

Larsen & Toubro

 BSE SENSEX
34,377

 S&P CNX
10,316

CMP: INR1,216 TP: INR1, 540(+26%)
Buy


Stock Info

Bloomberg	LT IN
Equity Shares (m)	1,402
M.Cap.(INRb)/(USD\$b)	1712 / 23
52-Week Range (INR)	1470 / 1125
1, 6, 12 Rel. Per (%)	1/-11/-1
12M Avg Val (INR M)	3183
Free float (%)	100.0

Financials Snapshot (INR b)

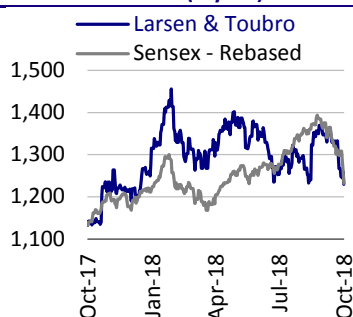
Y/E Mar	2018	2019E	2020E
Net Sales	1,197	1,338	1,507
EBITDA	135.7	152.0	181.4
PAT	72.5	82.6	101.4
EPS (INR)	51.7	59.0	72.3
Gr. (%)	22.4	14.0	22.7
BV/Sh (INR)	397.1	436.6	564.8
RoE (%)	13.7	14.1	14.4
RoCE (%)	9.4	9.8	11.4
P/E (x)	23.5	20.6	16.8
P/BV (x)	3.4	3.1	2.8

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	0.0	0.0	0.0
DII	38.3	38.5	39.0
FII	20.3	20.5	19.3
Others	41.4	41.0	41.8

FII Includes depository receipts

Stock Performance (1-year)



The Monitorable Troika

Order inflow, domestic execution and working capital key monitorables

- With LT's announced 2Q19 orders at INR340b, we estimate 2Q19 orders at INR475b, +65% YoY and 1H19 orders at INR836b, +51% YoY. FY19E orders are expected up 12% YoY (earlier 10%) at INR1.7t; elections next year should impact 2H19/1Q20 ordering, in our view.
- Domestic engineering and construction (E&C) execution growth has picked up post GST implementation (+15% YoY in FY18) and we expect the momentum to continue in FY19. We build in domestic E&C execution growth of 14%/15% for FY19/20.
- As LT increasingly focuses on its 'Lakshya' strategic plan, NWC should stabilize at 20% of sales after bottoming out in 4QFY17 (18%).

Focus on the Troika—orders, execution and NWC puts LT in good stead

- **Orders:** Orders announced in 2QFY19 stood at INR340b (INR129b in 2QFY18), driven by Heavy Civil, Buildings and Factories (B&F), Transmission and Distribution (T&D), Hydrocarbons and Water segments. We estimate 2Q19 orders at INR475b (+65% YoY) with FY19 orders at INR1.7t (+12% YoY, 1H19: +51% YoY). Going into general elections in May 2019—we expect ordering to slow down in 2H19/1Q20. Historically, government orders have slowed in the quarter preceding/during the election quarter (See Exhibit 9) as the election code of conduct sets in. We now build in an 11% decline in 2H19 orders driven by: (a) high base in 3Q18 where orders were up 38% YoY to INR481b, and (b) slowdown in ordering in 4Q19 as the election code of conduct sets in.
- **Domestic E&C execution:** Domestic execution grew 16% YoY in 2H18 (+15% YoY in FY18) as the impact of GST subsided and execution normalized. We expect execution momentum to remain strong in FY19 with the government giving a push for faster project completion prior to the elections. We build in E&C revenue growth of 14% for FY19 supported by an equivalent pace of domestic execution. For FY19, we expect revenue growth of 12% (12-14% guidance) driven by a revival in execution of large domestic orders that LT has bagged over the past two years. We build in domestic E&C growth of 14%/15% for FY19/20; note 1Q20 could see a slowdown due to general elections as has been the case historically (See Exhibit 15).
- **Working capital:** NWC was brought down from 25% at end-FY15 to 20% in FY18 (albeit up from 18% in 4QFY17). We expect working capital to remain at a similar level as seen in March 2018, given higher working capital requirement to support domestic execution. LT intends to bring down NWC to 18% of sales by FY21 under its 'Lakshya' strategic program.
- **Maintaining Buy, TP of INR1,540:** We maintain our **Buy** rating with SOTP-based price target of INR1,540 (E&C business at 22x FY20E EPS, to which we add INR520 for subsidiaries). LT trades attractively at 19x/15x standalone EPS for FY19/20 (ex-subsidiaries). Key risks to our rating include (a) a sharp slowdown in government spending, and (b) a sharp fall in oil prices in the Middle East.

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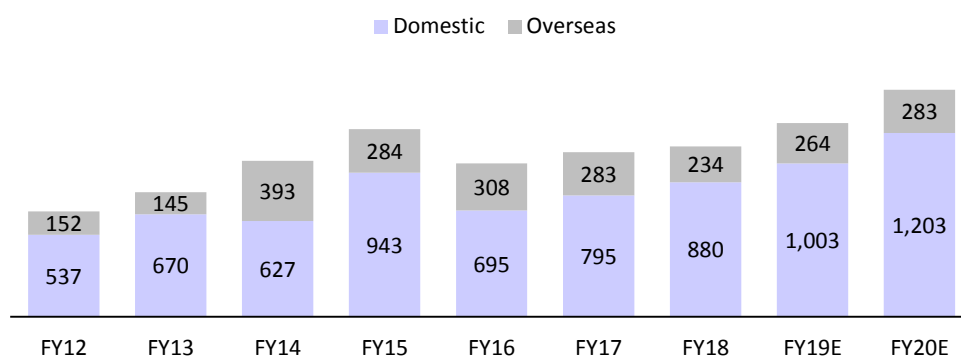
Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

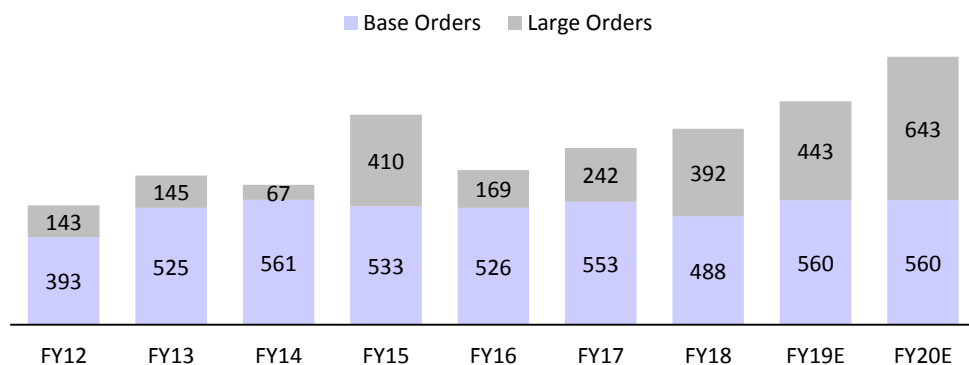
#1 FY19 inflow to meet higher-end of guidance**2H19/1Q20 to see a slowdown**

