

Larsen & Toubro

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Lower losses in Hyderabad Metro a positive

- As per media reports (The Economic Times, 22-Dec-21), LT plans to raise Rs136bn through bonds and commercial paper for refinancing Hyderabad Metro (HM)-related debt. The average cost of debt for the metro is currently 9-9.5%. This will entail annual savings of ~Rs3bn, leading to lower losses at Hyderabad Metro.
- Further, HM's ridership has touched 250k per day recently – up from ~190k in Q2FY22. However, it still remains below pre-Covid levels of 400k.
- Apart from the refinancing of the HM loan, LT is looking at various other options such as the sale of developed real estate, stake sale in the metro, claims/grant from the Telangana government to minimize the losses.
- We reiterate Buy and raise the TP to Rs2,320 (Dec'22E) from Rs2,200, as we factor in the higher valuation of IT subsidiaries, in line with Emkay's valuation of LT Infotech and Mindtree. We also increase our FY23/FY24 EPS estimates by 3%/2%. While general awarding has been slow in the last few months, the pace of tenders has remained high, giving confidence in inflows for the fiscal year.

- Hyderabad Metro:** The metro currently makes a quarterly loss of Rs3.5-4bn, largely due to low ridership and high debt on books. At the end of FY21, it had external debt of ~Rs140bn, with an average rate of interest of 9-9.5%. As per media reports, LT plans to raise up to Rs136bn through bonds and commercial paper. In the process, funding costs are likely to come down by ~200-250bps. This should lead to an annual interest cost savings of ~Rs3bn. LT is looking at various other options, including: 1) stake sale of developed real estate (it has 1.3mn sqft developed real estate); 2) stake sale in the metro; and 3) support from the state government in the form of grants or claims. Earlier, the media also reported about a committee being formed in the state to take up the issue of pandemic impact on ridership. There has been news on some firms interested in buying a stake in the metro. In our view, in the medium term, LT will be able to meaningfully reduce the annual losses of the metro from ~Rs18bn.
- Awards lagging tenders, expect pick-up in coming months:** Overall, Engineering and Infra space saw 20% YoY growth in ordering in H1FY22, but inflows in the first two months of Q3FY22 have been subdued (down 20-30% YoY) as last year had significantly large orders for high-speed rail. Tendering has improved from 5% YoY growth in H1FY22, with YTD growth improving to 17%, aided by a few large tenders. Even after ignoring these large long-term tenders, YTD growth stands at 11%.
- Valuation and outlook:** We raise our TP to Rs2,320 to factor in the higher valuation of IT subsidiaries (valued at Rs1,070/share vs. Rs960/share earlier). Maintain Buy. We expect uptick in inflows in the coming month on back of strong tenders.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,454,520	1,359,790	1,537,975	1,785,130	2,005,248
EBITDA	163,293	156,251	192,178	233,001	265,083
EBITDA Margin (%)	11.2	11.5	12.5	13.1	13.2
APAT	88,952	69,021	93,688	119,124	136,855
EPS (Rs)	63.4	49.1	66.7	84.8	97.4
EPS (% chg)	3.3	(22.4)	35.7	27.2	14.9
ROE (%)	13.9	9.7	11.8	13.7	14.1
P/E (x)	29.5	38.0	28.0	22.0	19.2
EV/EBITDA (x)	23.0	22.2	18.6	15.8	14.3
P/BV (x)	3.9	3.5	3.2	2.9	2.6

Source: Company, Emkay Research

CMP	Target Price
Rs 1,866 as of (December 22, 2021)	Rs 2,320 (▲) 12 months
Rating	Upside
BUY (■)	24.5 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/3
Target Price change (%)	5.5
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	66.7	84.8
Consensus	71.4	90.1
Mean Consensus TP (12M)	Rs 2,203	

Stock Details

Bloomberg Code	LT IN
Face Value (Rs)	2
Shares outstanding (mn)	1,405
52 Week H/L	1,983 / 1,214
M Cap (Rs bn/USD bn)	2,621 / 34.70
Daily Avg Volume (nos.)	2,742,558
Daily Avg Turnover (US\$ mn)	66.4

