

LARSEN & TOUBRO LIMITED

Strong execution, guidance maintained

LKP

Since 1948

Trust • Invest • Grow

L&T reported strong first-quarter results for FY25 driven by robust execution, exceeding revenue estimates while maintaining consistent margins. Consolidated revenue grew by 15.1% YoY, with EBITDA margin remaining stable at 10.2% YoY. Other income was lower by 20% on account of lower treasury income. PAT at ₹27.9bn is up 12% YoY. Order inflows increased by 8% YoY to ₹709 bn, leading to a substantial order backlog of ₹4.9 tn. The bid pipeline moderated to ₹9.1 tn (down 10% YoY) for the rest of the year primarily due to reduced hydrocarbon prospects. NWC decreased to 13.9% of revenue from 17% in Q1FY24.

L&T has reaffirmed its guidance of 15% revenue growth and 10% order inflow growth, along with a P&M margin target of 8.25% for FY25. With a robust order backlog and promising pipeline, bolstered by a revival in private sector capital expenditure, the outlook for L&T's earnings growth remains positive. The company continues to focus on capex-led growth in the domestic market, supported by ongoing infrastructure investments in the Middle East, particularly in energy transition and oil & gas sectors. Maintaining a 'BUY' recommendation, we have revised our target price to ₹3985 based on a revised SOTP valuation, reflecting L&T's strong execution capabilities, healthy order inflow prospects, and positive future outlook.

Q1FY25 Result Summary

Consolidated revenue increased by 15.1% YoY to ₹551.1 bn driven by strong performance in the international segment (+38.0% YoY to ₹262.5 bn). Meanwhile, domestic revenue remained unchanged YoY at ₹288.7 bn, impacted by labor shortages during elections and unusually high summer temperatures. P&M revenue grew by 17.1% YoY to ₹391 bn. EBITDA grew by 15.3% YoY to ₹56.2 bn with EBITDA margin holding steady at 10.2% YoY. P&M segment's EBITDA and EBIT margins stood at 7.6% and 6.2% respectively (compared to 7.4% and 6.1% in Q1FY24), supported by cost savings in execution. PAT increased by 11.7% YoY to ₹27.9 bn driven by strong execution despite a decline in other income (-19.6% YoY to ₹9.2 bn) and higher depreciation and amortization expenses (+20.2% YoY to ₹10.0 bn).

Strong ordering pipeline

In Q1FY25, order inflow amounted to ₹709 bn, marking an 8% increase YoY. International orders constituted 46% of the total order inflow. The closing order book reached a record ₹4,909 bn, reflecting a robust 19% YoY growth. With a promising pipeline of ₹9.07 tn, we anticipate the order book to remain strong throughout FY25.

Key Financials	FY22	FY23	FY24	FY25E	FY26E
Total Sales (₹bn)	1,565	1,833	2,211	2,540	2,902
EBITDA Margins (%)	11.6	11.3	10.6	10.7	11.2
PAT Margins (%)	5.6	5.7	5.9	6.0	6.6
EPS (₹)	63	74	95	140	140
P/E (x)	57.6	48.4	38.0	25.9	25.9
P/BV (x)	6	6	6	4	4
EV/EBITDA (x)	33	28	25	18	18
RoE (%)	11.1	12.2	14.9	17.6	17.6
RoCE (%)	7.9	9.1	10.9	13.3	13.3
Dividend Yield (%)	0.6	0.7	0.9	1.2	1.2

BUY

Current Market Price (₹)	3,608
12M Price Target (₹)	3,985
Potential upside (%)	10

Stock Data

Sector :	Engineering & Construction
FV (₹) :	2
Total Market Cap (₹ bn) :	4,981
Free Float Market Cap (₹ bn) :	4,232
52-Week High / Low (₹) :	3,920 / 2,553
BSE Code / NSE Symbol	500510 / LT
Bloomberg :	LT IN

Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
FPIs	22.85	24.36	25.49	25.71
MFs	18.13	17.85	17.01	16.59
Insurance	17.98	17.44	17.58	17.79
Employees Trust	14.37	14.37	14.20	14.19
Others	26.67	25.98	25.72	25.72

