

BUY
 TP: Rs 3,000 | ▲ 17%

LARSEN & TOUBRO

| Capital Goods

| 26 July 2023

Stellar quarter; solid outlook

- Stellar Q1 led by inflows, execution and working capital efficiency; closed the quarter with a record Rs 4.1tn order book
- FY24 pipeline swells 34%, a key positive; return of capital through buyback and special dividends would aid ROE
- TP raised to Rs 3,000 (vs. Rs 2,630) on a higher core business EV/EBITDA multiple of 15x and valuation rollover; retain BUY

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Robust execution: Strong project execution in Q1FY24 aided revenue growth of 34% YoY to Rs 478.8bn (4Y CAGR at 12.7%), though legacy orders in the mix saw gross margin contract 570bps YoY to 35.8%. EBITDA margin at 10.2% slipped 80bps YoY while PAT grew 46% YoY to Rs 24.9bn. LT's addressable pipeline has swelled 34% YoY to Rs 10tn, above the prospective level of Rs 9.7tn at end-FY23 despite the approaching elections (Apr-May'24), driven by hydrocarbons.

Margins to improve from H2FY24: The presence of legacy orders weighed on the core EBITDA margin in FY23 and in Q1. LT had executed ~60% of these projects as of FY23 and expects to complete the remaining 40% this fiscal year. Management thus expects EBITDA margin to rise ~50bps in FY24 and normalise to ~10% by FY25.

FY24 order and revenue guidance reiterated: LT maintained its FY24 order inflow and revenue growth guidance at 10-12% and 12-15% respectively. Working capital-to-sales improved to 17% in Q1 from the usual level of 20-22%, likely helped by good collections as well as strong order inflows, and management expects to maintain a range of 16-18% for the fiscal. The company ended FY23 with a record Rs 4tn order book, which has moved up to Rs 4.1tn with a book-to-bill ratio of ~3x.

Buyback to aid ROE: The return of capital through the recently announced Rs 100bn buyback along with special dividend would boost return ratios. LT retains its long-term vision of improving ROE to ~18% from the current 12% levels.

Subsidiary performance mixed: LT saw lower losses in the Hyderabad metro as daily ridership reached 0.42-0.44mn vs. 0.4mn in FY23. However, the Nabha power project was hit by lower power demand in Q1.

Maintain BUY: LT is a strong play on the India capex story and among our top sector picks. We retain BUY and raise our SOTP-based TP from Rs 2,630 to Rs 3,000 as we roll valuations over to Jun'25E and now value the core business ex-services at a higher 15x EV/EBITDA (14x earlier) given the enhanced ordering outlook. Our fair value includes Rs 900/sh for subsidiaries valued at 20% holdco discount.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LT IN/Rs 2,561
Market cap	US\$ 43.8bn
Free float	86%
3M ADV	US\$ 55.3mn
52wk high/low	Rs 2,638/Rs 1,742
Promoter/FPI/DII	0%/21%/35%

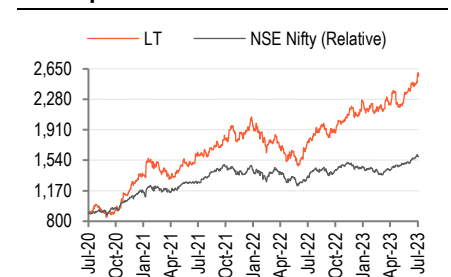
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,33,407	21,32,402	24,04,205
EBITDA (Rs mn)	2,07,533	2,55,954	3,08,008
Adj. net profit (Rs mn)	1,03,347	1,39,039	1,75,195
Adj. EPS (Rs)	73.6	99.0	124.8
Consensus EPS (Rs)	73.6	93.5	115.0
Adj. ROAE (%)	12.0	14.8	16.7
Adj. P/E (x)	34.8	25.9	20.5
EV/EBITDA (x)	15.2	12.7	10.6
Adj. EPS growth (%)	20.6	34.5	26.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	4,78,824	3,58,532	33.6	5,83,352	(17.9)
EBITDA	48,686	39,567	23.0	68,329	(28.7)
EBITDA margin (%)	10.2	11.0	(90bps)	11.7	(150bps)
Depreciation	8,305	9,634	-	8,535	-
Interest	8,514	7,561	-	8,130	-
Other Income	11,456	6,947	-	7,409	-
PBT	43,324	29,319	47.8	59,074	(26.7)
Tax	12,163	6,389	-	14,606	-
Adjusted PAT	24,930	17,021	46.5	39,868	(37.5)
Exceptional item	0	0	-	0	-
Reported PAT	24,930	17,021	46.5	39,868	(37.5)
Adj. PAT margin (%)	5.2	4.7	50bps	6.8	(160bps)
EPS (Rs)	17.8	12.1	46.5	28.4	(37.5)

