

Orderbook position strong but margins subdued

L&T reported marginally weak set of results for 3QFY24 as revenue came in 5% ahead of our expectations while margins were 90bps lower and PAT 10% below estimate. Order inflow and order backlog remains strong with strong contribution from international segment. However, margin recovery in core EPC business remained weak. The management has upped its order inflow and revenue growth guidance whereas margins guidance in P&M segment has been marginally reduced. Overall order inflow trend remained strong with 32% YoY growth in order inflow in P&M segment driven by large orders in infrastructure and hydrocarbon segment. 67% of incremental new orders were received from international segment. International orders now constitute 39% of total orderbook and Saudi represents almost 1/3rd of total orderbook of the company thereby increasing geographic concentration risk. We have maintained our estimates and ADD rating on the stock and believe that execution is expected to remain strong with favourable tailwinds from domestic government capex and strong outlook on middle east economy.

L&T – 3QFY24 result highlights

L&T reported marginally weak set of results with Revenue/EBITDA growth of 18.8%/13.5% YoY. Revenue was 5% ahead of our estimate while EBITDA was below our estimate by 3%. Strong execution momentum continued in P&M business. EBITDA margins were subdued at 10.4% against our expectation of 11.3%. Legacy jobs are tapering off which should aid in margin expansion going forward. Consolidated PAT at Rs29.4bn was up 21.9% YoY but 10% below our estimate.

Orderbook remains strong with rising contribution from international segment

Order inflow in 3QFY24 came in at Rs760bn, up 25% YoY driven by infra and hydrocarbon segment. International orders comprised 67% of total order inflow. Closing orderbook stood at record Rs4,698bn, up 22% YoY. Given the strong prospects pipeline of Rs6.3tn, we expect orderbook position to strengthen further in FY24. Total international orders now constitute 39% of total orderbook and Saudi Arabia constitutes roughly 1/3rd of total OB which poses geographic concentration risk in our opinion. Additionally, more than 40% of total OB includes fixed price contracts which can lead to margin correction if commodity prices rise globally.

Guidance increased but still below what we are building in

The management finally increased its guidance for FY24 after strong execution so far in 9MFY24. The company has delivered 23% YoY growth in revenue and 49% YoY growth in order inflow in 9MFY24. Against this performance, the revised guidance for order inflow is 20% plus (12-15% earlier) and for revenue it is high teens (10-12% earlier). Needless to say that revised guidance remains conservative and is the company is likely to perform better. On margins front, the company has revised its guidance downwards for P&M segment from 8.5% -9% to 8.25% -8.5%. We are building in 24% YoY growth in P&M segment.

Maintain ADD rating and TP of Rs3,750

We are building in 18% revenue growth in core E&C business with more than 150bps margins improvement by FY26. We continue to value L&T based on SOTP method with core E&C business being valued at 26x PAT and add the value of listed subsidiaries based on 20% discount to current market cap. We also add the value of development business based on ~0.8x P/B to arrive at our target price of Rs3,750.

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	5,51,278	4,63,897	18.8	5,10,240	8.0	21,75,129	25,14,740	28,76,829
EBITDA	57,590	50,730	13.5	56,320	2.3	2,55,972	3,08,137	3,56,183
EBITDA margin (%)	10.4	10.9	(4.5)	11.0	(5.4)	11.8	12.3	12.4
Adj. Net profit	29,474	24,169	21.9	32,226	(8.5)	1,40,308	1,81,337	2,14,979
Adj. EPS (Rs)	21.0	17.2	21.9	22.9	(8.5)	99.8	129.0	153.0
EPS growth (%)						35.8	29.2	18.6
PE (x)						36.4	28.1	23.7
EV/EBITDA (x)						18.1	15.6	13.7
PBV (x)						5.2	4.7	4.2
RoE (%)						15.0	17.5	18.6
RoCE (%)						7.7	9.0	9.9

Source: Company, Centrum Broking

Result Update

India I Infrastructure

30 January, 2024

ADD

Price: Rs3,633

Target Price: Rs3,750

Forecast return: 3%

Institutional Research

Market Data

Bloomberg:	LT IN
52 week H/L:	3,739/2,068
Market cap:	Rs4994.1bn
Shares Outstanding:	1374.5mn
Free float:	69.8%
Avg. daily vol. 3mth:	18,13,496

