

# Larsen & Toubro

Estimate change

TP change

Rating change



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Bloomberg	LT IN
Equity Shares (m)	1,402
M.Cap.(INRb)/(USDb)	1340.9 / 17.3
52-Week Range (INR)	1592 / 661
1, 6, 12 Rel. Per (%)	5/-11/-25
12M Avg Val (INR M)	4821

## Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	1,455	1,481	1,723
EBITDA	163	161	198
PAT	89	71	95
EBITDA (%)	11.2	10.9	11.5
EPS (INR)	63.4	50.4	67.8
EPS Gr. (%)	10.5	-20.5	34.5
BV/Sh. (INR)	475	508	561
<b>Ratios</b>			
Net D/E	1.9	2.0	1.9
RoE (%)	13.8	10.2	12.7
RoCE (%)	6.0	5.1	5.6
Payout (%)	26.5	30.0	30.0
<b>Valuations</b>			
P/E (x)	15.1	19.0	14.1
P/BV (x)	2.0	1.9	1.7
EV/EBITDA (x)	18.9	20.1	16.9
Div Yield (%)	1.4	1.3	1.7
FCF Yield (%)	0.8	-7.2	-3.5

## Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	0.0	0.0	0.0
DII	37.9	37.2	38.2
FII	17.9	19.9	20.3
Others	44.2	42.9	41.5

FII Includes depository receipts

**CMP: INR955**
**TP: INR1,120 (+17%)**
**Buy**

## Weak E&C performance; order inflows surprise

### No easy escape, but trust L&T to navigate these turbulent times

- 4QFY20 core operating performance was below expectation as E&C EBITDA missed our expectation by 16%. Higher other income and lower taxation cushioned the impact, limiting consolidated adj. PAT decline to 5% in 4QFY20.
- As expected, management highlighted various challenges, including working capital, risk related to labor availability, execution challenges, and contractual obligations and potential funding requirements in the non-core business. While macro variables may not be controllable for management, **the focus on working capital over execution is a key positive**. L&T has navigated these challenges multiple times in the past, and the core E&C business remains cash generating.
- Factoring the macro risks, we cut our core E&C EPS by 16–18% over FY21–22E. The consolidated EPS cut is limited to 11%/13% in FY21/FY22E as the IT businesses (LTI, LTTS, and Mindtree) provide some support. We forecast core E&C revenue/EBITDA/adj. PAT CAGR at 7%/7%/2% as tax rates normalize once again. Our new TP stands at INR1,120 (prior: INR1,200). While the near-term outlook may look hazy, L&T remains the best proxy of the Indian capex story and is likely to further consolidate its market share in the post-COVID-19 era. Maintain Buy.

### Operating leverage missing as COVID-19 impacts milestones

- 4QFY20 consolidated adj. PAT declines 5%:** Consol. revenue was up 2% YoY to INR442b (in-line). EBITDA de-grew 3% YoY to INR51b (15% miss), with the margin at 11.6% (-60bp YoY). A disappointing operating performance was offset by higher other income (+8% on high base), a lower tax rate (22.7% v/s 24.9% in 4QFY19), and a higher share of JV/associate profits. Thus, adj. PAT declined 5% to INR30.6b, **broadly in line with our estimates**. For FY20, consolidated revenue/EBITDA/adj. PAT growth stood at 8%/7%/11%.
- FY20 core E&C earnings come in strong at 25% YoY:** 4QFY20 core E&C revenue declined 5% to INR335b as COVID-19-related lockdown impacted execution, and milestones in many projects were not achieved. On account of negative operating leverage, EBITDA declined 12% YoY and core E&C margins came in at 9.8% (-80bps YoY). Adj. PAT for core E&C was down 14% to INR24b. **For FY20, revenue/EBITDA/adj. PAT for core E&C grew 2%/0%/25%**.
- Order inflows better than expected:** Order inflows surprised positively, mitigating concerns related to the ordering environment and slowing economic growth. For FY20, order inflows grew 9% to INR1.86t, marginally below the management guidance range of 10–12%, but better than our estimate of flat growth. International orders grew 33% YoY to INR601b and formed 32% of the total order inflows. Domestic orders were flat at INR1.3t and formed 68% of the order book. Core E&C order inflows stood at INR1.45t (+5% YoY).

- **Order book growth limited to 4% due to cleaning up:** At the end of FY20, the order book stood at >INR3.0t (+4% YoY). L&T has removed slow-moving orders worth INR290b (~10% of the OB), making the current order book totally executable. International business has inched up to 25% of the order book (FY19: 21%). In terms of clientele, the private sector forms 20% of the order book, while the remaining 80% is from central, state, and PSUs.
- **Working capital inches up to 23.7% of sales:** Working capital as a percentage of sales stood at 23.7%, higher than 18% in FY19. The company was unable to collect INR15b worth of receivables due to lockdown. Adj. for the same, working capital would have been lower at 22.3%. We note that on a full-year basis, the worsening of working capital is largely on account of vendor support. With working capital at a five-year high, the company has decided to focus more on collections, rather than execution growth.

#### Management forthcoming with responses to various concerns

- **Concerns of working capital escalation:** Management was forthcoming about challenges in working capital in the core E&C business. L&T would focus on collections, and if payments do not come in, execution could take a backseat. Thus, **it sees current working capital at peak levels, at least on an absolute level.** Many clients (Middle Eastern as well as a few Eastern states in India) are looking to ramp up project execution as well. The philosophy would be to **‘collect and spend’**, and not the other way around. On the payables side, the company has decided to support vendors in these troubled times as the ecosystem needs to be supported. Over the past few years, the company has demonstrated superior working capital management, led by payables. Hence, once the situation normalizes, working capital could see some improvement.
- **Issue of migrant laborers:** L&T had 160k migrant workers during the COVID-19 lockdown v/s the total requirement of 220k. As soon as restrictions were eased, many laborers chose to return to their native villages, with the ones that stayed back limited to just 70k. The key challenge would be to get them to return from the rural areas to ramp up execution once again. However, as per management, even on a regular basis, workers usually travel to their villages for various reasons, such as monsoons, festivals, and weddings, and soon return. The company is already witnessing the workforce returning after having met the family members. **The current strength is back at 120k; in another 40–45 days, the company expects the situation to normalize to the 220k requirement (pre-COVID-19 levels).**
- **Contractual obligations:** COVID-19 has thrown challenges in contractual obligations for the industry with regard to execution timelines. As soon as the crisis began, the company went back to each contract and touched base with each customer to address the imminent risks. While it has witnessed multiple positive responses from various clients, it has also invoked force majeure at some places. While it is difficult to ascertain the outcome as of now, the company has been positively surprised by the support of the public sector as well as many private clients in this scenario.

