

Execution gradually regaining ground amid recovery

L&T's adjusted standalone revenues (ex-E&A business) for the quarter grew 1.3% YoY to ₹ 19619.8 crore vs. our estimate of ₹ 19984.8 crore. On standalone basis, infrastructure segment revenue (contributing ~77%) fell 7.9% to ₹ 15106.8 crore YoY due to job mix and site productivity though execution improved sequentially due to higher work force mobilisation and supply chain normalisation. On a consolidated basis, adjusted revenues from continuing operations fell 1.8% to ₹ 35596.3 crore YoY. During the quarter, standalone EBITDA margins improved 210 bps to 9.5% (vs. our estimates of 8.0%) on a YoY basis led by control on operating expenses, job mix and better performance in others segments. On a consolidated basis, EBITDA margins came in at 10.5% (vs. 11.1% in Q3FY20).

Strong order inflows led by mega orders in infra segment

For Q3FY21, L&T registered strong order inflows at the group level worth ₹ 73233 crore, with strong growth 76% YoY, led by mega EPC orders won in infrastructure segment (~62% of inflows) including high speed rail (HSR), special bridge project, rural water supply scheme (MP), international order in power T&D etc. While international orders for Q3FY21 came in at ₹ 10253 crore contributing 14% to order inflows. L&T's order backlog at record high of ₹ 331061 crore up 9% YoY with international orders constituting 20% of order backlog.

Improved collections aid working capital, cash flows...

For Q3FY21, the cash flow from operations was robust, strongly supplemented by improvement in collections that came in at ~₹ 32000 crore for Q3FY21. The CFO was at ₹ 4370 crore for Q3FY21 (vs. ₹ 2770 crore in Q2FY21). CFO for 9MFY21 came in at ₹ 8020 crore. Net working capital to sale ratio was at 26.2% for 9MFY21 (vs. 26.7% in H1FY21) on account of gradual improvement in business activities. It expects to maintain working capital ratio at FY20 levels. As on Q3FY21, debt has increased by ₹ 6900 to ₹ 54000 crore compared to Q4FY20 levels.

Valuation & Outlook

L&T reported strong order inflows while execution is seeing traction amid higher work force mobilisation and supply chain normalisation that could improve over next few months. Also, improved collections would further help improve working capital situation while cash proceeds from E&A have provided much needed liquidity comfort and ability to repay debt further strengthening the balance sheet. We expect it to deliver standalone revenue CAGR of 13.7%, EBITDA CAGR of 13.4% and PAT CAGR of 14.6% in FY21-23E. We value L&T on SoTP (base business at 20x FY23E EPS of ₹ 49.5) basis with a target price of ₹ 1640 (earlier TP of ₹ 1045). We change our rating from HOLD to BUY.



Particulars

Particular	Amount
Market Capitalization	₹191182.5 crore
Total Debt (FY 20)	₹25786.0 crore
Cash & Inv. (FY 20)	₹3263.0 crore
EV	₹213705.5 crore
52 week H/L	₹396/ ₹661
Equity capital	₹277.5 Crore
Face value	₹2

Key Highlights

- Q3FY21 order inflow at ₹ 73233 crore at group level, up 76% YoY led by mega orders in infrastructure segment
- Net working capital to sales at 26.2% for 9MFY21 (vs. 26.7% in H1FY21) owing to improved collections and is expected to remain at this level

Key risk to our call

- Any execution headwinds, order deferrals to adversely affect operating performance and order book position
- Delay in Hyderabad Metro refinancing and hurdles in sale of non-core assets would affect long term strategic goals and value creation for the company

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Key Financial Summary (Standalone)

