

Strong order inflow with decent guidance

About the stock: Larsen & Toubro (L&T) India's largest engineering & construction (E&C) company with interest in EPC projects, Hi-tech manufacturing and services.

- It primarily operates in Infrastructure, Heavy Engineering, Defence engineering, Power, Hydrocarbon, Services business segments.
- Infrastructure segment contributes ~45% to consolidated revenue followed services (~30%).

Q4FY22 Results: L&T reported good Q4FY22 results.

- Adjusted standalone revenue was up 10.9% YoY to ₹ 32989.2 crore
- Standalone EBITDA up 7.8% YoY to ₹ 3869.6 crore, margins dipped 173 bps to 10.3% on a YoY basis.
- Consequently, standalone adjusted PAT at ₹ 2901.2 crore (up 17.6% YoY)
- Order inflows came in at ₹ 73,900 crore, up 46% YoY

What should investors do? L&T's strong order book of ₹ 357600 crore suggest good revenue visibility in coming years.

- We maintain our BUY rating on the stock.

Target Price and Valuation: We value L&T at ₹ 1930 on SoTP basis

Key triggers for future price performance:

- L&T has targeted revenues and order inflow CAGR of 15% and 14%, respectively, over FY21-26 with a consolidated ROE of 18%
- L&T will focus on emerging portfolios like Green EPC, Manufacturing of electrolysers, Battery & Cell manufacturing, Data Centres and Platforms (Sufin & Edutech) in next five years
- Focus on asset monetisation to further strengthen the balance sheet and improve return ratios. Strong b/s, controlled working capital and strong cash generation

Alternate Stock Idea: Apart from L&T, in our coverage we also like Siemens Ltd.

- Further penetration of valued added automation and digitization products & services across segments to drive margins, long term growth.
- BUY with target price of ₹ 2856



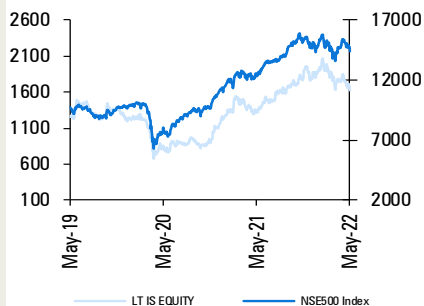
Particulars

Particular	Amount
Market Capitalization	₹ 212542 Crore
Total Debt (FY22)	₹ 22808.7 Crore
Cash & Inv. (FY22)	₹ 3084.5 crore
EV	₹ 232266.2 Crore
52 week H/L	₹2079 / ₹ 1368
Equity capital	₹ 277.5 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	0.0	0.0	0.0	0.0
FII	22.9	22.9	23.2	22.4
DII	33.0	33.3	32.9	33.7
Others	44.2	43.8	43.8	43.9

Price Chart



Recent event & Key risks

- Key Risks:** (i) Any execution headwinds, order deferrals (ii) Delay in sale of non-core assets.

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Key Financial Summary (Standalone)

Particulars (₹ crore)	FY20*	FY21*	FY22*	5-Year CAGR (FY17-FY22)	FY23E	FY24E	2-Year CAGR (FY22-FY24E)
Net Sales	82,383.6	73,315.6	1,01,100.4	8.9%	1,12,698.8	1,28,539.2	12.8%
EBITDA	6,838.2	7,266.2	9,055.5	7.1%	10,628.1	12,250.2	16.3%
EBITDA Margin (%)	8.3	9.9	9.0		9.4	9.5	
Adj. Net Profit	6,679.3	5,414.6	7,879.5	10.7%	9,081.7	10,120.3	13.3%
Adj. EPS (₹)	48.1	39.0	56.1		65.5	72.9	
P/ E (x)	31.8	18.7	27.3		23.4	21.0	
RoNW (%)	12.9	18.8	12.2		12.9	13.2	
RoCE (%)	7.5	7.4	8.0		10.2	11.1	

*PAT, EPS adjusted for E&A business sale and exceptional items.

