

Strong inflow

Engineering & Capital Goods, Infra ▶ Result Update ▶ July 26, 2023

TARGET PRICE (Rs): 2,550

LT reported better than expected numbers for the quarter, with sales growth at 34% YoY and PAT growth at 46%. EBITDAM at 10.2% was below our estimate, but high top-line growth more than offset the margin decline. The infrastructure segment saw sales growth of 55%, though EBITDAM slipped to 5.1% vs 6.5% YoY due to job mix and legacy Covid jobs nearing completion. Order inflow ex services grew ~80% YoY, with Infrastructure (100% YoY) and Energy (66% YoY) being the major contributors. Management has maintained guidance of 10-12% sales growth/12-15% inflow growth, though it looks conservative on current run-rate basis. EBITDA margin is expected to clock at 9% for the Projects business, as improvement is expected in H2FY24. Order prospects for 9M are up 34% (largely backed by international hydrocarbon projects) and are a key positive. We maintain HOLD, with Jun-24E TP of Rs2,550/sh.

Larsen & Toubro: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	15,65,212	18,33,407	20,36,854	23,08,401	26,08,392
EBITDA	1,82,173	2,07,533	2,52,784	2,94,685	3,38,769
Adj. PAT	85,724	1,03,347	1,26,551	1,53,481	1,79,656
Adj. EPS (Rs)	61.7	73.5	90.0	109.2	127.8
EBITDA margin (%)	11.6	11.3	12.4	12.8	13.0
EBITDA growth (%)	16.6	13.9	21.8	16.6	15.0
Adj. EPS growth (%)	25.6	19.2	22.5	21.3	17.1
RoE (%)	10.8	12.0	13.5	14.7	15.0
RoIC (%)	6.8	8.3	9.8	10.9	11.8
P/E (x)	42.0	34.8	28.4	23.5	20.0
EV/EBITDA (x)	24.8	21.5	17.6	15.0	12.7
P/B (x)	4.4	4.0	3.7	3.3	2.8
FCFF yield (%)	3.4	3.8	0.0	1.5	4.0

Source: Company, Emkay Research

Strong execution negates the margin slip

Sales growth at 34% YoY was backed by growth in the Infrastructure/Energy segments at 100%/66% YoY, backed by the large opening order book. While EBITDAM for the Infrastructure segment was lower at 5.1% vs 6.5% YoY, Management indicated that majority of the legacy orders would be completed by 2Q/3QFY24; hence for the fiscal, Project and Manufacturing margin is expected at 9%. Hyderabad metro ridership has improved, with average daily ridership during 1QFY24 at 4.22lakhs vs 2.85lakhs YoY and 4.08lakhs QoQ (Note: 1lakh = 0.1million).

Prospects higher; Guidance maintained

Management indicated order prospects for 9MFY24 at Rs10.1trn (up 34% YoY) and higher than expected prospects at the start of the year. A large part of the prospect increase has happened on the Hydrocarbon front, as the Middle East is witnessing strong capex in Hydrocarbon and Renewables. LT has maintained its guidance for order inflow growth (12-15%) and sales (10-12%), which looks conservative, but Management seems to be factoring-in some impact of the elections in 4QFY24.

Valuation and Risk

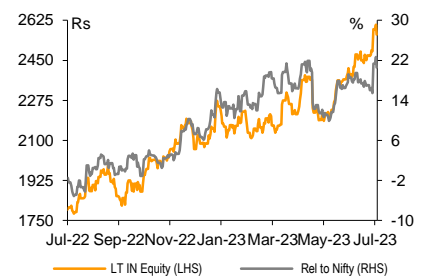
We increase our FY25E sales/EPS by 6-7% and introduce FY26E EPS at Rs128. Inflow trajectory has been strong and a 34% high prospect YoY implies it will remain strong for coming quarters. LT's Board has approved Rs100bn (excluding tax) buy-back through the tender route. We roll-forward our valuation to Jun-24E and arrive at a TP of Rs2,550/share. We maintain HOLD on the stock, as margin concerns persist and we are still uncertain about medium-term sustainability of the higher capex in the Middle East.

