

BUY

TP: Rs 2,630 | ▲ 17%

LARSEN & TOUBRO

| Capital Goods

| 11 May 2023

Strong finish; robust outlook for FY24

- Q4 in line; FY23 order inflow and revenue beat guidance while margins were on par and order book soared to a record Rs 4tn
- Upbeat FY24 outlook given addressable order pipeline of Rs 9.7tn and expected margin gains; ROE guided to rise to ~18% in long run
- Remains among the top capex plays in India; we tweak FY24/FY25 EPS -2%/+4% and roll to a new TP of Rs 2,630 (vs. Rs 2,440); retain BUY

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FY23 ends well: LT's Q4FY23 print was largely in line with our estimates even as the company beat its order inflow and revenue guidance for FY23. EBITDA margin was muted at 8.6% (-90bps YoY) but on par with mid-year guidance. The key positive was Q4 inflows of Rs 761bn which took the FY23 tally to Rs 2.5tn and enabled LT to close the year with a record order book of Rs 4tn (~3x book-to-bill ratio).

Good cash flow management: Despite lower margins due to cost overruns and old projects, the company maintained a healthy working capital-to-sales ratio of 16% vs. its usual range of 20-25% in FY23. This was helped by good collections as well as the strong order inflows.

FY24 outlook strong: Management guided for order inflow growth of 10-12%, revenue growth of 12-15% and a ~50bps EBITDA margin uptick in FY24. It further indicated that the addressable pipeline has risen 14% to Rs 9.7tn despite general elections drawing near. LT retains its long-term vision of taking ROE to ~18% from 12% now.

Margins to improve from H2FY24: The current order backlog was affected by cost-side pressures which resulted in a lower core operating margin of 8.6% in FY23 vs. 9% guided at the start of the year. The company has executed ~60% of these projects and the remaining 40% are to be completed in FY24. Management thus expects the core margin to improve from H2FY24 and to normalise to ~10% by FY25.

Subsidiary performance picks up: Subsidiary performance improved with lower losses in Hyderabad metro (Rs 13bn in FY23 vs. Rs 17.5bn in FY22) as ridership more than doubled to 0.4mn riders per day for the year. Similarly, the Nabha power project saw a stronger plant load factor (PLF) and was profitable in FY23.

Among our top picks: LT is a strong play on the capex story and among our top capital goods picks. We retain BUY and revise our SOTP-based TP from Rs 2,440 to Rs 2,630 as we adjust FY24/FY25 EPS estimates by -2%/+4% and roll valuations forward to Mar'25E. Given higher growth visibility, we value the core business ex-services at 15x EV/EBITDA (14x earlier) and subsidiaries at 25% holding discount.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LT IN/Rs 2,242
Market cap	US\$ 38.4bn
Free float	86%
3M ADV	US\$ 58.7mn
52wk high/low	Rs 2,416/Rs 1,456
Promoter/FPI/DII	0%/25%/39%

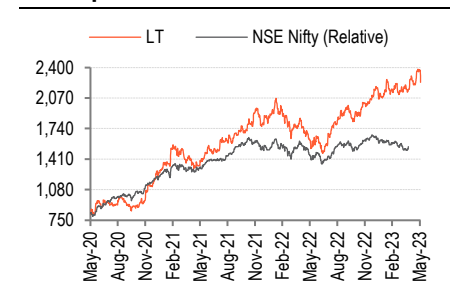
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,833,407	2,132,402	2,404,205
EBITDA (Rs mn)	207,533	255,954	308,008
Adj. net profit (Rs mn)	103,347	139,039	175,195
Adj. EPS (Rs)	73.6	99.0	124.8
Consensus EPS (Rs)	73.6	96.6	111.2
Adj. ROAE (%)	12.0	14.8	16.7
Adj. P/E (x)	30.5	22.6	18.0
EV/EBITDA (x)	13.1	11.0	9.2
Adj. EPS growth (%)	20.6	34.5	26.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	5,83,352	5,28,507	10.4	4,63,897	25.8
EBITDA	68,329	65,205	4.8	50,730	34.7
EBITDA margin (%)	11.7	12.3	(60bps)	10.9	80bps
Depreciation	8,535	7,694	-	8,252	-
Interest	8,130	7,051	-	8,025	-
Other Income	7,409	5,156	-	7,550	-
PBT	59,074	55,617	6.2	42,004	40.6
Tax	14,606	15,550	-	12,705	-
Adjusted PAT	39,868	36,207	10.1	24,169	65.0
Exceptional item	0	0	-	(1,360)	-
Reported PAT	39,868	36,207	10.1	25,529	56.2
Adj. PATM (%)	6.8	6.9	0bps	5.2	160bps
EPS (Rs)	28.4	25.8	10.1	17.2	65.0

