

Best Capex play...

- 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%)

Q3FY24 Performance: Consolidated Revenues of ₹ 55,128 crore for Q3FY24 up 19% YoY, aided by ramp up in execution of the strong order book in the Projects and Manufacturing portfolio. On the standalone basis revenues at ₹ 31600 crore, up ~14% YoY. Consolidated margins came in at 10.4% vs. 10.9% the miss is on account of lower margins in the infrastructure segment on account of legacy projects and mega projects not entering the threshold levels. Consequently, PAT grew by ₹ 2947 crore, up 20% YoY.

Investment Thesis: Remains broadly intact

- Strong ordering prospects and inflows provided solid visibility: Order prospects for L&T for Q4FY24E stands at ~₹ 6.3 lakh crore, up 29% YoY with majority of its prospects coming in from infra and hydrocarbon segment. With 49% YoY growth in order inflows and order backlog at ₹470000 crore makes us believe that L&T will easily deliver a revenue CAGR of ~14% over FY24E-FY26E. With margin pain from legacy profits coming to an end and strong pick up of execution in new orders will lead to margins improving to 9.1% by FY26E from 8.4% in FY24E. Also NWC ranging in between 16-18%, we believe L&T will generate significant cash flows from operations.
- Focus on shareholder value creation remains unabated: L&T is well on course to achieve its ROE target of 18% by 2026. In order to achieve the same, the company has resorted to selling non-core assets, no boot assets, initiating buybacks and focusing profitable growth (reasonable margins order and significant reduction in NWC as % of sales). The real kicker for ROE's will come from divestment of equity in Hyderabad Metro which might happen over 2-3-year period and company has been taking active steps to achieve the same. The company reported annualised ROE

Rating and Target Price

- We assign BUY rating to L&T. We value L&T at SOTP-based target price of ₹ 4160 (Base business at 30x FY26E EPS) and consider as the best capex play in largecap capital goods space.



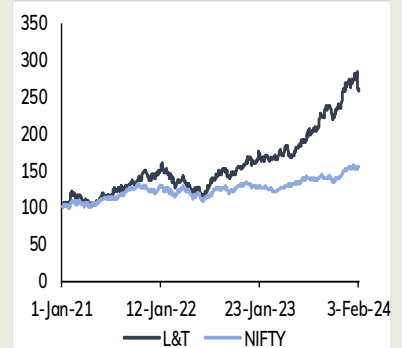
Particulars

Particular	Amount
Market Cap	₹ 475685 Crore
Total Debt	₹ 21808.7 Crore
Cash & Inv.	₹ 7704.1 crore
EV	₹ 489789.3 Crore
52 week H/L	₹3739 / ₹2082
Equity capital	₹ 227.5 crore
Face value	₹2

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promote	0.0	0.0	0.0	0.0
FII	24.5	25.3	25.7	25.5
DII	38.6	38.0	37.2	37.3
Other	36.9	36.7	37.1	37.2

Price Chart



Key risks

- Key Risk: (i) Slowdown in order inflows (ii) lesser than expected improvement in margins

Research Analyst

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Key Financial Summary

Particulars (₹ Crore)	FY22	FY23	FY24E	5-Year		FY25E	FY26E	2-Year CAGR (FY24E-FY26E)
				CAGR (FY18-FY23)	FY21			
Net Sales	101,000.4	110,501.0	129,477.5	11.7%		149,946.1	167,526.2	13.7%
EBITDA	9,055.5	9,294.7	10,874.9	8.0%		13,384.7	15,058.6	17.7%
EBITDA Margin (%)	9.0	8.4	8.4			8.9	9.0	
Adj. Net Profit	7,669.0	7,792.6	10,523.7	15.7%		11,663.6	13,244.4	12.2%
Adj. EPS (₹)	56.8	58.4	75.9			84.1	99.0	
P/E (x)	59.7	58.1	44.7			40.3	34.3	
RoNW (%)	12.1	11.5	13.6			13.8	14.6	
RoCE (%)	8.9	8.7	9.6			11.3	11.8	