Target Price – 12M	Jun-24
Change in TP (%)	6.7
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	(0.4)
CMP (25-Jul-23) (Rs)	2,560.9

Stock Data	Ticker
52-week High (Rs)	2,638
52-week Low (Rs)	1,742
Shares outstanding (mn)	1,405.6
Market-cap (Rs bn)	3,600
Market-cap (USD mn)	43,965
Net-debt, FY24E (Rs mn)	8,62,219
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	4,710.1
ADTV-3M (USD mn)	57.5
Free float (%)	-
Nifty-50	19,681
INR/USD	81.9
Shareholding, Jun-23	
Promoters (%)	-
FPIs/MFs (%)	25.0/37.7

Price Performance

(%)	1M	3M	12M
Absolute	7.2	13.9	43.7
Rel. to Nifty	1.6	2.9	21.4

1-Year share price trend (Rs)**Abhineet Anand**

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Exhibit 1: Quarterly Results

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	3,58,532	4,27,626	4,63,890	5,83,350	4,78,824	33.6	-17.9
Material cost	1,51,938	2,02,005	2,25,587	3,22,102	2,40,533	58.3	-25.3
as % of sales	42.4	47.2	48.6	55.2	50.2	786bps	-498bps
Employee cost	85,560	91,663	95,325	99,811	98,894	15.6	-0.9
as % of sales	23.9	21.4	20.5	17.1	20.7	-321bps	354bps
Other expenditure	81,467	84,964	92,250	93,110	90,711	11.3	-2.6
as % of sales	22.7	19.9	19.9	16.0	18.9	-378bps	298bps
Total expenditure	3,18,965	3,78,632	4,13,162	5,15,022	4,30,137	34.9	-16.5
EBITDA	39,567	48,994	50,728	68,328	48,686	23.0	-28.7
Depreciation	9,634	8,602	8,252	8,535	8,305	-13.8	-2.7
EBIT	29,933	40,393	42,477	59,793	40,382	34.9	-32.5
Other Income	6,947	7,385	7,550	7,409	11,456	64.9	54.6
Interest	7,561	8,357	8,025	8,130	8,514	12.6	4.7
PBT	29,319	39,421	42,002	59,072	43,324	47.8	-26.7
Taxes	6,389	11,229	12,705	14,606	12,163	90.4	-16.7
PAT	22,930	28,192	29,297	44,466	31,161	35.9	-29.9
Share in JV/ Associates	(647)	(339)	(75)	118	(205)	-68.3	-273.4
Minority interest	(5,263)	(4,500)	(5,055)	(4,718)	(6,026)	14.5	27.7
Adjusted PAT	17,021	23,353	24,168	39,866	24,930	46.5	-37.5
Extra ord / Exceptional item	-	-	1,360	-	-	-	-
Reported PAT	17,021	23,353	25,528	39,866	24,930	46.5	-37.5
Adjusted EPS (Rs)	12.1	16.6	17.2	28.4	17.7	46.5	-37.5
(%)							
Gross Margin	57.6	52.8	51.4	44.8	49.8	(786)	498
EBITDAM	11.0	11.5	10.9	11.7	10.2	(87)	(155)
EBITM	8.3	9.4	9.2	10.2	8.4	8	(182)
PBTM	8.2	9.2	9.1	10.1	9.0	87	(108)
PATM	6.4	6.6	6.3	7.6	6.5	11	(111)
Effective Tax rate	21.8	28.5	30.2	24.7	28.1	628	335

