

LARSEN AND TOUBRO LTD

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

Strong growth allround with Stable Margins

RATING	BUY
CMP	1288
Price Target	1798
Potential Upside	40%

Rating Change	↔
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	1183/1469
Mkt Capital (Rs Cr)	180262
Free float (%)	87%
Avg. Vol 1M (,000)	2191
No. of Shares (Cr)	140
Promoters Pledged %	0

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Q3FY19 Result Update

- ❑ The Net sales during the quarter grew up 24.2% YoY on account of strong contribution from Infrastructure, Services business, Heavy Engineering and Electrical & Automation business.
- ❑ The quarter also witnessed a healthy EBITDA growth of 27% in line with robust revenue growth and strong performances by Services and Reality Segment.
- ❑ The PAT grew by 32% on the back of robust revenue growth and increase in other income level with company investing in lot of liquid investment.
- ❑ The Finance cost as a percent of sale grew up by 24 bps on account higher debt levels as the company raised debt to meet the volatile environment and invested in liquid funds.
- ❑ The order inflow saw a de-growth of 12% on account of inflows being more steady Inflows in FY19 in comparison to skewness witnessed in FY18. The order inflow grew 16% if we compare 9MFY19 with 9MFY18
- ❑ The margins in the infrastructure segment were down by 250 bps on account of various cost provisions made before computing EBITDA on account of prolonged work stoppage with reimbursement of cost for the raised claims to the company being in grey area and job mix

View and Valuation

Larsen and Toubro come with another strong set of numbers in Q3FY19. Revenue was up by 24% YoY on account of accelerated execution across the segment. Order inflow was down by 12%, though it was higher by 16% YoY on 9 months basis. Going forward, we expect the execution might be slow down in Q4FY19 and H1FY20 on account of general election but for the full year FY19 we maintain our estimates. On the order inflow front management has seen healthy order pipeline of Rs.160000 Cr and management has maintained order inflow guidance at 10-12%. Refusal of buyback by SEBI is set back for the company/investors but management is discussing the matter internally and will take appropriate decision on buyback. Management is not looking at special dividend as of now to compensate buyback.

We maintain our estimates for FY19 and FY20 and continue to recommend BUY on the stock with target price Rs.1798/share. **We value LT standalone business at Rs.1233 (24x FY20 EPS) and subsidiaries at Rs.565 per share**

Key Risks to our rating and target

- ❑ Order inflow during Q4FY19 considering the elections
- ❑ Delay in execution due to external factors

KEY FINANCIAL/VALUATIONS(\$t)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	63813	66301	74612	85928	94754
EBITDA	5817	6422	7429	8675	9364
EBIT	4820	5207	6379	7618	8314
PAT	5071	5608	5336	6861	7197
EPS (Rs)	54	60	38	49	51
EPS growth (%)	0.1%	10.4%	-36.6%	28.6%	4.9%
ROE	12%	12%	11%	13%	12%
ROCE	9%	9%	11%	11%	12%
BV Per Share	452	493	351	381	412
P/B (X)	3.3	2.9	4.1	3.7	3.4
P/E (x)	27.3	23.9	37.7	28.9	27.6
EV/EBITDA	24.9	21.6	27.4	22.9	21.4

