

# Larsen & Toubro

## Inline performance, recovery awaited

Larsen & Toubro Ltd (LT) reported 5/8/4% miss in 4QFY20 Rev/EBIDTA/APAT. COVID-19 disruptions led to LT missing Rs 17.5bn of revenue and Rs 4bn of PAT recognition. Collections target fall short of Rs 15bn. The labour situation is improving now with 1.2lakhs labour at site vs 70,000 low and is expected to ramp upto 1.7lakhs by June-20 end and 2.2lakhs by July-20. LT continues to balance growth and NWC discipline and doesn't see achieving long term 10-15% growth and sub 23% NWC a challenge. Schneider deal is on track with likely closure by early 2QFY21, deal proceeds may partly get utilized towards rightsizing L&T Hyderabad capital structure. We believe 1HFY21 will be washout, but already in price. We maintain BUY on LT with SOTP of Rs 1,236/sh (vs. Rs 1,191/sh earlier).

- Execution impacted by COVID-19, led to miss in growth guidance:** LT missed booking Rs 17.5/4bn Rev/PAT due to COVID-19 disruption adjusted for same the FY20 Rev Growth would have been 8.8% close to 10-15% Rev growth guidance. Order inflow for 4QFY20/FY20 at Rs 577/1,860bn was marginally better than our estimate of Rs 1,833bn and 9% growth YoY in line with 10-12% order inflow guidance. International order booking drove this growth. NWC remains elevated at 23.8% vs 23.5/18% for 3QFY20/FY19.
- Orderbook/New inflows at Rs 3.03/1.86tn:** In a tough environment LT secured new orders worth Rs 1.86tn (9% growth YoY) largely driven by infrastructure orders. Whilst near term challenges remain on ordering with low crude prices in middle east and fiscal challenges domestically, LT refrained giving any guidance on inflows or revenue growth. The near term bid pipeline remain robust with strong prospects in Power T&D, Heavy Civil, Water and Heavy Engineering. LT removed ~Rs 290bn of slow moving orders including in AP and is pursuing collections of outstanding dues. We model for Rs 1.5tn new orders for FY21 a 20% de-growth YoY.
- Balance sheet stable, capital realignment likely:** LT has seen material deterioration in NWC from 18% in FY19 to 23.4% for FY20. Inflow from Schneider deal of Rs 140-150bn by 2QFY21 will be partly utilized toward right sizing L&T Hyderabad Metro capital to achieve sustainable debt levels in the project. LT finance, no further investment support from LT required as of now as it remains self sufficient to raise funds, no corporate guarantees to be extended by LT. Consol net D/E remains at 1.7x. LT maintain 18% RoE target for business except L&T Hyderabad & Nabha Power.
- We maintain BUY** on LT as its well placed to ride cyclical recovery. Strong balance sheet augurs well for supporting growth. Likely crude price recovery towards FY21E end will drive ordering sentiment higher. NWC is at peak and likely to improve from here. Key risks- (1) Delays in government infrastructure spend, (2) Delayed pickup in private sector spend and (3) Stressed payment cycles for government projects.

### Financial summary

(Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Revenues	4,42,453	4,33,034	2.2	3,62,427	22.1	13,52,203	14,54,524	13,92,126	15,35,782
EBITDA	51,210	52,791	(3.0)	41,178	24.4	1,53,296	1,63,290	1,32,274	1,76,688
APAT	31,971	34,182	(6.5)	23,522	35.9	86,104	95,490	69,107	1,01,972
Diluted EPS (Rs)	22.8	24.4	(6.5)	16.8	35.9	63.5	68.1	49.3	72.7
P/E (x)						15.0	14.0	19.4	13.1
EV / EBITDA (x)						15.3	15.3	18.8	13.9
RoE (%)						15.1	14.8	9.8	13.2

Source: Company, HSIE Research

BUY

CMP (as on 5 June 2020)	Rs 957
Target Price	Rs 1,236
NIFTY	10,142

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1191	Rs 1236
	FY21E	FY22E
EPS %	-15.1	1.87

### KEY STOCK DATA

Bloomberg code	LT IN
No. of Shares (mn)	1,404
MCap (Rs bn) / (\$ mn)	1,341/17,722
6m avg traded value (Rs mn)	5,167
52 Week high / low	Rs 1,592/661

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(19.2)	(26.6)	(39.1)
Relative (%)	(8.3)	(10.7)	(24.7)

### SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	0.0	0.0
FIs & Local MFs	37.7	38.2
FPIs	18.8	16.9
Public & Others	43.5	44.9
Pledged Shares	0.0	0.0

Source : BSE

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1QFY20 onwards, E&A business has been shown as different line item under profits from discontinued operations

Revenue – Rs 442bn (+2.2%/+22.1 YoY/QoQ, 5.0% miss), on account of revenue loss because of lockdown; 32% of revenue from international business

EBITDA – Rs 51.2bn (-3.0%/+24.4+ YoY/QoQ, miss 8.0%)

EBITDA Margin: 11.6% (-61.7bps/+21.3bps YoY/QoQ)

APAT inc. E&A: Rs 31.9bn (-6.5%/+35.9%, miss 4.2%) despite migration to lower tax regime

Employee expense has risen by 40.1% YoY largely due to resource augmentation in services business and Mindtree consolidation

Depreciation came in at Rs7.1bn, up 63.3% YoY on Mindtree consolidation

Interest cost at Rs 8.2bn has also risen sharply YoY with debt levels; Gross debt at Rs 1.41tn (vs Rs 1.26tn in FY19)

