

## Decent operational performance amid unlock.....

**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.

- It primarily operates in infrastructure, heavy engineering, defence engineering, power, hydrocarbon, services business segments
- Infrastructure segment contributes ~45% to consolidated revenue followed by services (~30%)

**Q2FY22 Results:** L&T reported decent Q2FY22 results.

- Adjusted standalone revenue was up 8% YoY to ₹ 17061 crore on low base.
- Standalone EBITDA was up 14% YoY to ₹ 1402.8 crore with margins improving 40 bps to 8.2% on a YoY basis
- Consequently, standalone adjusted PAT at ₹ 1758.2 crore (up 67.2% YoY)
- Order inflows came in at ₹ 42140 crore, up 50% YoY

**What should investors do?** L&T's strong order book of ₹ 330541 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 ₹ 2150 on SoTP basis

**Key triggers for future price performance:**

- Low to mid teen revenue and order inflow growth in FY22E amid challenges
- Net working capital to sale expected to remain stable at ~22.3% for FY22E
- 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 Siemens Ltd.

- Further penetration of valued added automation and digitisation products & services across segments to drive margins, long term growth
- BUY with target price of ₹ 2550



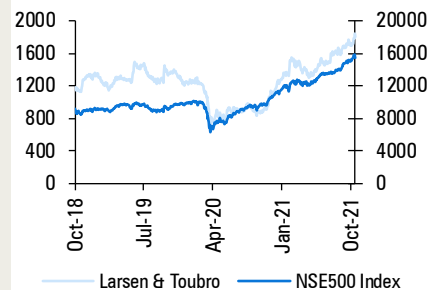
### Particulars

Particular	Amount
Market Capitalization	₹ 247226 Crore
Total Debt (FY21)	₹ 23808.7 Crore
Cash & Inv. (FY21)	₹ 3062.6 crore
EV	₹ 267971.9 Crore
52 week H/L	₹1885 / ₹ 920
Equity capital	₹ 277.5 Crore
Face value	₹ 2

### Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	0.0	0.0	0.0	0.0
FII	21.1	22.0	22.9	22.9
DII	33.8	33.7	33.0	33.3
Others	45.1	44.3	44.2	43.8

### Price Chart



### Recent event & Key risks

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

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### Key Financial Summary (Standalone)

Particulars (₹ crore)	FY19*	FY20*	FY21*	5-Year CAGR (FY16-FY21)	FY22E	FY23E	2-Year CAGR (FY21-FY23E)
Net Sales	82,106.4	82,383.6	73,315.6	4.2%	83,329.1	92,083.6	12.1%
EBITDA	7,708.7	6,838.2	7,266.2	3.3%	8,018.9	9,114.9	12.0%
EBITDA Margin (%)	9.4	8.3	9.9		9.6	9.9	
Adj. Net Profit	6,107.7	5,414.6	5,505.2	5.3%	7,207.1	7,344.7	15.5%
Adj. EPS (₹)	44.0	39.0	39.7		51.9	52.9	
P/ E (x)	40.5	37.0	21.8		34.3	33.7	
RoNW (%)	12.2	12.9	18.8		11.4	11.2	
RoCE (%)	10.7	7.5	7.4		8.0	9.0	

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

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Decent performance, execution picked up amid unlock...

- On a standalone basis, infrastructure segment revenue grew 7.6% to ₹ 13402.5 crore on a YoY basis. Heavy engineering segment revenue de-grew 2.9% to ₹ 687.7 crore on a YoY basis while defence engineering segment revenue grew 10% to ₹ 846 crore. On the other hand, power segment revenues grew 62.4% to ₹ 1118.2 crore on a YoY basis
- From a segmental perspective, infrastructure segment consolidated EBITDA margins improved 190 bps to 8.3% owing to productivity, job mix and improved execution on low base. While hydrocarbon EBITDA margin declined marginally by 20 bps to 8.3% on a YoY basis
- Consequently, for Q2FY22, standalone adjusted PAT (Ex-E&A) came in at ₹ 1758.2 crore, up 67.2% YoY (vs. our estimate of ₹ 1349 crore). Other income came in at ₹ 1353.8 crore increasing 44.8% YoY while interest expense declined 35.4% to ₹ 424.2 crore. Consolidated adjusted PAT for Q2FY22 came in at ₹ 2135 crore (vs. ₹ 1410.3 crore in Q2FY21)
- For Q2FY22, cash generation from operations improved substantially to ₹ 4040 crore (vs. ₹ 2730 crore in Q2FY21). New working capital to sale ratio for H1FY22 was at 22.0% (vs. 22.9% in Q1FY22). As on H1FY22, overall debt declined by ₹ 3800 crore to ₹ 42300 crore compared to FY21 levels