Source: Company, BOBCAPS Research

Fig 2 – Annual Performance

Particulars (Rs mn)	FY23	FY22	YoY (%)
Revenue	18,33,407	15,65,212	17.1
EBITDA	2,07,533	1,82,173	13.9
EBITDA margin (%)	11.3	11.6	(30bps)
Depreciation	35,023	29,480	-
Interest	32,072	31,257	-
Other Income	29,292	22,671	-
PBT	1,71,090	1,45,077	17.9
Tax	44,842	42,166	-
Adjusted PAT	1,03,347	85,724	20.6
Exceptional item	1,360	969	-
Reported PAT	1,26,249	1,02,911	22.7
Adj. PATM (%)	5.6	5.5	20bps
EPS (Rs)	73.6	61.0	20.6

Source: Company, BOBCAPS Research

Fig 3 – Segment revenue

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Consolidated (ex-services)	4,39,593	3,55,114	23.8	3,19,508	37.6
Infrastructure	3,15,488	3,02,412	4.3	2,22,057	42.1
Energy	79,292	14,946	430.5	63,462	24.9
Hi-tech manufacturing	23,208	18,633	24.6	18,631	24.6
Others	21,605	19,124	13.0	15,360	40.7
IT and Technology services	1,07,393	88,226	21.7	1,06,051	1.3
Financial services	31,163	29,634	5.2	33,486	(6.9)
Developmental projects	12,321	10,958	12.4	11,067	11.3
Total Revenue	5,90,470	4,83,932	22.0	4,70,112	25.6
Inter-segment revenue	7,118	8,256	(13.8)	6,214	14.5
Net revenue	5,83,352	5,28,507	10.4	4,63,897	25.8

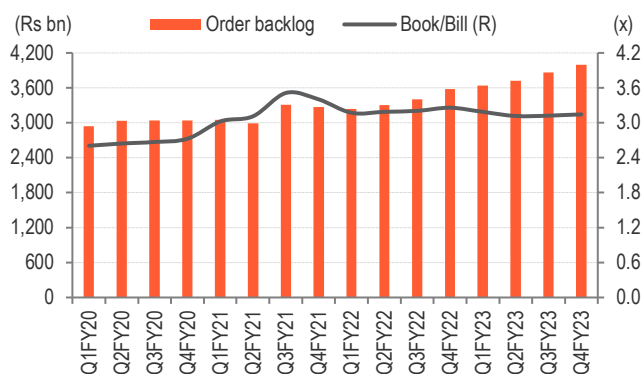
Source: Company, BOBCAPS Research

Fig 4 – Margin profile

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Consolidated (ex-services)	36,171	33,126	9.2	23,133	56.4
EBIT Margin (%)	8.2	9.3	(110bps)	7.2	99bps
Infrastructure	20,830	25,392	(18.0)	13,042	59.7
EBIT Margin (%)	6.6	8.4	(179bps)	5.9	73bps
Energy	7,712	693	1,013.3	4,966	55.3
EBIT Margin (%)	9.7	4.6	509bps	7.8	190bps
Hi-tech manufacturing	3,753	3,804	(1.3)	2,480	51.3
EBIT Margin (%)	16.2	20.4	(424bps)	13.3	286bps
Others	3,876	3,238	19.7	2,645	46.6
EBIT Margin (%)	17.9	16.9	101bps	17.2	72bps
IT and Technology services	18,076	17,904	1.0	17,053	6.0
EBIT Margin (%)	16.8	20.3	(346bps)	16.1	75bps
Financial services	6,596	4,803	37.3	6,304	4.6
EBIT Margin (%)	21.2	16.2	496bps	18.8	234bps
Developmental projects	4,300	(564)	(862.2)	(56)	(7,805.7)
EBIT Margin (%)	34.9	(5.1)	4,005bps	(0.5)	3,540bps

