

Larsen & Toubro

Refer to important disclosures at the end of this report

Strong inflows

- LT reported a PAT of Rs17bn for Q1FY23, slightly below Street estimates on the back of lower EBITDA margins in the Infrastructure segment (6.5% vs. 7.1% in Q1FY22), largely due to higher commodity prices. Revenue was up 22% to Rs359bn, driven by 36%/30% growth in Infrastructure/IT segments.
- Order inflow (ex-services) stood at Rs280bn - up 85% YoY, though it was still marginally below the Q1FY20 level. Order prospects currently stand at Rs7.6tn and LT is hopeful of achieving its guidance of 12-15% growth as it has been selective in bidding. The order book at the end of the quarter stood at Rs3.6tn, with Infrastructure/Energy/Hi-Tech manufacturing segments contributing 73%/18%/5%.
- We maintain Buy with a Mar'24E TP of Rs1,960. LT's core business currently trades at ~18x FY24E EPS. In a bid to improve profitability, LT is looking to exit its non-core assets such as IDPL and Nabha Power and also to cut stake in the Hyderabad metro.

- A decent quarter:** LT reported 22% YoY sales growth for the quarter on the back of strong growth in Infrastructure (36%) and IT (30%) segments. Energy and Hi-Tech Engineering segments grew marginally by 3% each. The overall EBITDAM stood at 11% vs. 10.8% a year ago, while Infrastructure margin was lower at 6.5% vs. 7.1%, largely due to higher commodity prices. EBITDAM for Projects and Manufacturing stood at 8.2% vs. 8.8% a year earlier. FY22 EBITDAM for this segment stood at 9.2%. PAT, at Rs17bn, was up 45%, driven by higher revenue and lower taxes.
- Orders and prospects:** The key positive in the quarter was order inflow (ex-services), which stood at Rs280bn (up 85% YoY) on better inflows in Infrastructure, Hydrocarbon and Defense segments. Order prospects for the rest of the year stood at Rs7.6tn. While this is lower than last year, LT has been selective in bidding and hence there is an expectation of a higher conversion ratio. In Q1FY23, tenders grew by 90% YoY and awards/tenders ratio improved to 70% from ~40% in Q1FY22.
- Hyderabad metro and other non-core assets:** LT is exploring an exit from Nabha Power and IDPL. LT's subsidiary has signed a supplementary agreement for government assistance of Rs30bn (interest free) for the Hyderabad metro projects over the next two years. Q1FY23 ridership stood at 285,000 per day vs. 55,000 per day in Q1FY22.
- Guidance maintained:** The company has maintained its order inflow growth/revenue growth guidance of 12-15% YoY. EBITDAM for Projects and Manufacturing has also been maintained at 9.5% for FY23.
- Valuation and outlook:** We maintain Buy with a Mar'24E TP of Rs1,960. The core segment trades at ~18x FY24E EPS. The key risk is a delay in ordering.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Eng. & Cap. Goods, Infra, Power \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13,59,790	15,65,212	17,94,956	20,11,958	21,47,874
EBITDA	1,56,251	1,82,173	2,21,503	2,50,049	2,71,120
EBITDA Margin (%)	11.5	11.6	12.3	12.4	12.6
APAT	69,014	85,744	1,09,477	1,26,426	1,37,535
EPS (Rs)	49.1	61.0	77.9	90.0	97.9
EPS (% chg)	(22.4)	24.2	27.7	15.5	8.8
ROE (%)	9.7	10.8	12.7	13.3	13.1
P/E (x)	35.6	28.7	22.5	19.5	17.9
EV/EBITDA (x)	21.2	17.6	14.3	13.0	12.2
P/BV (x)	3.2	3.0	2.7	2.5	2.2

Source: Company, Emkay Research

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CMP	Target Price
Rs 1,751 as of (July 26, 2022)	Rs 1,960 (■) 12 months
Rating	Upside
BUY (■)	11.9 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	0.2/0.2
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	77.9	90.0
Consensus	82.6	99.1
Mean Consensus TP (12M)	Rs 1,990	

Stock Details

Bloomberg Code	LT IN
Face Value (Rs)	2
Shares outstanding (mn)	1,405
52 Week H/L	2,079 / 1,456
M Cap (Rs bn/USD bn)	2,461 / 30.84
Daily Avg Volume (nos.)	22,43,659
Daily Avg Turnover (US\$ mn)	45.3

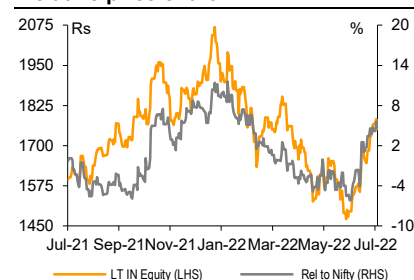
Shareholding Pattern Jun '22

Promoters	-%
FIIs	20.8%
DIIIs	34.2%
Public and Others	45.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	3	(9)	10
Rel. to Nifty	12	7	(5)	5

