

# LARSEN AND TUBRO LTD

Industry Eng. & Cons.  
Bloomberg LT IN  
BSE CODE 500510

## Robust Revenue Growth Coupled with Margin Improvement

RATING	BUY
CMP	1332
Price Target	1585
Potential Upside	19%

Rating Change	↔
Estimate Change	↑
Target Change	↑

### Stock Info

52wk Range H/L	1469.60/1176
Mkt Capital (Rs Cr)	182057
Free float (%)	87%
Avg. Vol 1M (,000)	3117
No. of Shares	14
Promoters Pledged %	0

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### Key Highlights -

- General election in later part of the year has pushed some of the big orders and LT has registered robust order inflow of 46% YoY to Rs.420 bn. Private capex still muted and will take time to revive.
- Infrastructure segment, Heavy engineering, Hydrocarbon segments witnessed 22%, 52%,38% growth YoY respectively, contributing to the overall growth of 21% during the quarter.
- Management has maintained its revenue growth guidance of 12-15% despite strong growth in Q2FY19 considering the election in later part of the year.
- We expect some big orders to flow in Q3FY19 but Q4FY19 will be affected as the code of conduct will apply. For the full year management has maintained its guidance of 10-12% growth in Order inflow.

### 2Q FY19 Results-

LT has come up with strong set of numbers in Q2FY19 and outperformed at all the parameters. Sales were up by 21% YoY to Rs.32081 Cr (v/s our expectation of Rs.28799 Cr) led robust execution in Infrastructure, Hydrocarbon and Services business. EBITDA was up 27.3% YoY led 60 bps improvement and strong revenue growth. PAT was up by 21% YoY to Rs.2593 Cr on account of strong performance. Working capital as % of sales was remained under control at 19% of the sales. Order intake up by 47% YoY to Rs.421 bn led by strong order inflow from domestic Infrastructure, power and services business. Order book at the end of quarter stands at Rs.2812 bn compared to Rs.2575 bn in Q2FY18.

### View and Valuation

Robust order inflow has set stage for strong revenue growth going ahead. However, Management has maintained its revenue growth guidance of 12-15% despite strong growth in Q2FY19 considering the election in later part of the year. Margin has showed improvement and management continue to expect 25 bps improvement in FY19. With management's focus on improvement of RoCE by way of divesting its share in non core business will help to improve return ratio. We have in corporate better than expected numbers into our estimate and upward revise Revenue/PAT estimates by 3/8% for FY20E. We estimate that the RoCE will improve by 175 bps over next two years.

**We value LT on SoTP valuation method and arrived at target price of Rs.1585 and recommend BUY. We value LT standalone business at Rs.1167 (24x FY20 EPS) and subsidiaries at Rs.418 per share.**

### Key Risks to our rating and target

- Slow down in Capex Cycle
- Delay in execution due to external factors

KEY FINANCIAL/VALUATIONS(\$t)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	63813	66301	74612	85792	96337
EBITDA	5817	6422	7429	8492	9580
EBIT	4820	5207	6379	7435	8530
PAT	5071	5608	5336	5011	6811
EPS (Rs)	54	60	38	36	49
EPS growth (%)	0.1%	10.4%	-36.6%	-6.1%	35.9%
ROE	12%	12%	11%	10%	12%
ROCE	9%	9%	11%	12%	13%
BV Per Share	452	493	351	373	402
P/B (X)	2.8	2.4	3.1	2.5	2.3
P/E (x)	23.6	19.6	28.6	26.2	19.3
EV/EBITDA	21.7	17.8	20.9	15.6	14.0

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## 2Q FY 19 Results Better than Expectation

