16 May 2022

Larsen & Toubro

Sturdy order backlog; inflation, the key monitorable; retaining a Buy

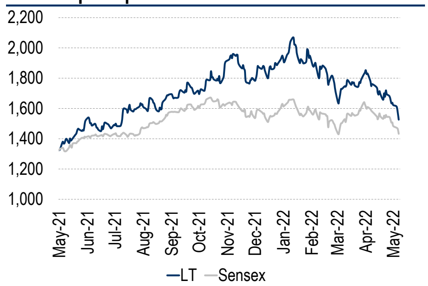
Rating: **Buy**
Target Price: Rs.1,972
Share Price: Rs.1,534

Key data	LT IN / LART.BO
52-week high / low	Rs.2079 / 1368
Sensex / Nifty	52930 / 15808
3-m average volume	$54m
Market cap	Rs.2156bn / $27847m
Shares outstanding	1405m

Shareholding pattern (%)	Mar-22	Dec-21	Sep-21
Promoters	-	-	-
- of which, Pledged	-	-	-
Free float	100.0	100.0	100.0
- Foreign institutions	22.4	25.7	25.3
- Domestic institutions	33.7	30.5	30.9
- Public	43.9	43.8	43.8

Estimates revision (%)	FY23e	FY24e
Sales	-1.4	-2.2
EBITDA	-2.8	-2.7
EPS	-4.3	-4.3

Relative price performance



Source: Bloomberg

L&T's Q4 reflects its robust order inflows (excl. services: 58% y/y) and strong infrastructure division's revenue growth (~13% y/y), though inflation curbed overall margins (the EBITDA margin contracted 95bps y/y). Order finalization domestically has been delayed with the tender-to-award ratio down to 51% in FY22 (70% in FY21). Despite this, domestic orders were up 28.6% y/y, on the low base, while international order inflow growth was a strong 77% y/y. The company has laid down a strategic plan for FY21-26, where initiatives, investments and focus would help to 11-13% CAGRs in domestic revenue and order inflows. FY23 order prospects are a strong Rs8.53trn. We expect a sustained double-digit growth momentum, focus on cash-flow generation and execution, and reduced exposure to non-core assets. In the near term, however, the inflationary situation would squeeze margins. We maintain a Buy, with a lower TP of Rs1,972 (a sum-of-parts valuation on FY24e).

E&C business boosted by infra, power, hydrocarbons. Infrastructure (up 14% y/y), power (up 22.5% y/y) and better execution drove E&C revenue up ~9% y/y. Heavy engineering/Defence engineering/hydrocarbons declined 11%/21%/3% y/y on supply-chain disruptions and lower billing.

FY23 guidance, Lakshya 2026. L&T has conservatively guided that the group revenue and order inflows to grow 12-15% in FY23, and its core business margin to come at 9.5%. It has laid out a strategic plan for FY21-26 (Lakshya 2026), where the initiatives, investments and focus would help 11-13% CAGRs in domestic revenue and order inflows. We reiterate our positive stance on the execution pace of its robust order backlog (~Rs3.6trn, 2.3x FY22 sales), sturdy balance sheet and plan to reduce exposure to non-core assets.

Valuations. To account for inflationary pressure and awarding delays, we have adjusted our estimates. Hence, we expect 13%/25% revenue/PAT CAGRs over FY22-24. Valuing the company on a sum-of-parts basis and at a 20x multiple for its core business, we arrive at a TP of Rs1,972 (earlier Rs2,242). We retain a Buy. **Risks**: Sluggish capex, volatile crude-oil prices.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs bn)	1,455	1,360	1,565	1,772	1,994
Adj. Net profit (Rs bn)	89	140	86	111	135
Adj. EPS (Rs)	63.4	99.5	61.2	79.1	95.9
P/E (x)	24.2	15.4	25.1	19.4	16.0
EV / EBITDA (x)	20.1	19.3	15.9	13.5	11.5
P/BV (x)	3.2	2.8	2.6	2.4	2.2
RoE (%)	13.8	19.6	10.9	12.9	14.2
RoCE (%)	7.8	7.2	7.8	9.2	10.4
Dividend yield (%)	1.2	2.3	1.4	1.5	1.9
Net debt / equity (x)	1.5	1.0	0.8	0.7	0.6