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Quarterly Result Tables

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)
Revenues	293,347	347,729	395,629	528,507	358,532	22.2	-32.2
Material cost	119,454	158,735	194,499	301,945	151,938	27.2	-49.7
<i>as % of sales</i>	40.7	45.6	49.2	57.1	42.4	166 bps	-1475 bps
Employee Cost	68,795	72,521	76,315	79,683	85,560	24.4	7.37
<i>as % of sales</i>	23.5	20.9	19.3	15.1	23.9	41 bps	879 bps
Other expenditure	73,383	76,525	79,511	81,673	81,467	11.0	-0.3
<i>as % of sales</i>	25.0	22.0	20.1	15.5	22.7	-229 bps	727 bps
Total expenditure	261,632	307,781	350,325	463,302	318,965	21.9	(31)
EBITDA	31,715	39,948	45,304	65,205	39,567	24.8	(39)
Depreciation	7,174	7,287	7,325	7,694	9,634	34.3	25
EBIT	24,541	32,661	37,980	57,512	29,933	22.0	(48)
Other Income	6,480	5,321	5,714	5,156	6,947	7.2	35
Interest	8,275	7,793	8,138	7,051	7,561	(8.6)	7
PBT	22,746	30,189	35,556	55,617	29,319	28.9	(47)
Taxes	7,184	8,845	10,587	15,550	6,389	(11.1)	(59)
PAT	15,562	21,344	24,969	40,067	22,930	47.3	(43)
Share in JV/ Associates	(245)	6	203	1,318	(647)	163.8	(149)
Minority interest	(3,572)	(4,125)	(4,624)	(5,178)	(5,263)	47.3	2
Adjusted PAT	11,744	17,225	20,547	36,207	17,021	44.9	(53)
Extra ord / Exceptional item	-	969	-	-	-		
Reported PAT	11,744	18,194	20,547	36,207	17,021	44.9	(53)
Adjusted EPS	8.4	12.3	14.6	25.8	12.1	44.9	(53)
Margins (%)							
Gross Margins	59.3	54.4	50.8	42.9	57.6	(166)	1,475
EBIDTAM	10.8	11.5	11.5	12.3	11.0	22	(130)
EBITM	8.4	9.4	9.6	10.9	8.3	(2)	(253)
PBTM	7.8	8.7	9.0	10.5	8.2	42	(235)
PATM	5.3	6.1	6.3	7.6	6.4	109	(119)
Effective Tax rate	31.6	29.3	29.8	28.0	21.8	(979)	(617)

Source: Company, Emkay Research

Exhibit 2: SOTP

Rsbn, unless otherwise stated										
Components (Rsbn, unless otherwise stated)	Basis of Valuation	FY24E PAT or BV	Multiple (x)	Equity value	L&T stake (%)	Pro-rata value	Hold-co discount (%)	Contr. To SOTP	Mar'23E SOTP (Rs/share)	SOTP mix (%)
E&C business									1,123	57
L&T Standalone (Ex Other Income)	P/E	64.1	20.0	1,282	100.0	1,282		1,282	913	
Hydrocarbon	P/E	14.5	15.0	218	100.0	218		218	155	
Others	P/E	5.1	15.0	77	100.0	77		77	55	
Standalone - Cash & Equivalent						94		94	67	3
Subsidiaries									754	38
L&T Infotech	TP (Emkay)			823	74.0	609	20	487	347	
Mindtree	TP (Emkay)			561	61.0	342	20	274	195	
LTTS	CMP			326	74.2	241	20	193	138	
LT Finance	TP (Emkay)			205	63.6	130	20	104	74	
LT - IDPL	Eq. Investment		1.0	10	51.0	5		5	4	0
LT - Power Assets	Eq. Investment		1.0	20	100.0	20		20	14	1
Grand total									1,960	100
									1,960	

Source: Emkay Research; Note: Holdco discount calculated based on factors such as management control, size of free float, listed/unlisted, etc.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13,59,790	15,65,212	17,94,956	20,11,958	21,47,874
Expenditure	12,03,539	13,83,039	15,73,454	17,61,909	18,76,754
EBITDA	1,56,251	1,82,173	2,21,503	2,50,049	2,71,120
Depreciation	29,042	29,480	30,659	32,192	33,801
EBIT	1,27,209	1,52,694	1,90,844	2,17,857	2,37,319
Other Income	34,287	22,691	21,556	22,634	23,766
Interest expenses	39,134	31,257	27,545	28,922	30,368
PBT	1,22,361	1,44,127	1,84,856	2,11,569	2,30,717
Tax	40,108	42,166	53,608	59,239	64,601
Extraordinary Items	0	969	0	0	0
Minority Int./Income from Assoc.	13,528	18,781	22,170	26,304	28,982
Reported Net Income	69,014	86,713	1,09,477	1,26,426	1,37,535
Adjusted PAT	69,014	85,744	1,09,477	1,26,426	1,37,535

