

3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

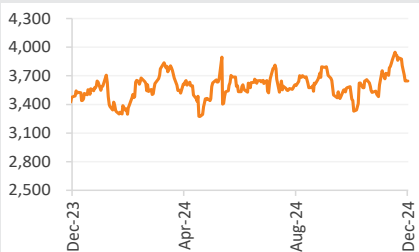
Company details

Market cap:	Rs. 5,01,188 cr
52-week high/low:	Rs. 3,963/3,175
NSE volume: (No of shares)	12.2 lakh
BSE code:	500510
NSE code:	LT
Free float: (No of shares)	137.5 cr

Shareholding (%)

Promoters	0.0
FII	22.9
DII	39.0
Others	38.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.9	17.1	3.2	17.1
Relative to Sensex	-0.9	-0.1	1.4	5.7

Source: Mirae Asset Sharekhan Research, Bloomberg

Larsen & Toubro

Strong case for robust execution and margin recovery

Capital Goods	Sharekhan code: LT	
Reco/View: Buy	↔	CMP: Rs. 3,645 Price Target: Rs. 4,550 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- L&T by virtue of its leadership and diversified offerings in the EPC domain would be a key beneficiary of the government's infrastructure thrust and capex revival in private sectors. Further, increased investments in infrastructure, and hydrocarbon in GCC region provide diverse opportunities.
- Given a strong order book at ~Rs 5.1 lakh crore (2.2x TTM revenue) and order prospects of Rs. 8.04 trillion, we expect robust execution going forward. Multiple margin tailwinds – easing supply chain, stable commodity prices, and higher margin orders indicate margin recovery from FY2025.
- Focus on sunrise sectors such as green hydrogen, data centres, e-commerce as well as defence would lead to further diversification.
- We maintain BUY on L&T with a PT of Rs. 4,550, given strong execution and margin tailwinds and improving return ratios in the capex upcycle.

L&T, the engineering conglomerate, by virtue of its leadership and commendable execution track record in the engineering, procurement and construction (EPC) domain is well poised to benefit from the capex upcycle in both public and private sectors. For FY2025, we expect L&T to meet its order intake guidance of 10% growth y-o-y and would easily achieve revenue growth guidance of 15%, given robust order book of Rs. 5.1 lakh crore. Apart from strong growth visibility in its existing business, new growth avenues such as green hydrogen, data centres, and e-commerce businesses would contribute to its long-term growth. We expect its core business revenue/PAT to grow at 13%/17% over FY2024-FY2027E.

Bulging order book, capex upcycle to drive performance

L&T's order book stands at a record level of Rs. 5.1 lakh crore (up 13% y-o-y), translating to 2.2x its TTM consolidated revenue. The company's H1FY2025 order inflows declined by ~2% y-o-y to Rs. 1.5 lakh crore. The share of international orders in the P&M business was at 62% in Q2FY2025. 40% of order book as of H1FY2025 is now international, of which 85% comes for the Middle East. Order prospects stand at Rs. 8.07 lakh crore (down 8% y-o-y). Out of the domestic orders prospects of Rs. 3.06 trillion, the share of private orders is 22%. Hence, we believe L&T's quality and well-diversified order book would help the company in timely execution in the coming years. L&T, being the largest engineering and construction player, stands to be a key beneficiary of public capex spend comprising the centre, states, and PSUs.

Opportunities in sunrise sectors such as green hydrogen and defence would aid long-term growth

L&T has a long-term plan to expand its presence in sunrise sectors such as green hydrogen development, electrolyser and battery manufacturing, data centres including scaling up of its digital and e-commerce businesses. L&T is eyeing a total investment of Rs. 1,500 crore for electrolysers for which a pilot green hydrogen plant has already been commissioned for an initial capacity of 150MW and is set to expand to 1GW over the long term. L&T plans to pursue opportunities in the EPC of green hydrogen plants in the Middle East as well. In battery storage, the company plans an investment of Rs. 2,500 crore for battery storage and Rs. 1,800-2,000 crore for data centre over the next few years. Further, the company sees substantial opportunities in the defence in shipbuilding segments in the coming years and aims to double its order book in defence in the next two-three years. Lately, the company has sealed a contract worth Rs. 7,628 crore with MoD for the procurement of K9 Vajra artillery guns for the Indian Army.

