

CMP: ₹ 3610

Target: ₹ 4300(19%)

Target Period: 12 months

BUY

July 25, 2024

All round performance ...

About the stock: Larsen & Toubro (L&T) is India's largest engineering & construction (E&C) company, with interest in EPC projects, hi-tech manufacturing and services. The company primarily operates in infrastructure, heavy engineering, defence engineering, power, hydrocarbon, services business segments

- Infrastructure segment contributes ~45% to consolidated revenue followed by services (~30%) and international markets (25% of backlog from international markets)

Q1FY25 performance: Given a seasonally weak quarter coupled with general election, the company managed to report ₹71000 crore order inflows, up 8% YoY mainly led by international markets. The current backlog stands at ₹490900 crore, up 19% YoY. Strong execution in the infrastructure segment (revenues up 22% YoY) and hydrocarbons (up 27% YoY) space led to consolidated revenue growing by 15% YoY at ₹ 55100 crore. Consolidated EBIDTA margins came in at 10.2% flat YoY. Positive surprise also came in from the expansion of 40 bps margins in the core Project & manufacturing segment at 7.8%.

Investment Rationale

- Backlog growth of 19% YoY renders strong visibility: The company currently has a current order backlog of ₹490900 crore up 19% YoY. The execution trends of Q1FY25, especially in infra and hydrocarbon space clearly indicated execution momentum which will help the company easily meets its revenue guidance. Given the prospects of ₹ 9 lakh crore, L&T expects to meet order inflow growth guidance from FY25E. Overall we expect revenues and PAT to grow at CAGR of 14.5% and 15.5% over FY24-FY26E.
- Strong Focus on ROE to create value: L&T has reached ROE of ~15% and anticipates the same to reach 18% as per their strategic plan. The company is banking on 1% each improvement from 3 catalysts like a) Breakeven of Hyderabad Metro, b) Improvement in P&M segment margins and c) increasing payouts in forms of higher dividends or buybacks.

Rating and Target Price

- Securing order inflows near the guidance range in a tough quarter speaks of the diversity of the company's operations. We believe given the backlog growth and pick up in execution there remains a strong probability of a beat on the revenue growth guidance. With continued focus on improvement of overall return ratios and aspiration of 18% ROE by 2026 looks a realistic one. We assign BUY rating to L&T with target of ₹ 4300.



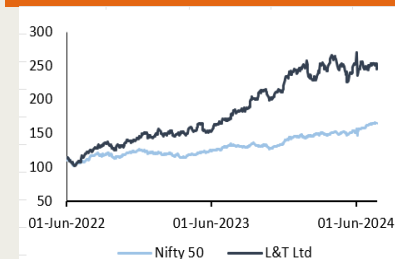
Particulars

Particular	Amount
Market Cap	₹ 495750
Total Debt	₹ 21808.7 Crore
Cash & Inv.	₹ 7743.5 crore
EV	₹ 520199.4 Crore
52 week H/L	₹3969 / ₹2586
Equity capital	₹ 227.5 crore
Face value	₹2

Shareholding pattern

%	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	-	-	-	-
FII	25.7	25.5	24.4	22.9
DII	37.2	37.3	38.1	38.9
Public	37.1	37.2	37.5	38.3

Price Chart



Key risks

- (i) Key Risk: (i) Slowdown in order inflows (ii) lesser than expected improvement in margins.

Research Analyst

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Key Financial Summary

Particulars (₹ Crore)	FY22	FY23	FY24E	5-Year		FY26E	2-Year CAGR (FY24E-FY26E)
				CAGR (FY18-FY23)	FY25E		
Net Sales	101,000.4	110,501.0	126,235.9	11.1%	141,285.6	164,544.4	14.2%
EBITDA	9,055.5	9,294.7	9,684.5	5.5%	11,791.7	13,906.0	19.8%
EBITDA Margin (%)	9.0	8.4	7.7		8.3	8.5	
Adj. Net Profit	7,669.0	7,793.6	9,372.4	13.1%	10,742.8	12,512.3	15.5%
Adj. EPS (₹)	56.8	58.7	67.8		77.4	93.7	
P/E (x)	63.5	61.5	53.2		46.6	38.5	
RoNW (%)	12.1	11.6	12.4		13.0	14.3	
RoCE (%)	8.9	8.7	8.5		9.9	11.1	