Source: Company, Anand Rathi Research

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Research Analyst

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Research Analyst

Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Order book	3,036	3,269	3,575	3,983	4,492
Net revenues	1,455	1,360	1,565	1,772	1,994
Growth (%)	*7.6*	*-6.5*	*15.1*	*13.2*	*12.5*
Material cost	760	660	775	902	1,016
Employee, other expenses	531	543	608	656	732
EBITDA	**163**	**156**	**182**	**213**	**246**
EBITDA margins (%)	*11.2*	*11.5*	*11.6*	*12.0*	*12.3*
- Depreciation	25	29	29	31	34
Other income	24	34	23	24	25
Interest expenses	28	39	31	28	27
PBT	134	122	144	178	210
Effective tax rate (%)	24.3	42.3	29.1	29.3	29.3
+ Associates / (Minorities)	-13	-13	-16	-15	-14
Net income	89	116	87	111	135
Adjusted income	89	140	86	111	135
WANS	1.40	1.40	1.41	1.41	1.41
FDEPS (Rs / sh)	63.4	99.5	61.2	79.1	95.9
EPS growth (%)	*9.1*	*57.0*	*-38.5*	*29.2*	*21.3*

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	3	3	3	3	3
Net worth	652	759	824	902	996
Debt	1,410	1,326	1,235	1,162	1,144
Minority interest	95	121	130	144	158
DTL / (Assets)	-24	-15	-18	-18	-18
Capital employed	**2,134**	**2,190**	**2,170**	**2,190**	**2,280**
Net tangible assets	101	114	106	98	87
Net intangible assets	256	250	248	249	251
Goodwill	80	81	75	75	75
CWIP (tang. & intang.)	32	4	12	12	13
Investments (strategic)	73	86	98	98	98
Investments (financial)	127	310	298	298	298
Current assets (ex cash)	2,222	2,079	2,147	2,356	2,571
Cash	136	162	190	153	190
Current liabilities	894	896	1,002	1,149	1,301
Working capital	1,327	1,183	1,145	1,207	1,269
Capital deployed	**2,134**	**2,190**	**2,170**	**2,190**	**2,280**
Contingent liabilities	513	378			

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	134	87	145	178	210
+ Non-cash items	29	34	38	35	35
Oper. prof. before WC	163	121	183	213	246
- Incr. / (decr.) in WC	116	-146	-41	62	62
Others incl. taxes	25	31	45	52	61
Operating cash-flow	22	235	179	99	122
- Capex (tang. + intang.)	-124	-7	-27	-25	-25
Free cash-flow	-102	228	152	74	97
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	28	51	31	33	40
+ Equity raised	0	0	0	-	-
+ Debt raised	155	-84	-91	-73	-18
- Fin investments	-53	196	-0	-	-
- Misc. (CFI + CFF)	44	-113	2	4	2
Net cash-flow	34	11	27	-36	37