#### Valuation and view

- Factoring the risks, we cut our core E&C EPS by 16–18% over FY21–22E. The consolidated EPS cut is limited to 11%/13% in FY21/FY22E as the IT businesses (LTI, LTTS, and Mindtree) provide some support.

- We forecast consol. revenue/EBITDA/PAT CAGR of 9%/10%/3% over FY20–22E. For the core business, we forecast revenue/EBITDA/PAT CAGR of 7%/7%/2% over the same period.
- Despite a weak outlook on revenue and margins in FY21, we do not see FCF for the core E&C turning negative from hereon as we expect the company to choose working capital management above revenue growth. However, there may be funding risk for non-core businesses such as L&T Finance Holdings or Hyderabad Metro.
- L&T's results suggest a tough macro environment for the construction industry and likely survival challenges for debt-ridden companies. We expect L&T to emerge stronger in the post-COVID-19 era and further consolidate its market share in the Indian Construction industry.
- On account of our earnings cut, we cut our TP to INR1,120 (prior: INR1,200). While the near-term outlook may look hazy, L&T remains the best proxy of the Indian capex story. Maintain Buy.

## Quarterly Performance

(INR b)

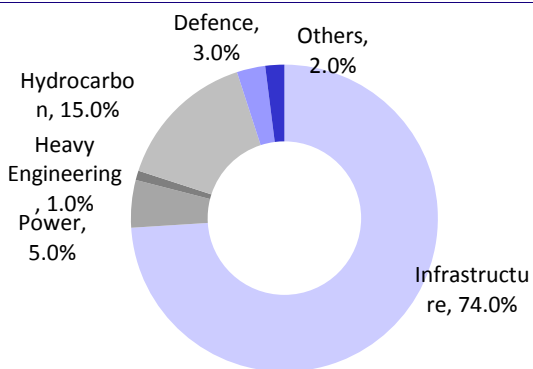
Y/E March	FY19				FY20				FY19	FY20	MOSL	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	% Var
Sales	270.0	306.8	342.3	433.0	296.4	353.3	362.4	442.5	1,352.2	1,454.5	459.2	-3.6%
Change (%)	13.4	16.0	19.1	6.5	9.7	15.2	5.9	2.2	13.0	7.6	6.0	
EBITDA	27.6	35.4	37.5	52.8	33.2	37.7	41.2	51.2	153.3	163.3	59.9	-14.6%
Change (%)	32.9	19.6	19.4	-2.1	20.4	6.5	9.8	-3.0	13.0	6.5	13.5	
Margin (%)	10.2	11.5	11.0	12.2	11.2	10.7	11.4	11.6	11.3	11.2	13.1	
Depreciation	6.0	4.8	4.1	4.4	4.6	6.3	6.6	7.1	19.2	24.6	6.6	7.6%
Interest	3.6	4.0	5.3	5.1	5.9	6.9	7.0	8.2	18.0	28.0	6.8	20.5%
Other Income	2.3	4.1	5.9	6.1	3.8	8.5	4.7	6.6	18.4	23.6	3.0	121.6%
PBT	20.2	30.7	34.0	49.5	26.6	33.0	32.2	42.5	134.4	134.3	49.5	-14.1%
Tax	8.9	8.2	11.3	12.3	7.9	7.9	7.1	9.7	40.7	32.6	13.0	
Effective Tax Rate (%)	44.1	26.6	33.1	24.9	29.9	24.0	22.1	22.7	30.3	24.3	26.3	
Adjusted PAT (Before MI & AI)	11.3	22.6	22.8	37.1	18.6	25.1	25.1	32.8	93.7	101.7	36.5	-10.0%
Reported PAT	12.1	22.3	20.4	34.2	14.7	25.3	23.5	32.0	89.1	95.5	35.3	-9.4%
Change (%)	36.1	22.6	37.0	7.9	21.2	13.3	15.2	-6.5	20.8	7.2	3.2	
Extraordinary Inc/(Exp) - incl. discontinued operations	0.9	4.3	1.4	2.0	1.1	2.2	1.9	1.3	8.6	6.5	2.7	
Adjusted PAT	11.3	18.0	19.0	32.2	13.6	23.1	21.6	30.6	80.4	88.9	32.5	-5.8%
Change (%)	26.5	6.8	26.2	1.5	20.5	28.4	13.8	-4.7	-99.9	10.6	1.2	

**Exhibit 1: Results snapshot – Core E&C and services segment**

In INR m	4QFY19	3QFY20	4QFY20	YoY	QoQ	FY19	FY20	YoY
<b>Core E&amp;C</b>								
Order book	29,34,270	30,63,000	30,38,570	4%	-1%	29,07,800	30,38,570	4%
Order inflow	4,71,194	2,98,760	4,83,977	3%	62%	13,87,400	14,53,540	5%
Net revenues	3,52,734	2,53,597	3,35,533	-5%	32%	10,46,404	10,31,286	-1%
EBITDA	37,274	18,707	32,740	-12%	75%	83,710	83,980	0%
EBITDA margin	10.6	7.4	9.8	-80 bps	240 bps	8.1	8.0	-10 bps
Adj. PAT	28,017	11,550	24,015	-14%	108%	48,248	60,095	25%
<b>Services</b>								
Order inflow	79,408	1,17,240	94,023	18%	-20%	3,20,770	4,10,079	28%
Net revenues	80,300	1,08,830	1,06,920	33%	-2%	3,20,800	4,08,120	27%
EBITDA	15,517	22,470	18,470	19%	-18%	69,587	79,310	14%
EBITDA margin	19.3	20.6	17.3	-200 bps	-340 bps	21.7	19.4	-230 bps
Adj. PAT	4,141	10,058	6,632	60%	-34%	32,187	28,850	-10%