## Robust Growth

Financials	2QFY18	3QFY18	Q4FY18	Q1FY19	Q2FY19	YoY %	QoQ%	H1 18	H1 19	YoY %
Net Sales	26,447	28,747	40,678	28,283	32,081	21%	13%	50,437	60,364	19.7%
Other	400	213	433	244	425	6%	74%	785	669	-14.7%
COGS	9,509	10,341	14,392	9,063	11,046	16%	22%	17,275	20,109	16.4%
Emp. Exp.	3,795	3,838	4,128	4,282	4,569	20%	7%	7,325	8,851	20.8%
Sub-	-	-	-	-	-			179	-	
Other	1,520	1,529	1,577	1,655	1,788	18%	8%	2,914	3,443	18.1%
Other Exp.	4,549	5,643	9,485	5,095	5,770	27%	13%	9,512	10,865	14.2%
Total Exp.	23,485	25,603	35,288	25,370	28,310	21%	12%	45,418	53,680	18.2%
EBITDA	2,962	3,144	5,390	2,913	3,771	27%	29%	5,019	6,684	33.2%
Dep	431	454	492	645	516	20%	-20%	982	1,160	18.2%
EBIT	2,531	2,690	4,898	2,268	3,255	29%	43%	4,037	5,523	36.8%
Intreset	393	362	418	365	399	2%	9%	758	764	0.8%
Except.	(137)	14	-	-	(295)			(137)	(295)	115.6%
PBT	2,538	2,540	4,913	2,148	3,281	29%	53%	4,064	5,429	33.6%
Tax	544	737	1,458	935	886	63%	-5%	1,004	1,821	81.4%
PAT	2,131	1,789	3,338	1,472	2,593	22%	76%	3,159	4,065	28.7%

### Strong performance across the vertical

Execution LT has posted robust numbers for Q2FY19. Revenue was up by 21% YoY to Rs. 32081 Cr led by improved execution across the business vertical. Infrastructure segment revenue grew by 20% YoY to Rs.15408 Cr on account of execution pick up of all the sub segment. Healthy progress on oil and gas projects resulted into 50% growth in Heavy Engineering business and registered revenue of Rs.544 Cr. While Hydrocarbon business has posted 36% YoY growth to Rs. 3558 Cr. Despite the tough macro condition financial services business has recorded growth of 30%. Focus on digital business has resulted into strong growth of 32% YoY in IT&TS business. But due to lack of big job and reducing order book has led to 36% de growth in power business. Defence business down by 6% YoY to Rs.962 Cr.

### EBITDA margin improved by 60 bps

Overall EBITDA margin has improved by 60 bps to 11.8% mainly on account of improved margin in heavy engineering, defence and Reality, others. Infrastructure segment margin has decline to 6.8% on account job mix and cost escalation in some of the projects. Cost saving initiative, efficient execution and reversal of ECL has driven the heavy engineering margin (24.2% v/s 22.8%). Some of the projects in defence business crossed the minimum margin recognition threshold limit and reported margin of 25% v/s 10.6% which is expected to normalize in H2FY19.

### Robust order inflow led by Public sector spending

L&T has reported robust order inflow of Rs.420 bn at growth of 46% YoY led by Infrastructure, Power, Heavy Engineering and services business. Strong Public sector spending has led to robust order inflow. General election in later part of the year has pushed some of the big orders. On the other hand private capex is still muted and will take time to revive. Management expects some big orders to flow in Q3FY19 but Q4FY19 will be affected as the code of conduct will apply. For the full year management has maintained its guidance of 10-12% growth in Order inflow

### Concall Highlights

- ❑ The sales during the quarter grew 21% YoY driven by the great level of execution and the Revenue recognition in realty projects on a completed basis .
- ❑ The Orderbook is divided equally among the fixed price contracts and variable once.
- ❑ The margin in Defence was high because one of the large order crossed the threshold margin, it is expected to normalize in H1FY19
- ❑ The company will surrender on of its impaired hydel project, the company has received Rs 87 Cr charge for it.
- ❑ The company has witnessed the pickup in all the segments in domestic market expect power segment.
- ❑ The company has maintained the guidance of 10-15% for revenue in FY19.
- ❑ SG&A for the company had improved on account of investment in business development of international business ,higher cost in finance, increased provision of INDAS37 on warranties for defect liability period

