

October 23, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	1,800		1,767	
Sales (Rs. m)	1,588,270	1,812,495	1,588,270	1,812,495
% Chng.	-	-	-	-
EBITDA (Rs. m)	183,825	210,056	183,825	210,056
% Chng.	-	-	-	-
EPS (Rs.)	77.3	90.3	77.6	92.5
% Chng.	(0.3)	(2.3)	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	1,410	1,588	1,812	2,000
EBITDA (Rs. bn)	163	184	210	232
Margin (%)	11.6	11.6	11.6	11.6
PAT (Rs. bn)	86	108	127	142
EPS (Rs.)	61.4	77.3	90.3	101.0
Gr. (%)	18.8	25.8	16.8	11.8
DPS (Rs.)	18.0	24.7	28.9	32.3
Yield (%)	1.3	1.7	2.0	2.3
RoE (%)	14.7	16.4	17.2	17.2
RoCE (%)	9.1	9.0	9.3	9.6
EV/Sales (x)	2.0	1.9	1.7	1.6
EV/EBITDA (x)	17.0	16.7	14.7	13.5
PE (x)	23.3	18.5	15.9	14.2
P/BV (x)	3.2	2.9	2.6	2.3

Key Data

LART.BO | LT IN

52-W High / Low	Rs.1,607 / Rs.1,183
Sensex / Nifty	39,059 / 11,604
Market Cap	Rs.2,009bn / \$ 28,309m
Shares Outstanding	1,403m
3M Avg. Daily Value	Rs.8868.91m

Shareholding Pattern (%)

Promoter's	-
Foreign	19.39
Domestic Institution	37.22
Public & Others	43.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.3)	6.2	19.2
Relative	(6.3)	4.9	3.3

Ashwani Sharma

ashwanisharma@plindia.com | 91-22-66322247

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

Stellar quarter in weak environment, guidance maintained

L&T reported strong set of numbers for 2QFY20 which were higher than our estimates. The company consolidated Mindtree numbers (Rs19 bn revenue) during the quarter. Revenue for the quarter was up 15% YoY at Rs353 bn (PLe Rs351 bn) led by Infrastructure, Hydrocarbon and IT&TS businesses. Despite weak environment, L&T maintained order inflow momentum with 20% YoY growth at Rs483 bn in 2QFY20 (H1FY20 +16% YoY at Rs870bn), led by Power (+74% YoY), Hydro Carbon (+441% YoY) and Services business (+33% YoY). However, growth in order inflow was mainly led by international market (+116% YoY) as domestic market witnessed decline of 3.7% YoY. Gross margin improved 350bps YoY which was partially neutralized by higher employee cost and other expenses. Hence, EBITDA margin was flat YoY at 11.4%. Absolute EBITDA grew 14% YoY at Rs40 bn. While other income increased by 46% YoY, Depreciation and Interest rose 32% and 72% YoY, respectively. Eff. Tax rate came in at 24% (PLe 27%). Recurring PAT was 24% YoY at Rs25.3 bn (PLe Rs21 bn). NWC (as percentage of sales) increased by 340bps YoY at 23% due to delay in payments release by central & State governments and support to vendor chain. RoE at the end of 2QFY20 came in at 15.8% compared to 15.4% in 1QFY20. The company indicated of opportunity pipeline of Rs5.2 trn and maintained order inflow/revenue growth/EBITDA margin (ex-services) guidance at 10-12%/12-15%/10-10.5% for FY20. The company continues to focus on its strategic plan of achieving profitable growth and improving RoE to 18% by FY21. We maintain our BUY recommendation on L&T on the back of its strong business model with robust order book, diverse skill sets, strong execution capabilities and increased focus on improving return ratios by exiting non-core assets. We maintain BUY with revised SOTP based TP of Rs1800 (Rs1767) on account of addition of Mindtree valuation.