Source: Company, ICICI Direct Research

Key takeaways of the recent quarter & Concall highlights

Q4FY22 Results: Strong order inflow with decent guidance

- On standalone basis, infrastructure segment revenue grew by 13% to ₹ 29730 crore on YoY basis. Power segment revenues grew by 22% to ₹ 1480 crore on YoY basis. On the other side Heavy engineering segment revenue de-grew by 13% to ₹ 870 crore on YoY basis while Defence Engineering segment revenue de-grew by 21% to ₹ 890 crore. Including Hydrocarbon business (merged from now on in standalone) revenues stood at ₹37439 crore for Q4FY22
- For Q4FY22, L&T registered decent order inflows at group level worth ₹ 73900 crore, which grew by 46% YoY. Key order wins received on various segments like Hydrocarbon Offshore, Metros, Rural Water Supply, Minerals and Metal, Public Space, Health Infrastructure and Power Transmission and Distribution. International orders for Q4FY22 came in at ₹ 32200 crore contributing 43.5% to order inflows. Overall infrastructure segment secured orders worth ₹ 45079 crore (~61% of total inflows). L&T's order backlog as on Q4FY22 stood at ₹ 357600 crore with international orders contributing 26.6%
- Consequently, for Q4FY22, standalone Adj. PAT (Ex-E&A) came in at ₹ 2901.2 crore, increased by 17.6% on YoY (Vs. our estimates of ₹ 2971 crore). Other income came in at ₹ 702.8 crore increased by 4.2% on YoY while, interest expense declined by 9.5% to ₹ 440.8 crore thereby improving profitability. The consolidated Adj. PAT for Q4FY22 came in at ₹ 3621 crore (Vs ₹ 3292 crore in Q4FY21)
- The working capital to sales ratio stood at 19.9% in FY22 which has considerably improved from 22.2% in FY21. The company generated cash flow from operations to the tune of ₹ ~ ₹15000 crore

Q4FY22 Earnings Conference Call highlights

- L&T total ordering prospects/pipeline for FY23E stands at ₹ 853000 crore, which comprises of ₹ 631000 crore of domestic and ₹ 220000 crore of international pipeline. L&T has become more selective in choosing business opportunities coupled with a strong backlog gives convenience to the company to use discretion for winning relatively profitable orders. From a segment perspective, Infrastructure segment prospects are pegged at ₹572000 crore (Water 21%, T&D 23%, Transportation 19%, B&F 16% and Metals 4%).
- The management commentary suggests that tendering activity was quite robust in Q3FY22 but the same did not get converted into order finalisations and award. This was quite evident from the Award to Tendering ratio which stood at 48% in Q3FY22 vs. 61% in Q3FY21. Improvement in this particular ratio in Q4Y22 and ramp up in spending by PSU and States for their respective capex might lead to strong order inflows for L&T in Q4FY22E.
- L&T has given a guidance of 12-15% revenues and order inflow growth for FY23E. The margins guidance has been pegged at 9.5% given the volatile commodity outlook. On the working capital to sales ratio the company has guided for a range of 20-22% even though company will strive to achieve the lower end of the guidance.
- In terms of client exposure, central government forms 11% of the domestic backlog while the share of state governments, PSU and private sector stands at 29%, 45% and 16% respectively. Out of the total backlog of ₹ 357600 crore, 30% of the same is funded by multilateral agencies. In terms of ordering, inflows and order finalisations are happening at brisk pace from Central government and PSU's/State owned enterprises but the same is lagging behind from the state governments.