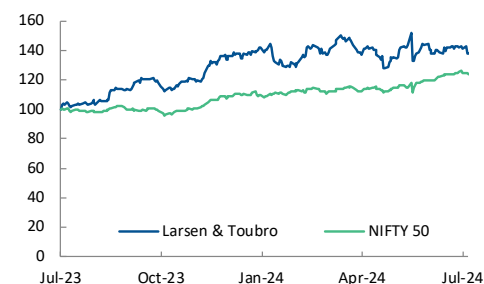
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
L&T	-0.3%	-3.2%	-1.9%	37.4%
Nifty 50	3.7%	9.0%	13.8%	24.0%

* To date / current date : July 24, 2024

L&T vs Nifty 50



The prospects pipeline moderated to ₹9.1 tn (down 10% YoY), primarily due to reduced hydrocarbon opportunities (₹2.7 tn, down 38% YoY) stemming from project cancellations and deferments. However, infrastructure prospects remain healthy at ₹6 tn (+6% YoY). The Middle East segment constitutes 35% of L&T's current order backlog. L&T remains committed to pursuing Hydrocarbon and Renewable Energy projects, while also exploring opportunities in railway and metro projects in the Middle East.

Management maintains FY25 Guidance

L&T has maintained its revenue/order inflow growth guidance of 15%/10% YoY for FY25E (+15%/8% YoY in Q125). While prospects pipeline has moderated, L&T remains confident of achieving its order inflow growth guidance for FY25E led by higher win rate. L&T has also maintained its P&M margin guidance of 8.25% (flat YoY) for FY25E. Average ridership declined marginally QoQ from 442k/day in Q4FY24 to 434k/day in Q1FY25 for Hyderabad Metro. Till date, L&T has received support of ₹9bn from Telangana government.

Outlook & Valuation

Given record OB with strong order pipeline and gradual revival in private capex provides healthy outlook ahead. Overall strong balance sheet, diversified business portfolio and proven execution capabilities gives L&T an edge in the current volatile and challenging economic environment. Despite lower margin guidance, we expect L&T to benefit from an improving prospect pipeline and improvements in NWC and RoEs. We have tweaked the estimates factoring strong execution, order inflow and the guidance. We maintain 'BUY' with a revised SOTP based TP of ₹3,985.

Key Risks:

Slowdown in the domestic macro-economic environment or weakness in international capital investment can negatively affect business outlook and earnings growth.

SoTP Valuation

Business Segment	Method	Valuation multiple	Value (₹ bn)	Value (₹/sh)	Rationale
L&T Standalone	FY26E PER (x)	25	3,901	2,775	On Core Engg Business
International Ventures (L&T FZE)	FY26E PER (x)	22	130	92	Discount to L&T standalone
LTI Mindtree	Market cap		1,134	807	As per current market cap
L&T technologies	Market cap		404	288	As per current market cap
L&T Finance	Market cap		283	201	As per current market cap
Infrastructure Development Projects	P/BV	1	37	26	
Other subsidiaries	FY26E PER (x)	15	28	20	
Less: Holding Company Discount (20%)			(284)	(225)	Holding company discount of 20% on investments
Total				3,985	

Source: Company data, LKP Research

Consolidated Quarterly Result

YE Mar (₹ mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)
Revenue	551,198	478,824	15.1	670,787	(17.8)
Total Revenue	551,198	478,824	15.1	670,787	(17.8)
Expenditure	495,045	430,137	15.1	598,447	(17.3)
Consumption of RM	341,760	293,468	16.5	446,263	(23.4)
Employee Costs	110,435	98,894	11.7	107,295	2.9
Other Expenses	42,850	37,776	13.4	44,889	(4.5)
EBITDA	56,153	48,686	15.3	72,340	(22.4)
Margins (%)	10.2	10.2	0 bps	10.8	(60) bps
Depreciation	9,979	8,305	20.2	10,212	(2.3)
EBIT	46,174	40,382	14.3	62,128	(25.7)
Other Income	9,206	11,456	(20)	10,417	(12)
Interest	8,614	8,514	1.2	9,263	(7.0)
Exceptional Items	-	-		-936	
PBT	46,766	43,324	7.9	64,218	(27.2)
Total Tax	12,365	12,163	1.7	14,183	(12.8)
Tax Rate (%)	26	28	(163) bps	22	435 bps
PAT before MI/JVs	34,401	31,161	10.4	50,035	(31.2)
Share in profit/(loss) of JVs/associates	46	-205		96	
Minority Interest	-6,590	-6,026		-6,171	
Reported PAT	27,857	24,930	11.7	43,961	(36.6)
Adjusted PAT	27,857	24,930	11.7	43,232	(35.6)
Pat Margins (%)	5.1	5.2	(15) bps	6.4	(131) bps
Adjusted EPS	20.5	18.4	11.7	31.7	(35.6)