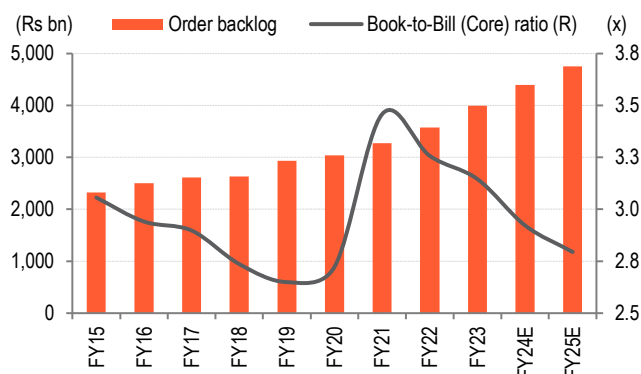
Source: Company, BOBCAPS Research

Fig 5 – Quarterly order backlog trend



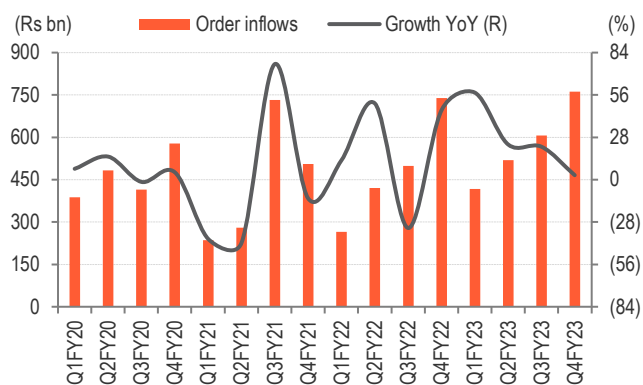
Source: Company, BOBCAPS Research

Fig 6 – Annual order backlog trend



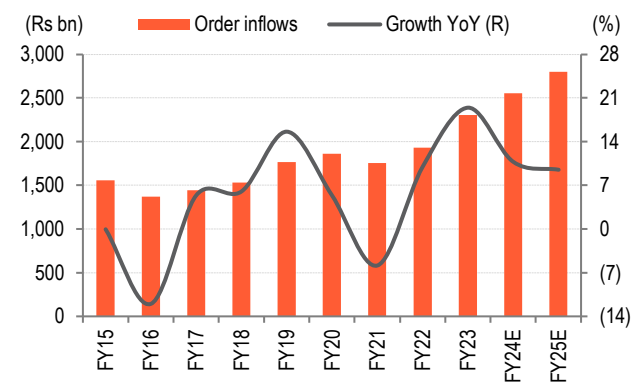
Source: Company, BOBCAPS Research

Fig 7 – Quarterly order inflow trend



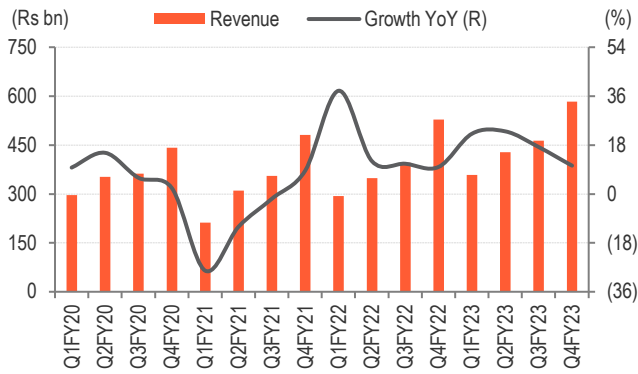
Source: Company, BOBCAPS Research

Fig 8 – Annual order inflow trend



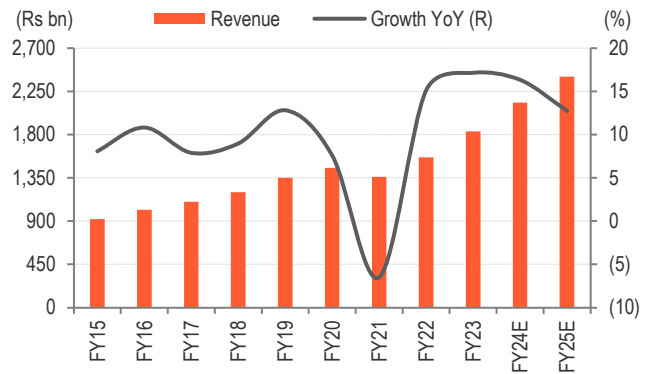
Source: Company, BOBCAPS Research

Fig 9 – Quarterly revenue trend



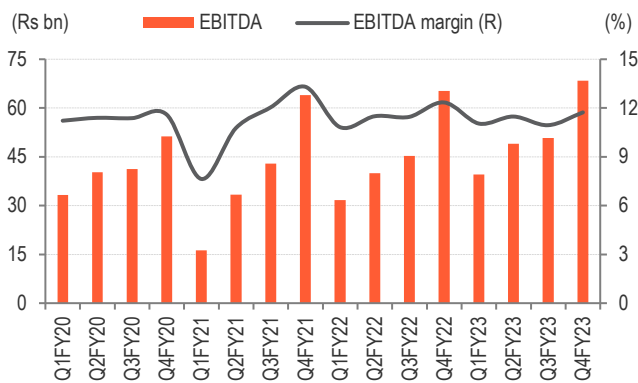
Source: Company, BOBCAPS Research

Fig 10 – Annual revenue trend



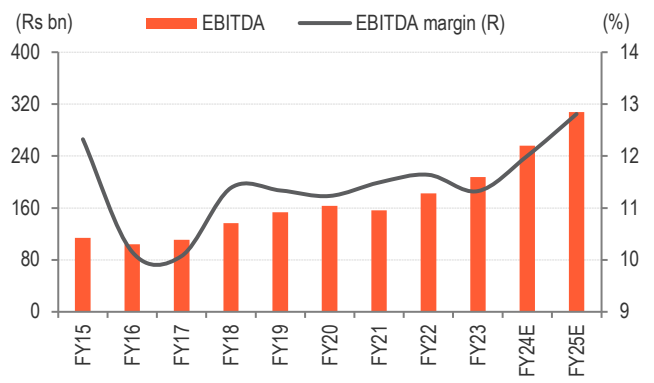
Source: Company, BOBCAPS Research

Fig 11 – Quarterly EBITDA trend



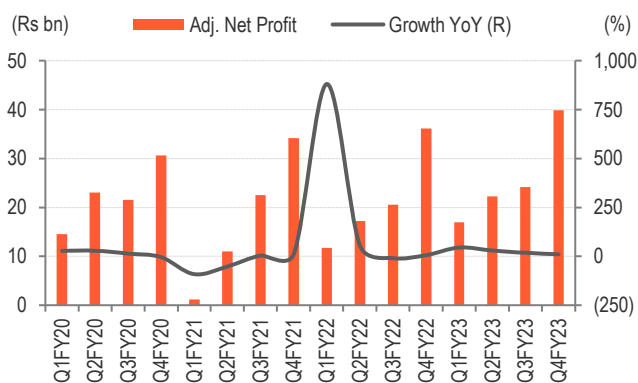
Source: Company, BOBCAPS Research

Fig 12 – Annual EBITDA trend



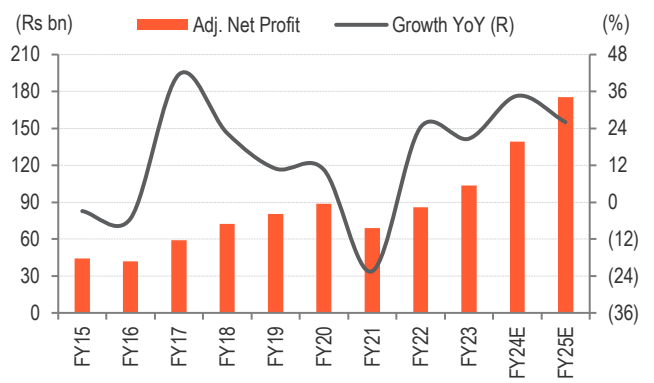
Source: Company, BOBCAPS Research

Fig 13 – Quarterly net profit trend



Source: Company, BOBCAPS Research

Fig 14 – Annual net profit trend



Source: Company, BOBCAPS Research

Valuation methodology