Domestic execution picked up: Consolidated revenue for the quarter was up 15% YoY to Rs353 bn, led by growth in Infrastructure (9% YoY), Hydrocarbon (21% YoY) and IT&TS (64% YoY). While domestic revenue was up 14.2% YoY, international was down 5% YoY due to tapering of large marquee orders in the infra segment. EBITDA margin came in at 11.4%, flat on YoY basis. Depreciation increased by 32% on account of Mindtree and RoU assets. Interest cost increased by 72% YoY which was in-line with debt levels and phased commencement of Hyderabad Metro. Other income was up 46% YoY at Rs6 bn mainly due to arising treasury gains. Tax rate was lower at 24% as per new tax regime. Hence, reported PAT for the quarter was up 13% YoY at Rs25.3 bn (Recurring PAT was 24% YoY at Rs25.3 bn).

Order inflow up 20%: Order flow for the quarter was up ~20% YoY to Rs483 bn and order book stood at Rs3 tn, up 9% YoY. Order inflow from international business was up 116% YoY at Rs167 bn and from domestic was down 4%. Q2 witnessed strong inflows from international market largely led by hydrocarbon segment unlike in 1QFY20 and 2QFY19. Going ahead, sectors which are sowing investment momentum are Roads, Metro, Water, Power Transmission, Hydrocarbon. Industrial activity continues to be muted. Management indicated prospects pipeline Rs5.2 trn at the end of 2QFY20, which is divided in sectors: Infrastructure – Rs4.5 trn, Power generation & Distribution Rs0.4 trn. In H1FY20 order inflow was up 16% YoY at Rs870 bn which was mainly constituted by Infrastructure (38%), Hydrocarbon (21%) and Power (13%).

Exhibit 1: SOTP

	Stake (%)	Fair Value (Rs)	Basis
L&T Core Business	100	1417	21x FY21 EPS
L&T Finance Holdings	64	64	MkT cap
L&T Infotech	75	122	MkT cap
L&T Technology Services	75	67	MkT cap
Mindtree	60	41	MkT cap
L&T Hydrocarbon	100	86	10x FY21 EPS
L&T IDPL	97	65	1.1x P/B
L&T's equity investment in BTG	51	6	1.5x equity investment
Other Business	100	29	1.5x book vallue
Total subsidiaries	20% holding co. disc.	383	
Grand total		1800	

Source: PL

Exhibit 2: Q2FY20 Result Overview (Rs mn)

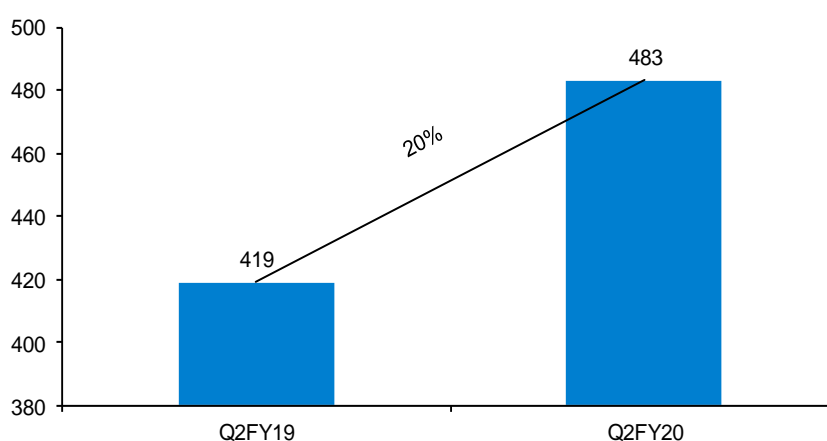
(Rs mn)	2QFY20	2QFY19	YoY gr. (%)	1QFY20	QoQ gr. (%)	FY20E	FY21E	YoY gr. (%)
Net Revenue	353,285	306,781	15.2	296,360	19.2	1,588,270	1,812,495	14.1
EBITDA	40,219	35,415	13.6	30,684	31.1	183,825	210,056	14.3
<i>EBITDA Margin (%)</i>	<i>11.4</i>	<i>11.5</i>		<i>10.4</i>		<i>11.6</i>	<i>11.6</i>	
Other Income	5,964	4,085	46.0	6,350	(6.1)	19,176	20,710	8.0
Depreciation	6,297	4,776	31.8	4,615	36.4	21,294	23,048	8.2
Interest	6,859	3,984	72.2	5,867	16.9	18,057	17,092	(5.3)
Exceptional items	-	2,948		936		-	-	
Profit before Tax	33,028	33,688	(2.0)	25,617	28.9	163,651	190,626	16.5
Tax	7,911	8,171	(3.2)	7,948		40,773	45,573	
Minority Interest	(2,432)	(3,629)		(3,371)		(14,146)	(15,455)	
Reported PAT	25,273	22,305	13.3	14,298	76.8	122,877	145,053	18.0
Adjusted PAT	25,273	20,360	24.1	14,726	71.6	108,731	129,599	19.2
<i>Net Margin (%)</i>	<i>7.2</i>	<i>7.3</i>		<i>5.0</i>		<i>6.8</i>	<i>7.2</i>	
Adjusted EPS	16.2	15.6		10.2		77.6	92.5	

