

LARSEN & TOUBRO LIMITED | Engineering & Construction

Descent quarter, outlook stays strong

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L&T reported a descent quarter largely in-line with estimates. Order inflow remained strong during Q3 and is on track to achieve revenue and order inflow guidance of 12-15% while Company's consolidated Revenues/Ebitda/PAT growing at 17%/12%/18% YoY while core sales grew 17% YoY on better execution. Margins witnessed pressure (contracted 60 bps) on account of adverse job mix, cost pressure and closure related cost. Given margin pressure witnessed in core business, management expects some moderation in its margin guidance for FY23 and now expects margin to decline 30-50 bps YoY as against its earlier guidance of 30 bps YoY improvement in FY23. Strong order inflow at ₹607bn, +21% y-o-y) while order book stood at ₹3,866bn (+14% y-o-y / +4% q-o-q) with a 3.2x TTM core sales. Management has indicated a strong prospect pipeline of ₹4.9 tn for 4QFY23 across both domestic (₹3.8 tn) and international (₹1.05 tn) led by multi-year high private capex providing strong revenue visibility ahead. Award to tender ratio has also improved from 48% in 9MFY22 to 52% in 9MFY23. NWC/ Sales ratio improved to 19% in 9MFY23 vs 22.9% in 9MFY22. It expects to maintain working capital around 19-20% of net sales for the full year.

We expect performance parameters for Hyderabad Metro to look up ahead as Hyderabad Metro ridership too has been improving continuously reducing the loss for L&T Metro. The company received ₹1 bn from the state government as interest-free soft loan and expects to receive ₹9 bn in coming quarters. Along with this, it is targeting ToD monetization of ₹10-15 bn every year. Thus, timely receipt of state government support and ToD monetization would reduce overall burden of loss funding from L&T. Loss funding till 9MFY23 stood at ₹3 bn. Further company's constant focus to divest its non-core assets should boost its RoE. L&T's 'Lakshya 2026 Plan' is focusing on scaling up new business opportunities which are now in the incubation phase and are expected to bring significant benefits in future. Given record OB with strong order pipeline, revival in private capex and improving health of Hyderabad Metro provides healthy outlook ahead. We have tweaked our estimates given better performance in 9MFY23 and roll forward estimates to FY25 earnings. We maintain BUY with a revised PT of ₹2,442.

Q3FY23 Result Summary

L&T revenues increased by 17.3% YoY to ₹464 bn led by improved execution in infrastructure segment and continued growth momentum in the IT&TS portfolio. Infrastructure/Energy Projects/Hi-Tech Manufacturing/IT &TS/Financial Services/Development Projects grew by 19%/6%/20%/25%/13%/13% YoY.

Key Financials	FY21	FY22	FY23E	FY24E	FY25E
Total Sales (₹ bn)	1,360	1,565	1,843	2,111	2,314
EBITDA Margins (%)	11.5	11.6	11.5	12.2	12.4
PAT Margins (%)	5.1	5.5	5.9	6.7	7.6
EPS (₹)	49	62	77	101	125
P/E(x)	43.3	34.4	27.5	21.1	17.1
P/BV (x)	4	4	3	3	3
EV/EBITDA (x)	26	21	18	15	13
RoE (%)	10	11	12	14	16
RoCE (%)	7	8	9	11	11
Dividend Yield (%)	0.8	1.0	0.9	0.9	0.9

Rating	BUY
Current Market Price (₹)	2,124
12 M Price Target (₹)	2,442
Potential upside (%)	15

Stock Data

FV (₹) :	2
Total Market Cap (₹ bn) :	2,981
Free Float Market Cap (₹ bn) :	2,568
52-Week High / Low (₹)	2,298 / 1,456
2-Year High / Low (₹) :	2,298 / 1,306
1 Year Avg. Dly Traded Volume (in lakh)	22
BSE Code / NSE Symbol	500510 / LT
Bloomberg :	LT IN