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3Q FY 19 Results

Financials	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY %	QoQ%	9MFY18	9MFY19	YoY %
Net Sales	28,747	40,678	28,283	32,081	35,709	24%	11%	79,184	96,073	21.3%
Other	213	433	244	425	606	185%	43%	997	1,276	27.9%
COGS	10,341	14,392	9,063	11,046	13,597	31%	23%	27,616	33,706	22.1%
Emp. Exp.	3,838	4,128	4,282	4,569	4,607	20%	1%	11,163	13,457	20.6%
Sub-	-	-	-	-	-			179	-	
Other	1,529	1,577	1,655	1,788	1,976	29%	11%	4,443	5,419	22.0%
Other Exp.	5,643	9,485	5,095	5,770	6,095	8%	6%	15,154	16,959	11.9%
Total Exp.	25,603	35,288	25,370	28,310	31,713	24%	12%	71,021	85,393	20.2%
EBITDA	3,144	5,390	2,913	3,771	3,996	27%	6%	8,163	10,680	30.8%
Dep	454	492	645	516	449	-1%	-13%	1,436	1,609	12.0%
EBIT	2,690	4,898	2,268	3,255	3,547	32%	9%	6,726	9,071	34.9%
Intreset	362	418	365	399	535	48%	34%	1,120	1,299	15.9%
Except.	14	-	-	(295)	-			(123)	(295)	139.7%
PBT	2,540	4,913	2,148	3,281	3,619	42%	10%	6,603	9,048	37.0%
Tax	737	1,458	935	886	1,200	63%	35%	1,741	3,021	73.5%
PAT	1,789	3,338	1,472	2,593	2,362	32%	-9%	4,948	6,428	29.9%

Strong growth all around with stable margins

L&T posted quite robust number with revenue growth of 24% YoY led by the infrastructure segment which grew by 24% YoY on account of efficient execution across all vertical and heavy engineering segment which grew by 77% driven by the orders from Oil & Gas and Nuclear sectors. Services business has reported strong growth of 29% YoY. Execution of K9 Vajra artillery gun has led to strong growth of 36% YoY in defense business. Hydro carbon business reported growth of 22% YoY backed by accelerated execution of large projects. EBITDA during the quarter grew by 27% YoY to Rs 3996 Cr driven by the strong revenue performances. The quarter also accounted for 32% growth in PAT which is in line with revenue growth also factoring the increase in other income on account of liquid investment made by the company which led to increased treasury income. The EBITDA margins grew 30 bps YoY to 11.2%. The margin improvement was led by the other segment registering margin of 47.2% as compared to 25.6% on YoY basis and Defense engineering segment which posted margins of 9% as compared to 7.4% on YoY basis. The EBITDA margins to a certain extent were affected due to lowers margins in development project segment on account of higher operating cost in NABHA and the Infrastructure segment which was affected on account of various provisions made with prolonged work stoppage and reimbursement of claim being in grey area.

Weak order inflow but pipeline remains healthy

The company has registered an weak quarter as far as inflow is concerned, the order inflow fell down by 12% YoY to Rs.42200 Cr but the orders from international front is up by 30% YoY which positive for the company. The order inflow was skewed towards second half of FY18 which is evenly balanced in 9MFY19, however orders in 9MFY19 has grown by 16% YoY. The management stated the prospect of healthy pipeline going forward with total pipeline of about Rs 160000 Cr (excluding the financial services business)out of which Rs 100000 Cr are from infrastructure segment and 30000 Cr from power and distribution, Rs.10000 Cr in Metals and Metallurgical, Rs 15000 Cr in Hydrocarbon and Rs 5000 Cr in Heavy Engineering and Defense. Seeing the prospects above management is confident of its order inflow guidance of 10-12% YoY. Similarly, maintain revenue guidance in range of 12-15% for FY19.

Buyback still an option

SEBI has advised company not to proceed with buyback as the company's debt to equity on consolidated level will be higher than 2x post buyback. As per the management, decision was harsh and working on the matter. Currently, company is studying the matter and may have dialog with SEBI. Company also mentioned although it has enough time to appeal against the decision. Management is not looking at the special dividend as of now to compensate buyback.

