

Retail Equity Research

Larsen & Toubro Limited

Construction & Engineering

BSE CODE: 500510

NSE CODE: LT

Bloomberg CODE: LT:IN

SENSEX: 81,333

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 3,673 TARGET Rs. 4,179 RETURN 14% ↑
(Closing: 26-07-24)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Strong revenue on improved execution

Larsen & Toubro Ltd (L&T) is an engineering & construction (E&C) conglomerate with presence in IT and financial services sectors and operations in more than 30 countries.

- In Q1FY25, L&T revenue grew 15.1% YoY to Rs. 55,120cr, driven by robust executional order book in hand combined with accelerated contributions from international business to 48% vs 40% in Q1FY24.
- Order book stood all-time high at Rs. 4,909bn and the EBITDA margin was stable at 10.2%, as revenue cost mix remained the same.
- L&T delivered resilient quarterly performance in Q1FY25. Further, the recent government budget, increasing demand for international projects and a healthy order book in hand provide a positive outlook. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 4,179 based on sum-of-the-parts (SOTP) valuation.

Infrastructure and energy business drive revenue growth

In Q1FY25, consolidated revenue grew 15.1% YoY to Rs. 55,120cr, driven by strong execution momentum in Infrastructure, Hydrocarbon and Precision Engineering Systems (PES) business within the projection manufacturing portfolio. A robust order execution book in hand delivered 21.4% YoY revenue growth in infrastructure projects. The segmental revenue of energy projects increased 27.1% YoY, driven by executional ramp up of hydrocarbon international projects, offset by subdued order book in CarbonLite Solutions. IT and technology services grew 5.4% YoY on the back of 5.1% growth in LTIMindtree business. EBITDA increased 15.3% YoY to Rs. 5,615cr with flat margins to 10.2%. Total opex surged 15% YoY in pursuit of executional ramp up. As a result, adjusted PAT delivered 11.7% YoY growth in Q1FY25.

Key concall highlights

- Standard & Poor's and Fitch provided BBB+ rating to the L&T, showcasing a stable outlook on the back of the company's exceptional credit quality and robust financial health.
- L&T projected consolidated order prospected pipeline of Rs. 9.07tn for rest nine months of FY25 vs Rs. 10.07tn orders booked last year in the same period. 10% YoY decline was due to anticipated weakened hydrocarbon prospects pipeline.
- Management anticipated ROE to be 18% by FY26 vs 14.7% at present, on the back of cool down of losses from Hyderabad metro and other investments, further enriched with leaner balance sheet projected for future.

Order book all time high and strong growth momentum expected

In Q1FY25, order inflow book rose 8.3%. Hi-Tech Manufacturing order book surged 249.9% YoY driven by booking of shipbuilding order in PES. Further, Energy order book boosted 21.4% YoY on the back of being awarded multiple Hydrocarbon domestic offshore orders. Infrastructure delivered flat order inflow growth. At the end of Q1FY25, order book stood at Rs. 4,909bn (+19.0% YoY). International orders remained robust by contributing 37.8% to total order book vs 29.2% in Q1FY24 due to strong order momentum in the Middle East. L&T expects the order book to grow 10% YoY in FY25.

Valuation

L&T's Lakshya'26 targets seem to be highly achievable on the back of sound company performance. Recent budget announcements augur well for intense capex investment activities in the near term in the country, thus providing a sustainable demand outlook ahead. An increase in international demand, mainly in the Middle East, is also likely to enhance results. Thus, we reiterate our BUY rating on the stock with a revised target price of Rs. 4,179 based on SOTP valuation.