### Quarterly Financials Snapshot - Standalone

(Rs mn)	4QFY20	4QFY19	YoY(%)	3QFY20	QoQ(%)	FY20	FY19	YoY%
Net Sales	4,42,453	4,33,034	2.2	3,62,427	22.1	14,54,524	13,52,203	7.6
Material Expenses	3,06,031	3,00,227	1.9	2,38,541	28.3	9,73,628	9,20,113	5.8
Employee Expenses	62,884	44,888	40.1	61,332	2.5	2,31,140	1,74,664	32.3
SG&A Expenses	22,328	35,129	(36.4)	21,377	4.4	83,961	1,04,130	(19.4)
<b>EBITDA</b>	<b>51,210</b>	<b>52,791</b>	<b>(3.0)</b>	<b>41,178</b>	<b>24.4</b>	<b>1,65,795</b>	<b>1,53,296</b>	<b>8.2</b>
Interest Cost	8,208	5,065	62.1	7,092	15.7	28,026	18,026	55.5
Depreciation	7,109	4,354	63.3	6,602	7.7	24,623	19,230	28.0
Other Income (Inc. EO)	6,605	6,110	8.1	4,749	39.1	20,227	21,313	(5.1)
<b>PBT</b>	<b>42,497</b>	<b>49,481</b>	<b>(14.1)</b>	<b>32,233</b>	<b>31.8</b>	<b>1,33,373</b>	<b>1,37,353</b>	<b>(2.9)</b>
Tax	9,663	12,344	(21.7)	7,110	35.9	32,632	40,671	(19.8)
Minority Interest	3,654	3,707	(1.4)	3,995	(8.5)	13,453	13,115	2.6
Associate Profits	1,467	(1,272)	(215.3)	481	204.9	1,655	(210)	(888.1)
PAT from disc. Ops	1,324	2,024	(34.6)	1,913	(30.8)	6,546	5,693	15.0
<b>Reported PAT</b>	<b>31,971</b>	<b>34,182</b>	<b>(6.5)</b>	<b>23,522</b>	<b>35.9</b>	<b>95,490</b>	<b>89,051</b>	<b>7.2</b>
E/o (adj for tax) *	-	-	-	-	-	-	2,948	(131.7)
<b>APAT</b>	<b>31,971</b>	<b>34,182</b>	<b>(6.5)</b>	<b>23,522</b>	<b>35.9</b>	<b>95,490</b>	<b>86,104</b>	<b>12.0</b>

Source: Company, HSIE Research

### Margin Analysis

	4QFY20	4QFY19	YoY (bps)	3QFY20	QoQ (bps)	FY20	FY19	YoY (bps)
Material Expenses as % of Net Sales	69.2	69.3	(16.4)	65.8	334.9	66.9	68.0	(110.8)
Employee Expenses as % of Net Sales	14.2	10.4	384.7	16.9	(271.0)	15.9	12.9	297.4
Other operating expenses as % of Net Sales	5.0	8.1	(306.6)	5.9	(85.2)	5.8	7.7	(192.8)
EBITDA Margin (%)	11.6	12.2	(61.7)	11.4	21.3	11.4	11.3	6.2
Tax Rate (%)	22.7	24.9	(220.9)	22.1	67.9	24.5	29.6	(514.4)
Net Profit Margin (%)	7.2	7.9	(66.8)	6.5	73.6	6.6	6.4	26.2

Source: Company, HSIE Research

## Standalone Segmental Revenue

	4QFY20	4QFY19	YoY(%)	3QFY20	QoQ (%)	FY20	FY19	YoY%
<b>Segmental Revenues</b>								
-Infrastructure	1,73,994	1,83,713	(5.3)	1,67,806	3.7	7,37,773	7,32,038	0.8
-Power	6,983	9,083	(23.1)	4,916	42.0	23,185	39,831	(41.8)
-Heavy engineering	8,061	6,928	16.3	7,058	14.2	32,050	25,137	27.5
-Defence	10,647	10,449	1.9	10,173	4.7	39,792	38,492	3.4
-Hydrocarbon	43,926	37,777	16.3	43,049	2.0	1,74,455	1,51,762	15.0
<b>Total E&amp;C</b>	<b>2,43,611</b>	<b>2,47,950</b>	<b>(1.8)</b>	<b>2,33,002</b>	<b>4.6</b>	<b>10,07,254</b>	<b>9,87,260</b>	<b>2.0</b>
-Electrical and automation	14,198	15,647	(9.3)	14,844	(4.4)	55,670	60,936	(8.6)
-IT and TS	61,259	37,641	62.7	59,036	3.8	2,23,352	1,45,531	53.5
-Financial Services	35,501	32,589	8.9	34,445	3.1	1,38,224	1,26,377	9.4
-Developmental projects	12,382	11,935	3.7	14,523	(14.7)	48,503	50,680	(4.3)
-Others	13,162	16,611	(20.8)	15,921	(17.3)	53,087	59,350	(10.6)
-Intersegment revenue	(3,489)	(4,386)	(20.5)	(3,642)	(4.2)	(15,897)	(18,295)	(13.1)
-Discontinued Operations	(14,198)	(15,647)	(9.3)	(14,844)	(4.4)	(55,670)	(60,936)	
<b>Total</b>	<b>3,62,427</b>	<b>3,42,340</b>	<b>5.9</b>	<b>3,53,285</b>	<b>2.6</b>	<b>14,54,524</b>	<b>13,52,203</b>	<b>7.7</b>
<b>EBIT</b>								
-Infrastructure	8,843	7,656	15.5	9,920	(10.9)	52,073	53,888	(3.4)
-Power	139	154	(9.7)	104	33.7	2,361	1,299	81.8
-Heavy engineering	1,586	1,046	51.6	1,419	11.8	5,660	4,870	16.2
-Defence	1,816	555	227.0	1,465	23.9	5,758	4,722	21.9
-Hydrocarbon	4,930	2,699	82.7	5,041	(2.2)	17,462	11,781	48.2
<b>Engineering &amp; Construction</b>	<b>17,314</b>	<b>12,110</b>	<b>43.0</b>	<b>17,948</b>	<b>(3.5)</b>	<b>83,315</b>	<b>76,560</b>	<b>8.8</b>
-Electrical and automation	2,571	2,176	18.1	2,701	(4.8)	8,881	8,501	4.5
-IT and TS	9,955	7,616	30.7	8,905	11.8	36,932	30,842	19.7
-Financial Services	7,269	7,758	(6.3)	7,587	(4.2)	26,787	30,526	(12.3)
-Developmental projects	1,825	327	458.9	1,207	51.2	3,873	3,144	23.2
-Others	2,522	7,285	(65.4)	3,118	(19.1)	9,694	7,762	24.9
-Discontinued Operations	(2,571)	(2,176)	18.1	(2,701)	(4.8)	(8,881)	(8,501)	4.5
<b>Total</b>	<b>38,884</b>	<b>35,096</b>	<b>10.8</b>	<b>38,765</b>	<b>0.3</b>	<b>1,60,601</b>	<b>1,48,834</b>	<b>7.9</b>