Domestic and international capex trends supportive for L&T

After a slow start to capital expenditure by both states and the centre during the ongoing financial year 2024-2025, which can primarily be attributed to the general elections earlier this year, a pickup in the second half of the fiscal is predicated on increased government spending. Due to the general elections in H1FY2025, central government's capex was down 19% y-o-y until August 2024. Similarly, capex of state governments fell ~13% y-o-y. We think the central government's capex is likely to pick up in H2 as the government will likely try to meet its full-year capex targets and, as a result, central capex growth could be quite high (as high as ~40% y-o-y for the remaining FY2025E if budget estimates are met). Apart from domestic markets, L&T is seeing a strong pipeline in the Middle East, where it primarily works on hydrocarbon and solar projects. Capex in the Middle East, which was USD48bn in FY2024, is estimated to rise to USD60bn in FY2025 – providing order visibility for L&T. Any moderation in government capex should be offset by international prospects and a pickup in private orders in India.

Revision in estimates – We maintain our estimates.

Our Call

Maintain BUY with a PT of Rs. 4,550: L&T reported higher execution in its projects and manufacturing vertical along with stable consolidated OPM despite higher execution of international orders during Q1FY2025. The company's lifetime higher order book provides a healthy revenue visibility over the next two years. Order prospects in the domestic and international markets remain healthy at Rs. 8.07 lakh crore. Domestic orders are expected to see pick-up in H2FY2025. L&T remains at the forefront to reap benefits from the AtmaNirbhar Bharat scheme with its diversified businesses across sectors such as defence, infrastructure, heavy engineering, and IT and is the best proxy for domestic capex. We maintain BUY with a SOTP-based price target (PT) of Rs. 4,550, rolling forward our valuation to H1FY2027E earnings and considering its strong order prospects.

Key Risks

Slowdown in the domestic macroeconomic environment and geopolitical conflicts on the international front can adversely impact its order prospects.

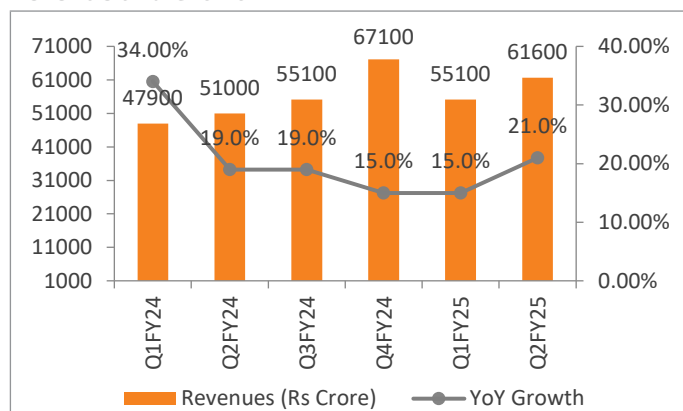
Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	Rs cr FY27E
Revenue	1,83,341	2,21,113	2,50,963	2,82,334	3,21,860
OPM (%)	11.3	10.6	10.8	11.0	11.3
Adjusted PAT	10,335	12,966	14,781	17,273	20,579
YoY growth (%)	20.6	25.5	14.0	16.9	19.1
Adjusted EPS (Rs.)	75.2	94.3	107.5	125.7	149.7
P/E (x)	49.6	38.6	33.9	29.0	24.3
P/B (x)	5.7	5.8	5.2	4.5	3.9
EV/EBITDA (x)	23.8	20.0	17.5	14.9	12.3
RoCE (%)	8.9	10.2	11.5	12.8	14.6
RoNW (%)	12.2	14.9	16.1	16.6	17.3

Source: Company; Mirae Asset Sharekhan estimates

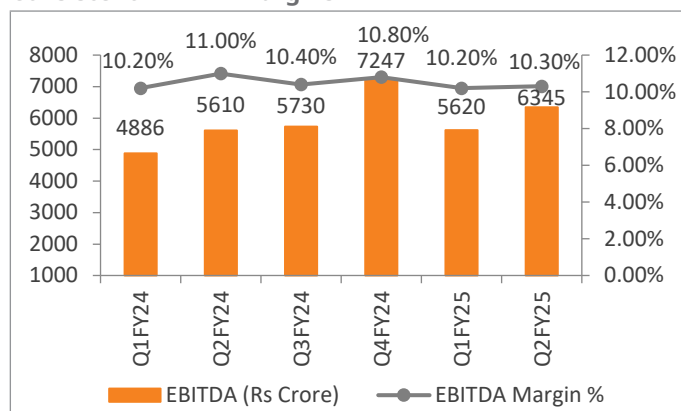
Financials in charts

Revenue and Growth



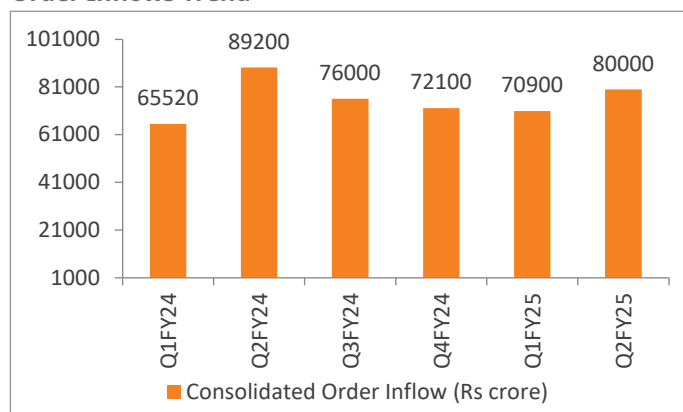
Source: Company; Mirae Asset Sharekhan Research

