

08 September 2023

India | Equity Research | Company Update

Larsen & Toubro

Capital Goods

A large win in the Middle East, likely to beat its order inflow guidance for FY24

As per media reports ([Link](#)), L&T is the preferred contractor for USD 3.9bn order for Jafurah Unconventional Gas Field, Saudi Arabia (Source: MEED). Also, till date in FY24, L&T has announced orders worth over INR 750bn. With this significant accretion in orders, L&T could report >20% growth in order inflow in Q2 (excl. services), in our view. Note L&T has highlighted that order prospects have improved QoQ (for the first time on prospects from the Middle East hydrocarbons). However, it has maintained its order inflow growth guidance of 15% YoY for FY24. Given the order inflow including the above mentioned order, we expect L&T to beat its earlier order inflow guidance. Also, we like the renewed focus of L&T to reward minority shareholders with a significant buyback announced in Q1FY24. We believe RoE is likely to improve by 200bps in the medium term. We raise FY25E PAT and also increase target multiple for the standalone business. Upgrade to **BUY**.

Order win of USD 4bn in the Middle East

A media report indicated that L&T has been issued a letter of intent in the Middle East for two packages worth total USD 4bn. Aramco is the developer of Jafurah field, which is the first unconventional gas field of Saudi Arabia with 2trn cubic feet of reserves. It has awarded the contract for phase 1 worth USD 10bn. The total estimated cost of the field is USD 100bn over the life of the field.

Likely beat in order inflow guidance in FY24

L&T had announced an order inflow of INR 660bn in Q1FY24. It has further announced INR 150bn till date in Q2. Including the above mentioned orders, we expect order inflow for Q2 to be in a similar range or overall order inflow growth print to be >20%. As a result, we expect full year order inflow at INR 2.2trn, > 15% growth.

Renewed focus on rewarding shareholders

L&T has recently announced share buyback plan worth INR 100bn at a price of INR 3,000/share and has cash worth INR 240bn as of Mar'23 (standalone).

We upgrade to BUY with a target price of INR 3,141/share

We upgrade the stock to BUY on strong consecutive order inflow for two quarters (Q1, Q2FY24), which could likely result in beat to order inflow guidance for FY24, a significant buyback to reward shareholders and consequent improvement in RoE. We expect margin improvement in Q4 and FY25E for core business amidst benign RM prices. We upgrade the stock to BUY with SOTP based TP of INR 3,141 (assigning 30x FY25E to EPC business).

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,570,768	1,833,407	2,037,941	2,294,001
EBITDA	182,423	207,621	231,461	278,447
EBITDA Margin (%)	11.6	11.3	11.4	12.1
Net Profit	91,032	103,765	123,308	155,545
EPS (Rs)	64.4	73.3	87.1	109.9
EPS % Chg YoY	28.1	19.2	15.0	26.0
P/E (x)	36.6	30.7	26.7	21.2
EV/EBITDA (x)	24.6	20.9	17.7	14.6
RoCE (%)	5.8	6.7	7.3	8.1
RoE (%)	11.6	12.5	13.2	14.4

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Market Data

Market Cap (INR)	3,838bn
Market Cap (USD)	46,170mn
Bloomberg Code	LT IN
Reuters Code	LART.BO
52-week Range (INR)	2,767 /1,793
Free Float (%)	86.0
ADTV-3M (mn) (USD)	53.7

Price Performance (%)	3m	6m	12m
Absolute	21.2	29.0	40.7
Relative to Sensex	5.4	10.4	12.8

ESG Disclosure	2021	2022	Change
ESG score	61.1	63.5	2.4
Environment	46.7	55.4	8.7
Social	40.3	38.7	(1.6)
Governance	96.1	96.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	-	-
EBITDA	-	3.4
EPS	-	4.7

Previous Reports

07-07-2023: [Re-initiating coverage](#)

Outlook and valuation

L&T had an orderbook of INR 4.13trn (3x TTM ex-services sales) as of Jun'23 and has announced orders worth INR 127bn in Q2FY24 till date. After Q1, it had announced that its potential order pipeline has increased beyond INR 10trn in Jul'23 (vs INR 9.7trn in May'23) owing to increased order prospects from the Middle East.

