

CMP: ₹ 3570

Target: ₹ 4262(19%)

Target Period: 12 months

BUY

November 5, 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 ~50% to consolidated revenue followed by services (~29%) and international markets (40% of backlog from international markets)

Q2FY25 performance: Given a seasonally weak quarter, the company managed to report ₹ 80,045 crore order inflows (OI) up 13% sequentially and degrowth of 10% YoY, albeit very high base, mainly led by international markets (63% of OI). The current backlog stands at ₹510,402 crore, up 7% from Q4FY24. Strong execution in the energy projects segment (up 31% YoY) and infrastructure segment (revenues up 30% YoY) space led to consolidated revenue growing by 21% YoY at ₹ 61,555 crore. Consolidated EBITDA margins came in at 10.3% down 70 bps YoY. Positive surprise also came in from the expansion of 60 bps margins in the core Project & manufacturing segment at 6%.

Investment Rationale

- Backlog growth of 13% YoY renders strong visibility: The company has a current order backlog of ₹510,402 crore up 13% YoY. The execution trends of Q2FY25, especially in infra, hydrocarbon and precision engineering space clearly indicated execution momentum which will help the company easily meet its revenue guidance. Given the prospects of ₹ 8.1 lakh crore, L&T expects to meet OI growth guidance for FY25E. Overall we expect revenues and PAT to grow at CAGR of 14.7% and 15.1% over FY24-FY26E.
- Strong Focus on ROE to create value: L&T has reached ROE of ~16% and anticipates the same to reach 18% as per their strategic plan. The company is banking on improvement of 1% each 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 OI near the guidance range, despite an unusually large Q2FY24 base 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 maintain BUY rating with target of ₹ 4262.



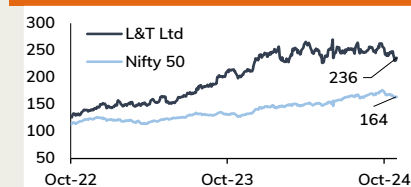
Particulars

Particular	Rs. in crore
Market Cap	4,98,243.0
Total Debt (H1FY25)	15,999.6
Cash & Inv. (H1FY25)	5,145.4
EV	5,09,097.2
52 week H/L (Rs./share)	3949 / 2903
Equity capital	275.0
Face value (Rs./share)	2.0

Shareholding pattern

%	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	-	-	-	-
FII	25.5	24.4	22.9	21.7
DII	37.3	38.1	38.9	40.4
Public	37.2	37.5	38.3	37.8

Price Chart



Key risks

- 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	FY24	5-Year CAGR (FY18-FY23)	FY25E	FY26E	2-Year CAGR (FY24E-FY26E)
Net Sales	1,01,000.4	1,10,501.0	1,26,235.9	11.1%	1,45,147.8	1,66,039.7	14.7%
EBITDA	9,055.5	9,294.7	9,684.5	5.5%	11,642.1	13,779.7	19.3%
EBITDA Margin (%)	9.0	8.4	7.7		8.0	8.3	
Adj. Net Profit	7,669.0	7,793.6	9,372.4	13.1%	10,775.8	12,426.6	15.1%
Adj. EPS (₹)	56.8	58.7	67.8		77.7	93.1	
P/E (x)	63.5	61.5	53.2		46.4	38.8	
RoNW (%)	12.1	11.6	12.4		13.0	14.2	
RoCE (%)	8.9	8.7	8.5		9.8	11.0	

