

LARSEN & TOUBRO LIMITED

Strong order pipeline provides healthy visibility ahead

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Larsen & Toubro Limited (L&T) reported a decent quarter despite challenges largely led by strong execution and better ordering activity providing healthy execution visibility ahead. Strong ordering particularly from international geographies led to the ordering backlog at ₹4.7 tn growing ~22% YoY translating into 3x TTM sales. EBITDA rose 14% YoY to ₹57.5 bn which remained lower than estimates while margins at 10.4% saw a 50 bps drop owing it as a result of legacy projects job mix exposure in the consol. ex-services portfolio. The company's strategy stays aligned toward maintaining its bidding mechanism that reflects healthy working capital and better margin, which has positively reflected in lower working capital, as a percentage of sales to the current level of 16.6% from 19.0% in Q3FY23. L&T's prospect pipeline for Q4FY24 stands at ₹6.3 tn, up 29% YoY. The pipeline has been boosted by strong order inflows in the hydrocarbon segment. The infrastructure sector forms 65% of the overall prospects, while the hydrocarbon segment makes up 27%. Stable oil prices auger well for prospects in the hydrocarbon segment and improve overall prospects in the Middle East. Given record OB with strong order pipeline, revival in private capex, healthy outlook ahead we remain positive on L&T earnings growth prospects. We have tweaked the estimates factoring strong execution and order inflow and marginally lowered margins given some delay in core margins recovery. We roll over our estimates to FY26 and maintain 'BUY' with a revised SOTP based TP of ₹3,865.

Q3FY24 Result Summary

Consolidated sales came in at ~₹551 bn (up 19% YoY) driven by a broad-based revenue growth. Infrastructure (+27% YoY), Energy Projects (+24% YoY) and Hi-Tech Manufacturing (+17% YoY) reported continued strong growth while services business dragged revenue growth. IT Services grew 7% YoY while Financial Services saw a revenue growth of 2% YoY. Development Projects (+10% YoY) and Others Segment (+13% YoY) saw low double digit revenue growth. EBITDA came in below our estimates at ₹58 bn with EBITDA margins contracting 50 bps YoY to 10.4% (-60 bps QoQ). Infrastructure segment continues to report low single digit EBIT margin. Q3FY24 Infra EBIT margin stood at 4.3% (-160 bps YoY, +20 bps QoQ). PBT grew 10% YoY to ₹47.7 bn with PAT growth of 15% YoY helped by a lower effective tax rate of 25%.

Key Financials	FY22	FY23	FY24E	FY25E	FY26E
Total Sales (₹ bn)	1,565	1,833	2,196	2,533	2,777
EBITDA Margins (%)	11.6	11.3	10.8	11.7	11.8
PAT Margins (%)	5.6	5.7	5.8	6.7	6.9
EPS (₹)	62.6	74.3	90.9	120.9	136.7
P/E (x)	55.6	46.8	38.3	28.8	25.5
P/BV (x)	5.9	5.5	4.8	4.2	3.7
EV/EBITDA (x)	31.9	27.5	24.0	19.1	17.3
RoE (%)	11.1	12.2	13.4	15.6	15.4
RoCE (%)	7.9	9.1	9.9	11.6	12.0
Dividend Yield (%)	0.6	0.8	0.9	1.2	1.2

Rating	BUY
Current Market Price (₹)	3,480
12M Price Target (₹)	3,865
Potential upside (%)	11%

Stock Data

Sector :	Engineering & Construction
FV (₹) :	2
Total Market Cap (₹ bn) :	4,783
Free Float Market Cap (₹ bn) :	4,114
52-Week High / Low (₹) :	3,738 / 2,073
BSE Code / NSE Symbol	500510 / LT
Bloomberg :	LT IN

Shareholding Pattern

(%)	Dec-23	Sep-23	Jun-23	Mar-23
FPIs	25.49	25.71	25.24	24.43
MFs	17.01	16.59	17.46	17.60
Insurance	17.58	17.79	17.85	18.49
Employees Trust	14.20	14.19	13.87	13.87
Others	25.72	25.72	25.58	25.61

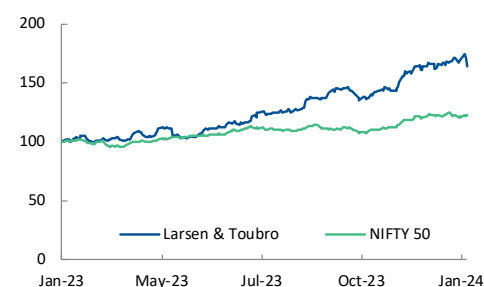
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
L&T	-1.3%	18.8%	29.8%	63.8%
Nifty 50	0.0%	13.9%	10.0%	23.0%