During 2QFY19, LT's order intake announcement was to the tune of INR340b (2QFY18: INR129b), with a pick-up witnessed across and supported by Heavy Civil, B&F, T&D, Hydrocarbons and Water. Key highlights of the 2QFY19 order announcements are:

- Project announcements have been supported by a pick-up in domestic order finalizations, which stood at INR305b (90% of total), while overseas orders stood at INR33b. Overseas projects contributed 10% to the order announcements.
- Another important trend reveals that domestic wins have been predominantly supported by large orders (INR15b+). Large ticket orders announced in 2Q19 stood at INR210b and were supported by order finalization from Heavy Civil, Water, Transport infrastructure, Building and Factories and Hydrocarbons' segment. We believe that a pick-up in large projects finalization is an encouraging sign and sustainability of the same would be keenly watched. Sustainability and consistency in finalization of orders could prove to be a key driver for a trajectory change in the order intake, going ahead.
- Overseas project announcements during the quarter were tepid, with only orders worth INR33b being announced in 2Q19.

Exhibit 1: E&C order inflow break-up – domestic v/s overseas (INR b)

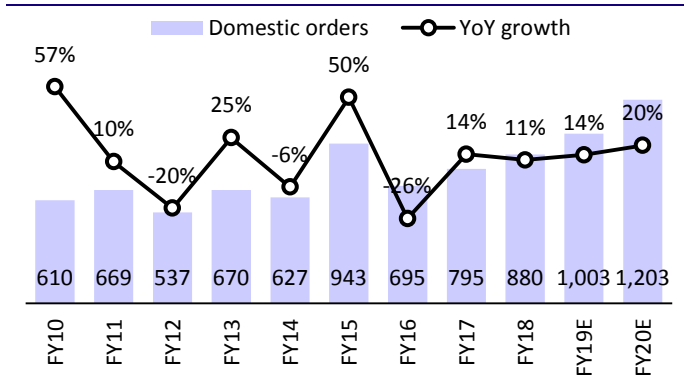
Source: Company, MOSL

Exhibit 2: Domestic E&C orders—Large orders (>INR15b) have seen traction in FY18 and momentum is expected to continue in FY19

Source: Company, MOSL

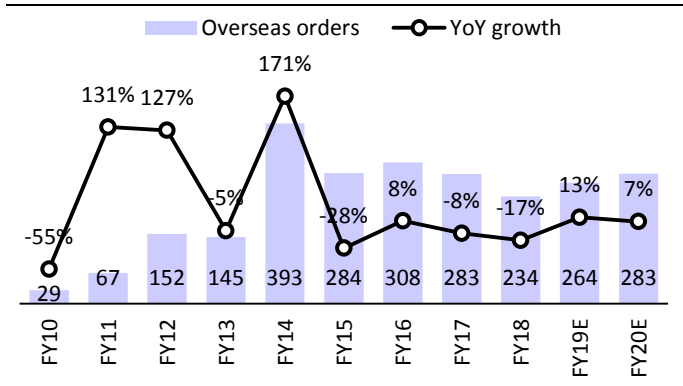
- For LT, the base order intake in domestic E&C (excluding large project wins of INR15b+) averaged INR70-80b/year over the last 3-4 years and has remained in the same range. The volatility in reported intake is largely a function of large project wins, and thus, pick-up in intake has been led by finalization of large projects in segments like Transport Infra (Metros, Railways, Roads, Ports), Process Industries (Metals, Material Handling), Power (Thermal, Hydro), Hydrocarbons, Defense, etc.

Exhibit 3: Consolidated E&C—Domestic orders registered strong growth in FY17 and FY18, post a sharp decline in FY16



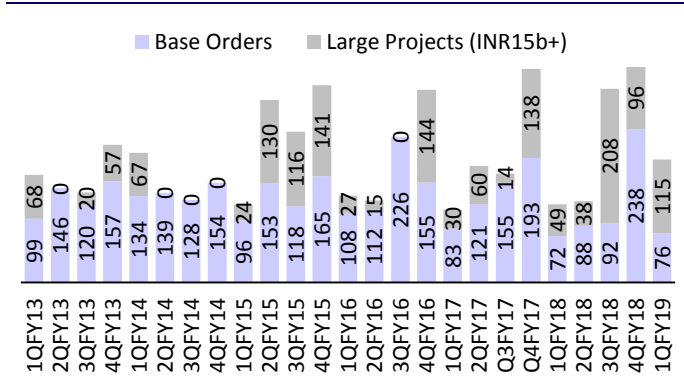
Source: Company, MOSL

Exhibit 4: Consolidated E&C—Overseas orders driven by hydrocarbon and T&D orders



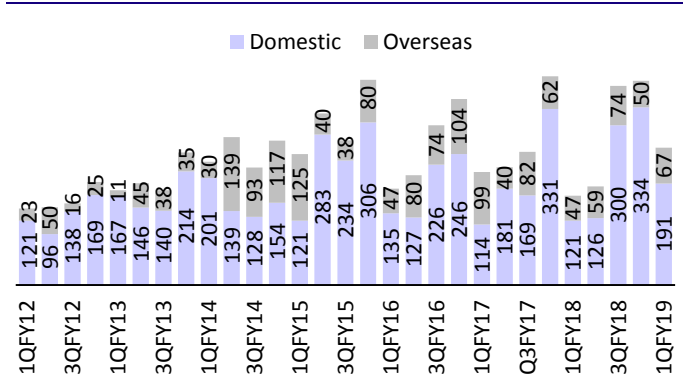
Source: Company, MOSL

Exhibit 5: E&C orders (incl. unannounced orders) – large domestic order wins witnessed pick-up in 1QFY19 (INR b)



Source: Company, MOSL

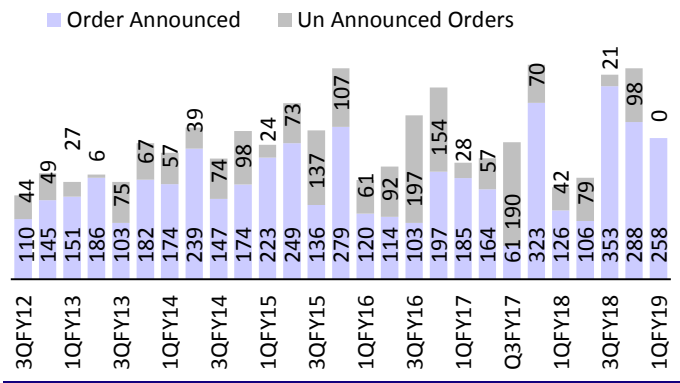
Exhibit 6: Domestic E&C drives order momentum



