

November 01, 2023

RESULT REPORT Q2 FY24 | Sector: Capital Goods

Larsen & Toubro Ltd

Core business on strong footing; margin delivery key monitorable

Our view

L&T reported an expectedly strong Q2FY24 print with continued momentum in core business revenue growth while infrastructure margin remains subdued. An increase in order pipeline to Rs8.8tn augurs well for continued acceleration in order inflow growth where energy related capex in the Middle East have been a shot in the arm. The turnaround in Hyderabad Metro profitability, all-time high PLF in Nabha Power would support further acceleration in bottom line growth. EBITDA Margin has remained subdued mainly on account of legacy projects pertaining to infrastructure segment while IT businesses have seen continued higher employee retention costs.

Looking Forward

Management expects legacy projects to be significantly exhausted by Q4FY24 while incremental execution of large projects could see fulfilment of margin threshold from FY25. Thus, margin recovery for the infrastructure remains a key monitorable. With the order pipeline getting significantly boosted both on domestic and exports front, there is significantly increased visibility for order inflow growth in the near term. The company is well placed to capture incremental business from Middle East from energy as well as other infrastructure segments. We remain positive on the company's strong business model, robust bid pipeline, diversified order book and healthy balance sheet. We downgrade to Neutral (ADD earlier) given significant run-up in the stock price (~23% over last 6 months) with a revised SOTP-based TP of Rs2,938 (2,848 earlier).

Result Highlights

- Consolidated sales came in at ~Rs510bn (up 19% YoY; YSL estimate of ~Rs493bn) driven by a broad-based revenue growth. Infrastructure (+27% YoY), Energy Projects (+21% YoY) and Hi-Tech Manufacturing (+28% YoY) reported revenue growth in the 20s while services business dragged revenue growth. IT Services grew 7% YoY while Financial Services saw a revenue decline of 2% YoY. Strong growth was reported in Development Projects (+38% YoY) and Others Segment (+30% YoY).
- EBITDA came in line with our estimates at Rs56.3bn (YSLe ~Rs56.2bn) with EBITDA margins contracting 40bps YoY to 11% (+80bps QoQ) expansion. Infrastructure segment continues to report low single digit EBIT margin. Q2FY24 Infra EBIT margin stood at 4.1% (-130bps YoY).
- Adj PAT grew by 45% to Rs32.2bn (YSLe ~Rs30.2bn) helped by a lower-than-expected tax rate at 23%.
- Order inflows grew by 72% YoY to Rs891.5bn with order book standing at a record ~Rs4.5trn, up 21% YoY.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	510,240	492,745	501,728	3.6	1.7	In-line set of results; infra margin remains subdued
EBITDA	56,320	56,212	49,303	0.2	14.2	
EBITDA margin %	11.0	11.4	9.8	-33 bps	121 bps	
Adj. Pat	32,226	30,223	28,529	6.6	13.0	

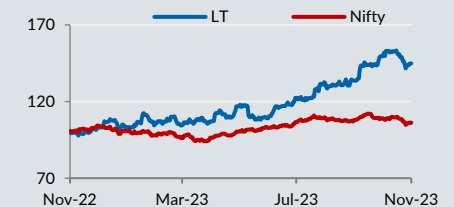
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 2,929
Target Price	: Rs 2,938
Potential Return	: +0%

Stock data (as on Oct 31, 2023)

Nifty	19,080
52 Week h/l (Rs)	3115 / 1966
Market cap (Rs/USD mn)	4021972 / 48308
Outstanding Shares (mn)	1,374
6m Avg t/o (Rs mn):	4,933
Div yield (%):	0.8
Bloomberg code:	LT IN
NSE code:	LT

Stock performance



	1M	3M	1Y
Absolute return	-3.1%	9.8%	44.7%

Shareholding pattern (As of Sep'23 end)

Promoter	0.0%
FII+DII	62.5%
Others	36.3%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	2,929	2,848