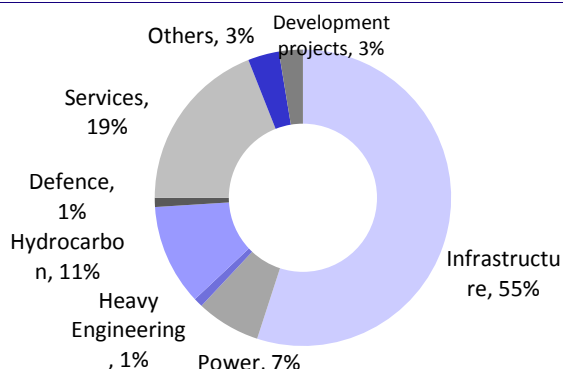
Source: MOFSL, Company

**Exhibit 2: FY20 order book break-up (INR3t; +4% YoY)**



Source: MOFSL, Company

**Exhibit 3: FY20 order inflow (INR1.86t; +9% YoY)**



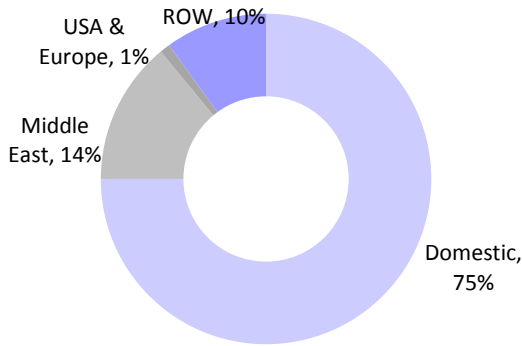
Source: MOFSL, Company

## Exhibit 4: Segmental performance snapshot

Segmental analysis (INR m)	4QFY19	3QFY20	4QFY20	YoY	QoQ
<b>Infrastructure</b>					
Order book	22,18,500	22,35,990	22,48,542	1%	1%
OB/Rev	3.0	3.0	3.0		
Order inflow	3,09,274	2,86,680	4,07,920	32%	42%
Net revenues	2,68,500	1,72,500	2,53,300	-6%	47%
EBITDA	33,026	10,523	28,116	-15%	167%
EBITDA margin	12.3	6.1	11.1	-120 bps	500 bps
<b>Power</b>					
Order book	70,780	1,83,780	1,51,929	115%	-17%
OB/Rev	1.8	6.8	6.6		
Order inflow	3,590	2,640	14,740	311%	458%
Net revenues	9,300	6,900	5,600	-40%	-19%
EBITDA	437	235	2,145	391%	814%
EBITDA margin	4.7	3.4	38.3	3360 bps	3490 bps
<b>Heavy Engineering</b>					
Order book	47,600	30,630	30,386	-36%	-1%
OB/Rev	1.9	0.9	0.9		
Order inflow	8,183	4,160	5,780	-29%	39%
Net revenues	7,700	7,200	6,400	-17%	-11%
EBITDA	1,756	1,692	1,184	-33%	-30%
EBITDA margin	22.8	23.5	18.5	-430 bps	-500 bps
<b>Hydrocarbon</b>					
Order book	3,97,170	4,59,450	4,55,786	15%	-1%
OB/Rev	2.6	2.7	2.6		
Order inflow	1,26,563	-2,660	25,000	-80%	-1040%
Net revenues	43,200	43,900	49,700	15%	13%
EBITDA	4,234	5,312	5,467	29%	3%
EBITDA margin	9.8	12.1	11.0	120 bps	-110 bps
<b>Defence</b>					
Order book	1,15,320	91,890	91,157	-21%	-1%
OB/Rev	3.0	2.2	2.3		
Order inflow	12,011	4,160	5,780	-52%	39%
Net revenues	10,900	10,600	9,300	-15%	-12%
EBITDA	2,027	2,173	1,628	-20%	-25%
EBITDA margin	18.6	20.5	17.5	-110 bps	-300 bps
<b>Others</b>					
Order book	58,430	61,260	60,771	4%	-1%
Order inflow	11,573	3,780	73,260	533%	1838%
Net revenues	13,100	12,500	11,300	-14%	-10%
EBITDA	1,821	2,738	1,763	-3%	-36%
EBITDA margin	13.9	21.9	15.6	170 bps	-630 bps
<b>IT &amp; Tech Services</b>					
Order inflow	36,755	69,357	2,049	-94%	-97%
Net revenues	37,700	60,900	63,500	68%	4%
EBITDA	8,265	12,780	13,210	60%	3%
EBITDA margin	21.9	21.0	20.8	-112 bps	-18 bps
<b>Financial Services</b>					
Order inflow	31,823	35,501	33,657	6%	-5%
Net revenues	31,800	35,530	33,620	6%	-5%
EBITDA	7,637	7,550	4,660	-39%	-38%
EBITDA margin	24.0	21.2	13.9	-1015 bps	-739 bps
<b>Developmental Projects</b>					
Order inflow	10,829	12,382	9,815	-9%	-21%
Net revenues	10,800	12,400	9,800	-9%	-21%
EBITDA	-385	2,140	600	-256%	-72%
EBITDA margin	-3.6	17.3	6.1	969 bps	-1114 bps