Source: Company, BOBCAPS Research

Fig 2 – Segment-wise revenue performance

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Consolidated (ex-services)	3,34,015	2,25,080	48.4	4,39,593	(24.0)
Infrastructure	2,23,956	1,44,005	55.5	3,15,488	(29.0)
Energy	66,904	50,875	31.5	79,292	(15.6)
Hi-tech manufacturing	19,683	13,881	41.8	23,208	(15.2)
Others	23,472	16,319	43.8	21,605	8.6
IT and Technology services	1,09,607	94,602	15.9	1,07,393	2.1
Financial services	30,196	29,581	2.1	31,163	(3.1)
Developmental projects	12,964	13,454	(3.6)	12,321	5.2
Total Revenue	4,86,782	3,62,717	34.2	5,90,470	(17.6)
Inter-segment revenue	7,959	4,185	90.2	7,118	11.8
Net revenue	4,78,824	3,58,532	33.6	5,83,352	(17.9)

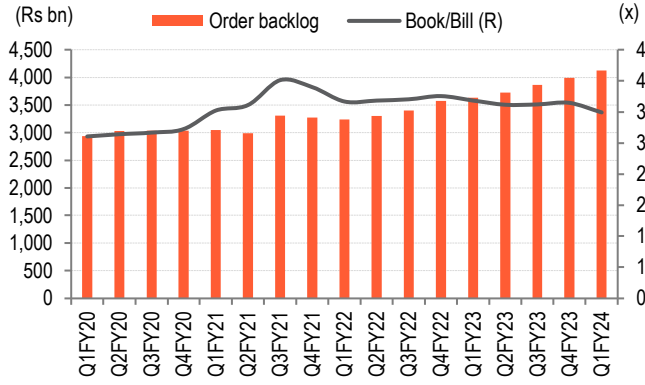
Source: Company, BOBCAPS Research

Fig 3 – Segment-wise EBIT margin profile

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Consolidated (ex-services)	20,443	14,678	39.3	36,171	(43.5)
EBIT Margin (%)	6.1	6.5	(40bps)	8.2	(211bps)
Infrastructure	8,502	6,862	23.9	20,830	(59.2)
EBIT Margin (%)	3.8	4.8	(97bps)	6.6	(281bps)
Energy	5,571	3,797	46.7	7,712	(27.8)
EBIT Margin (%)	8.3	7.5	86bps	9.7	(140bps)
Hi-tech manufacturing	2,544	1,503	69.3	3,753	(32.2)
EBIT Margin (%)	12.9	10.8	210bps	16.2	(324bps)
Others	3,826	2,516	52.1	3,876	(1.3)
EBIT Margin (%)	16.3	15.4	88bps	17.9	(164bps)
IT and Technology services	19,174	17,749	8.0	18,076	6.1
EBIT Margin (%)	17.5	18.8	(127bps)	16.8	66bps
Financial services	7,140	3,556	100.8	6,596	8.3
EBIT Margin (%)	23.6	12.0	1,163bps	21.2	248bps
Developmental projects	1,230	(211)	(683.0)	4,300	(71.4)
EBIT Margin (%)	9.5	(1.6)	1,106bps	34.9	(2,541bps)