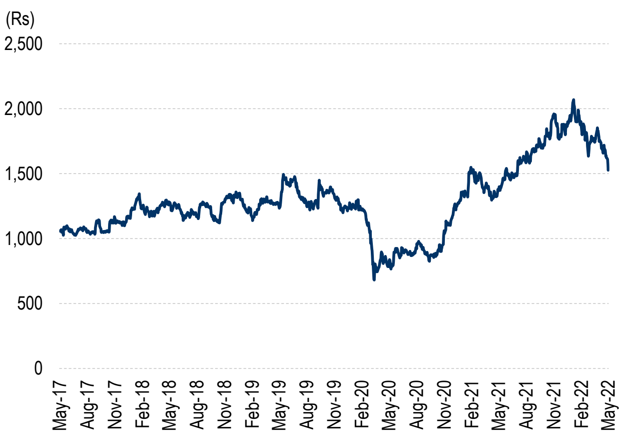
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	24.2	15.4	25.1	19.4	16.0
EV / EBITDA (x)	20.1	19.3	15.9	13.5	11.5
EV / Sales (x)	2.3	2.2	1.9	1.6	1.4
P/B (x)	3.2	2.8	2.6	2.4	2.2
RoE (%)	13.8	19.6	10.9	12.9	14.2
RoCE (%) - after tax	7.8	7.2	7.8	9.2	10.4
RoIC (%) - after tax	7.3	5.5	7.9	9.1	10.2
DPS (Rs / sh)	18.0	36.0	22.0	23.7	28.8
Dividend yield (%)	1.2	2.3	1.4	1.5	1.9
Dividend payout (%) - incl. DDT	31.0	43.6	35.7	30.0	30.0
Net debt / equity (x)	1.5	1.0	0.8	0.7	0.6
Receivables (days)	102	113	108	106	104
Inventory (days)	14	16	14	12	12
Payables (days)	123	140	136	138	137
CFO : PAT %	24.4	168.5	207.8	89.5	90.3

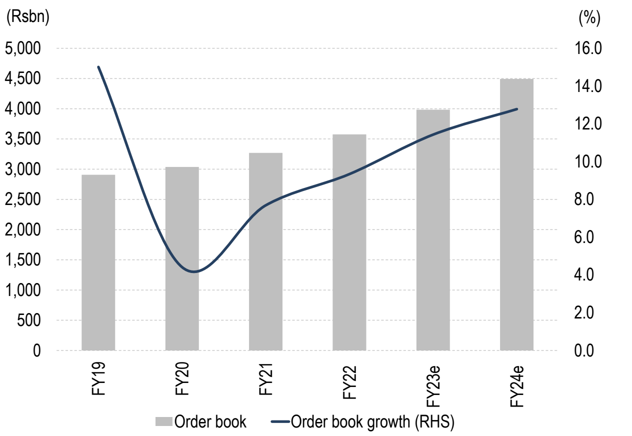
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Order book



Source: Company, Anand Rathi Research

Result Highlights

Fig 7 – Result trend

(Rs m)	Q4 FY22	Q4 FY21	Y/Y (%)	Q3 FY22	Q/Q (%)
Net revenue	528,507	480,879	*9.9*	395,629	*33.6*
EBITDA	65,205	63,889	*2.1*	45,304	*43.9*
EBITDA margins (%)	*12.3*	*13.3*	*-95bps*	*11.5*	*89bps*
Other income	5,156	10,283	*(49.9)*	5,714	*(9.8)*
Depreciation	7,694	8,168	*(5.8)*	7,325	*5.0*
Interest	7,051	8,531	*(17.3)*	8,138	*(13.4)*
Exceptional items	-	-		-	
Profit before tax	55,616	57,474	*(3.2)*	35,556	*56.4*
Tax	17,152	20,867	*(17.8)*	11,181	*53.4*
Minority Interest	(5,178)	(4,029)	*28.5*	(4,624)	*12.0*
Reported PAT	36,207	32,928	*10.0*	20,547	*76.2*
Adjusted PAT	36,207	34,173	*6.0*	20,547	*76.2*
Net margins (%)	*6.9*	*7.1*	*-26bps*	*5.2*	*166bps*
Adjusted EPS	24.9	23.2	*7.1*	14.5	*71.5*

