Larsen & Toubro (LARTOU)

ICICI direct Research

CMP: ₹ 3610 | Target: ₹ 4300(19%) | Target Period: 12 months | BUY

May 30, 2024

Result Update

ICICI Securities – Retail Equity Research

Outlook robust ; Margin recovery in the works…

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)

Q4FY24 performance: Consolidated revenues grew 15% YoY at ₹ 67100 crore. From a segmental perspective, Infrastructure segment revenues grew by 22% YoY at ₹ 38030 crore. On the other hand, energy and Hitech manufacturing segment revenues grew by 4% and 15% respectively. Order inflows for FY24 stood at Rs 302800 crore while order backlog stood at ₹ 475800 crore. EBITDA margins came in at 10.8% in Q4FY24 which declined by 90 bps YoY. Consequently, PAT grew by 8% while consolidated ROE stood at 14.9% as of FY24.

Investment Rationale

- Strong bidding pipeline boosts visibility: The management has guided for a order inflow growth of 10% for FY25E albeit higher base of FY24 (order inflow growth of 31% YoY). The same is achievable given a strong prospects pipeline of ₹12.1 trillion up 24% YoY going into FY25E. The key prospects are lined up in the infrastructure segment (water/T&D/Transportation) to the tune of ₹ 7.25 trillion whereas hydrocarbon segment has prospects of ₹ 3.87 trillion (mostly from international markets). Hence, we expect standalone revenues and PAT to grow by 15.1% and 16% CAGR over FY24-FY26E, respectively. The company currently has a current order backlog of Rs 458000 crore and has guided for a 15% revenue growth in FY25E.
- Strong Focus on ROE to create value: Strong focus on bidding profitable orders, timely execution and monetising non-core assets has helped the company to achieve an ROE of 14.9% and is well on track to reach its goal of 18% by 2026. Even there was a considerable improvement in NWC to sales ratio at 12%, one of the lowest in past many years. The same will be maintained at 15% and will be instrumental in ROE enhancement and compensate for flattish margin in FY25E.

Rating and Target Price

- We assign BUY rating to L&T. We value L&T at SOTP-based target price of ₹ 4300 (Base business at 35x FY26E EPS) and consider as the best capex play in largecap capital goods space. Focus on lower balance sheet intensity, restructuring of metro project and focus on cash flows will drive rerating for the stock..

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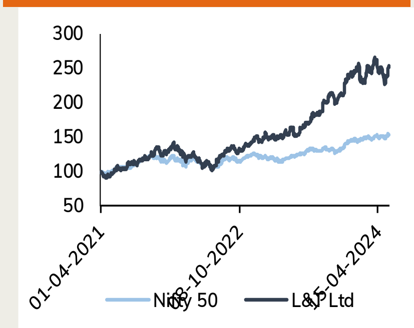
Particulars

Particular	Amount
Market Cap	₹ 505152 Crore
Total Debt (FY23)	₹ 21808.7 Crore
Cash & Inv. (FY23)	₹ 7743.5 crore
EV	₹ 519217.2 Crore
52 week H/L	₹3860 / ₹2202
Equity capital	₹ 227.5 crore
Face value	₹2

Shareholding pattern

%	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	-	-	-	-
FII	25.3	25.7	25.5	24.4
DII	38.0	37.2	37.3	38.1
Public	36.7	37.1	37.2	37.5

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 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%	1,42,791.3	1,67,095.7	15.1%
EBITDA	9,055.5	9,294.7	9,684.5	5.5%	11,181.7	13,984.4	20.2%
EBITDA Margin (%)	9.0	8.4	7.7		7.8	8.4	
Adj. Net Profit	7,669.0	7,793.6	9,372.4	13.1%	10,312.1	12,607.8	16.0%
Adj. EPS (₹)	56.8	58.7	67.8		74.3	94.4	
P/ E (x)	63.4	61.4	53.1		48.4	38.2	
RoNW (%)	12.1	11.6	12.4		12.5	14.4	
RoCE (%)	8.9	8.7	8.5		9.4	11.2	