LT remains a pure engineering, procurement & construction (EPC) company and has been focusing on 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 the Covid-19 pandemic. This apart, the company's expertise in hydrocarbons has spurred stronger order wins in the Middle East amid rising oil prices

We expect LT to deliver a revenue/EBITDA/PAT CAGR of 14%/21%/30% over FY23-FY25, and retain BUY with a revised SOTP-based TP of Rs 2,630 (earlier Rs 2,440) as we adjust FY24/FY25 EPS estimates by -2%/+4% and roll valuations forward to Mar'25E. We have valued the core business (ex-services) at Rs 1,850/sh (15x FY25E EV/EBITDA vs. 14x earlier), given higher growth visibility, and the services subsidiaries at Rs 780/sh (at a 25% holding company discount).

Fig 15 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	21,32,402	24,04,205	21,38,981	23,67,795	(0.3)	1.5
EBITDA	2,55,954	3,08,008	2,55,255	2,93,677	0.3	4.9
PAT	1,39,039	1,75,195	1,42,114	1,68,290	(2.2)	4.1
EPS	99.0	124.8	101.2	119.8	(2.2)	4.1
EBITDAM (%)	12.0	12.8	11.9	12.4	7.0	40.8

Source: BOBCAPS Research

Fig 16 – SOTP valuation

Business	Methodology	Rs bn	Rs/share
Core business (Ex-services)	15x FY24E Core business EBITDA	2,592	1,850
LTI Mindtree	25% holding co. discount to current market cap	709	500
