

CMP: ₹ 1750.6 Target: ₹ 2175 (24%) Target Period: 12-15 months

BUY

July 27, 2022

Strong show across board

About the stock: Larsen & Toubro (L&T) India's largest engineering & construction (E&C) company with interest in EPC projects, Hi-tech manufacturing and services.

- It primarily operates in Infrastructure, Heavy Engineering, Defence engineering, Power, Hydrocarbon, Services business segments.
- Infrastructure segment contributes ~45% to consolidated revenue followed services (~30%).

Q1FY23 Results: L&T reported good set Q1FY23 results

- Adj. standalone revenue were up by 21.7% YoY to ₹ 20211.7 crore.
- Standalone EBITDA up 11.7% YoY to ₹ 1546.1 crore, margin declined by 68bps to 7.6% on YoY basis.
- Consequently, standalone Adj. PAT at ₹ 911.2 crore (declined by 9.7% YoY)
- Order inflows came in at ₹ 41,805 crore, up by 57% YoY.

What should investors do? L&T's strong order book of ₹ 363448 crore suggest good revenue visibility in coming years.

- We maintain our BUY rating on the stock.

Target Price and Valuation: We value L&T at ₹ 2175 on SoTP basis

Key triggers for future price performance:

- L&T has targeted revenues and order inflow CAGR of 15% and 14% respectively over FY21-FY26 with a consolidated ROE of 18%
- L&T will focus on emerging portfolios like Green EPC, Manufacturing of electrolysers, Battery & Cell manufacturing, Data Centres and Platforms (Sufin & Edutech) in next 5 years.
- Focus on asset monetisation to further strengthen the balance sheet and improve return ratios. Strong B/S, controlled working capital, & strong cash generation

Alternate Stock Idea: Apart from L&T, in our coverage we also like Thermax

- Recent broad based recovery in order inflows, strong order enquiry pipeline across industrial sectors likely to ensure decent order inflows, going forward
- BUY with target price of ₹ 2450



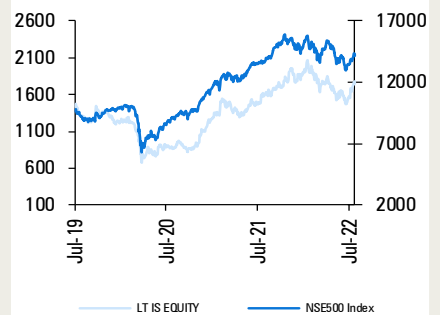
Particulars

Particular	Amount
Market Capitalization	₹ 245644 Crore
Total Debt (FY22)	₹ 22808.7 Crore
Cash & Inv. (FY22)	₹ 5904.2 crore
EV	₹ 262548.7 Crore
52 week H/L	₹2079 / ₹ 1456
Equity capital	₹ 277.5 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	0.0	0.0	0.0	0.0
FII	22.9	23.2	22.4	21.1
DII	33.3	32.9	33.7	34.9
Others	43.8	43.8	43.9	44.1

Price Chart



Recent event & Key risks

- **Key Risks:** (i) Any execution headwinds, order deferments (ii) Delay in sale of non-core assets.

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Key Financial Summary (Standalone)

Particulars (₹ crore)	FY20*	FY21*	FY22*	5-Year CAGR (FY17-FY22)	FY23E	FY24E	2-Year CAGR (FY22-FY24E)
Net Sales	82,383.6	73,315.6	1,01,100.4	8.9%	1,14,982.9	1,31,404.9	14.0%
EBITDA	6,838.2	7,266.2	9,055.5	7.1%	10,708.3	12,856.2	19.2%
EBITDA Margin (%)	8.3	9.9	9.0		9.3	9.8	
Adj. Net Profit	6,679.3	5,414.6	7,879.5	10.7%	9,015.2	10,637.5	16.2%
Adj. EPS (₹)	48.1	39.0	56.1		65.0	76.7	
P/ E (x)	36.4	21.4	27.3		26.9	22.8	
RoNW (%)	12.9	18.8	12.2		12.7	13.6	
RoCE (%)	7.5	7.4	8.9		10.2	11.6	

*PAT, EPS adjusted for E&A business sale and exceptional items.