* To date / current date : January 31, 2024

L&T vs Nifty 50



Order Book and Inflow

Order inflow in Q3FY24 came in at ₹760 bn, up 25% YoY driven by infra and hydrocarbon segment. International orders comprised 67% of total order inflow. Closing orderbook stood at record ₹4.7 tn, up 22% YoY. Given the strong prospects pipeline of ₹6.3 tn, it is expected that order-book position to strengthen further in FY24. Total international orders now constitute 39% of total order-book and Saudi Arabia constitutes roughly 1/3rd of total OB which poses geographic concentration risk in our opinion. Additionally, more than 40% of total OB includes fixed price contracts which can lead to margin correction if commodity prices rise globally.

Strong prospect pipeline of ₹6.27 tn

The aggregate prospective pipeline of the company has increased to ₹6.3 tn YoY. i.e., Infrastructure constitutes ₹4.1 tn(+6%YoY), Hydrocarbon at ₹1.7 tn (+179%YoY) Power at ₹0.3 tn (+50% YoY) and rest at ₹0.16 tn.

Guidance

L&T has improved its revenue/order inflow guidance to growth of 15%/+20%+ for FY24 from the beginning year guidance of 12%/15%, on the onset of healthy execution of order book. Yet, the margin improvement expected to come from the new order additions post-FY21 is expected to defer further to the next quarter, with legacy projects getting tapered out ahead. That being said, the company is expecting sequential margin improvement in the consol. ex-services in the next 4-5 quarters, with an onus of reaching a double-digit margin. The working capital as a percentage of sales is also expected to improve, reaching a range of 16.3% to 16.9% from the previously guided levels of 16% to 18%. While the domestic execution could be subdued owing to elections in the following quarter, overseas execution is not seeing any risk emanating with respect to execution. Given the company's stance on seeing commodity prices cooling down, ahead in the year, it believes in securing order book from lower margins by undertaking 43% of its orders as fixed contracts (historically at 33%) and sees no risk in cancellation of orders from the Middle East.

Outlook & Valuation

Given record OB with strong order pipeline and gradual revival in private capex provides healthy outlook ahead. We believe execution for Core E&C business should pick-up meaningfully given the strong inflow and improving working capital cycle. Overall a robust order book, strong balance sheet, diversified business portfolio and proven execution capabilities gives L&T an edge in the current volatile and challenging economic environment. With continued focus on selective order acquisition, efficient execution of large order book, foray into new businesses like electrolyzers, green energy and its focus on improving its RoE, we believe L&T will continue to perform well in such challenging times. Further, L&T's 'Lakshya 2026 Plan' is focusing on scaling up new business opportunities which are now in the incubation phase and are expected to bring significant benefits in future. We have tweaked the estimates factoring strong execution and order inflow and marginally lowered margins given some delay in core margins recovery. We roll over our estimates to FY26 and maintain 'BUY' with a revised SOTP based TP of ₹3865.

Key Risks

Slowdown in the domestic macro-economic environment or weakness in international capital investment can negatively affect business outlook and earnings growth.

SoTP Valuation

Business Segment	Method	Valuation multiple	Value (₹ bn)	Value (₹/sh)	Rationale
L&T Standalone	FY26E PER (x)	25	3707	2637	On Core Engg Business
International Ventures (L&T FZE)	FY25E PER (x)	22	148	105	Discount to L&T standalone
LTI Mindtree	Market cap		1108	789	As per current market cap
L&T technologies	Market cap		437	311	As per current market cap
L&T Finance	Market cap		285	203	As per current market cap
Infrastructure Development Projects	P/BV	1	37	26	
Other subsidiaries	FY26E PER (x)	15	28	20	
Less: Holding Company Discount (20%)			(285)	(226)	Holding company discount of 20% on investments
Total				3,865	