Source: Company, PL

Exhibit 3: Segmental Breakup (Rs mn)

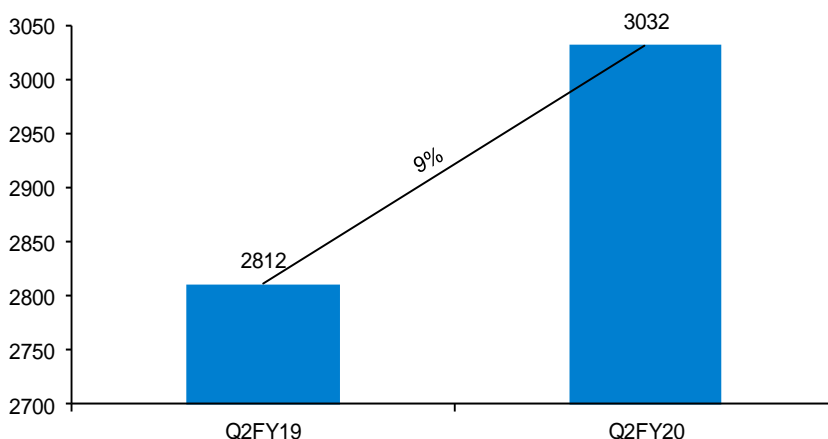
Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)
Revenue					
Infrastructure	167,806	154,076	8.9	140,376	19.5
Power	4,916	10,599	(53.6)	5,632	(12.7)
Heavy Engineering	7,058	5,441	29.7	9,915	(28.8)
Defence Engineering	10,173	9,624	5.7	9,692	5.0
Electrical & Electronics	14,844	14,897	(0.4)	14,237	4.3
Hydrocarbon	43,049	35,580	21.0	37,687	14.2
IT & Technology Services	59,036	36,065	63.7	38,444	53.6
Financial Services	34,445	31,389	9.7	34,621	(0.5)
Developments Projects	14,523	12,971	12.0	11,784	23.2
Others	15,921	14,880	7.0	11,938	33.4
Total	371,771	325,521	14.2	314,326	18.3
Less: Revenue from discontinued operations	14,844	-		14,237	
Less : Intersegment	3,642	4,713		3,729	
Total	353,285	320,808	10.1	296,360	19.2
EBIT Margins					
Infrastructure	5.9%	5.6%		5.0%	
Power	2.1%	5.0%		1.5%	
Heavy Engineering	20.1%	18.8%		16.1%	
Defence Engineering	14.4%	20.7%		12.8%	
Electrical & Automation	18.2%	14.1%		12.2%	
Hydrocarbon	11.7%	8.8%		6.5%	
IT & Technology Services	15.1%	22.2%		20.4%	
Financial Services	22.0%	25.4%		21.6%	
Developments Projects	8.3%	-3.5%		8.0%	
Others	19.6%	20.8%		21.4%	