Source: Bloomberg

Changes in the report

Rating:	ADD; Unchanged
Target price:	Unchanged
EPS:	Unchanged

Source: Centrum Broking

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	0.0	0.0	0.0	0.0
FIIs	25.5	25.7	25.3	24.5
DIIIs	37.7	37.5	38.4	39.0
Public/other	36.8	36.8	36.3	36.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	5,24,886	5,51,278	5.0
EBITDA	59,542	57,590	(3.3)
EBITDA margin (%)	11.3	10.4	
Adj. PAT	32,703	29,474	(9.9)

Source: Bloomberg, Centrum Broking



Mangesh Bhadang

Research Analyst, Infrastructure
+91-22 4215 9053
mangesh.bhadang@centrum.co.in



Sanjit Tambe

Research Associate, Infrastructure
+91-42159201
sanjit.tambe@centrum.co.in

Infrastructure

Thesis Snapshot

L&T versus NIFTY 50

	1m	6m	1 year
LT IN	(3.1)	24.2	45.1
NIFTY 50	(2.8)	5.6	5.9

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Consolidated order inflow growth (%)	13.2	13.2	13.2
E&C order inflow (Rsbn)	1,945	2,190	2,467
E&C order inflow growth (%)	13.0	12.6	12.6
E&C revenue growth (%)	23.6	17.2	15.2
E&C EBITDA Margin (%)	9.5	10.4	10.8
Effective tax rate (%)	27.1	26.5	26.3

Source: Centrum Broking

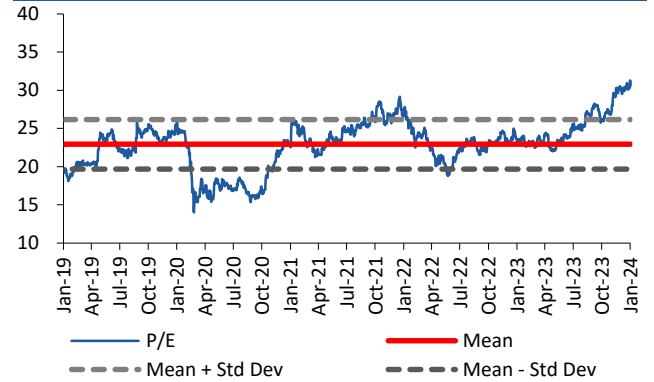
Valuations

We continue to value L&T based on SOTP method with core E&C business being valued at 26x PAT and add the value of listed subsidiaries based on 20% discount to current market cap. We also add the value of development business based on ~0.8x P/B to arrive at our target price of Rs3,750

SOTP summary

Businesses	Value (Rs/share)
E&C business (26x Sep 25 PAT)	2,633
Listed Subsidiaries (IT and FS)	1,084
Development business	33
Target price (Rs)	3,750

P/E mean and standard deviation



Source: Bloomberg, Centrum Broking

Exhibit 1: Consolidated quarterly results

Rs mn	3QFY23	2QFY24	3QFY24	YoY %	QoQ %
Net sales	4,63,897	5,10,240	5,51,278	18.8	8.0
EBIDTA	50,730	56,320	57,590	13.5	2.3
EBIDTA Margin (%)	10.9	11.0	10.4	(49)	(59)
Other income	7,550	11,330	8,378	11.0	(26.1)
Depreciation	8,252	9,099	9,208	11.6	1.2
Interest	8,025	8,640	9,042	12.7	4.6
Total PBT	42,004	49,911	47,718	13.6	(4.4)
Total Tax	12,705	11,355	11,773	(7.3)	3.7
Effective tax rate (%)	30.2	22.8	24.7	(557)	192
PAT	29,299	38,556	35,945	22.7	(6.8)
	5,055	6,229	6,455	27.7	3.6
Minority interest	(75)	(101)	(17)	NA	NA
Profit from associates	24,169	32,226	29,474	21.9	(8.5)
	1,360	-	-		
Consolidated PAT	25,529	32,226	29,474	15.5	(8.5)
Extra-ordinary items	17	23	21	21.9	(8.5)
Reported PAT	3QFY23	2QFY24	3QFY24	YoY %	QoQ %
EPS	4,63,897	5,10,240	5,51,278	18.8	8.0

Source: Company Data, Centrum Broking

Exhibit 2: Segmental Revenue

Rs bn	3QFY24	3QFY23	Change (%)
Infrastructure	278	219	26.9
Energy	79	63	24.2
Hi-tech mfg	21	17	23.5
Others	15	14	12.4
Total (P&M)	393	313	25.5
IT&TS	112	106	5.4
Financial Services	34	33	1.8
Developmental Projects	12	11	10.4
Total (Services & Concessions)	158	151	4.9

