

Retail Equity Research

Larsen & Toubro Limited

Construction & Engineering

BSE CODE: 500510

NSE CODE: LT

Bloomberg CODE: LT:IN

SENSEX: 64,959

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 2,975 TARGET Rs. 3,348 RETURN 13% ↑
(Closing: 06-11-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Remarkable earnings growth, positive outlook

Larsen & Toubro Ltd (L&T) is an engineering and construction (E&C) conglomerate, with a presence in the information technology (IT) and financial services sectors as well. It operates in over 30 countries.

- Consolidated revenue grew 19.3% YoY to Rs. 51,024cr in Q2FY24, backed by strong growth in infrastructure, energy and hi-tech manufacturing segments.
- EBITDA also increased 15.1% YoY to Rs. 5,632cr. However, EBITDA margin fell 40bps to 11.0%, led by execution of low-margin projects and an increase in sub-contracting charges and admin expenses.
- The company's performance was robust with solid growth in top line and order book. Its resilient order book and excellent execution capabilities should support future earnings performance. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 3,348 based on sum-of-the-parts (SOTP) valuation.

Resilient execution across verticals drives performance

In Q2FY24, consolidated revenue increased 19.3% YoY to Rs. 51,024cr, backed by excellent execution of orders, expansion in infrastructure projects and improved hi-tech manufacturing portfolio. The infrastructure projects segment reported a revenue of Rs. 24,977cr (up 27% YoY) owing to strong project execution across sites. The energy segment generated Rs. 6,794cr in revenue (+21.5% YoY), aided by a recovery in execution momentum in the hydrocarbon business. In addition, the hi-tech segment recorded a revenue of Rs. 2,041cr (+28.5% YoY) owing to effective project execution. IT & technology services (IT&TS) revenue rose to Rs. 11,247cr (+10.4% YoY) due to a rise in demand for tech-based services. International business revenue (with Rs. 21,898cr) accounted for 43% of the total revenue. EBITDA rose 15.1% YoY to Rs. 5,632cr, while EBITDA margin fell 40bps YoY owing to rise in sub-contracting charges and admin expenses. However, the management expects the margin to improve in the future as it has already completed most of the low-margin legacy orders.

Strong order book growth across business segments

During the quarter, L&T received substantial orders across segments amounting to Rs 89,153cr, registering a significant 72% YoY growth. International orders contributed 67% to the total order book at Rs. 59,687cr. The infrastructure projects segment also reported a healthy growth of 12% YoY to Rs. 27,990cr, with international orders contributing 24% at Rs. 6,775cr. The energy segment secured orders worth Rs. 40,141cr, thanks to two ultra mega projects in the Middle East. The hi-tech manufacturing secured orders of Rs. 2,395cr (up 35% YoY).

Key concall highlights

- The company successfully completed its first-ever buyback of 31.25 million equity shares at Rs. 3,200 per share through the tender offer route, resulting in a total cash outflow of Rs. 1,280cr.
- Hyderabad Metro revenue grew with increased ridership and monetisation of commercial property. Metro ridership rose to 0.462mn/day vs 0.355mn/day in Q2FY23 and achieved the highest ever ridership in a day at 0.547mn/day.

Valuation

The company delivered a remarkable earnings performance in Q2FY24, with substantial revenue and order growth across segments. The management is confident of surpassing the earlier guidance of revenue (12-15%) and order inflow (10-12%) growth thanks to the exceptional execution of projects in H1FY24 and higher order inflow prospects. Hence, we remain optimistic about the company's outlook and reiterate our BUY rating on the stock with a revised target price of Rs. 3,348 based on SOTP valuation.

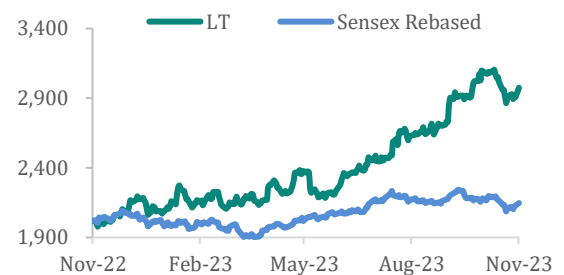
Company Data

Market Cap (cr)	Rs. 417,952
Enterprise Value (cr)	Rs. 545,171
Outstanding Shares (cr)	140.6
Free Float	86.0%
Dividend Yield	0.8%
52 week high	Rs. 3,114
52 week low	Rs. 1,970
6m average volume	94,615
Beta	0.8
Face value	Rs.2