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	86.6	108.1
EPS (Old)	106.9	118.8
% change	-19%	-9%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	1,833,407	2,093,918	2,401,010
YoY growth (%)	17.1	14.2	14.7
OPM (%)	11.3	11.1	11.5
EPS (Rs)	74.5	86.6	108.1
EPS growth (%)	20.8	16.2	24.9
P/E (x)	39.3	33.8	27.1
EV/EBITDA (x)	24.5	22.3	18.7
Debt/Equity (x)	1.3	1.3	1.2
RoE (%)	14.2	16.2	17.1
RoCE (%)	5.8	6.6	7.5

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	427,626	463,897	583,352	478,824	510,240	19.3	6.6	1,833,407	1,565,212	17.1
Total Revenues	427,626	463,897	583,352	478,824	510,240	19.3	6.6	1,833,407	1,565,212	17.1
Expenditure	378,688	413,167	515,022	430,137	453,921	19.9	5.5	1,625,842	1,383,056	17.6
as % of sales	88.6	89.1	88.3	89.8	89.0			88.7	88.4	
Consumption of RM	252,850	278,072	379,659	293,157	310,643	22.9	6.0	1,105,787	938,974	17.8
as % of sales	59.1	59.9	65.1	61.2	60.9			60.3	60.0	
Employee Cost	91,544	95,325	99,811	98,894	102,989	12.5	4.1	372,240	297,194	25.3
as % of sales	21.4	20.5	17.1	20.7	20.2			20.3	19.0	
Other expenditure	34,294	39,770	35,552	38,087	40,288	17.5	5.8	147,815	146,887	0.6
as % of sales	8.0	8.6	6.1	8.0	7.9			8.1	9.4	
EBITDA	48,938	50,730	68,330	48,686	56,320	15.1	15.7	207,565	182,157	13.9
Depreciation	8,602	8,252	8,535	8,305	9,099	5.8	9.6	35,023	29,480	18.8
EBIT	40,337	42,479	59,795	40,382	47,221	17.1	16.9	172,543	152,677	13.0
Other Income	7,385	7,550	7,409	11,456	11,330	53.4	(1.1)	29,292	22,671	29.2
Interest	8,357	8,025	8,130	8,514	8,640	3.4	1.5	31,257	31,257	-
Exceptional Items	-	(1,360)	-	-	-			1,360	969	
PBT	39,366	43,364	59,074	43,324	49,911	26.8	15.2	171,937	145,060	18.5
Total Tax	11,174	12,705	14,606	12,163	11,355	1.6	(6.6)	44,874	42,150	6.5
Adjusted PAT	28,192	30,659	44,468	31,161	38,556	36.8	23.7	127,063	102,910	23.5
Minority Interest	(5,563)	(5,055)	(4,718)	(6,026)	(6,229)	-	-	20,599	(17,499)	-
PAT after MI	22,629	25,604	39,750	25,135	32,327	42.9	28.6	147,662	85,411	72.9
Share in profit/(loss) after tax of joint ventures/associates (net)	(339)	(75)	118	(205)	(101)			(943)	1,282	
PAT From Continued Operation	22,290	25,529	39,868	24,930	32,226	44.6	29.3	146,720	86,693	69.2
Adjusted PAT from continued operation	22,290	24,169	39,868	24,930	32,226	44.6	29.3	148,080	87,662	68.9
Profit from discontinued operation	-	-	-	-	-	-	-	-	-	-
PAT including DO	22,290	25,529	39,868	24,930	32,226	44.6	29.3	148,080	87,662	68.9
Adjusted EPS	15.9	18.2	28.4	17.7	22.9	44.6	29.3	74.5	61.7	20.8
Margins (%)										
EBIDTA	11.4	10.9	11.7	10.2	11.0	(41)	87	11.3	11.6	(32)
EBIT	9.4	9.2	10.3	8.4	9.3	(18)	82	9.4	9.8	(34)
EBT	9.2	9.3	10.1	9.0	9.8	58	73	9.4	9.3	11
PAT	5.2	5.5	6.8	5.2	6.3	110	111	8.1	5.6	248
Effective Tax rate	28.4	29.3	24.7	28.1	22.8	(563)	(532)	26.1	29.1	(296)

