-10,237.8
Inc/(dec) in CL and Provisions	10,046.7	7,078.7	2,213.3	8,681.3
Others	-	-	-	-
CF from operating activities	**5,325.2**	**6,705.2**	**6,869.8**	**8,233.5**
(Inc)/dec in Investments	23.1	-1,134.0	-1,400.0	-1,450.0
(Inc)/dec in Fixed Assets	-1,016.0	-1,531.4	-1,519.1	-1,500.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	**-1,854.4**	**-3,484.7**	**-2,968.1**	**-4,375.6**
Issue/(Buy back) of Equity	93.7	0.3	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-2,401.8	-2,670.2	-3,163.2	-3,662.6
Inc/(dec) in Sec. premium	44.1	109.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	**-2,222.9**	**-3,670.9**	**-2,691.2**	**-3,240.6**
Net Cash flow	1,247.9	-450.4	1,210.5	617.2
Opening Cash	1,935.8	3,183.8	2,733.4	3,943.9
Closing Cash	**3,183.8**	**2,733.4**	**3,943.9**	**4,561.1**

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	280.3	280.6	280.6	280.6
Reserve and Surplus	48,785.4	52,163.3	56,938.7	61,920.0
Total Shareholders funds	49,065.7	52,443.9	57,219.2	62,200.6
Total Debt	10,561.0	10,191.6	10,491.6	10,741.6
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	**60,318.1**	**63,294.3**	**68,354.7**	**73,601.0**
Assets				
Gross Block	9,303.3	10,436.9	11,686.9	13,036.9
Less: Acc Depreciation	3,030.8	3,865.0	5,016.6	6,257.1
Net Block	6,272.5	6,571.9	6,670.3	6,779.8
Capital WIP	452.1	580.9	850.0	1,000.0
Total Fixed Assets	6,724.6	7,152.8	7,520.3	7,779.8
Investments	28,335.7	29,469.7	30,869.7	32,319.7
Inventory	2,500.0	3,220.4	2,855.4	3,935.0
Debtors	22,917.5	28,216.8	31,012.2	34,517.9
Loans and Advances	992.3	1,293.9	1,201.0	1,484.0
Other Current Assets	44,329.7	46,127.6	48,124.3	53,494.0
Cash	3,183.8	2,733.4	3,943.9	4,561.1
Total Current Assets	73,923.3	81,592.0	87,136.9	97,992.0
Creditors	30,957.3	36,076.4	38,100.8	42,440.0
Provisions	1,102.2	1,423.8	1,543.1	1,782.5
Total Current Liabilities	55,150.9	62,229.6	64,442.9	73,124.2
Net Current Assets	18,772.4	19,362.5	22,694.1	24,867.8
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	**60,318.1**	**63,294.3**	**68,354.7**	**73,601.0**

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	38.8	48.1	56.0	61.1
Cash EPS	46.4	55.8	64.8	70.6
BV	354.4	378.8	413.2	449.1
DPS	14.1	16.2	19.0	22.0
Cash Per Share	22.9	19.7	28.4	32.9
Operating Ratios (%)				
EBITDA Margin	9.9	9.8	9.8	9.9
PBT / Total Operating income	9.8	10.6	10.8	10.6
PAT Margin	7.2	7.7	8.4	8.2
Inventory days	10.4	12.0	12.0	12.0
Debtor days	112.3	118.4	122.5	122.0
Creditor days	151.8	151.4	150.5	150.0
Return Ratios (%)				
RoE	11.0	12.7	13.5	13.6
RoCE	10.6	11.8	11.5	12.2
RoIC	11.2	12.4	12.2	12.9
Valuation Ratios (x)				
P/E	35.8	28.9	24.8	22.8
EV / EBITDA	27.0	23.6	22.1	19.4
EV / Net Sales	2.7	2.3	2.2	1.9
Market Cap / Sales	2.6	2.2	2.1	1.9
Price to Book Value	3.9	3.7	3.4	3.1
Solvency Ratios				
Debt/EBITDA	1.4	1.2	1.2	1.0
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.3	1.3	1.4	1.3
Quick Ratio	**1.3**	**1.3**	**1.3**	**1.3**

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
L&T (LARTOU)	1385	1,675	Buy	192092	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6
Bhel (BHEL)	62	75	Hold	21453	3.5	4.1	4.5	21.5	18.2	16.5	6.9	7.5	7.9	3.9	4.5	4.9
AIA Engineering (AIAENG)	1720	2,050	Buy	16223	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1084	1,170	Buy	12917	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	311	315	Hold	7996	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	488	550	Buy	7489	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	137	150	Hold	3336	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Elgi Equipment (ELGEQU)	257	350	Buy	4068	6.1	6.5	8.6	45.5	42.9	32.5	14.3	13.8	18.0	14.1	13.4	15.8
Bharat Electronics (BHAELE)	96	135	Buy	27290	7.9	7.8	8.4	14.2	14.3	13.4	30.0	27.6	27.4	21.4	19.1	18.6
Engineers India (ENGIND)	103	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	310	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	356	455	Buy	4,933	36.3	38.2	41.5	10.3	9.8	9.0	18.8	17.6	17.0	14.4	14.0	14.1
SKF (SKFIND)	1881	1,845	Hold	8571	65.4	62.9	67.8	28.5	29.7	27.5	29.4	25.0	24.1	19.8	16.7	15.9
Timken India (TIMIND)	687	830	Buy	4691	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	125	185	Hold	1648	11.2	10.1	12.2	15.2	16.9	14.0	21.0	20.0	21.3	19.5	18.3	19.3
Grindwell Norton (GRINOR)	540	680	Buy	6477	15.1	16.8	19.5	38.7	34.8	30.0	23.3	23.5	25.0	15.2	15.6	16.6

Source: Company, ICICI Direct Research

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