Source: Company

Fig 8 – Order-book trend, by segment

(Rs m)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Y/Y (%)
Infrastructure	2,152,720	2,236,950	2,164,292	2,211,150	2,204,300	2,453,160	2,445,650	2,446,210	2,426,730	2,489,000	2,606,240	*6.6*
Power	151,600	163,870	158,490	154,430	146,950	137,100	128,440	129,070	116,780	104,460	89,010	*(30.7)*
Heavy engineering	30,320	37,880	41,210	41,180	33,770	36,450	43,720	43,730	43,590	49,370	47,140	*7.8*
Defence engineering	121,280	96,660	89,648	85,810	91,320	87,950	78,890	76,870	72,540	82,010	125,370	*58.9*
Hydrocarbons	515,440	464,410	441,300	420,940	377,800	458,870	441,790	408,250	503,800	536,760	563,980	*27.7*
Others	60,640	63,230	60,740	137,320	134,860	137,080	135,050	133,080	141,970	142,050	144,210	*6.8*
Total	**3,032,000**	**3,063,000**	**3,031,056**	**3,050,830**	**2,989,000**	**3,310,610**	**3,273,540**	**3,237,210**	**3,305,410**	**3,403,650**	**3,575,950**	**9.2**

Source: Company

Fig 9 – Order-inflow trend, by segment

(Rs m)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Y/Y (%)
Infrastructure	156,690	281,150	412,390	113,490	145,220	455,740	312,560	110,230	121,080	253,300	450,540	44.1
Power	43,150	8,160	2,180	472	-	-	7,920	9,110	1,430	990	2,070	(73.9)
Heavy engineering	6,800	4,970	9,933	4,760	3,230	9,980	17,780	5,670	6,480	12,880	7,200	(59.5)
Defence engineering	5,730	1,680	10,444	1,400	13,410	7,050	2,820	5,160	4,410	17,460	53,770	1,806.7
Hydrocarbons	148,510	-	25,112	12,200	-	128,200	35,910	10,020	145,030	80,050	74,020	106.1
Services	106,647	117,240	45,520	99,015	107,441	109,850	101,400	114,195	108,520	113,680	117,240	15.6
Others	15,463	2,590	83,680	4,715	11,089	21,511	28,130	11,185	34,450	25,230	34,570	22.9
Total	**482,990**	**415,790**	**589,259**	**235,750**	**280,390**	**732,330**	**506,510**	**265,570**	**421,400**	**503,590**	**739,410**	**46.0**

Source: Company

Fig 10 – Results, by segment

(Rs m)	Q4 FY22	Q4 FY21	Y/Y (%)	Q3 FY22	Q/Q (%)
Infrastructure	302,412	264,367	*14.4*	186,190	*62.4*
Power	14,946	12,202	*22.5*	10,710	*39.5*
Heavy engineering	9,661	10,819	*(10.7)*	7,552	*27.9*
Defence engineering	8,972	11,408	*(21.4)*	7,933	*13.1*
Hydrocarbons	52,831	54,217	*(2.6)*	48,968	*7.9*
IT & Technology services	88,226	68,454	*28.9*	85,066	*3.7*
Financial services	29,634	33,767	*(12.2)*	29,706	*(0.2)*
Development projects	10,958	11,138	*(1.6)*	9,756	*12.3*
Others	19,124	19,065	*0.3*	15,131	*26.4*
Total sales	**528,507**	**480,879**	***9.9***	**395,629**	***33.6***
EBIT					
Infrastructure	25,392	27,955	*(9.2)*	11,147	*127.8*
Power	693	949	*(27.0)*	371	*86.7*
Heavy engineering	2,027	2,806	*(27.8)*	951	*113.2*
Defence engineering	1,777	3,028	*(41.3)*	1,582	*12.3*
Hydrocarbons	4,684	6,325	*(25.9)*	4,033	*16.1*
IT & Technology services	17,904	13,660	*31.1*	17,005	*5.3*
Financial services	4,803	7,308	*(34.3)*	4,340	*10.7*
Development projects	-564	-652	*(13.5)*	-480	*17.5*
Others	3,238	2,333	*38.8*	1,735	*86.7*
Total EBIT	**59,953**	**63,714**	***(5.9)***	**40,684**	***47.4***
EBIT margins %			**y/y bps**		**q/q bps**
Infrastructure	8.4	10.6	*(218)*	6.0	*241*
Power	4.6	7.8	*(314)*	3.5	*117*
Heavy engineering	21.0	25.9	*(495)*	12.6	*839*
Defence engineering	19.8	26.5	*(674)*	19.9	*(14)*
Hydrocarbon	8.9	11.7	*(280)*	8.2	*63*
IT & Technology services	20.3	20.0	*34*	20.0	*30*
Financial services	16.2	21.6	*(543)*	14.6	*160*
Development projects	-5.1	-5.9	*70*	-4.9	*(23)*
Others	16.9	12.2	*469*	11.5	*547*