Source: Company, YES Sec

Exhibit 3: Segmental Revenue

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Segmental Revenue										
Infrastructure Projects	196,682	222,057	315,488	223,956	249,768	27.0	11.5	878,232	735,601	19.4
Energy Projects	55,934	63,462	79,292	66,904	67,943	21.5	1.6	249,563	237,134	5.2
Hi-Tech Manufacturing	15,889	18,631	23,208	19,683	20,411	28.5	3.7	71,609	62,652	14.3
IT & Technology Services	104,700	106,051	107,393	109,607	112,470	7.4	2.6	412,746	324,647	27.1
Financial Services	31,519	33,486	31,163	30,196	30,841	(2.2)	2.1	125,749	119,711	5.0
Developmental Projects	13,446	11,067	12,321	12,964	18,531	37.8	42.9	50,288	43,675	15.1
Others	14,571	15,360	21,605	23,472	18,880	29.6	(19.6)	67,854	62,802	8.0
Total	432,741	470,112	590,470	486,782	518,843	19.9	6.6	1,856,040	1,586,222	17.0
Less: Inter-segment revenue	5,115	6,214	7,118	7,959	8,603	68.2	8.1	22,633	21,012	7.7
Net segment revenue	427,626	463,897	583,352	478,824	510,240	19.3	6.6	1,833,407	1,565,210	17.1
Segmental EBIT										
Infrastructure Projects	10,668	13,042	20,830	8,502	10,356	(2.9)	21.8	51,402	51,824	(0.8)
Energy Projects	4,192	4,966	7,712	5,571	5,877	40.2	5.5	20,667	17,300	19.5
Hi-Tech Manufacturing	2,216	2,480	3,753	2,544	2,338	5.5	(8.1)	9,952	10,039	(0.9)
IT & Technology Services	19,047	17,053	18,076	19,174	19,012	(0.2)	(0.8)	71,925	63,785	12.8
Financial Services	6,132	6,304	6,596	7,140	7,964	29.9	11.5	22,588	14,698	53.7
Developmental Projects	(115)	(56)	4,300	1,230	6,341	(5,599.2)	415.4	3,918	(2,306)	(269.9)
Others	2,252	2,645	3,876	3,826	2,982	32.4	(22.1)	11,289	9,667	16.8
Total	44,393	46,434	65,143	47,988	54,869	23.6	14.3	191,740	165,007	16.2
Less/(Add) Intersegment revenue on capital jobs	179	164	258	513	281	56.8	(45.3)	694	653	6.3
Less: Finance Cost	8,357	8,025	8,130	8,514	8,640	3.4	1.5	32,072	31,257	2.6
Add/(Less) : Unallocable corporate income net of expenditure	3,509	3,759	2,319	4,363	3,962	12.9	(9.2)	10,789	10,748	0.4
Add/(Less) : Exceptional items	-	1,360	-	-	-	-	-	1,360	1,197	13.6
EBIT from continuing operations	39,366	43,364	59,074	43,324	49,911	26.8	15.2	171,123	145,042	18.0

Source: Company, YES Sec

CONCALL HIGHLIGHTS

FY24 Guidance

- **Previous:** Order Inflow growth – 10-12%, Revenue growth – 12-15%, EBITDA Margin for Projects & Manufacturing – 9%
- **Updated:** Order Inflow and revenue growth likely to exceed the upper ranges, EBITDA Margin– 8.5-9%
- Net Working Capital: 16 to 18% (unchanged)

Election Year could see some impact in awarding and tendering in Q4FY24

EBITDA Margin

- Infrastructure segment has been impacted over the last 2 years on account of legacy projects pertaining to covid related delays.
- The company is in the process of claim settlements with several clients.
- Also, significant portion of the orderbook (~60%) haven't reached margin threshold in terms of execution. All these factors should receding Q4FY24 onwards.