## Revenue mix (In Rs. Cr)

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	20,301	11,354	12,790	13,966	24,349	12,331	15,408	20%	25%
Power	1,839	1,764	1,667	1,270	1,507	1,081	1,060	-36%	-2%
Heavy Engineering	1,035	369	362	988	504	377	544	50%	44%
Defence Engineering	-	541	986	-	964	734	962	-2%	31%
E&A	1,679	1,268	1,309	1,287	1,643	1,324	1,490	14%	13%
Hydrocarbon	2,580	2,549	2,561	3,090	3,559	3,516	3,558	39%	1%
IT & TS	2,549	2,566	2,724	2,915	3,152	3,356	3,606	32%	7%
Financial Services	<b>2,207</b>	<b>2,294</b>	<b>2,413</b>	<b>2,634</b>	<b>2,722</b>	<b>3,058</b>	<b>3,139</b>	30%	3%
Develop. Projects	1,006	827	1,218	1,213	1,217	1,494	1,297	6%	-13%
Others	4,417	943	905	2,084	1,626	1,373	1,488	64%	8%
<b>Total</b>	<b>37,611</b>	<b>24,478</b>	<b>26,936</b>	<b>29,447</b>	<b>41,243</b>	<b>28,644</b>	<b>32,552</b>	<b>21%</b>	<b>14%</b>

## Order Book Break Up (bn)

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	1,934	1,972	1,906	1,914	1,955	2,106	2,182	15%	4%
Power	131	131	103	103	95	82	93	-10%	14%
Heavy Engineering	131	105	129	129	134	41	51	-61%	24%
Defence engineering	-	-	-	-	-	117	121	NA	NA
E&A	26	26	26	26	32	30	31	20%	3%
Hydrocarbon	261	237	258	284	267	283	278	8%	-1%
Others	131	158	155	129	150	60	56	-64%	-6%
<b>Total</b>	<b>2,614</b>	<b>2,629</b>	<b>2,575</b>	<b>2,586</b>	<b>2,632</b>	<b>2,717</b>	<b>2,812</b>	<b>9%</b>	<b>3%</b>

## Order Inflow (bn)

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	260	150	141	250	283	194	234	66%	21%
Hydracarbon	61	8	29	58	51	48	27	-5%	-43%
Power	9	5	3	10	8	1	25	760%	2180%
Heavy Engineering	24	5	11	19	19	14	13	15%	-6%
Defence Engineering	-	-	-	-	-	0	13	NA	NA
E&A	19	13	14	19	18	13	16	14%	22%
Others	24	26	26	38	34	11	12	-54%	9%
<b>Total</b>	<b>397</b>	<b>209</b>	<b>224</b>	<b>394</b>	<b>413</b>	<b>281</b>	<b>341</b>	<b>52%</b>	<b>21%</b>

## Margin Performance (%)

Growth are in bps

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	13.5	7.1	7.5	7.8	13.5	6.8	6.8	(70)	-
Hydracarbon	9.8	6.8	10.9	8.0	-	7.0	9.9	(100)	290
Power	3.8	1.3	5.4	2.5	4.2	4.1	6.0	60	190
Heavy Engineering	27.6	12.3	15.4	18.8	18.1	36.1	24.2	880	(1,190)
Defence Engineering	-	(4.4)	10.6	-	-	11.1	25.0	1,440	1,390
E&A	19.4	10.3	15.3	17.3	19.7	13.3	17.8	250	450
Others	14.8	21.3	13.1	15.3	29.6	26.5	23.1	1,000	(340)

Exhibit: Order Book and Book to Bill

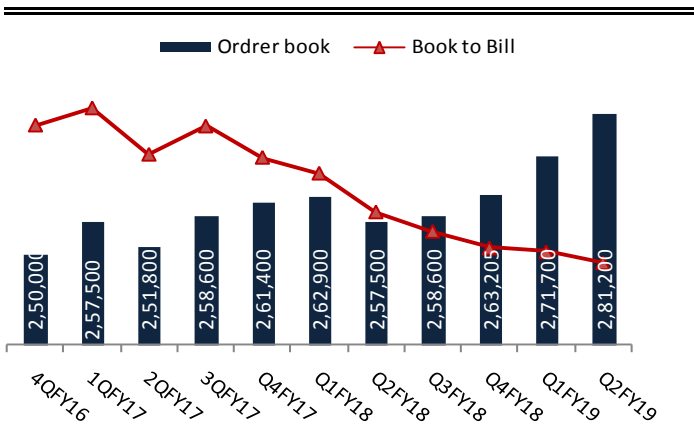


Exhibit: Order Book Break Up (Q2FY19)