Source: Company

Fig 11 – Profitability, by segment

	Q4 FY22		Q4 FY21		
(Rs m)	EBIDTA	EBIDTA margins (%)	EBIDTA	EBIDTA margins (%)	Y/Y (bps)
Infrastructure	27,349	9.2	30,176	11.5	*(230)*
Power	770	5.2	1,034	8.5	*(330)*
Heavy engineering	2,146	24.7	2,927	29.3	*(460)*
Defence engineering	2,083	23.3	3,328	29.3	*(600)*
Hydrocarbons	5,080	9.7	6,765	12.5	*(280)*
IT & Technology services	21,114	24.1	16,569	24.5	*(40)*
Financial services	5,096	17.2	7,531	22.3	*(510)*
Development projects	263	2.4	947	8.5	*(610)*
Others	3,522	19.3	2,580	14.1	*520*
Total	**67,423**		**71,857**		

Source: Company

Concall Highlights

Misses margin target due to several headwinds

L&T's Q4 FY22 consolidated revenue rose 10% y/y to Rs528.5bn while its core-business revenue was 9% higher y/y to Rs400bn, boosted by better execution in its infrastructure business (up 13.3% y/y) and higher business in IT&TS (up 30% y/y). Higher commodity prices, an unfavourable project mix and the current level of execution led to a 93bp contraction in the gross margin to 34.2%. Hiring for its services business pushed up employee costs. Lower credit costs and forex gains kept other expenses (as % of sales) lower.

The Q4 core business EBITDA margin was 10.2% (12.7% a year ago). In FY22, the EBITDA margin was down 86bps to 9.2% due to an unfavourable project mix, cost headwinds and delayed claim settlements of clients. Reduced borrowing cost in its financial services led to lower finance costs for the quarter. The current labour count is 263,000. On a TTM basis, the RoE fell to 19.9% in FY22 (from 22.3% the year prior) owing to gain on sale of its E&A business in FY21.

Record order-book position

Award finalisation was delayed in FY22; the tender-to-award ratio slid to 51% in FY22 (from 70% the year prior). Some order finalisation was delayed by the substantial commodity price rises. Despite this, the company saw strong, 46% y/y, growth in order inflows in Q4 to Rs739.4bn. Order inflows (excl. services) were 58% higher y/y to Rs622.2bn. So strong an order inflow enabled the company to take the order book to a record Rs3.58trn as at end-Mar'22. Of this, 73% is domestic, the rest, international. Growth in the international order book stemmed from high-value orders.

Client-wise, the order book split is Central government 11%, state governments 29%, PSUs 45% and private 16%. ~30% of the orders are funded by multilateral and bilateral agencies. The company's exposure to orders funded by state governments is negligible as most state orders are multilateral-agency funded. Currently, 2-3% are slow-moving orders; the company has removed non-moving orders of Rs70bn.

Order prospects. Of the order pipeline of Rs8.53trn, domestic is Rs6.31trn, international Rs2.22trn. This is lower than last year's Rs9.06trn order prospects, as the company will be selective in FY23 in terms of opportunities. During the year, private capex improved on account of de-levering the balance sheet. There has been significant private investments planned for coming years. AtmaNirbhar Bharat supported by PLI schemes has amplified opportunities from the private sector.

80-85% of the contracts are covered by price-escalation clauses. In cases where there were no price escalation clauses, the company is taking steps like re-negotiating with customers, re-designing and cost savings, thereby making every effort to reduce the hit to profitability.

