

## Decent operational performance amid pandemic.....

**About the stock:** Larsen & Toubro (L&T) is 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 by services (~30%).

**Q1FY22 Results:** L&T reported decent Q1FY22 results.

- Adjusted standalone revenue up 60.8% YoY to ₹ 13109 crore on low base
- Standalone EBITDA up 76.4% YoY to ₹ 1026 crore with margins improving 70 bps to 7.8% on a YoY basis
- Consequently, standalone PAT at ₹ 750.1 crore (up 166.3% YoY)
- Order inflows came in at ₹ 26557 crore, up 13% YoY

**What should investors do?** L&T's strong order book of ₹ 323721 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 ₹ 1870 on SoTP basis

**Key triggers for future price performance:**

- Low to mid teen revenue and order inflow growth in FY22E amid pandemic
- Net working capital to sale expected to remain stable at ~22.3% for FY22E
- Focus on asset monetisation to further strengthen the balance sheet and improve return ratios
- Strong b/s, controlled working capital, & 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 digitisation products & services across segments to drive margins, long term growth
- BUY with target price of ₹ 2390



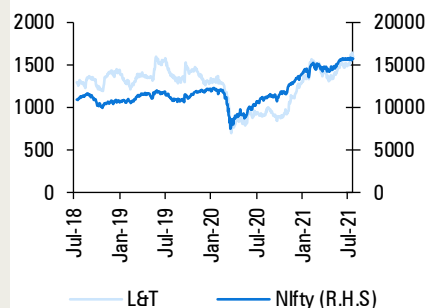
### Particulars

Particular	Amount
Market Capitalization	₹ 224435.0 crore
Total Debt (FY21)	₹ 23808.7 crore
Cash & Inv. (FY21)	₹ 3268.0 crore
EV	₹ 244975.7 crore
52 week H/L	₹1647/₹ 843
Equity capital	₹ 277.5 Crore
Face value	₹ 2

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	0.0	0.0	0.0	0.0
FII	17.9	21.1	22.0	22.9
DII	36.0	33.8	33.7	33.0
Others	46.1	45.1	44.3	44.1

### Price Chart



### Recent event & Key risks

- Key Risks:** (i) Any execution headwinds, order deferments (ii) Delay in Hyderabad Metro refinancing sale of non-core assets

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### Key Financial Summary (Standalone)

Particulars (₹ crore)	FY19*	FY20*	FY21*	5-Year CAGR (FY16-FY21)	FY22E	FY23E	2-Year CAGR (FY21-FY23E)
Net Sales	82,106.4	82,383.6	73,315.6	4.2%	83,330.3	92,085.7	12.1%
EBITDA	7,708.7	6,838.2	7,266.2	3.3%	8,015.2	9,113.6	12.0%
EBITDA Margin (%)	9.4	8.3	9.9		9.6	9.9	
Adj. Net Profit	6,107.7	5,414.6	5,505.2	5.3%	6,473.4	7,342.7	15.5%
Adj. EPS (₹)	44.0	39.0	39.7		46.7	52.9	
P/ E (x)	36.3	33.2	19.5		34.2	30.2	
RoNW (%)	12.2	12.9	18.8		10.2	11.0	
RoCE (%)	10.7	7.5	7.4		8.0	8.8	

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

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Decent performance, execution picks up...