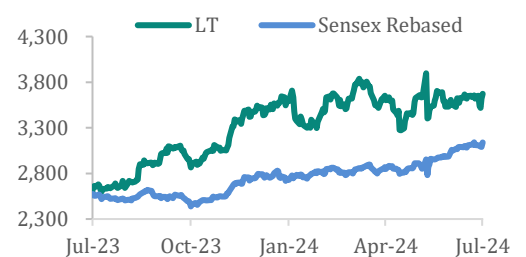
Company Data

Market Cap (cr)	Rs. 505,023
Enterprise Value (cr)	Rs. 618,538
Outstanding Shares (cr)	137.6
Free Float	85.0%
Dividend Yield	0.9%
52 week high	Rs. 3,949
52 week low	Rs. 2,587
6m average volume (lacs)	32.3
Beta	0.8
Face value	Rs. 2

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	0.0	0.0	0.0
FII's	25.5	24.4	22.9
MFs/Insti	37.7	38.5	39.3
Public	22.1	22.3	22.9
Others	14.7	14.9	14.9
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.0%	2.3%	38.8%
Absolute Sensex	10.3%	15.0%	21.9%
Relative Return*	-8.3%	-12.8%	16.9%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	221,113	257,087	297,554
Growth (%)	20.6	16.3	15.7
EBITDA	23,494	28,169	33,561
EBITDA Margin (%)	10.6	11.0	11.3
Adj. PAT	12,966	16,157	19,935
Growth (%)	25.5	24.6	23.4
Adj. EPS	94.3	117.5	145.0
Growth (%)	28.3	24.6	23.4
P/E	40.0	31.3	25.3
P/B	6.0	5.1	4.5
EV/EBITDA	27.1	22.0	18.4
ROE (%)	18.0	19.3	20.7
D/E	1.1	1.0	0.8

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue	55,120	47,882	15.1	67,079	(17.8)
EBITDA	5,615	4,869	15.3	7,234	(22.4)
EBITDA margins	10.2	10.2	0bps	10.8	(60bps)
Depreciation	998	830	20.2	1,021	(2.3)
EBIT	4,617	4,038	14.3	6,213	(25.7)
Interest	861	851	1.2	926	(7.0)
Other Income	921	1,146	(19.6)	1,042	(11.6)
Exceptional Items	-	-	-	94	n.m.
Share of profit from Associate	5	(21)	n.m.	10	n.m.
PBT*	4,681	4,312	8.6	6,431	(27.2)
Tax	1,237	1,216	1.7	1,418	(12.8)
Reported PAT*	3,445	3,096	11.3	5,013	(31.3)
Minority Interest	659	603	9.4	617	6.8
PAT att. to shareholders	2,786	2,493	11.7	4,396	(36.6)
Adjustments	-	-	-	(94)	n.m.
Adj. PAT	2,786	2,493	11.7	4,303	(35.3)
No. of shares	137.6	140.6	(2.2)	137.6	(0.0)
Adj. EPS (Rs.)	20.3	17.7	14.2	31.3	(35.2)

*Note: PBT and PAT number will not match with reported figure as 'share of profit from associate' adjusted before PBT.

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	254,430	292,121	257,087	297,554	1.0	1.9
EBITDA	28,960	33,811	28,169	33,561	(2.7)	(0.7)
Margins (%)	11.4	11.6	11.0	11.3	(40bps)	(30bps)
Adj. PAT	16,661	20,080	16,157	19,935	(3.0)	(0.7)
Adj. EPS	121.2	146.1	117.5	145.0	(3.0)	(0.7)

Gross Segment Revenue

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Infrastructure Projects	27,179	22,396	21.4	38,369	(29.2)
Energy Projects	8,500	6,690	27.1	8,216	3.5
Hi-Tech Manufacturing	1,920	1,968	(2.5)	2,571	(25.3)
IT & Technology Services	11,557	10,961	5.4	11,383	1.5
Financial Services	3,664	3,020	21.3	3,598	1.8
Development Projects	1,327	1,296	2.4	1,259	5.5
Others	1,497	2,347	(36.2)	2,516	(40.5)
Inter-segment	(525)	(796)	(34.0)	(833)	(37.0)
Total	55,120	47,882	15.1	67,079	(17.8)

SOTP Valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr.)	Value/share (Rs.)
Core E&C	FY26E P/E	25.0x	100%	442,629	3,219
Financial Services	Geojit TP	1.5x	69%	47,915	348
Developmental Projects	FY26E P/BV	0.9x	51%	8,531	62
Hydrocarbon	FY26E P/BV	3.0x	100%	95,463	694
LTIMindtree	FY26E P/E	12.0x	69%	53,043	386
L&T Technology services	FY26E P/E	15.2x	74%	21,057	153
Others	FY26E P/BV	0.8x	100%	7,291	53
Conglomerate discount		15%		(101,389)	(737)
Total				574,538	4,179



PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	156,521	183,341	221,113	257,087	297,554
% change	15.1	17.1	20.6	16.3	15.7
EBITDA	18,217	20,753	23,494	28,169	33,561
% change	16.6	13.9	13.2	19.9	19.1
Depreciation	2,948	3,502	3,682	3,854	3,945
EBIT	15,269	17,251	19,811	24,315	29,616
Interest	3,126	3,207	3,546	3,487	3,214
Other Income	2,492	2,971	4,229	4,574	4,940
PBT	14,636	17,015	20,494	25,402	31,342
% change	68.3	16.3	20.5	23.9	23.4
Tax	4,217	4,484	4,947	6,394	7,889
Tax Rate (%)	28.8	26.4	24.1	25.2	25.2
Reported PAT	10,419	12,531	15,547	19,009	23,453
PAT att. to common shareholders	8,669	10,471	13,059	16,157	19,935
Adjustments	(97)	(136)	(94)	-	-
Adj PAT	8,572	10,335	12,966	16,157	19,935
% change	(43.4)	20.6	25.5	24.6	23.4
No. of shares (cr)	140.6	140.5	137.5	137.5	137.5
Adj EPS (Rs.)	61.0	73.5	94.3	117.5	145.0
% change	(43.4)	20.6	28.3	24.6	23.4
DPS (Rs.)	22.0	30.0	34.0	29.4	36.3

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	13,367	16,033	19,229	22,862	27,398
Non-cash adj.	1,040	1,365	422	3,487	3,214
Changes in W.C	4,757	5,379	(1,385)	(1,363)	(8,634)
C.F. Operation	19,164	22,777	18,266	24,986	21,978
Capital exp.	(3,040)	(3,793)	(4,210)	(4,628)	(5,951)
Change in inv.	1,180	(5,545)	238	(2,612)	(11)
Other invest.CF	(1,807)	1,027	6,135	(3,700)	(3,700)
C.F - Investment	(3,668)	(8,312)	2,163	(10,939)	(9,662)
Issue of equity	11	10	(12,270)	-	-
Issue/repay debt	(8,413)	(4,497)	(4,102)	(2,996)	(2,128)
Dividends paid	(2,528)	(3,091)	(4,217)	(4,039)	(4,984)
Other finance.CF	(4,251)	(3,995)	(4,824)	(3,487)	(3,214)
C.F - Finance	(15,181)	(11,572)	(25,413)	(10,521)	(10,327)
Chg. in cash	314	2,893	(4,984)	3,525	1,990
Closing cash	18,953	22,520	15,358	18,883	20,873

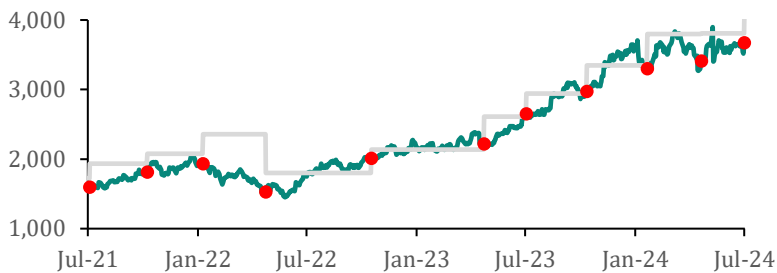
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	18,953	22,520	15,358	18,883	20,873
Accounts Receivable	46,139	44,732	48,771	61,637	72,008
Inventories	5,943	6,829	6,620	9,525	11,337
Other Cur. Assets	137,146	148,124	147,330	145,417	155,395
Investments	13,774	12,585	12,882	15,471	15,460
Gross Fixed Assets	23,875	27,669	31,879	36,507	42,458
Net Fixed Assets	10,579	11,336	13,298	13,075	14,284
CWIP	1,170	2,949	2,897	3,476	4,172
Intangible Assets	28,274	28,061	27,623	27,945	27,950
Def. Tax (Net)	2,840	3,985	3,864	3,980	4,099
Other Assets	55,230	49,232	60,985	64,685	68,385
Total Assets	320,049	330,352	339,627	364,095	393,963
Current Liabilities	97,177	104,280	118,520	130,939	144,386
Provisions	818	870	987	1,037	1,089
Debt Funds	125,620	120,923	116,418	113,423	111,294
Other Liabilities	1,061	712	1,152	1,178	1,206
Equity Capital	281	281	275	275	275
Reserves & Surplus	82,127	89,045	86,084	98,202	113,154
Shareholder's Fund	82,408	89,326	86,359	98,477	113,429
Minority Interest	12,966	14,241	16,190	19,042	22,560
Total Liabilities	320,049	330,352	339,627	364,095	393,963
BVPS (Rs.)	586	636	628	716	825