FY23 guidance

Management conservatively targets group revenue and order-inflow growth of 12-15% in FY23. It envisages a 9.5% margin for its core business. The NWC is expected to be maintained at 20% of sales.

FY26 strategy (Lakshya 2026)

L&T has formulated a strategic plan for FY21-26. Here, it will focus on a) value-accretive growth of the current businesses, b) reducing/exiting non-core businesses, c) developing offerings catering to the energy sector, d) scaling up digital and e-commerce businesses and e) business sustainability efforts. It will selectively bid for projects and pursue increasing opportunities related to global ESG trends (green EPC).

Fresh initiatives such as electrolyzers and battery manufacturing through JVs is also on the cards. The focus will be on faster execution and automation, and better resource management will be pursued. The impetus would be toward new-age businesses like IT&TS and scaling-up of data centres and e-commerce platforms (Edu-tech and Sufin), as also business sustainability through focus on ESG and shareholder-value creation. Under its Lakshaya-2026 plan it expects 11-13% CAGRs in domestic revenue and order inflow over FY22-26

Fig 12 - Group financial target

(Rs trn)	FY21	FY22	FY26	CAGR % FY21-26
Order inflow	1.7	1.9	3.4	14
Revenue	1.4	1.6	2.7	15
RoE (%)	*10 **	*11*	*18+*	

*Source: Company, * excl. exceptionals*

Business-wise Performance

Infrastructure: Strong momentum

A healthy pace of execution drove revenue from its infrastructure division in Q4 FY22 14.4% higher y/y to Rs302bn. Commodity headwinds, an unfavourable job-mix and non-receipt of claims from clients squeezed the EBITDA margin 230bps y/y to 9.2%. Order inflows in Q4 FY22 were Rs451bn, up 44% y/y, boosted by mega orders from GCC countries, metro-rail and public spaces. The end-Mar'22 order book was Rs2.6trn, 6.6% higher y/y. Order prospects for FY23 are Rs5.72trn, of which the domestic pipeline is Rs4.57trn and international, Rs1.15trn. Sector-wise break-up is power T&D 23%, water 21%, transportation infrastructure 19%, heavy civil 17%, building & factories 16% and minerals & metals 4%.

Developmental projects: Looking to become asset light

Revenue declined a small 1.6% y/y in Q4 to ~Rs11bn, impacted by planned maintenance in Nabha during the quarter, leading to a lower PLF. This was partially offset by more ridership at its Hyderabad metro-rail. Average ridership rose 55,000 in Q1 FY22, increasing to 146,000 in Q2, 218,000 in Q3 and 199,000 in Q4 FY22. Average FY22 ridership was 155,000 compared to 67,000 in FY21. Current ridership has touched 300,000 a day. The business margin in Q4 FY22 reflects the improved ridership.

For its Hyderabad metro-rail, the company has already refinanced debt and is in search of a partner to reduce its stake. Refinancing of the term loan enabled interest-cost savings of Rs900m each quarter. The company is also seeking a soft loan of Rs30bn spread over three years (Rs10bn each year) starting FY23; repayment will start from the 16th year. It is also looking to InvIT this asset (once profitability stabilises), for which in-principal approval has been received.

It is already in the process of selling the Nabha Power asset, for which it is in talks with various others. For IDPL, there are 11 concessional projects and one InvIT; to sell this the company has already signed a term sheet. Overall, L&T is looking to become asset-light by moving out of concessional assets in future, and BOO (Build-Own-Operate) will not be a priority. Hydrogen projects will also not be BOO. They will be built for IOC with IOC money and L&T would be paid based on hydrogen produced.

Hydrocarbons: Strong ordering expected

Revenue declined a marginal 3% y/y to Rs52.8bn in Q4, impacted by the supply-chain disruption. The EBITDA margin declined 280bps y/y to 9.7%, hurt by commodity cost rises and a better margin in Q4 FY21 due to cost savings, post job completion. Order inflows doubled to Rs74bn, led by receipt of many domestic and international orders (high value in GCC, onshore and offshore). The end-Mar'22 order book, hence, was 27.7% higher y/y to ~Rs564bn.