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	0.0	0.0	0.0
FII's	24.5	25.3	25.7
MFs/Insti	39.0	38.4	37.5
Public	22.1	21.8	22.0
Others	14.5	14.5	14.7
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	13.3%	25.1%	47.7%
Absolute Sensex	-2.1%	5.4%	5.6%
Relative Return*	15.4%	19.7%	42.1%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	183,341	211,489	244,406
Growth (%)	17.1	15.4	15.6
EBITDA	20,753	24,800	29,308
EBITDA Margin (%)	11.3	11.7	12.0
Adj. PAT	10,335	13,731	16,576
Growth (%)	20.6	32.9	20.7
Adj. EPS	73.5	97.6	117.9
Growth (%)	20.5	32.9	20.7
P/E	29.5	30.5	25.2
P/B	3.4	4.2	3.8
EV/EBITDA	20.1	22.0	18.7
ROE (%)	14.1	15.8	17.0
D/E	1.2	1.1	1.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Revenue	51,024	42,763	19.3	47,882	6.6	98,906	78,616	25.8
EBITDA	5,632	4,894	15.1	4,869	15.7	10,501	8,847	18.7
EBITDA margins	11.0	11.4	(40bps)	10.2	80bps	10.6	11.3	(70bps)
Depreciation	910	860	5.8	830	9.6	1,740	1,824	(4.6)
EBIT	4,722	4,034	17.1	4,038	16.9	8,760	7,024	24.7
Interest	864	836	3.4	851	1.5	1,715	1,592	7.8
Other Income	1,133	739	53.4	1,146	(1.1)	2,279	1,433	59.0
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-	-	-	-
PBT	4,991	3,937	26.8	4,332	15.2	9,323	6,865	35.8
Tax	1,136	1,117	1.6	1,216	(6.6)	2,352	1,753	34.2
Reported PAT	3,856	2,819	36.8	3,116	23.7	6,972	5,112	36.4
Minority Interest	623	556	12.0	603	3.4	1,225	1,083	13.2
PAT att. to shareholders	3,223	2,229	44.6	2,493	29.3	5,716	3,931	45.4
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	3,223	2,229	44.6	2,493	29.3	5,716	3,931	45.4
No. of shares	140.6	140.6	(0.0)	140.6	(0.0)	140.6	140.6	(0.0)
Adj. EPS (Rs.)	22.9	15.9	44.6	17.7	29.3	40.7	28.0	45.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	210,892	243,155	211,489	244,406	0.3	0.5
EBITDA	24,847	29,111	24,800	29,308	(0.2)	0.7
Margins (%)	11.8	12.0	11.7	12.0	(10bps)	0bps
Adj. PAT	13,395	16,587	13,731	16,576	2.5	(0.1)
Adj. EPS	95.2	117.9	97.6	117.9	2.5	(0.1)

Gross Segment Revenue

Particulars	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %
Infrastructure Projects	24,977	19,668	27.0	22,396	11.5
Energy Projects	6,794	5,593	21.5	6,690	1.6
Hi-Tech Manufacturing	2,041	1,589	28.5	1,968	3.7
IT & Technology Services	11,247	10,184	10.4	10,961	2.6
Financial Services	3,084	3,152	(2.2)	3,020	2.1
Development Projects	1,853	1,345	37.8	1,296	42.9
Others	1,888	1,743	8.3	2,347	(19.6)
Inter-segment	(860)	(511)	68.2	(796)	8.1
Total	51,024	42,763	19.3	47,882	6.6

Sum-of-the-Parts Valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr.)	Value/share (Rs.)
Core E&C	FY25E P/E	23.0x	100%	381,004	2,712
Financial Services	Geojit TP	1.5x	64%	33,937	242
Developmental Projects	FY25E P/BV	0.8x	97%	14,976	107
Hydrocarbon	FY25E P/BV	2.6x	100%	44,849	319
LTI Mindtree	FY25E P/E	11.0x	75%	51,849	369
L&T Technology services	FY25E P/E	15.0x	75%	20,202	144
Others	FY25E P/BV	0.7x	100%	6,585	47
Conglomerate discount		15%		(83,010)	(591)
Total				470,393	3,348



PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	135,979	156,521	183,341	211,489	244,406
% change	(6.5)	15.1	17.1	15.4	15.6
EBITDA	15,624	18,217	20,753	24,800	29,308
% change	(4.3)	16.6	13.9	19.5	18.2
Depreciation	2,904	2,948	3,502	3,628	3,704
EBIT	12,720	15,269	17,251	21,173	25,604
Interest	3,913	3,126	3,207	3,444	3,872
Other Income	(127)	2,364	3,065	3,076	3,383
PBT	8,680	14,508	17,109	20,804	25,115
% change	(35.4)	67.1	17.9	21.6	20.7
Tax	4,011	4,217	4,484	5,201	6,279
Tax Rate (%)	46.2	29.1	26.2	25.0	25.0
Reported PAT	4,669	10,291	12,625	15,603	18,836
PAT att. to common shareholders	11,583	8,669	10,471	13,731	16,576
Adj*	3,556	(97)	(136)	-	-
Adj PAT	15,139	8,572	10,335	13,731	16,576
% change	58.5	(43.4)	20.6	32.9	20.7
No. of shares (cr)	140.6	140.6	140.6	140.6	140.6
Adj EPS (Rs.)	107.7	61.0	73.5	97.6	117.9
% change	58.5	(43.4)	20.5	32.9	20.7
DPS (Rs.)	36.0	22.0	24.0	29.3	35.4