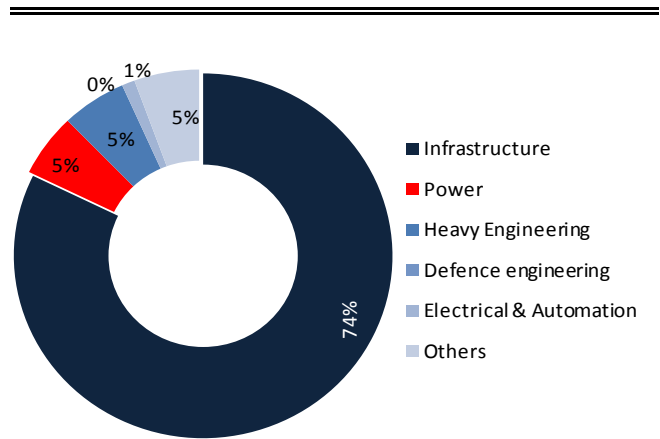


Exhibit: Order Book Mix

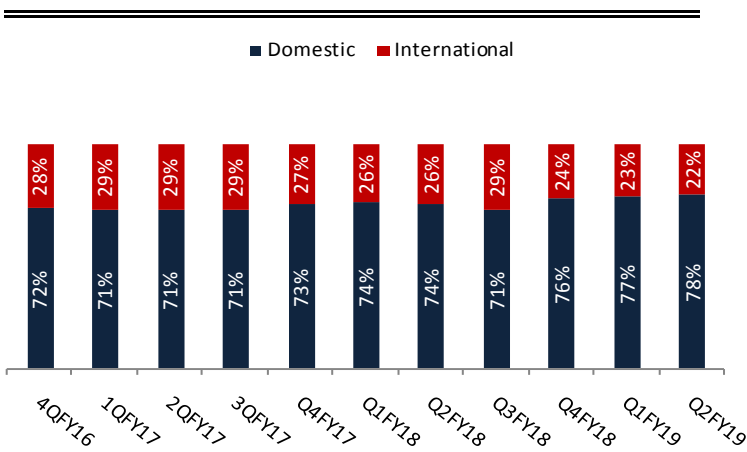


Exhibit: Order Inflow Mix

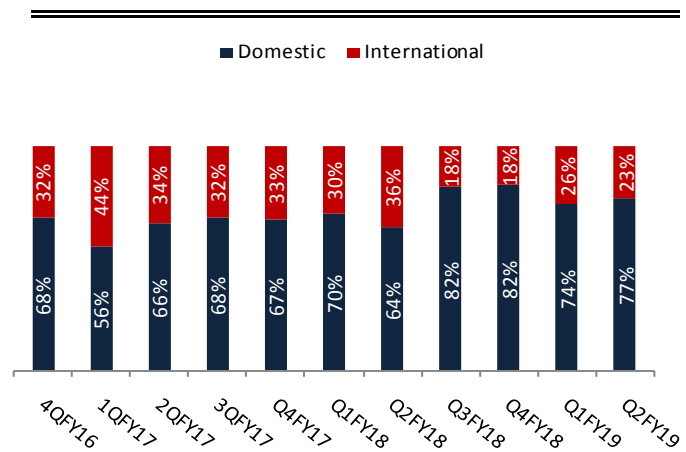


Exhibit: EBITDA and EBITDA margin trend

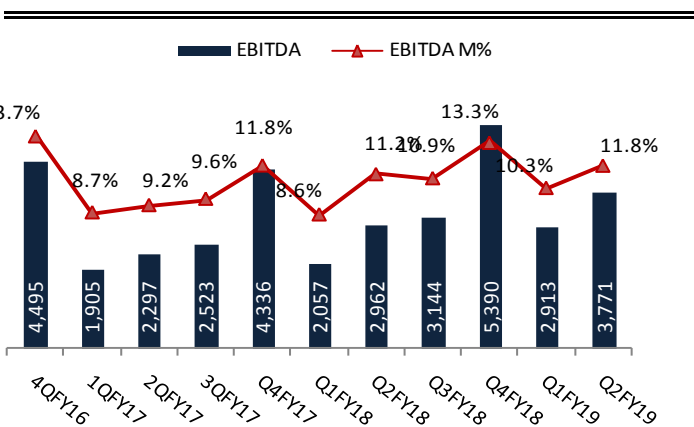
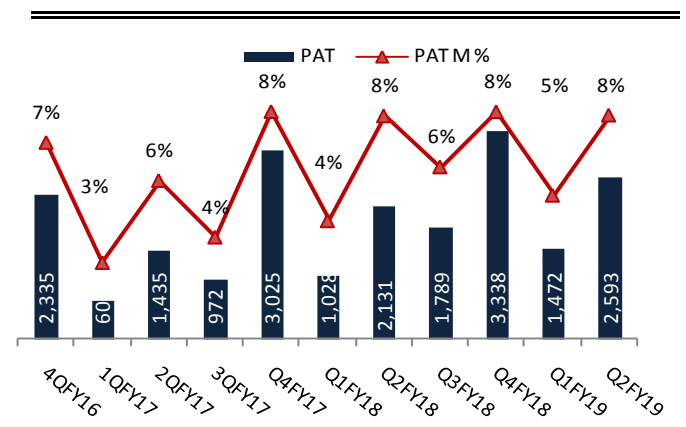


Exhibit: PAT and PAT margin trend



## Financial Details

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	60,873	56,599	57,017	63,813	66,301	74,612	85,792	96,337
Change (%)	14%	-7%	1%	12%	4%	13%	15%	12%
<b>EBITDA</b>	<b>6,407</b>	<b>6,667</b>	<b>6,488</b>	<b>5,817</b>	<b>6,422</b>	<b>7,429</b>	<b>8,492</b>	<b>9,580</b>
Change (%)	2%	4%	-3%	-10%	10%	16%	14%	13%
Margin (%)	11%	12%	11%	9%	10%	10%	10%	10%
Depr & Amor.	818	792	1,008	997	1,215	1,049	1,057	1,050
