

BUY
 TP: Rs 4,200 | ▲ 16%

LARSEN & TOUBRO

Capital Goods

30 January 2024

Order inflow guidance raised; maintain BUY

- Q3 order inflows and topline strong but margins declined due to legacy orders in the mix
- Order inflow and revenue guidance raised but margin guidance cut, though LT expects QoQ margin improvement going forward
- We adjust FY24/FY25/FY26 PAT estimates by -13%/+2%/+9% and raise TP to Rs 4,200 (vs. Rs 3,500); retain BUY

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Good topline and order inflows: Strong project execution in Q3FY24 saw LT clock 18.8%/17.5% YoY revenue/PAT growth to Rs 551bn/Rs 29bn (adjusted for minority interest). The company posted strong order inflow of Rs 760bn in Q3 and the addressable pipeline for Q4FY24 stands at Rs 6.3tn despite the approaching 2024 elections, driven by infrastructure (Rs 4.1tn) and hydrocarbon (Rs 1.7tn) projects.

Margins to improve gradually from Q4: EBITDA margin slipped 50bps YoY to 10.4% in Q3 and continued to weigh on LT's core margin which stood at a muted 7.5% in 9MFY24. Management expects to complete all legacy orders this year and has guided for an FY24 EBITDA margin band of 8.25-8.5% (vs. 9% at the start of the year) from 8.6% reported in FY23. Management also expects sequential margin improvement over the next four quarters.

Order and revenue guidance enhanced: LT increased its FY24 order inflow and revenue growth guidance to 20% (vs. 10-12%) and the high teens (vs. 12-15%) respectively. The company ended 9MFY24 with a record Rs 4.7tn order book, up from Rs 4.5tn the previous quarter, implying a ~2.6x book-to-bill ratio. Working capital-to-sales improved to 16.6% in 9MFY24 from 19% in the year-ago period, likely helped by good collections as well as strong orders, and management expects to maintain this for the full year.

Return ratios improve: Return of capital through the recent Rs 100bn share buyback along with the special dividend paid out in Q1 has boosted return ratios. 9M ROE has improved 280bps YoY to 15.2%. Despite guiding for lower margins, the company expects to maintain ROE due to better working capital management.

Maintain BUY: LT is a strong play on the India capex story and among our top sector picks. We adjust our FY24/FY25/FY26 PAT estimates by -13%/+2%/+9% to incorporate the Q3 results and raise our SOTP-based TP from Rs 3,500 to Rs 4,200 as we roll valuations over to Dec'25E. We continue to value the core business ex-services at 18x EV/EBITDA given the enhanced order outlook and growing order book. Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LT IN/Rs 3,633
Market cap	US\$ 62.1bn
Free float	86%
3M ADV	US\$ 70.1mn
52wk high/low	Rs 3,738/Rs 2,073
Promoter/FPI/DII	0%/21%/35%

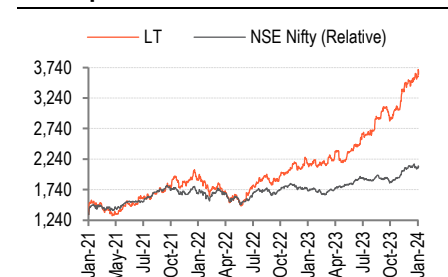
Source: NSE | Price as of 30 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,33,407	21,52,627	25,67,897
EBITDA (Rs mn)	2,07,533	2,47,196	3,33,401
Adj. net profit (Rs mn)	1,03,347	1,35,253	1,97,056
Adj. EPS (Rs)	73.6	98.4	143.4
Consensus EPS (Rs)	73.6	93.6	128.9
Adj. ROAE (%)	12.0	14.4	18.6
Adj. P/E (x)	49.4	36.9	25.3
EV/EBITDA (x)	22.5	19.3	14.3
Adj. EPS growth (%)	20.6	30.9	45.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	5,51,278	4,63,897	18.8	5,10,240	8.0	15,40,342	12,50,055	23.2
EBITDA	57,590	50,730	13.5	56,320	2.3	1,62,596	1,39,291	16.7
EBITDA margin (%)	10.4	10.9	(50bps)	11.0	(60bps)	10.6	11.1	(60bps)
Depreciation	9,208	8,252		9,099		26,611	26,488	
Interest	9,042	8,025		8,640		26,195	23,942	
Other Income	8,378	7,550		11,330		31,163	23,942	
PBT	47,718	42,004	13.6	49,911	(4.4)	1,40,953	1,10,745	27.3
Tax	11,773	12,705		11,355		35,291	30,324	
Adjusted PAT	35,945	29,299	22.7	38,556	(6.8)	1,05,662	80,422	31.4
Exceptional item	0	(1,360)		0		0	0	
Reported PAT	35,928	30,585	17.5	38,455	(6.6)	86,630	80,422	7.7
Adj. PAT margin (%)	6.5	6.3	20bps	7.6	(100bps)	6.9	6.4	40bps
EPS (Rs)	21.0	17.2	21.9	22.9	(8.5)	61.7	45.2	36.5

Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

[Rs mn]	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Consolidated (ex-services)	4,00,632	3,19,508	25.4	3,57,002	12.2	10,91,649	8,30,526	31.4
Infrastructure	2,82,664	2,22,057	27.3	2,49,768	13.2	7,56,388	5,62,744	34.4
Energy	78,703	63,462	24.0	67,943	15.8	2,13,550	1,70,271	25.4
Hi-tech manufacturing	21,847	18,631	17.3	20,411	7.0	61,941	48,401	28.0
Others	17,418	15,360	13.4	18,880	(7.7)	59,770	49,110	21.7
IT and Technology services	1,13,260	1,06,051	6.8	1,12,470	0.7	3,35,336	3,02,492	10.9
Financial services	34,067	33,486	1.7	30,841	10.5	95,104	94,586	0.5
Developmental projects	12,199	11,067	10.2	18,531	(34.2)	43,694	37,967	15.1
Total Revenue	5,60,157	4,70,112	19.2	5,18,843	8.0	15,65,783	12,65,570	23.7
Inter-segment revenue	8,879	6,214	42.9	8,603	3.2	25,441	15,515	64.0
Net revenue	5,51,278	4,63,897	18.8	5,10,240	8.0	15,40,342	12,50,055	23.2

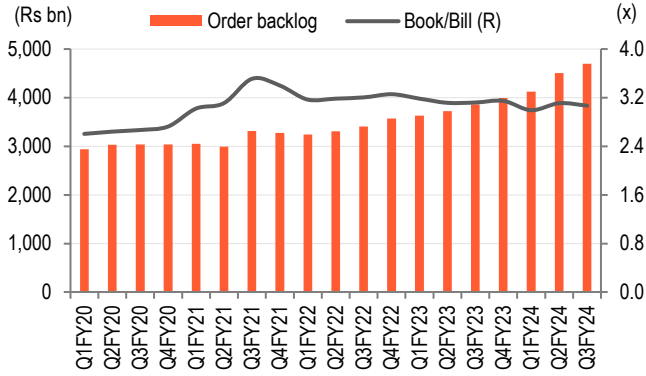
Source: Company, BOBCAPS Research

Fig 3 – Segment-wise EBIT and EBIT margin profile

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Consolidated (ex-services)	25,407	23,133	9.8	21,552	17.9	67,402	57,314	17.6
EBIT Margin (%)	6.3	7.2	(90bps)	6.0	30bps	6.2	6.9	(73bps)
Infrastructure	12,054	13,042	(7.6)	10,356	16.4	30,911	30,572	1.1
EBIT Margin (%)	4.3	5.9	(161bps)	4.1	12bps	4.1	5.4	(135bps)
Energy	6,952	4,966	40.0	5,877	18.3	18,400	12,955	42.0
EBIT Margin (%)	8.8	7.8	101bps	8.7	18bps	8.6	7.6	101bps
Hi-tech manufacturing	2,948	2,480	18.8	2,338	26.1	7,830	6,200	26.3
EBIT Margin (%)	13.5	13.3	18bps	11.5	204bps	12.6	12.8	(17bps)
Others	3,453	2,645	30.6	2,982	15.8	10,261	7,588	35.2
EBIT Margin (%)	19.8	17.2	261bps	15.8	403bps	17.2	15.5	172bps
IT and Technology services	19,708	17,053	15.6	19,012	3.7	57,895	53,729	7.8
EBIT Margin (%)	17.4	16.1	132bps	16.9	50bps	17.3	17.8	(50bps)
Financial services	8,240	6,304	30.7	7,964	3.5	23,344	15,992	46.0
EBIT Margin (%)	24.2	18.8	536bps	25.8	(164bps)	24.5	16.9	764bps
Developmental projects	1,184	(56)	(2,222.4)	6,341	(81.3)	8,755	(382)	(2,391.3)
EBIT Margin (%)	9.7	(0.5)	1,021bps	34.2	(2,451bps)	20.0	(1.0)	2,104bps