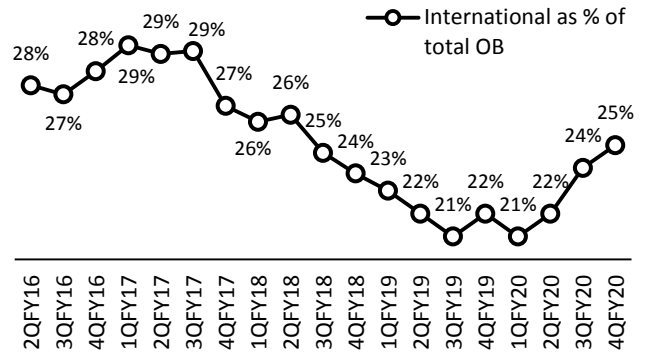
Source: MOFSL, Company

**Exhibit 5: Middle East forms 14% of the order book**



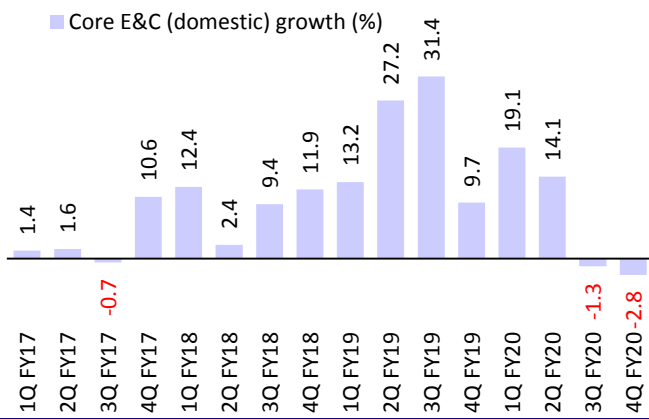
Source: MOFSL, Company

**Exhibit 6: Share of international orders is inching up since 3QFY19 and now stands at 25%**



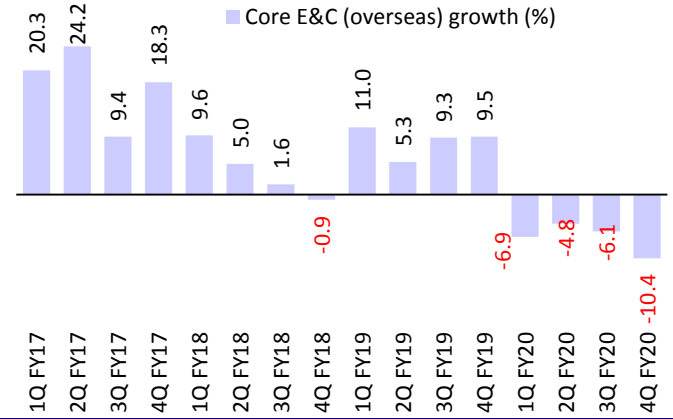
Source: MOFSL, Company

**Exhibit 7: Core E&C domestic revenues form 75% of overall core E&C revenue and have declined at 3% in 4QFY20**



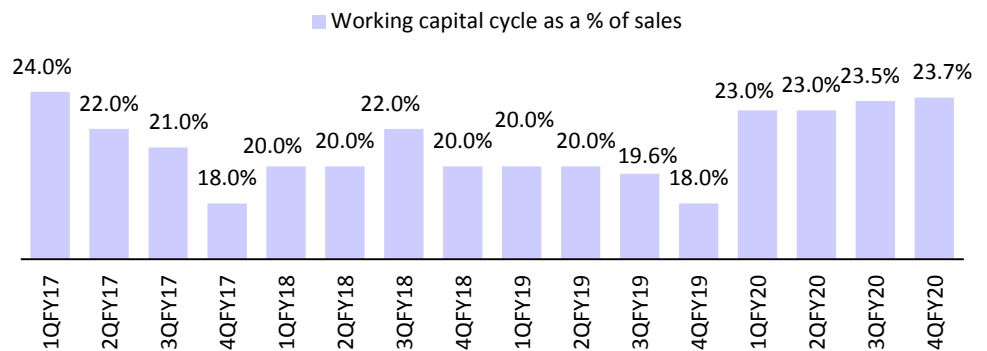
Source: MOFSL, Company

**Exhibit 8: Declining growth in international E&C is on account of lower share of international orders**



Source: MOFSL, Company

**Exhibit 9: Working capital as % of sales stood at 23.7% at 4QFY20 end**



Source: MOFSL, Company

### Key takeaways from concall

- **Strong international order inflow in FY20:** L&T recorded INR578b worth of order inflows (+5% YoY in 4QFY20), supported by strong ordering in the Infrastructure segment. Order inflow increased 9% YoY to INR1.8t in FY20. This was led by strong order growth in the International segment at 33% YoY to INR601b. Domestic order inflow was flat YoY at INR1.3t in FY20.
- **Order book dominated by Infrastructure and Hydrocarbons:** The order book in FY20 stood at INR3.04t, up 4% YoY. The share of international orders stood higher at 25% of the total order book (v/s 21% in FY19). Orders from the Middle East stood at 14% of the total order book. The Infrastructure and Hydrocarbons segment share in the order book stands at 89% cumulatively. **L&T has removed slow-moving/non-moving orders worth INR290b.** These orders are primarily Andhra Pradesh-related orders, projects subjected to the green tribunal across states, and few buildings orders where viability remains a challenge. The current order book consists of executable orders only.
- **Execution:** L&T has slowed execution in some cases to control working capital. ~5% of the order book has not been moving for the most part of the year, coupled with the COVID-19 impact in the last quarter. The company lost ~INR17.5b in revenue and INR4bn in PAT due to the COVID-19 crisis in 4QFY20. April and May'20 were challenging for operations due to the strict lockdown implemented.
- **On labor situation:** Currently, L&T has an around 120k strong labor workforce. As soon as restrictions were eased, most of the laborers turned back to their homes. Pre-COVID-19, the company had an around 220k strong labor workforce, which fell to 70k when the lockdown was eased. Management believes the situation would normalize over the next 30–45 days if a second wave of COVID-19 does not hit the country. L&T endeavors to raise its labor force to 220k workers to hit higher activity levels.
- **E&A sales update:** This transaction was supposed to be completed by the end of March'20, but things were delayed due to lockdown. Management believes once international travel resumes, the transaction would get fast-tracked. L&T does not foresee any risk to the consideration amount as all agreements have been signed off. **Proceeds from the E&A sale would be used to finance other projects such as the Hyderabad Metro, if the debt level becomes unsustainable.**

### Key segmental comments

- **Infrastructure:** Strong order inflows were seen in 4Q, driven by domestic orders. Coupled with the COVID-19 impact, many projects could not cross the margin threshold, which led to muted margins.
- **Power:** Strong order inflows have led to the order book getting replenished. Decline in FY20 revenues was owing to a lower opening order book. L&T received favorable claims in 4QFY20.
- **Heavy Engineering:** Order inflow was impacted due to deferments. 4QFY20 revenues were affected due to COVID-19-led shutdown. L&T took cost provisions in 4Q.
- **Defence:** Large order inflows are still missing.

