

Strong order inflows with decent execution...

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 ~45% to consolidated revenue followed by services (~30%)

Q2FY23 Results: L&T reported a good set of Q2FY23 numbers.

- Adjusted standalone revenue was up 21.1% YoY to ₹ 25,769.8 crore
- Standalone EBITDA was up 12.1% YoY to ₹ 1907.6 crore. Margins declined 59 bps to 7.4% on a YoY basis
- Consequently, standalone adjusted PAT at ₹ 2109.5 crore (down 1.7% YoY)
- Order inflows came in at ₹ 51,914 crore, up 23% YoY

What should investors do? L&T reported a strong order book of ₹ 372381 crore, suggesting good revenue visibility in coming years.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value L&T at ₹ 2355 on an SoTP basis.

Key triggers for future price performance:

- L&T has targeted revenues and order inflow CAGR of 15% and 14%, respectively, over FY21-26 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 the next five years
- Focus on asset monetisation to further strengthen the balance sheet and improve return ratios. Strong b/s, controlled working capital and 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



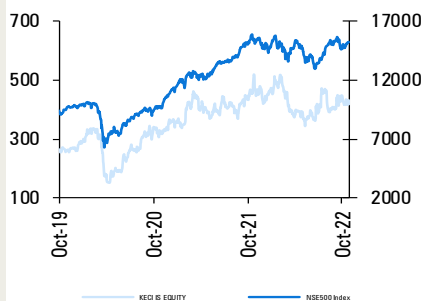
Particulars

Particular	Amount
Market Capitalization	₹ 285046 Crore
Total Debt (FY22)	₹ 22808.7 Crore
Cash & Inv. (FY22)	₹ 5904.1 crore
EV	₹ 301950.6 Crore
52 week H/L	₹2079 / ₹ 1456
Equity capital	₹ 277.5 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	0.0	0.0	0.0	0.0
FII	23.2	22.4	21.1	22.1
DII	32.9	33.7	34.9	40.9
Others	43.8	43.9	44.1	37.0

Price Chart



Recent event & Key risks

- Key Risks:** (i) Any execution headwinds, order deferrals (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 recent quarter & conference call highlights

Q2FY23 Results: Strong order inflows with decent execution

- L&T's adjusted standalone revenues (ex- E&A) for the quarter grew 21.1% YoY to ₹ 25769.8 crore (vs. our estimate of ₹ 23205.6 crore). On a standalone basis, infrastructure segment revenue grew 38% to ₹ 18476.45 crore on a YoY basis aided by improved execution momentum. Energy segment revenue came in at ₹ 4702.2 crore, down 17.2% YoY since the previous year had the benefit of a mega international order received in the hydrocarbon business. Hi-tech manufacturing segment posted revenue of ₹ 1588.9 crore and marginally grew 3.7% YoY. Others segment reported strong growth of 57% YoY to ₹ 1336.9 crore, owing to an increase in sales of rubber processing machinery and improved execution of jobs in the Smart World and communication business
- For Q2FY23, L&T registered strong order inflows at the group level worth ₹ 51914 crore, up 23% YoY. Orders were received across multiple segments like public spaces, nuclear power, irrigation, ferrous metal, health, renewables and refinery sectors. International orders for Q2FY23 were at ₹ 17,341 crore comprising 33% of total order inflow. Overall infrastructure segment secured orders worth ₹ 25058 crore (~48.2% of total inflows). L&T's order backlog as on Q2FY23 was at ₹ 372381 crore with international orders contributing 28%
- Consequently, for Q2FY23, standalone adjusted PAT (ex-E&A) was at ₹ 2109.5 crore, down 1.7% YoY (vs. our estimates of ₹ 1859 crore). Other income came in at ₹ 1554.2 crore, up 21.4% YoY while interest expense increased 36.4% to ₹ 578.6 crore. Consolidated adjusted PAT for Q2FY23 came in at ₹ 2229 crore (vs. ₹ 1819.4 crore in Q2FY22)
- From a balance sheet perspective, net working capital to sales ratio improved to 20.2% in H1FY23 from 22% in H1FY22