Shareholding Pattern

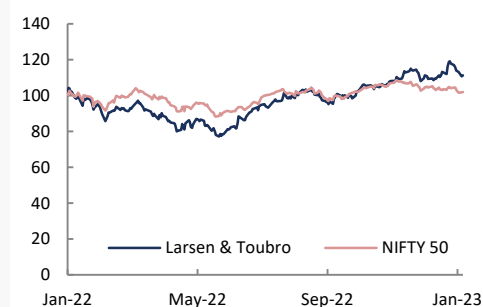
(%)	Dec-22	Sep-22	Jun-22	Mar-22
FPIs	23.24	22.06	21.09	22.42
MFs	17.66	17.94	18.25	17.67
Insurance	19.65	20.04	15.65	15.15
Employees Trust	13.88	13.88	13.89	13.88
Others	25.57	26.08	31.12	30.88

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
L&T	1.9%	5.0%	17.5%	11.3%
Nifty 50	-2.4%	-1.9%	2.9%	1.9%

* To date / current date : January 31, 2023

L&T vs Nifty 50

In terms of segmental EBITDA margin, Infrastructure reported margins of 7% (versus 7.1% in 3QFY22), Energy Projects at 8.7% (versus 8.3% in 3QFY22), Hi-Tech Manufacturing at 17.5% (versus 20% in 3QFY22), Other segment at 19.6% (versus 4.7% in 3QFY22), IT&TS at 19.2% (versus 23.6% in 3QFY22) and Financial Services (NIM+Fees%) at 8.8% (versus 8% in 3QFY22). Core E&C sales grew 17% YoY to ₹319.5 bn. EBITDA for Core E&C business grew by 17.4% YoY to ₹27.3 bn. Core E&C EBITDA margin expanded by 20 bps YoY and 40 bps QoQ to 8.6%. EBITDA grew by 12% YoY at ₹50.7 bn. EBITDA margins contracted by 60 bps YoY to 11% during 3Q. Adjusted PAT stood at ₹25.5 bn, up 24.2% YoY.

Strong Ordering, Prospect pipeline of 4.9tn for 4QFY23

Order book as on 3QFY23 stands at ₹3.87 trn, up 13.6% YoY. Core E&C order inflow grew by 16% YoY to ₹468.4 bn during 3QFY23. 75% of the order book is domestic and rest is international. 81% of the international order book is from the Middle East with 10% from Africa and rest from other countries. Private orders stood at 32% versus 18% last year indicating increase in private sector capex activity. Domestic order book comprises of CG – 9%, SG – 31%, PSU – 40%, and Pvt – 20%. 27% of order book is funded by multilateral and bi-lateral funding agencies. 3-4% of order book is slow moving and have deleted ₹19 bn worth of non-moving orders from order book during 3QFY23. Management has indicated a strong prospect pipeline of ₹4.9 tn for 4QFY23 across both domestic (₹3.8 tn) and international (₹1.05 tn) led by multi-year high private capex providing strong revenue visibility ahead. Award to tender ratio has also improved from 48% in 9MFY22 to 52% in 9MFY23. Management has indicated a prospect pipeline of ₹4.9 tn for 4QFY23 across both domestic (₹3.8 tn) and international (₹1.05 tn). Infrastructure segment prospects stand at ₹3.89 tn, spread across heavy civil (32%), transportation (29%), water (14%), building and factories (13%), power (9%) and metals and mining (3%). Hydrocarbon project prospect pipeline stands at ₹0.6 tn, power ₹0.2 tn, heavy engineering and defense at around ₹0.17 tn.

Challenges moderating for Hyderabad Metro

Better ridership sequentially at 394k/day (vs. 355k/day passengers in Q2FY23 and 218k/day in Q1FY23). During January, average ridership crossed 471,000 pax per day. Improving ridership levels reduced the loss for L&T Metro to ₹3.3 bn in 3QFY23 versus ₹4.8 bn in 3QFY22. The company received ₹1 bn from the state government as interest-free soft loan and expects to receive ₹9 bn in coming quarters. Along with this, it is targeting ToD monetization of ₹10-15 bn every year. Thus, timely receipt of state government support and ToD monetization would reduce overall burden of loss funding from L&T.