Ordering Prospects

- Overall ordering pipeline stands at Rs8.8tn in Q2FY24.
- Infrastructure – Rs5.06tn, Hydrocarbon – Rs2.9tn, Power – Rs0.55tn, Others – 0.26tn
- Domestic – Rs6.32tn, International – Rs2.5tn

Order Inflow

- Order Inflow for the quarter stood at Rs892bn (+72% YoY) which was driven by Projects and Manufacturing business (+91% YoY).
- The segment had 68% share from international business.
- On the domestic OI front, private sector share has improved to 36% in Q2FY24 (22% in Q2FY23).
- The company expects to exceed its earlier guidance of 10-12% growth in order inflow in FY24.

Orderbook

- Orderbook improved 22% YoY to Rs4.5tn at the end of Q2FY24. 65% of the orderbook is contributed by the domestic business.
- Domestic orderbook composition: (Centre – 13%, State – 30%, PSU – 37%, Private – 20%).
- International orderbook composition: (Middle East – 90%, Africa – 2%, Rest – 8%).

Hyderabad Metro Operations

- Average ridership in Q2FY24 – 4.62lakh per day (4.22L in Q1FY24).
- Net profit of Rs2.4bn in Q2FY24 and a loss of Rs950mn in H1FY24.
- Debt – Rs125bn, Interest – Rs3bn per quarter, Depreciation – Rs800mn per quarter.
- Cumulative Soft loan support from Telangana govt – Rs9bn (Rs30bn expected overall in 2-3 years).

Exhibit 4: SOTP Valuation

	Earnings/Book (Rs mn)	Valuation basis	Target multiple (X)	Stake (%)	Value (Rs mn)	Fair Value (Rs) (Rs)	Basis
L&T Core Business	114,657	P/E	24	100	2,751,771	1,962	24x FY25 EPS
L&T Finance Holdings	329,307	Mcap		64	147,207	105	30% discount to Current Mkt cap
L&T Infotech - Mindtree	1,879,529	Mcap		69	903,734	644	30% discount to Tgt Mkt cap
L&T Technology Services	494,840	Mcap		75	259,687	185	30% discount to Tgt Mkt cap
L&T Energy Projects	22,666	P/E	16	100	362,653	259	16x FY25 EPS
L&T's equity investment in BTG	17,000	P/B	0.8	51	6,936	5	0.8x equity investment
Other Business	40,000	P/B	0.8	100	32,000	23	0.8x book value
Total subsidiaries				30% holding co. disc.	1,369,774	976	
Grand total						2,938	

FINANCIALS

Exhibit 6: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds					
Equity capital	2,809	2,810	2,811	2,748	2,748
Reserves	755,876	821,267	890,449	901,925	1,035,968
Non Minority Controlling Int.	120,515	129,661	142,413	142,413	142,413
Net worth	758,685	824,077	893,260	904,673	1,038,716
Debt	1,346,291	1,255,081	1,185,134	1,200,134	1,215,134
Deferred tax liab (net)	(15,183)	(18,008)	(33,544)	(33,544)	(33,544)
Total liabilities	2,210,308	2,190,810	2,187,262	2,213,676	2,362,719
Application of Funds					
Gross Block	196,092	199,656	243,509	268,509	293,509
Depreciation	82,229	93,868	108,767	145,016	184,640
Fixed Asset	407,846	388,531	393,973	382,724	368,100
CWIP	3,884	11,703	29,491	29,491	29,491
Investments	432,734	435,664	481,585	565,358	648,273
Net Working Capital	1,365,845	1,354,913	1,282,214	1,236,103	1,316,856
Inventories	58,205	59,433	68,288	80,315	92,094
Sundry debtors	422,298	461,389	447,315	516,309	592,030
Cash & equivalents	162,415	189,532	225,196	155,297	173,580
Loans & Advances	990,912	955,424	888,845	1,019,738	1,121,272
Other Current Asset	607,474	670,413	728,982	770,562	835,552
Sundry creditors	455,046	511,442	497,841	688,411	789,373
Provisions	37,725	41,736	43,635	52,348	60,025
Other current liabilities	382,688	428,099	534,937	565,358	648,273
Total Assets	2,210,308	2,190,810	2,187,262	2,213,676	2,362,719