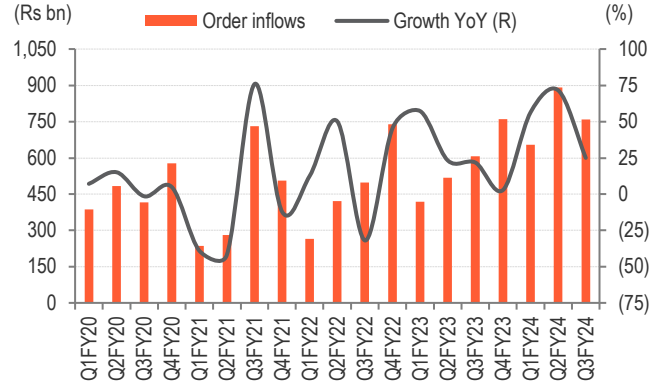
Source: Company, BOBCAPS Research

Fig 4 – Order backlog trend



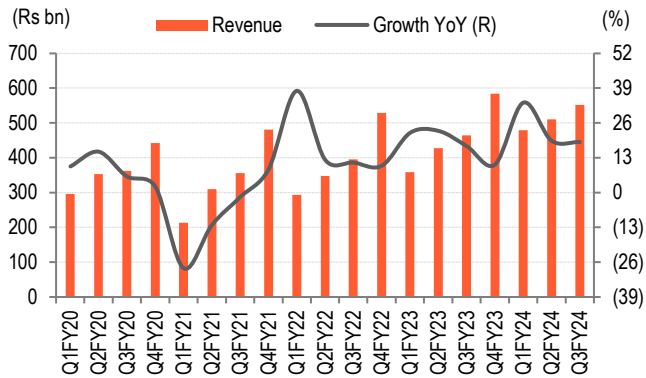
Source: Company, BOBCAPS Research

Fig 5 – Order inflow trend



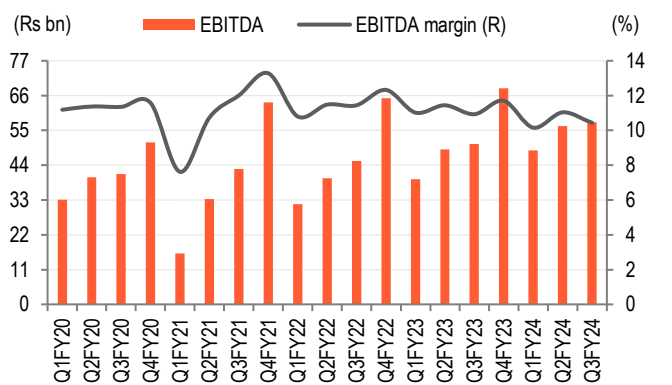
Source: Company, BOBCAPS Research

Fig 6 – Revenue growth trend



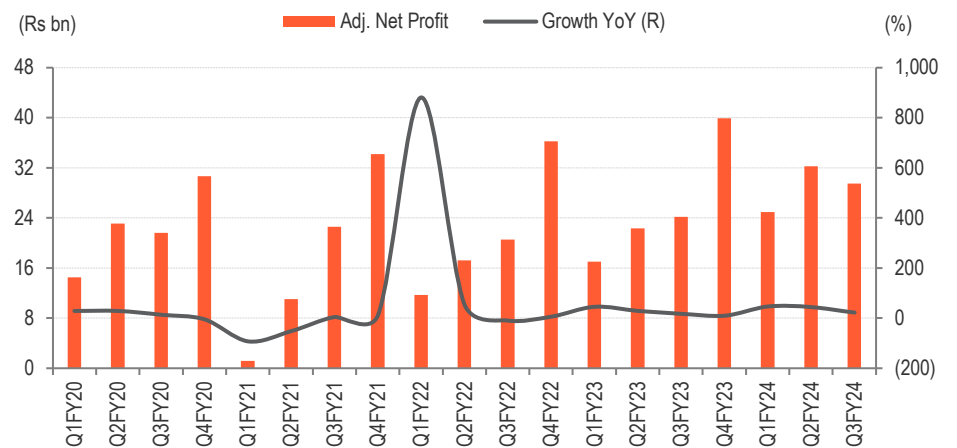
Source: Company, BOBCAPS Research

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.