Power: Subdued ordering

Better execution pushed up revenue 22.5% y/y to Rs14.9bn. The EBITDA margin was 5.2% lower than Q4 FY21's 8.5% when the business benefited from the release of cost provisions in a few projects. Order inflow was substantially down, 73.9% y/y, to Rs2.1bn, impacted by the subdued ordering environment in thermal power. The order book was Rs89bn, down 31% y/y due to lower order inflow and better execution in Q4 FY22.

Heavy engineering: Awarding deferments hit order inflow

Revenue declined 10.7% y/y to Rs9.7bn, due to lower billing as some orders are at early stages of execution. The EBITDA margin was 24.7% lower than the 29.3% a year ago. It was much lower as the margin a year ago was supported by benefits of price variation and an early-completion bonus. Q4 FY22 order inflow was down 59.5% y/y to Rs7.2bn. The business saw deferrals in awarding. The order book is now Rs47.1bn, a 7.8% increase y/y.

Defence engineering: Atma Nirbhar, exports augur well

Significant orders are expected in this category in the medium to longer run led by the government's AtmaNirbhar impetus and Defence exports. Revenue declined 21.4% y/y to Rs9bn due to orders at early stages of execution. The EBITDA margin contracted from 29.3% a year ago to 23.3% in Q4 FY22, as the business then benefited from the ramp up in large orders nearing completion and cost savings. Order inflow was s robust Rs53.8bn led by a shipbuilding order. The order book was ~Rs125bn at end-Mar'22.

Capex done and envisaged

The company invested Rs1.5bn in the Sufin, and Rs1.25bn in the Edutech, platforms. Both are picking up pace. 80,000 students have already been enrolled in Edutech. The company plans to build two data centres in India, one in Chennai (TN), the other in Panvel (Maharashtra). Investment in data centres would require Rs300m-320m per MW.

L&T will invest Rs10bn to build electrolyzer manufacturing (500MW by FY26) in two phases, Phase 1 being alkaline and Phase 2, PEM. It also looks to build a battery-storage facility at Rs30bn capex. In green hydrogen, the company is not focused on renewable energy assets. At present, it is more interested in electrolyzers and battery technology once it turns affordable.

Furthermore, management intends to establish advanced chemistry-cell manufacturing with a technology partner by FY27, at initial capacity of 5GW of cell manufacturing and 3GW of battery-module capacity. This project is expected to cost Rs31bn.

NWC/sales improvement, however could ease in near term

NWC/sales improved 22.3% to 19.9% at end-Mar'22 on more collections, improved vendor management and better execution. The company collected receivables of Rs1.35trn in Q4 FY22 (a seasonally strong quarter for collections). Uncertainties related to commodity headwinds and higher execution could lead to higher NWC in coming quarters.

Valuation

A strong FY23 order book (~Rs3.6trn) and pipeline (Rs8.53trn) offer robust revenue and order-inflow assurance. International and domestic prospects would support order-book growth in the next two years. Inflationary pressure and awarding, though, will be key near-term monitorables.

Considering this, we have adjusted our revenue and margin estimates. We expect ~13%/25% revenue/PAT CAGRs over FY22-24, and 12%/12.3% EBITDA margins in FY23/FY24. We continue to be upbeat about L&T and maintain our Buy rating. Valuing it on a sum-of-parts basis and at a 20x multiple for its core business, we arrive at a TP of Rs1,972 (earlier Rs2,242). The lower target stems from the fall in the value of its non-core businesses.

