

## Strong hands on the wheel, easing into each new turn with care...

**About the stock:** Larsen & Toubro (L&T) is India's largest engineering & construction (E&C) company, with interest in EPC projects, hi-tech manufacturing and services. The company primarily operates in infrastructure, heavy engineering, defence engineering, power, hydrocarbon, services business segments

- Infrastructure segment contributes ~52% of consolidated revenue followed by services (~22%), energy projects (16%) and international markets (46% of backlog from international markets)

**Q4FY25 performance:** The company secured quarterly order inflows (OI) worth ₹89,613 crore up 24% YoY. Orders were received across multiple geographies and sectors, 70% of OI were international orders. The current backlog stands at ₹579,137 crore, up 22% YoY. Strong execution in the energy projects segment (revenues up 49% YoY) led to consolidated revenue growing by 11% YoY to ₹74,392 crore. Consolidated EBITDA margins came in at 11% up 20 bps YoY. Consequently, PAT came in at ₹5497 crore up ~25% YoY, PAT margins at 7.4% up 84 bps YoY, ROE for FY25 was 16.3% up 140 bps YoY.

### Investment Rationale:

- Backlog growth of 22% YoY renders strong visibility:** The company has a current order backlog of ₹579,137 crore up 22% YoY. The execution trends of FY25, especially in infra, hydrocarbon and precision engineering space indicated execution momentum which led the FY25 revenue growth of 16% YoY. This momentum is expected to continue in FY26E and will enable L&T meet revenue guidance of 15% YoY. Given the prospects of ~₹19 trillion for FY26E, L&T expects OI growth of 10% for FY26E on a larger base. Overall, we expect revenues and PAT to grow at CAGR of 14.9% and 16.5% over FY25-FY27E.
- Strong Focus on ROE to create value:** L&T has reached ROE of ~16.3% and anticipates the same to reach 18% as per their strategic plan. The company is banking on improvement of 1% each from 3 catalysts like a) Breakeven of Hyderabad Metro, b) Improvement in P&M segment margins and c) increasing payouts in forms of higher dividends or buybacks.

### Rating and Target Price

- Securing OI over and above the guidance range speaks of the diversity of the company's operations. We believe given the backlog growth and pick up in execution there remains a strong revenue growth over the medium term. With continued focus on improvement of overall return ratios and aspiration of 18% ROE by 2026E looks probable. We maintain BUY rating with target of ₹4170.



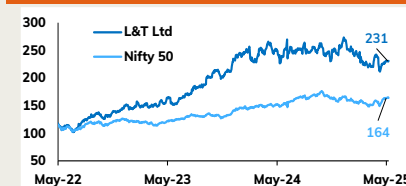
#### Particulars

Particular	Rs. in crore
Market Cap	4,60,497.0
Total Debt (FY25)	21,934.3
Cash (FY25)	3,583.6
EV	4,78,847.8
52 week H/L (Rs.)	3963 / 2968
Equity capital	275.0
Face value (Rs.)	2.0

#### Shareholding pattern

%	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	-	-	-	-
FII	22.9	21.7	20.8	19.8
DII	38.9	40.4	41.7	42.7
Public	38.3	37.8	37.5	37.5

#### Price Chart



#### Key risks

- Delay in order execution
- less than expected improvement in return ratios.

#### Research Analyst

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### Key Financial Summary

Particulars (₹ Crore)	FY23	FY24	FY25	5-Year CAGR (FY20-FY25)	FY26E	FY27E	2-Year CAGR (FY25-FY27E)
Net Sales	1,10,501.0	1,26,235.9	1,42,510.4	11.6%	1,64,037.0	1,88,117.5	14.9%
EBITDA	9,294.7	9,684.5	11,591.5	11.1%	14,141.6	16,487.7	19.3%
EBITDA Margin (%)	8.4	7.7	8.1		8.6	8.8	
Adj. Net Profit	7,794.9	9,372.6	11,133.7	14.9%	12,765.6	15,118.8	16.5%
Adj. EPS (₹)	59.0	68.2	80.3		92.0	109.0	
P/E (x)	60.2	52.1	44.3		38.6	32.6	
RoNW (%)	11.1	12.3	13.4		14.0	15.0	
RoCE (%)	13.0	13.9	15.2		16.0	17.3	