The company is a strong play on the India capex story and among our top sector picks. We adjust our FY24/FY25/FY26 PAT estimates by -13%/+2%/+9% to incorporate the Q3FY24 results and raise our SOTP-based TP from Rs 3,500 to Rs 4,200 as we roll valuations over to Dec'25E. We continue to value the core business ex-services at 18x EV/EBITDA given the enhanced order outlook and growing order book. Maintain BUY.

Fig 9 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	21,52,627	25,67,897	28,76,296	21,32,402	24,04,205	26,21,126	0.9	6.8	9.7
EBITDA	2,47,196	3,33,401	3,88,293	2,77,278	3,32,050	3,66,531	(10.8)	0.4	5.9
PAT	1,35,253	1,97,056	2,35,244	1,54,989	1,93,179	2,15,993	(12.7)	2.0	8.9
EPS	98.4	143.4	171.2	112.8	140.6	157.2	(12.7)	2.0	8.9
EBITDA Margin (%)	11.5	13.0	13.5	13.0	13.8	14.0	(152bps)	(83bps)	(48bps)

Source: Company, BOBCAPS Research

Fig 10 – SOTP valuation summary

Business	Methodology	Rs bn	Rs/share
Core business (Ex-services)	18x Dec'25E Core business EBITDA	3,975	2,890
LTI Mindtree	20% holding co. discount to current market cap	1,089	790
Financial Services	20% holding co. discount to current market cap	276	200
Technology Services	20% holding co. discount to current market cap	427	310
IDPL, Hyderabad Metro & Others	0.5x P/B of Invested Equity	50	40
Total	-	5,816	4,200

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- a 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	12.2	4,730	4,700	HOLD
Hitachi Energy	POWERIND IN	2.9	5,614	4,200	SELL
KEC International	KECI IN	2.0	629	670	HOLD
Larsen & Toubro	LT IN	62.1	3,633	4,200	BUY
Thermax	TMX IN	4.5	3,083	3,000	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	15,65,212	18,33,407	21,52,627	25,67,897	28,76,296
EBITDA	1,82,173	2,07,533	2,47,196	3,33,401	3,88,293
Depreciation	29,480	35,023	36,774	38,612	40,543
EBIT	1,52,694	1,72,510	2,10,423	2,94,789	3,47,750
Net interest inc./(exp.)	31,257	32,072	33,675	34,012	34,352
Other inc./(exp.)	22,671	29,292	35,150	36,205	37,291
Exceptional items	0	0	0	0	0
EBT	1,44,107	1,69,730	2,11,897	2,96,981	3,50,689
Income taxes	42,166	44,842	53,398	74,839	88,374
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	1,35,253	1,97,056	2,35,244
Adjustments	(83,349)	(1,360)	0	0	0
Adjusted net profit	85,724	1,03,347	1,35,253	1,97,056	2,35,244

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	5,13,656	4,97,841	6,48,737	7,73,887	8,66,829
Other current liabilities	7,75,183	8,13,856	9,55,413	11,39,724	12,76,602
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	9,85,126	11,23,065	12,87,736
Shareholders' fund	8,24,077	8,93,260	9,87,875	11,25,814	12,90,485
Total liab. and equities	31,99,875	33,03,523	36,82,838	41,24,265	45,14,706
Cash and cash eq.	4,87,528	5,80,930	5,66,178	6,19,107	7,21,161
Accounts receivables	4,61,393	4,47,315	5,89,761	7,03,533	7,88,026
Inventories	59,433	68,288	82,567	98,495	1,10,324
Other current assets	10,65,369	11,15,622	13,56,450	16,18,127	18,12,460
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	36,82,838	41,24,265	45,14,706