- On a standalone basis, infrastructure segment revenue grew 61.9% to ₹ 9782 crore YoY. Heavy engineering segment revenue grew 48% to ₹ 629.8 crore YoY while defence engineering segment revenue grew 44.8% to ₹ 690 crore. On the other hand, power segment revenues more than doubled to ₹ 764.5 crore on a YoY basis
- From a segmental perspective, infrastructure segment EBITDA margins improved 80 bps to 7.1% owing to productivity, job mix and improved execution on low base. While hydrocarbon EBITDA margin improved 430 bps to 9.6% on a YoY basis owing to strong execution
- Consequently, for Q1FY22, standalone adjusted PAT (ex-E&A) came in at ₹ 750.1 crore, up 166.3% YoY (vs. our estimate of ₹ 604 crore). Other income came in at ₹ 670.5 crore, declining 4% YoY while interest expense declined 34.1% to ₹ 466.9 crore improving profitability. Consolidated adjusted PAT for Q1FY22 came in at ₹ 1174.4 crore (vs. ₹ 303.1 crore in Q1FY21)
- For Q1FY22, cash generation from operations came in negative at ₹ 790 crore (vs. ₹ 930 crore in Q1FY21). New working capital to sale ratio was at 22.9% for FY21 (vs. 22.3% in FY21). For FY21, overall debt declined by ₹ 2400 to ₹ 43700 crore on a QoQ basis

### Q1FY22 Earnings Conference Call highlights

- The company has maintained its guidance of low to mid teen growth in order inflows and revenue for FY22E while there could be near term challenges amid second wave of pandemic. Margins are expected to remain stable at current levels
- On the labour front, the company reached 235000 and gradually ramp-up to 250000 labourers leading to near normal requirement in Q2FY22E amid some productivity challenges
- Total 80% of the domestic backlog comes from the central government, state governments (~9%, 32%), respectively, and PSU (~43%) and private (16%) where the risk of cancellation or deferral are minimal
- On the ordering pipeline front, L&T expects order prospects to the tune of ₹ 8.96 lakh core for 9MFY22E. Out of this, ₹ 6.40 lakh crore is in infrastructure segment while ₹ 1.82 lakh crore is in Hydrocarbon segment
- During the quarter, in the IDPL segment, revenue was largely contributed by power development business. Strong electricity demand drives revenue growth in Nabha while Hyderabad Metro ridership (122000 per day in Q1FY22) is continuing to get impacted by Pandemic. Singoli Bhatwari Hydro power has been fully commissioned. The company is looking to monetise and de-risk its balance sheet including Nabha Power, Hyderabad Metro at appropriate valuations once market normalises
- The company expect some developments by end of FY22E on restructuring of capital allocation in Hyderabad Metro project for which it is working out a re-financing package, seeking assistance from Telangana government and has allocated ~₹ 2000 crore capital in FY21. Hyderabad Metro has been reporting net loss of ~₹ 472 crore in Q1FY22E owing to impact of pandemic on ridership. However, it has 18 msf of transit oriented developmental space which can be monetised over a period of time
- The current order book has ~60% cost plus contracts and remaining 40% are fixed price contracts. L&T expects to withstand higher commodity prices for its fixed price contracts with overall cost efficiencies and continuously factors in the increase in cost to completion of project

**Exhibit 1: Variance Analysis (Standalone)**

	Q1FY22	Q1FY22E	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Revenue	13,109.0	11,904.4	8,150.0	60.8	29,754.1	-55.9	Revenue growth, aided by better execution and job mix
Other Income	670.5	642.8	698.3	-4.0	674.4	-0.6	
Employee Expenses	1,543.3	1,595.2	1,359.8	13.5	1,327.2	16.3	
Raw Material Expenses	9,894.5	8,821.1	5,763.9	71.7	24,133.5	7.5	
Other Operating Expenses	645.3	583.3	444.7	45.1	703.5	-8.3	
EBITDA	1,026.0	904.7	581.6	76.4	3,589.9	-71.4	
EBITDA Margin (%)	7.8	7.6	7.1	69 bps	12.1	-424 bps	Margin improvement reflective of job mix and site productivity
Depreciation	260.3	244.6	234.8	10.9	301.0	-13.5	
Interest	466.9	518.9	708.5	-34.1	486.9	-4.1	
PBT (befor exp. Item)	969.3	784.0	336.7	187.9	3,476.4	-72.1	
PBT (after exp. Item)	969.3	784.0	336.7	-	3,476.4	-	
Total Tax	219.2	180.0	55.0	298.4	1,009.3	-78.3	
Adj. PAT (Ex-E&A)	750.1	604.0	281.7	166.3	2,467.1	-88.6	Adjusted PAT (excluding exceptional item and E&A) better than our estimates aided by improved margins and reduction in interest cost.