Source: Company, HSIE Research

## Segmental Margin (EBITDA): Consolidated Trend

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Infra	6.8	6.8	5.4	12.3	6.4	7.1	6.1	11.1
Power	4.1	6.0	2.9	4.7	3.3	4.2	3.4	37.6
Heavy Engineering	36.1	24.2	20.5	22.8	19.5	24.9	23.5	23.5
Defence	11.1	25.0	9.0	18.6	16.5	17.9	20.5	17.5
Hydrocarbons	7.0	9.9	8.2	9.8	7.6	12.5	12.1	11.0
Electrical Automation	13.3	17.8	17.4	20.6	16.9	-	-	-
Others	26.5	23.1	47.2	13.9	24.1	21.8	21.9	21.9
IT & services	24.8	24.1	22.2	21.9	23.2	19.5	21.0	21.0
Financial Services	24.2	22.7	24.2	23.3	22.0	22.5	21.3	13.8
Development projects	30.4	4.3	4.2	(3.6)	10.0	10.2	17.3	6.1

Source: Company, HSIE Research

Execution in infrastructure segment was affected by slow moving orders, stoppage of AP works, funding constraints; Revenue of the segment fell by 5.3% YoY

Power segment registered 23.1% decline in revenue largely due to depleted orderbook at the start of the year. With orderbook replenished run rate should improve going forward; Higher margin in power is reflective of job mix

Heavy Engineering clocked 16.3% YoY growth in revenue as year started with healthy order book; Still this is slower than 9MFY20 run rate as execution was affected by client delay and lockdown

Defence segment continued to face headwinds and management attribute muted performance to non-receipt of target orders

Hydrocarbon business (+16.3% YoY) performed strongly on back large opening orderbook; Volatility in oil price may slow down order inflow

+62.7% growth in IT & TS is largely due Mindtree consolidation

## Conference call takeaways

*Deal with Schneider for E&A business was supposed to be completed by March'20 but because of lockdown in France in February, it got delayed; No risk of transaction being revalued/cancelled*

*40% labour available today; Efforts are going on to augment labour force; Have been adding 1,000 to 1,500 labours everyday*

*Orderbook of Rs 3.03tn is net of slow moving orders which are related not to Covid-19*

*Although, L&T did not give any specific nos for bid pipeline, company expect reasonable prospect in heavy engineering, civil, power transmission and water*

*Working capital rose sharply between 3QFY20 and 4QFY20 as L&T extended support to vendors and to clients*

*Operations in international market were affected but right now things are moving and payments are coming*

*L&T expect prospects to slow down near term till crude price stabilize*

- **E&A business** has been classified as discontinued, so PAT has been given separate line item. Deal with Schneider was supposed to be completed by 31<sup>st</sup> mar 2020. But because of Lock down in Paris, France in February, senior management of Schneider could not follow through on due procedures. Nonetheless, deal is at fairly high point of closing. As international travels resumes, deal should get completed in 2-3months time. L&T believe there is no risk in the deal getting revalued or cancelled. Transfer of E&A properties, transition of wholesale dealer has already started.
- L&T has raised Rs 90bn of NCD's proceeds from transaction would be utilized to refinance Rs 45bn of NCD maturing this year and balance Rs 45bn will be marked for growth requirement.
- **Labour:** Company said they have 40% of labour available today. L&T had retained much of the labour force at their site, around 170K but with start of Shramik trains, it went as low as 70K. With active efforts in collaboration with contractors, they could get it back to 120k. L&T has been adding 1500-2000 labour per day and estimates it would take 30-45 days to get back required labour so they can start working at 100% capacity.
- **Slow moving orders:** Reported order book of Rs 3.03tn is net of slow moving orders. L&T has removed Rs 290bn of order from order book in FY20, not specifically because of Covid-19. All AP orders and orders which has been stayed by green tribunal have been removed. Company had reassessed few of the building order which were facing viability issue and consequently removed them.
- **BID prospects:** Although company refrained from giving any number on bid pipeline, management believes there are reasonable prospects for ordering particularly in heavy engineering, civil, power transmission and water from domestic, ME and Africa. Company is L1 in quite a few of them. There are prospects in hydrocarbon, building and transportation but will likely come in 2Q/3Q.
- **Working capital:** Management attributed sharp rise in receivables in 4QFY20 vs 3QFY20 to the shift in clients strategy to use balance sheet of contractors. Milestones which use to be frequent has become elongated. Besides, average size of the orders has increased with larger and complex orders which requires upfront investment. Besides, L&T cleared dues of their small vendors for whom support of L&T is critical. LT doesn't expect working capital to deteriorate further as they have adopted strategy of "collect and spend" and clients have become more supportive.
- **Execution in international markets:** Company noted that all orders in ME are executable orders and moving quite well. There had been cases of Covid-19 at key sites but clients have been reactive and have responded well to the situations. Payment are coming in and things are moving. We do expect prospects in ME would slow down till crude price recover. However, management noted that there has been good traction in social infra in the region and maintain neutral stance on ME. Some sites did get effected by Covid-19 in Africa but there are no cases at the moment and work has been going on.
- **Equity infusion in finance holdings:** Finance business is debt play. Debt to equity has come down from 6.5x to 5.75x. As operations pickup in 2<sup>nd</sup> half, capital structure would have to be relooked. Finance business requires capital injection every 2-3 year and they have been raising capital and that too at attractive rates. None of the debt has any recourse to parent and it is their standalone debt. L&T