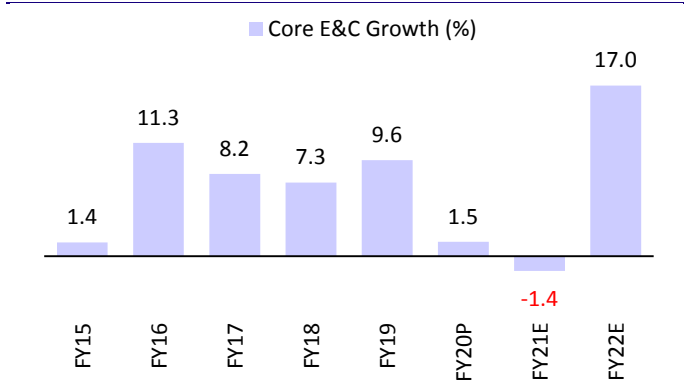
- **Hydrocarbons:** The unexecuted order book stands at three years of revenue, thus providing strong visibility. Despite a strong base, revenue growth stood at 15% YoY in 4QFY20 and FY20.
- **Others:** Delayed handovers in the Realty business impacted revenues in 4QFY20. The Valve business witnessed good growth in 4QFY20. FY19 margins were higher owing to the lumpy sale of commercial properties.
- **Developmental Projects:** The Hyderabad Metro was fully commissioned, but lockdown in March impacted ridership and revenues. The planned InvIT structure for the Hyderabad Metro is currently on hold as the company waits for the Metro to restart.
- **IT & TS:** Mindtree’s consolidation led to higher revenue growth.
- **L&T Finance Holdings:** PAT de-growth of 25% was witnessed due to the DTA restatement. 4QFY20 profitability was impacted by higher provisions.
- **E&A business:** Revenue declined 10% YoY. Margin improvement would come in via operational efficiencies.
- Working capital as a percentage of sales came in at 23.5%, similar to 2QFY20 levels.

**Other highlights**

- Borrowing cost at the parent level stood at 7.5%, among the best in the current environment.
- **Working capital:** Around INR15b worth of collections were lost in 4QFY20 due to COVID-19-led shutdown. No deterioration has been witnessed in the quality of receivables. Collections were encouraging in April and May’20. The government has been proactive in such times with timely payments.
- The management view is that larger orders, such as High-Speed Rail, may get further delayed due to funding constraints in such times.
- **Defense sector reforms** – Although FDI has been increased to 74% from 49%, the management does not believe foreign companies would bring technology to India. The collaboration could happen at the fabrication/assembly stage.

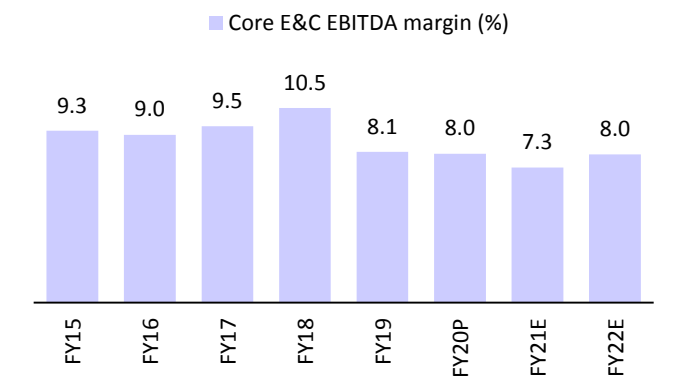
**We forecast consol. revenue/EBITDA CAGR of 9%/10% over FY20–22**