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	1,91,636	2,27,770	89,174	1,77,779	2,40,901
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)	(40,576)	(59,117)	(70,573)
Cash flow from financing	(1,51,815)	(1,15,725)	(70,638)	(89,117)	(1,00,573)
Chg in cash & cash eq.	3,144	28,928	(14,752)	52,928	1,02,054
Closing cash & cash eq.	4,87,528	5,80,930	5,66,178	6,19,107	7,21,161

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	120.4	74.6	98.4	143.4	171.2
Adjusted EPS	61.0	73.6	98.4	143.4	171.2
Dividend per share	36.0	22.0	28.9	42.1	50.3
Book value per share	586.8	636.1	718.8	819.1	938.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.7	2.5	2.2	1.9	1.7
EV/EBITDA	23.3	22.5	19.3	14.3	12.5
Adjusted P/E	59.5	49.4	36.9	25.3	21.2
P/BV	6.2	5.7	5.1	4.4	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	59.5	60.9	63.8	66.4	67.1
Interest burden (PBT/EBIT)	94.4	98.4	100.7	100.7	100.8
EBIT margin (EBIT/Revenue)	9.8	9.4	9.8	11.5	12.1
Asset turnover (Rev./Avg TA)	49.6	56.4	61.6	65.8	66.6
Leverage (Avg TA/Avg Equity)	4.0	3.8	3.7	3.7	3.6
Adjusted ROAE	10.8	12.0	14.4	18.6	19.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	15.1	17.1	17.4	19.3	12.0
EBITDA	16.6	13.9	19.1	34.9	16.5
Adjusted EPS	24.2	20.6	30.9	45.7	19.4
Profitability & Return ratios (%)					
EBITDA margin	11.6	11.3	11.5	13.0	13.5
EBIT margin	9.8	9.4	9.8	11.5	12.1
Adjusted profit margin	5.5	5.6	6.3	7.7	8.2
Adjusted ROAE	10.8	12.0	14.4	18.6	19.5
ROCE	13.6	15.8	19.3	27.2	32.1
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	3.6	3.8
Current ratio	1.3	1.4	1.4	1.4	1.4
Net interest coverage ratio	4.9	5.4	6.2	8.7	10.1
Adjusted debt/equity	0.5	0.4	0.3	0.2	0.1

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%

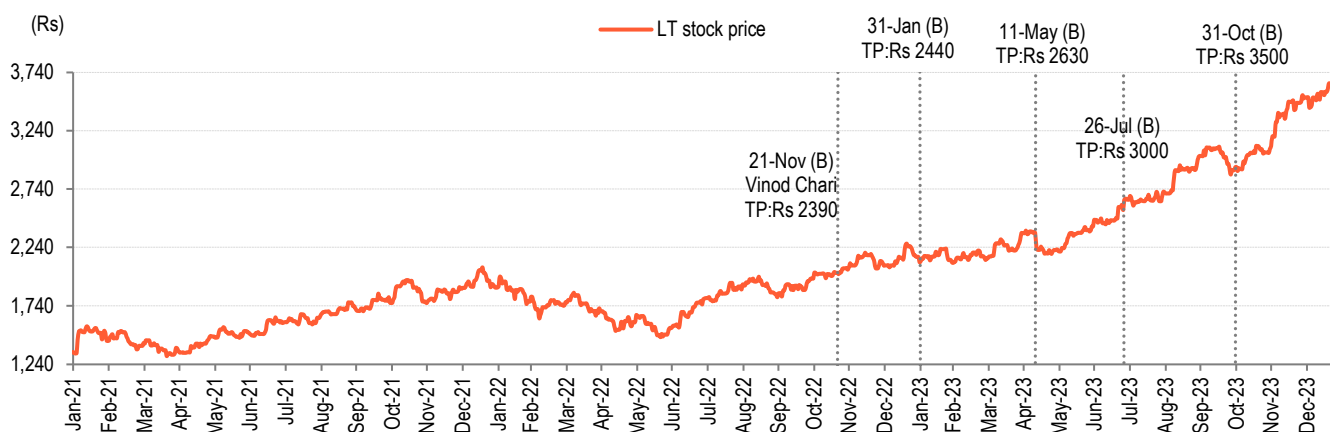
HOLD – Expected return from -6% to +15%

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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