*None of the debt of financial business has recourse to parent entity; Also stressed that decision on any infusion of capital will be done keeping shareholders interest in mind*

*Monetization of Hyderabad Metro is on the cards but would wait for ridership profile to emerge*

*Management believes that they have been actively engaging with clients to recover increase in cost and there are clauses in contracts which protects L&T from escalation in cost; Most of the clients are expected to respond positively*

*Expects work in Northern/Eastern states to recover earlier than Southern states which are facing labour shortage*

*L&T does not expect liberalization of FDI policy in defence to attract major investments as countries would be reluctant to share their technology*

*L&T has not availed loan moratorium for parent entity but have availed it for Hyderabad Metro and some road concessions assets*

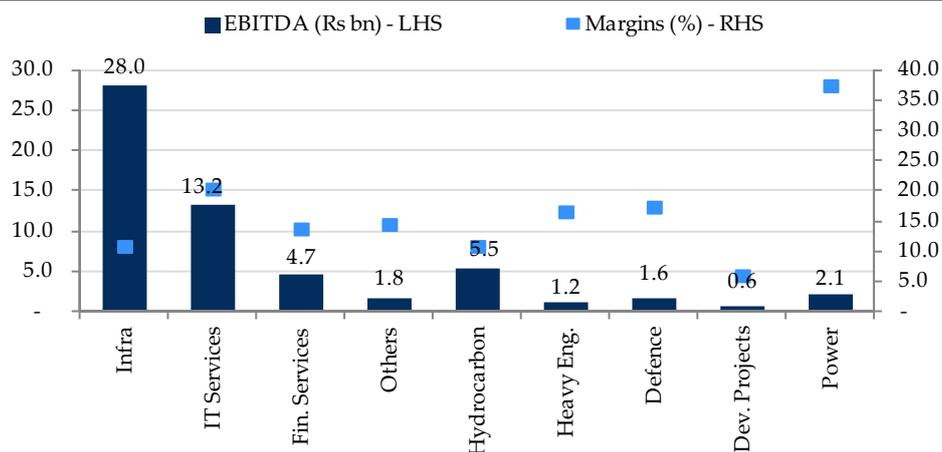
stressed that there won't be financial drain from parent to support financial services business as to protect shareholders interests. With regards to participation in investment in LT Finance, LT highlighted it will continue to invest if it adds value to LT shareholders. They will evaluate it as any other investment opportunity and make decision.

- **Asset monetization roadmap:** L&T does have plans to monetize **Hyderabad Metro**, probably through InvIT structure. L&T said they would wait for trains to start. At the moment ridership is zero. As many companies have experienced productivity gains, WFH might be implemented on larger scale after lock down gets over which will have bearing on ridership of the metro. So L&T would wait for ridership profile to emerge. As of now InvIT plans have been delayed. Right not focus will be on rightsizing capital structure of L&T Hyd Metro by cutting debt and making it sustainable.
- **Contractual obligations:** In anticipation of disruption due to Covid-19, L&T had split operations into various vertical, around and has been engaging with clients. L&T thinks that they might not be able to recover full cost as it is give and take situation but expects govt. to respond positively, as they are aware of the situation. On wage increase from labour shortage, L&T commented that minimum wages are fixed but if it goes up then they can claim from client. Increase in wage is linked to CPI or some other factors, so it might not be possible to recover entire amount from client, it added.
- **Geography wise execution recovery:** Central govt. agencies, state govt, PSUs have been urging L&T to resume work. Northern/Eastern states have been pushing for work to start so they could provide work to returning migrants. L&T expects that they could face issues Southern India where they have large part of their backlog as it would be difficult to get labour back from north/central/east part of the country.
- **Liberalization in defence sector:** L&T does not expect raise in FDI limit from 49% to 74% in defence sector to attract major investments as countries would be reluctant to risk their technology. If investment does come, it would be more of forging, fabrication like low tech work and would not be real manufacturing, L&T thinks.
- **Domestic orderbook well protected:** 80% of domestic orderbook is from Central /State/PSU clients. Of that, 35% is funded by multilateral agencies and 50% is funded by state/central. So don't expect any risk in execution. Work in Maharashtra has not experienced any hiccups barring 2 projects, metro and coastal road. That too because of PIL against those project but that has been resolved and work has started. With change in regime, Rajasthan and MP has seen reshuffle in priority but don't expect cancellation of any orders.
- **Consolidation in construction:** L&T believes much of the competition is in stress as many players have high exposure to HAM/BOT and have leveraged balance sheet. But, L&T indicated, they are not interested in M&A in this space.
- **Expects residential real estate to move faster:** In residential segment, larger bedroom are now moving slowly but studios and small size apartment have seen some traction in Bengaluru, Mulund and Seawoods. L&T expects residential space to attract investment as WFH trend sets in. Commercial space might face headwinds for the same reason.
- **Loan moratorium:** While L&T has not availed loan moratorium for parent company, Hyderabad Metro and some of road concession have opt for the relaxation.