Concall Highlights

- The Management stated that although there was De-growth in order inflow in the quarter, it was primarily due to orders being more even spread of in 9MFY19 rather than being more skewed during 9MFY18 and the award decision got deferred in case of certain orders.
- The company has not completely ruled out the buyback, company can open a dialogue with SEBI and approach them and say directions that it has given is as per there internal guidelines which as per companies assessment is not backed by statute. Company may even consider option of reaching out to SAT. Even though company has enough time to appeal against the decision, company may not appeal and in sometime in future again apply for the buyback.
- The increase in the finance cost commensurate to increased debt levels as the company raised capital to meet the volatile environment and invested the capital raised in liquid investment, which has translated into growth of other income.
- The Management stated prospect pipeline for Q4FY19 is very healthy and it expects decent inflows during the quarter but stated that execution would depend on timely payment being made on the side of customers.
- The prospect pipeline for the company (excluding services business) includes orders worth Rs 160000 Cr out of which Rs 100000 Cr are from infrastructure segment and Rs.30000 Cr from power and distribution, Rs. 10000 Cr in metals and Metallurgical, Rs 15000 Cr in hydrocarbon and Rs 5000 Cr in heavy engineering and defense.
- The Management pointed on to the improvement in the working capital to the tune of 70 bps and considers net working capital range of 20% of revenue to be acceptable in the current environment; however they expect to see slight improvement.
- The margins in the infrastructure segment were down by 250 bps on account of various cost provisions made before computing EBITDA on account of prolonged work stoppage with reimbursement of cost for the raised claims to the company being in grey area.
- The management stated that the opportunity in the power segment is very limited and there is aggressive competition for those opportunities which reflects in the declining revenue in the segment.
- The electric and automation segment saw a decent growth on account of Product businesses across Industrials, Buildings, Agriculture and Rural electrification sub-sectors.
- The Hydrocarbon segment has a healthy order pipeline in the Middle East. Management has guided for 8-8.5% margins in the segment going forward.
- The management maintained the revenue guidance of 12-15% and is confident of meeting lower end of guidance and hopes to move towards higher end, The EBITDA margin guidance of increase up to 25 bps is maintained.
- The revenues from the reality segment were around Rs 950 Cr in Q3FY19 and Rs 2500 Cr for 9MFY19,
- The management stated as far as sale of electrical and automation business is concerned they had stated earlier for timeline of 15-18 month and would not like to comment on any specific date.
- The revenue growth in the heavy engineering segment was led by growth in both Oil & Gas and Nuclear sector; the international markets are showing strong traction in international space.
- The defense segment witnessed the strong growth with execution of artillery gun order.

Revenue mix (In Rs. Cr)

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	11,354	12,790	13,966	24,349	12,331	15,408	18,371	32%	19%
Power	1,764	1,667	1,270	1,507	1,081	1,060	908	-28%	-14%
Heavy Engineering	369	362	988	504	377	544	693	-30%	27%
Defence Engineering	541	986	-	964	734	962	1,045	NA	9%
E&A	1,268	1,309	1,287	1,643	1,324	1,490	1,565	22%	5%
Hydrocarbon	2,549	2,561	3,090	3,559	3,516	3,558	3,778	22%	6%
IT & TS	2,566	2,724	2,915	3,152	3,356	3,606	3,764	29%	4%
Financial Services	2,294	2,413	2,634	2,722	3,058	3,139	3,259	24%	4%
Develop. Projects	827	1,218	1,213	1,217	1,494	1,297	1,194	-2%	-8%
Others	943	905	2,084	1,626	1,373	1,488	1,661	-20%	12%
Total	24,478	26,936	29,447	41,243	28,644	32,552	36,237	23%	11%

Order Book (In Rs.Bn)

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	1,972	1,906	2,003	1,955	2,106	2,182	2,192	9%	0%
Power	131	103	108	95	82	93	82	-24%	-11%
Heavy Engineering	105	129	135	134	41	51	48	-64%	-5%
Defence engineering	-	-	-	-	117	121	114	NA	NA
E&A	26	26	27	32	30	31	28	5%	-8%
Hydrocarbon	237	258	298	267	283	278	318	7%	14%
Others	158	155	135	150	60	56	57	-58%	1%
Total	2,629	2,575	2,707	2,632	2,717	2,812	2,840	5%	1%

Order Inflow (In Rs.Bn)