Key result and concall highlights

- L&T reported a decent set of Q3FY24 results. The order inflow for 9MFY24 stood at ₹ 230,662 crore, up 49% YoY. International orders at ₹ 137,894 crore constituted 60% of the total. The inflows for Q3FY24 stood at ₹ 75,990 crore, up 25% YoY. The consolidated order book is at ₹ 469,807 crore as on Q3FY24 up 22% YoY. The company ordering prospects are up 22% YoY to ₹ 627000 crore mainly emanating from infrastructure and hydrocarbon segment.
- Consolidated Revenues of ₹ 55,128 crore for Q3FY24 up 19% YoY, aided by ramp up in execution of the strong order book in the Projects and Manufacturing portfolio. On the standalone basis revenues at ₹ 31600 crore, up ~14% YoY. Consolidated margins came in at 10.4% vs. 10.9% the miss is on account of lower margins in the infrastructure segment on account of legacy projects and mega projects not entering the threshold levels. Consequently, PAT grew by ₹ 2947 crore, up 20% YoY. The NWC continues to remain at very comfortable levels of 16.6%.
- Share of private sector stood at 22% in the overall backlog while that of central and state govt stood at 12% and 35% respectively. The slow moving order stood at less than 1% in the overall backlog.
- On the guidance front, Order inflow growth is revised to 20% + for FY24, revenues in high teens and EBIDTA margins in the range of 8.25-8.5% (Core E&C).
- Ordering Prospects are up 29% YoY for Q4FY24 at Rs 627000 crore with main contribution coming in from Infra segment at Rs 410000 crore and Hydrocarbon segment at Rs 170000 crore.
- The company has converted its loans to Hyderabad Metro into equity to reduce leverage of the asset and increase its profitability. The loss reported for 9MFY24 stood at Rs 349 crore whereas the ridership stood at 4.44 lakh passengers per day in Q3FY24 vs. 3.94 lakh passengers per day in Q3FY24.

Valuation Outlook

- We assign BUY rating to L&T. We value L&T at SOTP-based target price of ₹ 4160 (Base business at 30x FY26E EPS) and consider as the best capex play in largecap capital goods space.
- L&T reported a strong order book of crore, suggesting good revenue visibility in coming years. 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 will lead to rerating of the stock in the medium term

Exhibit 1: SOTP-based valuation

Company (per share)	Bull case % of total		Base Case % of total		Bear Case % of total	
Base Business	3958.0	72.6	2968.5	71.4	1681.4	66.9
L&T Finance Holdin	194	3.6	165	4.0	116	4.6
L&T IT Subsidiaries	1099	20.2	934	22.4	659.2	26.2
L&T Power Develop	13	0.2	8.6	0.2	7.7	0.3
L&T MHI JV	12	0.2	5.0	0.1	5.7	0.2
L&T IDPL	144	2.6	65.3	1.6	30.9	1.2
Other E&C, MIP & E	29	0.5	14.3	0.3	12.3	0.5
Total	5448	100.0	4160	100.0	2513	100.0

Source: ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23*	FY24E	FY25E*	FY26E*
Total operating In	110,501.0	129,477.5	149,946.1	167,526.2
Growth (%)	9.4	17.2	15.8	11.7
Raw Material Exp	14,492.4	16,666.1	18,056.3	22,154.7
Employee Expens	8,298.2	9,002.8	10,798.8	11,437.6
Other Operating E	63,528.6	75,345.4	88,440.3	97,544.2
Sales, admin & Ot	2,513.9	3,959.1	5,523.3	6,479.0
Other Mfg. Expen:	12,373.2	13,629.0	13,742.7	14,852.0
Total Operating E	101,206.3	118,602.5	136,561.4	152,467.5
EBITDA	9,294.7	10,874.9	13,384.7	15,058.6
Growth (%)	2.6	17.0	23.1	12.5
Depreciation	1,310.0	1,493.1	1,611.9	1,730.7
Interest	1,856.5	1,771.3	1,686.2	1,601.1
Other Income	4,035.0	5,604.0	4,498.4	4,787.2
PBT	10,163.2	13,214.4	14,585.0	16,514.0
Others	0.0	0.0	0.0	0.0
Total Tax	2,463.4	2,690.8	2,921.4	3,389.0
Adj. PAT (Ex-E&A)	5,414.6	10,523.7	11,663.6	13,244.4
Growth (%)	-29.4	94.4	10.8	13.6
Adj. EPS (I)	39.0	54.2	84.1	99.0