L&T had announced its order inflow growth guidance at 10-12% in FY24 (vs INR 2.3trn in FY23). However, if the mega order from the Middle East materialises, its H1FY24 order inflow is likely to touch INR 1.2trn (more than 20% growth YoY). Orderbook as of Sept'23E is expected at INR 4.3trn (with book-to-bill ratio > 3.3x of FY23 revenue).

Given the business moat in terms of execution capabilities, increased potential order pipeline and fruition of potential orders into actual order inflows, we assign a target multiple of 30x FY25E P/E (vs 25x FY25E earlier) to the standalone business (EPC business) owing to increased revenue visibility going forward. We arrive at an SoTP-based target price of INR 3,141 where standalone business is valued at INR 1,789. The balance is other listed subsidiaries and cash. We have valued the listed subsidiaries as per their market capitalisation and adjusted the same for the shares held by L&T in the same.

We have increased our FY25E PAT by 4.7% on account of better margins owing to easing inflationary pressures and higher execution of new orders.

We upgrade the stock to BUY (vs Add earlier) with a revised target price of INR 3,141/share.

Key risks: 1) Slowdown in hydrocarbon capital expenditure due to any fluctuation in crude oil prices and 2) risk of slowdown in government capex due to upcoming general elections.

Exhibit 1: SoTP-based target price of INR 3,141/share

Businesses	Valuation method	Value driver (INR bn)	Multiple (x)	Value	L&T's stake	L&T's value (INR bn)	INR/share
L&T core E&C business	PEX FY25	84	30	2,532	100%	2,532	1,789
L&T Finance Holdings*	Mkt. cap	318	1.0	318	64%	183	129
Infrastructure Development	P/B (capital invested)	105	1.5	153	100%	153	108
L&T Infotech*	Mkt. cap	1,610	1.0	1,610	69%	1,000	707
L&T TS*	Mkt. cap	487	1.0	487	75%	329	232
Cash and Equivalents	P/B of 1	248	1.0	248	100%	248	175
Total of above						4,445	3,141

Source: I-Sec research

Exhibit 2: Earnings revision table

CONSOL Rs mn	FY24E			FY25E		
	Previous	Revised	YoY (%)	Previous	Revised	YoY (%)
Revenue	2,037,941	2,037,941	-	2,294,001	2,294,001	-
EBIDTA	231,461	231,461	-	269,371	278,447	3.4
PAT	123,308	123,308	-	148,602	155,545	4.7

Source: I-Sec research

Exhibit 3: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	0.0	0.0	0.0
Institutional investors	63.3	63.3	63.5
MFs and others	17.7	17.6	17.5
Insurance Cos	19.7	18.5	17.9
FIIIs	25.9	27.2	28.1
Others	36.7	36.7	36.5

Source: Bloomberg, I-Sec research

Exhibit 4: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,570,768	1,833,407	2,037,941	2,294,001
Operating Expenses	439,265	520,116	170,022	201,520
EBITDA	182,423	207,621	231,461	278,447
EBITDA Margin (%)	11.6	11.3	11.4	12.1
Depreciation & Amortization	28,489	35,023	33,835	34,591
EBIT	153,934	172,598	197,626	243,856
Interest expenditure	30,323	32,072	33,901	34,447
Other Non-operating Income	23,314	29,292	28,142	30,397
Recurring PBT	146,926	169,819	191,867	239,807
Profit / (Loss) from Associates	1,282	(943)	(200)	(200)
Less: Taxes	42,166	44,930	48,194	58,776
PAT	104,759	124,889	143,673	181,031
Less: Minority Interest	17,499	20,599	20,165	25,286
Extraordinaries (Net)	2,490	417	-	-
Net Income (Reported)	108,532	124,364	143,473	180,831
Net Income (Adjusted)	91,032	103,765	123,308	155,545