Balance sheet remains strong

Working capital cycle for 9MFY23 stood at 19% vs. 22.9% in 9MFY22 (L&T has also been able to marginally improve its gross debt position from ₹430 bn (ex. financial services) to ₹397 bn in 9MFY23 by improving ridership on the Hyderabad Metro. It expects to maintain working capital around 19-20% of net sales for the full year L&T expects improved operational performance going forward and intends to scale down the Hyderabad Metro debt from ₹130 bn to ₹70 bn by way of selling ToD rights and also by way of receiving soft loans from state government.

SoTP Valuation

Business Segment	Method	Valuation multiple	Value (₹ bn)	Value (INR/sh)	Rationale
L&T Standalone	FY25E PER (x)	22	2,255	1,603	On Core Engg Business
International Ventures (L&T FZE)	FY25E PER (x)	15	89	63	Discount to L&T standalone
Mindtree	Market cap		347	247	As per current market cap
L&T infotech	Market cap		548	389	As per current market cap
L&T technologies	Market cap		273	194	As per current market cap
L&T Finance	Market cap		144	102	As per current market cap
Infrastructure Development Projects	P/BV	1	34	24	
Other subsidiaries	FY24E PER (x)	15	17	12	
Less: Holding Company Discount (20%)			-274	-194	Holding company discount of 20% on investments
Total				2,442	

Source: Company, LKP Research

Outlook & Valuation

Given record OB with strong order pipeline and revival in private capex along with improving health of Hyderabad Metro provides healthy outlook ahead. We believe execution for Core E&C business should pick-up meaningfully given the strong inflow and improving working capital cycle. We have tweaked our estimates given better performance in 9MFY23 and roll forward estimates to FY25 earnings. We maintain BUY with a revised PT of ₹2,442. We believe, risk-reward is favorable for L&T given reasonable valuation. Further, L&T's 'Lakshya 2026 Plan' is focusing on scaling up new business opportunities which are now in the incubation phase and are expected to bring significant benefits in future.

Key Risks: Slowdown in the domestic macro-economic environment or weakness in international capital investment can negatively affect business outlook and earnings growth.

Key Highlights from Earnings Call

Guidance. The company has maintained its order inflow guidance for the full year for mid-teens growth over last year. It is also confident of meeting the higher end of the revenue guidance towards 15% for the full year given a healthy growth of 20% yoy seen in 9MFY23 for core E&C revenues. However, on margins, L&T expects 30-50 bps reduction over margins of 9.3% seen in FY2022 due to weak margins seen in 1HFY23 on higher commodity prices and project closure costs. It expects to maintain working capital around 19-20% of net sales for the full year

Order book up 14% yoy. Driven by strong order inflow growth of 34% for 9MFY23, the order book for L&T was up by 14% yoy at ₹3.87 tn. Unlike the same period last year, this year witnessed strong awarding from domestic markets, particularly in infrastructure from segments such as heavy civil infrastructure, metals and mining, T&D and buildings and factories. Central, public-sector spending and private sector spending drove the growth in inflows. A large part of the domestic order book of ₹2.86 tn is from PSUs (40%) and states (31%), with the center (9%) and private sector accounting for 20% share. Nearly 27% of the total order book is funded by multilateral agencies.

Prospect pipeline of ₹4.9 tn for 4QFY23. Management has indicated a prospect pipeline of ₹4.9 tn for 4QFY23 across both domestic (₹3.8 tn) and international (₹1.05 tn). Infrastructure segment prospects stand at ₹3.89 tn, spread across heavy civil (32%), transportation (29%), water (14%), building and factories (13%), power (9%) and metals and mining (3%). Hydrocarbon project prospect pipeline stands at ₹0.6 tn, power ₹0.2 tn, heavy engineering and defense at around ₹0.17 tn.

