

Larsen & Toubro

Record high inflow; strong NWC management

Larsen & Toubro (LT) reported Q4FY23 revenue/EBITDA/APAT at INR 583.4/68.3/39.9bn, in line/(missing) with our estimates by 0.1/(8.4)/(7.5)% respectively. EBITDA margin: 11.7% (-65/+78bps YoY/QoQ) vs. our estimate of 12.8%. The margin was impacted largely by higher input prices in projects and manufacturing portfolio. The Hyderabad metro saw ridership improving to 408k per day from 394k per day in Q3FY23. The consolidated net D/E stood at 0.81x as of Mar'23, similar to the Dec'22 level. The FY23 NWC to sales ratio (ex-off financial services business) was at a five-year low level of 16.1%. Given: (1) the record-high order book (OB) of INR 4tn and order inflows (OI) of INR 2.3tn; (2) bottoming out of infra margins; (3) improvement in subsidiary performance; (4) improvement in net working capital levels; and (5) pick-up in private and public capex in coming years, we have increased the standalone multiple to 24x, from 23x. We maintain a BUY on the stock with an increased TP of INR 2,724/sh (24x core Mar-25 EPS).

- Financial highlights:** LT posted revenue of INR 583.4bn (+10.4/+25.8% YoY/QoQ), in line with our estimate. EBITDA came in at INR 68.3bn (+4.8/+34.7% YoY/QoQ), a miss of 8.4%. EBITDA margin: 11.7% (-65/+78bps YoY/QoQ) vs. our estimate of 12.8%. The margin was impacted largely by higher input prices in projects and manufacturing portfolios. APAT: INR 39.9bn (+10.1/+65% YoY/QoQ), a miss of 7.5%. From Q4FY23 onwards, profit from L&T IDPL is not consolidated as the investment in the JV has been moved to assets held for sale. LT has guided for FY24 consolidated revenue to grow 12-15% YoY with projects and manufacturing business margin expected to expand by 40-50bps to ~9% with marked improvement in H2FY24 as compared to H1FY24.
- Turnaround story for Nabha Power/Hyderabad metro projects:** The margin profile of the entire development projects segment improved due to a higher PLF factor for the Nabha Power project and better average ridership for the Hyderabad metro project. The average ridership for the Hyderabad metro project was 408k per day (+2.1x/+4% YoY/QoQ), which led to an EBITDA margin of 41.6% vs. 40% in Q3FY23. The average ridership for FY23 was 361k per day (+2.3x YoY).
- Well-diversified and an all-time high inflow and OB:** LT registered an OI of INR 761bn in Q4FY23, taking the FY23 OI to INR 2.3tn, surpassing its FY23 guidance of INR 2.2tn. In FY23, 62.5/37.5% of OI came from the domestic/international market. With this, the OB at the end of Mar'23 is at an all-time high of INR 4tn, with infrastructure at 71%, constituting a major share of it, followed by energy/ hi-tech manufacturing/others at 18/7/4%. Geography-wise, domestic/Middle-East/Other orders contribute 72/24/4% to OB. 1% of the outstanding orders are slow-moving. LT has guided for FY24 OI to grow at 10-12% YoY.
- Stronger balance sheet:** At the consolidated level, gross/net debt stood at INR 1,186/605bn as of Mar'23 vs. INR 1,247/743bn as of Dec'22, with net D/E at 0.81x as of Mar'23, similar to the Dec'22 level. The FY23 NWC to sales ratio (ex-off financial services business) was at a five-year low level of 16.1% (FY23 guidance 16-18%).

Consolidated financial summary (INR mn)

Particulars	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Revenues	5,83,352	5,28,507	10.4	4,63,897	25.8	15,65,212	18,33,407	21,06,762	23,95,765
EBITDA	68,329	65,205	4.8	50,730	34.7	1,82,173	2,07,621	2,46,682	2,84,989
APAT	39,868	36,207	10.1	24,169	65.0	85,724	1,03,348	1,27,887	1,55,728
EPS (INR)	28.4	25.8	10.1	17.2	65.0	61.1	73.7	91.2	111.0
P/E (x)						38.7	32.1	25.9	21.3
EV/EBITDA(x)						22.3	20.6	16.9	14.1
RoE (%)						10.8	12.0	13.8	15.5

Source: Company, HSIE Research

BUY

CMP (as on 10 May 23)	INR 2,364
Target Price	INR 2,724
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,622	INR 2,724
	FY24E	FY25E
EPS change %	-	-

KEY STOCK DATA

Bloomberg code	LT IN
No. of Shares (mn)	1,405
MCap (INR bn) / (\$ mn)	3,323/40,635
6m avg traded value (INR mn)	4,475
52 Week high / low	INR 2,416/1,456

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.3	19.6	47.0
Relative (%)	7.2	17.4	33.2

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	0.0	0.0
FIs & Local MFs	39.89	38.77
FPIs	23.24	24.48
Public & Others	36.87	36.75
Pledged Shares	0.0	0.0

Source: BSE

Parikshit D Kandpal, CFA
 parikshid.kandpal@hdfcsec.com
 +91-22-6171-7317

Nikhil Kanodia
 nikhil.kanodia@hdfcsec.com
 +91-22-6171-7362

Manoj Rawat
 manoj.rawat@hdfcsec.com
 +91-22-6171-7358

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com