Source: Company, PL

Exhibit 4: Consolidated order inflow grew by 20% (Rs bn)


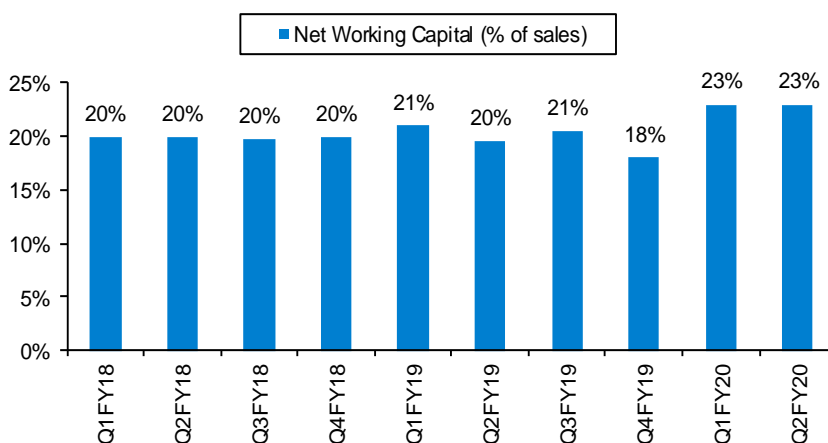
Source: Company, PL

Exhibit 5: Consolidated Order Book grew by 9% (Rs bn)



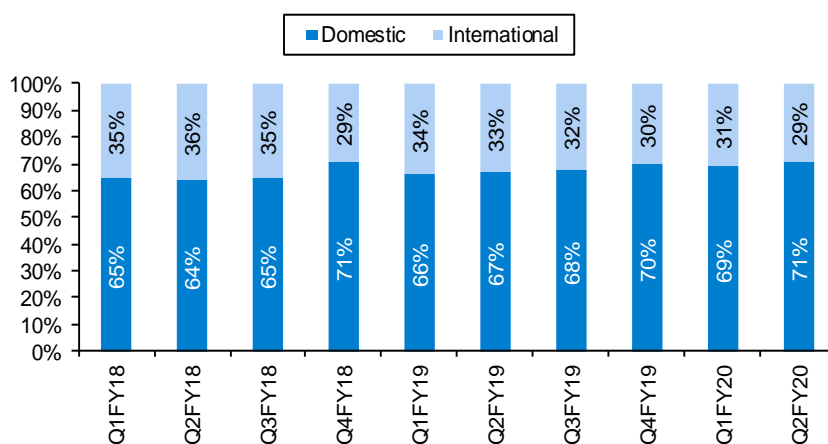
Source: Company, PL

Exhibit 6: NWC % to sales increased to 23% due to ongoing liquidity crunch



Source: Company, PL

Exhibit 7: Revenue Breakup



Source: Company, PL

Conference Call Highlights:

- **Infrastructure segment:** Order inflow declined by 33% YoY at Rs157 bn on account of bid deferrals and delay in finalization of orders. Public sector continues to drive order inflows. Few of the large order wins were from affordable housing sector, water supply and distribution, industrial water and Power T&D. Order backlog stands at Rs2149 bn. Revenue was up 9% YoY mainly on account of pick up in execution across the verticals. Margins improved to 7.1% from 6.8% in 2QFY19 due to better progress.
- **Power Segment:** Revenue declined 54% YoY due to lower opening order backlog. During the quarter, the company received orders of Rs43 bn on receipt of multiple FGD orders and an order for a comprehensive boiler island package in LeLT-MHPS Boiler JV. Consequently, the order book stood at to Rs165 bn which gives revenue visibility. EBITDA margin came in at 4.2% against 6% due to lower capacity utilization.
- **Hydrocarbon segment:** Order inflow was Rs149 bn, on account of a mega order in onshore vertical in the domestic market as well as receipt of a large orders in Offshore vertical in an international geography. The order book stood at Rs5.5 bn, with international order comprising 48%. Revenue grew by 21%YoY at Rs43 bn (42% international) during the quarter. EBITDA margin improved YoY to 12.5% for the quarter vis-a-vis 9.9% in 2QFY19. The company has guided for healthy order pipeline ahead of firm oil prices. For domestic ONGC, HPCL and international Saudi Aramco is largest customer. It's very high RoCE business due to efficient working capital business.
- **Heavy Engineering-** Revenues were up 33% YoY due to strong order inflow in the last 4-6 quarters. In Q2FY20 orders declined by 48% due to deferment of orders in Refinery, Oil and Gas sector and Fertilizer and Petrochemical projects. International orders constituted 80% of the total order book. Margins stood at 24.9% YoY due to high capital intensive business.
- **IT & Technology Service business: IT & Technology Service** accounted for 22% of total order inflow during the quarter. Revenue was up by 64% due to consolidation of Mindtree business. Mindtree revenue growth led by Travel & Hospitality & High tech & Media. Margins came at 19.5% compared to 24.1% in 2QFY19 due to increase in resource cost.
- Management guided for a capex of Rs15 bn at parent level.
- Hyderabad Metro reported EBITDA of Rs1.5 bn and PBT of Rs800 mn during the quarter. The company has achieved Partial CoD of 30 Km in Nov'17, 16 km in Sept'18 and 9 km in Mar'19. Total of 55 km. The Management indicated of further equity infusion in the project.
- Dividend from subsidiaries on standalone – Rs6750 mn in 2QFY20 compared to Rs4200 in 2QFY19 due increase in dividend from Mindtree.
- Tax rate would be 25-26% for FY20/21E
- Management didn't book revenue from Andhra Pradesh and Coastal Road Projects. Total value of both the projects stands at Rs160 bn.
- The sale transaction of Electrical & Automation Segment is expected to be concluded by the end of current financial year.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	1,410,071	1,588,270	1,812,495	1,999,827
YoY gr. (%)	17.8	12.6	14.1	10.3
Cost of Goods Sold	489,948	531,456	606,484	669,168
Gross Profit	920,123	1,056,814	1,206,011	1,330,659
Margin (%)	65.3	66.5	66.5	66.5
Employee Cost	181,006	203,881	232,664	256,711
Other Expenses	136,954	174,724	199,111	219,927
EBITDA	163,247	183,825	210,056	231,530
YoY gr. (%)	19.7	12.6	14.3	10.2
Margin (%)	11.6	11.6	11.6	11.6
Depreciation and Amortization	20,840	21,294	23,048	25,154
EBIT	142,407	162,531	187,008	206,376
Margin (%)	10.1	10.2	10.3	10.3
Net Interest	18,060	21,208	22,305	23,488
Other Income	18,515	21,066	23,173	25,490
Profit Before Tax	142,862	162,389	187,876	208,378
Margin (%)	10.1	10.2	10.4	10.4
Total Tax	43,433	39,891	45,867	50,164
Effective tax rate (%)	30.4	24.6	24.4	24.1
Profit after tax	99,428	122,498	142,009	158,214
Minority interest	(13,325)	(14,146)	(15,455)	(16,675)
Share Profit from Associate	-	-	-	-
Adjusted PAT	86,104	108,352	126,554	141,539
YoY gr. (%)	18.8	25.8	16.8	11.8
Margin (%)	6.1	6.8	7.0	7.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	86,104	108,352	126,554	141,539
YoY gr. (%)	18.8	25.8	16.8	11.8
Margin (%)	6.1	6.8	7.0	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	86,104	108,352	126,554	141,539
Equity Shares O/s (m)	1,401	1,401	1,401	1,401
EPS (Rs)	61.4	77.3	90.3	101.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	210,612	267,492	293,201	322,845
Tangibles	168,383	188,170	209,913	235,392
Intangibles	42,229	79,322	83,288	87,453
Acc: Dep / Amortization	59,487	73,725	91,965	112,310
Tangibles	59,487	73,725	91,965	112,310
Intangibles	-	-	-	-
Net fixed assets	151,125	193,767	201,237	210,535
Tangibles	108,896	114,445	117,949	123,082
Intangibles	42,229	79,322	83,288	87,453
Capital Work In Progress	139,195	155,598	162,484	170,608
Goodwill	18,269	78,652	78,652	78,652
Non-Current Investments	710,799	764,234	815,773	887,685
Net Deferred tax assets	31,078	32,787	34,582	36,467
Other Non-Current Assets	67,927	93,209	97,869	102,763
Current Assets				
Investments	139,462	75,562	75,562	75,562
Inventories	64,139	69,623	79,452	87,664
Trade receivables	370,382	417,189	461,814	520,503
Cash & Bank Balance	117,262	123,149	141,294	149,923
Other Current Assets	546,940	616,060	703,033	794,452
Total Assets	2,791,338	3,157,052	3,458,391	3,735,616
Equity				
Equity Share Capital	2,803	2,803	2,803	2,803
Other Equity	620,943	691,409	773,713	865,762
Total Networth	623,745	694,211	776,515	868,564
Non-Current Liabilities				
Long Term borrowings	741,208	959,291	978,190	1,014,645
Provisions	5,568	5,847	5,964	6,083
Other non current liabilities	3,554	3,731	3,806	3,882
Current Liabilities				
ST Debt / Current of LT Debt	292,238	306,850	322,193	338,302
Trade payables	429,948	435,142	496,574	547,898
Other current liabilities	623,704	680,603	803,773	884,865
Total Equity & Liabilities	2,791,338	3,157,049	3,458,388	3,735,612

