

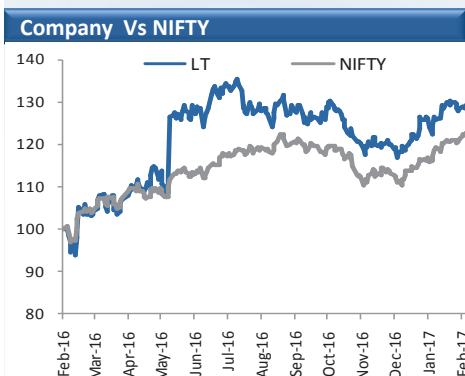
Larsen & Toubro Ltd.

| Result Update | |
|-----------------------|------|
| CMP | 1470 |
| Target Price | 1780 |
| Previous Target Price | |
| Upside | 21% |
| Change from Previous | |

| Market Data | |
|---------------------|-----------|
| BSE Code | 500510 |
| NSE Symbol | LT |
| 52wk Range H/L | 1615/1055 |
| Mkt Capital (Rs Cr) | 1,20,708 |
| Av. Volume | 92026 |
| Nifty | 8880 |

| Stock Performance | | | |
|-------------------|--------|---------|-------|
| | 1Month | 3 Month | 1Year |
| Absolute | 1.4 | 7.3 | 32.4 |
| Rel.to Nifty | -1.8 | -2.1 | 6.1 |

| Share Holding Pattern-% | | | |
|-------------------------|-------------|-------------|-------------|
| | 3QFY17 | 2QFY17 | 1QFY17 |
| Promoters | 0% | 0% | 0% |
| Public | 100% | 100% | 100% |
| Others | | | |
| Total | 100% | 100% | 100% |



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L&T reported its Q3FY17 result in line with our estimates. Consolidated revenue grew by 1.4% YoY to Rs. 26287 Cr as compared to Rs. 25928 Cr in same period previous year on the back of strong growth of 13% in hydrocarbon vertical. Standalone business remained flat YoY to Rs. 15946 Cr as against Rs. 15868 Cr in previous year. However EBITDA margin on consolidated basis has improved by 140 bps YoY to 9.6% as against 8.5% on account of margin improvement in Heavy Engineering and Hydrocarbon business. Consolidated Order Inflow during the quarter was Rs. 34900 Cr, down by 9% YoY. Unannounced Orders were Rs. 22300 Cr. Mgt. has cut down the order intake guidance for FY17 to 10% plus from 15%. Reduced order intake guidance due to deferment in finalization of orders.

Muted Revenue growth, Strong Operating Margin:-

Revenue growth remained muted due to demonization, however the operating margin has improved by 140 bps on a back of improved performance of Heavy Engineering, Hydrocarbon business and Infra business. Heavy Engineering has reported EBITDA margin of 20.3% as compared to 1.6% a year back led by operational efficiency. Close out of legacy orders, Operational efficiency and improved project execution have helped to post better numbers in Hydrocarbon business. Infra business margin improved by 110 bps to 8.3% on account of the execution of better margin projects. Close down of legacy projects, margin improvement scope in Heavy civil engineering & T&D business and execution of better margin projects in infra business will help to post strong operating margin going forward. Management has maintained 50 bps of margin improvement guidance in FY17.

Healthy Order:-

Order book at the end of the Q3FY17 stands at Rs. 258600 Cr which provides two and half year revenue visibility. However, management has cut down order intake guidance for FY17 to 10%plus from 15% earlier. Management has lower down guidance due to deferment in finalization of some of the projects. We continue to expect healthy order inflow in next year. Despite muted revenue growth in Q3FY17, management is confident to achieve 10%revenue growth in FY17. It can achieve higher than that if the company gets some clearance in infra business. The situation in terms of obtaining approval has shown some sign of improvement.

