

BUY

TP: Rs 3,500 | ▲ 19%

LARSEN & TOUBRO

| Capital Goods

| 31 October 2023

Strong run continues; maintain BUY

- Strong show in Q2 led by highest ever order inflows of Rs 892bn (exit book of Rs 4.5tn), robust execution and working capital efficiency
- H2FY24 pipeline at Rs 8.8tn a big positive; key subsidiary Hyderabad metro improving its operating performance
- FY24/FY25 PAT estimates hiked 12%/10% and TP raised to Rs 3,500 (vs. Rs 3,000) on a higher core EV/EBITDA multiple of 18x (vs. 15x); retain BUY

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Strong execution, record inflows: Strong project execution in Q2FY24, particularly in international orders, saw LT clock 19%/37% YoY revenue/PAT growth to Rs 510bn/ Rs 39bn. The company posted its highest ever order inflow of Rs 892bn in Q2 and the addressable pipeline for H2FY24 stands at Rs 8.8tn despite the approaching 2024 elections, driven by infrastructure (Rs 5.1tn) and hydrocarbon (Rs 2.9tn) projects.

Margins to improve gradually from H2: EBITDA margin in legacy orders slipped 40bps YoY to 11% and continued to weigh on LT's core margin which stood at a muted 7.4% in H1FY24. Management expects to complete all legacy orders this year and has hence guided for an FY24 EBITDA margin band of 8.5-9% (vs. 9% at the start of the year) from 8.6% in FY23, before normalising to ~10% by FY25.

Order and revenue guidance reiterated: LT maintained its FY24 order inflow and revenue growth guidance at 10-12% and 12-15% respectively, with a positive bias. The company ended H1 with a record Rs 4.5tn order book, up from Rs 4.1tn the previous quarter, implying a ~3x book-to-bill ratio Working capital-to-sales improved to 16.7% in H1 from the usual 20-22%, likely helped by good collections as well as strong orders, and management expects to maintain a range of 16-18% for the fiscal.

Buyback to aid ROE: Return of capital through the recent Rs 100bn share buyback along with the special dividend paid out in Q1 would boost return ratios. H1 ROE has improved 310bps YoY to 15.3% and LT retains its long-term target of ~18%.

Subsidiary performance mixed: The company's Hyderabad metro subsidiary posted lower losses as daily ridership reached 0.42-0.46mn in H1 vs. 0.4mn in FY23. The Nabha power project saw lower power demand in July but a pickup in August.

Maintain BUY: LT is a strong play on the India capex story and among our top sector picks. We hike our FY24/FY25 PAT estimates by 12%/10% and raise our SOTP-based TP from Rs 3,000 to Rs 3,500 as we roll valuations to Sep'25E and now value the core business ex-services at 18x EV/EBITDA (vs. 15x) given the enhanced order outlook and growing order book. Our fair value includes Rs 900/sh for subsidiaries. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LT IN/Rs 2,929
Market cap	US\$ 50.1bn
Free float	86%
3M ADV	US\$ 67.7mn
52wk high/low	Rs 3,115/Rs 1,970
Promoter/FPI/DII	0%/21%/35%