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	142,862	162,389	187,876	208,378
Add. Depreciation	20,840	21,294	23,048	25,154
Add. Interest	18,060	21,208	22,305	23,488
Less Financial Other Income	18,515	21,066	23,173	25,490
Add. Other	(20,642)	(21,066)	(23,173)	(25,490)
Op. profit before WC changes	161,120	183,825	210,056	231,530
Net Changes-WC	(162,473)	(138,608)	(26,242)	(40,069)
Direct tax	(45,816)	(41,600)	(47,662)	(52,049)
Net cash from Op. activities	(47,169)	3,617	136,151	139,413
Capital expenditures	(34,746)	(122,661)	(37,404)	(42,576)
Interest / Dividend Income	9,870	21,066	23,173	25,490
Others	(85,117)	(75,201)	(56,199)	(76,806)
Net Cash from Inv. activities	(109,994)	(176,796)	(70,430)	(93,891)
Issue of share cap. / premium	113	-	-	-
Debt changes	207,502	218,866	18,979	36,084
Dividend paid	(26,471)	(37,886)	(44,250)	(49,490)
Interest paid	(29,824)	(21,208)	(22,305)	(23,488)
Others	3,090	19,155	-	-
Net cash from Fin. activities	154,410	178,927	(47,576)	(36,893)
Net change in cash	(2,753)	5,748	18,145	8,628
Free Cash Flow	(47,169)	3,617	136,151	139,413