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	7,573	13,239	16,127	19,231	22,540
Non-cash adj.	5,303	1,168	1,271	3,444	3,872
Changes in W.C	10,198	4,757	5,379	(10,457)	(2,397)
C.F. Operation	23,074	19,164	22,777	12,218	24,015
Capital exp.	(922)	(3,040)	(3,793)	(4,441)	(5,255)
Change in inv.	(18,280)	1,180	(5,545)	(2,566)	(2,659)
Other invest.CF	13,544	(1,807)	1,027	(3,700)	(3,700)
C.F - Investment	(5,659)	(3,668)	(8,312)	(10,707)	(11,614)
Issue of equity	16	11	10	-	-
Issue/repay debt	(8,732)	(8,413)	(4,497)	(3,000)	(3,000)
Dividends paid	(3,651)	(2,528)	(3,091)	(4,119)	(4,973)
Other finance.CF	(2,907)	(4,251)	(3,995)	(3,444)	(3,872)
C.F - Finance	(15,274)	(15,181)	(11,572)	(10,563)	(11,845)
Chg. in cash	2,141	314	2,893	(9,052)	557
Closing cash	16,242	18,953	22,520	13,467	14,024

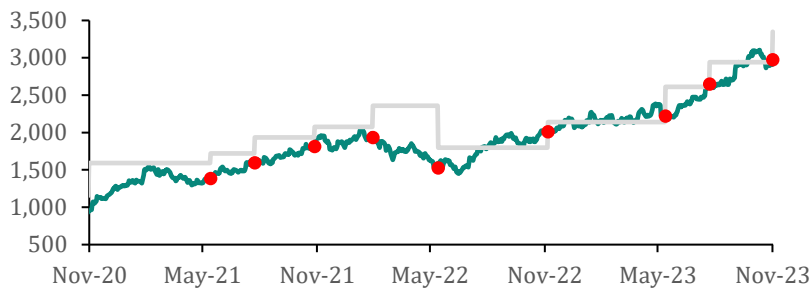
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	16,242	18,953	22,520	13,467	14,024
Accounts Receivable	42,230	46,139	44,732	51,815	58,658
Inventories	5,821	5,943	6,829	6,615	8,591
Other Cur. Assets	130,675	137,146	148,124	141,346	143,697
Investments	12,262	13,774	12,585	15,117	17,743
Gross Fixed Assets	20,835	23,875	27,669	32,110	37,365
Net Fixed Assets	11,386	10,579	11,336	10,907	8,551
CWIP	388	1,170	2,949	3,539	4,247
Intangible Assets	29,398	28,274	28,061	28,628	31,738
Def. Tax (Net)	2,697	2,840	3,985	4,104	4,227
Other Assets	60,175	55,230	49,232	52,932	56,632
Total Assets	311,274	320,049	330,352	328,471	348,106
Current Liabilities	86,517	97,177	104,280	87,606	92,578
Provisions	774	818	870	974	1,023
Debt Funds	134,816	125,620	120,923	124,096	124,814
Other Liabilities	1,247	1,061	712	744	777
Equity Capital	281	281	281	281	281
Reserves & Surplus	75,588	82,127	89,045	98,656	110,260
Shareholder's Fund	75,869	82,408	89,326	98,937	110,541
Minority Interest	12,052	12,966	14,241	16,114	18,374
Total Liabilities	311,274	320,049	330,352	328,471	348,106
BVPS (Rs.)	540	586	635	703	786

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	11.5	11.6	11.3	11.7	12.0
EBIT margin (%)	9.4	9.8	9.4	10.0	10.5
Net profit mgn.(%)	8.5	5.5	5.7	6.5	6.8
ROE (%)	6.2	12.5	14.1	15.8	17.0
ROCE (%)	5.7	6.9	7.7	8.9	10.1
W.C & Liquidity					
Receivables (days)	113.4	107.6	89.1	89.4	87.6
Inventory (days)	48.6	41.2	38.4	33.6	34.7
Payables (days)	382.0	354.3	279.8	241.2	244.8
Current ratio (x)	1.4	1.3	1.4	1.4	1.4
Quick ratio (x)	0.7	0.6	0.6	0.6	0.6
Turnover & Leverage					
Gross asset T.O (x)	6.7	7.0	7.1	7.1	7.0
Total asset T.O (x)	0.4	0.5	0.6	0.6	0.7
Int. coverage ratio (x)	3.3	4.9	5.4	6.1	6.6
Adj. debt/equity (x)	1.5	1.3	1.2	1.1	1.0
Valuation					
EV/Sales (x)	2.4	2.4	2.3	2.6	2.2
EV/EBITDA (x)	21.0	20.2	20.1	22.0	18.7
P/E (x)	13.0	29.0	29.5	30.5	25.2
P/BV (x)	2.6	3.0	3.4	4.2	3.8

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
29-Jul-21	BUY	1,935
2-Nov-21	BUY	2,075
3-Feb-22	BUY	2,357
19-May-22	BUY	1,799
11-Nov-22	HOLD	2,138
18-May-23	BUY	2,610
28-Jul-23	BUY	2,941
7-Nov-23	BUY	3,348

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.

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

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