Particulars (₹cro)	FY19	FY20*	FY21E*	FY22E*	FY23E*	CAGR (FY21-FY23E)*
Net Sales	82,106.4	82,389.2	71,181.5	84,672.7	91,981.3	13.7%
EBITDA	7,708.7	6,856.3	6,604.0	7,508.1	8,489.0	13.4%
EBITDA Margin (%)	9.4	8.3	9.3	8.9	9.2	
Adj. Net Profit	6,107.7	6,222.1	5,229.9	5,889.0	6,872.4	14.6%
Adj. EPS (₹)	44.0	44.8	37.7	42.4	49.5	
P/E (x)	30.9	27.5	17.1	32.1	27.5	
RoNW (%)	12.2	13.2	18.8	9.5	10.4	
RoCE (%)	10.7	7.5	6.6	7.3	8.0	

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

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Standalone)

	Q3FY21	Q3FY21E	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Revenue	19,619.8	19,984.8	19,885.9	-1.3	15,791.7	24.2	Revenue declined marginally, aided by higher work force mobilisation and supply chain normalisation
Other Income	1,127.7	899.3	632.9	78.2	935.2	20.6	Significantly higher other income as liquidity (including E&A proceeds) was parked in treasury investments
Employee Expenses	1,395.8	1,448.9	1,505.4	-7.3	1,402.6	-0.5	
Raw Material Expenses	15,829.3	16,247.6	16,148.5	-2.0	12,563.4	-15.9	
Other Operating Expense	530.9	679.5	768.1	-30.9	594.8	-10.7	
EBITDA	1,863.8	1,608.8	1,463.8	27.3	1,230.9	51.4	
EBITDA Margin (%)	9.5	8.0	7.4	214 bps	7.8	171 bps	Margin improvement on the back of better margins in others segment.
Depreciation	240.4	272.2	244.5	-1.7	249.4	-3.6	
Interest	567.8	661.3	589.8	-3.7	656.4	-13.5	
PBT (befor exp. Item)	2,183.2	1,574.6	1,262.4	72.9	1,260.2	73.2	
PBT (after exp. Item)	2,183.2	1,574.6	1,262.4	-	1,260.2	-	
Total Tax	478.3	313.9	205.1	133.2	208.6	129.3	
Adj. PAT (Ex-E&A)	1,704.9	1,260.6	1,057.3	61.2	1,051.6	0.5	Adjusted PAT (excluding exceptional item and E&A) above our estimates aided by significantly higher other income and improved margins

Key Metrics

Order inflows	49,064.1	44,021.7	29,583.0	65.9	16,975.4	189.0	Strong order inflows in infrastructure segment despite challenges
Order backlog	293,241.6	288,341.6	267,286.8	9.7	263,890.0	11.1	Backlog provides strong visibility for next two to three years

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

Exhibit 2: Change in estimates

(₹ Crore)	FY21E*			FY22E*			FY23E*	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	65,183.4	71,181.5	9.2	84,437.0	84,672.7	0.3	91,981.3	Execution to normalise in Q4FY21E
EBITDA	4,237.9	6,604.0	55.8	7,506.0	7,508.1	0.0	8,489.0	
EBITDA Margin (%)	6.5	9.3	278 bps	8.9	8.9	-3 bps	9.2	
PAT	8,531.5	5,229.9	-38.7	5,840.6	5,889.0	0.8	6,872.4	FY21E* new estimates adjusted for exceptional items and ex-E&A proceeds
EPS (₹)	61.5	37.7	-38.7	42.1	42.4	0.8	49.5	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Introduced	Comments
	FY19	FY20	FY21E*	FY22E*	FY21E	FY22E	FY23E*	
Order Inflow growth	33.6	-12.7	-6.1	12.6	-10.6	11.0	10.2	
Order Backlog growth	6.0	1.9	19.7	17.1	17.5	10.0	16.4	
Revenue growth	10.3	0.3	-13.6	19.0	-20.9	29.5	8.6	Revised owing to gradual execution normalisation challenges amid pandemic
EBITDA Margins	9.4	8.3	9.3	8.9	6.5	8.9	9.2	