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	2,342,436	2,364,046	2,492,300	2,465,217
of which cash & cash eqv.	189,532	225,196	223,654	262,043
Total Current Liabilities & Provisions	983,217	1,056,403	1,179,433	1,225,816
Net Current Assets	1,359,219	1,307,643	1,312,868	1,239,401
Investments	396,034	447,983	549,130	664,506
Net Fixed Assets	407,482	405,031	391,852	409,924
ROU Assets	-	-	-	-
Capital Work-in-Progress	12,496	30,656	50,000	50,000
Total Intangible Assets	-	-	-	-
Other assets	5,333	6,072	86,072	166,072
Deferred Tax assets	-	-	-	-
Total Assets	2,180,564	2,197,385	2,389,922	2,529,903
Liabilities				
Borrowings	1,234,682	1,185,134	1,268,241	1,270,241
Deferred Tax Liability	(18,008)	(33,544)	(31,544)	(29,544)
provisions	-	-	-	-
other Liabilities	10,152	10,122	10,122	10,122
Equity Share Capital	2,810	2,811	2,811	2,811
Reserves & Surplus	821,267	890,449	977,714	1,088,273
Total Net Worth	824,077	893,260	980,525	1,091,084
Minority Interest	129,661	142,413	162,578	187,864
Total Liabilities	2,180,564	2,197,385	2,389,922	2,529,903

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	208,835	283,641	122,441	279,725
Working Capital Changes	38,538	86,473	(86,767)	31,856
Capital Commitments	(20,484)	(50,732)	(40,000)	(52,663)
Free Cashflow	188,351	232,909	82,441	227,061
Other investing cashflow	1,515	(52,892)	(101,347)	(115,576)
Cashflow from Investing Activities	(18,970)	(103,624)	(141,347)	(168,239)
Issue of Share Capital	1	1	-	-
Interest Cost	(30,323)	(32,072)	(33,901)	(34,447)
Inc (Dec) in Borrowings	(91,370)	(49,549)	83,107	2,000
Dividend paid	(34,861)	(38,043)	(38,043)	(38,043)
Others	(1,270)	(17,024)	4,200	4,200
Cash flow from Financing Activities	(157,823)	(136,686)	15,364	(66,289)
Chg. in Cash & Bank balance	32,043	43,331	(3,542)	38,389
Closing cash & balance	194,458	232,863	221,654	262,043

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	74.6	88.9	102.2	128.8
Adjusted EPS (Diluted)	64.4	73.3	87.1	109.9
Cash EPS	85.1	98.7	111.8	135.3
Dividend per share (DPS)	24.8	27.1	27.1	27.1
Book Value per share (BV)	586.5	635.5	697.6	776.3
Dividend Payout (%)	33.3	30.5	26.5	21.0
Growth (%)				
Net Sales	15.5	16.7	11.2	12.6
EBITDA	16.8	13.8	11.5	20.3
EPS (INR)	28.1	19.2	15.0	26.0
Valuation Ratios (x)				
P/E	36.6	30.7	26.7	21.2
P/CEPS	32.1	27.7	24.4	20.2
P/BV	4.7	4.3	3.9	3.5
EV / EBITDA	24.6	20.9	17.7	14.6
P / Sales	2.4	2.1	1.9	1.7
Dividend Yield (%)	0.9	1.0	1.0	1.0
Operating Ratios				
Gross Profit Margins (%)	39.6	39.7	19.7	20.9
EBITDA Margins (%)	11.6	11.3	11.4	12.1
Effective Tax Rate (%)	28.7	26.5	25.1	24.5
Net Profit Margins (%)	6.7	6.8	7.0	7.9
NWC / Total Assets (%)	53.6	49.3	45.6	38.6
Net Debt / Equity (x)	0.8	0.6	0.5	0.3
Net Debt / EBITDA (x)	3.6	2.5	2.1	1.3
Profitability Ratios				
RoCE (%)	5.8	6.7	7.3	8.1
RoE (%)	11.6	12.5	13.2	14.4
RoC (%)	5.8	6.7	7.3	8.1
Fixed Asset Turnover (x)	3.8	4.5	5.1	5.7
Inventory Turnover Days	15	15	26	24
Receivables Days	135	113	102	81
Payables Days	127	107	102	100

Source Company data, I-Sec research

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