Source: Company, MOSL

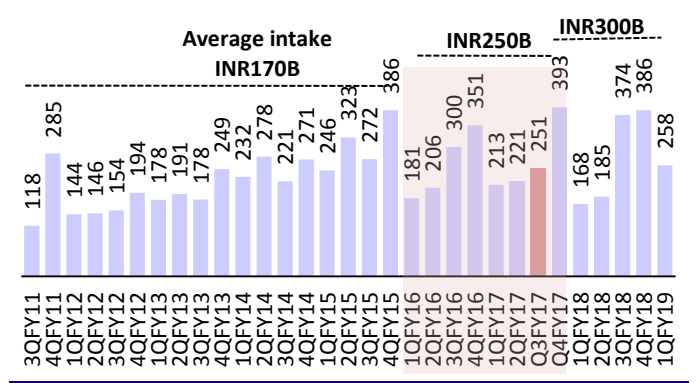
- For 2QFY19, we estimate LT's order intake at ~INR475b, +65% YoY and its E&C orders at INR390b. This takes into account INR340b of announced orders, INR70-80b of services orders, and INR50-60b of unannounced orders.
- We estimate FY19 orders at INR1.7t (+12% YoY, 1H19: +51% YoY). Going into general elections in May 2019, we expect ordering to slow down in 2H19/1Q20; historically, government orders witness a slowdown in the quarter preceding/during the election quarter (See Exhibit 9) as the election code of conduct sets in. We now build in an 11% decline in 2H19 orders driven by: (a) high base in 3Q18 where orders were up 38% YoY to INR481b, and (b) slowdown in 4Q19 ordering as the election code of conduct sets in.

Exhibit 7: E&C order intake (INR b) – we have assumed unannounced orders at ~INR50b



Source: Company, MOSL

Exhibit 8: E&C order intake

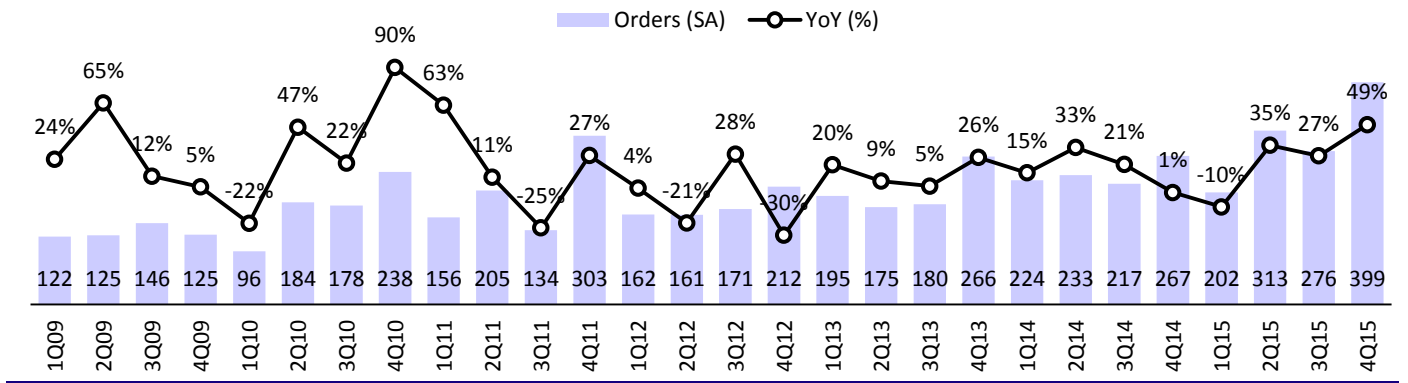


Source: Company, MOSL

4QFY19/1Q20 to see slowdown in ordering activity; likely to impact FY19 orders

We expect ordering activity to slow down in 4Q19/1Q20 as India gets ready for general elections in May 2019. Historical data indicates that government spending has been driving domestic ordering activity for LT, which has slowed significantly in the quarter preceding and during the election as the election code of conduct sets in—Note: slowdown in orders in 4Q09/1Q10 prior to the May 2009 elections, and also during 4Q14/1Q15 during the May 2014 elections. However, the quarters following the election quarter do see a strong bunching up of orders as seen in both FY10 (+35% YoY) and FY15 (+17% YoY).

Exhibit 9: Ordering slows down during and preceding the election quarter



Source: MOSL, Company

We build in 12% growth in FY19 orders as we believe orders will slow down heading into elections in May 2019. Preponing of orders was already seen in 1Q-2Q 2019, prior to the election code of conduct being announced for the general elections in May 2019.