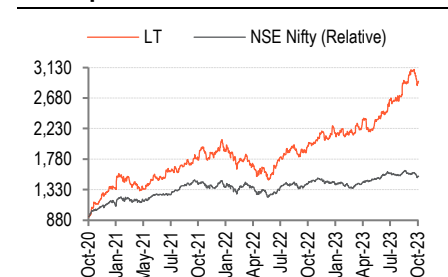
Source: NSE | Price as of 31 Oct 2023

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	2,77,278	3,32,050
Adj. net profit (Rs mn)	1,03,347	1,54,989	1,93,179
Adj. EPS (Rs)	73.6	112.8	140.6
Consensus EPS (Rs)	73.6	93.6	117.6
Adj. ROAE (%)	12.0	16.4	18.1
Adj. P/E (x)	39.8	26.0	20.8
EV/EBITDA (x)	17.7	13.6	11.5
Adj. EPS growth (%)	20.6	50.0	24.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	5,10,240	4,27,626	19.3	4,78,824	6.6	9,37,867	7,86,158	19.3
EBITDA	56,320	48,994	15.0	48,686	15.7	1,05,314	88,561	18.9
EBITDA margin (%)	11.0	11.5	(40bps)	10.2	90bps	11.2	11.3	0bps
Depreciation	9,099	8,602		8,305		17,701	18,236	
Interest	8,640	8,357		8,514		16,997	15,917	
Other Income	11,330	7,385		11,456		18,715	15,917	
PBT	49,911	39,421	26.6	43,324	15.2	89,332	68,741	30.0
Tax	11,355	11,229		12,163		22,585	17,619	
Adjusted PAT	38,556	28,192	36.8	31,161	23.7	66,748	51,122	30.6
Exceptional item	0	0		0		0	0	
Reported PAT	38,556	28,192	36.8	24,930	54.7	66,748	51,122	30.6
Adj. PAT Margin (%)	7.6	6.6	100bps	6.5	100bps	7.1	6.5	60bps
EPS (Rs)	22.9	15.9	44.6	17.8	29.3	38.8	28.0	38.7

Source: Company, BOBCAPS Research

Fig 2 – Segment-wise revenue performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Consolidated (ex-services)	3,57,002	2,85,937	24.9	3,34,015	6.9	6,91,017	5,11,017	35.2
Infrastructure	2,49,768	1,96,682	27.0	2,23,956	11.5	4,73,724	3,40,687	39.0
Energy	67,943	55,934	21.5	66,904	1.6	1,34,847	1,06,809	26.2
Hi-tech manufacturing	20,411	15,889	28.5	19,683	3.7	40,094	29,770	34.7
Others	18,880	17,432	8.3	23,472	(19.6)	42,352	33,751	25.5
IT and Technology services	1,12,470	1,01,839	10.4	1,09,607	2.6	2,22,076	1,96,441	13.0
Financial services	30,841	31,519	(2.2)	30,196	2.1	61,037	61,100	(0.1)
Developmental projects	18,531	13,446	37.8	12,964	42.9	31,495	26,900	17.1
Total Revenue	5,18,843	4,32,741	19.9	4,86,782	6.6	10,05,626	7,95,458	26.4
Inter-segment revenue	8,603	5,115	68.2	7,959	8.1	16,562	9,300	78.1
Net revenue	5,10,240	4,27,626	19.3	4,78,824	6.6	9,89,064	7,86,158	25.8