Source: Company, Emkay Research

Exhibit 2: Segmental Quarterly Details

Revenue (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Infrastructure	1,44,005	1,96,682	2,22,057	3,15,488	2,23,956	55.5	-29.0
Energy Projects	50,875	55,934	63,462	79,292	66,904	31.5	-15.6
Hi Tech Manufacturing	13,881	15,889	18,630	23,208	19,683	41.8	-15.2
Others	16,319	17,432	15,360	21,605	23,472	43.8	8.6
Total ex-services continued ops	2,25,080	2,85,937	3,19,508	4,39,593	3,34,015	48.4	-24.0
Services business							
IT & Technology	94,602	1,01,839	1,06,051	1,07,393	1,09,607	15.9	2.1
Financial Service	29,581	31,519	33,486	31,163	30,196	2.1	-3.1
Developmental projects	13,454	13,446	11,067	12,321	12,964	-3.6	5.2
Total services continued ops	1,37,638	1,46,804	1,50,604	1,50,877	1,52,767	11.0	1.3
Total Continued operations	3,62,717	4,32,741	4,70,111	5,90,470	4,86,782	34.2	-17.6
Less : Inter Segment	4,185	5,115	6,214	7,118	7,959		
Total	3,58,532	4,27,626	4,63,897	5,83,352	4,78,824	33.6	-17.9

Segment PBIT	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Ex-services business							
Infrastructure	6,862	10,668	13,042	20,830	8,502	23.9	-59.2
Energy Projects	3,797	4,192	4,966	7,712	5,571	46.7	-27.8
Hi Tech Manufacturing	1,503	2,216	2,480	3,753	2,544	69.3	-32.2
Others	2,516	2,427	2,645	3,876	3,826	52.1	-1.3
Total ex-services continued ops	14,678	19,504	23,133	36,171	20,443	39.3	-43.5
Services business							
IT & Technology	17,749	18,928	17,053	18,076	19,174	8.0	6.1
Financial Service	3,556	6,132	6,304	6,596	7,140	100.8	8.3
Developmental projects	(211)	(115)	(56)	4,300	1,230	-	-71.4
Total services continued ops	21,093	24,945	23,301	28,972	27,545	30.6	-4.9
Total	35,771	44,448	46,434	65,143	47,988	34.2	-26.3

Segment PBIT (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY chg	QoQ chg
Infrastructure	4.8	5.4	5.9	6.6	3.8	-97bps	-281bps
Energy Projects	7.5	7.5	7.8	9.7	8.3	86bps	-140bps
Hi Tech Manufacturing	10.8	13.9	13.3	16.2	12.9	210bps	-324bps
Others	15.4	13.9	17.2	17.9	16.3	88bps	-164bps
Total ex-services continued ops	6.5	6.8	7.2	8.2	6.1	-40bps	-211bps
Services business							
IT & Technology	18.8	18.6	16.1	16.8	17.5	-127bps	66bps
Financial Service	12.0	19.5	18.8	21.2	23.6	1,163bps	248bps
Developmental projects	-1.6	-0.9	-0.5	34.9	9.5	1,106bps	-2,541bps
Total services continued ops	15.3	17.0	15.5	19.2	18.0	271bps	-117bps
Total Continued operation	10.0	10.4	10.0	11.2	10.0	4bps	-115bps

Source: Company, Emkay Research

Exhibit 3: SoTP-based valuation (Jun-24E)

(Rs bn)										
Components (Rs bn)	Basis of Valuation	Jun-25E PAT	Multiple (x)	Equity value	L&T stake (%)	Pro-rata value	Hold-co discount (%)	Contr. To SOTP	Mar-24E SOTP (Rs/share)	SOTP mix (%)
E&C business									1,657	65
L&T Standalone (Ex Other Income)	P/E	86.9	22.0	1,912	100.0	1,912		1,912	1,362	
Hydrocarbon	P/E	16.3	20.0	327	100.0	327		327	233	
Others	P/E	5.9	15.0	88	100.0	88		88	63	
Standalone - Cash & Equivalent						94		94	67	3
Subsidiaries									807	32
LTI Mindtree	TP (Emkay)			1,405	68.7	965	20	772	550	
LTTS	CMP			399	74.2	296	20	237	169	
LT Finance	TP (Emkay)			245	63.6	156	20	125	89	
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									2,550	100

Source: Emkay Research

Concall Highlights:

Financial performance: At the consolidated level, the company registered revenue of Rs479bn for the quarter (+34% YoY), EBITDAM of 10.2% (80bps reduction YoY, owing to cost pressure from legacy projects) and recurring PAT of Rs25bn (+46% YoY). NWC/revenue improved to 17% as against 20.6% in Q1FY23. Segmental contribution to revenue was 46% from Infrastructure, 32% from Services, 14% from Energy, and 4% each from Hi-Tech and Others. 40% of the revenue was from international projects.