Exhibit 10: Announced orders in 2Q19 by LT

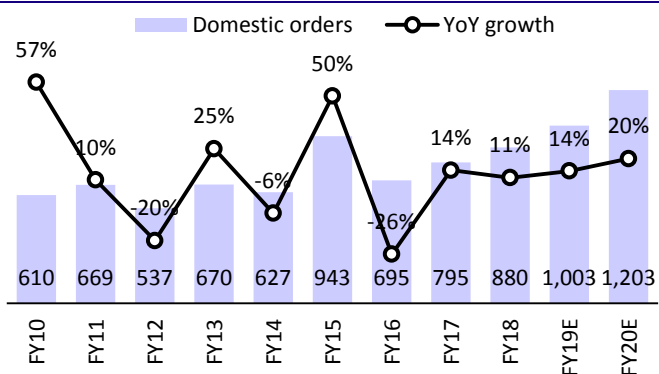
Month	Period	Particulars	INR M
Water	2Q19	MP Jal Nigam for execution of Satna, Kundaliya and Mohanpura village rural water supply. 11,272km of T&D lines, intake wells. The projects will cover 1,954 villages in Satna and Rajgarh districts of Madhya Pradesh. Another EPC order has been received from the Tirunelveli Municipal Corporation for providing Underground Sewerage Scheme (UGSS) to additional areas of Tirunelveli Corporation - Phase II	23,880
Buildings and Factories	2Q19	Head office of AP Capital Region development Authority, Amravati Construction of a tourism-related facility in Muscat, Oman	30,000
Hydrocarbon	2Q19	Significant onshore EPC contract from HPCL Mittal Energy for setting up 07 (Seven) Cracker Furnaces of 1200 KTPA Dual Feed Cracker Unit (DFCU) at their Bathinda Refinery in Punjab	NA
Heavy Engineering	2Q19	Supply critical Reactors and heavy equipment to Refining, Petrochemical and Liquefied Natural Gas (LNG) industries	16,000
MMH	2Q19	L&T - MMH continues to strengthen its market presence in Alumina, Steel & product manufacturing sector by securing an order from HINDALCO at Rayagada, Odisha and JSW at Dolvi, Maharashtra	8,080
Water	2Q19	The Business has won an order worth Rs488 crore from Karnataka Power Corporation Ltd., for the execution of a water supply pipeline from Narayanpur reservoir to Kushtagi in the Krishna basin.	4,880
Power T&D	2Q19	Kingdom of Morocco for the construction of 400kV and 225kV Transmission Lines to evacuate power from the Midelt solar power station. order from Egyptian Electricity Transmission Company for the construction of a 220kV overhead transmission line from Toshka in Egypt	17,230
Smart World Communication	2Q19	Goa Intelligent City Management System for Panaji City as the Master System Integrator (MSI).	1,810
Power	2Q19	FGD order for NTPC Khargone and Lara	10,800
Buildings and Factories	2Q19	Engineering, Procurement and Construction (EPC) for expansion of the Terminal Building and Airside Infrastructure Works at the Rajiv Gandhi International Airport, Hyderabad, Telangana.	30,280
Water	2Q19	EPC order worth 1,394 Crore from the Water Resources Department, Government of Madhya Pradesh for the execution of the Kundalia Irrigation Project - Right Bank.	13,940
Roads	2Q19	Pkg10 of Mumbai Nagpur Expressway	20,950
Heavy Civil	2Q19	MSRDC order for Thane creek bridge	5,950
Power T&D	2Q19	The business has secured a major order for a Main Plant Electrical Package of Units 3/4 of the Kudankulam Nuclear Power Project. Orders have been won to build a 400/220kV Gas Insulated Substation in Andhra Pradesh Capital Region and a 230kV Gas Insulated Substation in Chennai,	16,330
Water	2Q19	An order has been secured from Tamil Nadu Water Supply Et Drainage Board for "Providing Underground Sewerage Scheme to Kurichi Et Kuniyamuthur area of Coimbatore"	4,150
Power	2Q19	FGD order for NTPC Vidhyanchal and Darlapalli	14,000
Water	2Q19	Turnkey orders have been secured from the Public Health Engineering Department, Rajasthan for the execution of drinking water supply projects	11,570
Buildings and Factories	2Q19	Order has been received from a leading two-wheeler manufacturer for the construction of their manufacturing plant in Andhra Pradesh	3,200
Heavy Civil	2Q19	Construction of the Mumbai Coastal Road Project (MCRP), Packages 01 a 04. The project involves the construction of a 7.75Km Coastal Road from Princess Street Flyover to Baroda Palace. Pk4 is 3.93kms stretch from Princess Street to Priyadarshini Park and Pk1 is construction of 3.84km, 8 lane highway from Priyadarshini Park to Baroda Place. Major variation order from the Irrigation and Command Area Development Department (I&CAD), Government of Telangana for the Medigadda Barrage Project. Order from BHEL, to execute piling, pile test, pile cap and pedestal works for a 1x660 MW Panki	74,890
Heavy Civil	2Q19	Order from Bangalore International Airport for Terminal 2 of Kempegowda Airport. Increase capacity by 25m passengers. Scope of work includes design, engineering, procurement, construction, testing and commissioning of Terminal -2, including the integration of services and utilities along with the airport's systems, support facilities and building	30,360
Hydrocarbon	2Q19	LEtT Hydrocarbon Engineering (LTHE) in consortium with Baker Hughes and McDermott International, Inc. has been awarded the subsea contract for India's Oil & Natural Gas Corporation's (ONGC) largest deep-water KG D5 gas project, the development of block DWN-98/2 in the Krishna Godavari basin. The integrated subsea package includes the supply of all subsea production systems (SPS), including 34 deep-water trees, and the installation of subsea umbilicals, risers and flow lines (SURF) at a water depth of between 984 feet (300 meters) and 10,500 feet (3,200 meters). The subsea award represents the largest single-subsea contract awarded by ONGC. Delivery is scheduled for 2020 for the gas system and 2021 for the oil system	117,410

Source: Company, MOSL

#2 E&C execution: Domestic execution revives in FY18; strengthens in FY19

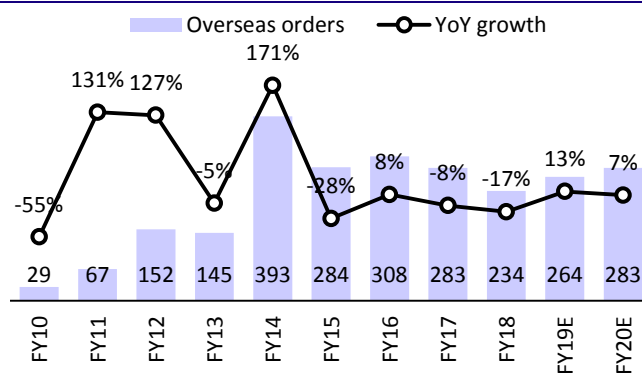
- Domestic execution grew 16% YoY in 2H18 (+15% YoY in FY18) as the impact of GST subsided and execution normalized. We expect execution momentum to remain strong in FY19 with the government giving a push for faster project completion prior to the elections; we build in E&C revenue growth of 14% for FY19 supported by an equivalent pace of domestic execution.
- For FY19, we expect revenue growth of 12% (12-14% guidance) driven by a revival in execution of large domestic orders that LT has bagged over the past two years. We build in domestic E&C growth of 14%/15% for FY19/20.
- Domestic execution had earlier been impacted due to delays in customer approvals for work front availability, as well as payment delays faced by the company, which led to subdued growth during FY14-17.

Exhibit 11: Exhibit 9: Consolidated E&C – strong growth in domestic order wins in FY17



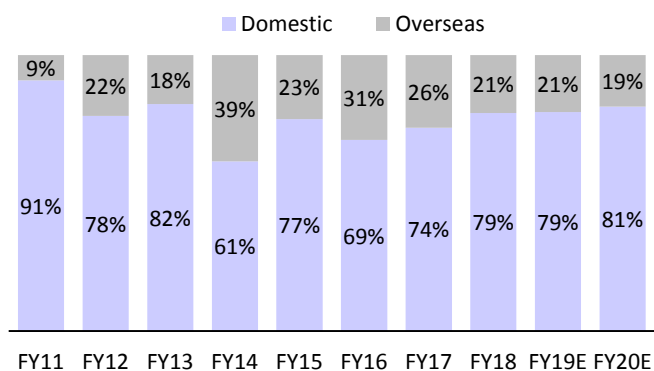
Source: Company, MOSL

Exhibit 12: Consolidated E&C – overseas orders flattish over last three years



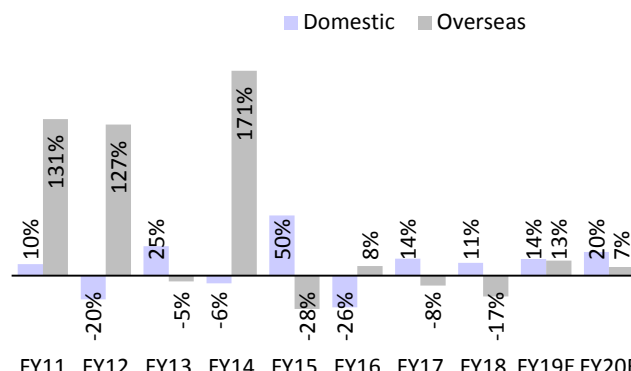
Source: Company, MOSL

Exhibit 13: Consolidated E&C – order inflow mix post FY16 supported by domestic E&C business