| Financials | Q3FY17 | Q2FY17 | Q3FY16 | YoY % | QoQ % |
|-------------------|--------|--------|--------|---------|-----------|
| Sales | 26287 | 25022 | 25928 | 1% | 5% |
| EBITDA | 2523 | 2297 | 2126 | 19% | 10% |
| Net Profit | 812 | 1513 | 768 | 6% | -46% |
| EBITDA% | 9.6% | 9.2% | 8.2% | 140 bps | 40 bps |
| PAT | 3.7% | 5.7% | 2.7% | 100 bps | (200 bps) |

Result Highlights of Q3FY17

- ◆ Consolidate Revenue grew by 1.4% to Rs. 26287 Cr as compared to Rs. 25928 Cr in same period previous year.
- ◆ L&T reported 18.7% growth in EBITDA to Rs. 2523 Cr as against Rs. 2126 Cr in Q3FY16 on back of 140 bps improvement in margin
- ◆ PAT during the quarter grew by 38.8% to Rs. 812 Cr as compared to 768 Cr in same period previous year on account of higher EBITDA and lower tax rate.
- ◆ Order intake during the quarter was Rs.34900 Cr, out of which Rs.23732 Cr from domestic market and rest from international business.

Management / Concall Update

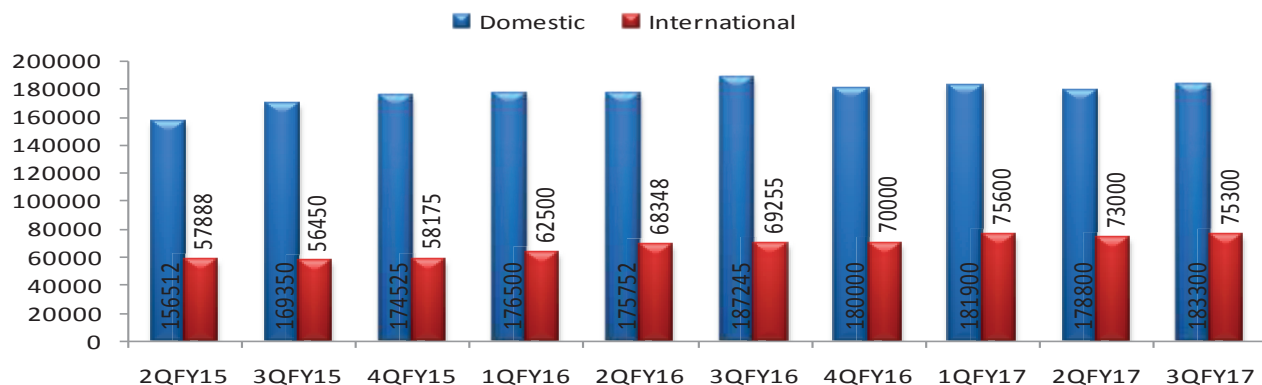
- ◆ Management lower down sales guidance to 10% from 12-15%. It can do better if it gets some project related clearance.
- ◆ Order guidance cut down to 10% plus from 15%
- ◆ Maintained 50n bps margin improvement in FY17
- ◆ Real estate: Shifting of factories has helped LT to commercially monetize the land bank (Chennai, Bangalore and Mumbai). Lower interest rate would lead to revival in demand of residential realty.
- ◆ Toll Collection suspended for the 23 days and lost 100 Cr of toll, will get compensation for the same
- ◆ Rs. 800 Cr of loss due to demonization at PBT level
- ◆ Canadian pension fund has subscribed preference share of Rs.2000 Cr and convert based on their option.
- ◆ Management expects Power business to pick up after two years once manufacturing gets better.
- ◆ Heavy Eng.:- Better margins in process and defense business
- ◆ Margin improved in Hydrocarbon as the legacy projects completed.
- ◆ Mumbai Metro Phase 3 order is stuck due to PIL against MMRDA.
- ◆ 110 bps margin improved in Heavy civil engineering and T&D on account of operation efficiency.
- ◆ Power :- Lower order book led to lower execution, will tough to get new orders.
- ◆ Mgt. expects to pick up in Power business after two years once manufacturing picks up
- ◆ Company look to monetize Nabha Power plant
- ◆ Seen political and other issues at Hyderabad metro project. 70% of the project is completed and schedule completion is June 17 but it will extend.
- ◆ Hydrocarbon:- International business driving the growth and margin improved on close of legacy projects.
- ◆ Expect to close Kattupali port sale transaction by Q4FY17. L&T has sold Kattupali port to Adani ports.
- ◆ Demand in hydrocarbon business is weak due to lower oil price