Source: Company, LKP Research

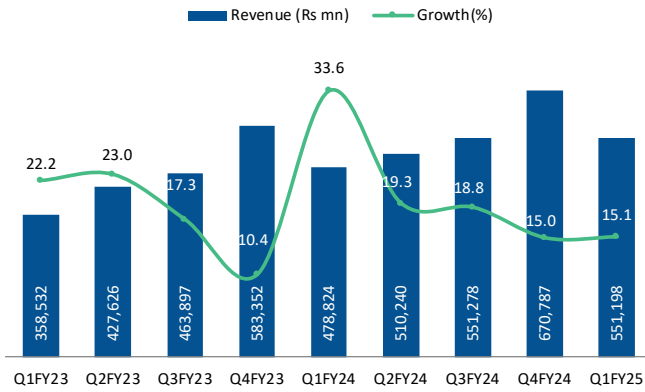
Segment-wise details

YE Mar (₹ mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)
Revenue					
Infrastructure Projects	271,795	223,956	21.4	383,694	(29.2)
Energy Projects	85,004	66,904	27.1	82,159	3.5
Hi-Tech Manufacturing	19,197	19,683	(2.5)	25,712	(25.3)
IT & Technology Services	115,567	109,607	5.4	113,827	1.5
Financial Services	36,640	30,196	21.3	35,982	1.8
Development Projects	13,273	12,964	2.4	12,586	5.5
Others	14,975	23,472	(36.2)	25,159	(40.5)
Total	556,451	486,782	14.3	679,119	(18.1)
Less: Inter-segment revenue	5,253	7,959	(34.0)	8,333	(37.0)
Net segment revenue	551,198	478,824	15.1	670,787	(17.8)
	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)
EBIT					
Infrastructure Projects	12,001	8,502	41.2	26,298	(54.4)
Energy Projects	6,692	5,571	20.1	8,606	(22.2)
Hi-Tech Manufacturing	2,669	2,544	4.9	3,568	(25.2)
IT & Technology Services	19,115	19,174	(0.3)	18,693	2.3
Financial Services	9,223	7,140	29.2	6,940	32.9
Development Projects	1,473	1,230	19.8	1,392	5.8
Others	2,907	3,826	(24.0)	4,816	(39.6)
Total	54,079	47,988	12.7	70,314	(23.1)
	Q1FY25	Q1FY24	bps	Q4FY24	bps
EBIT margins (%)					
Infrastructure Projects	4.4	3.8	62	6.9	-244
Energy Projects	7.9	8.3	-45	10.5	-260
Hi-Tech Manufacturing	13.9	12.9	98	13.9	3
IT & Technology Services	16.5	17.5	-95	16.4	12
Financial Services	25.2	23.6	153	19.3	588
Development Projects	11.1	9.5	161	11.1	4
Others	19.4	16.3	311	19.1	27