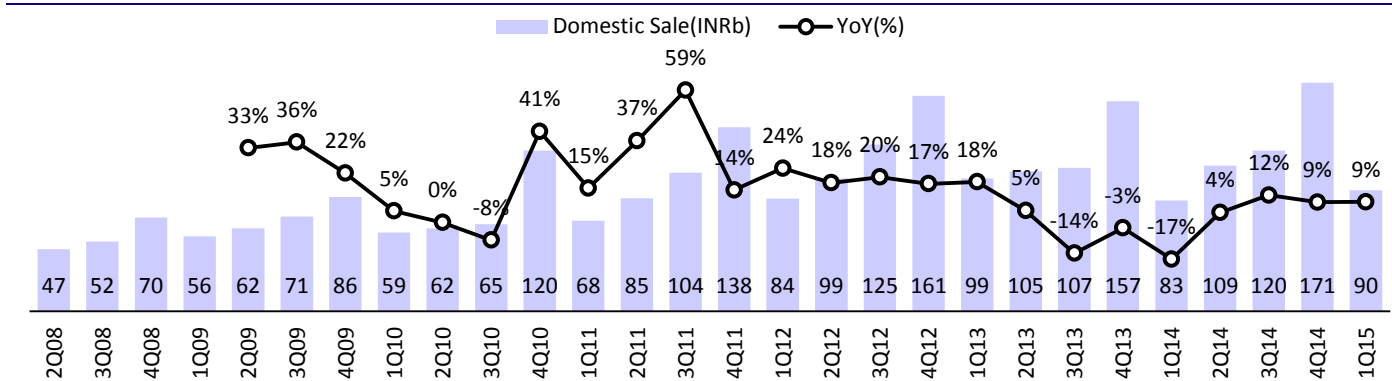
Source: Company, MOSL

Exhibit 14: E&C order growth split into domestic and overseas order growth



Source: Company, MOSL; FY18 E&C excludes INR80b for corvettes which is part of "Others", +18% including this order

- LT has witnessed an order inflow of ~INR700-880b in the domestic E&C segment over FY16-18, driven by the finalization of large project orders in the Power, Rail, Metros, Heavy Civil, Water, Roads, MMH and T&D segments. We had expected these orders to start contributing meaningfully from FY18; however, GST implementation has led to a temporary slowdown in 2Q18 execution on account of contract renegotiation being done by clients and vendors. Growth rebounded in 2H19 (+16% YoY) and we expect these orders to contribute meaningfully in FY19 as well and driving domestic E&C growth (14% growth in FY19E v/s 5% growth in FY17).

Exhibit 15: Domestic sales growth slows down during the election quarter – picks up thereafter

Source: MOSL, Company

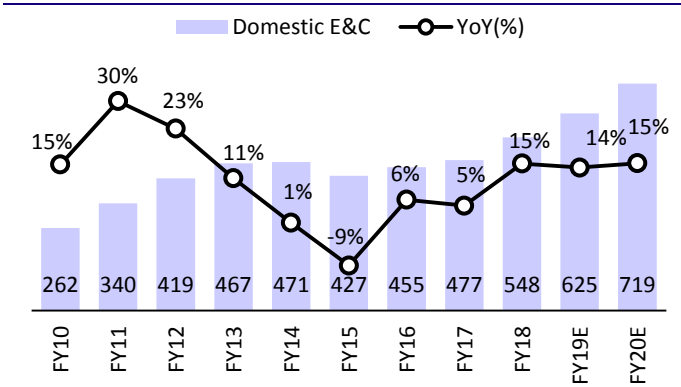
Exhibit 16: Large domestic orders announced in FY19

Date	Description	Size (Rs mn)
Q119	A major order is received under the Saubhagya scheme. The scope of these packages involves electrification works in urban and rural areas, augmentation of 33/11kV	24,400
Q119	Construction of dock for Cochin Shipyard	15,040
Q119	Order from Hindustan Urvarak and Rasayan for EPC of 2 fertilizer plants of 2200 TPD ammonia and 3850 TPD urea	38,000
Q119	Government client for the design & construction of 1,125 Nos of Residential towers of G+3 floors under PMAY Scheme at Visakhapatnam, Prakasam, Guntur, and Krishna Districts in Andhra Pradesh. Order has been secured from a leading cement manufacturer for the construction of cement plant	40,330
Q119	Order from a prestigious private client for the construction of eight lane Vadodara - Kim Expressway, package I (part of Vadodara Mumbai Expressway)	14,250
Q119	Modernization of Chennai Airport, Phase-II, Chennai at Tamil Nadu	15,650
Q119	Bangladesh metro E&M works for Line 6 (20kms) at Dhaka	31,910
Q119	Two major turnkey orders have been secured from the Narmada Valley Development Authority (NVDA), government of Madhya Pradesh, for the execution of Indira Sagar Project – Parwati Phases I & II and Kalisindh Phase I Micro Lift Irrigation Schemes	57,040
Q119	A major turnkey order has been received from Narmada Valley Development Authority (NVDA), Government of Madhya Pradesh, for the execution of Narmada - Kshipra multipurpose project to lift 15cumecs of water from the Omkareshwar reservoir, of which 10cumecs will help bring 30,000 hectares of land under irrigation	20,400
Q119	Design and construct a 3.2km, six-lane iconic bridge across the river Krishna, which includes 2.72 km of approach bridges, on EPC basis in Amaravati	13,870
Q219	MP Jal Nigam for execution of Satna, Kundaliya and Mohanpura village rural water supply. 11,272km of T&D lines, intake wells	23,880
Q219	Head office of AP Capital Region development Authority, Amravati	30,000
Q219	EPC for expansion of the Terminal Building and Airside Infrastructure Works at the Rajiv Gandhi International Airport, Hyderabad	30,280
Q219	Bangalore Airport Terminal 2 from BIAL - add 25m passenger capacity on completion	30,360
Q219	LET Hydrocarbon Engineering (LTHE) in consortium with Baker Hughes and McDermott International, Inc. has been awarded the subsea contract for India's Oil & Natural Gas Corporation's (ONGC) largest deep-water KG D5 gas project, the development of block DWN-98/2 in the Krishna Godavari basin	NA