Guidance: For FY24, the company maintained its guidance of 12-15% YoY revenue growth, 10-12% YoY order inflow growth, NWC/Revenue of 16-18% and EBITDAM of 9% for the Projects & Manufacturing business. Even though the company witnessed robust growth in orders and prospects in the quarter, it remains cautious in guiding for the annual numbers, owing to plausible lumpiness in coming quarters on account of the the seasonal impact of monsoons and the due to the general elections.

Order book: The order book reached an all-time high of Rs.4.13trn (+14% YoY), with inflow of orders worth Rs.655bn (+57% YoY), with international orders comprising 42% of the inflow and 29% of the book. This growth was primarily driven by the Projects & manufacturing business, with 79% YoY growth on the back of hydrocarbon and infrastructure orders. Segments such as rail, renewables, rural water supply, T&D, commercial/residential building and onshore/offshore hydrocarbons contributed to the robust growth. Orders worth Rs.17bn were deleted from the order book. The prospect pipeline stood at Rs.10.07trn (+34% YoY), with Infrastructure contributing Rs5.85trn, Hydrocarbon Rs.3.47trn, Power Rs.0.45trn and the remaining contributed by the 'Others' segment.

Other highlights: The Hyderabad metro crossed the ridership mark of 5lakh (0.5mn) passengers in Jul-2023, with the peak being 536,000 passengers. However, the project continues to operate at a loss, at consolidated PAT of Rs3.35bn, due to high interest cost. The company signed a teaming agreement with Spanish Navantia, to participate in the Project 75(I) bid for building submarines for the Indian Navy. The company filed for a new subsidiary with the exchanges — L&T Electrolyzer — with its factory in Hazira to be commissioned in the next 9 months. It will cater to electrolyzers of up to 4MW. The company retains its strong outlook on projects in the Middle East, with Hydrocarbons, renewables and minerals/metals being the key prospects. The optimistic outlook is driven by large-size orders requiring high capex, attracting a few bidders, with each taking away a share.