Source: Company, ICICI Direct Research

Key takeaways of the recent quarter & Concall highlights

Q1FY23 Results: Strong show across board

- L&T's adj. standalone revenues (Ex- E&A) for the quarter grew by 21.7% YoY to ₹ 20211.7 crore (vs. our estimate of ₹ 20586.7 crore). On standalone basis, Infrastructure segment revenue grew by 36% to ₹ 14181 crore on YoY basis aided by improved execution momentum as the Covid related challenges receded in the current quarter. Energy segment revenue came at ₹ 5073 crores grew by 3% YoY basis, largely attributed to pickup of execution momentum in the Power business and Hi-Tech manufacturing segment posted revenue of ₹ 1272 crores and grew marginally by 3% YoY basis. Others segment reported a growth of 21% YoY to ₹1599 crores amid higher handover of flats in the Realty business and increase in sales of Rubber Processing Machinery.
- For Q1FY23, L&T registered strong order inflows at group level worth ₹ 41805 crore, which grew by 57% YoY. Orders were received across diverse segments like Public Spaces, Metros, Water Management & Waste Water, Minerals and Metal, Factories, Data Centers, Defence, Power Transmission and Distribution and Hydrocarbon Offshore sectors. International orders for Q1FY23 came in at ₹ 17842 crore contributing 43% to order inflows. Overall infrastructure segment secured orders worth ₹ 18343 crore (~43.8% of total inflows). L&T's order backlog as on Q1FY23 stood at ₹ 363448 crore with international orders contributing 28%
- Consequently, for Q1FY23, standalone Adj. PAT (Ex-E&A) came in at ₹ 911.2 crore, de-grew by 9.7% on YoY (Vs. our estimates of ₹ 1159.1 crore) due to lower other income. Other income came in at ₹ 567.9 crore de-grew by 19.5% on YoY while, interest expense increased by 6.3% to ₹ 504.5 crore. The consolidated Adj. PAT for Q1FY23 came in at ₹ 1702.07 crore (Vs ₹ 1174.4 crore in Q1FY22).
- From balance sheet perspective, net working capital to sales ratio improved to 20.9% in Q1FY23 from 22.9% in Q1FY22.

Q1FY23 Earnings Conference Call highlights

- L&T total ordering prospects/pipeline for remaining 9MFY23E stands at ₹ 760000 crore, which comprises of ₹ 610000 crore of domestic and ₹ 150000 crore of international pipeline. L&T has become more selective in choosing business opportunities coupled with a strong backlog gives convenience to the company to use discretion for winning relatively profitable orders. From a segment perspective, Infrastructure segment prospects are pegged at ₹560000 crore (Water 22%, T&D 19%, Transportation 19%, B&F 20%, Heavy civil 19%). On the Hydrocarbon and Power side (energy segment), the prospects stand at ₹160000 crore while on the Hi tech manufacturing side (Defence and Heavy eng), the same stands at ₹ 40000 crore.
- The current backlog has 3% orders which are slow moving in nature and orders worth ₹ 1400 crore were removed from the backlog during Q1FY23.
- The management commentary suggests that tendering and awarding activity was quite robust in Q1FY23. This was quite evident from the Award to Tendering ratio which stood at 70% in Q1FY23. Tenders to the tune of ₹250000 crore were opened during Q1FY23 which will translate into orders over next 2-3 quarters.
- As per the commentary and Q1FY23 performance, L&T is well on track to achieve its guidance of 12-15% revenues and order inflow growth for FY23E. The margins guidance has been pegged at 9.5% given the volatile commodity outlook. On the working capital to sales ratio the company had guided for a range of 20-22% in the beginning of FY23 but now the company

is quite confident to end at the lower end of the guidance given pick up in execution and normalisations of debtor's cycle.

- In terms of client exposure, central government forms 11% of the domestic backlog while the share of state governments, PSU and private sector stands at 30%, 42% and 17% respectively
- Share of fixed price contracts in the current backlog stands at 33% while those with price variation clause share is at 67%.
- **Developments at Hyderabad Metro:** Hyderabad Metro is witnessing resurgence in ridership with daily ridership at over 285000 passengers in Q1FY23, which had suffered in Q1FY22 (55000 riders per day) on account of Covid. The subsidiary posted a positive EBITDA of 4.5% but on account of higher interest cost and depreciation, the loss for Q1FY22 was at ₹325 crore vs. loss of ₹349 in Q4FY22 and ₹ 472 crore in Q1FY22. Total loss for FY22 stood at ₹1700 crore. Total debt in the subsidiary stands at ₹13000 crore.
- **Other Developmental Projects:** The company will shortly sell out the remaining 51% in L&T IDPL (Road Assets) and also in active talks to hive off power subsidiary Nabha power. This exits are likely to happen in FY23.