- Share of fixed price contracts in the current backlog stands at 15% while those with price variation clause share is at 85%.
- The net working to capital ratio significantly improved from 23.2% in Q3VY22 and 22.2% in Q4FY21 to 19.9%. The company has generated strong cash flow from operations in FY22 to the tune of ₹ 15000 crore. Also from a leverage perspective, standalone entity has very low debt while the debt for concessions portfolio is down by ₹2100 crore and standalone entity is down by ₹4300 crore in FY22.
- On the labour front, the company has gradually ramped-up to 263000 labourers leading to near normal requirement in FY22.
- **Developments at Hyderabad Metro:** Hyderabad Metro is witnessing resurgence in ridership with daily ridership at over 300000 passengers in Q1FY23, which had suffered in Q4FY22 (199000 riders per day) on account of Omicron. Hence the average ridership on per day basis for FY22 stood at 155000. The subsidiary for the posted a positive EBITDA 2.4% EBITDA. But on account of higher interest cost and depreciation, the loss for Q4FY22 was at ₹349 crore. Total loss for FY22 stood at ₹1700 crore.
- The refinancing of the L&T Hyderabad metro happened on Dec 2021 wherein the bank debt of ₹13000 crore has been completely refinanced with NCD/commercial paper. The savings in interest costs was to the tune of ₹90 in Q4FY22.
- Telangana government has provided financial assistance in form of a soft loan of ₹3000 crore (₹1000 crore instalment every year from FY23) and the same has to repaid after 65 years at a very concessional rate of interest.
- The Invit of Hyderabad metro has also received the approvals from respective regulatory bodies. The company is also in active talks with investors to dilute stake in the Hyderabad metro with which further debt reduction will happen. We believe, the company is on the right track in de-risking the entire project in the medium term.
- **Other Developmental Projects:** The company will shortly sell out the remaining 51% in L&T IDPL (Road Assets) and also in active talks to hive off power subsidiary Nabha power. This exits are likely to happen on FY23.
- **Five-year plan: Lakshya 2026:** The company will focus on emerging portfolios like Green EPC, Manufacturing of electrolyzers, Battery & Cell manufacturing, Data Centres and Platforms (Sufin & Edutech). The company has targeted revenues and order inflow CAGR of 15% and 14% respectively over FY21-FY26 with a consolidated ROE of 18%
- On the capex side, the company intends to put a 500 MW electrolyser manufacturing capacity by FY26 and scale it upto 1000 MW by FY28 at total outlay of ₹ 1000-1100 crores. Which will be funded by internal accruals. On the battery cell manufacturing side, the company intends to put up a 5000 MW capacity by FY2028. The company can also enter the BOO route in green hydrogen given its gets the desired levels of IRR and take & pay agreements with the partner.
- Growth in IT segment will happen via inorganic route and the same will be funded via balance sheets of the IT subsidiary themselves.

Exhibit 1: Variance Analysis (Standalone)

	Q4FY22	Q4FY22E	Q4FY21 /oY (Chg %)	Q3FY22 loQ (Chg %)	Comments		
Revenue	37,439.2	32,988.3	34,525.0	8.4	25,665.1	45.9	Better execution and job mix
Other Income	702.8	791.7	468.9	49.9	981.0	-28.4	
Employee Expenses	1,915.0	1,649.4	1,574.7	21.6	1,899.3	0.8	
Raw Material Expenses	30,827.6	26,159.7	27,925.1	10.4	20,952.2	9.8	
Other Operating Expenses	827.0	1,253.6	1,000.8	-17.4	771.0	7.3	
EBITDA	3,869.6	3,925.6	4,493.4	-13.9	3,023.7	28.0	
EBITDA Margin (%)	10.3	11.9	13.0	-268 bps	11.8	-145 bps	
Depreciation	307.9	308.6	330.9	-6.9	287.0	7.3	
Interest	440.8	484.7	487.4	-9.6	414.6	6.3	
PBT (befor exp. Item)	3,823.7	3,924.0	4,144.0	-7.7	3,303.1	15.8	
PBT (after exp. Item)	3,823.7	3,924.0	4,144.0	-7.7	3,303.1	15.8	
Total Tax	922.6	953.0	1,231.0	-25.1	498.9	84.9	
Adj. PAT (Ex-E&A)	2,901.2	2,971.0	2,913.0	-0.4	2,804.2	3.9	Partly aided by other income

Key Metrics

Order inflows	73,900	50,700	45.8	50,400	46.6	Decent order inflows despite challenges
Order backlog	3,57,600	3,27,400	9.2			Backlog provides strong visibility for next two to three years