Key result and concall highlights

- L&T reported a good set of Q2FY25 results. The order inflow (OI) for Q2FY25 stood at ₹80,045 crore, up 13% sequentially and a degrowth of 10% YoY, despite a very high OI in Q2FY24. International orders at ₹50,083 crore constituted 63% of the total OI. The consolidated order book is at ₹ 510,402 crore as on Q2FY25 up 7% since Q4FY24.
- Order book for Infrastructure Projects stood at ₹342,954 crore, with OI for Q2FY25 at ₹49,522 crore (~63% international) up 77% YoY, aided by T&D and renewable energy orders. Energy projects order book stood at ₹117,154 crore with OI for Q2FY25 at ₹7,759 crore (~77% international). Hi-tech manufacturing order book stood at ₹35,611 crore (10% international), OI for Q2FY25 at ₹3,920 crore, growth of >64% YoY with receipt of high value order in Precision Engineering and Systems business. Others segment orderbook stood at ₹15,312 crore.
- The company has carved out a separate business vertical for renewable energy in Sep'24 out of the power transmission and distribution business within its infrastructure segment to capitalize on the growth opportunities in the renewable segment in a more focused manner.
- The company has signed a technology license agreement with McPhy for 4 MW electrolyser design. Previously, this agreement was signed for 0.5 MW electrolyser design with McPhy in March '23. The company has also commissioned the first automated robotic line for stack assembly with a capacity of 150 MW, it plans to ramp-up the capacity to 500 MW in the near to medium-term followed by 1 GW in the medium to long-term.
- The company will commission 2 MW data centre in Panvel, Mumbai in Q3FY25. Further, 12MW data centre in Chennai is nearing completion of testing phase and is expected to commission shortly. The company may scale up Chennai data centre to 30MW.
- Consolidated Revenues at ₹ 61,555 crore for Q2FY25 up 21% YoY, aided by ramp up in execution of the strong order book in the Projects and Manufacturing portfolio. On the standalone basis revenues at ₹ 34,918 crore, up ~24% YoY. Consolidated margins came in at 10.3% down 70 bps YoY on account of lower margins in the Hi Tech manufacturing segment, legacy projects and mega projects not entering the threshold levels. Core business margin contraction has ceased. Consequently, PAT grew to ₹ 3,395 crore, up 5.3% YoY. Q2FY24 and H1FY24 had an exceptional gain of ₹512 crore from transit-oriented development (TOD) monetisation in Hyderabad metro. Excluding this TOD gain the consolidated PAT grew 25% and 19% YoY for Q2FY25 and H1FY25 respectively.
- The NWC continues to remain at very comfortable levels of 12.2% vs. 16.7% YoY and 13.9% QoQ
- Management has guided OI growth at 10% + for FY25, revenue at 15% and EBIDTA margins in the range of 8.25-8.5% (Core E&C).
- Hyderabad metro achieved highest ridership of 5.63 lakh passenger on 14th Aug, 24. The loss reported for Q2FY25 stood at ₹207 crore mainly on account of interest expense whereas the ridership stood at 4.62 lakh passengers per day in Q2FY25 vs. 4.32 lakh passengers per day in Q1FY25.
- Order prospects of ₹8.08 trn for H2FY25, of which a.) Infra is ₹5.42 trn, b.) Energy projects is ₹2.49 trn, c.) Hi tech manufacturing is ₹158 Bn. Domestic prospects constitute 57% of total order prospects.

Exhibit 1: SOTP Valuation

Company (₹per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	3991.5	74.8	3210.4	75.3	1861.1	73.4
L&T Finance Holdings	176	3.3	130	3.1	88	3.5
L&T IT Subsidiaries	1106	20.7	885	20.8	553.2	21.8
L&T Power Development	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 Sub	29	0.5	14.3	0.3	12.3	0.5
Total	5337	100.0	4262	100.0	2537	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 Income	1,10,501.0	1,26,235.9	1,45,147.8	1,66,039.7	
Growth (%)	9.4	14.2	15.0	14.4	
Raw Material Expenses	14,492.4	15,647.1	18,112.9	22,730.4	
Employee Expenses	8,298.2	8,864.4	10,838.3	11,386.5	
Other Operating Expenses	63,528.6	74,861.1	86,172.6	97,023.7	
Sales, admin & Other Exp	2,513.9	3,453.9	5,096.3	6,407.7	
Other Mfg. Expenses	12,373.2	13,724.9	13,285.7	14,711.7	
Total Operating Expenditure	1,01,206.3	1,16,551.3	1,33,505.6	1,52,260.0	
EBITDA	9,294.7	9,684.5	11,642.1	13,779.7	
Growth (%)	2.6	4.2	20.2	18.4	
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	5,140.8	5,049.0	
PBT	10,163.2	11,760.7	13,484.9	15,496.9	
Others	0.0	0.0	0.0	0.0	
Total Tax	2,474.1	2,398.4	2,709.0	3,189.7	
Adj. PAT (Ex-E&A)	5,414.6	9,372.4	10,775.8	12,426.6	
Growth (%)	-29.4	73.1	15.0	15.3	
Adj. EPS (₹)	58.7	67.8	77.7	93.1	