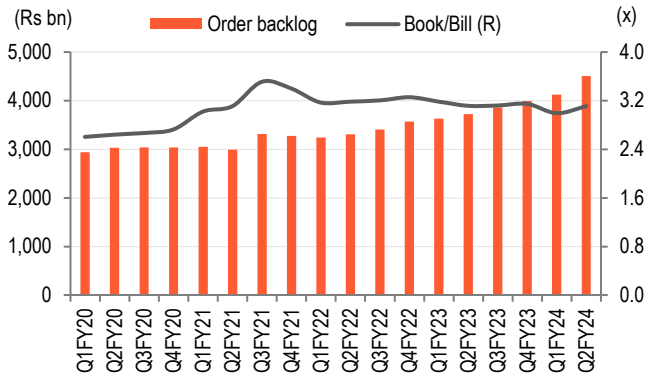
Source: Company, BOBCAPS Research

Fig 3 – Segment-wise EBIT margin profile

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Consolidated (ex-services)	21,552	19,504	10.5	20,443	5.4	41,995	34,181	22.9
EBIT Margin (%)	6.0	6.8	(78.4)	6.1	(8.3)	6.1	6.7	(61.2)
Infrastructure	10,356	10,668	(2.9)	8,502	21.8	18,857	17,530	7.6
EBIT Margin (%)	4.1	5.4	(127.8)	3.8	35.0	4.0	5.1	(116.5)
Energy	5,877	4,192	40.2	5,571	5.5	11,448	7,989	43.3
EBIT Margin (%)	8.7	7.5	115.5	8.3	32.4	8.5	7.5	101.0
Hi-tech manufacturing	2,338	2,216	5.5	2,544	(8.1)	4,882	3,719	31.3
EBIT Margin (%)	11.5	13.9	(249.5)	12.9	(147.4)	12.2	12.5	(31.7)
Others	2,982	2,427	22.9	3,826	(22.1)	6,808	4,943	37.7
EBIT Margin (%)	15.8	13.9	187.2	16.3	(50.6)	16.1	14.6	142.9
IT and Technology services	19,012	18,928	0.4	19,174	(0.8)	38,187	36,677	4.1
EBIT Margin (%)	16.9	18.6	(168.2)	17.5	(58.9)	17.2	18.7	(147.5)
Financial services	7,964	6,132	29.9	7,140	11.5	15,104	9,688	55.9
EBIT Margin (%)	25.8	19.5	636.7	23.6	217.6	24.7	15.9	889.1
Developmental projects	6,341	(115)	(5,599.2)	1,230	415.4	7,571	(326)	(2,420.2)
EBIT Margin (%)	34.2	(0.9)	3,507.3	9.5	2,472.6	24.0	(1.2)	2,525.1