Exhibit 1: Variance Analysis (Standalone)

	Q1FY23	Q1FY23E	Q1FY22	YoY (Chg %)	Q4FY22	QoQ (Chg %)	Comments
Revenue	20,211.7	20,586.7	16,607.9	21.7	37,439.2	-46.0	Strong execution visible in topline
Other Income	567.9	700.0	705.5	-19.5	702.8	-19.2	
Employee Expenses	1,926.5	1,850.0	1,789.9	7.6	1,915.0	0.6	
Raw Material Expenses	16,098.4	16,551.5	12,761.2	26.2	30,827.6	36.0	
Other Operating Expenses	640.7	600.0	672.7	-4.8	827.0	-22.5	
EBITDA	1,546.1	1,585.2	1,384.1	11.7	3,869.6	-60.0	
EBITDA Margin (%)	7.6	7.7	8.3	-68 bps	10.3	-269 bps	
Depreciation	342.1	280.0	288.1	18.7	307.9	11.1	
Interest	504.5	480.0	474.7	6.3	440.8	14.5	
PBT (befor exp. Item)	1,267.3	1,525.2	1,326.8	-4.5	3,823.7	-66.9	
PBT (after exp. Item)	1,267.3	1,525.2	1,326.8	-	3,823.7	-	
Total Tax	356.1	366.0	317.3	12.2	922.6	-61.4	
Adj. PAT (Ex-E&A)	911.2	1,159.1	1,009.5	-9.7	2,901.2	-65.2	PAT looks optically flat on standalone on account of lower other income

Key Metrics

Order inflows	41,805.0	26,557.0	57.4	73,900.0	-43.4	Strong order inflows seen YoY
Order backlog	3,63,400.0	3,00,204.7	21.1	3,57,600.0	1.6	Backlog provides strong visibility for next two to three years

* Adjusted for E&A

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,12,698.8	1,14,982.9	2.0	1,28,539.2	1,31,404.9	2.2	
EBITDA	10,628.1	10,708.3	0.8	12,250.2	12,856.2	4.9	
EBITDA Margin (%)	9.4	9.3	-12 bps	9.5	9.8	25 bps	
PAT	9,081.7	9,015.2	-0.7	10,120.3	10,637.5	5.1	
EPS (₹)	65.5	65.0	-0.8%	72.9	76.7	5.2%	

Source: Company, ICICI Direct Research

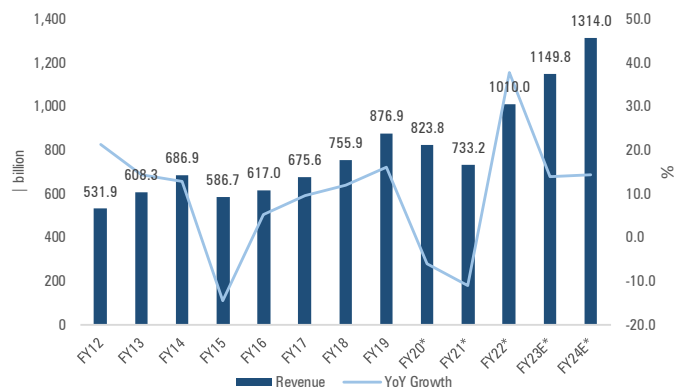
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY21*	FY22	FY23E	FY24E	FY23E	FY24E	
Order Inflow gr	-11.8	-1.3	22.0	11.9	15.6	10.8	
Order Backlog ↓	15.9	11.7	0.4	12.0	8.9	8.9	
Revenue growt	-11.0	37.8	13.8	14.3	26.4	14.1	
EBITDA Margin	9.9	9.0	9.3	9.8	9.4	9.5	

Source: Company, ICICI Direct Research

Financial Story in Charts

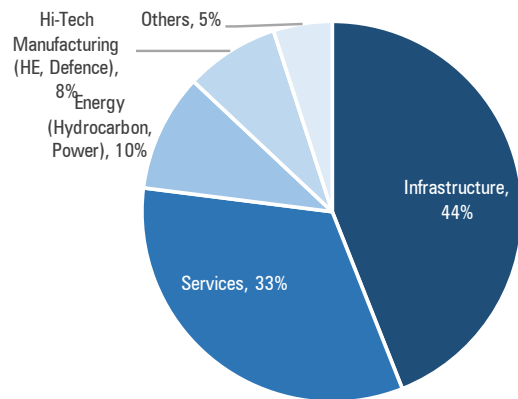
Exhibit 4: Trend in revenue growth



*E&A business has been restated as discontinued Ops.