**Exhibit 1: Expect core E&C revenue CAGR of 7.4% over FY20–22**



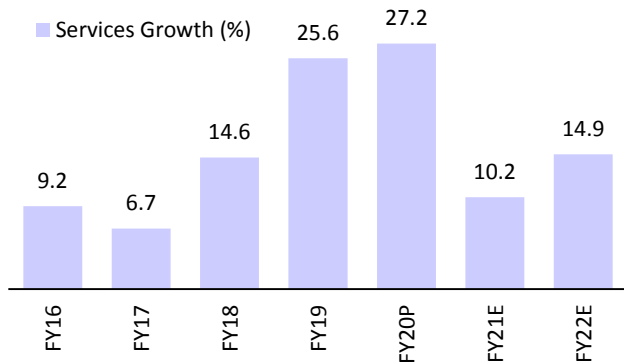
Source: MOFSL, Company

**Exhibit 2: EBITDA margin to normalize at 8% in FY22E**

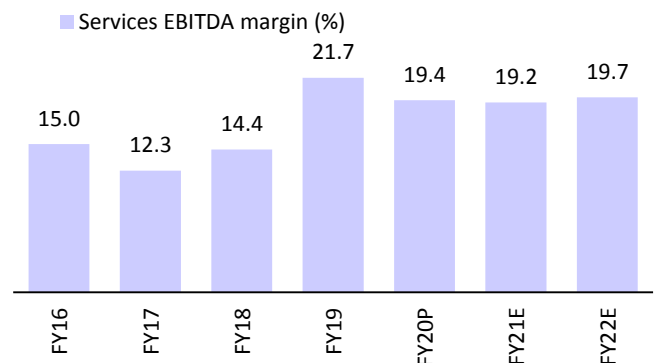


Source: MOFSL, Company

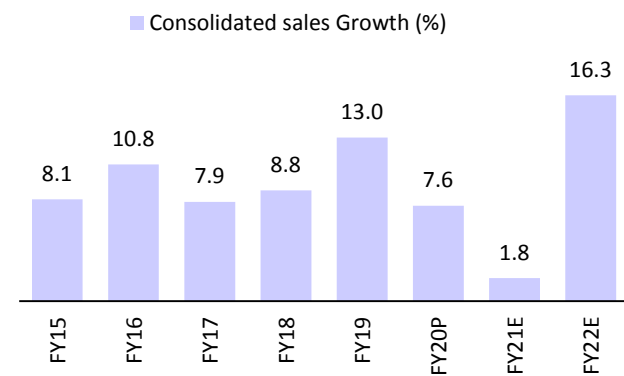


**Exhibit 3: Expect Services revenue CAGR of 12.5% over next two years**

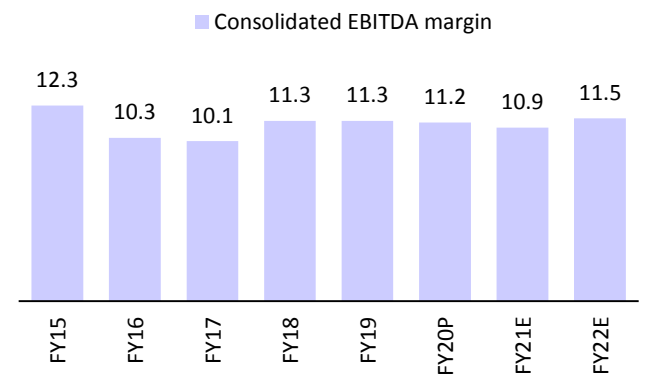
Source: MOFSL, Company

**Exhibit 4: Services business EBITDA margin to expand further as Hyderabad Metro is now fully operational**

Source: MOFSL, Company

**Exhibit 5: Expect consol. revenue CAGR of 9% over next two years**

Source: MOFSL, Company

**Exhibit 6: Consol. EBITDA to expand by 30bp over FY20–22E**

Source: MOFSL, Company

## Valuation and view

- Valuation remains comfortable:** Factoring the various risks, we cut our core E&C EPS by 16–18% over FY21–22E. The consolidated EPS cut is limited to 11%/13% in FY21/FY22 as the IT businesses (LTI, LTTS, and Mindtree) provide some support. We forecast consol. revenue/EBITDA/PAT CAGR of 9%/10%/3% over FY20–22E. For the core business, we forecast revenue/EBITDA/PAT CAGR of 7%/7%/2% over the same period. Maintain Buy, with reduced TP of INR1,120 (prior: INR1,200).

**Exhibit 7: Our SOTP-based TP stands at INR1,120**

Business segment	FY'22E	Remarks
Core E&C	710	❖ 16x core E&C EPS
E&A sale	80	❖ E&A sale proceeds of INR112b
IT & TS + MindTree	249	❖ 20% discount to current mkt cap
Finance Holdings	45	❖ 20% discount to current mkt cap
IDPL	35	❖ P/Inv based approach
<b>Total</b>	<b>1,120</b>	

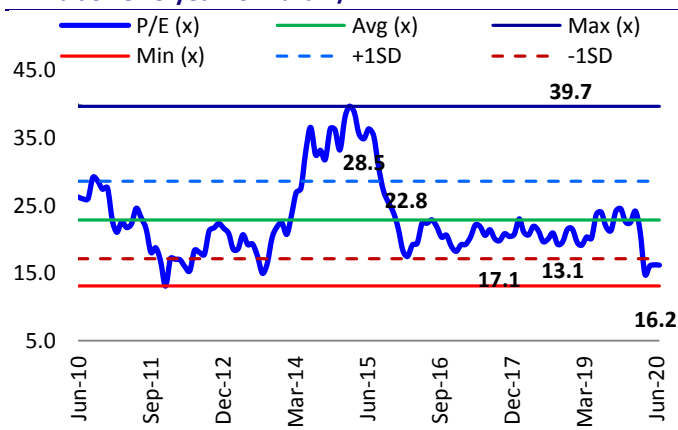
Source: MOFSL, Company

Exhibit 8: We cut our core E&C adj. EPS by 16–18% over FY21–22E. Consolidated adj. EPS cut is limited to 11%/13%

(In INR m)	Old		New		Change	
	FY21E	FY21E	FY21E	FY21E	FY21E	FY21E
<b>CONSOLIDATED FINANCIALS</b>						
Order book	34,71,471	36,60,427	33,46,804	36,52,880	-3.6%	-0.2%
Growth (%)	7.3	5.4	10.1	9.1		
OB/Rev (x)	3.3	2.9	3.2	3.0		
Order inflow	17,33,940	19,79,417	17,89,191	20,29,049	3.2%	2.5%
Growth (%)	-3.6	14.2	-4.0	13.4		
Total Revenues	14,97,794	17,90,461	14,80,957	17,22,973	-1.1%	-3.8%
Growth (%)	1.8	19.5	1.8	16.3		
EBITDA	1,74,066	2,16,263	1,61,480	1,98,112	-7.2%	-8.4%
Growth (%)	-0.3	24.2	-1.1	22.7		
EBITDA Margin (%)	11.6	12.1	10.9	11.5		
Adjusted PAT	79,233	1,09,688	70,745	95,159	-10.7%	-13.2%
Growth (%)	-13.7	38.4	-20.5	34.5		
E/O items	7,174	8,967	5,564	7,217	-22.4%	-19.5%
Reported PAT	86,406	1,18,655	76,309	1,02,375	-11.7%	-13.7%
Growth (%)	-12.6	37.3	-20.1	34.2		
Reported EPS	61.6	84.6	54.4	72.9	-11.8%	-13.8%
Adjusted EPS	56.5	78.2	50.4	67.8	-10.8%	-13.3%
<b>EX-SERVICES</b>						
Total Revenues	10,60,221	12,71,516	10,31,286	12,06,092	-2.7%	-5.1%
Growth (%)	-0.1	19.9	-1.4	17.0		
EBITDA	87,594	1,11,675	75,107	96,245	-14.3%	-13.8%
Growth (%)	-5.6	27.5	-10.6	28.1		
EBITDA %	8.3	8.8	7.3	8.0		
Adjusted PAT	54,530	75,543	45,981	62,317	-15.7%	-17.5%
Growth (%)	-15.7	38.5	-23.5	35.5		
E/O items	7,174	8,967	5,564	7,217	-22.4%	-19.5%
Reported PAT	61,703	84,510	51,545	69,534	-16.5%	-17.7%
Growth (%)	-14.0	37.0	-22.7	34.9		
Reported EPS	44.0	60.2	36.7	49.5	-16.5%	-17.8%
Adjusted EPS	38.9	53.9	32.8	44.4	-15.7%	-17.6%