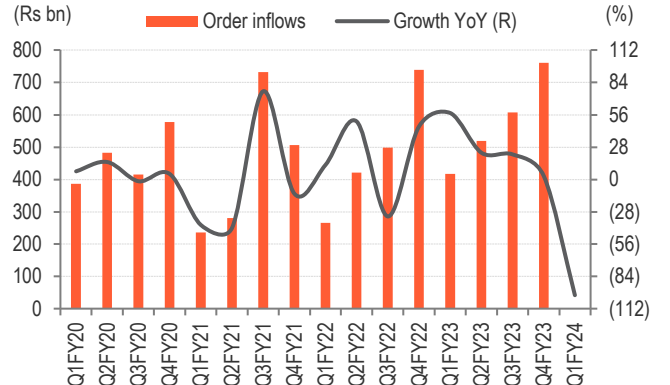
Source: Company, BOBCAPS Research

Fig 4 – Order backlog trend



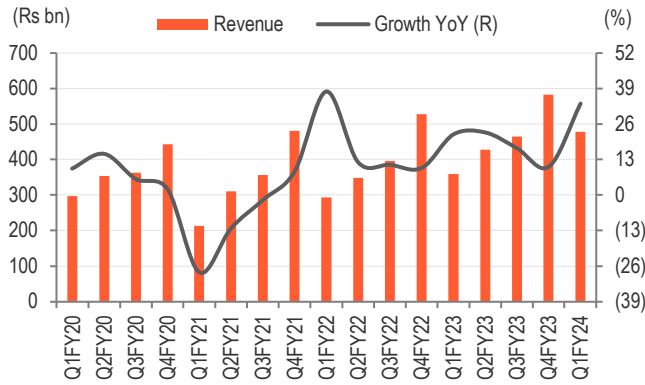
Source: Company, BOBCAPS Research

Fig 5 – Order inflow trend



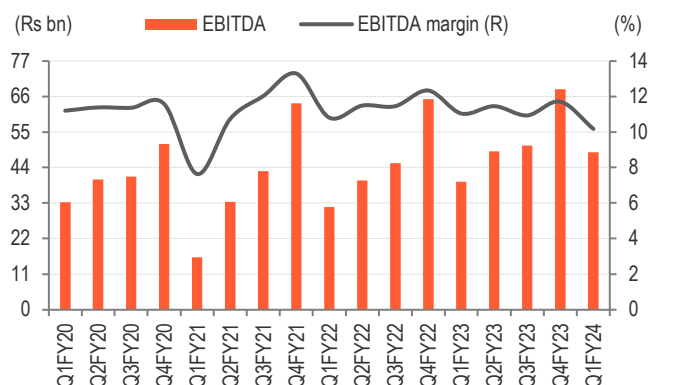
Source: Company, BOBCAPS Research

Fig 6 – Revenue growth trend



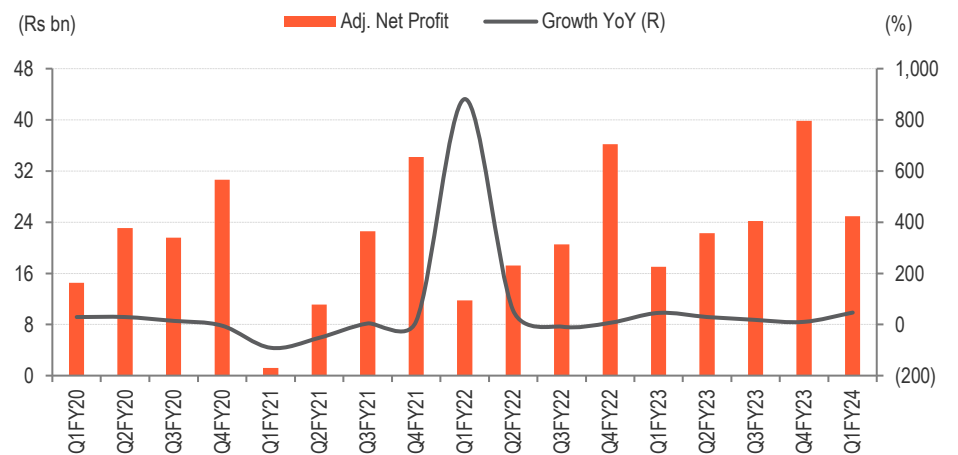
Source: Company, BOBCAPS Research

Fig 7 – EBITDA trend



Source: Company, BOBCAPS Research

Fig 8 – Net profit trend



Source: Company, BOBCAPS Research

Valuation methodology

LT remains a pure engineering, procurement & construction (EPC) company that is focused on moving to an asset-light business model by shedding its non-core assets. Importantly, its acquisition of technology services firm Mindtree has paid off – serving to steady earnings when infrastructure spending slowed and also during Covid-19.

The company continues to be a strong play on the India capex story and among our top sector picks. We retain BUY and raise our SOTP-based TP from Rs 2,630 to Rs 3,000 as we roll valuations over to Jun'25E and now value the core business (ex-services) at a higher 15x EV/EBITDA (14x earlier) or Rs 2,100/sh given the enhanced ordering outlook. Our fair value includes Rs 900/sh for subsidiaries valued at 20% holding company discount.