Metro ridership improving continuously. Hyderabad's Metro ridership has improved to 394,000 pax per day from 355,000 pax per day in 2QFY23 and 218,000 per day in 3QFY22. During January, average ridership crossed 471,000 pax per day. Improving ridership levels reduced the loss for L&T Metro to ₹3.3 bn in 3QFY23 versus ₹4.8 bn in 3QFY22. The company received ₹1 bn from the state government as interest-free soft loan and expects to receive ₹9 bn in coming quarters. Along with this, it is targeting ToD monetization of ₹10-15 bn every year. Thus, timely receipt of state government support and ToD monetization would reduce overall burden of loss funding from L&T. Loss funding till 9MFY23 stood at ₹3 bn.

Outlay for clean energy and new energy prospects. L&T is eyeing a total investment of ₹15 bn for electrolyzers, ₹25 bn for battery storage and ₹18-20 bn for data center over the next few years. It is looking for a joint venture partner for electrolyzers and battery storage and is also under discussion with players for the required technology.

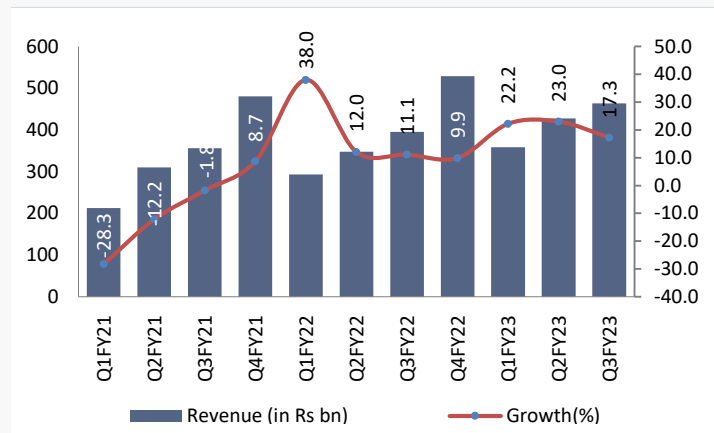
Exhibit 1 : Consolidated Quarterly Result

(₹ mn)	Q3FY23	Q3FY22	YoY(%)	Q2FY23	QoQ(%)
Revenue	4,63,897	3,95,629	17.3	4,27,626	8.5
EBITDA	50,730	45,304	12	48,994	3.5
Margin(%)	11	12	-60bps	12	-60bps
Depreciation	8,252	7,325	12.7	8,602	-4.1
Finance Cost	8,025	8,138	-1.4	8,357	-4
Other Income	7,550	5,714	32.1	7,385	2.2
PBT	42,004	35,556	18.1	39,421	6.6
Tax	12,705	10,587	20	11,229	13.1
tax rate(%)	30	30	40bps	29	170bps
Reported PAT	25,529	20,547	24.2	22,290	14.5
Extraordinary Inc/(Exp)	1,360	-		-	
Adjusted PAT	24,169	20,547	17.6	22,290	8.4
Order Intake	6,07,100	5,03,590	20.6	5,19,140	16.9
Order Book	38,65,880	34,03,650	13.6	37,23,810	3.8