* Adjusted for E&A, L& T Hydrocarbon Engineering Limited ("Transferor"), a wholly owned subsidiary has been amalgamated with the company, our estimated numbers for the Q4FY22E are excluding Hydrocarbon

Adjusted for E&A business Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	1,01,247.5	1,12,698.8	11.3	1,12,025.1	1,28,539.2	14.7	
EBITDA	10,065.9	10,628.1	5.6	11,186.7	12,250.2	9.5	
EBITDA Margin (%)	9.9	9.4	-51 bps	10.0	9.5	-46 bps	
PAT	8,350.0	9,081.7	8.8	9,472.0	10,120.3	6.8	
EPS (₹)	60.2	65.5	8.7%	68.3	72.9	6.8%	

Source: Company, ICICI Direct Research

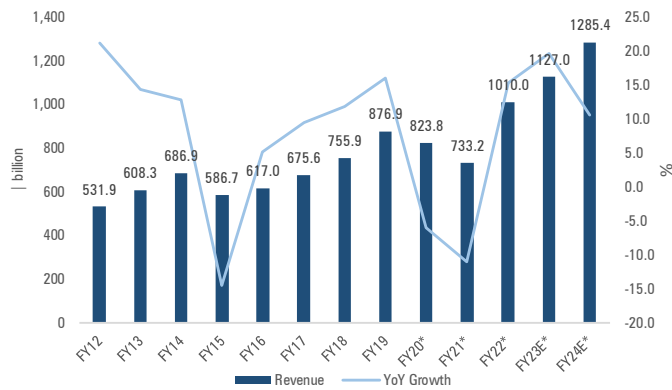
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY21*	FY22	FY23E	FY24E	FY23E	FY24E	
Order Inflow gr	-11.8	-1.3	15.6	10.8	15.4	11.1	
Order Backlog	15.9	11.7	8.9	8.9	4.8	5.2	
Revenue growth	-11.0	21.6	26.4	14.1	19.7	10.6	
EBITDA Margin	9.9	9.0	9.4	9.5	9.9	10.0	

Source: Company, ICICI Direct Research

Financial Story in Charts

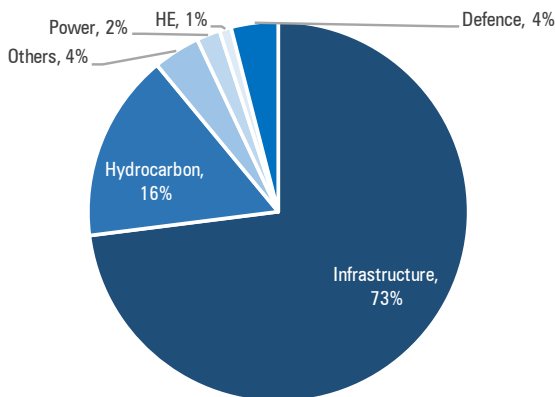
Exhibit 4: Trend in revenue growth



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

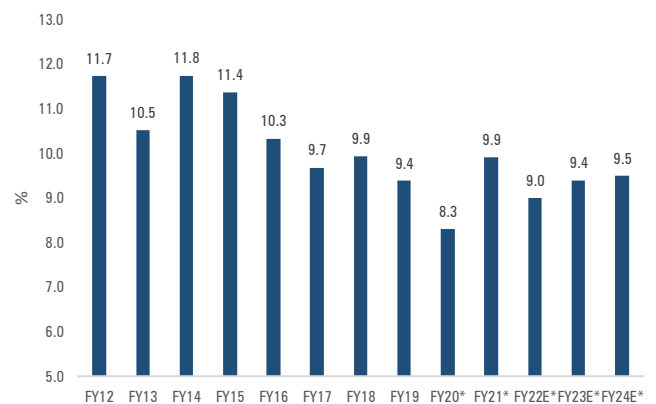
Source: ICICI Direct Research, Company

Exhibit 5: Break-up of consolidated backlog...



Source: Company, ICICI Direct Research

Exhibit 6: Trend in EBITDA margins...