### Q2FY22 Earnings Conference Call highlights

- L&T maintained its guidance of low to mid teen growth in order inflows and revenue for FY22E while there could be near term challenges amid second wave of pandemic. Margins are expected to remain stable at current levels
- On the labour front, the company has gradually ramped-up to 251000 labourers leading to near normal requirement in Q2FY22 amid some productivity challenges along with efforts on re-skilling the work force
- Total 89% of the domestic backlog comes from the central government /state governments (~10%/33%) and PSU (~42%) and private (15%) where the risk of cancellation or deferral are very minimal
- On the ordering pipeline front, L&T expects order prospects to the tune of ₹ 6.83 lakh core for H2FY22E. Out of this, ₹ 5.29 lakh crore is in infrastructure segment (including 1.08 lakh crore from International) while ₹ 1.2 lakh crore is in hydrocarbon segment (including ₹ 20000 crore from domestic market)
- During the quarter, in IDPL segment, the revenue was largely contributed by power development business. Lack of coal availability impacted Nabha revenue in Q2 to certain extent. while Hyderabad Metro ridership has improved amid unlock from 55000 per day in Q2FY21 to 146000 per day in Q2FY22 and has reached 190000 per day in October. The company is looking to monetise and de-risk its balance sheet including Nabha Power, Hyderabad Metro at appropriate valuation in medium term
- The company expects some developments by end of FY22E on restructuring of the capital allocation in Hyderabad Metro project for which it is working out a re-financing package, seeking assistance from Telangana government and has allocated ~₹ 2000 crore capital in FY21. Hyderabad Metro reporting net loss of ~₹ 447 crore in Q2FY22E owing to impact of pandemic on ridership. However, it has 18 msf of transit oriented developmental space, which can be monetised over a period of time
- The current order book has ~60% cost plus contracts and remaining 40% are fixed price contracts. L&T expects to withstand higher commodity prices for its fixed price contracts with overall cost efficiencies and continuously factors in the increase in cost to completion of project

**Exhibit 1: Variance Analysis (Standalone)**

	Q2FY22	Q2FY22E	Q2FY21	YoY (Chg %)	Q1FY22	QoQ (Chg %)	Comments
Revenue	17,061.0	18,893.2	15,791.7	8.0	13,109.0	30.1	Revenue growth, aided by better execution and job mix
Other Income	1,353.8	954.1	935.2	44.8	670.5	101.9	
Employee Expenses	1,567.4	1,596.5	1,402.6	11.7	1,543.3	1.6	
Raw Material Expenses	13,491.1	15,057.9	12,563.4	7.4	9,894.5	-1.1	
Other Operating Expenses	599.7	670.7	594.8	0.8	645.3	-7.1	
EBITDA	1,402.8	1,568.1	1,230.9	14.0	1,026.0	36.7	
EBITDA Margin (%)	8.2	8.3	7.8	43 bps	7.8	40 bps	Margin improvement reflective of job mix and site productivity
Depreciation	261.3	268.3	249.4	4.7	260.3	0.4	
Interest	424.2	513.2	656.4	-35.4	466.9	-9.1	
PBT (befor exp. Item)	2,071.1	1,740.7	1,260.2	64.3	969.3	113.7	
PBT (after exp. Item)	2,071.1	1,740.7	1,260.2	-	969.3	-	
Total Tax	312.9	391.8	208.6	50.0	219.2	42.8	
Adj. PAT (Ex-E&A)	1,758.2	1,349.0	1,051.6	67.2	750.1	40.2	Adjusted PAT (excluding exceptional item and E&A) better than our estimates aided by improved margins and reduction in interest cost.