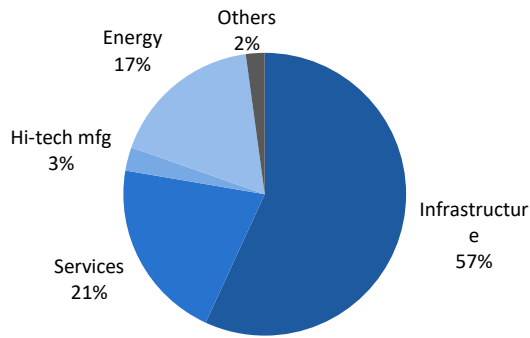
Source: Centrum Broking, Company Data

Exhibit 3: Segmental EBITDA

Rs bn	3QFY24	3QFY23	Change (%)
Infrastructure	15	15	(0.3)
Energy	8	5	38.7
Hi-tech mfg	3	3	17.4
Others	4	3	31.3
Total (P&M)	30	27	13.1
IT&TS	23	20	15.2
Financial Services	9	7	29.2
Developmental Projects	2	1	164.0
Total (Services & Concessions)	34	27	22.6

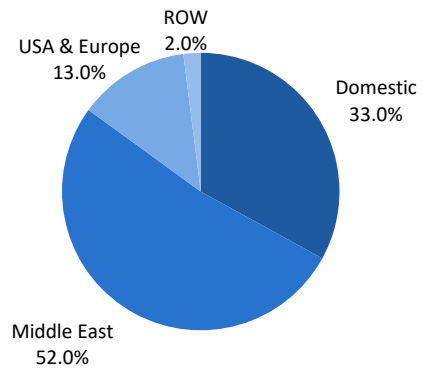
Source: Centrum Broking, Company Data

Exhibit 4: Order Inflow segmental breakdown



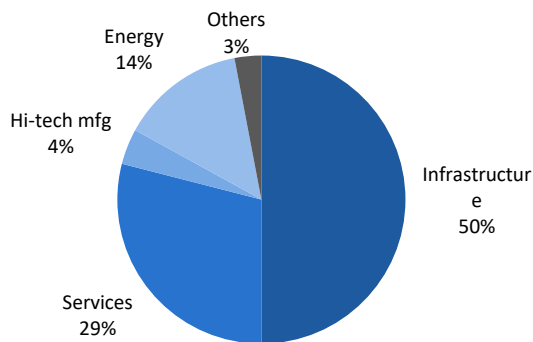
Source: Centrum Broking, Company Data

Exhibit 5: Order Inflow: Geography



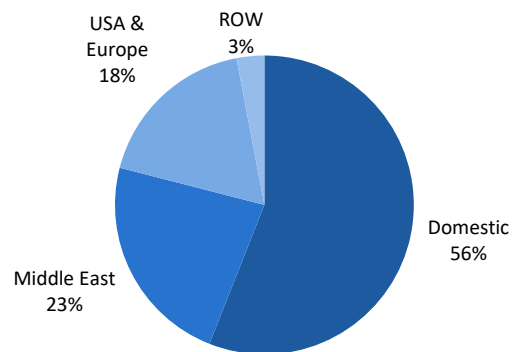
Source: Centrum Broking, Company Data

Exhibit 6: Revenue breakdown: Segment



Source: Centrum Broking, Company Data

Exhibit 7: Revenue breakdown: Geography



Source: Centrum Broking, Company Data

Exhibit 8: Valuation summary

Rs bn	Valuation method	Value driver (Rsbn)	Multiple (x)	Value	L&T's stake	L&T's value (Rsbn)	Rs/share
E&C business (A)	Sep 25 PAT	142.6	26.0	3,707	100.0%	3,707	2,633
L&T Finance Holdings	Mcap	396	0.8	317	66.2%	210	149
LTI Mindtree	Mcap	1,800	0.8	1,440	68.7%	989	704
LTTS	Mcap	548	0.8	438	73.9%	324	230
Total value of listed subsidiaries (B)							1,522
Infrastructure Development (C)	P/B (capital invested)	58	0.8	47	100.0%	47	33
Target price (A+B+C)						5,276	3,750

Source: Centrum Broking, Company Data

3QFY24 conference call highlights

Macro commentary

US economy doing well whereas European and Chinese economy yet to recover fully. Indian economic activity continues to witness steady growth with strong impetus on capex. General elections this year may result in order inflow slowdown from domestic segment which is already evident. Despite certain adverse global events, commodities like crude not adversely impacted and middle east economy doing well with better prospects.