Source: Company, ICICI Direct Research

Key result highlights

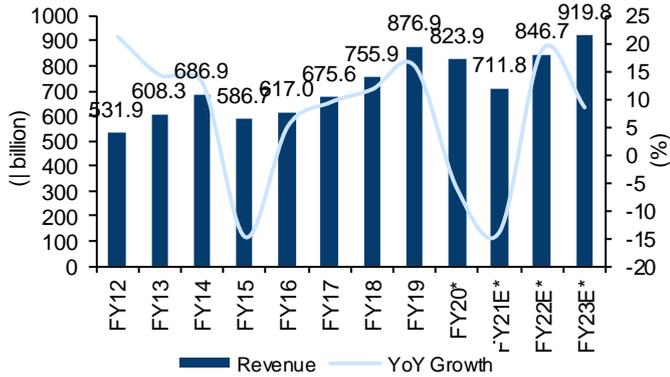
- L&T's adjusted standalone revenues (ex- E&A business) for the quarter de-grew 1.3% YoY to ₹ 19619.8 crore vs. our estimate of ₹ 19984.8 crore. On a standalone basis, infrastructure segment posted a muted performance with revenue decline of 7.9% to ₹ 15106.8 crore YoY. Heavy engineering segment revenue remained flat at ₹ 803.1 crore YoY. On the other hand, power segment revenues saw some respite growing 29.4% to ₹ 903.7 crore while defence engineering segment revenue grew 2.0% to ₹ 1024 crore
- On a consolidated basis, adjusted revenues from continuing operations on like to like basis declined 1.8% to ₹ 35596.3 crore on a YoY basis. On a consolidated basis, infrastructure segment net revenue de-grew 7.0% YoY to ₹ 15973.2 crore. While hydrocarbon segment registered a revenue decline of 0.7% to ₹ 4422.4 crore, IT & technology segment grew 6.6% to ₹ 6530.1 crore, YoY. Financial services segment de-grew 4.2% to ₹ 3400.7 crore for the quarter while IDPL segment declined 34.3% to ₹ 813.8 crore
- For Q3FY21, L&T registered reasonable order inflows at group level worth ₹ 73233 crore, with strong growth 76% YoY, led by mega EPC orders won in high speed rail (HSR). International orders for Q3FY21 came in at ₹ 10253 crore contributing 14% to order inflows. Overall infrastructure segment saw securing of orders worth ₹ 45572 crore (~62% of total inflows), which included HSR, special bridge project, rural water supply scheme(MP), international order in power T&D and material handling & metallurgical segment, etc. L&T's order backlog at record high of ₹ 331061 crore up by 9% on YoY basis with international orders constituting 20% of order backlog
- During the quarter, standalone EBITDA margins improved 210 bps to 9.5% (vs. our estimate of 8.0%) on a YoY basis led by control on operating expenses. On a consolidated basis, EBITDA margins came in at 10.5% (vs. 11.1% in Q3FY20). From a segmental perspective, infrastructure segment EBITA margins declined marginally by 10 bps to 6.2% owing by productivity and job mix while higher work force mobilisation led to execution pick up. Power segment EBITDA margin declined 140 bps to 2.0%, Heavy engineering segment EBITDA margins came in at 20% (declined 350 bps YoY), reflective of job mix. While hydrocarbon EBITDA margin improved 10 bps to 12.2% YoY due to efficient execution and job mix
- Consequently, for Q3FY21, standalone adjusted PAT (adjusting for E&A proceeds) came to ₹ 1704.9 crore, up 61.2% YoY (vs. our estimate of ₹ 1260.6 crore) partly due to higher other income that came in at ₹ 1127.7 crore, up 78.2% YoY. While interest expense declined 3.7% to ₹ 567.8 crore improving profitability. The consolidated adjusted PAT for Q3FY21 came in at ₹ 2648.3 crore (vs. ₹ 2560.3 crore in Q3FY20)
- For Q3FY21, the cash generation from operations was robust, strongly supplemented by cash proceeds from E&A business. The CFO was at ₹ 4370 crore for Q3FY21 (vs. ₹ 2770 crore in Q2FY21). CFO for 9MFY21 came in at ₹ 8020 crore
- New working capital to sale ratio was at 26.2% for 9MFY21 (vs. 26.7% in H1FY21) on account of gradual improvement in business activities. As on Q3FY21, debt has increased by ₹ 6900 to ₹ 54000 crore compared to Q4FY20 levels