Key result and concall highlights

- L&T reported a decent set of Q1FY25 results. The order inflow for Q1FY25 stood at ₹70,936 crore, up 8% YoY and a decline of 1.7% sequentially, international orders at ₹32,598 crore constituted 46% of the total. The consolidated order book is at ₹ 490,881 crore as on Q1FY25 up 19% YoY.
- Order book for Infrastructure Projects stood at ₹324,879 crore, with order inflow for Q1 in line with previous year at ₹40,053 of which 49% were international orders. For Energy Projects order book stood at ₹117,724 crore with order inflow in Q1FY25 at ₹8,792 crore growth of 21% YoY on account of high value domestic offshore orders in hydrocarbon business. International order inflow constituted 22%. Hi-tech manufacturing segment order book was at ₹33,765 crore, order inflow of ₹3,677 crore, growth of >100% YoY with receipt of high value order in Precision Engineering and Systems business, share of export orders being 7%. Others segment orderbook stood at ₹14,513 crore.
- In the international markets, the key focus segments for the company are Oil & Gas, Renewables and Urban transportation. Out of the total backlog of ₹60,000 crore in renewables, the main share is pegged from the international markets given a) larger size of projects and b) better working capital prospects. The company has also won an offshore wind project worth \$100 million in international markets.
- The company has revised its ordering prospects to ₹907,000 crore, down 10% YoY mainly due to drop in international hydrocarbon business segment. But the same will not hamper the prospects of achieving the order inflow guidance for FY25E.
- Consolidated Revenues of ₹ 55,120 crore for Q1FY25 up 15% YoY, aided by ramp up in execution of the strong order book in the Projects and Manufacturing portfolio. On the standalone basis revenues at ₹ 30,278 crore, up ~12.4% YoY. Consolidated margins came in at 10.2% flat YoY on account of lower margins in the infrastructure segment on account of legacy projects and mega projects not entering the threshold levels. Consequently, PAT grew to ₹ 2786 crore, up 12% YoY.
- The NWC continues to remain at very comfortable levels of 13.9% vs. 17% YoY and 12% QoQ
- Share of private sector stood at 22% in the overall backlog, PSU at 36%, while that of central and state govt stood at 14% and 28% respectively. The slow-moving order stood at less than 1% in the overall backlog.
- On the guidance front, Order inflow growth at 10% + for FY25, revenue at 15% and EBIDTA margins in the range of 8.25-8.5% (Core E&C).
- The company is working to turnaround the Hyderabad Metro business. The loss reported for Q1FY25 stood at ₹214 crore down from ₹335 crore in Q1 last year whereas the ridership stood at 4.32 lakh passengers per day in Q1FY25 vs. 4.22 lakh passengers per day in Q1FY24. The company has received ₹900 crore from government and is in process of receiving the remaining ₹2,100 crore, which will help company reduce debt and the interest costs substantially.
- The management has guided that it aims to achieve 18% ROE guidance by FY26E from 15% this year by turning around Hyderabad metro, overall margin improvement in the P&M business and by restructuring balance sheet by larger payouts to investors.