Source: Company Data, PL Research

Key Financial Metrics

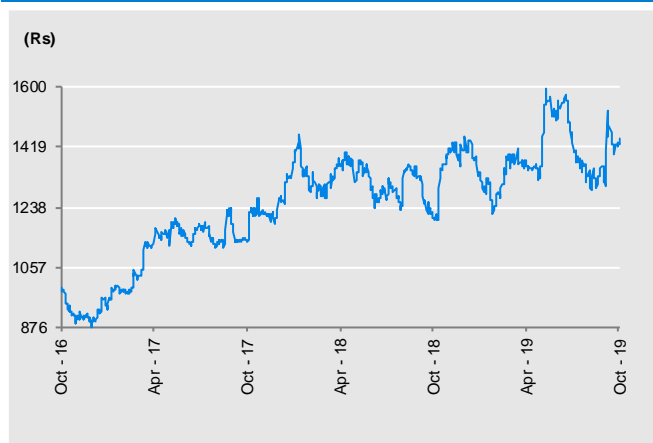
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	61.4	77.3	90.3	101.0
CEPS	76.3	92.5	106.8	119.0
BVPS	445.1	495.4	554.1	619.8
FCF	(33.7)	2.6	97.2	99.5
DPS	18.0	24.7	28.9	32.3
Return Ratio(%)				
RoCE	9.1	9.0	9.3	9.6
ROIC	7.6	7.6	7.8	8.1
RoE	14.7	16.4	17.2	17.2
Balance Sheet				
Net Debt : Equity (x)	1.2	1.5	1.4	1.3
Net Working Capital (Days)	1	12	9	11
Valuation(x)				
PER	23.3	18.5	15.9	14.2
P/B	3.2	2.9	2.6	2.3
P/CEPS	76.3	92.5	106.8	119.0
EV/EBITDA	17.0	16.7	14.7	13.5
EV/Sales	2.0	1.9	1.7	1.6
Dividend Yield (%)	1.3	1.7	2.0	2.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	357,089	433,034	296,360	353,285
YoY gr. (%)	24.2	6.5	9.7	15.2
Raw Material Expenses	234,572	300,227	179,406	208,631
Gross Profit	122,517	132,807	116,954	144,654
Margin (%)	34.3	30.7	39.5	40.9
EBITDA	40,120	52,791	30,683	40,219
YoY gr. (%)	27.7	(2.5)	11.3	13.6
Margin (%)	11.2	12.2	10.4	11.4
Depreciation / Depletion	4,490	4,354	4,615	6,297
EBIT	35,630	48,436	26,069	33,922
Margin (%)	10.0	11.2	8.8	9.6
Net Interest	5,349	5,065	5,867	6,859
Other Income	5,907	6,110	6,350	5,964
Profit before Tax	36,189	49,481	25,617	33,028
Margin (%)	10.1	11.4	8.6	9.3
Total Tax	12,002	12,344	7,948	7,911
Effective tax rate (%)	33.2	24.9	31.0	24.0
Profit after Tax	24,188	37,137	17,669	25,116
Minority interest	(565)	(4,979)	(3,371)	(2,432)
Share Profit from Associates	-	-	1,121	2,188
Adjusted PAT	24,752	42,116	14,726	25,273
YoY gr. (%)	66.3	17.9	21.2	(10.3)
Margin (%)	6.9	9.7	5.0	7.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	24,752	42,116	14,726	25,273
YoY gr. (%)	66.3	17.9	21.2	(10.3)
Margin (%)	6.9	9.7	5.0	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	24,752	42,116	14,726	25,273
Avg. Shares O/s (m)	1,401	1,401	1,401	1,401
EPS (Rs)	17.7	30.1	10.5	18.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	1,767	1,458
2	24-Jul-19	BUY	1,710	1,400
3	12-Jul-19	BUY	1,744	1,467
4	4-Jul-19	BUY	1,744	1,572
5	11-May-19	BUY	1,744	1,356
6	5-Apr-19	BUY	1,728	1,374

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,442	1,461
2	Apar Industries	Accumulate	814	550
3	Bharat Electronics	Accumulate	128	105
4	BHEL	Hold	63	47
5	Cummins India	Hold	655	560
6	Engineers India	BUY	156	112
7	GE T&D India	Hold	202	184
8	Kalpataru Power Transmission	BUY	704	483
9	KEC International	BUY	352	271
10	Larsen & Toubro	BUY	1,767	1,458
11	Power Grid Corporation of India	BUY	224	199
12	Siemens	BUY	1,722	1,526
13	Thermax	Accumulate	1,300	1,153
14	Triveni Turbine	Accumulate	143	102
15	Voltamp Transformers	BUY	1,601	1,128

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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