*EBITDA margin of infra segment declined 130bps YoY as execution got impacted*

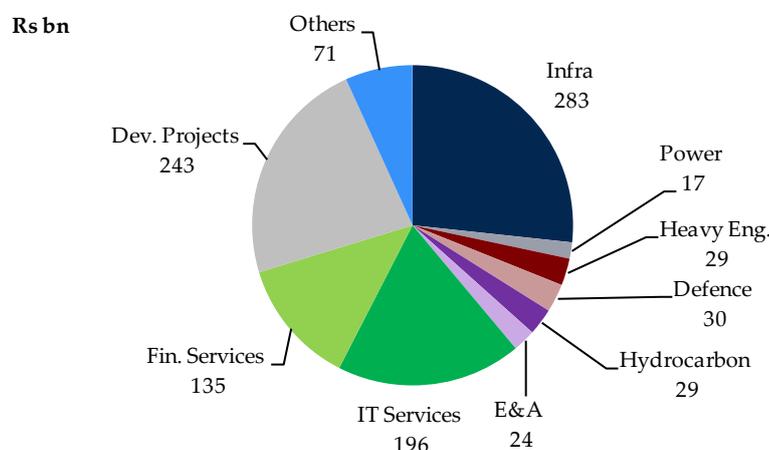
*Power segment reported EBITDA margin of 37.5% largely due to favourable mix of jobs*

**4QFY20 Segmental EBITDA breakup**



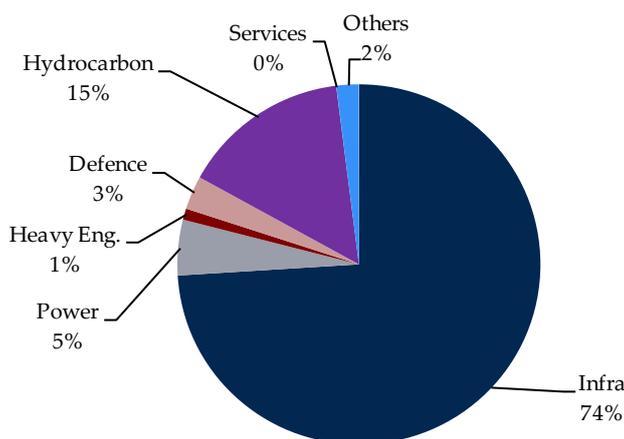
Source : Company, HSIE Research

**FY20 Segmental Net Assets Employed**



Source : Company, HSIE Research

**Order Book Breakup (FY20-Rs 3,039bn)**



Source : Company, HSIE Research

*Share of infra in order book decreased marginally by 1.6% despite robust order wins for the segment in 4QFY20*

*International orders constitute 25% of the order book*

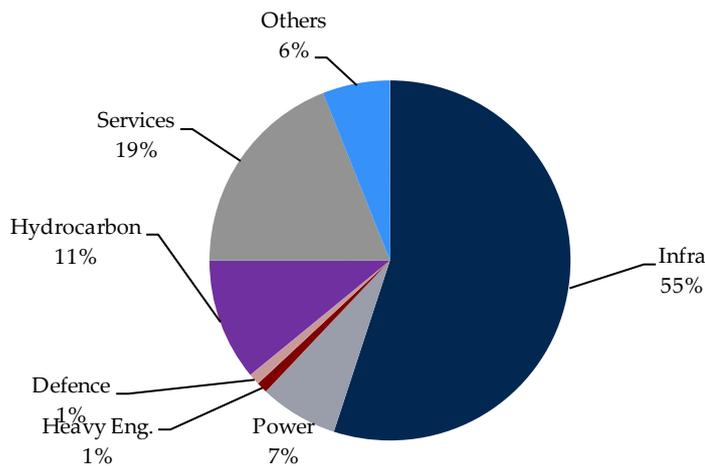
Order inflow for the year FY20 stood at Rs 1,864bn, growth of 9% YoY; In 4Q domestic order inflow rose at 5% as domestic ordering came back

Of the total order wins in FY20, 32% of orders came from international clients

Infrastructure segment registered 33% YoY growth in order inflow

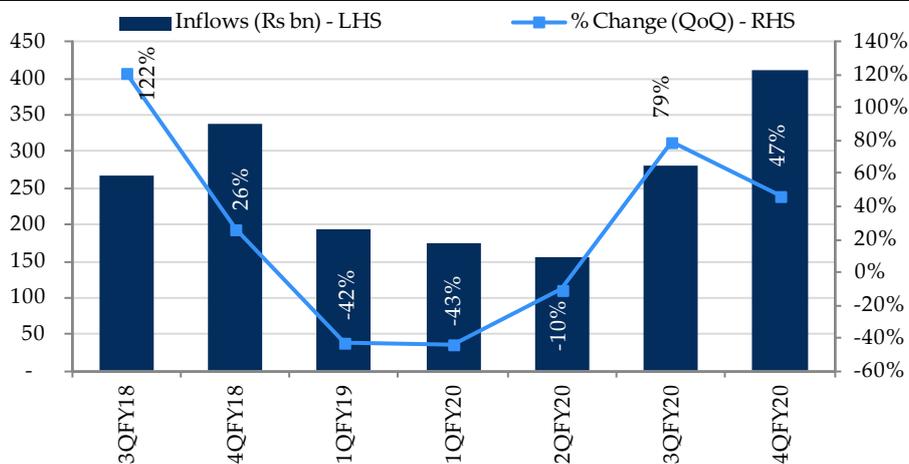
Order wins were largely in health, affordable housing, power T&D, water supply & distribution