Source: Company, YES Sec

Exhibit 7: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,359,790	1,565,212	1,833,407	2,093,918	2,401,010
% Change YoY	(6.5)	15.1	17.1	14.2	14.7
Operating profit	156,241	182,046	207,533	231,622	276,167
EBITDA margins	11.5	11.6	11.3	11.1	11.5
% Change YoY	(4.3)	16.5	14.0	11.6	19.2
Depreciation	29,042	29,480	35,023	36,249	39,624
EBIT	127,199	152,567	172,510	195,373	236,543
EBIT margins	9.4	9.7	9.4	9.3	9.9
Interest expense	39,134	31,257	32,072	37,691	43,218
Other income	34,294	22,671	29,292	31,409	36,015
Profit before tax	122,358	143,980	169,730	189,091	229,340
Taxes	40,108	42,039	44,842	47,273	57,335
Effective tax rate (%)	32.8	29.2	26.4	25.0	25.0
Net profit	82,250	101,941	124,889	141,819	172,005
Minorities and other	(69,140)	16,217	21,542	20,199	20,159
Net profit after minorities	151,390	85,724	103,347	121,620	151,846
Exceptional items	(35,560)	969	1,360	0	0
Net profit	115,829	86,693	104,707	121,620	151,846
% Change YoY	21.3	(25.2)	20.8	16.2	24.9
EPS (Rs)	82.5	61.7	74.5	86.6	108.1

Source: Company, YES Sec

Exhibit 8: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	230,263	144,107	169,730	189,091	229,340
Interest	39,134	31,257	32,072	37,691	43,218
Depreciation	29,042	29,480	35,023	36,249	39,624
Other Items	(134,990)	(15,253)	(11,575)	-	-
(Inc)/Dec in WC	99,702	47,566	53,791	(23,788)	(62,470)
Direct Taxes Paid	34,710	45,521	51,272	47,273	57,335
CF from Oper. Activity	228,441	191,636	227,770	191,970	192,377
Inc/(Dec) in FA	18,077	31,106	41,438	25,000	25,000
Free Cash Flow	210,364	160,530	186,332	166,970	167,377
(Pur)/Sale of Invest.	(72,365)	(67,783)	(124,555)	(133,773)	(132,915)
CF from Inv. Activity	(54,288)	(36,677)	(83,117)	(108,773)	(107,915)
Change in Networth	159	110	103	(63)	-
Inc/(Dec) in Debt	(78,697)	(92,890)	(50,213)	15,000	15,000
Interest Paid	(31,844)	(28,123)	(28,886)	(37,691)	(43,218)
Dividends Paid	(36,509)	(25,284)	(30,914)	(30,405)	(37,961)
Others	(5,852)	(5,628)	(5,814)	(99,937)	(0)
CF from Fin. Activity	(152,744)	(151,815)	(115,725)	(153,096)	(66,180)
Inc/(Dec) in Cash	21,409	3,144	28,928	(69,899)	18,283
Opening cash Balance	111,180	133,735	137,702	169,267	99,368
Others	27,496	823	2,637	-	-
Closing cash Balance	160,085	137,702	169,267	99,368	117,651

Source: Company, YES Sec

Exhibit 9: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	2.1	2.6	2.8	3.1	3.1
Interest burden (x)	0.3	0.3	0.3	0.2	0.2
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	0.6	0.7	0.8	0.9	1.0
Financial leverage (x)	2.9	2.7	2.4	2.4	2.3
RoE (%)	11.3%	13.1%	14.2%	16.2%	17.1%

