

# Larsen & Toubro

## Robust outperformance; all-time high OB

Larsen & Toubro (LT) reported yet another strong quarter, beating our estimates on all fronts, led by robust execution owing to a strong opening order book. EBITDA margin came in at 10.2% (-87/-155bps YoY/QoQ; vs. our estimate of 11.3%), impacted by the Covid-era legacy projects nearing completion (Q3FY24 should complete), partly offset by lower employee expenses and better overhead absorption. The Hyderabad metro saw ridership improving to 422k per day from 408k per day in Q4FY23. The consolidated net D/E stood at 0.58x as of Jun'23 vs. 0.62x as of Mar'23. The Q1FY24 NWC to TTM sales ratio (ex-off financial services business) stands at 17%. Given: (1) the record-high order book (OB) of INR 4.1tn; (2) bottoming out of infra margins; (3) improvement in subsidiary performance; and (4) higher public capex towards a green economy, we continue with our standalone P/E multiple of 24x. We maintain a BUY on the stock with an increased TP of INR 3,002/sh (Jun-25 EPS rolled over).

- Financial highlights:** LT posted revenue of INR 478.8bn (+33.6/-17.9% YoY/QoQ), a beat of 18.4%. EBITDA came in at INR 48.7bn (+23/-28.7% YoY/QoQ), a beat of 6.5%. EBITDA margin: 10.2% (-87/-155bps YoY/QoQ) vs. our estimate of 11.3%, impacted by the low-margin legacy projects nearing completion, partly offset by lower employee expenses and better overhead absorption. APAT: INR 24.9bn (+46.5/-37.5% YoY/QoQ), a beat of 18.3%. LT reiterated its FY24 consolidated revenue guidance at 12-15% YoY growth with projects and manufacturing business margin expected at ~9%. The prospects pipeline for balance 9MFY24 is robust at INR 10.1tn vs. INR 7.5tn YoY, with a major uptick in the hydrocarbon prospect pipeline of INR 3.5tn vs. INR 1tn YoY.
- All-time high OB; well-diversified OI:** LT registered an order inflow (OI) of INR 655bn (+56.7/-13.9% YoY/QoQ) in Q1FY24, taking the OB as of Jun'23 to an all-time high of INR 4.1tn (~2.3x FY23 revenue). In Q1FY24, 57.9/42.1% of OI came domestic/international market. The OB is well-diversified with 70.8/29.2% orders from the domestic/international market. Infrastructure constitutes a major share of OB at 73%, followed by energy/hi-tech manufacturing/others at 18/6/3%. Geography-wise, domestic/the Middle East/others contribute 71/25/4% of the OB. LT reiterated its FY24 OI to grow at 10-12% YoY.
- Robust balance sheet:** At the consolidated level, gross/net debt stood at INR 1,131/599bn as of Jun'23 vs. INR 1,186/605bn as of Mar'23, with net D/E at 0.58x as of Jun'23 vs. 0.62x as of Mar'23. The Q1FY24 NWC to TTM sales ratio (ex-off financial services business) stands at 17%.

### Consolidated financial summary (INR mn)

Particulars	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Revenues	4,78,824	3,58,532	33.6	5,83,352	(17.9)	18,33,407	21,32,492	24,35,252	27,65,356
EBITDA	48,686	39,567	23.0	68,329	(28.7)	2,07,533	2,51,411	2,88,778	3,33,227
APAT	24,930	17,021	46.5	39,868	(37.5)	1,03,347	1,31,036	1,58,382	1,86,244
EPS (INR)	17.8	12.1	46.5	28.4	(37.5)	73.7	93.4	112.9	132.8
P/E (x)						34.8	27.4	22.7	19.3
EV/EBITDA(x)						21.9	18.7	16.2	13.7
RoE (%)						12.0	14.1	15.5	16.5

Source: Company, HSIE Research

### Consolidated Estimate Change Summary

Particulars	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenues	21,32,492	21,06,762	1.2	24,35,252	23,95,765	1.6	27,65,356	-	-
EBITDA	2,51,411	2,46,682	1.9	2,88,778	2,84,989	1.3	3,33,227	-	-
EBITDA (%)	11.8	11.7	8.0	11.9	11.9	(3.7)	12.1	-	-
APAT	1,31,036	1,25,886	4.1	1,58,382	1,53,826	3.0	1,86,244	-	-

Source: Company, HSIE Research

## BUY

CMP (as on 25 Jul 2023)	INR 2,561
Target Price	INR 3,002
NIFTY	19,681

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 2,724	INR 3,002	
EPS	FY24E	FY25E	FY26E
change %	+4.1	+3.0	-

### KEY STOCK DATA

Bloomberg code	LT IN
No. of Shares (mn)	1,406
MCap (INR bn) / (\$ mn)	3,601/44,032
6m avg traded value (INR mn)	4,860
52 Week high / low	INR 2,638/1,742

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.0	17.8	43.7
Relative (%)	3.6	7.6	24.7

### SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	0.0	0.0
FIs & Local MFs	38.77	38.14
FPIs	24.48	25.30
Public & Others	36.75	36.56
Pledged Shares	0.0	0.0

Source: BSE

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