**Order Inflow Breakup (FY20-Rs 1,864bn)**



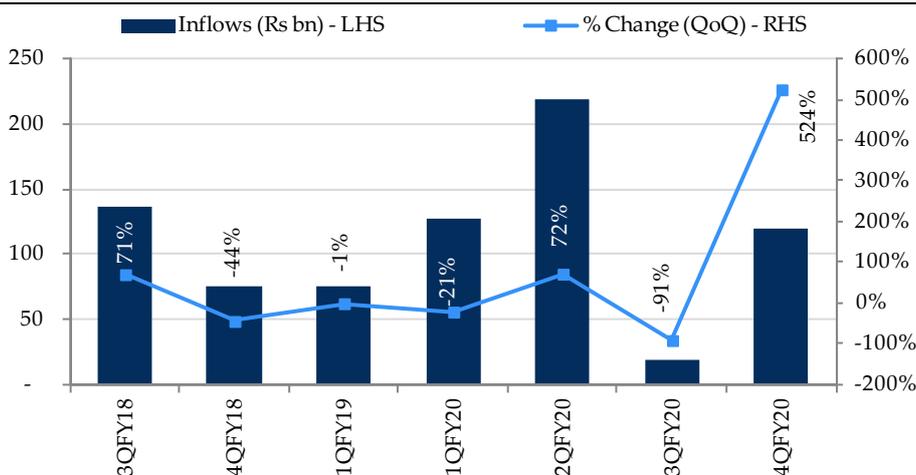
Source : Company, HSIE Research

**Infra Segment Order Inflow Trend**



Source : Company, HSIE Research

**Ex-Services (Ex-Infra)- Order Inflow Trend**



Source : Company, HSIE Research

Although management has not given any guidance for order inflow given uncertainties, L&T expects sizable prospects in water, power T&D and heavy engineering

Reported order book of Rs 3.03tn is well diversified and is net of slow moving orders which give revenue visibility for more than 2 years at FY20 revenue

We have revise our FY21/FY22 estimate by - 15.1%/+1.87%. Revision in FY21 number is to account for higher interest cost; Tweak in FY22 number is largely on account of slight increase in other income

We re-iterate our BUY on L&T with increased TP of Rs 1,236 (earlier Rs 1,191)

### Segmental Order inflow Trend

Order Inflows (Rs bn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Infrastructure	194	234	219	309	175	157	281	412
Power	1	25	1	4	67	43	8	12
Heavy Engineering*	14	13	5	8	2	7	5	5
Defence	1	12	5	12	4	6	2	7
Subtotal	16	25	10	20	6	13	7	12
Hydrocarbons	48	27	78	127	34	149	-	22
Others	11	12	17	12	20	15	4	73
Ex Services Inflows	269	323	325	471	302	375	300	532
Services	79	81	81	79	85	107	116	47
<b>Total Inflow</b>	<b>348</b>	<b>403</b>	<b>406</b>	<b>551</b>	<b>387</b>	<b>482</b>	<b>416</b>	<b>579</b>

Source: Company, HSIE Research

### Segmental Order Book Trend

Rs bn	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Infrastructure	2,106	2,182	2,192	2,218	2,187	2,153	2,236	2,249
Power	82	93	82	70	129	152	184	152
Heavy Engineering*	41	51	48	47	41	30	31	30
Defense	117	121	114	114	112	121	92	91
Subtotal	158	172	162	161	153	152	123	122
Hydrocarbons	283	278	318	399	403	515	459	456
Others	60	56	57	59	68	61	61	61
<b>Total Order Book</b>	<b>2,717</b>	<b>2,812</b>	<b>2,840</b>	<b>2,934</b>	<b>2,940</b>	<b>3,032</b>	<b>3,063</b>	<b>3,039</b>

Source: Company, HSIE Research

### Change in Estimates

Rs mn	FY21E New	FY21E Old	(% Change)	FY22E New	FY22E Old	(% Change)
Net Revenues	13,92,126	13,91,954	0.01	15,35,782	15,36,196	(0.03)
EBITDA	1,32,274	1,32,704	(0.32)	1,76,688	1,76,938	(0.14)
Margins (%)	9.5	9.5		11.5	11.5	
APAT	69,107	81,397	(15.10)	1,01,972	1,00,099	1.87

Source: Company, HSIE Research

### Valuation Summary

Business	Valuation methodology	Rs bn	Rs/sh
L&T E&C business	21x Mar-21 E&C Earnings	1,253	893
L&T Infotech	HDFC Sec Target Valuation with 25% holdco disc	175	125
L&T Tech services	HDFC Sec Target Valuation with 25% holdco disc	66	47
Mindtree	HDFC Sec Target Valuation with 25% holdco disc	76	54
L&T Finance	Mcap with 25% holdco disc	60	42
Other Subs., Associates and Developmental Portfolio	0.7x P/BV of Invested Equity	105	74
<b>Target price</b>		<b>1,734</b>	<b>1,236</b>

Source: HSIE Research

## Financials

### Consolidated Income Statement

Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Net Revenues (including E&amp;A)</b>	<b>10,93,118</b>	<b>11,96,831</b>	<b>13,52,203</b>	<b>14,54,524</b>	<b>13,92,126</b>	<b>15,35,782</b>
<i>Growth (%)</i>	8.1	9.5	13.0	7.6	(4.3)	10.3
Material Expenses	7,19,780	7,71,067	9,56,330	9,73,627	9,29,540	9,96,735
Employee Expenses	1,38,531	1,52,925	1,74,664	2,31,140	2,47,694	2,73,494
Other Operating Expenses	1,24,061	1,37,127	67,912	86,467	82,617	88,864
<b>EBIDTA</b>	<b>1,10,747</b>	<b>1,35,713</b>	<b>1,53,296</b>	<b>1,63,290</b>	<b>1,32,274</b>	<b>1,76,688</b>
<i>EBIDTA (%)</i>	10.1	11.3	11.3	11.2	9.5	11.5
<i>EBIDTA Growth (%)</i>	5.8	22.5	13.0	6.5	(19.0)	33.6
Depreciation	23,699	19,287	19,230	24,623	24,095	24,977
<b>EBIT</b>	<b>87,048</b>	<b>1,16,426</b>	<b>1,34,066</b>	<b>1,38,667</b>	<b>1,08,179</b>	<b>1,51,712</b>
Other Income (Incl. EO Items)	15,224	15,350	18,365	23,609	24,846	28,839
Interest	13,398	15,385	18,026	27,967	26,872	28,411
<b>PBT</b>	<b>88,874</b>	<b>1,16,391</b>	<b>1,34,406</b>	<b>1,34,310</b>	<b>1,06,153</b>	<b>1,52,140</b>
Tax	20,066	31,989	40,671	32,632	26,719	38,294
Minority Interest	4,443	6,346	13,115	13,453	10,724	11,954
Share of Associate profits	(3,952)	(4,359)	(210)	720	396	80
<b>RPAT</b>	<b>60,413</b>	<b>73,698</b>	<b>80,410</b>	<b>88,945</b>	<b>69,107</b>	<b>1,01,972</b>
EO items (net of tax)	(1,214)	(1,230)	8,641	6,546		
<b>APAT</b>	<b>59,198</b>	<b>72,468</b>	<b>89,051</b>	<b>95,490</b>	<b>69,107</b>	<b>1,01,972</b>
<i>APAT Growth (%)</i>	43.0	22.4	22.9	7.2	(27.6)	47.6
<b>EPS</b>	<b>42.2</b>	<b>51.7</b>	<b>63.5</b>	<b>68.1</b>	<b>49.3</b>	<b>72.7</b>
<i>EPS Growth (%)</i>	43.0	22.4	22.9	7.2	(27.6)	47.6