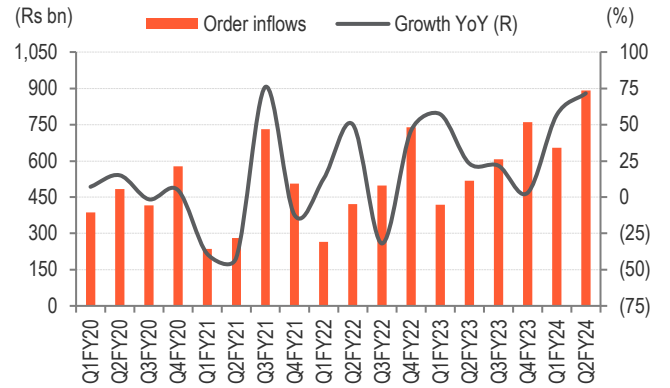
Source: Company, BOBCAPS Research

Fig 4 – Order backlog trend



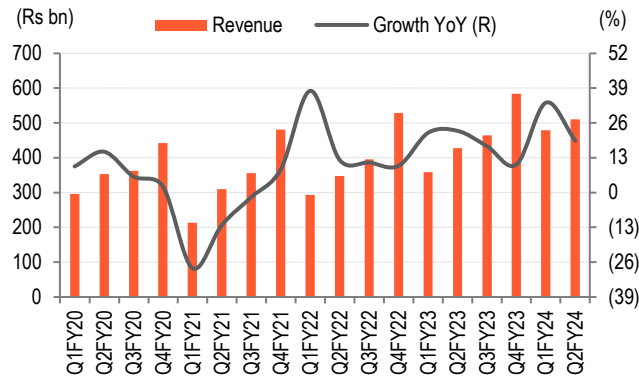
Source: Company, BOBCAPS Research

Fig 5 – Order inflow trend



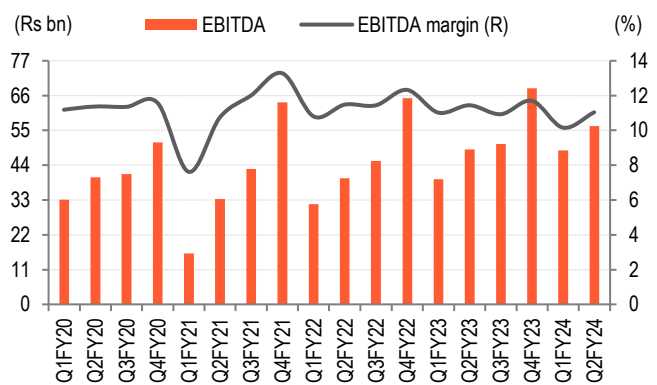
Source: Company, BOBCAPS Research

Fig 6 – Revenue growth trend



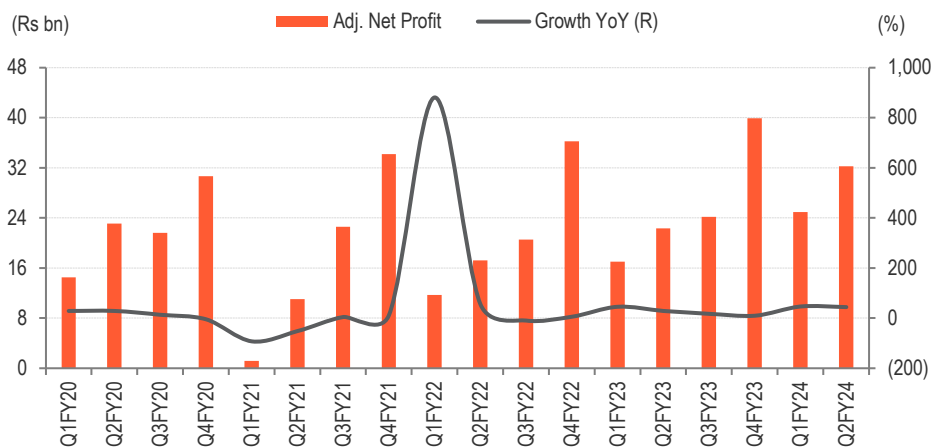
Source: Company, BOBCAPS Research

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 non-core assets. Its acquisition of technology services firm Mindtree has yielded dividends, serving to steady earnings when infrastructure spending slowed and also during Covid-19.

Amid the ongoing capex revival, LT stands out as a strong play on the India capex story and features among our top sector picks. We hike our FY24/FY25 PAT estimates by 12%/10% and raise our SOTP-based TP from Rs 3,000 to Rs 3,500 as we roll valuations forward to Sep'25E and now value the core business ex-services at 18x EV/EBITDA (vs. 15x) given the enhanced order outlook and growing order book. Our fair value includes Rs 900/sh for subsidiaries, valued at 20% holding company discount.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	21,32,402	24,04,205	21,32,402	24,04,205	0.0	0.0
EBITDA	2,77,278	3,32,050	2,55,954	3,08,008	8.3	7.8
PAT	1,54,989	1,93,179	1,39,039	1,75,195	11.5	10.3
EPS	112.8	140.6	99.0	124.8	13.9	12.7
EBITDA Margin (%)	13.0	13.8	12.0	12.8	100bps	100bps

Source: Company, BOBCAPS Research

Fig 10 – SOTP valuation summary

Business	Methodology	Rs bn	Rs/share
Core business (Ex-services)	18x Sep'25E Core business EBITDA	3,600	2,620
LTI Mindtree	20% holding co. discount to current market cap	708	520
Financial Services	20% holding co. discount to current market cap	144	100
Technology Services	20% holding co. discount to current market cap	241	180
IDPL, Hyderabad Metro & Others	0.5x P/B of Invested Equity	50	40
Total		4,743	3,500