Source: LKP Research

Consolidated Quarterly Result

YE Mar (₹ mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	551,278	463,897	18.8	510,240	8.0
Total Revenues	551,278	463,897	18.8	510,240	8.0
Expenditure	493,688	413,167	19.5	453,921	8.8
as % of sales	89.6	89.1		89.0	
Consumption of RM	352,294	278,072	26.7	310,643	13.4
as % of sales	63.9	59.9		60.9	
Employee Cost	102,533	95,325	7.6	102,989	(0.4)
as % of sales	18.6	20.5		20.2	
Other expenditure	38,861	39,770	(2.3)	40,288	(3.5)
as % of sales	7.0	8.6		7.9	
EBITDA	57,590	50,730	13.5	56,320	2.3
Depreciation	9,208	8,252	11.6	9,099	1.2
EBIT	48,382	42,479	13.9	47,221	2.5
Other Income	8,378	7,550	11.0	11,330	(26.1)
Interest	9,042	8,025	12.7	8,640	4.6
Exceptional Items	-	(1,360)		-	
PBT	47,718	43,364	10.0	49,911	(4.4)
Total Tax	11,773	12,705	(7.3)	11,355	3.7
Adjusted PAT	35,945	30,659	17.2	38,556	(6.8)
Minority Interest	(6,455)	(5,055)	-	(6,229)	-
PAT after MI	29,490	25,604	15.2	32,327	(8.8)
"Share in profit/(loss) after tax of joint ventures/associates (net)"	(17)	(75)		(101)	
"PAT From Continued Operation"	29,474	25,529	15.5	32,226	(8.5)
Adjusted PAT from continued operation	29,474	24,169	21.9	32,226	(8.5)

Source: Company, LKP Research

Concall Highlights

Guidance for FY24

- Revenue growth: High teens (earlier: 12-15%, open ended on upper range)
- Order Inflow growth: above 20% (earlier: 10-12%, open ended on upper range)
- Projects & Manufacturing EBITDA margin: 8.25-8.5% (earlier: 8.5-9%)
- Net Working Capital as % of revenue: ~16.6% (16-18% earlier)

Prospect Pipeline of ₹6.27tn (+29% YoY)

- Infrastructure - ₹4.1tn (+6% YoY)
- Hydrocarbon - ₹1.7tn (+179% YoY)
- Power - ₹0.3tn (+50% YoY)
- Rest - ₹0.16tn

Total Orderbook of ₹4.7tn (+22% YoY)

- Domestic constitutes 61% at ₹2.87tn (Central Govt. – 12%, State Govt. – 31%, PSUs – 35%, Private – 22%).
- International Orderbook of ₹1.83tn (Middle East – 92% (80% of this is from Saudi Arabia), Africa – 2%, RoW – 6%).
- 17% of orderbook is funded by either bilateral or multilateral institutions.

Total Order Inflow of ₹760bn (+25% YoY)

- Domestic order inflow at ₹251bn (-45% YoY) while exports order inflow at ₹509bn (+236% YoY).
- Export order inflows have been driven by mega order wins in Middle East while domestic order inflows have remained weak compared to last year.

Net Working Capital & RoE

- Net Working Capital improved 10bps QoQ to 16.6% of revenue driven by improved customer collections which, ex-financial services, stood at ₹494bn (434bn in Q3FY23, +14% YoY) .
- Trailing Twelve Month (TTM) RoE – 15.2% (12.4% in Q3FY23)

Other Highlights

- **Projects & Manufacturing (Core business) margin:** The company expects sequential improvement in core business margin, however, meaningful improvement could be seen Q2FY25 onwards as FY25 will have significant share of newer high margin orders in revenue mix. Claim settlement in progress for some specific high value projects that saw cost and time overruns during covid.
- **Weak domestic ordering and execution could sustain around elections too:** L&T's domestic revenue and order inflow have remained subdued during 9MFY24 and the company sees the risk of an election related slowdown impact on execution and inflows for Q4FY24 and Q1FY25. However, an increased share of international orderbook implies a reduced impact of the domestic slowdown.
- **L&T has entered more fixed price contracts incrementally** in the last few quarters and fixed price contracts form ~42-43% of orderbook against a traditional level of ~33-35%.
- Solar projects have price variation clauses, so drop in solar module price won't lead to improved margin
- **Risk mitigation framework augmented in Middle East (ME) with increasing Orderbook share:** The company has put in place contract management teams locally in ME, increased local teams to sense local developments, so risk mitigation strategy has been enhanced. It has also worked on understanding of the customer and funding source.
- **Power Business:** Last few years, power business has been supported by FGD orders. Utilization of BTG power plant is 30%. Some part of facility is getting utilized for other sectors. 50% utilization level is needed to break-even.