Source: Company, LKP Research

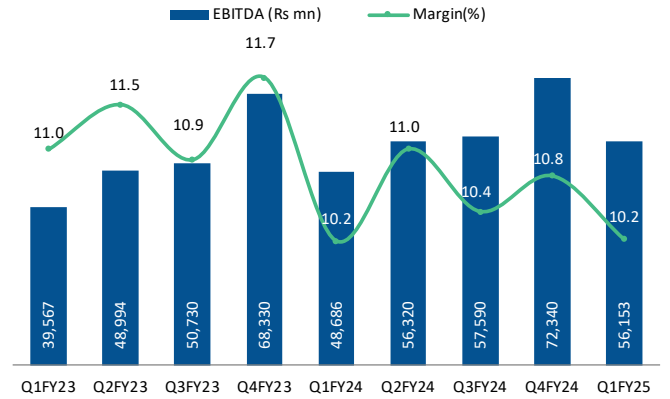
Financials in charts

Revenue trend



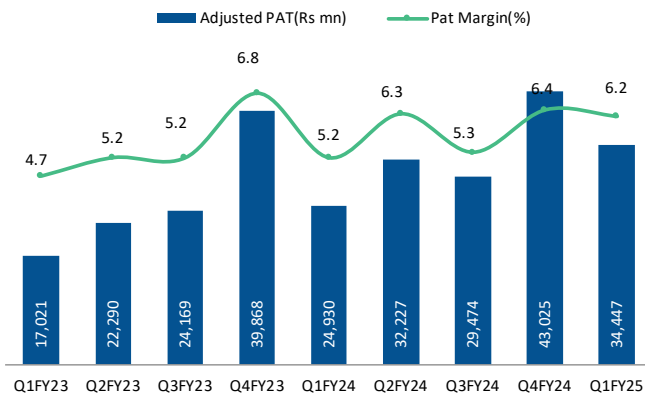
Source: Company, LKP Research

EBITDA and margin trend



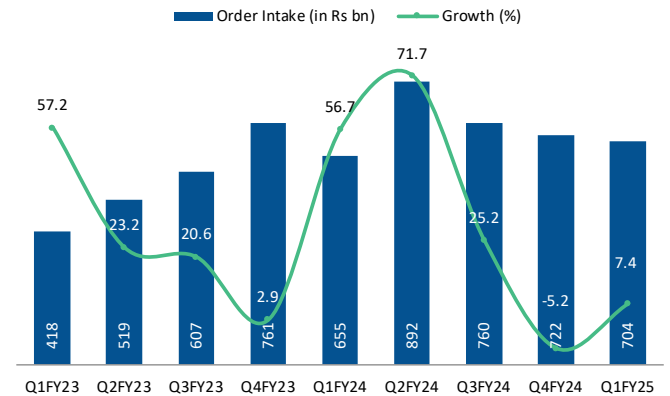
Source: Company, LKP Research

Net profit and profit margin trend



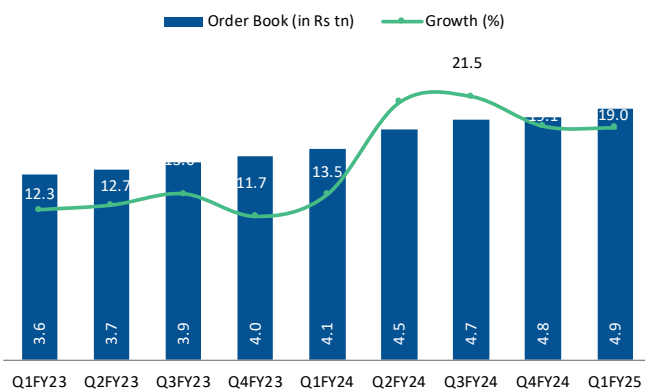
Source: Company, LKP Research

Order Intake and growth trend



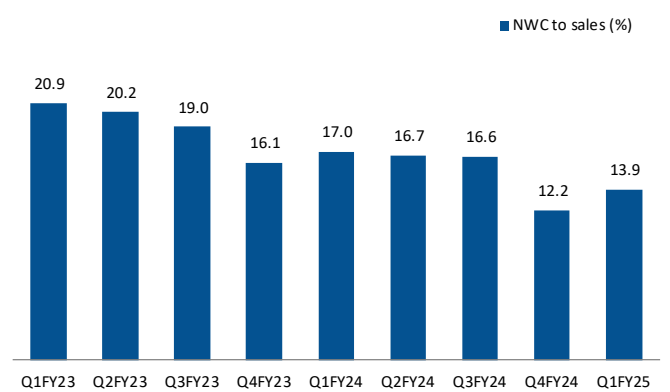
Source: Company, LKP Research

Order book and growth trend



Source: Company, LKP Research

Net Working Capital to Sales



Source: Company, LKP Research

Concall Highlights

- The company maintained its FY25 projection. Revenue increased by 15% YoY to ₹2.54 tn from ₹2.2 tn in FY24, while order inflows increased by 10% YoY to ₹3.33 tn from ₹3.03 tn in FY24.
- Capex in FY25 shall be around ₹40bn.
- NWC/sales was 13.9%, up 190 basis points sequentially.
- P&M secured ₹544bn OIs, 8% YoY growth. Share of international orders were 40% (35% in Q1FY24). Orders came in largely from offshore vertical of hydrocarbons, nuclear, metals, and tunnels.
- Management is in talks with AP govt. and expects better visibility of orders.
- Prospects pipeline is at ₹9.07tn for 9MFY25 as compared to ₹10.07tn at same time last year declined by 10%. Decline in the prospects pipeline was due to a fall in hydrocarbon prospects pipeline. Infra was at ₹6.02tn vs ₹5.86tn last year, hydro at ₹2.17tn vs ₹3.48tn last year, heavy engineering at ₹0.31tn vs ₹0.25tn last year, energy at ₹0.45tn vs same last year and green energy at ₹0.1tn vs ₹0.04tn last year.
- Order book grew by 19% YoY at ₹4.91tn. Out of total order book 62% is domestic and 38% international orders. ₹1.86tn from international, 92% is ME, 1% from Africa, etc. Domestic order book came from, central 14%, state 28%, PSUs 37% and private 21%. ₹6bn orders were from order book.
- Infra pipeline at ₹6.02tn vs ₹5.86tn last year. Domestic is ₹4.26tn and international is ₹1.76tn. Water 20%, Power T&D 22%, transport infra 23%, B&F 12%, heavy civil 18%, M&M 5%. Book to bill for the order book is three years. At 5.8% OPM in Q1FY25 versus 5.1% in Q1FY24.
- Energy pipeline at ₹2.62tn. ₹2.17tn is hydro whereas ₹0.45tn is power, hi-tech manufacturing pipeline at ₹320 bn.
- In Q1FY25. Nabha Power is performing well, with profits returning to a healthy level.