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

Source: Company, ICICI Direct Research

Exhibit 7: SoTP valuation of L&T

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	1584.0	63.6	1296.0	67.1	720.0	60.5
L&T Finance Holdings	68	2.7	60	3.1	43	3.6
L&T IT Subsidiaries	472	19.0	354	18.3	295.2	24.8
L&T Power Development	13	0.5	8.6	0.4	7.7	0.6
L&T MHI JV	12	0.5	5.0	0.3	5.7	0.5
L&T IDPL	144	5.8	65.3	3.4	30.9	2.6
Other E&C, MIP & E&E Sub	29	1.2	14.3	0.7	12.3	1.0
Others (Mindtree)	166.6	6.7	127.0	6.6	74.8	6.3
Total	2489	100.0	1931	100.0	1189	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Total operating income	73,315.6	1,01,000.4	1,12,698.8	1,28,539.2
Growth (%)	-11.0	37.8	11.6	14.1
Raw Material Expenses	7,455.1	12,590.9	12,168.9	13,896.5
Employee Expenses	5,485.4	7,396.9	7,834.4	9,029.0
Other Operating Expenses	43,278.2	58,456.6	67,236.5	76,418.5
Sales, admin & Other Exp	2,273.9	2,982.7	4,107.4	4,619.8
Other Mfg. Expenses	7,556.8	10,517.9	10,723.6	12,325.1
Total Operating Expenditure	66,049.4	91,944.9	1,02,070.7	1,16,288.9
EBITDA	7,266.2	9,055.5	10,628.1	12,250.2
Growth (%)	6.3	24.6	17.4	15.3
Depreciation	1,025.6	1,172.5	1,245.6	1,364.4
Interest	2,419.5	1,754.2	1,856.5	1,771.3
Other Income	3,435.5	3,612.7	3,882.5	3,586.0
PBT	7,256.5	9,741.4	11,408.5	12,700.5
Others	0.0	0.0	0.0	0.0
Total Tax	1,751.3	2,129.1	2,326.8	2,580.2
Adj. PAT (Ex-E&A)	5,414.6	7,612.3	9,081.7	10,120.3
Growth (%)	-2.6	40.6	19.3	11.4
Adj. EPS (₹)	39.0	54.2	65.5	72.9

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

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Liabilities				
Equity Capital	280.9	280.9	280.9	280.9
Reserve and Surplus	60,045.0	64,094.4	69,980.4	76,484.0
Total Shareholders funds	60,325.9	64,375.3	70,261.3	76,764.9
Total Debt	23,808.7	22,808.7	21,808.7	20,808.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	85,003.8	88,066.2	93,017.2	98,585.8
Assets				
Gross Block	13,069.0	14,369.0	15,569.0	16,769.0
Less: Acc Depreciation	5,185.2	6,172.2	7,325.3	8,597.1
Net Block	7,883.8	8,196.8	8,243.7	8,171.9
Capital WIP	236.1	900.0	1,100.0	1,100.0
Total Fixed Assets	8,119.9	9,096.8	9,343.7	9,271.9
Investments	47,674.2	45,674.2	45,174.2	44,674.2
Inventory	2,858.6	3,394.9	4,324.2	4,479.9
Debtors	29,948.2	31,755.9	40,139.3	46,837.6
Loans and Advances	434.9	608.3	834.3	811.0
Other Current Assets	48,172.4	58,998.8	70,604.8	77,215.3
Cash	3,062.6	3,084.5	3,152.3	4,630.8
Total Current Assets	84,476.6	97,842.4	1,19,054.8	1,33,974.6
Creditors	37,469.8	42,748.3	52,489.9	59,867.6
Provisions	1,320.0	1,795.4	2,362.0	2,694.0
Total Current Liabilities	62,898.7	73,396.4	91,139.2	1,00,570.0
Net Current Assets	21,578.0	24,446.1	27,915.6	33,404.6
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	85,003.8	88,066.2	93,017.2	98,585.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Profit after Tax	11,363.0	6,964.5	9,081.7	10,120.3
Add: Depreciation	1,025.6	1,172.5	1,245.6	1,364.4
(Inc)/dec in Current Assets	4,223.5	-13,343.8	-21,144.6	-13,441.2
Inc/(dec) in CL and Provisions	118.0	10,497.7	17,742.8	9,430.8
Others	-	-	-	-
CF from operating activities	16,730.1	5,197.9	6,925.5	7,474.3
(Inc)/dec in Investments	-12,964.2	2,000.0	500.0	500.0
(Inc)/dec in Fixed Assets	-1,028.9	-1,963.9	-1,400.0	-1,200.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-11,829.1	-1,260.9	-2,662.0	-1,379.1
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-3,650.9	-3,087.0	-3,367.7	-3,788.6
Inc/(dec) in Sec. premium	68.0	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-4,828.4	-3,915.0	-4,195.7	-4,616.6
Net Cash flow	72.6	22.0	67.8	1,478.6
Opening Cash	2,989.9	3,062.6	3,084.5	3,152.3
Closing Cash	3,062.6	3,084.5	3,152.3	4,630.8