Source: Company data, LKP Research

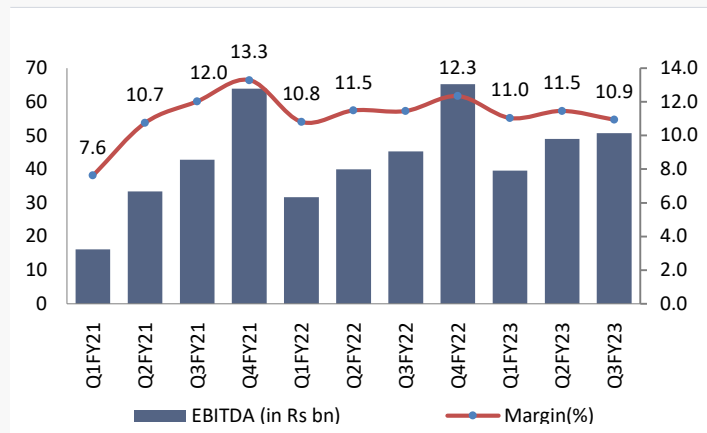
Financials in charts

Exhibit 2: Revenue trend



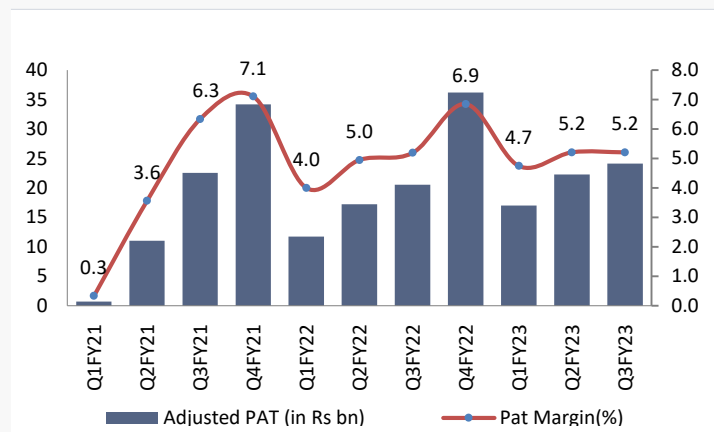
Source: Company data, LKP Research

Exhibit 3: EBITDA and margin trend



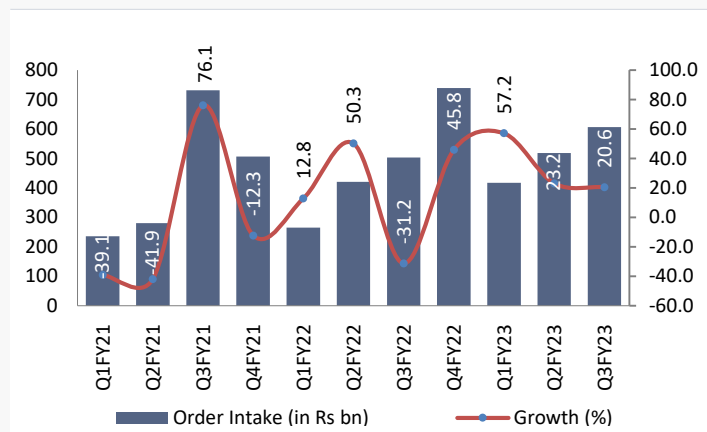
Source: Company data, LKP Research

Exhibit 4: Net profit and profit margin trend



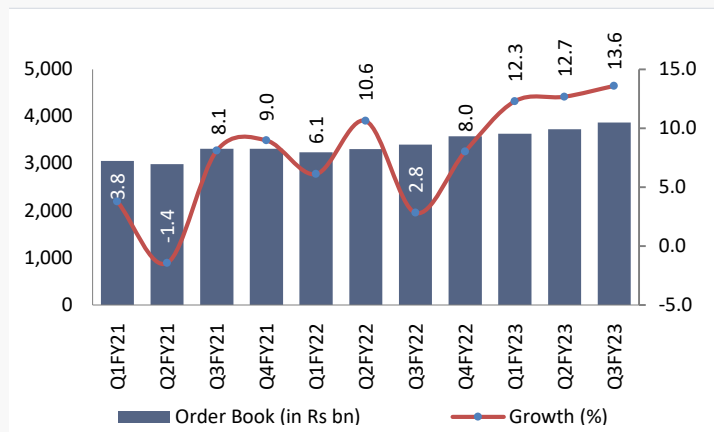
Source: Company data, LKP Research

Exhibit 5: Order Intake and growth trend



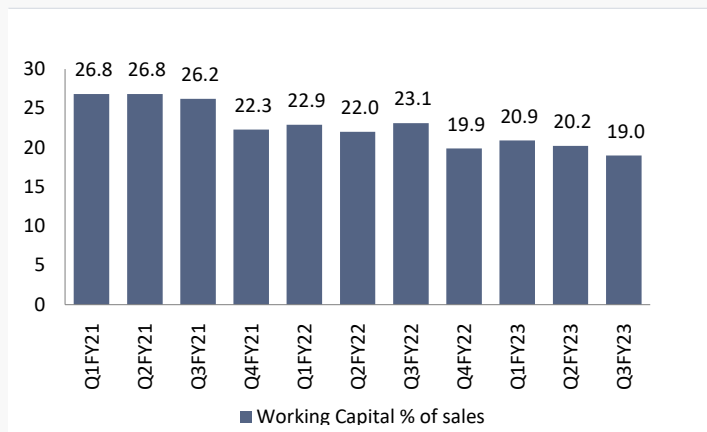
Source: Company data, LKP Research

Exhibit 6: Order book and growth trend



Source: Company data, LKP Research

Exhibit 7: Working Capital



Source: Company data, LKP Research

Exhibit 8: Profit and Loss Statement - Consolidated

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income	14,54,524	13,59,790	15,65,212	18,42,890	21,10,645	23,14,122
Raw material Cost	4,88,903	4,33,668	5,47,676	6,55,063	7,81,293	8,65,360
Employee Cost	2,31,140	2,47,620	2,97,335	3,20,527	3,46,170	3,73,863
Other expenses	5,71,191	5,22,262	5,38,028	6,54,921	7,25,033	7,88,607
Total operating Expenses	12,91,234	12,03,549	13,83,048	16,30,512	18,52,496	20,27,831
EBITDA	1,63,290	1,56,241	1,82,164	2,12,378	2,58,149	2,86,291
<i>% margins</i>	<i>11.2</i>	<i>11.5</i>	<i>11.6</i>	<i>11.5</i>	<i>12.2</i>	<i>12.4</i>
Depreciation & Amortisation	24,623	29,042	29,480	32,919	35,630	38,935
EBIT	1,38,667	1,27,199	1,52,685	1,79,460	2,22,520	2,47,356
Interest	27,967	39,134	31,257	34,800	34,291	31,530
Other Income	23,609	34,294	22,671	27,939	28,653	28,961
Recurring PBT	1,34,310	1,22,358	1,44,099	1,72,599	2,16,881	2,44,788
Add: Extraordinaries	-	(35,560)	969	3,375	-	-