Conference call highlights

- As of now, the company has refrained from providing any guidance on revenue, margins and order inflows for FY21E
- On the labour front, the company had 265000 labourer at various sites leading to near normalisation of pre-Covid levels. However, productivity challenges at site expected to gradually reach normalisation levels by Q4FY21E
- Total 86% of the domestic backlog comes from the central government/state governments (~45%) and PSU (~41%) where the risk of cancellation or deferral are very minimal. While ~28% of the order backlog is funded by multilateral agencies like JICA /ADB World Bank
- On the ordering pipeline front, L&T expects order prospects to the tune of ₹ 2.65 lakh core for Q4FY21E. Out of this, ₹ 2.2 lakh crore is in infrastructure segment and rest in other segments. Geography wise, ~₹ 2.2 lakh crore order prospects are in domestic markets across urban infra, transportation, water, power T&D, renewables and ~₹ 45000 crore in International market across hydrocarbon, power T&D in Middle East, Africa, Asean, Indonesia, Philippines, etc
- During the quarter, revenue contributed by Nabha power was impacted by lower PLF due to rail roko agitations in Punjab. While Singoli Bhatwari Hydro power is fully commissioned and L&T has approached state government for PPA. The company is looking to sell these assets at appropriate valuations once market normalises
- The company has identified infrastructure asset to monetise and de-risk its balance sheet including Nabha Power, Hyderabad Metro in medium to long term
- The company expects some developments soon on restructuring of the capital allocation in Hyderabad Metro project for which it is working with SBI to work out a re-financing package, seeking assistance from Telengana government and has allocated ~₹ 2000 crore capital in previous quarter. Hyderabad Metro reported net loss of ₹ 500 crore for Q3FY21 owing to impact of pandemic on ridership
- The current order book has ~50% cost plus contracts and remaining fixed price contracts. L&T has not seen any cost overrun due to commodity price increase for its fixed price contracts as it continuously factors in the increase in cost to completion of project. It considers current level of commodity prices unsustainable and likely to normalise in medium term

Financial Story in Charts

Exhibit 4: Trend in revenue growth



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

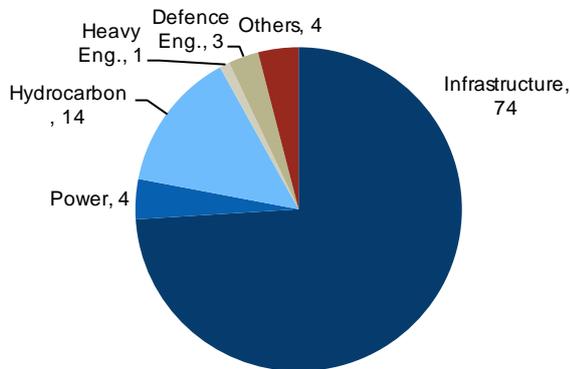
Source: ICICI Direct Research, Company

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

	Inflow Growth (%)		Revenue Growth (%)	
	Guidance	Achievement	Guidance	Achievement
FY 08	30	40	30-35	45
FY 09	30	28	30	47
FY 10	25-35	41	15-20	14
FY 11	25	14	20	19
FY 12	5	-12	25.00	21
FY 13	15-20	25	15-20	15
FY 14	15-20	15	15	10
FY 15	20	22	15	3
FY 16	0	-13	15	12
FY 17	15	10.9	15	10
FY 18	0	7	10	9.5
FY 19	10% -12%	16	12% -15%	18
FY 20	10% -12%	9	12% -15%	8
FY 21E	Not Provided		Not Provided	