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Per share data (₹)				
EPS	39.0	54.2	65.5	72.9
Cash EPS	89.3	58.0	74.4	82.8
BV	435.5	464.6	507.1	554.0
DPS	26.0	22.0	24.0	27.0
Cash Per Share	22.1	22.2	22.7	33.4
Operating Ratios (%)				
EBITDA Margin	9.9	9.0	9.4	9.5
PBT / Total Operating income	17.9	9.9	10.1	9.9
PAT Margin	15.5	7.8	8.1	7.9
Inventory days	14.0	12.8	12.5	12.5
Debtor days	149.1	130.0	130.0	133.0
Creditor days	186.5	175.0	170.0	170.0
Return Ratios (%)				
RoE	10.7	10.4	12.9	13.2
RoCE	7.4	8.0	10.2	11.1
RoIC	7.6	8.9	10.4	11.6
Valuation Ratios (x)				
P/E	18.7	30.5	23.4	21.0
EV / EBITDA	32.1	29.0	21.8	18.7
EV / Net Sales	3.2	2.6	2.1	1.8
Market Cap / Sales	2.9	2.4	1.9	1.7
Price to Book Value	3.5	3.3	3.0	2.8
Solvency Ratios				
Debt/EBITDA	3.3	2.8	2.1	1.7
Debt / Equity	0.4	0.4	0.3	0.3
Current Ratio	1.3	1.3	1.3	1.3
Quick Ratio	1.3	1.3	1.3	1.3

*Adjusted for E&A business

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1532	1,930	Buy	214970	50.2	65.5	72.9	30.5	23.4	21.0	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2280	2,856	Buy	81195	29.5	37.8	45.6	77.3	60.4	50.0	13.9	16.1	17.5	10.1	11.9	13.0
AIA Engineering (AIAENG)	1818	1,895	Hold	17147	56.8	59.9	67.8	32.0	30.3	26.8	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	1905	2,445	Buy	22699	27.4	42.5	48.9	69.6	44.8	38.9	12.1	17.2	18.1	9.5	13.4	13.9
KEC International (KECIN)	346	379	Hold	8883	12.7	15.8	25.3	27.2	21.9	13.7	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	132	220	Hold	3048	1.3	2.8	4.4	98.8	47.8	30.0	3.5	10.4	15.7	2.4	7.4	11.4
Elgi Equipment (ELGEQU)	257	410	Hold	8156	4.0	6.3	8.2	64.8	40.7	31.2	12.7	18.0	20.3	14.0	19.1	20.7
Bharat Electronics (BHAELE)	219	250	Buy	53361	9.4	11.2	12.5	23.4	19.5	17.6	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	306	500	Buy	4025	44.0	55.6	-	7.0	5.5	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3102	3,720	Buy	15336	77.0	89.6	103.5	40.3	34.6	30.0	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	1830	2,405	Buy	13765	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	108	220	Buy	1047	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	179	290	Buy	2130	9.8	12.7	16.2	18.3	14.1	11.0	22.5	24.4	25.9	15.1	16.6	17.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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