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	2,809	2,810	2,810	2,810	2,810
Reserves & surplus	7,55,876	8,21,267	8,99,833	9,92,538	10,94,946
Net worth	7,58,685	8,24,077	9,02,643	9,95,348	10,97,756
Minority Interest	1,20,515	1,29,661	1,34,132	1,38,265	1,40,943
Loan Funds	13,26,050	12,34,682	12,39,736	12,79,736	13,19,736
Net deferred tax liability	(3,473)	(4,910)	(4,910)	(4,910)	(4,910)
Total Liabilities	22,01,777	21,83,510	24,71,601	26,08,440	27,53,526
Net block	4,07,846	3,88,531	3,23,102	3,30,911	3,27,109
Investment	4,32,730	4,35,664	3,75,664	3,25,664	2,75,664
Current Assets	22,41,287	23,36,190	28,29,630	30,95,059	33,87,348
Cash & bank balance	1,62,415	1,89,529	3,02,680	2,97,224	3,43,757
Other Current Assets	5,47,910	6,01,329	6,49,435	7,01,390	7,57,501
Current liabilities & Provision	8,83,970	9,88,577	10,68,498	11,54,896	12,48,298
Net current assets	13,57,317	13,47,613	17,61,132	19,40,162	21,39,050
Misc. exp	0	0	0	0	0
Total Assets	22,01,777	21,83,510	24,71,601	26,08,440	27,53,526

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	88,075	1,21,437	1,63,299	1,88,935	2,06,951
Other Non-Cash items	0	0	0	0	0
Chg in working cap	1,75,955	35,382	(1,00,368)	(1,84,487)	(1,52,354)
Operating Cashflow	2,75,756	1,72,034	67,527	6,323	54,166
Capital expenditure	(31,400)	(17,984)	34,770	(40,000)	(30,000)
Free Cash Flow	2,44,356	1,54,050	1,02,297	(33,677)	24,166
Investments	(1,95,103)	(2,934)	60,000	50,000	50,000
Other Investing Cash Flow	(3,445)	0	0	0	0
Investing Cashflow	(1,95,661)	1,774	1,16,326	32,634	43,766
Equity Capital Raised	1	1	0	0	0
Loans Taken / (Repaid)	(84,010)	(91,368)	5,054	40,000	40,000
Dividend paid (incl tax)	(36,509)	(25,284)	(30,911)	(33,721)	(35,126)
Other Financing Cash Flow	90,802	1,214	(17,299)	(21,770)	(25,904)
Financing Cashflow	(68,851)	(1,46,694)	1,29,299	(44,413)	(51,398)
Net chg in cash	11,245	27,113	3,13,152	(5,457)	46,533
Opening cash position	1,51,170	1,62,415	1,89,529	3,02,680	2,97,224
Closing cash position	1,62,415	1,89,529	3,02,680	2,97,224	3,43,757

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	11.5	11.6	12.3	12.4	12.6
EBIT Margin	9.4	9.8	10.6	10.8	11.0
Effective Tax Rate	32.8	29.3	29.0	28.0	28.0
Net Margin	6.0	6.5	7.3	7.6	7.7
ROCE	7.4	8.0	9.1	9.5	9.7
ROE	9.7	10.8	12.7	13.3	13.1
RoIC	5.1	6.9	8.7	9.3	9.2

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	49.1	61.0	77.9	90.0	97.9
CEPS	69.8	82.0	99.7	112.9	121.9
BVPS	540.2	586.5	642.4	708.4	781.3
DPS	26.0	18.0	22.0	24.0	25.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	35.6	28.7	22.5	19.5	17.9
P/CEPS	25.1	21.4	17.6	15.5	14.4
P/BV	3.2	3.0	2.7	2.5	2.2
EV / Sales	2.4	2.0	1.8	1.6	1.5
EV / EBITDA	21.2	17.6	14.3	13.0	12.2
Dividend Yield (%)	1.5	1.0	1.3	1.4	1.4

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	1.1	0.9	0.8	0.8	0.8
Net Debt/EBIDTA	5.5	4.1	3.2	3.2	3.1
Working Cap Cycle (days)	320.7	270.1	255.9	261.8	271.1

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(6.5)	15.1	14.7	12.1	6.8
EBITDA	(4.3)	16.6	21.6	12.9	8.4
EBIT	(8.3)	20.0	25.0	14.2	8.9
PAT	(22.4)	25.6	26.3	15.5	8.8