Financial Services	25% holding co. discount to current market cap	115	80
Technology Services	25% holding co. discount to current market cap	229	160
IDPL, Hyderabad Metro & Others	0.5x P/B of Invested Equity	55	40
Total	-	3,699	2,630

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slowdown in capex, and
- continued pressure on services margin.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.0	3,860	3,700	HOLD
AIA Engineering	AIAE IN	3.1	2,721	3,300	BUY
Cummins India	KKC IN	5.5	1,628	1,600	HOLD
KEC International	KECI IN	1.7	547	500	HOLD
Larsen & Toubro	LT IN	38.4	2,242	2,630	BUY
Siemens India	SIEM IN	16.5	3,797	3,800	BUY
Thermax	TMX IN	3.4	2,339	2,200	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,359,790	1,565,212	1,833,407	2,132,402	2,404,205
EBITDA	156,241	182,173	207,533	255,954	308,008
Depreciation	29,042	29,480	35,023	36,774	38,612
EBIT	127,199	152,694	172,510	219,181	269,396
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	122,358	144,107	169,730	216,959	267,755
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	115,829	169,073	104,707	139,039	175,195
Adjustments	(46,819)	(83,349)	(1,360)	0	0
Adjusted net profit	69,010	85,724	103,347	139,039	175,195