Fig 13 – Change in estimates

	Old		Revised		Change %	
(Rs bn)	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	1,797	2,039	1,772	1,994	*-1.4*	*-2.2*
EBITDA	219	252	213	246	*-2.8*	*-2.7*
EPS (Rs)	82.6	100.2	79.1	95.9	*-4.3*	*-4.3*

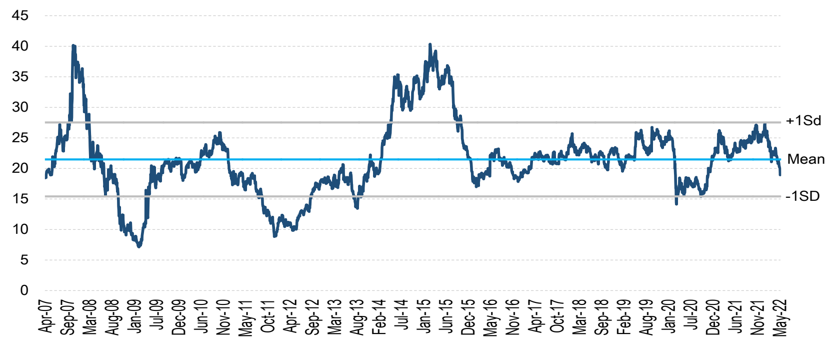
Source: Company, Anand Rathi Research

Fig 14 – Buy. Sum-of-parts-based TP of Rs1,972

	Fair Value (Rs)	Basis
L&T core business	1,075	20x FY23e EPS
L&T Finance Holdings	64	Market cap
L&T Infotech	287	Market cap
L&T Technology Services	148	Market cap
MindTree	157	Market cap
L&T Hydrocarbons	183	13x FY22e EPS
L&T IDPL	36	1x BV
L&T's equity investment in BTG	5	1x equity investment
Other business	17	1x BV
Total subsidiaries	**897**	
Grand total	**1,972**	

Source : Anand Rathi Research

Fig 15 – One-year-forward PER



Source: Company, Anand Rathi Research

Key risks

- Delays in order finalisation could curb order-inflow growth.
- Deceleration in international markets due to volatile crude-oil prices and a weak global economy.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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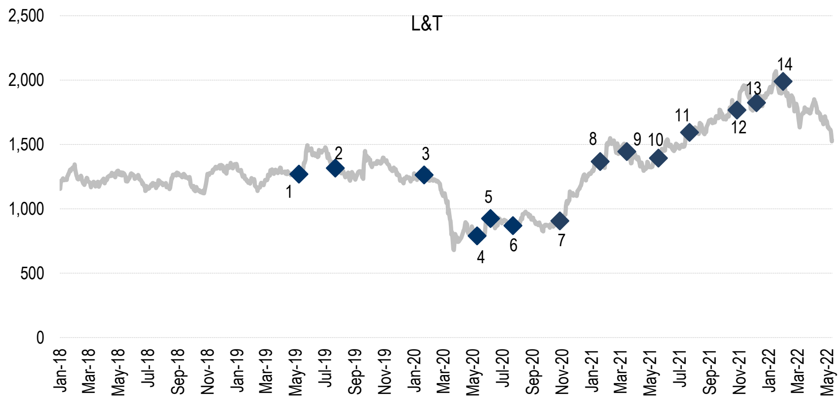
Rating and Target Price History (as of 13 May 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	10-Jun-19	Buy	1,820	1,514
2	24-Jul-19	Buy	1,720	1,410
3	23-Jan-20	Buy	1,761	1,294
4	11-May-20	Buy	1,233	828
5	8-Jun-20	Buy	1,238	955
6	24-Jul-20	Buy	1,240	917
7	29-Oct-20	Buy	1,311	935
8	26-Jan-21	Buy	1,616	1,361
9	22-Mar-21	Buy	1,763	1,411
10	16-May-21	Buy	1,812	1,416
11	27-Jul-21	Buy	1,932	1,598
12	28-Oct-21	Buy	2,242	1,783
13	14-Dec-21	Buy	2,281	1,861
14	30-Jan-22	Buy	2,298	1,899

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Large Caps (>US$1bn)	>15%	5-15%	<5%
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