Q2FY23 Earnings Conference Call highlights

- L&T's total ordering prospects/pipeline for remaining H2FY23E was at ₹ 632000 crore, comprising ₹ 500000 crore of domestic and ₹ 132000 crore of international pipeline. L&T has become more selective in choosing business opportunities coupled with a strong backlog giving convenience to the company to use discretion in winning relatively profitable orders. From a segment perspective, infrastructure segment prospects are pegged at ₹ 454000 crore (water 23%, T&D 14%, transportation 20%, B&F 19%, heavy civil 22%). On the hydrocarbon and power side (energy segment), prospects are at ₹ 130000 crore while on the hi tech manufacturing side (defence and heavy engineering), the same is at ₹ 33000 crore
- L&T saw a pick-up in order inflow in Q2FY23 from segments such as infrastructure, hydrocarbon and defence. There was also a pick-up in order finalisation in the domestic market. The management said it sees green shoots in private sector investments in certain segments, particularly in minerals and metals, healthcare, information technology and services, data centres. L&T's projects & hi-tech manufacturing businesses are rightly positioned to leverage the India and Middle East capex opportunity and with tech enabled skill sets and offerings
- The management is confident of achieving its guidance of 15% revenues and order inflow growth for FY23E. The margin guidance has been pegged at 9.5% given the volatile commodity outlook. On the working capital to sales ratio, L&T had guided for a range of 20-22% in the beginning of FY23 but now the company is quite confident of ending at the lower end of the guidance given pick up in execution and normalisations of debtor's cycle

- **Developments at Hyderabad Metro:** Hyderabad Metro is witnessing a resurgence in ridership with daily ridership at over 355000 passengers in Q2FY23 (vs. 285000 passengers in Q1FY23). It touched a peak of 441000 passengers in October 2022. The management is hopeful that the ridership will touch the 550000-600000 mark in the next six quarters as there are no Covid restrictions. The subsidiary posted a positive EBITDA of 3.9% but on account of higher interest cost and depreciation, the loss for Q2FY23 was at ₹ 350 crore vs. ₹ 472 crore in Q1FY22. L&T has refinanced the debt undertaken for the development of Hyderabad Metro leading to a favourable interest rate outgo and is planning monetisation of the real estate space of the metro network and seeking government grants to be able to lower the debt burden, which is currently at ~₹ 13,000 crore
- As part of its five-year strategic plan 'Lakshya 26' the company is looking to divest its investment in non-core areas, which includes road concessions and power business and minimising its stake in Hyderabad Metro. Under the strategic plan, the company plans to focus on green energy, cell and battery manufacturing, the development of data centres, tech education, and B2B e-commerce in the coming years

Exhibit 1: Variance Analysis (Standalone)

	Q2FY23	Q2FY23E	Q2FY22 'oY (Chg %)	Q1FY23	QoQ (Chg %)	Comments	
Revenue	25,769.8	23,205.6	21,288.2	21.1	20,211.7	27.5	Strong execution visible in topline
Other Income	1,554.2	1,300.0	1,280.4	21.4	567.9	173.7	
Employee Expenses	2,109.7		1,814.1	16.3	1,926.5	9.5	
Raw Material Expenses	21,213.1		17,024.5	24.6	16,098.4	10.4	
Other Operating Expenses	539.3		747.5	-27.9	640.7	-15.8	
EBITDA	1,907.6	1,926.1	1,702.1	12.1	1,546.1	23.4	
EBITDA Margin (%)	7.4	8.3	8.0	-59 bps	7.6	-25 bps	Impacted by job mix, cost pressures
Depreciation	337.6	320.0	289.5	16.6	342.1	-1.3	
Interest	578.6	460.0	424.2	36.4	504.5	14.7	
PBT (befor exp. Item)	2,545.6	2,446.1	2,268.8	12.2	1,267.3	100.9	
PBT (after exp. Item)	2,545.6	2,446.1	2,536.1	-	1,267.3	-	
Total Tax	436.1	587.1	390.5	11.7	356.1	22.5	
Adj. PAT (Ex-E&A)	2,109.5	1,859.0	2,145.6	-1.7	911.2	135.5	