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	455,046	513,656	497,841	642,642	724,555
Other current liabilities	414,182	775,183	813,856	946,436	1,067,072
Provisions	0	0	0	0	0
Debt funds	1,326,053	920,953	921,140	891,140	861,140
Other liabilities	158,771	166,007	177,427	199,674	223,700
Equity capital	2,809	2,810	2,811	2,811	2,811
Reserves & surplus	755,876	821,267	890,449	987,776	1,110,413
Shareholders' fund	758,685	824,077	893,260	990,587	1,113,224
Total liab. and equities	3,112,737	3,199,875	3,303,523	3,670,478	3,989,690
Cash and cash eq.	472,527	487,527	580,930	572,880	638,806
Accounts receivables	422,298	461,393	447,315	584,220	658,686
Inventories	58,205	59,433	68,288	81,791	92,216
Other current assets	996,638	1,065,369	1,115,622	1,343,705	1,514,978
Investments	86,154	98,801	95,809	96,861	101,704
Net fixed assets	444,313	410,347	406,196	433,487	437,487
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	628,718	605,300	559,872	551,334	539,613
Total assets	3,112,737	3,199,875	3,303,523	3,670,478	3,989,690

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	228,441	191,636	227,770	96,950	184,218
Capital expenditures	(9,223)	(30,399)	(37,934)	(64,065)	(42,612)
Change in investments	(184,746)	(219,767)	(89,546)	22,238	(4,843)
Other investing cash flows	139,681	213,489	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	(102,803)	(151,815)	(115,725)	(71,712)	(82,559)
Chg in cash & cash eq.	71,350	3,144	28,928	(8,050)	65,925
Closing cash & cash eq.	472,527	487,527	580,930	572,880	638,806

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	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	FY23P	FY24E	FY25E
EV/Sales	1.5	1.5	1.5	1.3	1.2
EV/EBITDA	12.9	12.6	13.1	11.0	9.2
Adjusted P/E	45.6	36.7	30.5	22.6	18.0
P/BV	4.2	3.8	3.5	3.2	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	FY23P	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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

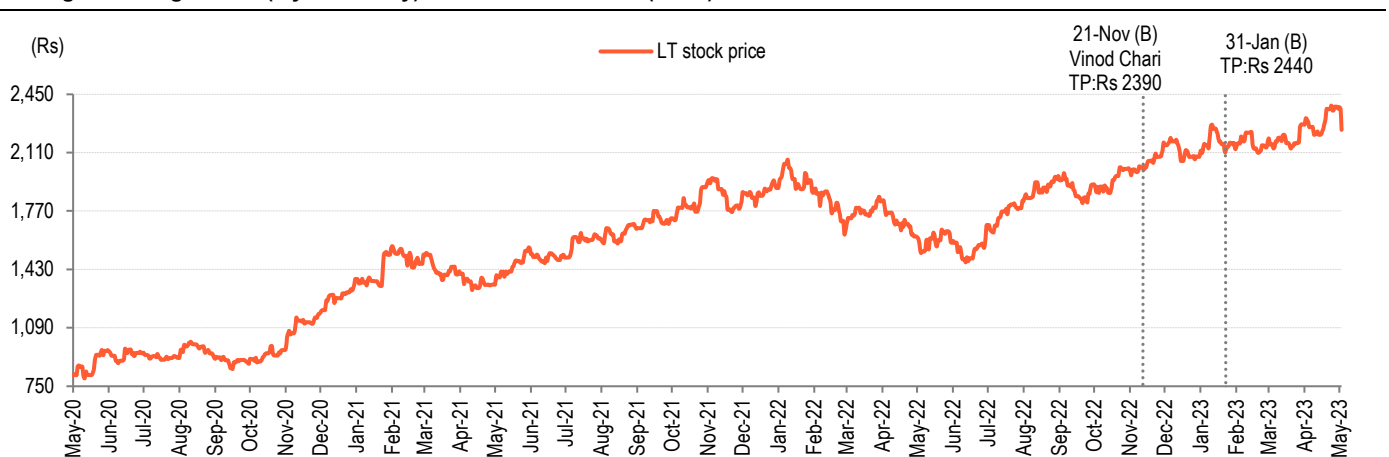
HOLD – Expected return from -6% to +15%

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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