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	150	141	250	283	194	234	219	-12%	-6%
Hydracarbon	8	29	58	51	48	27	78	35%	185%
Power	5	3	10	8	1	25	1	-93%	-97%
Heavy Engineering	5	11	19	19	14	13	5	-73%	-61%
Defence Engineering	-	-	-	-	0	13	5	NA	NA
E&A	13	14	19	18	13	16	16	-17%	-2%
Others	26	26	38	34	11	12	17	-56%	44%
Total	209	224	394	413	281	341	341	-14%	0%

Margin Performance (%)

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	7.1	7.5	7.8	13.5	6.8	6.8	5.4	(240)	(140)
Hydracarbon	6.8	10.9	8.0	-	7.0	9.9	8.2	20	(170)
Power	1.3	5.4	2.5	4.2	4.1	6.0	2.4	(10)	(360)
Heavy Engineering	12.3	15.4	18.8	18.1	36.1	24.2	20.5	170	(370)
Defence Engineering	(4.4)	10.6	-	-	11.1	25.0	9.0	900	(1,600)
E&A	10.3	15.3	17.3	19.7	13.3	17.8	17.4	10	(40)
Others	21.3	13.1	15.3	29.6	26.5	23.1	47.2	3,190	2,410

Exhibit: Order Book and Book to Bill

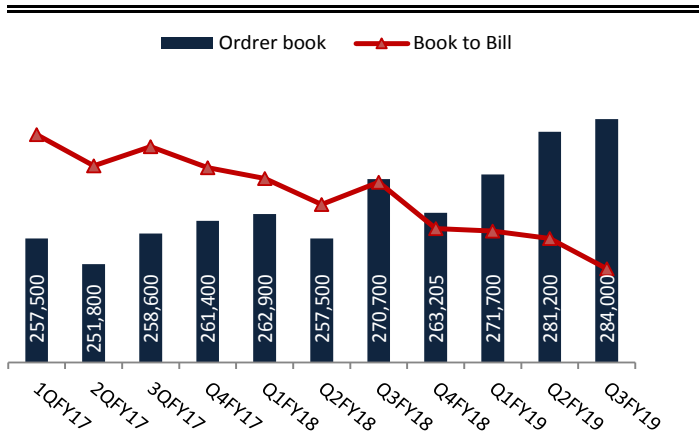


Exhibit: Order Book Break Up (Q3FY19)