Key events during the quarter

- Order inflow in P&M segment up 32% YoY at Rs602bn. Large amount of order inflow from international segment (67% of total) compared to domestic
- Guidance increased to 20% plus YoY growth in Order inflow against 12-15% earlier and high teens growth in revenue against 10-12% earlier. Margins in P&M business at 8.25% to 8.5% vs 8.5% to 9% earlier. Legacy projects nearing completion
- For Hyderabad metro, ICD's converted to equity which will result in savings in interest cost in the subsidiary

Key financial parameters for 3QFY24

- Total order inflow up 72% YoY, revenue up 19% YoY, PAT up 20% YoY
- EBITDA margins of P&M segment lower than expected. margins in infra projects segment remained muted at 5.5%.
- NWC to revenue at 16.6% vs 19% in Dec22
- TTM ROE at 15.2% up 280 bps YoY
- Order inflow Rs760bn up 25% YoY. P&M biz secured OI of Rs602bn, up 32% YoY driven by infrastructure and hydrocarbon segment. 67% of order inflow from international orders.
- Closing orderbook at record Rs4.7tn, up 22% YoY. International orders at 39% of OB and less than 1% of OB is slow moving.
- Prospects pipeline for the near term is at Rs6.27tn vs Rs4.87tn last year
- Group level collection ex fin 494bn vs 434 bn, up 14% YoY.

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	15,65,212	18,33,407	21,75,129	25,14,740	28,76,829
Operating Expense	9,97,385	11,66,153	13,63,806	15,79,257	18,06,648
Employee cost	2,97,335	3,72,141	4,16,798	4,58,478	5,04,326
Others	88,319	87,580	1,38,553	1,68,869	2,09,672
EBITDA	1,82,173	2,07,533	2,55,972	3,08,137	3,56,183
Depreciation & Amortisation	29,480	35,023	37,100	39,150	41,150
EBIT	1,52,694	1,72,510	2,18,872	2,68,987	3,15,033
Interest expenses	31,257	32,072	30,750	28,250	28,250
Other income	22,671	29,292	37,500	41,250	43,288
PBT	1,44,107	1,69,730	2,25,622	2,81,987	3,30,071
Taxes	42,166	44,842	61,092	74,687	86,719
Effective tax rate (%)	29.3	26.4	27.1	26.5	26.3
PAT	1,01,941	1,24,889	1,64,530	2,07,300	2,43,352
Minority/Associates	(16,217)	(21,542)	(24,222)	(25,963)	(28,373)
Recurring PAT	85,724	1,03,347	1,40,308	1,81,337	2,14,979
Extraordinary items	969	1,360	0	0	0
Reported PAT	86,693	1,04,707	1,40,308	1,81,337	2,14,979

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	15.1	17.1	18.6	15.6	14.4
EBITDA	16.6	13.9	23.3	20.4	15.6
Adj. EPS	21.3	20.5	35.8	29.2	18.6
Margins (%)					
Gross	36.3	36.4	37.3	37.2	37.2
EBITDA	11.6	11.3	11.8	12.3	12.4
EBIT	9.8	9.4	10.1	10.7	11.0
Adjusted PAT	5.5	5.7	6.5	7.2	7.5
Returns (%)					
ROE	10.8	12.0	15.0	17.5	18.6
ROCE	5.3	6.3	7.7	9.0	9.9
ROIC	6.1	7.3	9.0	10.7	12.2
Turnover (days)					
Gross block turnover ratio (x)	2.5	2.8	3.1	3.4	3.7
Debtors	117	102	95	98	98
Inventory	22	20	20	21	20
Creditors	177	158	148	151	150
Net working capital	104	80	80	82	85
Solvency (x)					
Net debt-equity	1.1	0.9	0.9	0.7	0.6
Interest coverage ratio	5.8	6.5	8.3	10.9	12.6
Net debt/EBITDA	4.0	3.3	3.0	2.4	2.0
Per share (Rs)					
Adjusted EPS	61.0	73.5	99.8	129.0	153.0
BVPS	586.5	635.5	697.4	774.9	866.6
CEPS	82.0	98.4	126.2	156.9	182.2
DPS	22.0	24.0	37.9	51.6	61.2
Dividend payout (%)	35.7	32.2	38.0	40.0	40.0
Valuation (x)					
P/E	59.5	49.4	36.4	28.1	23.7
P/BV	6.2	5.7	5.2	4.7	4.2
EV/EBITDA	23.4	21.1	18.1	15.6	13.7
Dividend yield (%)	0.6	0.7	1.0	1.4	1.7