Source: Company, ICICI Direct Research

## Key result and concall highlights

- L&T reported robust Q4FY25 results across all parameters. The order inflow (OI) for Q4FY25 stood at ₹89,613 crore, up 24% YoY and decline of 22.8% sequentially. International orders at ₹62,739 crore constituted 70% of the total OI, as a result of one ultra mega order from Qatar LNG. The consolidated order book is at ₹579,137 crore as at Q4FY25 up 22% YoY and 3% sequentially. Share of international orders at 46%.
- Order book for Infrastructure Projects stood at ₹357,053 crore, with OI for Q4FY25 at ₹34,580 crore (~55% international) up 10% YoY, aided by T&D and renewable energy orders. Energy projects order book stood at ₹165,754 crore with OI for Q4FY25 at ₹32,201 crore (~97% international) up>100% YoY on back of ultra mega Qatar Energy order in hydrocarbon business. Hi-tech manufacturing order book stood at ₹40,388 crore (11% international), OI for Q4FY25 at ₹2,263 crore, a decline of 74% YoY due to high base. Others segment orderbook stood at ₹15,942 crore.
- Consolidated /standalone revenues at ₹74,392/₹42,329 crore for Q4FY25 up 11%/21% YoY, aided by ramp up in execution of the strong order book in the Projects and Manufacturing (P&M) portfolio. Consolidated margins came in at 11% up 20 bps YoY. Consequently, Q4FY25 consol/standalone PAT grew to ₹6,133/₹3509 crore, up 22.5%/29% YoY and for FY25 to ₹17,687/₹10,871 crore up 14%/16% YoY.
- The NWC to sales ratio continues to remain at very comfortable levels of 11% vs. 12% YoY and 12.7% QoQ. The company has guided that for it expects to maintain the same at 12% for FY26E. This year's NWC-to-revenue ratio of 11% is an improvement of ~ 400 bps over the guided ratio of 15% for FY25, largely on account of stronger collections.
- For FY26E, the company has guided to achieve 10% YoY growth in gross order inflows, 15% YoY growth in gross revenue, EBITDA margins of 8.5% in Projects and Manufacturing portfolio and Net working capital to sales ratio of 12%.
- The company expects to improve its key operating parameters in Hyderabad metro over the medium term on the back on increasing ridership to 6 lakh passengers per day (ppd) from an average of 4.45 Lakh ppd currently; increase in fare from ₹35-40 band to ₹45-50; reduction in debt by realising ₹2100 remaining from the state government. The achievement of the same will make the project economically viable and open the gates for stake sale.
- Order prospects for FY26E stands at ₹19 trn (vs ₹12 trn FY25) , of which a.) Infra is ₹9.6 trn (₹7.25 trn), b.) Energy projects is ₹9.07 trn (₹4.47 trn), c.) Hi tech manufacturing is ₹29 Bn. Domestic prospects constitute 63% of total order prospects.

**Exhibit 1: SOTP Valuation**

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	4141.1	78.4	3269.3	78.5	1961.6	76.1
L&T Finance Holdings	186	3.5	149	3.6	93	3.6
L&T IT Subsidiaries	897	17.0	718	17.2	493.4	19.1
L&T Power Development	13	0.2	8.6	0.2	7.7	0.3
L&T MHI JV	12	0.2	5.0	0.1	2.6	0.1
Other E&C, MIP & E&E Sub	29	0.6	8.2	0.2	12.3	0.5
<b>Total</b>	<b>5281</b>	<b>100.0</b>	<b>4166</b>	<b>100.0</b>	<b>2578</b>	<b>100.0</b>

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 2: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total operating Income	1,26,235.9	1,42,510.4	1,64,037.0	1,88,117.5
Growth (%)	14.2	12.9	15.1	14.7
Raw Material Expenses	15,647.1	19,369.8	17,860.8	21,446.3
Employee Expenses	8,864.4	10,242.9	11,258.1	12,919.0
Other Operating Expenses	74,861.1	82,599.0	97,563.3	1,11,922.8
Sales, admin & Other Exp	3,453.9	3,894.4	6,939.1	6,669.1
Other Mfg. Expenses	13,724.9	14,812.8	16,274.1	18,672.6
Total Operating Expenditure	1,16,551.3	1,30,918.9	1,49,895.4	1,71,629.8
EBITDA	9,684.5	11,591.5	14,141.6	16,487.7
Growth (%)	4.2	19.7	22.0	16.6
Depreciation	1,493.1	1,611.9	1,730.7	1,849.5
Interest	1,771.3	1,686.2	1,601.1	1,645.8
Other Income	5,340.6	5,675.8	5,222.3	5,994.8
PBT	11,760.7	13,969.2	16,032.1	18,987.3
Others	0.0	0.0	0.0	0.0
Total Tax	2,411.2	2,835.5	3,266.5	3,868.5
Adj. PAT (Ex-E&A)	9,372.6	11,133.7	12,765.6	15,118.8
Growth (%)	20.2	18.8	14.7	18.4
Adj. EPS (I)	68.2	80.3	92.0	109.0