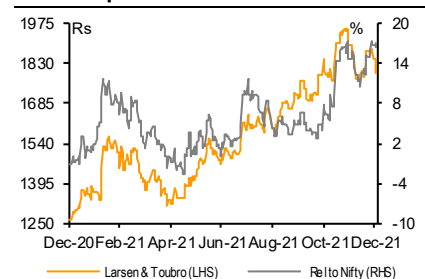
Shareholding Pattern Sep '21

Promoters	-%
FII's	22.5%
DII's	32.6%
Public and Others	44.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	9	24	48
Rel. to Nifty	3	13	16	17

Relative price chart



Source: Bloomberg

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Exhibit 1: Current debt profile of Hyderabad Metro

Rs mn	FY20	FY21	
Non-current borrowing	1,29,944	1,32,133	
Banks	1,17,246	1,22,164	SBI MCLR + 150-210bps
Debentures	9,968	9,969	9.5-9.81%
Related party	2,730		
Current borrowing	15,939	33,740	
Inter Corporate	10,728	23,650	7.50%
Current maturities of long term	5,211	10,090	
Total	1,45,883	1,65,873	
Weighted av. interest rate ex Inter corporate		9.2%	

Source: Company, Emkay Research

Exhibit 2: Hyderabad Metro - Financials

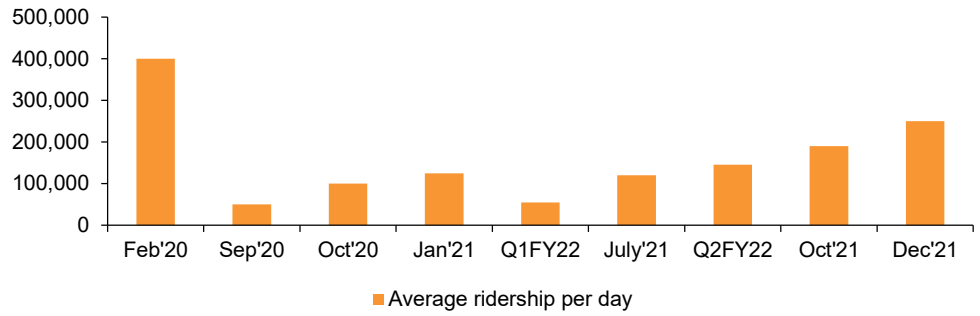
Rs mn	FY23E	FY24E	FY25E	FY26E
Ridership per day (mn)	0.30	0.41	0.51	0.61
Revenue	4,972	6,411	7,800	9,190
EBITDA	2,159	3,457	4,699	5,935
Depreciation	3,000	3,000	3,000	3,000
Interest	11,532	11,532	11,532	11,532
PBT	(12,373)	(11,074)	(9,833)	(8,597)
Tax	-	-	-	-
Loss	(12,373)	(11,074)	(9,833)	(8,597)
Cash Loss	(9,373)	(8,074)	(6,833)	(5,597)

Source: Emkay Research

Exhibit 3: Hyderabad Metro - Debt refinancing

Loans - Rs mn	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
External	1,42,223	1,42,223	-	-	-	-
LT Refinancing			1,42,223	1,42,223	1,42,223	1,42,223
Inter corporate	23,650	23,650	23,650	23,650	23,650	23,650
Rates (%)						
External		9.2	9.2	9.2	9.2	9.2
LT Refinancing		7	7	7	7	7
Inter corporate		7.5	7.5	7.5	7.5	7.5
Interest cost - External		13,085	-	-	-	-
Interest cost on refinancing		-	9,956	9,956	9,956	9,956
Interest cost – Inter corporate debt		1,576	1,576	1,576	1,576	1,576
Overall Interest cost		14,661	11,532	11,532	11,532	11,532
Loss		(18,129)	(12,373)	(11,074)	(9,833)	(8,597)
Cash loss		(15,129)	(9,373)	(8,074)	(6,833)	(5,597)
Equity raise by stake sale/ Real estate deal			20,000			
External		1,42,223	-	-	-	-
LT Refinancing		-	1,42,223	1,42,223	1,42,223	1,42,223
Inter corporate		23,650	3,650	3,650	3,650	3,650
Interest cost		14,661	10,032	10,032	10,032	10,032
Loss		(18,129)	(10,873)	(9,574)	(8,333)	(7,097)
Cash loss		(15,129)	(7,873)	(6,574)	(5,333)	(4,097)