- Ridership of Hyderabad Metro marginally declined from 4.42lakh passenger/day ridership in Q4FY24 to 4.32lakh passenger/day in Q1FY25. Reported PAT loss of ₹2.14bn in Q1FY25 as compared to ₹3.35bn in Q1FY24.

Profit and Loss Statement - Consolidated

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Total Income	1,565,212	1,833,407	2,211,129	2,539,715	2,902,362
Raw material Cost	547,676	681,002	797,520	935,474	1,082,113
Employee Cost	296,958	372,141	411,710	494,052	568,160
Other expenses	538,532	572,731	766,962	838,713	928,350
Total operating Expenses	1,383,175	1,625,874	1,976,193	2,268,239	2,578,623
EBITDA	182,037	207,533	234,937	271,476	323,739
% margins	11.6	11.3	10.6	10.7	11.2
Depreciation & Amortisation	29,480	35,023	36,823	38,793	41,707
EBIT	152,558	172,510	198,113	232,683	282,032
Interest	31,257	32,072	35,459	33,955	33,619
Other Income	22,671	29,292	41,580	43,828	50,444
Recurring PBT	143,972	169,730	204,235	242,557	298,857
Add: Extraordinaries	969	1,360	936	-	-
Add: Share in associates					
PBT	144,941	171,090	205,171	242,557	298,857
Less: Taxes	42,039	44,842	49,474	63,792	78,599
Less: Minority Interest & Share in associates	14,935	20,403	23,737	25,465	26,545
Net Income (Reported)	87,967	105,845	131,961	153,299	193,712
Adjusted Net Income	87,967	104,707	130,591	151,679	191,818

Balance Sheet

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Assets					
Total Current Assets	2,519,509	2,598,733	2,672,634	2,997,006	3,351,968
of which cash & cash eqv.	189,532	225,196	153,584	180,226	232,158
Total Current Liabilities & Provisions	975,039	1,047,703	1,190,679	1,273,943	1,448,268
Net Current Assets	1,544,470	1,551,031	1,481,955	1,723,063	1,903,701
Investments	273,995	273,995	273,995	273,995	273,995
Net Fixed Assets	305,578	324,098	337,272	339,267	340,795
Capital Work-in-Progress	-	-	-	-	-
Goodwill	74,770	77,987	78,009	78,009	78,009
Total Assets	2,198,813	2,227,110	2,171,231	2,414,334	2,596,499
Liabilities					
Borrowings	1,234,682	1,185,134	1,140,398	1,212,682	1,200,682
Deferred Tax Liability	10,393	6,304	5,336	5,336	5,336
Minority Interest	129,661	142,413	161,904	188,989	217,428
Equity Share Capital	2,810	2,811	2,749	2,749	2,749
Face Value per share (₹)	2.00	2.00	1.96	1.96	1.96
Reserves & Surplus	821,267	890,449	860,843	1,004,577	1,170,303
Net Worth	824,077	893,260	863,592	1,007,326	1,173,052
Total Liabilities	2,198,813	2,227,110	2,171,231	2,414,334	2,596,499

