

September 12, 2023

## Event Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>3,302</b>		<b>2,955</b>	
Sales (Rs. m)	2,076,860	2,337,307	2,074,700	2,308,774
% Chng.	0.1	1.2		
EBITDA (Rs. m)	242,889	282,236	240,111	275,171
% Chng.	1.2	2.6		
EPS (Rs.)	89.5	108.6	88.1	104.7
% Chng.	1.7	3.7		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	1,565	1,833	2,077	2,337
EBITDA (Rs. bn)	182	208	243	282
Margin (%)	11.6	11.3	11.7	12.1
PAT (Rs. bn)	86	104	126	153
EPS (Rs.)	61.2	73.8	89.5	108.6
Gr. (%)	63.5	20.6	21.3	21.3
DPS (Rs.)	22.0	24.0	24.2	31.5
Yield (%)	0.7	0.8	0.8	1.1
RoE (%)	10.9	12.1	13.2	14.2
RoCE (%)	7.4	8.3	9.5	10.5
EV/Sales (x)	3.1	2.6	2.3	2.0
EV/EBITDA (x)	26.8	22.8	19.4	16.6
PE (x)	48.1	39.9	32.9	27.1
P/BV (x)	5.0	4.6	4.1	3.6

### Key Data

LART.BO | LT IN

52-W High / Low	Rs.3,009 / Rs.1,793
Sensex / Nifty	67,221 / 19,993
Market Cap	Rs.4,138bn/ \$ 49,907m
Shares Outstanding	1,406m
3M Avg. Daily Value	Rs.4564.12m

### Shareholding Pattern (%)

Promoter's	-
Foreign	24.48
Domestic Institution	38.77
Public & Others	36.75
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	11.6	36.7	50.4
Relative	8.4	20.3	34.5

### Amit Anwani

amitanwani@plindia.com | 91-22-66322250

### Nilesh Soni

nileshsoni@plindia.com | 91-22-66322214

## Strong order prospects aiding revenue visibility

### Quick Pointers:

- L&T is the preferred contractor for ~US\$3.9bn orders for Jafurah Unconventional Gas Field, Saudi Arabia (Source: Media article).
- Revised upwards its share buyback price from Rs3,000 to Rs3,200/share, factoring in market sentiments.

**We revise our FY24/25E estimates by 1.7%/3.7%, post factoring in healthy growth prospects for hydrocarbon business. The stock is currently trading at PE of 32.9x/27.1x FY24/25E. Maintain 'Buy' rating on stock with revised SoTP based TP of Rs3,302 (Rs2,955 earlier) valuing core business at PE of 25x FY25E (22x earlier), given recent large order wins aiding strong revenue visibility and improving Hyderabad Metro Performance. L&T has been issued letter of intent worth ~US\$3.9bn from Saudi Aramco for phase-II expansion of its Jafurah unconventional gas production project which itself can meet ~13% of FY24 order inflow guidance. The company bagged orders worth Rs655.2bn in Q1FY24. We believe, L&T to comfortably surpass its order inflows guidance of 10-12% growth for FY24 (~Rs2.3trn in FY23) aided by large international and domestic order wins. The company had revised its tender prospects in Q1FY24 to Rs10.07trn for 9MFY24 vs Rs9.73trn guided for 12MFY24. The prospect revision was mainly in hydrocarbon business (Rs3.47trn guided in Q1FY24 vs Rs2.44trn in Q4FY23) mainly from Middle East market.**

**We believe L&T is well-placed to benefit in the long run given 1) strong tender prospects, 2) better order conversion in domestic markets, 3) significant traction in hydrocarbon and 4) renewable energy orders from international markets like Saudi Arabia and expected uptick in domestic private capex.**

**L&T bags order from Saudi Aramco worth ~US\$3.9bn:** L&T has bagged two engineering, procurement, and construction (EPC) orders as part of Saudi Aramco's second expansion phase in its Jafurah unconventional gas production project worth ~Rs332.6bn. Scope of work includes setting up a gas processing plant, its main process units and to construct gas compression units as part of the Jafurah unconventional gas production project. The first contract to set up a gas processing plant and its main process units is estimated to be worth ~\$2.9 billion (~Rs 240 bn). Second contract to construct gas compression units is worth ~\$1 billion (~Rs 83.2bn).

**Increased Buy back price to Rs3,200 (~9% premium to CMP):** L&T has increased shares buyback price from Rs3,000-3,200 per equity share, keeping total buyback value unchanged at Rs100bn. One of the key objectives of the company's Strategic Plan, Lakshya '26, is to enhance the return on equity (ROE). Return on equity capital to shareholders in the form of Buyback of shares of the Company is a step in that direction.