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	2,810	2,811	2,811	2,811	2,811
Reserves & surplus	8,21,267	8,90,449	9,77,439	10,86,242	12,15,229
Shareholders fund	8,24,077	8,93,260	9,80,250	10,89,053	12,18,040
Minority Interest	1,29,661	1,42,413	1,66,535	1,92,898	2,21,672
Total debt	12,34,682	11,85,134	11,74,682	11,54,682	11,34,682
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	(18,008)	(33,544)	(38,544)	(43,544)	(48,544)
Total liabilities	21,70,412	21,87,263	22,82,924	23,93,090	25,25,850
Gross block	6,33,222	6,64,442	6,99,442	7,34,442	7,69,442
Less: acc. Depreciation	(2,79,831)	(3,14,853)	(3,51,953)	(3,91,103)	(4,32,253)
Net block	3,53,391	3,49,588	3,47,488	3,43,338	3,37,188
Capital WIP	11,703	29,491	29,491	29,491	29,491
Net fixed assets	4,39,864	4,57,066	4,54,966	4,50,816	4,44,666
Non Current Assets	8,90,060	8,80,060	8,70,060	8,60,060	8,50,060
Investments	3,96,034	4,47,983	4,82,983	5,20,483	5,57,983
Inventories	59,433	68,288	82,932	94,908	1,07,634
Sundry debtors	5,22,165	5,07,206	6,25,722	7,23,418	8,27,581
Cash & Cash Equivalents	1,89,532	2,25,196	1,80,797	2,18,558	2,64,360
Loans & advances	65,363	8,785	89,389	1,03,345	1,18,226
Other current assets	6,09,637	6,69,092	7,74,703	8,81,881	10,08,860
Trade payables	5,11,442	4,97,841	6,09,796	6,97,854	7,91,429
Other current liab.	4,90,234	5,78,572	6,68,833	7,62,527	8,62,091
Provisions	0	0	0	0	0
Net current assets	4,44,454	4,02,153	4,74,915	5,61,730	6,73,141
Total assets	21,70,412	21,87,263	22,82,924	23,93,090	25,25,850

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	1,45,077	1,71,090	2,25,622	2,81,987	3,30,071
Depreciation & Amortisation	29,480	35,023	37,100	39,150	41,150
Net Interest	31,257	32,072	30,750	28,250	28,250
Net Change – WC	(2,490)	76,415	(1,17,161)	(49,054)	(65,609)
Direct taxes	(39,211)	(39,132)	(56,092)	(69,687)	(81,719)
Net cash from operations	1,64,112	2,75,468	1,20,219	2,30,646	2,52,143
Capital expenditure	(21,146)	(52,225)	(35,000)	(35,000)	(35,000)
Acquisitions, net	0	0	0	0	0
Investments	233	(51,949)	(35,000)	(37,500)	(37,500)
Others	5,111	(23,982)	(10,100)	(9,600)	(9,600)
Net cash from investing	(15,803)	(1,28,156)	(80,100)	(82,100)	(82,100)
FCF	1,48,310	1,47,312	40,119	1,48,546	1,70,043
Issue of share capital	(8,353)	(7,846)	0	0	0
Increase/(decrease) in debt	(91,370)	(49,549)	(10,452)	(20,000)	(20,000)
Dividend paid	(30,911)	(33,732)	(53,317)	(72,535)	(85,991)
Interest paid	(31,257)	(32,072)	(30,750)	(28,250)	(28,250)
Others	40,698	11,550	10,000	10,000	10,000
Net cash from financing	(1,21,193)	(1,11,648)	(84,519)	(1,10,785)	(1,24,241)
Net change in Cash	27,117	35,664	(44,399)	37,761	45,801

Source: Company, Centrum Broking

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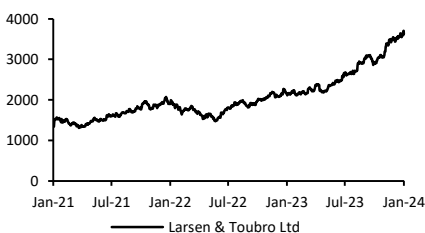
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Source: Bloomberg

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Website: www.centrumbroking.comInvestor Grievance Email ID: investor.grievances@centrum.co.in**Compliance Officer Details:**

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(022) 4215 9000/9023; Email ID: compliance@centrum.co.in**Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)****Registered and Corporate Office:**

Level -9, Centrum House, C.S.T. Road,

Vidyanagari Marg, Kalina,

Santacruz (East) Mumbai – 400098

Tel.: - +91 22 4215 9000