Source: Company, MOSL

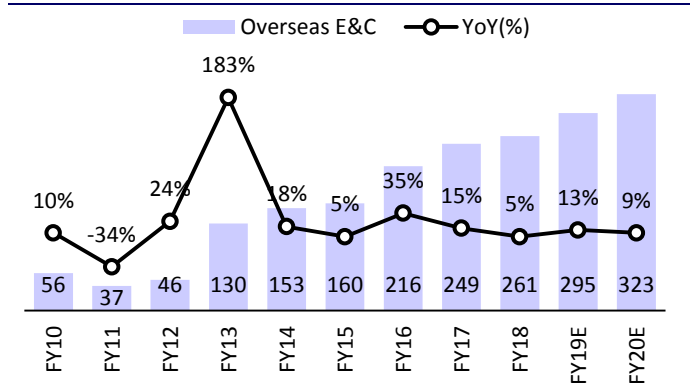
- Overseas E&C growth in FY18 has slowed down to 5% as orders moderated in FY18 and stabilized at lower levels (INR234b in FY18, INR283b in FY17 v/s peak of INR393b in FY14). We build in 13% growth in overseas E&C execution for FY19 driven off a weak base in FY18.

Exhibit 17: Domestic E&C execution growth up 15% in FY18 and momentum to continue



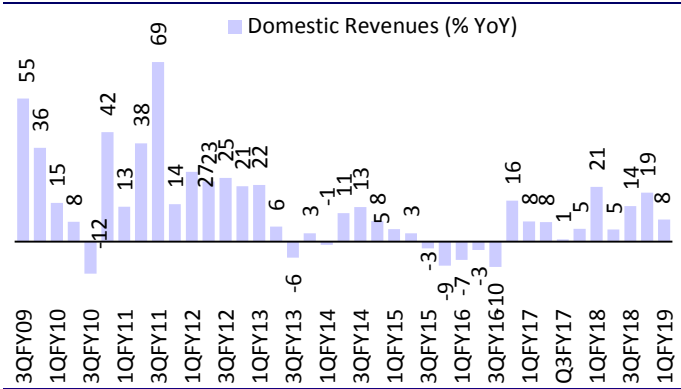
Source: MOSL, Company

Exhibit 18: Overseas E&C growth tapered off in FY18



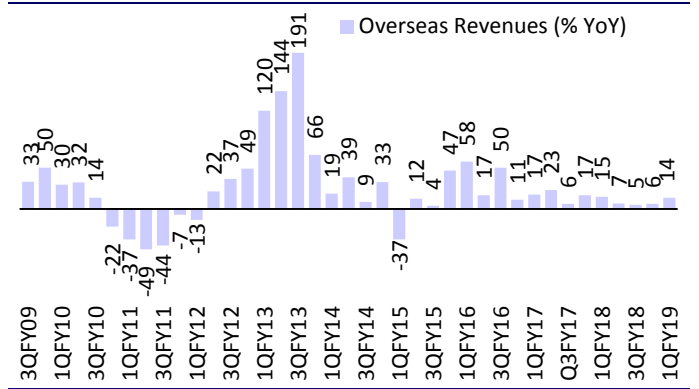
Source: MOSL, Company

Exhibit 19: Domestic E&C execution has shown traction in 2HFY18 post GST implementation



Source: MOSL, Company

Exhibit 20: Overseas E&C revenue growth witnessing a slowdown over the last few quarters



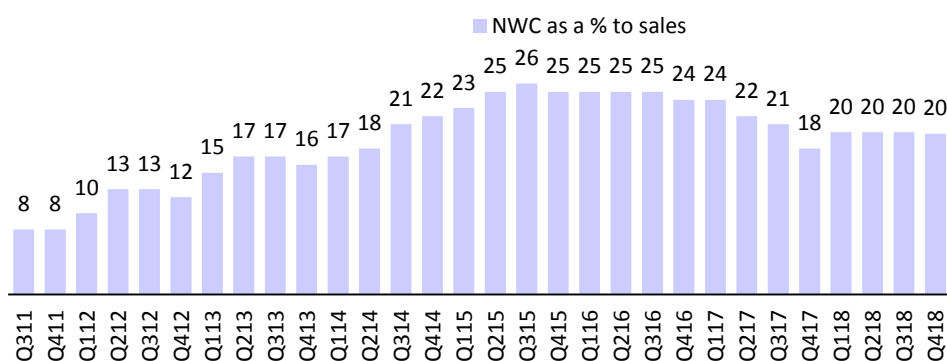
Source: MOSL, Company

#3 NWC improvement to stabilize at 20% as domestic execution picks up

- Net working capital (NWC) has shown significant improvement, with NWC declining to 18% of sales in FY17 against 25% in FY16. This was driven by management’s consistent efforts to constrain execution where payments were not forthcoming from the customer. However, deterioration was noticed in FY18, with NWC falling to 20% in March 2018, even as domestic execution picked up pace, which has a lengthy working capital cycle as compared to overseas orders.
- We believe changes in NWC are led by cyclical factors of customer advances/retention money, and with improvement in order intake, these factors should correct in FY19/FY20. Management intends to bring down the NWC to 18% of sales by FY21 through its ‘Lakshya 2021’ strategic program.

Exhibit 21: Segmental NWC elevated on combination of cyclical factors/tight liquidity

NWC declined to 20% in FY18, and is largely driven by vendor support, lower customer advances, etc.

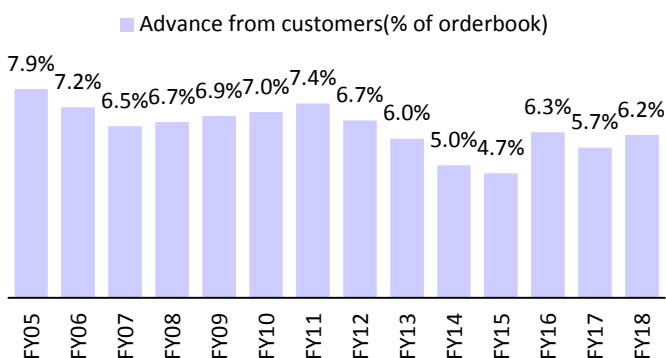


** Q115 onwards, taken consolidated NWC

Source: MOSL/Company.