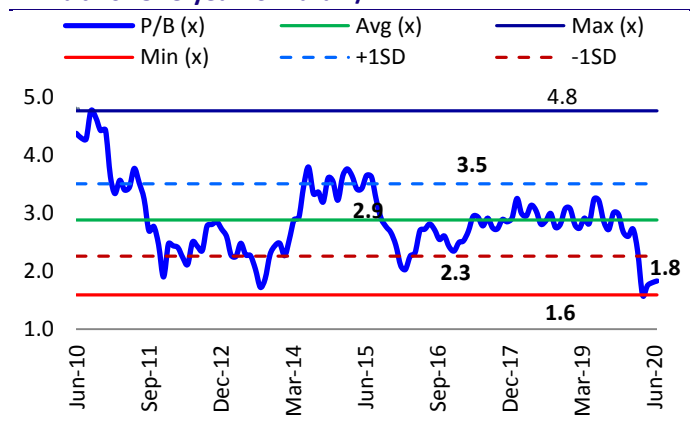
Source: MOFSL, Company

Exhibit 9: One-year forward P/E



Source: MOFSL

Exhibit 10: One-year forward P/B



Source: MOFSL

## Financials and valuations

Income Statement						(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E
<b>Net Sales</b>	<b>10,93,118</b>	<b>11,96,832</b>	<b>13,52,203</b>	<b>14,54,524</b>	<b>14,80,957</b>	<b>17,22,973</b>
Change (%)	7.2	9.5	13.0	7.6	1.8	16.3
<b>EBITDA</b>	<b>1,11,305</b>	<b>1,35,714</b>	<b>1,53,296</b>	<b>1,63,290</b>	<b>1,61,480</b>	<b>1,98,112</b>
Change (%)	6.4	21.9	13.0	6.5	-1.1	22.7
Margin (%)	10.2	11.3	11.3	11.2	10.9	11.5
Depreciation	23,699	19,287	19,230	24,623	25,579	26,679
<b>EBIT</b>	<b>87,606</b>	<b>1,16,427</b>	<b>1,34,066</b>	<b>1,38,667</b>	<b>1,35,902</b>	<b>1,71,433</b>
Net Interest	13,387	15,385	18,026	27,967	38,847	38,847
Other Income	13,441	14,120	18,365	23,609	22,429	22,429
<b>PBT</b>	<b>87,659</b>	<b>1,15,162</b>	<b>1,34,406</b>	<b>1,34,310</b>	<b>1,19,483</b>	<b>1,55,015</b>
Tax	20,066	31,989	40,671	32,632	33,233	41,736
Rate (%)	22.9	27.8	30.3	24.3	27.8	26.9
<b>Reported Profit (Before MI &amp; AI)</b>	<b>68,808</b>	<b>84,403</b>	<b>1,02,376</b>	<b>1,08,223</b>	<b>91,814</b>	<b>1,20,495</b>
Less: Minority Interest	4,443	6,346	13,115	13,453	16,306	19,120
Add: Profits of Associates	-3,953	-4,359	-210	720	800	1,000
EO Adjustments	1,214	1,230	8,641	6,546	5,564	7,217
<b>Adjusted PAT</b>	<b>59,198</b>	<b>72,469</b>	<b>80,411</b>	<b>88,945</b>	<b>70,745</b>	<b>95,159</b>
Change (%)	43.0	22.4	11.0	10.6	-20.5	34.5
<b>Cons. Profit (Reported)</b>	<b>60,412</b>	<b>73,699</b>	<b>89,051</b>	<b>95,490</b>	<b>76,309</b>	<b>1,02,375</b>
Balance Sheet						(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E
Share Capital	1,866	2,803	2,806	2,808	2,808	2,808
Reserves	5,00,299	5,46,232	6,20,943	6,64,424	7,10,409	7,85,313
<b>Net Worth</b>	<b>5,02,165</b>	<b>5,49,035</b>	<b>6,23,748</b>	<b>6,67,232</b>	<b>7,13,217</b>	<b>7,88,121</b>
Loans	9,39,761	10,75,241	12,55,552	14,10,071	15,75,071	17,56,571
Deferred Tax Liability	-11,252	-21,170	-31,078	-23,935	-23,935	-23,935
Minority Interest	35,636	52,014	68,261	95,208	1,11,514	1,30,633
<b>Capital Employed</b>	<b>14,66,310</b>	<b>16,55,120</b>	<b>19,16,483</b>	<b>21,48,576</b>	<b>23,75,866</b>	<b>26,51,390</b>
Gross Fixed Assets	1,71,779	2,19,694	2,62,141	5,35,180	5,55,180	5,75,180
Less: Depreciation	38,375	57,939	74,024	98,646	1,24,225	1,50,904
Add: Capital WIP	1,67,374	1,58,481	1,63,017	33,111	33,111	33,111
<b>Net Fixed Assets</b>	<b>3,00,778</b>	<b>3,20,236</b>	<b>3,51,134</b>	<b>4,69,645</b>	<b>4,64,066</b>	<b>4,57,387</b>
Investments	1,97,530	1,53,113	2,11,203	2,00,475	2,00,475	2,00,475
Inventory	41,397	48,478	64,139	57,467	58,511	68,073
Debtors	2,79,696	3,31,170	3,70,382	4,07,315	4,44,287	4,65,203
Cash & Bank Balance	55,725	80,327	1,17,262	1,51,178	1,54,030	2,44,369
Loans & Advances	19,547	23,536	24,890	22,383	22,790	26,514
Other Current Assets	4,88,977	5,74,595	6,14,870	6,87,673	7,00,171	8,14,592
Current Assets	16,05,954	19,23,256	21,94,782	23,52,974	25,46,266	29,64,914
<b>Current Liab. &amp; Prov.</b>	<b>6,37,950</b>	<b>7,41,486</b>	<b>8,40,637</b>	<b>8,74,518</b>	<b>8,34,941</b>	<b>9,71,386</b>
<b>Net Current Assets</b>	<b>9,68,004</b>	<b>11,81,771</b>	<b>13,54,146</b>	<b>14,78,457</b>	<b>17,11,325</b>	<b>19,93,528</b>
<b>Capital Deployed</b>	<b>14,66,312</b>	<b>16,55,120</b>	<b>19,16,483</b>	<b>21,48,576</b>	<b>23,75,866</b>	<b>26,51,390</b>