**Key Metrics**

Order inflows	14,075.2	16,000.0	12,541.4	12.2	35,962.2	-60.9	Muted order inflows impacted by pandemic
Order backlog	3,00,204.7	3,02,800.0	2,62,706.3	14.3	2,99,311.5	0.3	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**

	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	83,369.0	83,330.3	0.0	92,038.7	92,085.7	0.1	
EBITDA	7,893.8	8,015.2	1.5	9,076.1	9,113.6	0.4	
EBITDA Margin (%)	9.5	9.6	12 bps	9.9	9.9	0 bps	Margins expected to sustain at current levels.
PAT	6,227.8	6,473.4	3.9	7,295.3	7,342.7	0.6	
EPS (₹)	44.9	46.7	3.9	52.6	52.9	0.6	

Source: Company, ICICI Direct Research

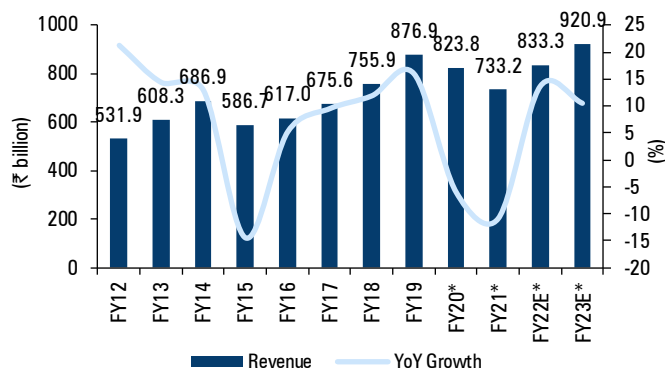
**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY20*	FY21*	FY22E	FY23E	FY22E	FY23E	
Order Inflow growth	-12.7	-11.8	11.7	10.7	12.8	10.4	
Order Backlog growth	1.9	15.9	14.9	14.4	15.3	14.7	
Revenue growth	0.3	-11.0	13.7	10.5	13.7	10.4	Revised in line with gradual execution normalisation amid pandemic
EBITDA Margins	8.3	9.9	9.6	9.9	9.5	9.9	

Source: Company, ICICI Direct Research

## Financial Story in Charts

Exhibit 4: Trend in revenue growth



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

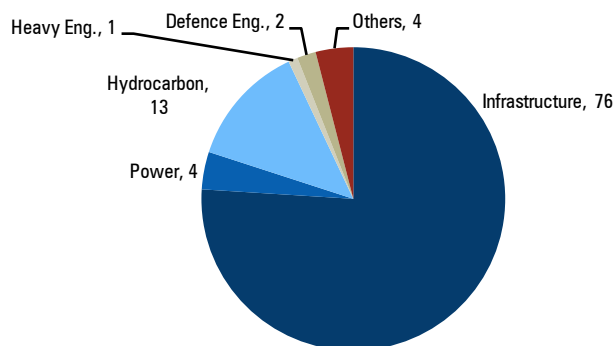
Source: ICICI Direct Research, Company

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

	Inflow Growth (%)		Revenue Growth (%)	
	Guidance	Achievement	Guidance	Achievement
FY08	30	40	30-35	45
FY09	30	28	30	47
FY10	25-35	41	15-20	14
FY11	25	14	20	19
FY12	5	-12	25.00	21
FY13	15-20	25	15-20	15
FY14	15-20	15	15	10
FY15	20	22	15	3
FY16	0	-13	15	12
FY17	15	10.9	15	10
FY18	0	7	10	9.5
FY19	10%-12%	16	12%-15%	18
FY20	10%-12%	9	12%-15%	8
FY21	Not Provided	-600%	Not Provided	-6
FY22E	Low to Mid teens		Low to Mid teens	