**Higher Tender Prospects for 9MFY23:** Tender prospects for 9MFY24 stand at Rs10.07trn vs Rs7.52trn in Q1FY23, comprising of infrastructure (Rs5.85trn vs Rs5.47trn in Q1FY23), Hydrocarbon (Rs3.47trn vs Rs1.02trn in Q1FY23), Power (Rs0.45trn vs Rs0.6trn in Q1FY23) and others (Rs0.29trn). Tender Prospects is higher compared to full year prospect guided earlier (in Q4FY23 concall) of Rs9.73trn, mainly due to increased prospects from hydrocarbon business (Rs3.47trn guided in Q1FY24 vs Rs2.44trn in Q4FY23) mainly from Middle East market.

**Exhibit 1: SoTP valuation – Core business is 67% of SOTP, IT Services 31% of SoTP**

Particulars	Earnings / Book (Rs mn)	Valuation basis	Target multiple (x)	Stake (%)	Value (Rs bn)	Fair Value (Rs)	Basis
L&T Core Business	123,619	P/E	25	100	3,090,482	2,200	25x FY25 EPS
L&T Power development	22,897	P/B	1	100	22,897	16	1x equity investment
L&T Hyderabad Metro	37,590	P/B	1.5	100	56,385	40	1.5x equity investment
Other Business	15,133	P/B	1.5	100	22,700	16	1.5x equity investment
<b>Total</b>						<b>2,272</b>	
<b>Subsidiaries</b>							
L&T Finance Holdings	351,536	Target Mcap		66	232,541	166	Target Mkt cap
LTI Mindtree	1,562,836	Target Mcap		69	1,073,668	764	Target Mkt cap
L&T Technology Services	402,220	Target Mcap		75	301,544	215	Target Mkt cap
<b>Total Subsidiaries</b>				<b>10% holding co. disc.</b>	<b>1,366,590</b>	<b>1,030</b>	
<b>Grand Total</b>						<b>3,302</b>	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>1,565,212</b>	<b>1,833,407</b>	<b>2,076,860</b>	<b>2,337,307</b>
YoY gr. (%)	15.1	17.1	13.3	12.5
Cost of Goods Sold	526,910	649,436	646,942	729,240
Gross Profit	1,038,302	1,183,971	1,429,918	1,608,067
Margin (%)	66.3	64.6	68.9	68.8
Employee Cost	297,335	372,141	433,544	485,570
Other Expenses	163,226	200,208	224,301	247,755
<b>EBITDA</b>	<b>182,173</b>	<b>207,533</b>	<b>242,889</b>	<b>282,236</b>
YoY gr. (%)	16.6	13.9	17.0	16.2
Margin (%)	11.6	11.3	11.7	12.1
Depreciation and Amortization	29,480	35,023	38,285	41,835
<b>EBIT</b>	<b>152,694</b>	<b>172,510</b>	<b>204,604</b>	<b>240,400</b>
Margin (%)	9.8	9.4	9.9	10.3
Net Interest	31,257	32,072	31,684	32,809
Other Income	22,671	29,292	28,245	31,554
<b>Profit Before Tax</b>	<b>145,077</b>	<b>171,090</b>	<b>201,165</b>	<b>239,146</b>
Margin (%)	9.3	9.3	9.7	10.2
Total Tax	42,166	44,842	52,705	62,656
Effective tax rate (%)	29.1	26.2	26.2	26.2
<b>Profit after tax</b>	<b>102,911</b>	<b>126,249</b>	<b>148,460</b>	<b>176,489</b>
Minority interest	17,499	20,599	21,629	22,710
Share Profit from Associate	(1,282)	943	1,037	1,140
<b>Adjusted PAT</b>	<b>86,006</b>	<b>103,704</b>	<b>125,794</b>	<b>152,639</b>
YoY gr. (%)	63.6	20.6	21.3	21.3
Margin (%)	5.5	5.7	6.1	6.5
Extra Ord. Income / (Exp)	688	1,003	-	-
<b>Reported PAT</b>	<b>86,693</b>	<b>104,707</b>	<b>125,794</b>	<b>152,639</b>
YoY gr. (%)	159.2	20.8	20.1	21.3
Margin (%)	5.5	5.7	6.1	6.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	86,693	104,707	125,794	152,639