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	2,93,347	3,47,729	3,95,629	5,28,507	3,58,532
EBITDA	31,715	39,948	45,304	65,205	39,567
EBITDA Margin (%)	10.8	11.5	11.5	12.3	11.0
PAT	11,744	18,194	20,547	36,207	17,021
EPS (Rs)	8.4	13.0	14.6	25.8	12.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	-	-	-	-	-
FIs	22.6	22.5	22.9	22.1	20.8
DIs	32.3	32.6	32.3	33.1	34.2
Public and Others	45.1	44.8	44.8	44.8	45.0

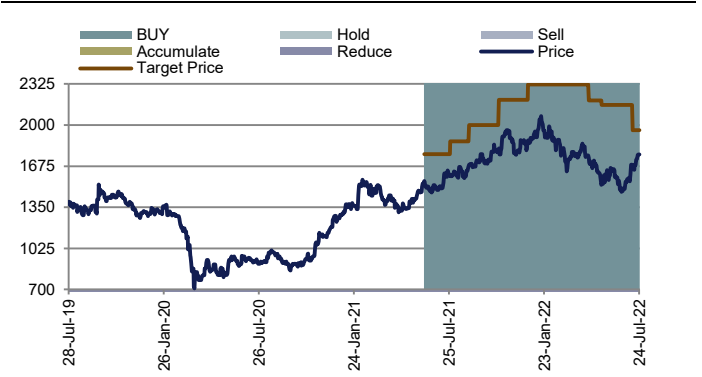
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Jul-22	1,663	1,960	12m	Buy	Abhineet Anand
13-May-22	1,535	2,160	12m	Buy	Abhineet Anand
18-Apr-22	1,738	2,195	12m	Buy	Abhineet Anand
30-Jan-22	1,898	2,320	12m	Buy	Abhineet Anand
23-Dec-21	1,878	2,320	12m	Buy	Abhineet Anand
28-Oct-21	1,814	2,200	12m	Buy	Abhineet Anand
01-Sep-21	1,686	2,000	12m	Buy	Abhineet Anand
27-Jul-21	1,608	1,870	12m	Buy	Abhineet Anand
07-Jun-21	1,558	1,770	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Eng. & Capital Goods, Infra, Power



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Sector

Engineering, Infra and Power

Analyst bio

Abhineet has experience of over 19 years in Engineering, Infrastructure and Power sectors as Analyst, Consultant and Engineer. Abhineet has completed his B.E. in Mechanical Engineering and PGDM in Finance from IIM Kozhikode.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Engineering & Capital Goods, Infra, Power	3.73	3.73	0%	0	100.00	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.00	NA	0	0.00	0
Kalpataru Power	0.00	0.00	NA	0	0.00	0
KEC International	0.00	0.00	NA	0	0.00	0
Larsen & Toubro	2.19	1.49	-32%	-70	40.00	0
CESC	0.00	0.37	NA	37	10.00	0
NHPC	0.09	0.37	310%	28	10.00	0
NTPC	0.73	0.75	3%	2	20.00	0
Power Grid Corporation	0.72	0.75	3%	2	20.00	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Jul-21	24-Jan-22	25-Apr-22	24-Jun-22	25-Jul-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	121.5	139.2	124.6	112.8	108.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	116.6	136.3	121.9	112.9	109.3

*Performance measurement base date 1st April 2019

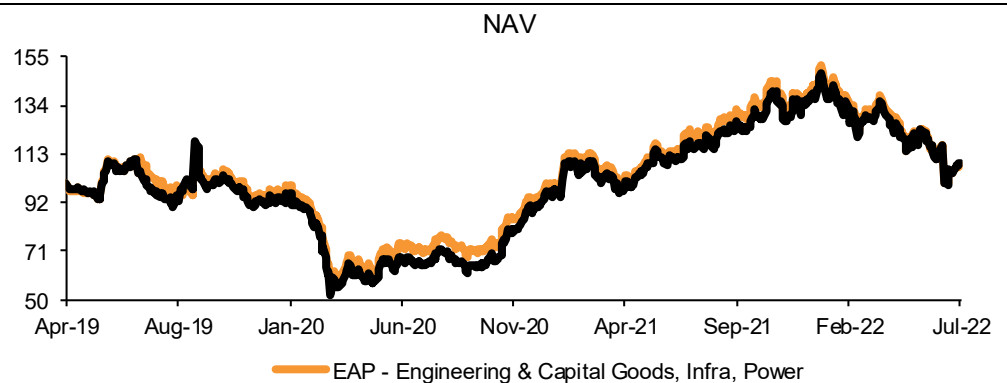
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	-4.2%	-13.2%	-22.4%	-11.0%
BSE200 Neutral Weighted Portfolio (ETF)	-3.1%	-10.3%	-19.8%	-6.2%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

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

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