- Customer advances, as a percentage of order book, declined to 6.2% in FY18 from the peak levels of 7-9%. This fall can largely be attributed to (a) tight liquidity in the market (customers reduced advance payments to suppliers), and (b) low private sector ordering volumes, and (c) higher government orders having interest-bearing advances. We expect customer advances to start increasing once again with a pick-up in private sector ordering.
- Retention money has touched cyclical highs at 13%, as delays in project execution and extended timelines has led to delays in receipt of payment from customers. With a pick-up in execution from FY18, we expect that retention money has peaked and should release faster hereon.

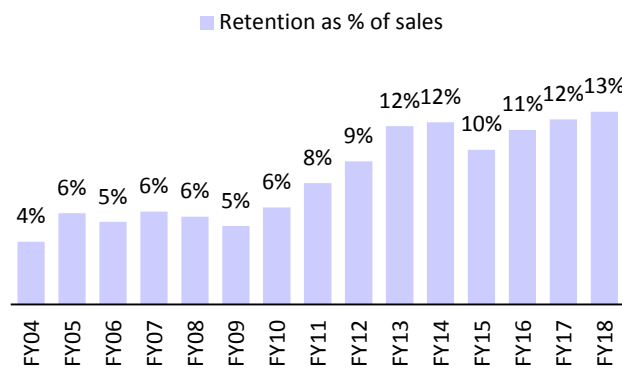
Exhibit 22: Customer advances (% of order book) have declined from peak in FY11



** standalone numbers

Source: Company, MOSL

Exhibit 23: Retention money (% of revenue) remains at elevated levels



** standalone numbers

Source: Company, MOSL

Well positioned to benefit from economic recovery

Maintaining Buy

A foreword on the long-term industry view: The capex cycle in India peaked in FY13—of the total projects under implementation, share of the private sector stood at a high of ~60%. It has been declining since and is now down to 40%. In the meantime, the government has stepped up infrastructure spending to offset the decline in private spending. This trend is starting to reverse—private sector project sanction saw a surge of 92% to INR1.8t in FY17 after declining for six years and we expect ordering and capex to follow.

Five-year strategic plan ‘Lakshya FY16-21’ in place: LT has put in place its five-year strategic plan ‘Lakshya’, which focuses on (a) doubling sales to INR2t by FY21, (b) improving margins (ex-services) from 10% in FY16 to 11.2% in FY21, (c) value unlocking either by listing the asset or by divesting non-core assets, (d) improving RoE’s from 12% in FY16 to 18% in FY21, (e) bringing down working capital from 24% in FY16 to 18% by FY21. Successful implementation of the strategic plan should ensure healthy operational growth for LT.

Recent operational performance provides confidence on successful implementation of Lakshya: LT’s efforts to successfully implement Lakshya are visible in its recent performance on multiple fronts: (a) LT has successfully brought down its net working capital to 20% in 2QFY18 from 24% in FY16, (b) operating margins (ex-services) have shown signs of a pick-up (11.2% in 2QFY18), (c) listing of L&T Finance, IT, technology services and divestment of non-core assets like (LT Cutting Tools, EWAC Alloys, L&T General Insurance, Seawoods Retail Mall, South City projects).

We expect LT to register 10% revenue growth over FY17-21E, with margin improvement of 200 bp to 12.3%. Company’s conscious efforts to bag orders with better margin profile, and cost control measures should ensure margin improvement going ahead.

What it means for the target price

Three year view: Over a three-year time frame, we have valued LT’s core E&C business at 25x FY21E EPS (higher-end of the last 5-year’s trading band of 20-25x, given our premise of a pick-up in the private capex cycle, supported by government capex) and valued other businesses with their historical industry average, which works out to INR1,820. This implies returns CAGR of 13% for LT.

One-year view: LT has guided for a 10-12% order growth, revenue growth guidance of 12-14% and margin improvement guidance of 25 bp for FY18. With operational performance improving, and better ordering visibility due to the pick-up in economic activity, we have valued LT on SoTP-basis with a target price of INR1,540.

Key triggers

- Pick-up in private capex cycle supported by government capex
- Timely execution of strong order backlog
- Divestment of non-core assets and net working capital cycle improvement

Key risk factors

- Delay in pick-up of capex cycle recovery
- Delay in timely execution of the order backlog in hand
- Deterioration in the operational parameters

Target price of INR1,540; maintain Buy

- LT is exposed to several levers across business/geographic segments and has emerged as the E&C partner of choice in India, which provides a robust foundation to capitalize on the next leg of investment cycle
- Under its new five-year strategic plan to FY21, LT aims to: (a) grow sales at a 12-15% CAGR to reach INR2t by 2021; (b) increase margins to 11.2%, +120 bp over FY16, driven by higher profitability in key manufacturing verticals (power, process, forgings and Katupalli yard) and hydrocarbons; (c) unlock value via asset sales to drive ROE to 18% from 12% in FY16; and (d) reduce working capital to 18% of sales from 24% currently
- Manufacturing businesses (like Shipyard, Power BTG, and Forgings) also present interesting possibilities in the longer term. Many of these businesses are difficult to replicate and LT is strongly positioned as a dominant player.

Exhibit 24: SoTP valuation for L&T

Description	Method	Valuation multiple	Value (INR b)	Value (INR/sh)	Rationale
Construction Business					
L&T Standalone	Mar'20E PER (x)	22	1,429	1,020	Five year trading band of 20-25x
L&T Hydrocarbons	Mar'20E PER (x)	22	132	94	
Service Segments					
L&T Infotech (75% stake)	Mar'20E PER (x)	20	251	179	At par to mid-tier IT companies; excl. stake sold via OFS
L&T Technology Services(81.6% stake)	Mar'20E PER (x)	20	134	95	At par to mid-tier IT companies excl. stake sold via OFS
Finance Services (67% stake)	Mar '20E PBV (x)	2	184	132	2x P/BV on FY20
Sapura Shipping	Mar '20E PBV (x)	2	0	0	
L&T Realty	Mar'20E PER (x)	15	39	28	
Asset Ownership / Project Developer					
IDPL - Roads, Transmission	Mar '20E PBV (x)	1	13	9	0.5x Book Value to capture the losses
Hyderabad Metro	Mar '20E PBV (x)	1	32	11	To account for losses in the Metro business
Power Development Projects	Mar '20E PBV (x)	1	31	22	At Book Value, given Case 2 bid
Manufacturing Ventures					
Power Equipment	Mar'20E PER (x)	15	22	16	Expect industry project awards to sustain at 5-7GW pa
Shipbuilding	Mar '20E PBV (x)	1	36	25	Increased possibility of Defence (Naval) orders
Special Steel and Heavy Forgings	Mar '20E PBV (x)	1	9	6	Possibility of Nuclear project awards to commence in FY20
Less: Holdco Discount of 20%				-105	
Total			2,402	1,540	