<b>Equity Shares O/s (m)</b>	<b>1,405</b>	<b>1,405</b>	<b>1,405</b>	<b>1,405</b>
<b>EPS (Rs)</b>	<b>61.2</b>	<b>73.8</b>	<b>89.5</b>	<b>108.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>484,760</b>	<b>505,162</b>	<b>530,162</b>	<b>555,162</b>
Tangibles	202,018	224,552	249,552	274,552
Intangibles	282,742	280,610	280,610	280,610
<b>Acc: Dep / Amortization</b>	<b>96,229</b>	<b>111,189</b>	<b>149,475</b>	<b>191,310</b>
Tangibles	96,229	111,189	149,475	191,310
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>388,531</b>	<b>393,973</b>	<b>380,687</b>	<b>363,852</b>
Tangibles	105,789	113,363	100,078	83,242
Intangibles	282,742	280,610	280,610	280,610
Capital Work In Progress	11,703	29,491	29,491	29,491
Goodwill	-	-	-	-
Non-Current Investments	629,266	558,278	716,040	871,086
Net Deferred tax assets	18,008	33,544	33,544	33,544
Other Non-Current Assets	60,776	59,890	62,306	70,119
<b>Current Assets</b>				
Investments	297,925	355,734	385,734	395,734
Inventories	59,433	68,288	79,660	89,650
Trade receivables	461,389	447,315	495,032	557,112
Cash & Bank Balance	189,532	225,196	240,980	262,779
Other Current Assets	609,637	669,092	664,595	705,867
<b>Total Assets</b>	<b>3,172,088</b>	<b>3,263,675</b>	<b>3,519,743</b>	<b>3,822,501</b>
<b>Equity</b>				
Equity Share Capital	2,810	2,810	2,810	2,810
Other Equity	821,267	890,449	1,004,944	1,137,168
<b>Total Networkth</b>	<b>824,077</b>	<b>893,259</b>	<b>1,007,754</b>	<b>1,139,978</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	929,913	876,171	876,171	876,171
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	304,770	308,963	323,963	338,963
Trade payables	511,442	497,841	563,313	633,955
Other current liabilities	490,234	578,572	639,673	724,565
<b>Total Equity &amp; Liabilities</b>	<b>3,172,088</b>	<b>3,263,675</b>	<b>3,519,743</b>	<b>3,822,501</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	144,107	169,730	201,165	239,146
Add. Depreciation	29,480	35,023	38,285	41,835
Add. Interest	31,257	32,072	31,684	32,809
Less Financial Other Income	22,671	29,292	28,245	31,554
Add. Other	(15,253)	(11,575)	-	-
Op. profit before WC changes	189,591	225,250	271,134	313,789
Net Changes-WC	47,566	53,791	50,821	16,394
Direct tax	(45,521)	(51,272)	(52,705)	(62,656)
<b>Net cash from Op. activities</b>	<b>191,636</b>	<b>227,770</b>	<b>269,250</b>	<b>267,528</b>
Capital expenditures	(51,961)	(68,298)	(25,000)	(25,000)
Interest / Dividend Income	11,295	17,664	-	-
Others	3,989	(32,484)	(177,818)	(158,655)
<b>Net Cash from Inv. activities</b>	<b>(36,677)</b>	<b>(83,117)</b>	<b>(202,818)</b>	<b>(183,655)</b>
Issue of share cap. / premium	110	103	-	-
Debt changes	(84,132)	(44,967)	15,000	15,000
Dividend paid	(25,284)	(30,914)	(33,964)	(44,265)
Interest paid	(4,072)	(4,233)	(31,684)	(32,809)
Others	(37,614)	(33,077)	-	-
<b>Net cash from Fin. activities</b>	<b>(150,992)</b>	<b>(113,088)</b>	<b>(50,648)</b>	<b>(62,074)</b>
<b>Net change in cash</b>	<b>3,967</b>	<b>31,565</b>	<b>15,784</b>	<b>21,799</b>
Free Cash Flow	160,530	186,332	244,250	242,528