Add: Share in associates	-	-	-	-	-	-
PBT	1,34,310	86,798	1,45,068	1,75,974	2,16,881	2,44,788
Less: Taxes	32,632	40,108	42,166	46,429	57,040	63,400
Less: Minority Interest & Share in associates	12,733	13,240	16,217	17,411	18,293	6,380
Net Income (Reported)	88,945	33,450	86,685	1,12,134	1,41,549	1,75,008
Adjusted Net Income	88,945	69,010	86,685	1,08,759	1,41,549	1,75,008

Source: Company data, LKP Research

Exhibit 9: Balance Sheet

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Assets						
Total Current Assets	23,43,507	24,20,727	25,19,509	27,93,397	30,82,034	32,19,301
of which cash & cash eqv.	1,51,178	1,62,415	1,89,532	2,13,435	2,17,715	2,76,434
Total Current Liabilities & Provisions	8,40,693	8,69,196	9,75,039	11,49,499	13,05,996	13,05,590
Net Current Assets	15,02,815	15,51,531	15,44,470	16,43,898	17,76,038	19,13,712
Investments	2,73,995	2,73,995	2,73,995	2,73,995	2,73,995	2,73,995
Net Fixed Assets	3,30,119	3,10,844	3,05,578	3,18,760	3,20,471	3,21,118
Capital Work-in-Progress	-	-	-	-	-	-
Goodwill	80,114	80,670	74,770	74,770	74,770	74,770
Total Assets	21,87,042	22,17,040	21,98,813	23,11,423	24,45,275	25,83,594
Liabilities						
Borrowings	14,10,071	13,26,053	12,34,682	12,29,682	12,24,682	12,12,682
Deferred Tax Liability	14,530	11,787	10,393	10,393	10,393	10,393
Minority Interest	95,208	1,20,515	1,29,661	1,48,210	1,67,872	1,75,872
Equity Share Capital	2,808	2,809	2,810	2,810	2,810	2,810
Face Value per share (₹)	2.00	2.00	2.00	2.00	2.00	2.00
Reserves & Surplus	6,64,424	7,55,876	8,21,267	9,20,327	10,39,517	11,81,837
Net Worth	6,67,232	7,58,685	8,24,077	9,23,137	10,42,327	11,84,647
Total Liabilities	21,87,042	22,17,040	21,98,813	23,11,423	24,45,275	25,83,594