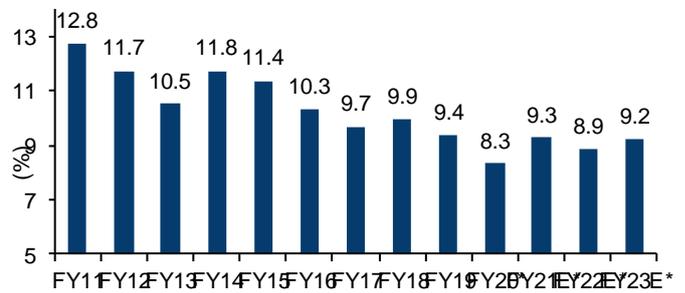
Source: ICICI Direct Research, Company

Exhibit 6: Break-up of consolidated backlog...



Source: Company, ICICI Direct Research

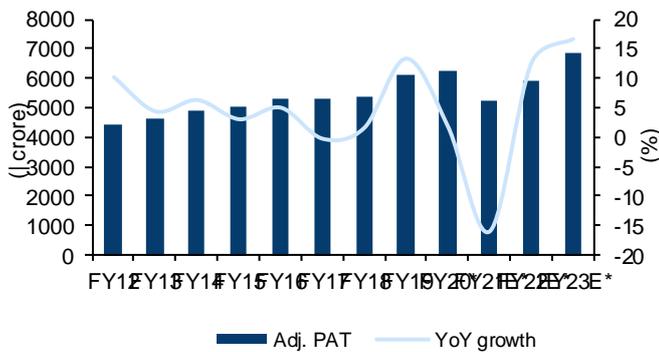
Exhibit 7: Trend in EBITDA margins...



*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.