Financials and Valuations

Income Statement					(INR m)
Y/E March	2016	2017	2018	2019E	2020E
Net Revenues	1,019,753	1,093,118	1,196,832	1,338,264	1,507,207
Growth Rate (%)	10.8	7.2	9.5	11.8	12.6
Manufacturing Expenses	724,089	773,406	831,264	931,699	1,056,007
Staff Cost	133,308	138,540	152,925	170,996	182,032
S G & A Expenses	57,728	69,867	76,929	83,611	87,792
Adj EBITDA	104,628	111,305	135,714	151,958	181,376
EBITDA Margin (%)	10.3	10.2	11.3	11.4	12.0
Depreciation	17,867	23,699	19,287	21,071	21,041
EBIT	86,761	87,606	116,427	130,887	160,335
Net Interest	16,551	13,387	15,385	15,207	20,721
Other Income	9,044	13,441	14,120	15,268	21,209
Profit before Tax	79,254	87,659	115,162	130,948	160,823
Tax	24,848	20,066	31,989	39,284	45,031
Effective Tax Rate (%)	31.4	22.9	27.8	30.0	28.0
Reported Profit	55,348	68,808	84,403	91,663	227,793
Less: Minority Interest	3,118	4,443	6,346	9,194	10,508
Add: Profits of Associates	-9,902	-3,953	-4,359	167	-3,881
EO Adjustments	942	1,214	1,230	0	112,000
Adjusted Profit	41,387	59,198	72,469	82,636	101,404
Growth (%)	-6.3	43.0	22.4	14.0	22.7
Cons. Profit (Reported)	42,329	60,412	73,699	82,636	213,404

Balance Sheet					(INR m)
Y/E March	2016	2017	2018	2019E	2020E
Equity Capital	1,863	1,866	2,803	2,803	2,803
Reserves and Surplus	439,941	500,299	553,762	609,211	788,918
Net Worth	441,804	502,165	556,565	612,014	791,721
Debt	881,352	939,761	1,075,241	1,153,350	1,063,877
Deferred Tax Liability	-7,364	-11,252	-14,941	-14,941	-14,941
Minority Interest	28,928	35,636	56,250	65,444	75,952
Capital Employed	1,344,719	1,466,310	1,673,115	1,815,867	1,916,609
Gross Fixed Assets	167,706	171,779	220,175	235,175	250,175
Less : Depreciation	23,518	38,375	58,395	79,466	100,507
Add : Capital WIP	151,651	167,374	158,481	158,481	158,481
Net Fixed Assets	295,839	300,778	320,261	314,190	308,149
Investments	110,791	197,530	153,113	153,113	153,113
Inventory	48,542	41,397	48,478	54,207	61,050
Sundry Debtors	260,250	279,696	346,541	387,492	436,410
Cash & Bank	53,899	55,725	80,325	125,936	182,748
Loans & Advances	16,889	19,547	23,536	26,317	29,639
Other Current Assets	481,865	488,977	574,339	642,210	723,283
Current Assets	1,527,390	1,605,954	1,955,864	2,194,008	2,407,519
Current Liabilities	589,299	637,950	756,094	845,443	952,172
Net Current Assets	938,092	968,004	1,199,771	1,348,565	1,455,347
Capital Deployed	1,344,722	1,466,312	1,673,115	1,815,867	1,916,609

Financials and Valuations

Ratios

Y/E March	2016	2017	2018	2019E	2020E
Basic (INR)					
Standalone EPS Adj	31.7	32.5	35.4	41.1	51.0
Growth (%)	-5.5	2.7	8.8	16.3	23.9
Consolidated EPS Adj	29.5	42.2	51.7	59.0	72.3
Growth (%)	-6.3	43.0	22.4	14.0	22.7
Con. EPS (Fully Diluted)	29.5	42.2	51.7	59.0	72.3
Growth (%)	-6.3	43.0	22.4	14.0	22.7
Cash EPS	42.3	59.1	65.5	74.0	87.4
Book Value	315.2	358.3	397.1	436.6	564.8
Dividend Per Share	8.1	8.9	15.9	17.0	21.1
Div. Payout (Incl. Div Tax) %	27.5	21.0	30.8	28.9	29.1

Valuation (x)

P/E (Standalone)	40.3	39.3	36.1	36.1	31.0
P/E (Consolidated)	43.3	30.2	24.7	21.7	17.7
P/E (Consolidated) (Fully Diluted)	43.3	30.2	24.7	21.7	17.7
Price / CEPS	30.2	21.6	19.5	17.3	14.6
EV/EBITDA	25.0	24.0	20.5	18.5	14.7
EV/ Sales	2.7	2.6	2.4	2.3	2.1
Price / Book Value	4.3	4.1	3.6	3.2	2.9
Dividend Yield	0.6	0.7	1.2	1.3	1.7

Return Ratio (%)

RoE	9.7	12.5	13.7	14.1	14.4
RoCE	7.4	8.0	9.4	9.8	11.4

Turnover Ratios

Debtors (Days)	93.2	93.4	105.7	105.7	105.7
Inventory (Days)	17.4	13.8	14.8	14.8	14.8
Asset Turnover (x)	0.8	0.8	0.7	0.7	0.8

Leverage Ratio

Current Ratio (x)	2.6	2.5	2.6	2.6	2.5
D/E (x)	0.8	0.7	0.6	0.5	0.3

Cash Flow Statement

Y/E March	2016	2017	2018	2019E	2020E
(INR m)					
PBT before EO Items	42,329	60,412	73,699	82,636	213,404
Add : Depreciation	17,867	23,699	19,287	21,071	21,041
Change in diff tax liability	-3,860	-3,888	-3,689	0	0
(Inc)/Dec in WC	-111,011	-28,086	-207,167	-103,183	-49,970
CF from Operations	-54,675	52,138	-117,870	524	184,474
(Inc)/Dec in FA	-48,523	-28,638	-38,770	-15,000	-15,000
Free Cash Flow	-103,198	23,499	-156,639	-14,476	169,474
(Pur)/Sale of Investments	2,298	-86,740	44,417	-15,000	-15,000
CF from Investments	-46,225	-115,378	5,647	-15,000	-15,000
(Inc)/Dec in Net Worth	627	14,378	6,604	0	0
(Inc)/Dec in Debt	114,058	58,408	135,478	78,110	-89,474
Change in Minority Interest	9,222	6,708	20,614	9,194	10,508
Dividend Paid	-13,233	-14,429	-25,902	-27,188	-33,696
CF from Fin. Activity	110,674	65,065	136,793	60,116	-112,662
Inc/Dec of Cash	9,774	1,825	24,571	45,640	56,812
Add: Beginning Balance	44,126	53,900	55,725	80,296	125,936
Closing Balance	53,900	55,725	80,296	125,936	182,748

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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