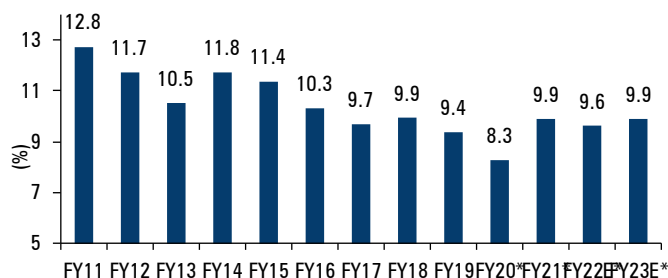
Source: ICICI Direct Research, Company

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: SoTP valuation of L&T

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	1219	55.3	1058.0	56.6	901.0	61.8
L&T Finance Holdings	84	3.8	78	4.2	40	2.7
L&T IT Subsidiaries	508	23.1	470	25.1	388.8	26.7
L&T Power Development	13	0.6	8.6	0.5	7.7	0.5
L&T MHI JV	12	0.5	5.0	0.3	5.7	0.4
L&T IDPL	144	6.5	63.2	3.4	30.9	2.1
Other E&C, MIP & E&E Sub	29	1.3	14.3	0.8	12.3	0.8
Hydrocarbon	30	1.4	18	1.0	3	0.2
Others (Mindtree)	162.7	7.4	153.7	8.2	68.9	4.7
<b>Total</b>	<b>2203</b>	<b>100.0</b>	<b>1870</b>	<b>100.0</b>	<b>1458</b>	<b>100.0</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20*	FY21*	FY22E*	FY23E*
<b>Total operating Income</b>	<b>82,383.6</b>	<b>73,315.6</b>	<b>83,330.3</b>	<b>92,085.7</b>
Growth (%)	0.3	-11.0	13.7	10.5
Raw Material Expenses	6,943.4	7,455.1	8,542.2	9,620.4
Employee Expenses	5,956.0	5,485.4	6,171.1	6,388.9
Other Operating Expenses	51,976.3	43,278.2	49,159.5	54,828.9
Sales, admin & Other Exp	2,707.4	2,273.9	3,186.2	3,350.0
Other Mfg. Expenses	7,962.3	7,556.8	8,256.0	8,783.9
Total Operating Expenditu	75,545.4	66,049.4	75,315.0	82,972.1
<b>EBITDA</b>	<b>6,838.2</b>	<b>7,266.2</b>	<b>8,015.2</b>	<b>9,113.6</b>
Growth (%)	-11.3	6.3	10.3	13.7
Depreciation	1,020.5	1,025.6	1,118.0	1,290.2
Interest	2,266.6	2,419.5	1,901.0	1,856.5
Other Income	2,807.8	3,435.5	3,120.0	3,244.1
PBT	6,359.0	7,256.5	8,116.3	9,211.1
Others	0.0	0.0	0.0	0.0
Total Tax	961.1	1,751.3	1,642.9	1,868.4
<b>Adj. PAT (Ex-E&amp;A)</b>	<b>5,414.6</b>	<b>5,505.2</b>	<b>6,473.4</b>	<b>7,342.7</b>
Growth (%)	-6.0	1.7	17.6	13.4
<b>Adj. EPS (₹)</b>	<b>39.0</b>	<b>39.7</b>	<b>46.7</b>	<b>52.9</b>