## Financials and valuations

### Ratios

Y/E March	2017	2018	2019	2020	2021E	2022E
<b>Adjusted EPS</b>	<b>42.2</b>	<b>51.7</b>	<b>57.3</b>	<b>63.4</b>	<b>50.4</b>	<b>67.8</b>
Growth (%)	43.0	22.4	10.9	10.5	-20.5	34.5
Cons. EPS (Fully Diluted)	<b>42.2</b>	<b>51.7</b>	<b>63.5</b>	<b>68.0</b>	<b>54.4</b>	<b>72.9</b>
Growth (%)	43.0	22.4	22.8	7.1	-20.1	34.2
Cash EPS	59.1	65.5	77.2	85.6	72.6	91.9
Book Value	358.3	391.7	444.7	475.3	508.0	561.4
DPS	8.9	15.9	18.0	18.0	16.3	21.9
Payout (incl. Div. Tax.)	21.0	30.8	28.4	26.5	30.0	30.0
<b>Valuation (x)</b>						
P/E	22.6	18.5	16.7	15.1	19.0	14.1
Cash P/E	16.2	14.6	16.9	15.2	18.0	14.2
EV/EBITDA	20.0	17.2	19.3	18.9	20.1	16.9
EV/Sales	2.1	2.0	2.2	2.1	2.2	1.9
Price/Book Value	3.0	2.7	2.1	2.0	1.9	1.7
Dividend Yield (%)	0.9	1.7	1.4	1.4	1.3	1.7
<b>Profitability Ratios (%)</b>						
RoE	12.5	13.8	13.7	13.8	10.2	12.7
RoCE	5.5	6.0	6.0	6.0	5.1	5.6
<b>Turnover Ratios</b>						
Debtors (Days)	93.4	101.0	100.0	102.2	109.5	98.6
Inventory (Days)	13.8	14.8	17.3	14.4	14.4	14.4
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.6	0.6
<b>Leverage Ratio</b>						
Current Ratio (x)	2.5	2.6	2.6	2.7	3.0	3.1
Net Debt/Equity (x)	1.8	1.8	1.8	1.9	2.0	1.9

### Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021E	2022E
PBT before EO Items	<b>87,659</b>	<b>1,15,162</b>	<b>1,42,862</b>	<b>1,43,142</b>	<b>1,19,483</b>	<b>1,55,015</b>
Add : Depreciation	23,699	19,287	20,840	24,623	25,579	26,679
Others	-7,971	-10,696	-11,636	-1,176	6,364	8,217
Less : Direct Taxes Paid	-32,017	-34,034	-45,816	-40,465	-33,233	-41,736
(Inc)/Dec in WC	43,459	-34,165	-23,921	-77,914	-66,667	-12,178
<b>CF from Operations</b>	<b>1,14,830</b>	<b>55,554</b>	<b>82,329</b>	<b>48,210</b>	<b>51,526</b>	<b>1,35,996</b>
(Inc)/Dec in FA	-85,646	-1,84,743	-1,73,298	-32,925	-1,83,350	-1,99,685
<b>Free Cash Flow</b>	<b>29,184</b>	<b>-1,29,189</b>	<b>-90,969</b>	<b>15,285</b>	<b>-1,31,824</b>	<b>-63,689</b>
(Pur)/Sale of Investments	-66,536	54,449	-35,366	-63,967	0	0
<b>CF from Investments</b>	<b>-66,536</b>	<b>54,449</b>	<b>-35,366</b>	<b>-63,967</b>	<b>0</b>	<b>0</b>
(Inc)/Dec in Net Worth	533	495	113	176	0	0
(Inc)/Dec in Debt	50,509	1,27,683	1,78,653	1,41,259	1,65,000	1,81,500
Others	9,066	-4,940	10,978	-13,324	0	0
Dividend Paid	-20,931	-23,898	-26,471	-45,513	-30,324	-27,471
<b>CF from Fin. Activity</b>	<b>39,178</b>	<b>99,341</b>	<b>1,63,273</b>	<b>82,597</b>	<b>1,34,676</b>	<b>1,54,029</b>
<b>Inc/Dec of Cash</b>	<b>1,826</b>	<b>24,600</b>	<b>36,937</b>	<b>33,915</b>	<b>2,852</b>	<b>90,340</b>
Add: Beginning Balance	53,899	55,725	80,325	1,17,262	1,51,178	1,54,030
<b>Closing Balance</b>	<b>55,725</b>	<b>80,325</b>	<b>1,17,262</b>	<b>1,51,178</b>	<b>1,54,030</b>	<b>2,44,369</b>

(INR m)

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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