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

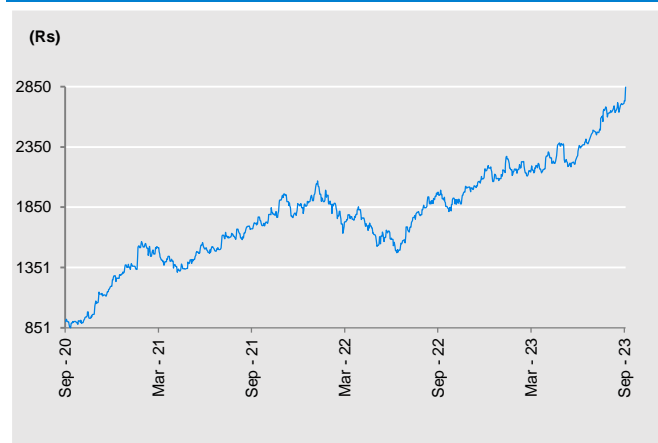
Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>427,626</b>	<b>463,897</b>	<b>583,352</b>	<b>478,824</b>
YoY gr. (%)	23.0	17.3	10.4	33.6
Raw Material Expenses	252,850	278,072	379,659	293,157
Gross Profit	174,777	185,826	203,693	185,667
Margin (%)	40.9	40.1	34.9	38.8
<b>EBITDA</b>	<b>48,938</b>	<b>50,730</b>	<b>68,329</b>	<b>48,686</b>
YoY gr. (%)	22.5	12.0	4.9	23.2
Margin (%)	11.4	10.9	11.7	10.2
Depreciation / Depletion	8,602	8,252	8,535	8,305
<b>EBIT</b>	<b>40,337</b>	<b>42,479</b>	<b>59,794</b>	<b>40,382</b>
Margin (%)	9.4	9.2	10.3	8.4
Net Interest	8,357	8,025	8,130	8,514
Other Income	7,385	7,550	7,409	11,456
<b>Profit before Tax</b>	<b>39,366</b>	<b>43,364</b>	<b>59,074</b>	<b>43,324</b>
Margin (%)	9.2	9.3	10.1	9.0
Total Tax	11,174	12,705	14,606	12,163
Effective tax rate (%)	28.4	29.3	24.7	28.1
<b>Profit after Tax</b>	<b>28,192</b>	<b>30,659</b>	<b>44,467</b>	<b>31,161</b>
Minority interest	5,563	5,055	4,718	6,026
Share Profit from Associates	(339)	(75)	118	(205)
<b>Adjusted PAT</b>	<b>22,290</b>	<b>24,568</b>	<b>39,868</b>	<b>24,930</b>
YoY gr. (%)	27.4	19.6	10.1	46.5
Margin (%)	5.2	5.3	6.8	5.2
Extra Ord. Income / (Exp)	-	961	-	-
<b>Reported PAT</b>	<b>22,290</b>	<b>25,529</b>	<b>39,868</b>	<b>24,930</b>
YoY gr. (%)	22.5	24.2	10.1	46.5
Margin (%)	5.2	5.5	6.8	5.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>22,290</b>	<b>25,529</b>	<b>39,868</b>	<b>24,930</b>
Avg. Shares O/s (m)	1,404	1,404	1,404	1,404
<b>EPS (Rs)</b>	<b>15.9</b>	<b>17.5</b>	<b>28.4</b>	<b>17.8</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	61.2	73.8	89.5	108.6
CEPS	82.2	98.7	116.8	138.4
BVPS	586.5	635.7	717.2	811.3
FCF	114.3	132.6	173.8	172.6
DPS	22.0	24.0	24.2	31.5
<b>Return Ratio(%)</b>				
RoCE	7.4	8.3	9.5	10.5
ROIC	6.8	8.6	10.0	10.9
RoE	10.9	12.1	13.2	14.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.9	0.7	0.6	0.5
Net Working Capital (Days)	2	4	2	2
<b>Valuation(x)</b>				
PER	48.1	39.9	32.9	27.1
P/B	5.0	4.6	4.1	3.6
P/CEPS	82.2	98.7	116.8	138.4
EV/EBITDA	26.8	22.8	19.4	16.6
EV/Sales	3.1	2.6	2.3	2.0
Dividend Yield (%)	0.7	0.8	0.8	1.1

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	26-Jul-23	BUY	2,955	2,560
2	06-Jul-23	BUY	2,615	2,489
3	11-May-23	BUY	2,615	2,364
4	11-Apr-23	BUY	2,479	2,310
5	31-Jan-23	BUY	2,481	2,113
6	04-Jan-23	BUY	2,384	2,089
7	01-Nov-22	BUY	2,384	2,023
8	04-Oct-22	BUY	2,030	1,873

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,013	4,511
2	Apar Industries	Accumulate	5,418	5,047
3	Bharat Electronics	Accumulate	140	130
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,482	1,259
6	Cummins India	Hold	1,788	1,796
7	Engineers India	Accumulate	165	155
8	GE T&D India	Hold	260	273
9	Grindwell Norton	BUY	2,604	2,215
10	Harsha Engineers International	Accumulate	474	432
11	Kalpataru Projects International	BUY	732	635
12	KEC International	Hold	645	658
13	Larsen & Toubro	BUY	2,955	2,560
14	Praj Industries	BUY	475	416
15	Siemens	Accumulate	4,241	3,779
16	Thermax	Hold	2,613	2,721
17	Triveni Turbine	Accumulate	419	398
18	Voltamp Transformers	Hold	4,611	4,802

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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