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

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	6,679.3	11,363.0	6,473.4	7,342.7
Add: Depreciation	1,020.5	1,025.6	1,118.0	1,290.2
(Inc)/dec in Current Assets	-6,905.3	4,223.5	-6,131.6	-4,390.3
Inc/(dec) in CL and Provisions	739.0	118.0	3,407.9	3,712.5
Others	-	-	-	-
<b>CF from operating activities</b>	<b>1,533.4</b>	<b>16,730.1</b>	<b>4,867.7</b>	<b>7,955.0</b>
(Inc)/dec in Investments	-6,919.3	-12,964.2	2,000.0	500.0
(Inc)/dec in Fixed Assets	-327.0	-1,028.9	-2,163.9	-1,900.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-10,247.3</b>	<b>-11,829.1</b>	<b>-511.5</b>	<b>-1,845.2</b>
Issue/(Buy back) of Equity	0.2	0.1	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-4,159.2	-3,650.9	-3,367.7	-4,378.0
Inc/(dec) in Sec. premium	127.6	68.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>8,970.2</b>	<b>-4,828.4</b>	<b>-4,195.7</b>	<b>-5,206.0</b>
Net Cash flow	256.3	72.6	160.5	903.7
Opening Cash	2,733.6	2,989.9	3,062.6	3,223.1
<b>Closing Cash</b>	<b>2,989.9</b>	<b>3,062.6</b>	<b>3,223.1</b>	<b>4,126.8</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	280.8	280.9	280.9	280.9
Reserve and Surplus	51,521.6	60,045.0	63,322.7	66,459.4
Total Shareholders funds	51,802.4	60,325.9	63,603.6	66,740.3
Total Debt	25,785.3	23,808.7	22,808.7	21,808.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>78,502.8</b>	<b>85,003.8</b>	<b>87,294.5</b>	<b>89,496.2</b>
<b>Assets</b>				
Gross Block	11,872.8	13,069.0	14,569.0	16,269.0
Less: Acc Depreciation	4,529.0	5,185.2	6,210.6	7,408.2
Net Block	7,343.8	7,883.8	8,358.4	8,860.8
Capital WIP	796.6	236.1	900.0	1,100.0
Total Fixed Assets	8,140.3	8,119.9	9,258.4	9,960.8
Investments	34,710.0	47,674.2	45,674.2	45,174.2
Inventory	2,769.9	2,858.6	2,986.0	3,321.3
Debtors	27,913.0	29,948.2	31,962.3	32,293.1
Loans and Advances	515.1	434.9	540.1	638.6
Other Current Assets	54,439.6	48,172.4	52,057.3	55,683.0
Cash	2,989.9	3,062.6	3,223.1	4,126.8
Total Current Assets	88,627.5	84,476.6	90,768.7	96,062.8
Creditors	36,629.4	37,469.8	39,268.0	40,366.3
Provisions	1,555.4	1,320.0	1,649.3	1,816.5
Total Current Liabilities	62,780.7	62,898.7	66,306.6	70,019.0
Net Current Assets	25,846.8	21,578.0	24,462.2	26,043.8
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>78,502.8</b>	<b>85,003.8</b>	<b>87,294.5</b>	<b>89,496.2</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20*	FY21*	FY22E*	FY23E*
<b>Per share data (₹)</b>				
EPS	39.0	39.7	46.7	52.9
Cash EPS	55.5	89.3	54.7	62.2
BV	374.1	435.5	459.1	481.7
DPS	28.0	26.0	20.0	26.0
Cash Per Share	21.6	22.1	23.2	29.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	8.3	9.9	9.6	9.9
PBT / Total Operating income	9.3	17.9	9.7	10.0
PAT Margin	8.1	15.5	7.8	8.0
Inventory days	13.6	14.0	12.8	12.5
Debtor days	123.7	149.1	140.0	128.0
Creditor days	162.3	186.5	172.0	160.0
<b>Return Ratios (%)</b>				
RoE	10.7	10.4	10.2	11.0
RoCE	7.5	7.4	8.0	8.8
RoIC	7.8	7.6	9.0	9.2
<b>Valuation Ratios (x)</b>				
P/E	33.2	19.5	34.2	30.2
EV / EBITDA	35.8	33.4	30.1	26.3
EV / Net Sales	3.0	3.3	2.9	2.6
Market Cap / Sales	2.7	3.0	2.7	2.4
Price to Book Value	4.3	3.7	3.5	3.3
<b>Solvency Ratios</b>				
Debt/EBITDA	3.8	3.3	2.8	2.4
Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	1.4	1.3	1.4	1.4
<b>Quick Ratio</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>

\*Adjusted for E&A business

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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