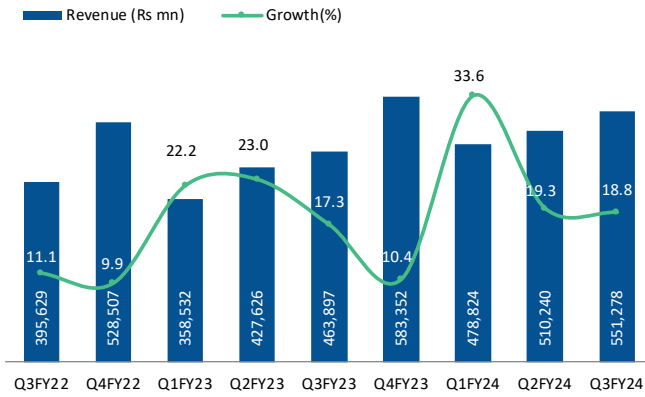
Segment-wise details

YE Mar (₹ mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue					
Infrastructure Projects	282,664	222,057	27.3	249,768	13.2
Energy Projects	78,703	63,462	24.0	67,943	15.8
Hi-Tech Manufacturing	21,847	18,631	17.3	20,411	7.0
IT & Technology Services	113,260	106,051	6.8	112,470	0.7
Financial Services	34,067	33,486	1.7	30,841	10.5
Developmental Projects	12,199	11,067	10.2	18,531	(34.2)
Others	17,418	15,360	13.4	18,880	(7.7)
Total	560,157	470,112	19.2	518,843	8.0
Less: Inter-segment revenue	8,879	6,214	42.9	8,603	3.2
Net segment revenue	551,278	463,897	18.8	510,240	8.0
EBIT					
Infrastructure Projects	12,054	13,042	(7.6)	10,356	16.4
Energy Projects	6,952	4,966	40.0	5,877	18.3
Hi-Tech Manufacturing	2,948	2,480	18.8	2,338	26.1
IT & Technology Services	19,708	17,053	15.6	19,012	3.7
Financial Services	8,240	6,304	30.7	7,964	3.5
Developmental Projects	1,184	(56)	-	6,341	(81.3)
Others	3,453	2,645	30.6	2,982	15.8
Total	54,539	46,434	17.5	54,869	(0.6)
Less/(Add) Intersegment revenue on capital jobs	1,122	164	584.1	281	299.5
Less: Finance Cost	9,042	8,025		8,640	
Add/(Less) : Unallocable corporate income net of expenditure	3,343	3,759	(11.1)	3,962	(15.6)
"Add/(Less) : Exceptional items"	-	1,360		-	
EBIT from continuing operations	47,718	43,364	10.0	49,911	(4.4)