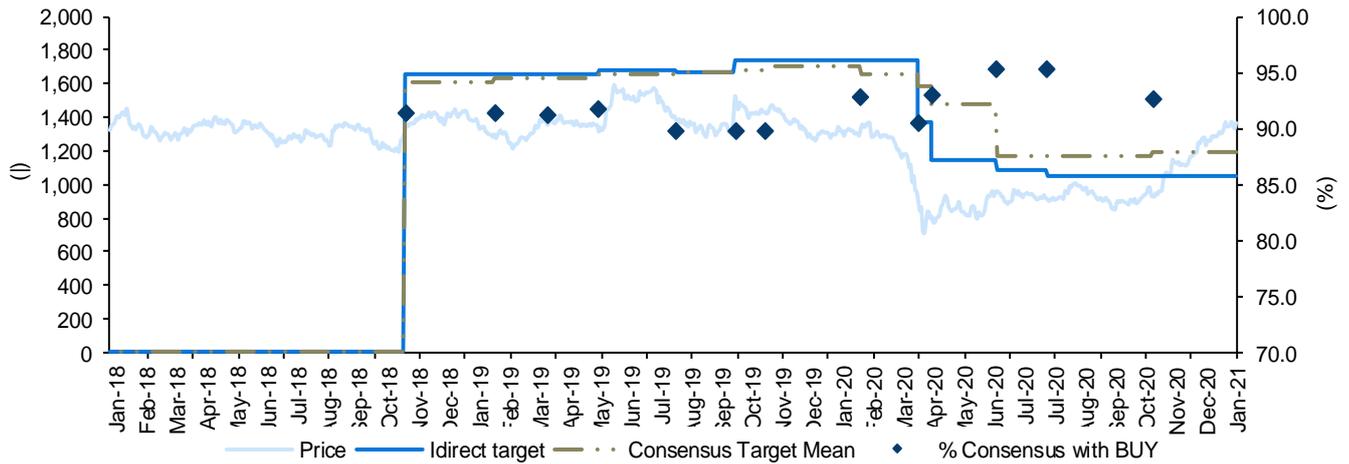
Source: Company, ICICI Direct Research

Exhibit 9: SoTP valuation of L&T

Company (Per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	1082	57.2	990.0	60.5	773.5	66.9
L&T Finance Holdings	76	4.0	76	4.6	40	3.5
L&T IT Subsidiaries	400	21.2	375	22.9	250.3	21.7
L&T Power Developn	13	0.7	8.6	0.5	7.7	0.7
L&T MHI JV	12	0.6	5.0	0.3	5.7	0.5
L&T IDPL	144	7.6	58.0	3.5	30.9	2.7
Other E&C, MIP & E&I	29	1.5	14.3	0.9	12.3	1.1
Hydrocarbon	30	1.6	16	1.0	3	0.3
Others (Mindtree)	104.1	5.5	93.4	5.7	31.5	2.7
Total	1890	100.0	1638	100.0	1155	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	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Life Insurance Corp	30-Sep-20	14.9	209.18m	0.00m
2	L&T Employees Trust	30-Sep-20	13.7	192.56m	0.00m
3	Hdfc Trustee Co Ltd/	30-Sep-20	3.7	52.04m	0.00m
4	Hdfc Asset Managemen	31-Dec-20	3.4	47.71m	(2.99)m
5	Sbi Funds Management	31-Dec-20	3.3	46.05m	(1.34)m
6	Republic Of Singapor	30-Sep-20	2.2	30.22m	0.00m
7	General Insurance Co	30-Sep-20	1.8	25.90m	0.00m
8	Icici Prudential Ass	31-Dec-20	1.8	24.53m	(0.55)m
9	Icici Prudential Nif	30-Sep-20	1.7	24.16m	0.00m
10	Icici Prudential Lif	30-Sep-20	1.6	22.15m	0.00m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	0.0	0.0	0.0	0.0	0.0
FII	18.8	16.9	18.8	17.9	21.1
DII	37.7	38.4	36.5	36.1	33.8
Others	43.5	44.7	44.7	46.0	45.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20*	FY21E*	FY22E*	FY23E*
Total operating Inc	82,389.2	71,181.5	84,672.7	91,981.3
Growth (%)	0.3	-13.6	19.0	8.6
Raw Material Expen:	7,031.9	7,936.6	9,004.9	9,780.5
Employee Expenses	5,926.9	5,704.9	6,078.7	6,396.9
Other Operating Exp	51,938.7	40,945.9	50,797.2	55,052.0
Sales, admin & Othe	2,696.8	2,564.7	3,110.8	3,360.2
Other Mfg. Expense:	7,938.5	7,425.4	8,173.0	8,902.8
Total Operating Expe	75,532.8	64,577.5	77,164.6	83,492.3
EBITDA	6,856.3	6,604.0	7,508.1	8,489.0
Growth (%)	-11.1	-3.7	13.7	13.1
Depreciation	985.2	1,010.1	1,138.0	1,293.2
Interest	2,194.2	2,516.2	2,113.3	1,952.9
Other Income	2,918.9	3,741.6	2,956.8	3,174.6
PBT	6,595.8	6,819.3	7,213.6	8,417.4
Others	0.0	0.0	0.0	0.0
Total Tax	1,000.3	1,653.7	1,324.6	1,545.0
Adj. PAT (Ex-E&A)	6,222.1	5,229.9	5,889.0	6,872.4
Growth (%)	8.0	-15.9	12.6	16.7
Adj. EPS (₹)	44.8	37.7	42.4	49.5