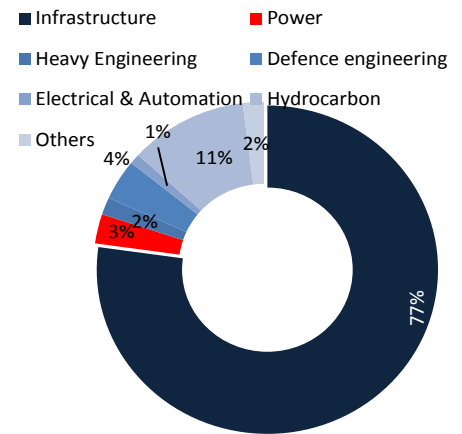


Exhibit: Order Book Mix

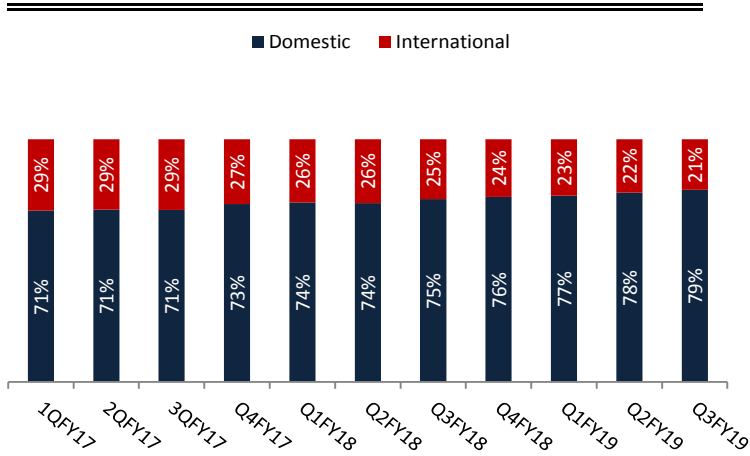


Exhibit: Order Inflow Mix

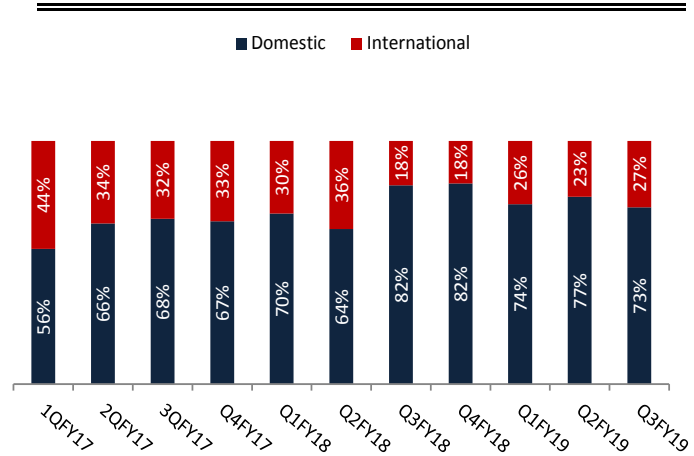


Exhibit: EBITDA and EBITDA margin trend

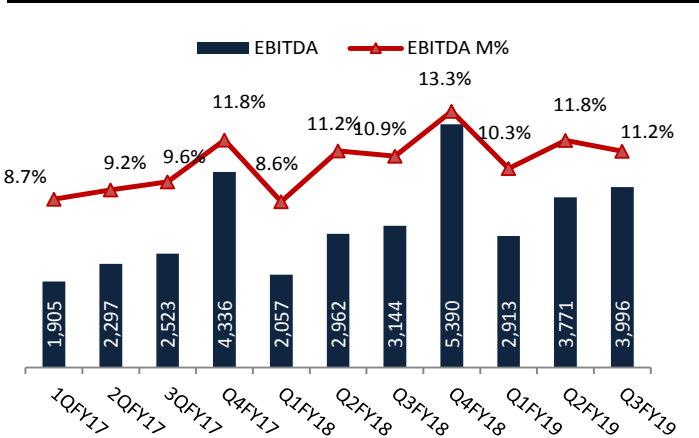
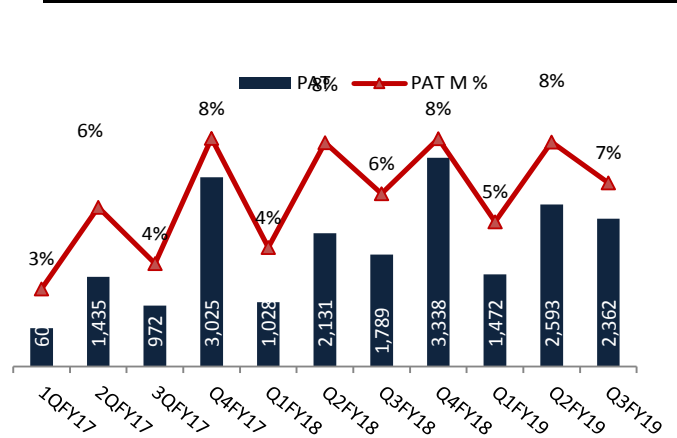


Exhibit: PAT and PAT margin trend



Financial Details (Standalone)

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	85,928	94,754
Change (%)	14%	-7%	1%	12%	4%	13%	15%	10%
EBITDA	6,407	6,667	6,488	5,817	6,422	7,429	8,675	9,364
Change (%)	2%	4%	-3%	-10%	10%	16%	17%	8%
Margin (%)	11%	12%	11%	9%	10%	10%	10%	10%
Depr & Amor.	818	792	1,008	997	1,215	1,049	1,057	1,050
EBIT	5,589	5,875	5,480	4,820	5,207	6,379	7,618	8,314
Int. & other fin. Cost	982	1,076	1,419	1,477	1,318	1,432	1,776	1,526
Other Income	1,851	1,881	2,283	2,341	1,972	1,885	2,808	2,808
EBT	6,711	7,268	6,701	6,245	6,755	7,262	9,178	9,597
Exp Item	254	589	357	560	894	431	527	-
Tax	1,801	1,775	1,645	1,256	1,304	1,875	2,318	2,399
Minority Int & P/L share of As:	-	-	-	-	-	-	-	-
Reported PAT	4,911	5,493	5,056	4,989	5,451	5,387	6,861	7,197
Adjusted PAT	4,725	5,048	4,787	4,541	4,729	5,068	6,466	7,197
Change (%)		7%	-5%	-5%	4%	7%	28%	11%
Margin(%)	8%	9%	8%	7%	7%	7%	8%	8%