Consistent EBITDA Margins



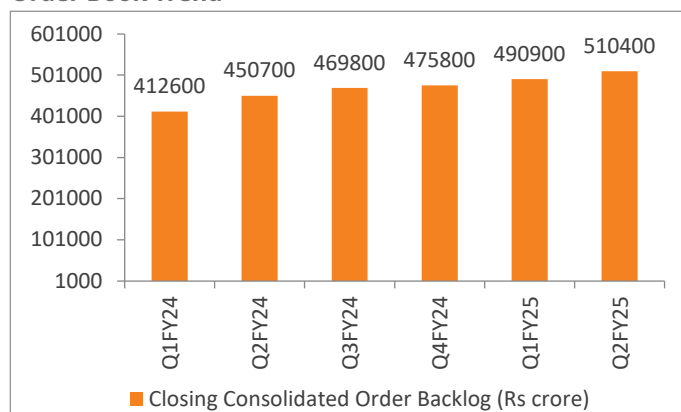
Source: Company; Mirae Asset Sharekhan Research

Order Inflows Trend



Source: Company; Mirae Asset Sharekhan Research

Order Book Trend



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Continued government focus on infrastructure spending to provide growth opportunities

To make India a USD5 trillion economy by FY2025 and to continue growing at an escalated trajectory until 2030, it is estimated that the government would need to spend USD4.5 trillion on infrastructure. To achieve the goal, the government drew up National Infrastructure Pipeline (NIP) through a bottom-up approach, wherein all projects costing over Rs. 100 crore per project under construction, proposed greenfield, and brownfield projects and those at conceptualisation stage were captured. Consequently, the total capital expenditure in infrastructure sectors in India during FY2020-FY2025 is projected at ~Rs. 111 lakh crore. During the same period, sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) are likely to amount to ~71% of the projected infrastructure investments in India. The huge outlay towards infrastructure is expected to provide healthy growth opportunities for companies in this space.

■ Company Outlook – Expect healthy order inflows and improved execution

Management expects strong growth momentum to continue with a focus on growth in both revenue and order inflows for FY2023/FY2024. Management aims to exceed the order intake guidance for FY2023 and achieve revenue guidance given the strong order book. OPM is expected to decline y-o-y for FY2023. However, margins have bottomed out for the core business and we could see improvement from current levels. Further, the working capital requirement (as a percentage of sales) would be at 19-20%. Order prospects are also healthy with the rise in government spend and private capex and strong traction in international orders. On the asset divestment front, for the Hyderabad Metro, the company is evaluating various options while divestment of power assets is near closure. Thus, we expect L&T to perform consistently owing to multiple levers such as a strong business model, a diversified order book, and a healthy balance sheet.