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

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	280.8	280.8	280.8	280.8
Reserve and Surplu	51,794.7	58,275.2	61,810.5	65,824.0
Total Shareholders f	52,075.4	58,556.0	62,091.2	66,104.8
Total Debt	25,785.3	25,935.3	24,935.3	23,635.3
Deferred Tax Liabilit	0.0	0.0	0.0	0.0
Minority Interest / Otl	0.0	0.0	0.0	0.0
Total Liabilities	78,775.9	85,506.5	88,056.7	90,785.2
Assets				
Gross Block	11,872.8	12,672.8	14,172.8	15,872.8
Less: Acc Depreciat	4,529.0	5,466.3	6,526.8	7,742.5
Net Block	7,343.8	7,206.5	7,646.0	8,130.3
Capital WIP	796.6	400.0	900.0	1,100.0
Total Fixed Assets	8,140.3	7,606.5	8,546.0	9,230.3
Investments	34,710.0	35,010.0	34,610.0	34,610.0
Inventory	2,769.9	3,392.7	3,427.5	3,527.8
Debtors	27,913.0	30,812.8	31,317.3	32,004.5
Loans and Advance	515.1	1,193.2	1,262.3	1,331.6
Other Current Asset	54,439.6	60,874.5	62,070.2	62,932.4
Cash	3,263.0	2,605.5	3,362.6	3,552.6
Total Current Assets	88,900.6	98,878.7	101,439.9	103,348.8
Creditors	36,629.4	38,028.5	38,972.6	39,060.6
Provisions	1,555.4	1,749.3	1,753.8	1,757.7
Total Current Liabiliti	62,780.7	67,144.4	68,397.0	68,704.4
Net Current Assets	26,119.9	31,734.3	33,042.9	34,644.4
Others Assets	0.0	0.0	0.0	0.0
Application of Fun	78,775.9	85,506.5	88,056.7	90,785.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,876.5	11,023.3	5,889.0	6,872.4
Add: Depreciation	985.2	1,010.1	1,138.0	1,293.2
(Inc)/dec in Current Assε	-6,905.3	-10,635.6	-1,804.1	-1,718.9
Inc/(dec) in CL and Provi	739.0	4,363.7	1,252.6	307.4
Others	-	-	-	-
CF from operating act	1,695.4	5,761.5	6,475.5	6,754.1
(Inc)/dec in Investments	-6,919.3	-300.0	400.0	0.0
(Inc)/dec in Fixed Assets	-291.8	-403.5	-2,000.0	-1,900.0
Others	0.0	0.0	0.0	0.0
CF from investing acti	-10,212.1	-2,026.3	-2,364.6	-2,405.2
Issue/(Buy back) of Equi	0.2	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend	-4,159.2	-4,714.8	-2,525.8	-3,030.9
Inc/(dec) in Sec. premiun	127.6	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing acti	9,046.1	-4,392.8	-3,353.8	-4,158.9
Net Cash flow	529.4	-657.5	757.1	190.0
Opening Cash	2,733.6	3,263.0	2,605.5	3,362.6
Closing Cash	3,263.0	2,605.5	3,362.6	3,552.6

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY20*	FY21E*	FY22E*	FY23E*
Per share data (₹)				
EPS	44.8	37.7	42.4	49.5
Cash EPS	56.7	86.7	50.7	58.9
BV	376.1	422.8	448.3	477.2
DPS	28.0	28.0	15.0	18.0
Cash Per Share	23.5	18.8	24.2	25.6
Operating Ratios (%)				
EBITDA Margin	8.3	9.3	8.9	9.2
PBT / Total Operating inc	9.6	17.8	8.5	9.2
PAT Margin	8.3	15.5	7.0	7.5
Inventory days	13.6	15.8	14.7	13.8
Debtor days	123.7	158.0	135.0	127.0
Creditor days	162.3	195.0	168.0	155.0
Return Ratios (%)				
RoE	13.2	18.8	9.5	10.4
RoCE	7.5	6.6	7.3	8.0
RoIC	7.9	6.7	8.2	8.2
Valuation Ratios (x)				
P/E	27.5	17.1	32.1	27.5
EV / EBITDA	30.8	32.1	28.0	24.6
EV / Net Sales	2.6	3.0	2.5	2.3
Market Cap / Sales	2.3	2.7	2.2	2.1
Price to Book Value	3.6	3.2	3.0	2.9
Solvency Ratios				
Debt/EBITDA	3.8	3.9	3.3	2.8
Debt / Equity	0.5	0.4	0.4	0.4
Current Ratio	1.4	1.5	1.5	1.5
Quick Ratio	1.4	1.4	1.4	1.5

*Adjusted for E&A business

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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