Larsen & Toubro: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	15,65,212	18,33,407	20,36,854	23,08,401	26,08,392
Revenue growth (%)	15.1	17.1	11.1	13.3	13.0
EBITDA	1,82,173	2,07,533	2,52,784	2,94,685	3,38,769
EBITDA growth (%)	16.6	13.9	21.8	16.6	15.0
Depreciation & Amortization	29,480	35,023	36,774	38,612	40,543
EBIT	1,52,694	1,72,510	2,16,011	2,56,073	2,98,226
EBIT growth (%)	20.0	13.0	25.2	18.5	16.5
Other operating income	0	0	0	0	0
Other income	22,671	29,292	30,756	32,294	33,909
Financial expense	31,257	32,072	33,675	35,359	37,127
PBT	1,44,107	1,69,730	2,13,092	2,53,008	2,95,008
Extraordinary items	0	0	0	0	0
Taxes	42,166	44,842	61,797	70,842	82,602
Minority interest	(17,499)	(20,599)	(24,944)	(28,885)	(32,950)
Income from JV/Associates	1,282	(943)	200	200	200
Reported PAT	86,693	1,03,347	1,26,551	1,53,481	1,79,656
PAT growth (%)	25.6	19.2	22.5	21.3	17.1
Adjusted PAT	85,724	1,03,347	1,26,551	1,53,481	1,79,656
Diluted EPS (Rs)	61.7	73.5	90.0	109.2	127.8
Diluted EPS growth (%)	25.6	19.2	22.5	21.3	17.1
DPS (Rs)	18.0	22.0	24.0	25.0	25.0
Dividend payout (%)	29.2	29.9	26.7	22.9	19.6
EBITDA margin (%)	11.6	11.3	12.4	12.8	13.0
EBIT margin (%)	9.8	9.4	10.6	11.1	11.4
Effective tax rate (%)	29.3	26.4	29.0	28.0	28.0
NOPLAT (pre-IndAS)	1,08,015	1,26,934	1,53,368	1,84,373	2,14,723
Shares outstanding (mn)	1,405.1	1,405.5	1,405.5	1,405.5	1,405.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,44,107	1,69,730	2,13,092	2,53,008	2,95,008
Others (non-cash items)	0	0	0	0	0
Taxes paid	(45,521)	(51,272)	(61,797)	(70,842)	0
Change in NWC	36,050	71,460	(1,50,699)	(1,25,620)	(1,38,766)
Operating cash flow	1,72,702	2,27,722	40,288	98,223	2,00,003
Capital expenditure	(17,984)	(58,252)	(40,000)	(30,000)	(30,000)
Acquisition of business	12,187	(57,809)	50,000	50,000	50,000
Interest & dividend income	20,981	33,754	33,754	33,754	33,754
Investing cash flow	1,756	(74,882)	40,756	52,294	53,909
Equity raised/(repaid)	1	1	0	0	0
Debt raised/(repaid)	(92,038)	(48,576)	40,000	40,000	40,000
Payment of lease liabilities	(4,072)	(4,233)	(4,233)	(4,233)	(4,233)
Interest paid	(31,257)	(32,072)	(33,675)	(35,359)	(37,127)
Dividend paid (incl tax)	(25,284)	(30,921)	(33,732)	(35,138)	0
Others	1,214	(5,604)	(20,399)	(24,745)	(1,11,287)
Financing cash flow	(1,47,364)	(1,17,172)	(47,806)	(55,241)	(1,08,414)
Net chg in Cash	27,093	35,667	33,238	95,276	1,45,498
OCF	1,72,702	2,27,722	40,288	98,223	2,00,003
Adj. OCF (w/o NWC chg.)	2,08,751	2,99,182	(1,10,411)	(27,396)	61,236
FCFF	1,54,718	1,69,470	288	68,223	1,70,003
FCFE	1,44,441	1,71,152	367	66,618	1,66,630
OCF/EBITDA (%)	94.8	109.7	15.9	33.3	59.0
FCFE/PAT (%)	166.6	165.6	0.3	43.4	92.7
FCFF/NOPLAT (%)	143.2	133.5	0.2	37.0	79.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	2,810	2,811	2,811	2,811	2,811
Reserves & Surplus	8,21,267	8,90,449	9,83,267	11,01,611	12,81,267
Net worth	8,24,077	8,93,260	9,86,078	11,04,422	12,84,078
Minority interests	1,29,661	1,42,413	1,46,758	1,50,698	1,54,763
Deferred tax liability (net)	(4,910)	(19,609)	(19,609)	(19,609)	(19,609)
Total debt	12,55,081	12,06,504	12,46,504	12,86,504	13,26,504
Total liabilities & equity	22,03,909	22,22,568	23,59,732	25,22,016	27,45,737
Net tangible fixed assets	1,05,789	1,13,363	1,16,589	1,07,977	97,434
Net intangible assets	1,88,086	1,81,245	1,81,245	1,81,245	1,81,245
Net ROU assets	19,886	21,379	21,379	21,379	21,379
Capital WIP	11,703	29,491	29,491	29,491	29,491
Goodwill	74,770	77,987	77,987	77,987	77,987
Investments [JV/Associates]	2,97,925	3,55,734	3,05,734	2,55,734	2,05,734
Cash & equivalents	3,27,267	3,51,047	3,84,286	4,79,562	6,25,060
Current assets (ex-cash)	21,46,661	21,33,430	23,68,291	25,84,892	28,22,015
Current Liab. & Prov.	9,68,179	10,41,108	11,25,269	12,16,250	13,14,606
NWC (ex-cash)	11,78,483	10,92,323	12,43,022	13,68,642	15,07,408
Total assets	22,03,909	22,22,568	23,59,732	25,22,016	27,45,737
Net debt	9,27,814	8,55,457	8,62,219	8,06,942	7,01,445
Capital employed	22,03,909	22,22,568	23,59,732	25,22,016	27,45,737
Invested capital	15,67,013	14,86,295	16,40,221	17,57,229	18,85,452
BVPS (Rs)	586.5	635.5	701.6	785.8	913.6
Net Debt/Equity (x)	1.1	1.0	0.9	0.7	0.5
Net Debt/EBITDA (x)	5.1	4.1	3.4	2.7	2.1
Interest coverage (x)	0.2	0.2	0.1	0.1	0.1
RoCE (%)	7.9	9.1	10.8	11.8	12.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	42.0	34.8	28.4	23.5	20.0
P/CE(x)	31.2	26.0	22.0	18.7	16.3
P/B (x)	4.4	4.0	3.7	3.3	2.8
EV/Sales (x)	2.9	2.4	2.2	1.9	1.6
EV/EBITDA (x)	24.8	21.5	17.6	15.0	12.7
EV/EBIT(x)	29.6	25.8	20.7	17.2	14.4
EV/IC (x)	2.9	3.0	2.7	2.5	2.3
FCFF yield (%)	3.4	3.8	0.0	1.5	4.0
FCFE yield (%)	4.0	4.8	0.0	1.9	4.6
Dividend yield (%)	0.7	0.9	0.9	1.0	1.0
DuPont-RoE split					
Net profit margin (%)	5.5	5.6	6.2	6.6	6.9
Total asset turnover (x)	0.7	0.8	0.9	0.9	1.0
Assets/Equity (x)	2.8	2.6	2.4	2.3	2.2
RoE (%)	10.8	12.0	13.5	14.7	15.0
DuPont-RoIC					
NOPLAT margin (%)	6.9	6.9	7.5	8.0	8.2
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	6.8	8.3	9.8	10.9	11.8
Operating metrics					
Core NWC days	274.8	217.5	222.7	216.4	210.9
Total NWC days	274.8	217.5	222.7	216.4	210.9
Fixed asset turnover	2.9	3.3	3.4	3.6	3.9
Opex-to-revenue (%)	24.6	25.1	26.2	26.2	26.3