Key Metrics

Order inflows	51,914.0		42,140.0	23.2	41,805.0	24.2	Decent order inflows seen YoY
Order backlog	372,381.0		330,541.0	12.7	363,400.0	2.5	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		
	Old	New	% Change	Old	New	% Change
Revenue	121,947.1	121,947.1	0.0	131,404.9	131,404.9	0.0
EBITDA	9,936.1	9,936.1	0.0	12,856.2	12,856.2	0.0
EBITDA Margin (%)	8.1	8.1	0 bps	9.8	9.8	0 bps
PAT	9,174.4	9,174.4	0.0	10,637.5	10,637.5	0.0
EPS (₹)	66.1	66.1	0.0%	76.7	76.7	0.0%

Source: Company, ICICI Direct Research

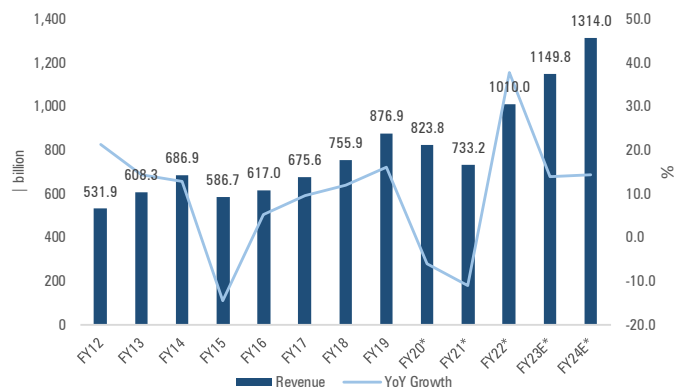
Exhibit 3: Assumptions

	Current				Earlier	
	FY21*	FY22	FY23E	FY24E	FY23E	FY24E
Order Inflow growth	-11.8	-1.3	22.0	11.9	22.0	11.9
Order Backlog growth	15.9	11.7	0.4	12.0	0.4	12.0
Revenue growth	-11.0	37.8	20.7	7.8	20.7	7.8
EBITDA Margins	9.9	9.0	8.1	9.8	8.1	9.8