Exhibit 1: SOTP Valuation

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	3991.5	74.7	3233.2	75.2	1874.3	73.4
L&T Finance Holdings	176	3.3	141	3.3	88	3.4
L&T IT Subsidiaries	1113	20.8	891	20.7	556.7	21.8
L&T Power Developme	13	0.2	8.6	0.2	7.7	0.3
L&T MHI JV	12	0.2	5.0	0.1	5.7	0.2
Other E&C, MIP & E&E	29	0.5	14.3	0.3	12.3	0.5
Total	5344	100.0	4302	100.0	2554	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement		₹ crore			
(Year-end March)	FY23*	FY24	FY25E*	FY26E*	
Total operating In	110,501.0	126,235.9	145,740.6	169,539.5	
Growth (%)	9.4	14.2	15.5	16.3	
Raw Material Exp	14,492.4	15,647.1	18,279.8	23,411.8	
Employee Expens	8,298.2	8,864.4	10,599.2	11,630.4	
Other Operating E	63,528.6	74,861.1	85,994.1	99,087.4	
Sales, admin & Ot	2,513.9	3,453.9	5,316.4	6,540.5	
Other Mfg. Expen:	12,373.2	13,724.9	13,392.3	15,030.2	
Total Operating E	101,206.3	116,551.3	133,581.8	155,700.1	
EBITDA	9,294.7	9,684.5	12,158.7	13,839.3	
Growth (%)	2.6	4.2	25.5	13.8	
Depreciation	1,310.0	1,493.1	1,611.9	1,730.7	
Interest	1,856.5	1,771.3	1,686.2	1,601.1	
Other Income	4,035.0	5,340.6	5,408.6	5,100.6	
PBT	10,163.2	11,760.7	14,269.2	15,608.1	
Others	0.0	0.0	0.0	0.0	
Total Tax	2,474.1	2,398.4	2,863.0	3,209.3	
Adj. PAT (Ex-E&A)	5,414.6	9,372.4	11,406.2	12,518.2	
Growth (%)	-29.4	73.1	21.7	9.7	
Adj. EPS (I)	58.7	67.8	82.2	93.7	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement		₹ crore			
(Year-end March)	FY23*	FY24	FY25E*	FY26E*	
Profit after Tax	8,137.1	9,412.3	11,406.2	13,001.6	
Add: Depreciation	1,310.0	1,493.1	1,611.9	1,730.7	
(Inc)/dec in Current As	4,093	-10,464	-23,282	-15,790	
Inc/(dec) in CL and Pr	-7,741.4	8,218.6	16,148.4	14,487.3	
Others	-	-	-	-	
CF from operating act	5,798.3	8,660.1	5,884.1	13,429.2	
(Inc)/dec in Investmen	500.0	500.0	500.0	500.0	
(Inc)/dec in Fixed Asse	-2,700.0	-1,200.0	-1,200.0	-1,200.0	
Others	0.0	0.0	0.0	0.0	
CF from investing acti	236.8	-1,017	-2,694	-1,532.2	
Issue/(Buy back) of Eq	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & divid	-3,368	-3,789	-4,210	-4,911	
Inc/(dec) in Sec. premi	50.0	50.0	50.0	50.0	
Others	0.0	7.6	0.0	0.0	
CF from financing act	-4,196	-4,617	-5,038	-5,739	
Net Cash flow	1,839.4	3,026.5	-1,847.1	6,157.8	
Opening Cash	5,904.1	7,743.5	10,770.0	8,922.9	
Closing Cash	7,743.5	10,770.0	8,922.9	15,081	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet		₹ crore			
(Year-end March)	FY23*	FY24	FY25E*	FY26E*	
Liabilities					
Equity Capital	280.9	280.9	280.9	280.9	
Reserve and Surpl	69,950.7	75,746.4	83,115.0	91,377.4	
Total Shareholder	70,231.6	76,027.3	83,395.9	91,658.3	
Total Debt	21,808.7	20,808.7	19,808.7	18,808.7	
Deferred Tax Liab	0.0	0.0	0.0	0.0	
Minority Interest /	0.0	0.0	0.0	0.0	
Total Liabilities	92,987.5	97,848.2	104,281.8	111,609.3	
Assets					
Gross Block	16,869.0	18,069.0	19,269.0	20,469.0	
Less: Acc Deprecia	7,389.6	8,790.2	10,309.5	11,947.7	
Net Block	9,479.4	9,278.8	8,959.5	8,521.3	
Capital WIP	1,100.0	1,100.0	1,100.0	1,100.0	
Total Fixed Assets	10,579.4	10,378.8	10,059.5	9,621.3	
Investments	45,174.2	44,674.2	44,174.2	43,674.2	
Inventory	3,343.3	4,611.3	6,169.5	6,371.8	
Debtors	39,356.5	44,960.7	51,907.6	60,383.9	
Loans and Advan	667.6	948.2	1,092.2	942.3	
Other Current Ass	56,413.0	59,724.0	74,357.3	81,619.0	
Cash	7,743.5	10,770.0	8,922.9	15,080.7	
Total Current Asse	107,523.9	121,014.3	142,449.5	164,397.7	
Creditors	48,438.8	51,877.7	59,893.4	69,673.8	
Provisions	2,179.7	2,334.5	2,815.0	3,274.7	
Total Current Liab	78,602.7	86,821.3	102,969.6	117,456.9	
Net Current Asset:	28,921.2	34,193.0	39,479.9	46,940.8	
Others Assets	0.0	0.0	0.0	0.0	
Application of Fun	92,987.5	97,848.2	104,281.8	111,609.3	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios					
(Year-end March)	FY23*	FY24	FY25E*	FY26E*	
Per share data (I)					
EPS	58.7	67.8	82.2	93.7	
Cash EPS	68.1	78.6	93.8	106.2	
BV	506.9	548.6	601.7	661.3	
DPS	24.0	27.0	30.0	0.0	
Cash Per Share	55.8	77.6	64.3	108.7	
Operating Ratios (%)					
EBITDA Margin	8.4	7.7	8.3	8.2	
PBT / Total Operating	9.6	9.4	9.8	9.6	
PAT Margin	7.4	7.5	7.8	7.7	
Inventory days	12.5	11.5	13.5	13.5	
Debtor days	130.0	130.0	130.0	130.0	
Creditor days	160.0	150.0	150.0	150.0	
Return Ratios (%)					
RoE	10.7	10.4	13.7	14.2	
RoCE	8.7	8.5	10.2	11.0	
RoIC	9.4	9.4	11.1	12.5	
Valuation Ratios (x)					
P/E	61.5	53.2	43.9	38.5	
EV / EBITDA	55.4	52.7	42.1	36.4	
EV / Net Sales	4.7	4.0	3.5	3.0	
Market Cap / Sales	4.5	4.0	3.4	3.0	
Price to Book Value	7.1	6.6	6.0	5.5	
Solvency Ratios					
Debt/EBITDA	2.3	2.1	1.6	1.4	
Debt / Equity	0.3	0.3	0.2	0.2	
Current Ratio	1.4	1.4	1.4	1.4	
Quick Ratio	1.3	1.3	1.3	1.3	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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