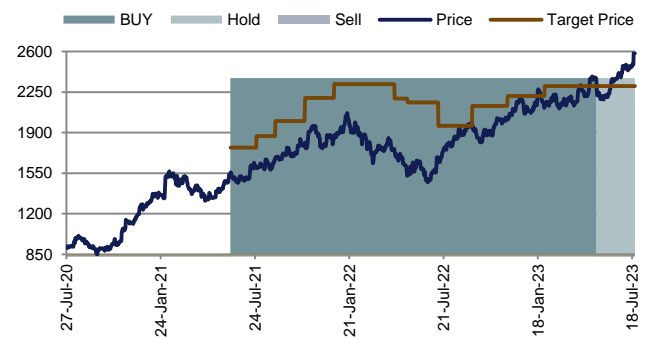
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
11-May-23	2,242	2,303	Hold	Abhineet Anand
18-Apr-23	2,217	2,303	Buy	Abhineet Anand
14-Mar-23	2,144	2,303	Buy	Abhineet Anand
26-Feb-23	2,134	2,303	Buy	Abhineet Anand
16-Feb-23	2,178	2,303	Buy	Abhineet Anand
31-Jan-23	2,124	2,303	Buy	Abhineet Anand
12-Jan-23	2,160	2,215	Buy	Abhineet Anand
14-Dec-22	2,195	2,215	Buy	Abhineet Anand
21-Nov-22	2,011	2,215	Buy	Abhineet Anand
14-Sep-22	1,954	2,131	Buy	Abhineet Anand
18-Aug-22	1,895	1,960	Buy	Abhineet Anand
27-Jul-22	1,797	1,960	Buy	Abhineet Anand
11-Jul-22	1,663	1,960	Buy	Abhineet Anand
13-May-22	1,535	2,160	Buy	Abhineet Anand
18-Apr-22	1,738	2,195	Buy	Abhineet Anand
30-Jan-22	1,898	2,320	Buy	Abhineet Anand
23-Dec-21	1,878	2,320	Buy	Abhineet Anand
28-Oct-21	1,814	2,200	Buy	Abhineet Anand
01-Sep-21	1,686	2,000	Buy	Abhineet Anand
27-Jul-21	1,608	1,870	Buy	Abhineet Anand
07-Jun-21	1,558	1,770	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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