Source: Company, ICICI Direct Research

Financial Story in Charts

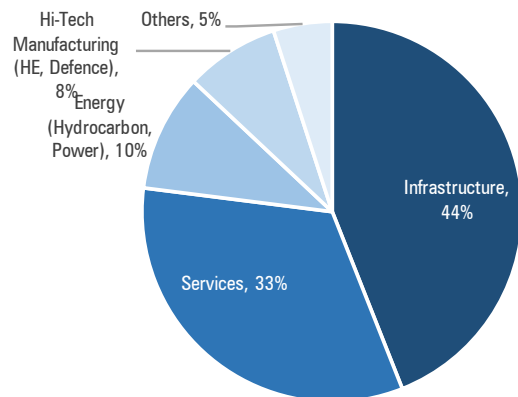
Exhibit 4: Trend in revenue growth



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

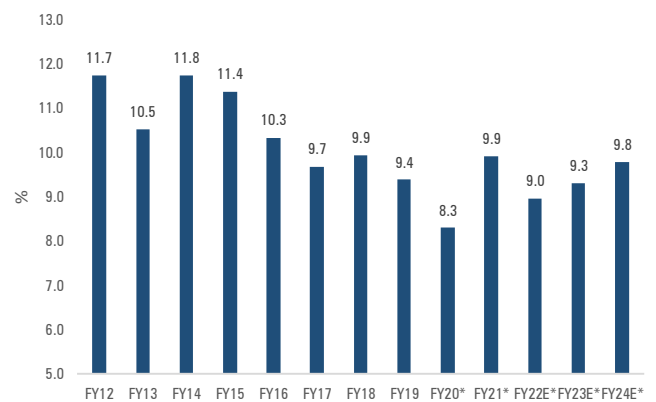
Source: ICICI Direct Research, Company

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	1610.7	68.5	767.0	62.1
L&T Finance Holdings	65	2.3	65	2.7	41	3.3
L&T IT Subsidiaries	527	18.2	410	17.4	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	2.8	30.9	2.5
Other E&C, MIP & E&E Sub	29	1.0	14.3	0.6	12.3	1.0
Others (Mindtree)	193.4	6.7	172.0	7.3	77.4	6.3
Total	2902	100.0	2352	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			EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
L&T (LARTOU)	205	2,355	Buy	28766	56.8	66.1	76.7	3.6	3.1	2.7	8.9	9.3	11.6	12.1	12.9	13.6		
Siemens Ltd	2,965	3,660	Buy	105590	29.5	36.7	50.5	100.6	80.7	58.7	13.9	15.7	19.2	10.1	11.6	14.2		
AIA Engineering (AIAENG)	2,696	3,011	Buy	25429	64.6	79.8	86.0	41.7	33.8	31.3	16.5	17.9	17.1	13.2	14.3	13.6		
Thermax (THERMA)	2,191	2,405	Buy	26107	26.2	38.7	53.4	83.6	56.6	41.0	11.3	15.4	18.7	8.9	12.0	14.6		
KEC International (KECIN)	439	542	Buy	11287	12.9	16.0	31.9	34.0	27.4	13.8	11.9	13.9	20.3	10.6	11.1	18.6		
Greaves Cotton (GREAVE)	154	209	Buy	3560	0.7	3.5	3.6	217.6	43.7	43.1	2.5	9.4	10.7	1.3	6.7	7.7		
Elgi Equipment (ELGEQU)	497	474	Hold	15750	5.7	6.6	9.1	87.0	75.4	54.5	18.9	17.8	21.0	18.7	18.5	21.1		
Bharat Electronics (BHAELE)	109	135	Buy	79677	3.2	3.8	4.5	34.1	28.7	24.2	26.1	28.4	30.0	19.5	21.2	22.4		
Cochin Shipyard (COCSHI)	554	445	Buy	7287	42.9	38.6	42.3	12.9	14.4	13.1	10.9	12.5	12.7	12.7	10.8	11.1		
SKF (SKFIND)	4,410	4,920	Buy	21802	77.0	104.8	122.9	57.3	42.1	35.9	26.0	29.8	30.1	20.6	22.7	22.4		
Timken India (TIMIND)	2,864	3,561	Buy	21543	43.5	61.3	71.2	65.8	46.7	40.2	25.3	36.2	42.0	19.7	27.9	32.2		
NRB Bearing (NRBBEA)	172	220	Buy	1663	7.8	9.2	12.1	22.0	18.7	14.2	15.0	15.3	19.2	12.6	12.6	14.8		
Action Construction (ACTCON)	309	365	Buy	3680	8.8	13.9	18.2	35.1	22.2	17.0	23.0	24.0	25.8	13.9	17.1	18.3		
Data Patterns (DATPAT)	1340	1,280	Buy	6953	18.1	22.2	30.4	74.0	60.4	44.0	23.8	24.9	28.1	16.4	18.4	20.9		
HAL (HINAER)	2,541	2,860	Buy	84968	151.9	130.9	143.1	16.7	19.4	17.8	27.4	30.6	30.8	26.3	23.2	23.4		
ABB (ABB)	3,164	3,275	Buy	67048	25.5	38.9	43.7	124.2	81.4	72.4	45.0	49.2	64.9	11.2	13.0	17.6		
Ador Welding (ADOWEL)	872	890	Buy	1186	33.2	37.5	49.3	26.3	23.2	17.7	19.9	23.8	26.8	13.6	17.1	19.3		
Bharat Dynamics (BHADYN)	969	1,068	Buy	17760	27.3	33.0	42.7	32.0	26.4	20.4	24.6	24.7	27.9	17.3	17.7	20.0		
Mazagon Dock (MAZDOC)	641	562	Buy	12928	30.3	31.2	40.1	28.8	28.0	21.7	20.0	18.1	20.9	16.1	14.6	16.6		

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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