Source: Company, ICICI Direct Research

### Exhibit 3: Cash flow statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit after Tax	9,463.5	11,133.7	12,765.6	15,118.8
Add: Depreciation	1,493.1	1,611.9	1,730.7	1,849.5
(Inc)/dec in Current Assets	-10,464	-18,876	-16,407	-8,047
Inc/(dec) in CL and Provisions	8,218.6	13,143.4	13,988.5	10,150.6
Others	-	-	-	-
CF from operating activities	8,711.3	7,013.1	12,077.7	19,072.3
(Inc)/dec in Investments	-5,000.0	-3,000.0	-1,000.0	-1,000.0
(Inc)/dec in Fixed Assets	-1,200.0	-1,200.0	-1,200.0	-1,201.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-6,516.9	-5,806	-3,147	-1,856.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-3,789	-4,210	-4,911	-5,893
Inc/(dec) in Sec. premium	50.0	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-4,617	-5,038	-5,739	-5,721
Net Cash flow	-2,422.3	-3,830.5	3,191.3	11,494.8
Opening Cash	7,793.9	5,371.6	1,541.1	4,732.4
Closing Cash	5,371.6	1,541.1	4,732.4	16,227.2

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Liabilities</b>				
Equity Capital	280.9	280.9	280.9	280.9
Reserve and Surplus	75,847.9	82,944.0	90,970.4	1,00,367.8
Total Shareholders funds	76,128.9	83,224.9	91,251.3	1,00,648.7
Total Debt	20,808.7	19,808.7	18,808.7	18,808.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	97,949.8	1,04,110.9	1,11,202.2	1,20,664.6
<b>Assets</b>				
Gross Block	18,069.0	19,269.0	20,469.0	21,669.0
Less: Acc Depreciation	8,790.2	10,309.5	11,947.7	13,704.6
Net Block	9,278.8	8,959.5	8,521.3	7,964.4
Capital WIP	1,100.0	1,100.0	1,100.0	1,101.0
Total Fixed Assets	10,378.8	10,059.5	9,621.3	9,065.4
Investments	50,174.2	53,174.2	54,174.2	55,174.2
Inventory	4,611.3	5,930.5	6,653.1	6,747.0
Debtors	44,960.7	50,757.1	58,424.1	67,000.7
Loans and Advances	948.2	1,046.9	921.5	1,335.9
Other Current Assets	59,724.0	71,385.5	79,528.5	78,490.2
Cash	5,371.6	1,541.1	4,732.4	16,227.2
Total Current Assets	1,15,615.8	1,30,661.2	1,50,259.6	1,69,801.0
Creditors	51,877.7	58,565.9	67,412.5	77,308.6
Provisions	2,334.5	2,752.6	3,168.4	3,633.5
Total Current Liabilities	86,821.3	99,964.6	1,13,953.2	1,24,103.7
Net Current Assets	28,794.6	30,696.5	36,306.4	45,697.3
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	97,949.8	1,04,110.9	1,11,202.2	1,20,664.6

Source: Company, ICICI Direct Research

### Exhibit 5: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Per share data (I)</b>				
EPS	68.2	80.3	92.0	109.0
Cash EPS	79.0	91.9	104.5	122.3
BV	549.4	600.5	658.4	726.1
DPS	27.0	30.0	35.0	0.0
Cash Per Share	38.7	11.1	34.1	117.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	7.7	8.1	8.6	8.8
PBT / Total Operating income	9.4	9.8	9.8	10.1
PAT Margin	7.5	7.8	7.8	8.0
Inventory days	11.5	13.5	14.0	13.0
Debtor days	130.0	130.0	130.0	130.0
Creditor days	150.0	150.0	150.0	150.0
<b>Return Ratios (%)</b>				
RoE	10.7	10.4	14.0	15.0
RoCE	13.9	15.2	16.0	17.3
RoIC	9.9	10.9	13.2	15.8
<b>Valuation Ratios (x)</b>				
P/E	52.1	44.3	38.6	32.6
EV / EBITDA	52.5	44.1	35.9	30.1
EV / Net Sales	4.0	3.6	3.1	2.6
Market Cap / Sales	3.9	3.5	3.0	2.6
Price to Book Value	6.5	5.9	5.4	4.9
<b>Solvency Ratios</b>				
Debt/EBITDA	2.1	1.7	1.3	1.1
Debt / Equity	0.3	0.2	0.2	0.2
Current Ratio	1.3	1.3	1.3	1.4
Quick Ratio	1.3	1.3	1.3	1.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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