Source: Company, LKP Research

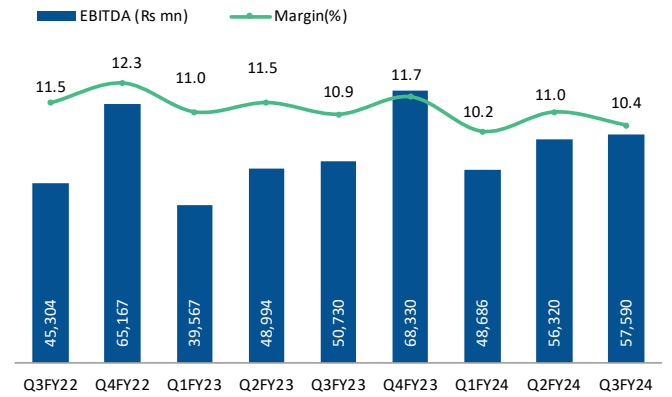
Financials in charts

Revenue trend



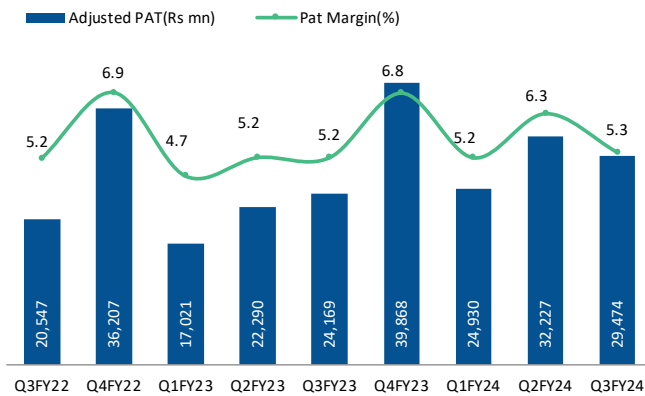
Source: Company, LKP Research

EBITDA and margin trend



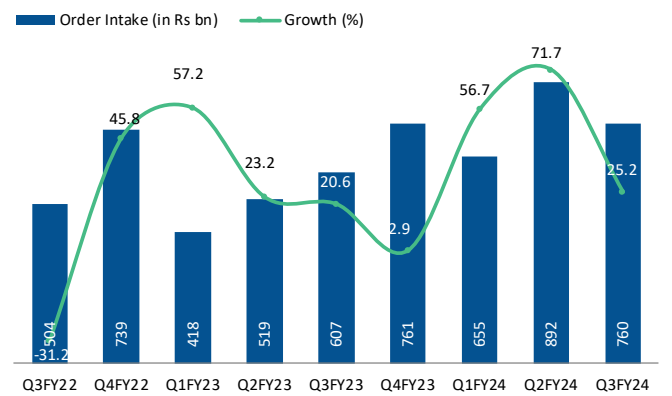
Source: Company, LKP Research

Net profit and profit margin trend



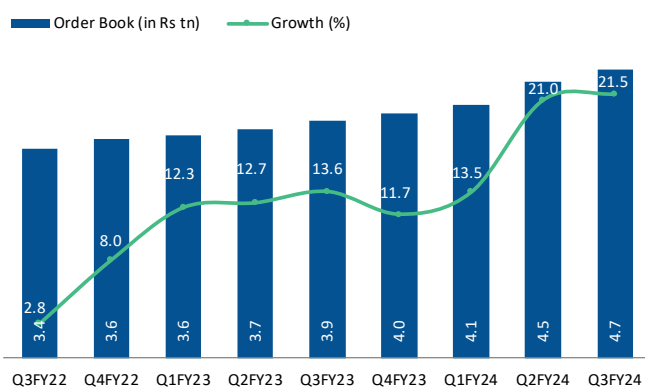
Source: Company, LKP Research

Order Intake and growth trend



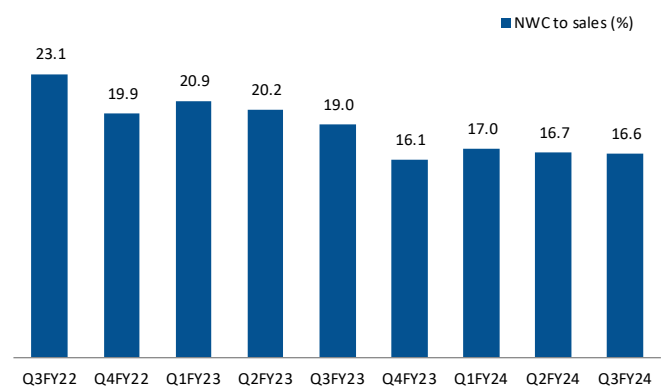
Source: Company, LKP Research

Order book and growth trend



Source: Company, LKP Research

Net Working Capital to Sales



Source: Company, LKP Research

Profit and Loss Statement - Consolidated

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Total Income	1,565,212	1,833,407	2,196,279	2,533,078	2,776,745
Raw material Cost	547,676	681,002	874,532	1,041,358	1,152,827
Employee Cost	296,958	372,141	401,912	434,065	468,791
Other expenses	538,532	572,731	683,357	761,466	828,810
Total operating Expenses	1,383,175	1,625,874	1,959,801	2,236,889	2,450,427
EBITDA	182,037	207,533	236,477	296,189	326,318
% margins	11.6	11.3	10.8	11.7	11.8
Depreciation & Amortisation	29,480	35,023	37,361	40,152	43,182
EBIT	152,558	172,510	199,116	256,037	283,137
Interest	31,257	32,072	26,943	29,104	28,816
Other Income	22,671	29,292	30,005	32,254	34,839
Recurring PBT	143,972	169,730	202,179	259,186	289,159
Add: Extraordinaries	969	1,360	-	-	-
Add: Share in associates					
PBT	144,941	171,090	202,179	259,186	289,159
Less: Taxes	42,039	44,842	53,173	68,166	76,049
Less: Minority Interest & Share in associates	14,935	20,403	21,249	21,112	20,951
Net Income (Reported)	87,967	105,845	127,757	169,909	192,159
Adjusted Net Income	87,967	104,485	127,757	169,909	192,159