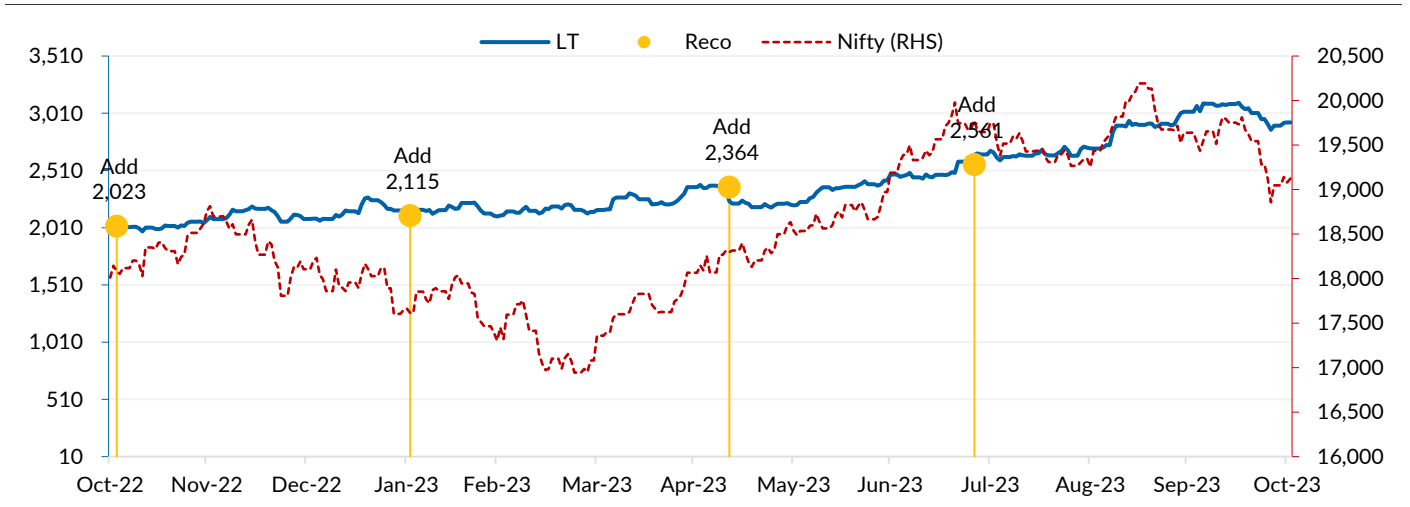
Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Basic (Rs)					
EPS	82.5	61.7	74.5	86.6	108.1
Dividend per share	18.0	18.0	18.6	21.6	27.0
Cash EPS	103.2	82.7	99.4	112.4	136.3
Book value per share	626.3	678.8	737.1	745.2	840.6
Div. payout (%)	54.1	24.6	20.7	21.4	22.1
Valuation ratios (x)					
P/E	35.5	47.5	39.3	33.8	27.1
P/CEPS	28.4	35.4	29.5	26.1	21.5
P/B	4.7	4.3	4.0	3.9	3.5
EV/EBIDTA	33.9	28.5	24.5	22.3	18.7
Dividend yield (%)	0.6	0.6	0.6	0.7	0.9
Profitability Ratios (%)					
RoC	5.5	6.1	7.2	8.0	9.1
RoE	11.3	13.1	14.2	16.2	17.1
RoCE	3.9	4.9	5.8	6.6	7.5
Liquidity ratios					
Debtor (days)	113	108	89	90	90
Inventory (days)	16	14	14	14	14
Creditor (days)	122	119	99	120	120
Net working Capital (days)	323	272	210	188	174
Asset Turnover (x)	0.6	0.7	0.8	0.9	1.0

Source: Company, YES Sec

Recommendation Tracker



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