Fig 9 – Valuation summary

Business	Methodology	Rs bn	Rs/share
Core business (Ex-services)	15x Jun'25E Core business EBITDA	2,900	2,070
LTI Mindtree	20% holding co. discount to current market cap	788	560
Financial Services	20% holding co. discount to current market cap	166	120
Technology Services	20% holding co. discount to current market cap	247	180
IDPL, Hyderabad Metro & Others	0.5x P/B of Invested Equity	50	40
Total		4,150	3,000

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slowdown in capex, and
- continued pressure on infrastructure margins.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	11.2	4,333	3,700	HOLD
AIA Engineering	AIAE IN	4.0	3,493	3,500	BUY
Cummins India	KKC IN	6.5	1,923	2,000	BUY
Hitachi Energy	POWERIND IN	2.1	4,144	4,400	HOLD
KEC International	KECI IN	2.0	648	550	HOLD
Larsen & Toubro	LT IN	43.8	2,561	3,000	BUY
Siemens India	SIEM IN	16.0	3,693	3,700	HOLD
Thermax	TMX IN	3.8	2,624	2,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 25 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	13,59,790	15,65,212	18,33,407	21,32,402	24,04,205
EBITDA	1,56,241	1,82,173	2,07,533	2,55,954	3,08,008
Depreciation	29,042	29,480	35,023	36,774	38,612
EBIT	1,27,199	1,52,694	1,72,510	2,19,181	2,69,396
Net interest inc./(exp.)	39,134	31,257	32,072	32,392	32,716
Other inc./(exp.)	34,294	22,671	29,292	30,170	31,076
Exceptional items	0	0	0	0	0
EBT	1,22,358	1,44,107	1,69,730	2,16,959	2,67,755
Income taxes	40,108	42,166	44,842	54,674	67,474
Extraordinary items	(46,819)	(83,349)	(1,360)	0	0
Min. int./Inc. from assoc.	(13,240)	(16,217)	(21,542)	(23,246)	(25,086)
Reported net profit	1,15,829	1,69,073	1,04,707	1,39,039	1,75,195
Adjustments	(46,819)	(83,349)	(1,360)	0	0
Adjusted net profit	69,010	85,724	1,03,347	1,39,039	1,75,195

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	4,55,046	5,13,656	4,97,841	6,42,642	7,24,555
Other current liabilities	4,14,182	7,75,183	8,13,856	9,46,436	10,67,072
Provisions	0	0	0	0	0
Debt funds	13,26,053	9,20,953	9,21,140	8,91,140	8,61,140
Other liabilities	1,58,771	1,66,007	1,77,427	1,99,674	2,23,700
Equity capital	2,809	2,810	2,811	2,811	2,811
Reserves & surplus	7,55,876	8,21,267	8,90,449	9,87,776	11,10,413
Shareholders' fund	7,58,685	8,24,077	8,93,260	9,90,587	11,13,224
Total liab. and equities	31,12,737	31,99,875	33,03,523	36,70,478	39,89,690
Cash and cash eq.	4,72,527	4,87,528	5,80,930	5,72,880	6,38,806
Accounts receivables	4,22,298	4,61,393	4,47,315	5,84,220	6,58,686
Inventories	58,205	59,433	68,288	81,791	92,216
Other current assets	9,96,638	10,65,369	11,15,622	13,43,705	15,14,978
Investments	86,154	98,801	95,809	96,861	1,01,704
Net fixed assets	4,44,313	4,10,347	4,06,196	4,33,487	4,37,487
CWIP	3,884	11,703	29,491	6,200	6,200
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	6,28,718	6,05,300	5,59,872	5,51,334	5,39,613
Total assets	31,12,737	31,99,875	33,03,523	36,70,478	39,89,690

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	2,28,441	1,91,636	2,27,770	96,950	1,84,218
Capital expenditures	(9,223)	(30,399)	(37,934)	(64,065)	(42,612)
Change in investments	(1,84,746)	(2,19,767)	(89,546)	22,238	(4,843)
Other investing cash flows	1,39,681	2,13,489	44,363	8,538	11,721
Cash flow from investing	(54,288)	(36,677)	(83,117)	(33,288)	(35,734)
Equities issued/Others	159	110	103	0	0
Debt raised/repaid	(87,325)	(84,132)	(44,967)	(30,000)	(30,000)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(15,637)	(67,793)	(70,861)	(41,712)	(52,559)
Cash flow from financing	(1,02,803)	(1,51,815)	(1,15,725)	(71,712)	(82,559)
Chg in cash & cash eq.	71,350	3,144	28,928	(8,050)	65,925
Closing cash & cash eq.	4,72,527	4,87,528	5,80,930	5,72,880	6,38,806