**Key Metrics**

Order inflows	15,718.2	20,370.0	16,975.4	-7.4	14,075.2	11.7	Decent order inflows despite challenges
Order backlog	2,98,774.9	3,01,681.0	2,63,890.0	13.2	3,00,204.7	-0.5	Backlog provides strong visibility for next two to three years

Adjusted for E&A business Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	83,330.3	83,329.1	0.0	92,085.7	92,083.6	0.0	
EBITDA	8,015.2	8,018.9	0.0	9,113.6	9,114.9	0.0	
EBITDA Margin (%)	9.6	9.6	0 bps	9.9	9.9	0 bps	Margins expected to sustain at current levels.
PAT	6,473.4	7,207.1	11.3	7,342.7	7,344.7	0.0	
EPS (₹)	46.7	51.9	11.3	52.9	52.9	0.0	

Source: Company, ICICI Direct Research

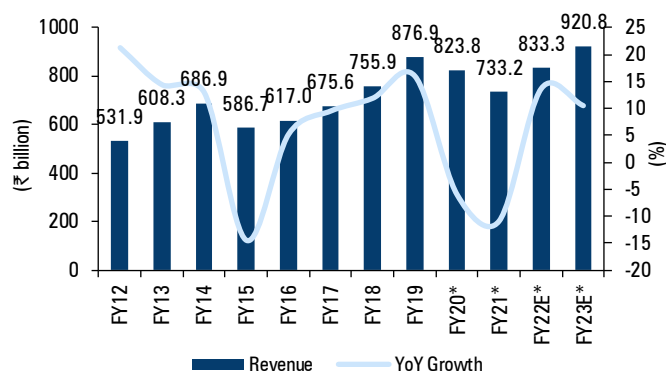
**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY20*	FY21*	FY22E	FY23E	FY22E	FY23E	
Order Inflow growth	-12.7	-11.8	7.6	10.5	11.7	10.7	
Order Backlog growth	1.9	15.9	13.3	13.0	14.9	14.4	
Revenue growth	0.3	-11.0	13.7	10.5	13.7	10.5	Revised in line with gradual execution normalisation amid unlock
EBITDA Margins	8.3	9.9	9.6	9.9	9.6	9.9	

Source: Company, ICICI Direct Research

## Financial story in charts

Exhibit 4: Trend in revenue growth



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

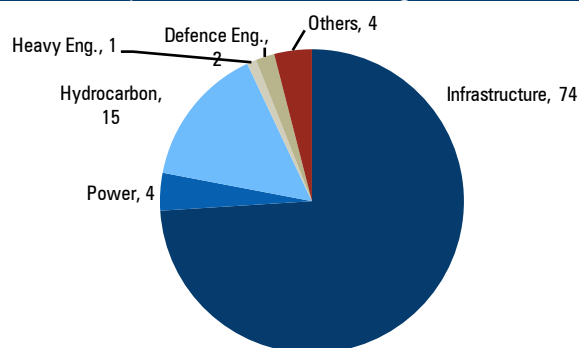
Source: ICICI Direct Research, Company

Exhibit 5: How L&T has fared across business cycles

	Inflow Growth (%)		Revenue Growth (%)	
	Guidance	Achievement	Guidance	Achievement
FY08	30	40	30-35	45
FY09	30	28	30	47
FY10	25-35	41	15-20	14
FY11	25	14	20	19
FY12	5	-12	25.00	21
FY13	15-20	25	15-20	15
FY14	15-20	15	15	10
FY15	20	22	15	3
FY16	0	-13	15	12
FY17	15	10.9	15	10
FY18	0	7	10	9.5
FY19	10%-12%	16	12%-15%	18
FY20	10%-12%	9	12%-15%	8
FY21	Not Provided	-600%	Not Provided	-6
FY22E	Low to Mid teens		Low to Mid teens	

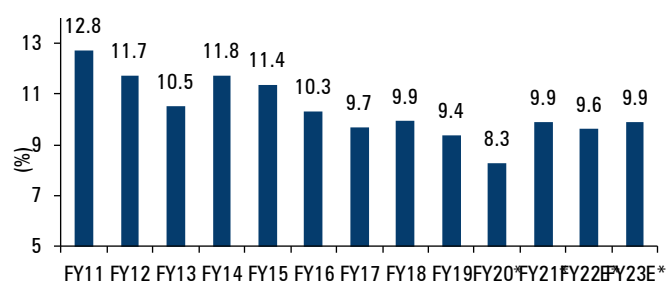
Source: ICICI Direct Research, Company

Exhibit 6: Break-up of consolidated backlog...



Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margins...