Source: Company, ICICI Direct Research

Exhibit 1: SOTP Valuation

Company (₹per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	3991.5	74.9	3302.6	76.8	1887.2	75.1
L&T Finance Holdings	176	3.3	141	3.3	88	3.5
L&T IT Subsidiaries	961	18.0	769	17.9	480.6	19.1
L&T Power Developm	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
L&T IDPL	144	2.7	65.3	1.5	30.9	1.2
Other E&C, MIP & E&E	29	0.5	14.3	0.3	12.3	0.5
Total	5327	100.0	4300	100.0	2512	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 Inco	1,10,501.0	1,26,235.9	1,42,791.3	1,67,095.7
Growth (%)	9.4	14.2	13.1	17.0
Raw Material Exper	14,492.4	15,647.1	18,526.2	23,072.9
Employee Expenses	8,298.2	8,864.4	10,341.0	11,456.5
Other Operating Ex	63,528.6	74,861.1	84,417.2	97,325.0
Sales, admin & Othe	2,513.9	3,453.9	5,242.9	6,448.8
Other Mfg. Expense	12,373.2	13,724.9	13,082.4	14,808.2
Total Operating Exp	1,01,206.3	1,16,551.3	1,31,609.6	1,53,111.3
EBITDA	9,294.7	9,684.5	11,181.7	13,984.4
Growth (%)	2.6	4.2	15.5	25.1
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	5,011.8	5,069.7
PBT	10,163.2	11,760.7	12,895.4	15,722.3
Others	0.0	0.0	0.0	0.0
Total Tax	2,474.1	2,398.4	2,583.2	3,233.9
Adj. PAT (Ex-E&A)	5,414.6	9,372.4	10,312.1	12,607.8
Growth (%)	-29.4	73.1	10.0	22.3
Adj. EPS (₹)	58.7	67.8	74.3	94.4

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	10,312.1	13,091.2
Add: Depreciation	1,310.0	1,493.1	1,611.9	1,730.7
(Inc)/dec in Current Asse	4,093	-10,464	-19,259	-19,458
Inc/(dec) in CL and Provi	-7,741.4	8,218.6	13,404.7	16,432.1
Others	-	-	-	-
CF from operating activi	5,798.3	8,660.1	6,069.6	11,796.4
(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 activit	236.8	-1,017	-2,340	-1,946.8
Issue/(Buy back) of Equi	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividen	-3,368	-3,789	-4,210	-4,911
Inc/(dec) in Sec. premiun	50.0	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing activi	-4,196	-4,617	-5,038	-5,739
Net Cash flow	1,839.4	3,026.5	-1,307.7	4,110.4
Opening Cash	5,904.1	7,743.5	10,770.0	9,462.3
Closing Cash	7,743.5	10,770.0	9,462.3	13,573

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 Surplu	69,950.7	75,746.4	82,020.9	90,372.8
Total Shareholders	70,231.6	76,027.3	82,301.8	90,653.8
Total Debt	21,808.7	20,808.7	19,808.7	18,808.7
Deferred Tax Liabili	0.0	0.0	0.0	0.0
Minority Interest / O	0.0	0.0	0.0	0.0
Total Liabilities	92,987.5	97,848.2	1,03,187.7	1,10,604.7
Assets				
Gross Block	16,869.0	18,069.0	19,269.0	20,469.0
Less: Acc Depreciat	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	5,951.3	6,409.2
Debtors	39,356.5	44,960.7	50,857.2	59,513.5
Loans and Advance	667.6	948.2	1,050.9	954.3
Other Current Asset	56,413.0	59,724.0	71,644.0	82,084.0
Cash	7,743.5	10,770.0	9,462.3	13,572.7
Total Current Asset	1,07,523.9	1,21,014.3	1,38,965.7	1,62,533.7
Creditors	48,438.8	51,877.7	58,681.4	68,669.5
Provisions	2,179.7	2,334.5	2,758.0	3,227.5
Total Current Liabili	78,602.7	86,821.3	1,00,226.0	1,16,658.1
Net Current Assets	28,921.2	34,193.0	38,739.7	45,875.6
Others Assets	0.0	0.0	0.0	0.0
Application of Fund	92,987.5	97,848.2	1,03,187.7	1,10,604.7

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY23*	FY24	FY25E*	FY26E*
Per share data (₹)				
EPS	58.7	67.8	74.3	94.4
Cash EPS	68.1	78.6	85.9	106.8
BV	506.9	548.6	593.9	654.1
DPS	24.0	27.0	30.0	0.0
Cash Per Share	55.8	77.6	68.2	97.8
Operating Ratios (%)				
EBITDA Margin	8.4	7.7	7.8	8.4
PBT / Total Operating ir	9.6	9.4	9.0	9.8
PAT Margin	7.4	7.5	7.2	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	12.5	14.4
RoCE	8.7	8.5	9.4	11.2
RoIC	9.4	9.4	10.2	12.6
Valuation Ratios (x)				
P/E	61.4	53.1	48.4	38.2
EV / EBITDA	55.2	52.6	45.6	36.1
EV / Net Sales	4.6	4.0	3.6	3.0
Market Cap / Sales	4.5	4.0	3.5	3.0
Price to Book Value	7.1	6.6	6.1	5.5
Solvency Ratios				
Debt/EBITDA	2.3	2.1	1.8	1.3
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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