<b>EBIT</b>	<b>5,589</b>	<b>5,875</b>	<b>5,480</b>	<b>4,820</b>	<b>5,207</b>	<b>6,379</b>	<b>7,435</b>	<b>8,530</b>
Int. & other fin. Cost	982	1,076	1,419	1,477	1,318	1,432	1,459	1,539
Other Income	1,851	1,881	2,283	2,341	1,972	1,885	2,091	2,091
<b>EBT</b>	<b>6,711</b>	<b>7,268</b>	<b>6,701</b>	<b>6,245</b>	<b>6,755</b>	<b>7,262</b>	<b>7,069</b>	<b>9,082</b>
Exp Item	254	589	357	560	894	431	(500)	-
Tax	1,801	1,775	1,645	1,256	1,304	1,875	2,058	2,270
Minority Int & P/L share of As:	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>4,911</b>	<b>5,493</b>	<b>5,056</b>	<b>4,989</b>	<b>5,451</b>	<b>5,387</b>	<b>5,011</b>	<b>6,811</b>
<b>Adjusted PAT</b>	<b>4,725</b>	<b>5,048</b>	<b>4,787</b>	<b>4,541</b>	<b>4,729</b>	<b>5,068</b>	<b>5,365</b>	<b>6,811</b>
Change (%)		7%	-5%	-5%	4%	7%	6%	27%
Margin(%)	8%	9%	8%	7%	7%	7%	6%	7%