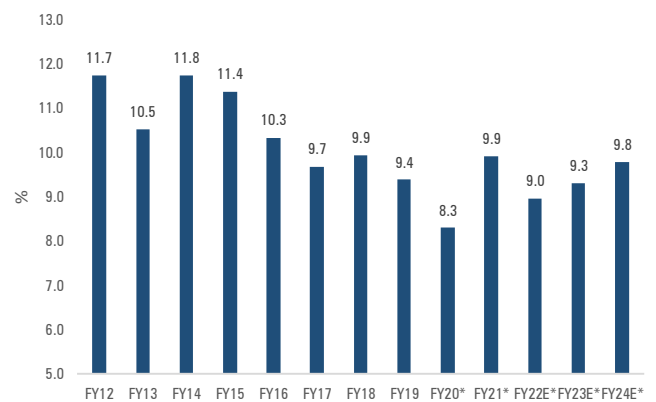
Source: ICICI Direct Research, Company

Exhibit 5: Break-up of consolidated backlog...



Source: Company, ICICI Direct Research

Exhibit 6: Trend in EBITDA margins...



*E&A business has been restated as discontinued ops.

Source: Company, ICICI Direct Research

Exhibit 7: SoTP valuation of L&T

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	1917.5	66.1	1457.3	67.1	767.0	62.1
L&T Finance Holdings	65	2.3	57	2.6	41	3.3
L&T IT Subsidiaries	527	18.2	410	18.9	292.9	23.7
L&T Power Development	13	0.5	8.6	0.4	7.7	0.6
L&T MHI JV	12	0.4	5.0	0.2	5.7	0.5
L&T IDPL	144	5.0	65.3	3.0	30.9	2.5
Other E&C, MIP & E&E Sub	29	1.0	14.3	0.7	12.3	1.0
Others (Mindtree)	193.4	6.7	153.0	7.0	77.4	6.3
Total	2902	100.0	2172	100.0	1235	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Total operating Income	73,315.6	1,01,000.4	1,14,982.9	1,31,404.9
Growth (%)	-11.0	37.8	13.8	14.3
Raw Material Expenses	7,455.1	12,590.9	12,557.8	14,185.8
Employee Expenses	5,485.4	7,396.9	8,520.9	9,213.4
Other Operating Expenses	43,278.2	58,456.6	67,465.8	77,849.5
Sales, admin & Other Exp	2,273.9	2,982.7	4,145.8	4,745.2
Other Mfg. Expenses	7,556.8	10,517.9	11,584.3	12,554.8
Total Operating Expenditure	66,049.4	91,944.9	1,04,274.6	1,18,548.7
EBITDA	7,266.2	9,055.5	10,708.3	12,856.2
Growth (%)	6.3	24.6	18.3	20.1
Depreciation	1,025.6	1,172.5	1,245.6	1,364.4
Interest	2,419.5	1,754.2	1,856.5	1,771.3
Other Income	3,435.5	3,612.7	3,719.3	3,634.7
PBT	7,256.5	9,741.4	11,325.5	13,355.1
Others	0.0	0.0	0.0	0.0
Total Tax	1,751.3	2,129.1	2,310.4	2,717.7
Adj. PAT (Ex-E&A)	5,414.6	7,612.3	9,015.2	10,637.5
Growth (%)	-2.6	40.6	18.4	18.0
Adj. EPS (₹)	39.0	54.2	65.0	76.7

*E&A business has been restated as discontinued ops.

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Profit after Tax	11,363.0	7,879.4	9,015.2	10,637.5
Add: Depreciation	1,025.6	1,172.5	1,245.6	1,364.4
(Inc)/dec in Current Assets	4,223.5	-22,458.8	-2,708.5	-25,643.2
Inc/(dec) in CL and Provisions	118.0	23,445.4	-3,097.8	22,325.3
Others	-	-	-	-
CF from operating activities	16,730.1	10,038.4	4,454.5	8,683.9
(Inc)/dec in Investments	-12,964.2	2,000.0	500.0	500.0
(Inc)/dec in Fixed Assets	-1,028.9	-2,056.8	-1,400.0	-1,200.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-11,829.1	-3,281.8	837.6	-4,969.4
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-3,650.9	-3,087.0	-3,367.7	-3,788.6
Inc/(dec) in Sec. premium	68.0	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-4,828.4	-3,915.0	-4,195.7	-4,616.6
Net Cash flow	72.6	2,841.6	1,096.4	-902.2
Opening Cash	2,989.9	3,062.6	5,904.2	7,000.6
Closing Cash	3,062.6	5,904.2	7,000.6	6,098.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Liabilities				
Equity Capital	280.9	280.9	280.9	280.9
Reserve and Surplus	60,045.0	65,009.3	70,828.8	77,849.6
Total Shareholders funds	60,325.9	65,290.2	71,109.7	78,130.5
Total Debt	23,808.7	22,808.7	21,808.7	20,808.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	85,003.8	88,981.1	93,865.6	99,951.4
Assets				
Gross Block	13,069.0	14,369.0	15,569.0	16,769.0
Less: Acc Depreciation	5,185.2	6,172.2	7,325.3	8,597.1
Net Block	7,883.8	8,196.8	8,243.7	8,171.9
Capital WIP	236.1	900.0	1,100.0	1,100.0
Total Fixed Assets	8,119.9	9,096.8	9,343.7	9,271.9
Investments	47,674.2	45,674.2	45,174.2	44,674.2
Inventory	2,858.6	4,225.3	3,650.2	5,350.1
Debtors	29,948.2	35,972.7	40,952.8	47,881.8
Loans and Advances	434.9	746.8	725.0	957.0
Other Current Assets	48,172.4	62,928.1	61,253.4	78,035.8
Cash	3,062.6	5,904.2	7,000.6	6,098.4
Total Current Assets	84,476.6	1,09,777.1	1,13,582.0	1,38,323.1
Creditors	37,469.8	48,424.9	50,403.4	57,602.2
Provisions	1,320.0	2,033.8	2,268.2	2,592.1
Total Current Liabilities	62,898.7	86,344.1	83,246.3	1,05,571.6
Net Current Assets	21,578.0	23,433.0	30,335.7	32,751.5
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	85,003.8	88,981.1	93,865.6	99,951.4