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	82.5	120.4	74.6	99.0	124.8
Adjusted EPS	49.1	61.0	73.6	99.0	124.8
Dividend per share	36.0	36.0	22.0	29.7	37.4
Book value per share	540.3	586.8	636.1	705.4	792.7

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	1.8	1.8	1.7	1.5	1.4
EV/EBITDA	15.8	15.1	15.2	12.7	10.6
Adjusted P/E	52.1	42.0	34.8	25.9	20.5
P/BV	4.7	4.4	4.0	3.6	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	56.4	59.5	60.9	64.1	65.4
Interest burden (PBT/EBIT)	96.2	94.4	98.4	99.0	99.4
EBIT margin (EBIT/Revenue)	9.4	9.8	9.4	10.3	11.2
Asset turnover (Rev./Avg TA)	43.9	49.6	56.4	61.2	62.8
Leverage (Avg TA/Avg Equity)	4.3	4.0	3.8	3.7	3.6
Adjusted ROAE	9.7	10.8	12.0	14.8	16.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(6.5)	15.1	17.1	16.3	12.7
EBITDA	(4.3)	16.6	13.9	23.3	20.3
Adjusted EPS	(22.4)	24.2	20.6	34.5	26.0
Profitability & Return ratios (%)					
EBITDA margin	11.5	11.6	11.3	12.0	12.8
EBIT margin	9.4	9.8	9.4	10.3	11.2
Adjusted profit margin	5.1	5.5	5.6	6.5	7.3
Adjusted ROAE	9.7	10.8	12.0	14.8	16.7
ROCE	10.9	13.6	15.8	20.1	24.8
Working capital days (days)					
Receivables	113	108	89	100	100
Inventory	16	14	14	14	14
Payables	122	120	99	110	110
Ratios (x)					
Gross asset turnover	2.4	2.8	3.1	3.2	3.4
Current ratio	1.4	1.3	1.4	1.4	1.4
Net interest coverage ratio	3.3	4.9	5.4	6.8	8.2
Adjusted debt/equity	1.1	0.5	0.4	0.3	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

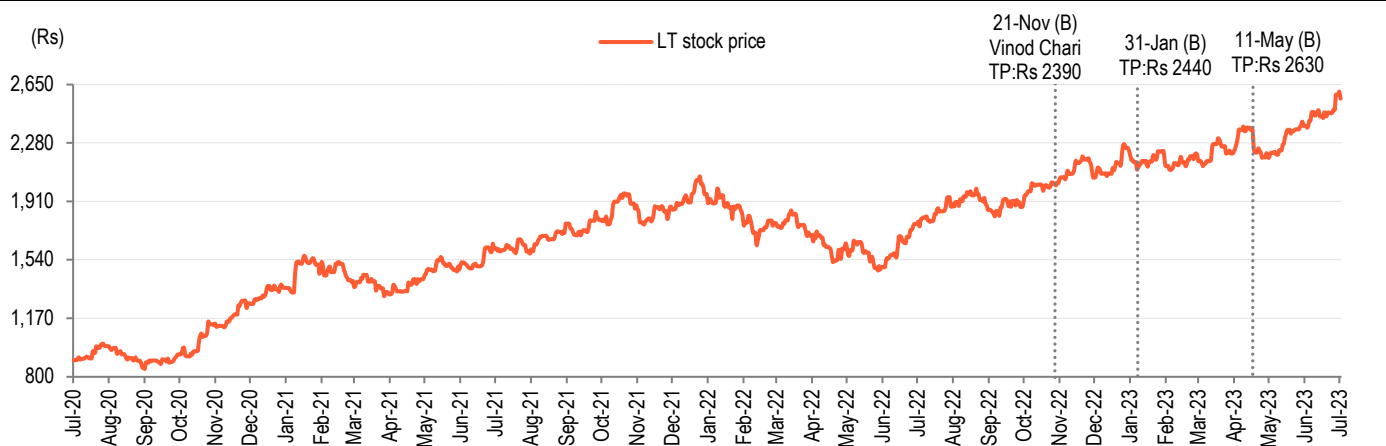
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): LARSEN & TOUBRO (LT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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