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY23*	FY24E	FY25E*	FY26E*
Profit after Tax	8,097.8	10,523.7	11,663.6	13,727.8
Add: Depreciation	1,310.0	1,493.1	1,611.9	1,730.7
(Inc)/dec in Current As	4,093	-14,846	-21,409	-9,528
Inc/(dec) in CL and Pr	-7,741.4	11,166.7	15,556.6	9,711.2
Others	-	-	-	-
CF from operating act	5,758.9	8,337.0	7,423.4	15,641.7
(Inc)/dec in Investmen	500.0	500.0	500.0	500.0
(Inc)/dec in Fixed Asse	-2,700.0	-1,200.0	-1,200.0	-1,200.0
Others	0.0	0.0	0.0	0.0
CF from investing acti	236.8	-1,406	-2,420	-1,059.3
Issue/(Buy back) of Eq	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & divid	-3,368	-3,789	-4,210	-4,911
Inc/(dec) in Sec. premi	50.0	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing act	-4,196	-4,617	-5,038	-5,739
Net Cash flow	1,800.0	2,314.4	-34.5	8,843.2
Opening Cash	5,904.1	7,704.1	10,018.5	9,984.1
Closing Cash	7,704.1	10,018.5	9,984.1	18,827

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY23*	FY24E	FY25E*	FY26E*
Liabilities				
Equity Capital	280.9	280.9	280.9	280.9
Reserve and Surpl	69,911.4	76,818.4	84,444.4	93,433.0
Total Shareholder	70,192.3	77,099.3	84,725.3	93,713.9
Total Debt	21,808.7	20,808.7	19,808.7	18,808.7
Deferred Tax Liab	0.0	0.0	0.0	0.0
Minority Interest /	0.0	0.0	0.0	0.0
Total Liabilities	92,948.2	98,920.2	105,611.2	113,664.8
Assets				
Gross Block	16,869.0	18,069.0	19,269.0	20,469.0
Less: Acc Deprecia	7,389.6	8,790.2	10,309.5	11,947.7
Net Block	9,479.4	9,278.8	8,959.5	8,521.3
Capital WIP	1,100.0	1,100.0	1,100.0	1,100.0
Total Fixed Assets	10,579.4	10,378.8	10,059.5	9,621.3
Investments	45,174.2	44,674.2	44,174.2	43,674.2
Inventory	3,343.3	4,815.6	6,276.3	6,116.0
Debtors	39,356.5	46,115.3	53,405.5	59,666.9
Loans and Advan	667.6	989.7	1,109.5	900.8
Other Current Ass	56,413.0	62,706.3	75,244.2	78,879.9
Cash	7,704.1	10,018.5	9,984.1	18,827.3
Total Current Asse	107,484.5	124,645.4	146,019.6	164,390.8
Creditors	48,438.8	53,209.9	61,621.7	68,846.4
Provisions	2,179.7	2,394.4	2,896.2	3,235.8
Total Current Liab	78,602.7	89,769.4	105,326.0	115,037.2
Net Current Asset:	28,881.8	34,876.0	40,693.6	49,353.7
Others Assets	0.0	0.0	0.0	0.0
Application of Fun	92,948.2	98,920.2	105,611.2	113,664.8

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY23*	FY24E	FY25E*	FY26E*
Per share data (I)				
EPS	39.0	54.2	84.1	99.0
Cash EPS	67.8	86.6	95.7	111.4
BV	506.6	556.4	611.3	676.1
DPS	24.0	27.0	30.0	0.0
Cash Per Share	55.5	72.2	72.0	135.7
Operating Ratios (%)				
EBITDA Margin	8.4	8.4	8.9	9.0
PBT / Total Operating	9.6	10.2	9.7	10.2
PAT Margin	7.3	8.1	7.8	8.2
Inventory days	12.5	11.5	13.5	13.5
Debtor days	130.0	130.0	130.0	130.0
Creditor days	160.0	150.0	150.0	150.0
Return Ratios (%)				
RoE	10.7	10.4	13.8	14.6
RoCE	8.7	9.6	11.3	11.8
RoIC	9.4	10.6	12.3	14.1
Valuation Ratios (x)				
P/E	58.1	44.7	40.3	34.3
EV / EBITDA	52.1	44.2	35.9	31.2
EV / Net Sales	4.4	3.7	3.2	2.8
Market Cap / Sales	4.3	3.6	3.1	2.8
Price to Book Value	6.7	6.1	5.5	5.0
Solvency Ratios				
Debt/EBITDA	2.3	1.9	1.5	1.2
Debt / Equity	0.3	0.3	0.2	0.2
Current Ratio	1.4	1.4	1.4	1.4
Quick Ratio	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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