Source: Company data, LKP Research

Exhibit 10: Cash Flow Statement

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating Cash flow	1,33,760	3,55,080	1,09,711	1,31,149	1,66,818	1,91,362
Working Capital Changes	(66,890)	(1,26,639)	9,062	(75,524)	(1,27,860)	(78,955)
Capital Commitments	(1,01,644)	18,719	11,166	(13,182)	(1,712)	(647)
Free Cash Flow	(34,774)	2,47,160	1,29,938	42,443	37,247	1,11,761
Cash flow from Investing Activities	19,081	(73,007)	81,619	27,939	28,653	28,961
Issue of Share Capital	-	-	-	-	-	-
Buyback of shares	-	-	-	-	-	-
Inc (Dec) in Borrowings	1,54,520	(84,019)	(91,370)	(5,000)	(5,000)	(12,000)
Interest paid	(27,967)	(39,134)	(31,257)	(34,800)	(34,291)	(31,530)
Dividend paid	(22,432)	(25,282)	(35,062)	(44,854)	(56,620)	(70,003)
Extraordinary Items/Others	(54,513)	(14,481)	(26,752)	38,175	55,188	31,530
Chg. in Cash & Bank balance	33,915	11,237	27,117	23,904	25,177	58,719

Exhibit 11: Key Ratios

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data (in ₹)						
Diluted adjusted EPS	63.2	49.0	61.7	77.4	100.7	124.6
Recurring Cash EPS	89.8	53.8	94.1	115.5	139.0	156.7
Dividend per share (DPS)	18.0	18.0	22.0	20.0	20.0	20.0
Book Value per share (BV)	474.4	539.5	586.0	656.4	741.2	842.4
Growth Ratios (%)						
Operating Income	7.6	(6.5)	15.1	17.7	14.5	9.6
EBITDA	6.5	(4.3)	16.6	16.6	21.6	10.9
Recurring Net Income	10.6	(22.4)	25.6	25.5	30.1	23.6
Diluted adjusted EPS	6.7	(22.4)	25.8	25.5	30.1	23.6
Diluted Recurring CEPS	9.0	(40.0)	74.8	22.7	20.3	12.7
Valuation Ratios						
P/E	33.6	43.3	34.4	27.5	21.1	17.1
P/CEPS	23.7	39.5	22.6	18.4	15.3	13.6
P/BV	4.5	3.9	3.6	3.2	2.9	2.5
EV / EBITDA	25.2	25.7	21.4	18.2	14.9	13.2
EV / Operating Income	2.8	3.0	2.5	2.1	1.8	1.6
EV / Operating FCF (pre -Capex)	61.5	17.6	32.8	69.5	99.0	33.7
Operating Ratio						
Raw Material/Sales (%)	33.6	31.9	35.0	35.5	37.0	37.4
SG&A/Sales (%)	20.6	21.7	19.9	19.4	19.1	19.0
Effective Tax Rate (%)	24.3	32.8	29.3	26.9	26.3	25.9
NWC / Total Assets (%)	61.8	62.7	61.6	61.9	63.7	63.4
Inventory Turnover (days)	14.4	15.6	13.9	15.6	14.6	15.0
Receivables (days)	102.2	113.4	107.6	96.0	96.0	96.0
Payables (days)	122.9	138.2	135.7	130.8	130.9	118.0
D/E Ratio (x)	2.1	1.7	1.5	1.3	1.2	1.0
Return/Profitability Ratio (%)						
Recurring Net Income Margins	6.1	5.1	5.5	5.9	6.7	7.6
RoCE	7.8	7.3	7.9	9.2	10.6	11.0
RoNW	13.8	9.7	11.0	12.4	14.4	15.7
Dividend Payout Ratio	28.5	36.7	35.7	25.8	19.9	16.1
Dividend Yield	0.8	0.8	1.0	0.9	0.9	0.9
EBITDA Margins	11.2	11.5	11.6	11.5	12.2	12.4

Source: Company data, LKP Research

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