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	10.6	4,109	4,400	HOLD
AIA Engineering	AIAE IN	4.0	3,516	4,000	BUY
Cummins India	KKC IN	5.7	1,677	2,110	BUY
Hitachi Energy	POWERIND IN	2.1	4,143	4,400	HOLD
KEC International	KECI IN	2.0	628	630	HOLD
Larsen & Toubro	LT IN	50.1	2,929	3,500	BUY
Siemens India	SIEM IN	14.4	3,331	3,900	HOLD
Thermax	TMX IN	4.1	2,832	2,600	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	15,65,212	18,33,407	21,32,402	24,04,205	26,21,126
EBITDA	1,82,173	2,07,533	2,77,278	3,32,050	3,66,531
Depreciation	29,480	35,023	36,774	38,612	40,543
EBIT	1,52,694	1,72,510	2,40,505	2,93,438	3,25,988
Net interest inc./(exp.)	31,257	32,072	32,392	32,716	33,043
Other inc./(exp.)	22,671	29,292	30,170	31,076	32,008
Exceptional items	0	0	0	0	0
EBT	1,44,107	1,69,730	2,38,283	2,91,797	3,24,952
Income taxes	42,166	44,842	60,047	73,533	81,888
Extraordinary items	(83,349)	(1,360)	0	0	0
Min. int./Inc. from assoc.	(16,217)	(21,542)	(23,246)	(25,086)	(27,071)
Reported net profit	1,69,073	1,04,707	1,54,989	1,93,179	2,15,993
Adjustments	(83,349)	(1,360)	0	0	0
Adjusted net profit	85,724	1,03,347	1,54,989	1,93,179	2,15,993

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	5,13,656	4,97,841	6,42,642	7,24,555	7,89,928
Other current liabilities	7,75,183	8,13,856	9,46,436	10,67,072	11,63,349
Provisions	0	0	0	0	0
Debt funds	9,20,953	9,21,140	8,91,140	8,61,140	8,31,140
Other liabilities	1,66,007	1,77,427	1,99,674	2,23,700	2,49,649
Equity capital	2,810	2,811	2,749	2,749	2,749
Reserves & surplus	8,21,267	8,90,449	9,98,941	11,34,166	12,85,361
Shareholders' fund	8,24,077	8,93,260	10,01,690	11,36,915	12,88,110
Total liab. and equities	31,99,875	33,03,523	36,81,581	40,13,382	43,22,177
Cash and cash eq.	4,87,528	5,80,930	5,83,984	6,62,497	7,69,121
Accounts receivables	4,61,393	4,47,315	5,84,220	6,58,686	7,18,117
Inventories	59,433	68,288	81,791	92,216	1,00,536
Other current assets	10,65,369	11,15,622	13,43,705	15,14,978	16,51,669
Investments	98,801	95,809	96,861	1,01,704	1,06,790
Net fixed assets	4,10,347	4,06,196	4,33,487	4,37,487	4,41,487
CWIP	11,703	29,491	6,200	6,200	6,200
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	6,05,300	5,59,872	5,51,334	5,39,613	5,28,258
Total assets	31,99,875	33,03,523	36,81,581	40,13,382	43,22,177

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	1,91,636	2,27,770	1,12,900	2,02,202	2,39,695
Capital expenditures	(30,399)	(37,934)	(64,065)	(42,612)	(44,543)
Change in investments	(2,19,767)	(89,546)	22,238	(4,843)	(5,085)
Other investing cash flows	2,13,489	44,363	8,538	11,721	11,355
Cash flow from investing	(36,677)	(83,117)	(33,288)	(35,734)	(38,274)
Equities issued/Others	110	103	(62)	0	0
Debt raised/repaid	(84,132)	(44,967)	(30,000)	(30,000)	(30,000)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(67,793)	(70,861)	(46,497)	(57,954)	(64,798)
Cash flow from financing	(1,51,815)	(1,15,725)	(76,559)	(87,954)	(94,798)
Chg in cash & cash eq.	3,144	28,928	3,053	78,514	1,06,623
Closing cash & cash eq.	4,87,528	5,80,930	5,83,984	6,62,497	7,69,121