### Consolidated Balance Sheet

As at March	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>SOURCES OF FUNDS</b>						
Share Capital	1,866	2,803	2,806	2,808	2,806	2,806
Reserves	5,00,299	5,53,767	6,20,943	6,64,424	7,35,768	8,01,830
<b>Total Shareholders Funds</b>	<b>5,02,165</b>	<b>5,56,570</b>	<b>6,23,748</b>	<b>6,67,232</b>	<b>7,38,573</b>	<b>8,04,635</b>
Minority Interest	35,636	56,250	68,261	95,208	92,281	1,04,235
Long Term Debt	7,74,195	8,81,922	9,63,313	10,77,277	10,63,313	10,53,313
Short Term Debt	1,65,345	1,93,319	2,92,238	3,54,460	3,67,238	3,57,238
<b>Total Debt</b>	<b>9,39,540</b>	<b>10,75,241</b>	<b>12,55,552</b>	<b>14,31,737</b>	<b>14,30,552</b>	<b>14,10,552</b>
Other Non Current Liabilities	9,248	9,455	9,122	16,409	9,122	9,122
Deferred Taxes	6,110	6,379	3,111	14,530	3,111	3,111
<b>TOTAL SOURCES OF FUNDS</b>	<b>14,92,699</b>	<b>17,03,895</b>	<b>19,59,794</b>	<b>22,25,117</b>	<b>22,73,639</b>	<b>23,31,655</b>
<b>APPLICATION OF FUNDS</b>						
Net Block	1,16,652	1,26,726	1,51,125	1,23,303	1,44,810	1,43,335
CWIP	1,32,979	1,34,434	1,39,195	33,111	58,947	59,947
Goodwill	13,987	15,618	18,269	80,114	80,114	80,114
Investments	90,661	1,01,929	1,12,155	1,10,625	1,16,584	1,17,750
Other Non Current Assets	7,39,512	9,04,470	10,29,448	12,57,993	12,51,299	12,75,640
<b>Total Non-current Assets</b>	<b>10,93,790</b>	<b>12,83,177</b>	<b>14,50,192</b>	<b>16,05,145</b>	<b>16,51,754</b>	<b>16,76,785</b>
Inventories	41,397	48,478	64,139	57,467	58,574	60,077
Debtors	2,86,890	3,46,541	3,68,459	4,07,315	3,95,858	4,16,277
Cash & bank balances	1,96,062	1,74,968	2,56,724	2,78,175	2,85,729	2,98,059
ST Loans & Advances	19,738	23,536	31,779	36,439	32,620	39,145
Other Assets	4,68,983	5,59,215	6,12,180	6,96,860	6,62,030	6,68,651
<b>Total Current Assets</b>	<b>10,13,070</b>	<b>11,52,737</b>	<b>13,33,282</b>	<b>14,76,256</b>	<b>14,34,811</b>	<b>14,82,209</b>
Creditors	2,51,058	3,15,714	4,29,948	4,36,439	4,20,203	4,36,925
Other Current Liabilities & Provsns	3,63,103	4,16,305	3,93,731	4,19,845	4,02,461	4,00,153
<b>Total Current Liabilities</b>	<b>6,14,162</b>	<b>7,32,019</b>	<b>8,23,679</b>	<b>8,56,285</b>	<b>8,22,664</b>	<b>8,37,078</b>
<b>Net Current Assets</b>	<b>3,98,908</b>	<b>4,20,718</b>	<b>5,09,602</b>	<b>6,19,972</b>	<b>6,12,147</b>	<b>6,45,131</b>
Misc Expenses & Others	-	-	-	-	9,739	9,739
<b>TOTAL APPLICATION OF FUNDS</b>	<b>14,92,699</b>	<b>17,03,895</b>	<b>19,59,794</b>	<b>22,25,117</b>	<b>22,73,639</b>	<b>23,31,655</b>