Balance Sheet

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Assets					
Total Current Assets	2,519,509	2,598,733	2,994,687	3,331,794	3,647,036
of which cash & cash eqv.	189,532	225,196	303,700	315,289	318,455
Total Current Liabilities & Provisions	975,039	1,047,703	1,262,883	1,440,189	1,577,672
Net Current Assets	1,544,470	1,551,031	1,731,803	1,891,605	2,069,364
Investments	273,995	273,995	273,995	273,995	273,995
Net Fixed Assets	305,578	324,098	324,525	324,429	323,705
Capital Work-in-Progress	-	-	-	-	-
Goodwill	74,770	77,987	77,987	77,987	77,987
Total Assets	2,198,813	2,227,110	2,408,310	2,568,015	2,745,051
Liabilities					
Borrowings	1,234,682	1,185,134	1,224,682	1,212,682	1,200,682
Deferred Tax Liability	10,393	6,304	6,304	6,304	6,304
Minority Interest	129,661	142,413	165,031	187,763	210,608
Equity Share Capital	2,810	2,811	2,811	2,811	2,811
Face Value per share (Rs)	2.00	2.00	2.00	2.00	2.00
Reserves & Surplus	821,267	890,449	1,009,482	1,158,454	1,324,645
Net Worth	824,077	893,260	1,012,293	1,161,265	1,327,456
Total Liabilities	2,198,813	2,227,110	2,408,310	2,568,015	2,745,051

Cash Flow Statement

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating Cash flow	109,711	130,620	156,361	198,919	221,453
Working Capital Changes	9,062	(30,323)	(102,269)	(148,212)	(174,593)
Capital Commitments	11,166	(21,737)	(427)	97	723
Free Cash Flow	129,938	78,560	53,665	50,803	47,583
Cash flow from Investing Activities	81,619	87,451	30,005	32,254	34,839
Issue of Share Capital	-	-	-	-	-
Buyback of shares	-	-	-	-	-
Inc (Dec) in Borrowings	(91,370)	(49,548)	39,548	(12,000)	(12,000)
Interest paid	(31,257)	(32,072)	(26,943)	(29,104)	(28,816)
Dividend paid	(35,574)	(37,258)	(44,715)	(59,468)	(67,256)
Extraordinary Items/Others	(26,239)	(11,469)	(26,384)	29,104	28,816
Chg. in Cash & Bank balance	27,117	35,664	25,177	11,589	3,166

Key Ratios

YE/Mar	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data (in Rs.)					
Diluted adjusted EPS	62.6	74.3	90.9	120.9	136.7
Recurring Cash EPS	94.2	114.7	132.6	164.5	182.3
Dividend per share (DPS)	21.9	26.5	32.7	42.4	42.4
Book Value per share (BV)	586.3	635.5	720.2	826.2	944.5
Growth Ratios (%)					
Operating Income	15.1	17.1	19.8	15.3	9.6
EBITDA	16.5	14.0	13.9	25.3	10.2
Recurring Net Income	27.5	18.8	22.3	33.0	13.1
Diluted adjusted EPS	27.6	18.7	22.3	33.0	13.1
Diluted Recurring CEPS	74.8	21.8	15.6	24.0	10.9
Valuation Ratios					
P/E	55.6	46.8	38.3	28.8	25.5
P/CEPS	36.9	30.3	26.2	21.2	19.1
P/BV	5.9	5.5	4.8	4.2	3.7
EV / EBITDA	31.9	27.5	24.0	19.1	17.3
EV / Operating Income	3.7	3.1	2.6	2.2	2.0
Operating Ratio					
Raw Material/Sales (%)	35.0	37.1	39.8	41.1	41.5
SG&A/Sales (%)	19.9	19.0	18.5	18.2	18.2
Other Income / PBT (%)	15.7	17.3	14.8	12.4	12.0
Effective Tax Rate (%)	29.2	26.4	26.3	26.3	26.3
NWC / Total Assets (%)	61.6	59.5	59.3	61.4	63.8
Inventory Turnover (days)	13.9	13.6	14.2	15.0	15.0
Receivables (days)	107.6	89.1	90.0	90.0	90.0
Payables (days)	135.7	114.9	117.5	120.7	121.3
D/E Ratio (x)	1.5	1.3	1.2	1.0	0.9
Return/Profitability Ratio (%)					
Recurring Net Income Margins	5.6	5.7	5.8	6.7	6.9
RoCE	7.9	9.1	9.9	11.6	12.0
RoNW	11.1	12.2	13.4	15.6	15.4
Dividend Payout Ratio	35.0	35.6	36.0	35.1	31.0
Dividend Yield	0.6	0.8	0.9	1.2	1.2
EBITDA Margins	11.6	11.3	10.8	11.7	11.8

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