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21*	FY22*	FY23E*	FY24E*
Per share data (₹)				
EPS	39.0	54.2	65.0	76.7
Cash EPS	89.3	65.2	74.0	86.5
BV	435.5	471.2	513.2	563.8
DPS	26.0	22.0	24.0	27.0
Cash Per Share	22.1	42.6	50.5	44.0
Operating Ratios (%)				
EBITDA Margin	9.9	9.0	9.3	9.8
PBT / Total Operating income	17.9	9.9	9.8	10.2
PAT Margin	15.5	7.8	7.8	8.1
Inventory days	14.0	12.8	12.5	12.5
Debtor days	149.1	130.0	130.0	133.0
Creditor days	186.5	175.0	160.0	160.0
Return Ratios (%)				
RoE	10.7	10.4	12.7	13.6
RoCE	7.4	8.9	10.2	11.6
RoC	7.6	10.4	10.9	12.2
Valuation Ratios (x)				
P/E	21.4	30.8	26.9	22.8
EV / EBITDA	36.3	28.7	24.1	20.0
EV / Net Sales	3.6	2.6	2.2	2.0
Market Cap / Sales	3.3	2.4	2.1	1.8
Price to Book Value	4.0	3.7	3.4	3.1
Solvency Ratios				
Debt/EBITDA	3.3	2.5	2.0	1.6
Debt / Equity	0.4	0.3	0.3	0.3
Current Ratio	1.3	1.3	1.4	1.3
Quick Ratio	1.3	1.2	1.3	1.3

*Adjusted for E&A business

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1751	2,175	Buy	245644	56.8	65.0	76.7	30.8	26.9	22.8	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2670	2,900	Buy	95084	29.5	36.6	48.2	90.5	72.9	55.4	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2320	2,570	Buy	21882	64.6	79.6	85.7	35.9	29.2	27.1	16.5	17.8	17.0	13.2	14.2	13.6
Thermax (THERMA)	2070	2,390	Buy	24665	26.2	42.4	53.1	78.9	48.8	39.0	11.3	16.7	18.7	9.0	13.0	14.4
KEC International (KECIN)	462	381	Hold	11878	12.7	13.0	25.4	36.4	35.6	18.2	12.3	12.0	17.2	10.7	9.2	15.8
Greaves Cotton (GREAVE)	159	179	Buy	3667	0.7	2.6	3.3	224.1	60.2	48.1	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	360	390	Buy	11393	5.7	6.6	8.7	63.0	54.5	41.4	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	267	315	Buy	64960	9.6	11.3	12.6	27.7	23.6	21.2	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	326	340	Hold	4293	42.9	38.6	42.3	7.6	8.5	7.7	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4035	3,720	Buy	19948	77.0	89.6	103.5	52.4	45.0	39.0	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	2880	2,810	Buy	21663	43.5	54.8	62.5	92.8	73.6	64.6	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	132	220	Buy	1276	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	222	230	Buy	2638	9.8	11.5	13.6	22.6	19.3	16.3	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	728	870	Buy	3777	18.1	21.7	27.2	40.2	33.5	26.8	23.8	24.4	25.8	16.4	18.1	19.1
HAL (HINAER)	1882	2,200	Buy	62932	151.9	123.6	137.4	12.4	15.2	13.7	27.4	29.7	30.5	26.3	22.5	23.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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