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	11.6	11.3	10.6	11.0	11.3
EBIT margin (%)	9.8	9.4	9.0	9.5	10.0
Net profit mgn.(%)	5.5	5.7	5.9	6.3	6.7
ROE (%)	12.6	14.0	18.0	19.3	20.7
ROCE (%)	6.9	7.7	9.0	10.5	12.0
W.C & Liquidity					
Receivables (days)	107.6	89.1	80.5	87.5	88.3
Inventory (days)	41.2	38.4	29.9	34.7	36.5
Payables (days)	354.3	279.8	240.8	256.8	250.4
Current ratio (x)	1.3	1.4	1.2	1.2	1.2
Quick ratio (x)	0.6	0.6	0.6	0.6	0.6
Turnover & Leverage					
Gross asset T.O (x)	7.0	7.1	7.4	7.5	7.5
Total asset T.O (x)	0.5	0.6	0.7	0.7	0.8
Int. coverage ratio (x)	4.9	5.4	5.6	7.0	9.2
Adj. debt/equity (x)	1.3	1.2	1.1	1.0	0.8
Valuation					
EV/Sales (x)	2.4	2.3	2.9	2.4	2.1
EV/EBITDA (x)	20.2	20.1	27.1	22.0	18.4
P/E (x)	29.0	29.4	40.0	31.3	25.3
P/BV (x)	3.0	3.4	6.0	5.1	4.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
19-May-22	BUY	1,799
11-Nov-22	HOLD	2,138
18-May-23	BUY	2,610
28-Jul-23	BUY	2,941
6-Nov-23	BUY	3,348
15-Feb-24	BUY	3,799
15-May-24	BUY	3,806
29-Jul-24	BUY	4,179

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

DISCLAIMER & DISCLOSURES

Certification: I, ANTU EAPAN THOMAS, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

For General disclosures and disclaimer: Please Visit : <https://www.geojit.com/research-disclosures#fundamental-research>

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

Regulatory Disclosures:

Group companies of Geojit Financial Services Limited are Geojit Technologies Private Limited (Software Solutions provider), Geojit Credits Private Limited (NBFC), Geojit Investment Limited (financial Services Company (yet to start operations)), Geojit Techloan Private Ltd(P2P lending (yet to start operations)), Geojit IFSC Ltd (a company incorporated under IFSC Regulations(yet to start operations)), Qurum Business Group Geojit Securities LLC (a joint venture in Oman engaged in Financial Services), Barjeel Geojit Financial Services LLC (a joint venture in UAE engaged in Financial Services), Aloula Geojit Capital Company (a joint venture in Saudi Arabia (Under Liquidation)) and BBK Geojit Securities Co. K.S.C.C (a subsidiary in Kuwait-engaged in Financial services). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc. that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

(ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, ANTU EAPAN THOMAS, Research Analyst (s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

6. "Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors."

7. Standard Warning: "Investment in securities market are subject to market risks. Read all the related documents carefully before investing."

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing. Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com. **Compliance officer:** Ms. Indu K. Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901367; Email: compliance@geojit.com. **For grievances: Grievance Officer:** Mr Nitin K; Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901363; Email: grievances@geojit.com. Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.