Cash Flow Statement

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Operating Cash flow	109,711	258,093	69,888	173,728	211,521
Working Capital Changes	9,062	(30,323)	112,774	(214,466)	(128,705)
Capital Commitments	11,166	(21,737)	(13,196)	(1,995)	(1,528)
Free Cash Flow	129,938	206,033	169,467	34,000	81,287
Cash flow from Investing Activities	81,619	(61,380)	34,826	43,828	50,444
Issue of Share Capital	-	-	-	-	-
Buyback of shares	-	-	-	-	-
Inc (Dec) in Borrowings	(91,370)	(49,548)	(44,736)	72,285	(12,000)
Interest paid	(31,257)	(32,072)	(35,459)	(33,955)	(33,619)
Dividend paid	(35,574)	(37,258)	(46,186)	(46,738)	(67,799)
Extraordinary Items/Others	(26,239)	9,889	(149,525)	(42,777)	33,619
Chg. in Cash & Bank balance	27,117	35,664	(71,612)	26,643	51,932

Key Ratios

YE/Mar	FY22	FY23	FY24	FY25E	FY25E
Per Share Data (in ₹.)					
Diluted adjusted EPS	62.6	74.5	95.0	110.3	139.5
Recurring Cash EPS	94.2	114.7	137.0	154.8	186.4
Dividend per share (DPS)	21.9	26.5	32.7	42.4	42.4
Book Value per share (BV)	586.3	635.5	614.4	716.7	834.6
Growth Ratios (%)					
Operating Income	15.1	17.1	20.6	14.9	14.3
EBITDA	16.5	14.0	13.2	15.6	19.3
Recurring Net Income	27.5	19.0	24.7	16.1	26.5
Diluted adjusted EPS	27.6	19.0	27.5	16.1	26.5
Diluted Recurring CEPS	74.8	21.8	19.4	13.0	20.4
Valuation Ratios					
P/E	57.6	48.4	38.0	32.7	25.9
P/CEPS	38.3	31.4	26.3	23.3	19.4
P/BV	6.2	5.7	5.9	5.0	4.3
EV / EBITDA	32.8	28.4	25.2	22.0	18.2
EV / Operating Income	3.8	3.2	2.7	2.3	2.0
EV / Operating FCF (pre -Capex)	50.3	25.9	32.4	(146.5)	71.3
Operating Ratio					
Raw Material/Sales (%)	35.0	37.1	36.1	36.8	37.3
SG&A/Sales (%)	19.9	19.0	18.4	18.1	17.8
Other Income / PBT (%)	15.7	17.3	20.4	18.1	16.9
Effective Tax Rate (%)	29.2	26.4	24.2	26.3	26.3
NWC / Total Assets (%)	61.6	59.5	61.2	63.9	64.4
Inventory Turnover (days)	13.9	13.6	10.9	15.0	15.0
Receivables (days)	107.6	89.1	80.5	75.0	75.0
Payables (days)	135.7	114.9	101.4	100.4	100.2
D/E Ratio (x)	1.5	1.3	1.3	1.2	1.0
Return/Profitability Ratio (%)					
Recurring Net Income Margins	5.6	5.7	5.9	6.0	6.6
RoCE	7.9	9.1	10.9	12.1	13.3
RoNW	11.1	12.2	14.9	16.2	17.6
Dividend Payout Ratio	35.0	35.6	34.4	38.4	30.4
Dividend Yield	0.6	0.7	0.9	1.2	1.2
EBITDA Margins	11.6	11.3	10.6	10.7	11.2

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.