Source: Company, Emkay Research

Exhibit 4: Average ridership per day has improved

Source: Company, Emkay Research

Exhibit 5: Earnings revision

Y/E, Mar (Rs. mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	15,22,153	15,37,975	1%	17,40,078	17,85,130	3%	19,36,243	20,05,248	4%
EBITDA	1,92,943	1,92,178	0%	2,27,386	2,33,001	2%	2,60,537	2,65,083	2%
EBITDAM (%)	12.7%	12.5%	-18 bps	13.1%	13.1%	-2 bps	13.3%	13.2%	-12 bps
APAT	93,798	93,688	0%	1,15,900	1,19,124	3%	1,34,102	1,36,855	2%
EPS (Rs)	66.8	66.7	0%	82.5	84.8	3%	95.5	97.4	2%

Source: Emkay Research

Exhibit 6: SOTP valuation of L&T (Dec'22E) - in Rs bn, unless otherwise stated

Components	Basis of Valuation	FY23E PAT or BV	Multiple (x)	Equity value	L&T stake (%)	Pro-rata value	Hold-co discount (%)	Contr. To SOTP	SOTP [a] (Rs/share)	SOTP mix (%)
E&C business									1,034	47
L&T Standalone (Ex Other Income)	P/E	50.4	22.0	1,110	100.0	1,110		1,110	790	
Hydrocarbon	P/E	14.8	18.0	266	100.0	266		266	189	
Others	P/E	5.1	15.0	77	100.0	77		77	55	
Standalone - Cash & Equivalent						139		139	99	4
Subsidiaries									1,070	48
L&T Infotech	TP (Emkay)			1,164	74.0	862	20	689	491	
Mindtree	TP (Emkay)			734	61.0	448	20	358	255	
LTTS	CMP			555	74.2	411	20	329	234	
LT Finance	TP (Emkay)			246	63.6	157	20	125	89	
LT - IDPL	Eq. Investment		1.0	10	51.0	5		5	4	0
LT - Power Assets	Eq. Investment		1.0	23	100.0	23		23	16	1
Grand total									2,223	100
One-year forward TP (Dec'22E)									2,320	

Source: Emkay Research; Note: Holdco discount calculated based on factors such as management control, size of free float, listed/unlisted, etc. [a] For non-IT assets, Mar'22 value has been mentioned, which is rolled-forward to Dec'22 at 0.75 X CoE

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,454,520	1,359,790	1,537,975	1,785,130	2,005,248
Expenditure	1,291,227	1,203,539	1,345,797	1,552,129	1,740,165
EBITDA	163,293	156,251	192,178	233,001	265,083
Depreciation	24,623	29,042	31,365	33,561	35,239
EBIT	138,670	127,209	160,813	199,440	229,844
Other Income	23,610	34,294	32,579	30,950	32,497
Interest expenses	27,967	39,134	36,312	32,014	33,615
PBT	134,313	122,368	157,080	198,376	228,727
Tax	32,630	40,108	43,982	55,545	64,044
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	14,170	13,528	19,810	24,106	28,229
Reported Net Income	88,952	69,021	93,688	119,124	136,855
Adjusted PAT	88,952	69,021	93,688	119,124	136,855

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	2,808	2,809	2,809	2,809	2,809
Reserves & surplus	664,424	755,876	821,473	912,506	1,021,270
Net worth	667,232	758,685	824,282	915,315	1,024,079
Minority Interest	95,208	120,515	126,741	131,038	135,160
Loan Funds	1,410,060	1,326,050	1,313,197	1,353,197	1,393,197
Net deferred tax liability	(23,070)	(14,573)	(14,573)	(14,573)	(14,573)
Total Liabilities	2,149,430	2,190,677	2,249,647	2,384,977	2,537,863
Net block	377,122	386,502	385,137	391,575	396,336
Investment	237,628	432,730	362,730	302,730	252,730
Current Assets	2,263,711	2,181,708	2,377,929	2,638,053	2,913,192
Cash & bank balance	151,170	162,410	120,655	112,830	86,064
Other Current Assets	586,600	547,910	591,743	639,082	690,209
Current liabilities & Provision	761,280	814,147	880,033	951,265	1,028,279
Net current assets	1,502,431	1,367,561	1,497,896	1,686,787	1,884,913
Misc. exp	0	0	0	0	0
Total Assets	2,149,430	2,190,677	2,249,647	2,384,977	2,537,863