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

Source: Company, ICICI Direct Research

Exhibit 8: SoTP valuation of L&T

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	1219	47.7	1005.1	46.7	901.0	53.3
L&T Finance Holdings	80	3.1	76	3.5	38	2.2
L&T IT Subsidiaries	752	29.4	696	32.4	575.1	34.0
L&T Power Development	13	0.5	8.6	0.4	7.7	0.5
L&T MHI JV	12	0.5	5.0	0.2	5.7	0.3
L&T IDPL	144	5.6	65.3	3.0	30.9	1.8
Other E&C, MIP & E&E Sub	29	1.1	14.3	0.7	12.3	0.7
Hydrocarbon	30	1.2	18	0.8	3	0.2
Others (Mindtree)	274.4	10.7	260.9	12.1	116.2	6.9
<b>Total</b>	<b>2554</b>	<b>100.0</b>	<b>2150</b>	<b>100.0</b>	<b>1690</b>	<b>100.0</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20*	FY21*	FY22E*	FY23E*
<b>Total operating Income</b>	<b>82,383.6</b>	<b>73,315.6</b>	<b>83,329.1</b>	<b>92,083.6</b>
Growth (%)	0.3	-11.0	13.7	10.5
Raw Material Expenses	6,943.4	7,455.1	8,239.6	9,644.7
Employee Expenses	5,956.0	5,485.4	6,244.7	6,391.8
Other Operating Expenses	51,976.3	43,278.2	49,448.5	54,781.9
Sales, admin & Other Exp	2,707.4	2,273.9	3,143.7	3,342.8
Other Mfg. Expenses	7,962.3	7,556.8	8,233.8	8,807.4
Total Operating Expenditu	75,545.4	66,049.4	75,310.2	82,968.6
<b>EBITDA</b>	<b>6,838.2</b>	<b>7,266.2</b>	<b>8,018.9</b>	<b>9,114.9</b>
Growth (%)	-11.3	6.3	10.4	13.7
Depreciation	1,020.5	1,025.6	1,118.0	1,290.2
Interest	2,266.6	2,419.5	1,832.0	1,856.5
Other Income	2,807.8	3,435.5	3,837.3	3,256.1
PBT	6,359.0	7,256.5	8,906.3	9,224.4
Others	0.0	0.0	0.0	0.0
Total Tax	961.1	1,751.3	1,699.2	1,879.7
<b>Adj. PAT (Ex-E&amp;A)</b>	<b>5,414.6</b>	<b>5,505.2</b>	<b>7,207.1</b>	<b>7,344.7</b>
Growth (%)	-6.0	1.7	30.9	1.9
<b>Adj. EPS (₹)</b>	<b>39.0</b>	<b>39.7</b>	<b>51.9</b>	<b>52.9</b>