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	53,050	57,409
Networth	29,143	33,662	38,553	42,135	46,013	49,174	53,330	57,690
Debt	8,006	9,354	12,429	12,488	9,469	9,625	17,371	11,273
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	70,701	68,962
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	2,879	3,175
Debtors	22,613	21,539	16,790	18,967	19,920	24,454	25,896	28,556
Cash & Bank	1,456	1,783	3,021	3,570	3,802	4,318	6,058	4,450
Other Curr Assets	22,870	25,810	36,783	42,598	44,220	47,910	60,052	62,091
Curr Assets	49,003	51,115	58,854	67,091	69,705	79,182	94,885	98,272
Creditors	16,731	16,345	18,376	22,216	24,032	31,097	29,427	32,450
Provisions	2,084	13,922	801	897	1,092	1,102	2,578	2,843
Other Curr Liab	15,181	16,027	18,700	21,434	21,027	24,029	29,318	31,966
Curr Liabilities	33,996	46,294	37,878	44,547	46,151	56,228	61,324	67,259
Net Curr Assets	15,007	4,821	20,976	22,543	23,554	22,954	33,562	31,013
Total Assets	72,174	78,305	89,346	104,648	102,197	115,610	132,607	136,804

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	9,178	9,597
(inc)/Dec in Working Capital	(3,056)	(4,203)	(2,143)	(1,490)	607	(3,353)	(3,408)	(2,660)
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	1,776	1,526
Tax Paid	1,868	1,977	1,725	1,616	-	-	2,318	2,399
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	6,285	7,114
(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	5,256	6,084
(Pur)/Sale of Inv	1,109	(1,195)	(3,063)	532	(2,332)	(2,051)	(6,781)	2,771
others	861	996	2,106	(967)	3,091	5,101	-	-
CF from Inv. Activities	465	(1,214)	(1,909)	(1,522)	(46)	1,787	(7,811)	1,741
inc/(dec) in NW	163	144	99	70	53	50	-	-
inc/(dec) in Debt	(1,182)	2,612	1,015	321	(3,303)	(88)	7,746	(6,098)
Int. Paid	856	1,025	1,150	1,209	1,151	1,322	1,776	1,526
Div Paid (inc tax)	1,115	1,227	1,401	1,647	1,843	2,279	2,705	2,838
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(2,990)	504	(1,437)	(2,464)	(6,073)	(3,489)	3,265	(10,462)
Inc(Dec) in Cash	(411)	337	(203)	(687)	(139)	1,250	1,740	(1,608)
Add: Opening Balance	1,905	1,457	1,794	2,765	2,078	1,938	4,318	6,058
Closing Balance	1,495	1,794	1,591	2,078	1,939	3,188	6,058	4,450

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	17%	16%	13%	12%	12%	11%	13%	12%
ROCE	15%	14%	11%	9%	9%	11%	11%	12%
Asset Turnover	0.84	0.72	0.64	0.61	0.65	0.65	0.65	0.69
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	4	5
P/E	12	16	29	27	24	38	29	28
Price / Book Value	2	3	4	3	3	4	4	3
EV/EBITDA	10	14	23	25	22	27	23	21
FCF per Share	10	0	24	24	56	13	38	43
Div Yield	1.9%	1.5%	1.0%	1.2%	1.4%	1.0%	1.1%	1.2%

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