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	120.4	74.6	112.8	140.6	157.2
Adjusted EPS	61.0	73.6	112.8	140.6	157.2
Dividend per share	36.0	22.0	33.1	41.3	46.1
Book value per share	586.8	636.1	728.8	827.2	937.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.1	2.0	1.8	1.6	1.5
EV/EBITDA	17.9	17.7	13.6	11.5	10.7
Adjusted P/E	48.0	39.8	26.0	20.8	18.6
P/BV	5.0	4.6	4.0	3.5	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	59.5	60.9	65.0	66.2	66.5
Interest burden (PBT/EBIT)	94.4	98.4	99.1	99.4	99.7
EBIT margin (EBIT/Revenue)	9.8	9.4	11.3	12.2	12.4
Asset turnover (Rev./Avg TA)	49.6	56.4	61.1	62.5	62.9
Leverage (Avg TA/Avg Equity)	4.0	3.8	3.7	3.6	3.4
Adjusted ROAE	10.8	12.0	16.4	18.1	17.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	15.1	17.1	16.3	12.7	9.0
EBITDA	16.6	13.9	33.6	19.8	10.4
Adjusted EPS	24.2	20.6	50.0	24.6	11.8
Profitability & Return ratios (%)					
EBITDA margin	11.6	11.3	13.0	13.8	14.0
EBIT margin	9.8	9.4	11.3	12.2	12.4
Adjusted profit margin	5.5	5.6	7.3	8.0	8.2
Adjusted ROAE	10.8	12.0	16.4	18.1	17.8
ROCE	13.6	15.8	22.1	27.0	30.1
Working capital days (days)					
Receivables	108	89	100	100	100
Inventory	14	14	14	14	14
Payables	120	99	110	110	110
Ratios (x)					
Gross asset turnover	2.8	3.1	3.2	3.4	3.5
Current ratio	1.3	1.4	1.4	1.4	1.4
Net interest coverage ratio	4.9	5.4	7.4	9.0	9.9
Adjusted debt/equity	0.5	0.4	0.3	0.2	0.0

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

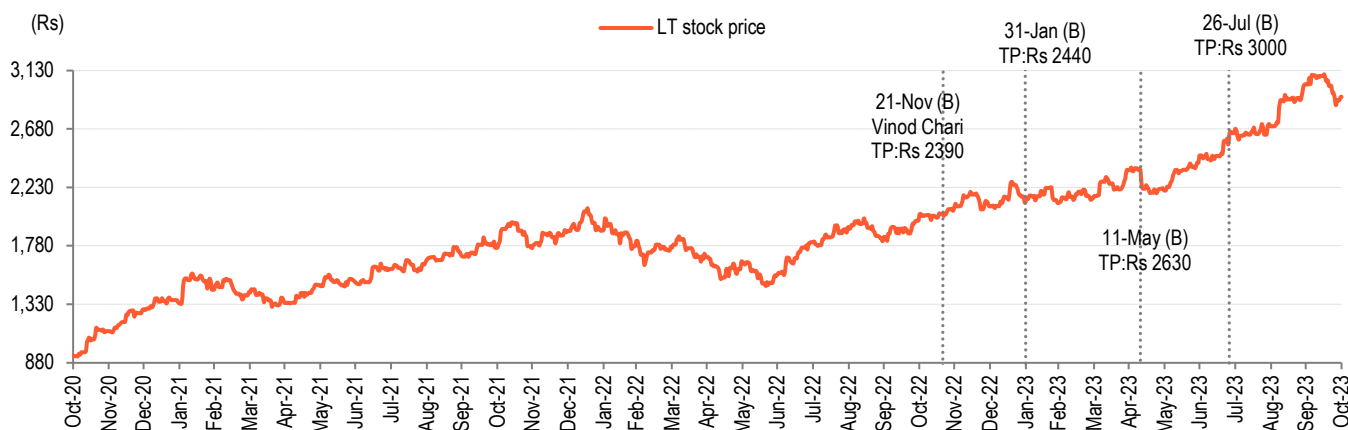
HOLD – Expected return from -6% to +15%

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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