■ Valuation – Maintain BUY with a PT of Rs. 4,550

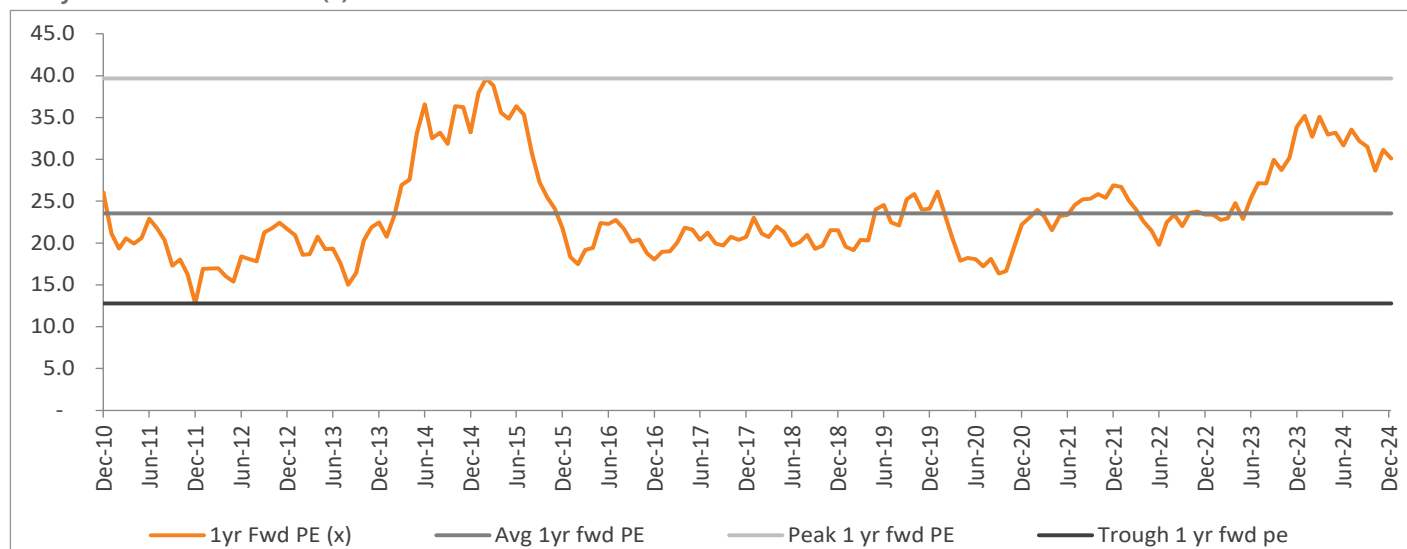
L&T reported higher execution in its projects and manufacturing vertical along with stable consolidated OPM despite higher execution of international orders during Q1FY2025. The company's lifetime higher order book provides a healthy revenue visibility over the next two years. Order prospects in the domestic and international markets remain healthy at Rs. 8.07 lakh crore. Domestic orders are expected to see pick-up in H2FY2025. L&T remains at the forefront to reap benefits from the AtmaNirbhar Bharat scheme with its diversified businesses across sectors such as defence, infrastructure, heavy engineering, and IT and is the best proxy for domestic capex. We maintain BUY with a SOTP-based price target (PT) of Rs. 4,550, rolling forward our valuation to H1FY2027E earnings and considering its strong order prospects.

SOTP Valuation

Particulars	Remarks	Value (Rs. crore)	Per share (Rs.)
L&T's core business (standalone)	At 30x H1FY2027 estimates	4,56,811	3,323
Subsidiaries			
LTIMindtree	Based on our target price	96,634	710
L&T Finance Holdings (L&TFH)	Based on our target price	27,047	197
L&T Technology Services Ltd. (LTTS)	Based on our target price	32,168	234
Development projects (including IDPL)	At 0.8x Book Value	6,720	49
Hydrocarbon subsidiary	At 0.8x Book Value	1,000	7
Other subsidiaries	At 0.8x Book Value	3,613	26
Associates and Other	At 0.8x Book Value	477	3
Total subsidiary valuation		1,68,659	1,227
Fair value		6,25,471	4,550

Source: Company; Mirae Asset Sharekhan estimates

One-year forward EV/EBITDA (x) band



Source: Company; Mirae Asset Sharekhan Research

About the company

L&T is an Indian multinational engaged in technology, engineering, construction, manufacturing, and financial services and is one of the largest players in India's private sector. A strong customer-focused approach and constant quest for top-class quality have enabled the company to attain and sustain a leadership position in major lines of businesses over eight decades. The company operates in over 30 countries worldwide.

Investment theme

Capex in the economy continues to be driven by the public sector mainly in the areas of power (renewable and T&D), transportation (roads, railways, and metro projects) and defence (mainly towards indigenisation); and L&T remains the key beneficiary. With India expected to invest significantly in infrastructure creation over the next few years and with re-election of the governments providing thrust on domestic manufacturing through 'Make in India' project, companies focusing on the domestic market are in a sweet spot compared to export-centric companies. Continued emphasis on infrastructure spending with focus on rail, road, and renewable is expected to benefit L&T.

Key Risks

- ◆ Slower-than-expected project execution in domestic and international markets due to various reasons such as pending approvals and clearances from government agencies and land acquisition could affect revenue.
- ◆ Weakness in domestic investment could impact growth and award of large projects, thus posing a downside risk.
- ◆ Unexpected political changes in some of the developed countries, trade barriers, and conflict in the Middle East are some of the risks that can affect the company's performance.

Additional Data

Key management personnel

A.M. Naik	Group Chairman
S.N. Subrahmanyam	Chief Executive office and Managing Director
R. Shankar Raman	Chief Financial Officer
D.K. Sen	Sr. Executive V.P. - Infrastructure
M.V. Satish	Sr. Executive V.P. - Building, Minerals and Metals
J.D. Patil	Sr. Executive V.P. - Defence

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	11.42
2	SBI Funds Management	4.41
3	Government of Singapore	3.34
4	ICICI Prudential Asset Management	2.7
5	FMR LLC	2.16
6	NPS Trust A/c UTI Retirement Solutions	1.91
7	Vanguard Group Inc	1.89
8	HDFC Asset Management	1.78
9	Blackrock Inc.	1.62
10	General Insurance Corp. of India	1.60

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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