Source: Company, HSIE Research

### Consolidated Cash Flow

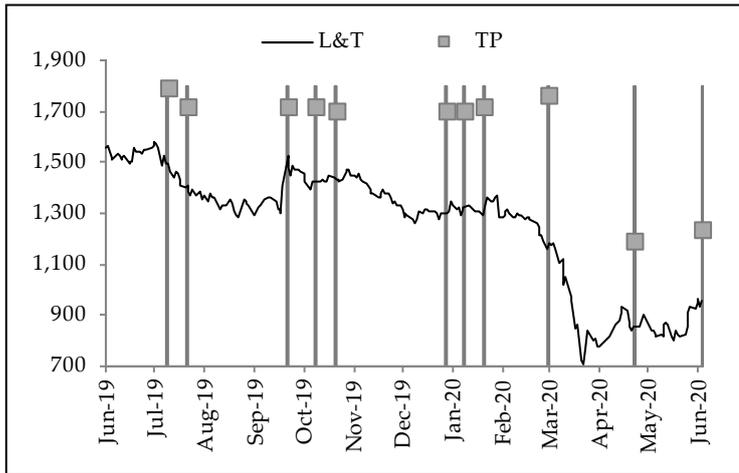
Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	87,659	1,15,162	1,42,862	1,43,142	1,06,549	1,52,220
Non-operating & EO items	(7,971)	(10,696)	(19,383)	(10,414)	(24,846)	(28,839)
Interest expenses	9,161	8,729	18,026	27,967	26,872	28,411
Depreciation	23,699	19,287	19,230	24,623	24,095	24,977
Working Capital Change	(13,980)	(1,98,757)	(1,59,465)	(77,914)	(1,50,661)	(44,994)
Tax paid	(32,017)	(34,034)	(48,828)	(40,465)	(26,719)	(38,294)
<b>OPERATING CASH FLOW ( a )</b>	<b>66,553</b>	<b>(1,00,310)</b>	<b>(47,558)</b>	<b>66,939</b>	<b>(44,709)</b>	<b>93,480</b>
Capex	(28,208)	(20,150)	(34,994)	(32,994)	(21,502)	(24,502)
Free cash flow (FCF)	<b>38,345</b>	<b>(1,20,461)</b>	<b>(82,552)</b>	<b>33,944</b>	<b>(66,211)</b>	<b>68,978</b>
Investments	(1,06,978)	19,025	(86,066)	(61,481)	(1,154)	(1,166)
Non operating income	37,226	40,270	10,832	11,912	24,846	28,839
<b>INVESTING CASH FLOW ( b )</b>	<b>(97,959)</b>	<b>39,145</b>	<b>(1,10,228)</b>	<b>(82,563)</b>	<b>2,189</b>	<b>3,172</b>
Share capital Issuance	533	495	113	176	-	-
Debt Issuance	48,804	1,26,190	1,81,743	1,41,259	1,05,000	(20,000)
Dividend Payment	(20,931)	(23,898)	(26,471)	(45,513)	(28,055)	(35,910)
Interest expenses	(21,740)	(24,707)	(29,832)	(27,397)	(26,872)	(28,411)
Others	22,293	15,624	28,849	(4,809)	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>28,959</b>	<b>93,705</b>	<b>1,54,402</b>	<b>63,716</b>	<b>50,073</b>	<b>(84,321)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(2,448)</b>	<b>32,539</b>	<b>(3,385)</b>	<b>48,091</b>	<b>7,553</b>	<b>12,330</b>
Opening Cash & Equivalents	1,28,841	1,96,062	1,74,968	2,56,724	2,78,175	2,85,729
Adj - EO Items	1,608	(5,274)	40,322	2,066	-	-
Adj - Treasury Investments	68,060	(48,360)	44,819	(28,707)	-	-
Closing Cash & Equivalents	1,96,062	1,74,968	2,56,724	2,78,175	2,85,729	2,98,059

### Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>PROFITABILITY (%)</b>						
GPM	34.2	35.6	29.3	33.1	33.2	35.1
EBITDA Margin	10.1	11.3	11.3	11.2	9.5	11.5
EBIT Margin	8.0	9.7	9.9	9.5	7.8	9.9
APAT Margin	5.4	6.1	6.6	6.6	5.0	6.6
RoE	12.5	13.7	15.1	14.8	9.8	13.2
Core RoCE	5.7	6.4	6.2	6.1	4.4	6.0
RoCE	4.9	5.3	5.6	5.6	4.0	5.4
<b>EFFICIENCY</b>						
Tax Rate (%)	22.6	27.5	30.3	24.3	25.2	25.2
Asset Turnover (x)	3.8	3.8	3.7	3.8	3.4	3.6
Inventory (days)	14	15	17	14	15	14
Debtors (days)	96	106	99	102	104	99
Other Current Assets (days)	163	178	174	184	182	168
Payables (days)	84	96	116	110	110	104
Other Current Liab (days)	121	127	106	105	106	95
<b>Net Working Capital Cycle (Days)</b>	<b>68</b>	<b>75</b>	<b>68</b>	<b>86</b>	<b>86</b>	<b>82</b>
Debt/EBITDA (x)	8.5	7.9	8.2	8.8	10.8	8.0
Net D/E	1.5	1.6	1.6	1.7	1.6	1.4
Interest Coverage	6.5	7.6	7.4	5.0	4.0	5.3
<b>PER SHARE DATA</b>						
EPS (Rs/sh)	42.2	51.7	63.5	68.1	49.3	72.7
CEPS (Rs/sh)	59.1	65.4	77.2	85.6	66.4	90.5
DPS (Rs/sh)	15	17	19	32	20	26
BV (Rs/sh)	358	397	445	476	527	574
<b>VALUATION</b>						
P/E	22.6	18.5	15.0	14.0	19.4	13.1
P/BV	2.7	2.4	2.1	2.0	1.8	1.7
EV/EBITDA	18.8	16.5	15.3	15.3	18.8	13.9
OCF/EV (%)	3.2	(4.5)	(2.0)	2.7	(1.8)	3.8
FCF/EV (%)	1.8	(5.4)	(3.5)	1.4	(2.7)	2.8
FCFE/Market Cap (%)	4.9	(1.4)	5.2	11.0	0.9	1.5
Dividend Yield (%)	1.6	1.8	2.0	3.4	2.1	2.7

Source: Company, HSIE Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
11-Jul-19	1,495	BUY	1,794
24-Jul-19	1,410	BUY	1,720
22-Sep-19	1,412	BUY	1,720
10-Oct-19	1,425	BUY	1,720
24-Oct-19	1,431	BUY	1,703
30-Dec-19	1,300	BUY	1,703
10-Jan-20	1,325	BUY	1,703
23-Jan-20	1,294	BUY	1,720
2-Mar-20	1,188	BUY	1,765
24-Apr-20	851	BUY	1,191
7-Jun-20	957	BUY	1,236

From 2<sup>nd</sup> March 2020, we have moved to new rating system

## Rating Criteria

- BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: >10% Downside return potential

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