## Balance sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	123	185	186	186	187	280	280	280
Reserves	29,020	33,476	38,367	41,949	45,826	48,894	51,929	56,055
Networth	29,143	33,662	38,553	42,135	46,013	49,174	52,210	56,335
Debt	8,006	9,354	12,429	12,488	9,469	9,625	10,732	11,376
Other Non Cur Liab	1,030	803	449	450	563	583	583	583
Total Capital Employed	37,148	43,016	50,982	54,624	55,482	58,799	62,942	67,711
Net Fixed Assets (incl CWIP)	8,902	8,237	8,200	8,128	7,548	7,593	7,566	7,546
Non Cur Investments	10,523	15,168	17,446	19,188	19,777	22,994	22,994	22,994
Other Non Cur Asst	3,746	3,784	4,704	5,214	4,779	5,452	6,774	7,604
Non Curr Assets	23,171	27,190	30,350	32,530	32,104	36,040	37,334	38,144
Inventory	2,064	1,983	2,261	1,955	1,763	2,500	2,875	3,228
Debtors	22,613	21,539	16,790	18,967	19,920	24,454	25,855	29,033
Cash & Bank	1,456	1,783	3,021	3,570	3,802	4,318	4,953	3,226
Other Curr Assets	22,870	25,810	36,783	42,598	44,220	47,910	53,352	62,598
Curr Assets	49,003	51,115	58,854	67,091	69,705	79,182	87,035	98,085
Creditors	16,731	16,345	18,376	22,216	24,032	31,097	29,381	32,992
Provisions	2,084	13,922	801	897	1,092	1,102	2,574	2,890
Other Curr Liab	15,181	16,027	18,700	21,434	21,027	24,029	29,278	32,441
Curr Liabilities	33,996	46,294	37,878	44,547	46,151	56,228	61,232	68,324
Net Curr Assets	15,007	4,821	20,976	22,543	23,554	22,954	25,803	29,762
Total Assets	72,174	78,305	89,346	104,648	102,197	115,610	124,757	136,617

## Financial Details

## Cash flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	6,457	6,679	6,344	5,695	5,864	6,832	7,069	9,082
(inc)/Dec in Working Capital	(3,056)	(4,203)	(2,143)	(1,490)	607	(3,353)	(2,920)	(3,016)
Non Cash Op Exp	818	792	1,008	997	1,215	1,049	1,057	1,050
Int Paid (+)	982	1,076	1,419	1,477	1,317	1,432	1,459	1,539
Tax Paid	1,868	1,977	1,725	1,616	-	-	2,058	2,270
others	(1,220)	(1,321)	(1,760)	(1,764)	(1,561)	(1,501)	-	-
CF from Op. Activities	2,115	1,047	3,143	3,300	5,980	2,952	4,606	6,384
(inc)/Dec in FA & CWIP	(1,505)	(1,015)	(953)	(1,087)	(749)	(1,137)	(1,030)	(1,030)
Free Cashflow	610	32	2,190	2,213	5,231	1,815	3,576	5,354
(Pur)/Sale of Inv	1,109	(1,195)	(3,063)	532	(2,332)	(2,051)	(155)	(3,500)
others	861	996	2,106	(967)	3,091	5,101	-	-
CF from Inv. Activities	465	(1,214)	(1,909)	(1,522)	(46)	1,787	(1,185)	(4,530)
inc/(dec) in NW	163	144	99	70	53	50	-	-
inc/(dec) in Debt	(1,182)	2,612	1,015	321	(3,303)	(88)	1,108	644
Int. Paid	856	1,025	1,150	1,209	1,151	1,322	1,459	1,539
Div Paid (inc tax)	1,115	1,227	1,401	1,647	1,843	2,279	1,976	2,686
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(2,990)	504	(1,437)	(2,464)	(6,073)	(3,489)	(2,327)	(3,581)
Inc(Dec) in Cash	(411)	337	(203)	(687)	(139)	1,250	1,094	(1,727)
Add: Opening Balance	1,905	1,457	1,794	2,765	2,078	1,938	4,318	4,953
Closing Balance	1,495	1,794	1,591	2,078	1,939	3,188	5,412	3,226

## Key ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	17%	16%	13%	12%	12%	11%	10%	12%
ROCE	15%	14%	11%	9%	9%	11%	12%	13%
Asset Turnover	0.84	0.72	0.64	0.61	0.65	0.65	0.69	0.71
Debtor Days	136	139	107	108	110	120	110	110
Inv Days	12	13	14	11	10	12	12	12
Payable Days	100	105	118	127	132	152	125	125
Int Coverage	6	5	4	3	4	4	5	6
P/E	10	14	26	24	20	29	30	22
Price / Book Value	2	2	3	3	2	3	3	3
EV/EBITDA	8	12	21	22	18	21	18	16
FCF per Share	10	0	24	24	56	13	26	38
Div Yield	2.4%	1.8%	1.2%	1.4%	1.7%	1.3%	1.1%	1.5%

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