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

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	6,679.3	11,363.0	7,207.1	7,344.7
Add: Depreciation	1,020.5	1,025.6	1,118.0	1,290.2
(Inc)/dec in Current Assets	-6,905.3	4,223.5	-6,129.6	-4,390.5
Inc/(dec) in CL and Provisions	739.0	118.0	3,406.6	3,712.3
Others	-	-	-	-
<b>CF from operating activities</b>	<b>1,533.4</b>	<b>16,730.1</b>	<b>5,602.1</b>	<b>7,956.6</b>
(Inc)/dec in Investments	-6,919.3	-12,964.2	2,000.0	500.0
(Inc)/dec in Fixed Assets	-327.0	-1,028.9	-2,163.9	-1,900.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-10,247.3</b>	<b>-11,829.1</b>	<b>-511.3</b>	<b>-1,845.3</b>
Issue/(Buy back) of Equity	0.2	0.1	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-4,159.2	-3,650.9	-4,714.8	-5,051.5
Inc/(dec) in Sec. premium	127.6	68.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>8,970.2</b>	<b>-4,828.4</b>	<b>-5,542.8</b>	<b>-5,879.5</b>
Net Cash flow	256.3	72.6	-452.0	231.8
Opening Cash	2,733.6	2,989.9	3,062.6	2,610.6
<b>Closing Cash</b>	<b>2,989.9</b>	<b>3,062.6</b>	<b>2,610.6</b>	<b>2,842.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	280.8	280.9	280.9	280.9
Reserve and Surplus	51,521.6	60,045.0	62,709.3	65,174.4
Total Shareholders funds	51,802.4	60,325.9	62,990.2	65,455.4
Total Debt	25,785.3	23,808.7	22,808.7	21,808.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>78,502.8</b>	<b>85,003.8</b>	<b>86,681.1</b>	<b>88,211.3</b>
<b>Assets</b>				
Gross Block	11,872.8	13,069.0	14,569.0	16,269.0
Less: Acc Depreciation	4,529.0	5,185.2	6,210.6	7,408.2
Net Block	7,343.8	7,883.8	8,358.4	8,860.8
Capital WIP	796.6	236.1	900.0	1,100.0
Total Fixed Assets	8,140.3	8,119.9	9,258.4	9,960.8
Investments	34,710.0	47,674.2	45,674.2	45,174.2
Inventory	2,769.9	2,858.6	2,985.9	3,321.2
Debtors	27,913.0	29,948.2	31,961.8	32,292.3
Loans and Advances	515.1	434.9	540.1	638.6
Other Current Assets	54,439.6	48,172.4	52,055.8	55,681.9
Cash	2,989.9	3,062.6	2,610.6	2,842.4
Total Current Assets	88,627.5	84,476.6	90,154.2	94,776.5
Creditors	36,629.4	37,469.8	39,267.4	40,365.4
Provisions	1,555.4	1,320.0	1,649.2	1,816.4
Total Current Liabilities	62,780.7	62,898.7	66,305.3	70,017.5
Net Current Assets	25,846.8	21,578.0	23,849.0	24,759.0
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>78,502.8</b>	<b>85,003.8</b>	<b>86,681.1</b>	<b>88,211.3</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20*	FY21*	FY22E*	FY23E*
<b>Per share data (₹)</b>				
EPS	39.0	39.7	51.9	52.9
Cash EPS	55.5	89.3	60.0	62.2
BV	374.1	435.5	454.7	472.4
DPS	28.0	26.0	28.0	30.0
Cash Per Share	21.6	22.1	18.8	20.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	8.3	9.9	9.6	9.9
PBT / Total Operating income	9.3	17.9	10.7	10.0
PAT Margin	8.1	15.5	8.6	8.0
Inventory days	13.6	14.0	12.8	12.5
Debtor days	123.7	149.1	140.0	128.0
Creditor days	162.3	186.5	172.0	160.0
<b>Return Ratios (%)</b>				
RoE	10.7	10.4	11.4	11.2
RoCE	7.5	7.4	8.0	9.0
RoIC	7.8	7.6	9.0	9.2
<b>Valuation Ratios (x)</b>				
P/E	37.0	21.8	34.3	33.7
EV / EBITDA	39.5	36.9	33.3	29.2
EV / Net Sales	3.3	3.7	3.2	2.9
Market Cap / Sales	3.0	3.4	3.0	2.7
Price to Book Value	4.8	4.1	3.9	3.8
<b>Solvency Ratios</b>				
Debt/EBITDA	3.8	3.3	2.8	2.4
Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	1.4	1.3	1.4	1.4
<b>Quick Ratio</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>

\*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		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1783	2,150	Buy	250191	81.9	51.9	52.9	21.8	34.3	33.7	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2165	2,550	Buy	77100	28.3	37.9	45.1	76.6	57.1	48.0	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1926	2,230	Buy	18166	59.7	60.4	69.7	32.2	31.9	27.6	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1340	1,680	Buy	15967	17.3	26.8	40.0	77.3	50.0	33.5	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	438	550	Buy	6777	41.3	33.9	42.0	10.6	12.9	10.4	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	518	485	Buy	13318	21.5	23.3	32.2	24.1	22.2	16.1	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	138	150	Hold	3191	0.4	2.4	5.4	308.0	56.4	25.6	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	200	260	Buy	6338	3.2	3.9	6.2	61.8	51.0	32.5	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	207	250	Buy	50316	8.5	9.6	11.3	24.4	21.4	18.3	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	353	500	Buy	4640	46.4	44.0	55.6	7.6	8.0	6.3	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3122	3,300	Buy	15440	60.2	72.0	94.0	51.9	43.4	33.2	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1763	1,740	Hold	13220	19.0	28.2	36.3	92.6	62.5	48.6	13.7	18.3	23.5	10.7	14.0	18.0
NRB Bearing (NRBBEA)	133	175	Buy	1280	5.6	8.0	9.8	23.8	16.6	13.6	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	247	300	Buy	2940	7.1	9.4	13.7	34.8	26.3	18.0	26.9	25.8	30.7	15.3	17.1	20.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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