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	10,775.8	12,909.9	
Add: Depreciation	1,310.0	1,493.1	1,611.9	1,730.7	
(Inc)/dec in Current Assets	4,093	-10,464	-22,474	-12,429	
Inc/(dec) in CL and Provisions	-7,741.4	8,218.6	15,596.9	12,079.4	
Others	-	-	-	-	
CF from operating activities	5,798.3	8,660.1	5,511.0	14,290.6	
(Inc)/dec in Investments	500.0	500.0	500.0	500.0	
(Inc)/dec in Fixed Assets	-2,700.0	-1,200.0	-1,200.0	-1,200.0	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	236.8	-1,017	-2,623	-1,254.5	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-3,368	-3,789	-4,210	-4,911	
Inc/(dec) in Sec. premium	50.0	50.0	50.0	50.0	
Others	0.0	7.6	0.0	0.0	
CF from financing activities	-4,196	-4,617	-5,038	-5,739	
Net Cash flow	1,839.4	3,026.5	-2,149.1	7,296.8	
Opening Cash	5,904.1	7,743.5	10,770.0	8,620.9	
Closing Cash	7,743.5	10,770.0	8,620.9	15,918	

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 Surplus	69,950.7	75,746.4	82,484.6	90,655.3	
Total Shareholders funds	70,231.6	76,027.3	82,765.5	90,936.2	
Total Debt	21,808.7	20,808.7	19,808.7	18,808.7	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	92,987.5	97,848.2	1,03,651.4	1,10,887.1	
Assets					
Gross Block	16,869.0	18,069.0	19,269.0	20,469.0	
Less: Acc Depreciation	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	6,125.6	6,156.8	
Debtors	39,356.5	44,960.7	51,696.5	59,137.4	
Loans and Advances	667.6	948.2	1,083.9	908.6	
Other Current Assets	56,413.0	59,724.0	73,812.0	78,944.6	
Cash	7,743.5	10,770.0	8,620.9	15,917.7	
Total Current Assets	1,07,523.9	1,21,014.3	1,41,338.8	1,61,065.1	
Creditors	48,438.8	51,877.7	59,649.8	68,235.5	
Provisions	2,179.7	2,334.5	2,803.5	3,207.1	
Total Current Liabilities	78,602.7	86,821.3	1,02,418.2	1,14,497.6	
Net Current Assets	28,921.2	34,193.0	38,920.6	46,567.5	
Others Assets	0.0	0.0	0.0	0.0	
Application of Funds	92,987.5	97,848.2	1,03,651.4	1,10,887.1	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY23*	FY24	FY25E*	FY26E*
Per share data (₹)				
EPS	58.7	67.8	77.7	93.1
Cash EPS	68.1	78.6	89.3	105.5
BV	506.9	548.6	597.2	656.1
DPS	24.0	27.0	30.0	0.0
Cash Per Share	55.8	77.6	62.1	114.7
Operating Ratios (%)				
EBITDA Margin	8.4	7.7	8.0	8.3
PBT / Total Operating income	9.6	9.4	9.3	9.7
PAT Margin	7.4	7.5	7.4	7.8
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	13.0	14.2
RoCE	8.7	8.5	9.8	11.0
RoIC	9.4	9.4	10.6	12.7
Valuation Ratios (x)				
P/E	61.5	53.2	46.4	38.8
EV / EBITDA	55.4	52.7	43.9	36.5
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	1.7	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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Reduce: -15% to -5%;

Sell: <-15%



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