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	110,703	88,075	124,501	167,426	196,230
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(151,423)	154,607	(172,090)	(196,716)	(224,891)
Operating Cashflow	66,930	249,010	(23,895)	(19,260)	(23,851)
Capital expenditure	(148,060)	(10,056)	(30,000)	(40,000)	(40,000)
Free Cash Flow	(81,130)	238,954	(53,895)	(59,260)	(63,851)
Investments	(41,061)	(195,103)	70,000	60,000	50,000
Other Investing Cash Flow	82,950	(3,445)	0	0	0
Investing Cashflow	(82,560)	(174,310)	72,579	50,950	42,497
Equity Capital Raised	0	1	0	0	0
Loans Taken / (Repaid)	291,279	(84,010)	(12,853)	40,000	40,000
Dividend paid (incl tax)	(45,513)	(50,564)	(28,091)	(28,091)	(28,091)
Other Financing Cash Flow	(143,975)	110,182	(13,184)	(19,410)	(23,706)
Financing Cashflow	73,824	(63,525)	(90,440)	(39,515)	(45,412)
Net chg in cash	58,194	11,175	(41,756)	(7,825)	(26,765)
Opening cash position	92,977	151,170	162,410	120,655	112,830
Closing cash position	151,170	162,345	120,654	112,829	86,065

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	11.2	11.5	12.5	13.1	13.2
EBIT Margin	9.5	9.4	10.5	11.2	11.5
Effective Tax Rate	24.3	32.8	28.0	28.0	28.0
Net Margin	7.0	6.0	7.4	8.0	8.2
ROCE	8.2	7.4	8.7	9.9	10.7
ROE	13.9	9.7	11.8	13.7	14.1
RoIC	8.6	7.7	9.6	10.7	11.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	63.4	49.1	66.7	84.8	97.4
CEPS	80.9	69.8	89.0	108.7	122.5
BVPS	475.2	540.2	586.9	651.7	729.1
DPS	28.0	36.0	20.0	20.0	20.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	29.5	38.0	28.0	22.0	19.2
P/CEPS	23.1	26.7	21.0	17.2	15.2
P/BV	3.9	3.5	3.2	2.9	2.6
EV / Sales	2.6	2.6	2.3	2.1	1.9
EV / EBITDA	23.0	22.2	18.6	15.8	14.3
Dividend Yield (%)	1.5	1.9	1.1	1.1	1.1

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	1.7	1.1	1.2	1.2	1.1
Net Debt/EBIDTA	6.9	5.5	5.0	4.6	4.4
Working Cap Cycle (days)	339.1	323.5	326.9	321.8	327.4

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	3.2	(6.5)	13.1	16.1	12.3
EBITDA	0.0	(4.3)	23.0	21.2	13.8
EBIT	(2.6)	(8.3)	26.4	24.0	15.2
PAT	3.3	(22.4)	35.7	27.2	14.9

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	310,347	355,964	480,879	293,347	347,729
EBITDA	33,347	42,804	63,881	31,715	39,948
EBITDA Margin (%)	10.7	12.0	13.3	10.8	11.5
PAT	(26,258)	22,578	34,169	11,744	18,194
EPS (Rs)	(18.7)	16.1	24.3	8.4	13.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	-	-	-	-	-
FIs	17.6	20.8	21.7	22.6	22.5
DIs	35.0	32.8	32.7	32.3	32.6
Public and Others	47.4	46.4	45.6	45.1	44.8

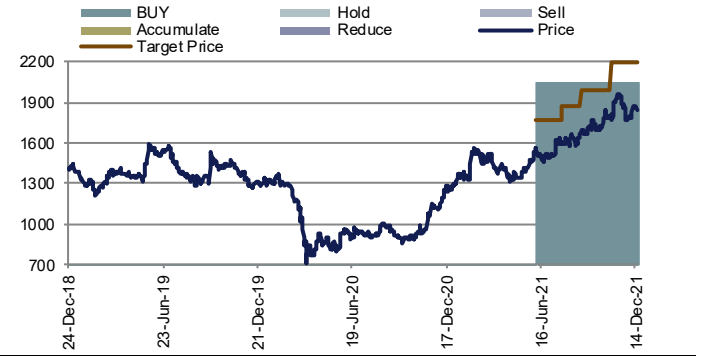
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Oct-21	1,814	2,200	12m	Buy	Abhineet Anand
1-Sep-21	1,686	2,000	12m	Buy	Abhineet Anand
27-Jul-21	1,608	1,870	12m	Buy	Abhineet Anand
7-Jun-21	1,558	1,770	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 23 Dec 2021 14:18:46 (SGT)

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