Outlook and Valuation:-

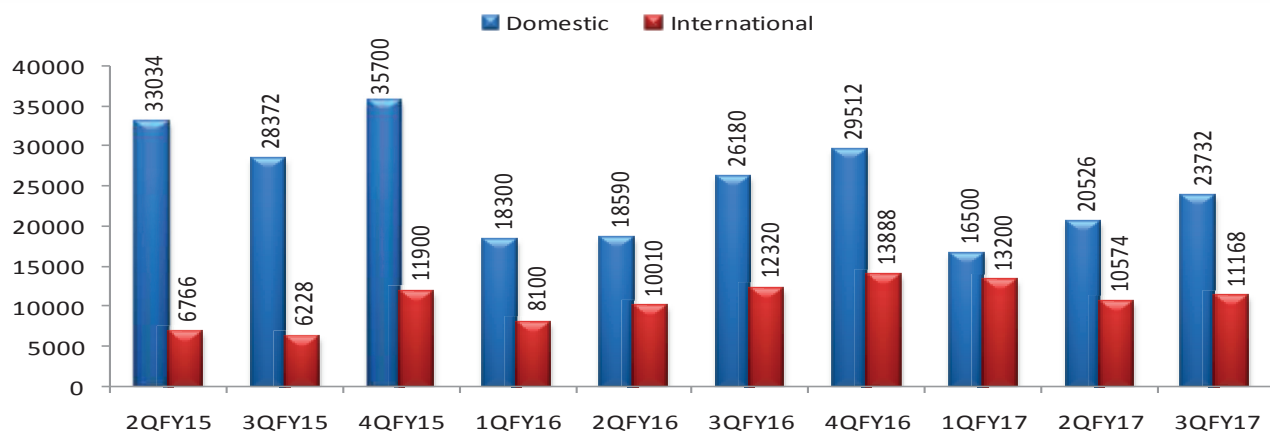
L&T is the largest Engineering and Construction Company in India. It has presence in Construction, Hydrocarbon Eng., Power, Heavy Eng., Shipbuilding- defense and Merchant, IT, Finance, Realty and Metro. Revenue growth in Q3FY17 was muted but strong operating performance supported the bottom-line. Despite muted revenue growth in Q3FY17, management is confident to achieve 10% revenue growth in FY17 coupled with improvement in operating margins based on the operational efficiency. The company has closed out some legacy projects in hydrocarbon business, which will help to post better margins going ahead. We expects to 33 bps improvement RoE in FY17. **Hence, we recommend to “BUY” with a target price of Rs.1780.**

| Segment Revenue | 2QFY15 | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | YoY% | QoQ% |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------|-----------|
| Infrastructure | 9,841 | 11,798 | 15,685 | 8,504 | 11,178 | 12,122 | 18,655 | 9,288 | 11,596 | 12,735 | 5% | 10% |
| Power | 1,166 | 1,141 | 1,448 | 1,079 | 1,340 | 2,116 | 2,185 | 1,723 | 1,745 | 1,633 | -23% | -6% |
| Metallurgical and Material | 802 | 734 | 953 | - | - | - | 924 | - | - | - | | |
| Heavy Engineering | 860 | 855 | 1,021 | 644 | 622 | 929 | 1,072 | 734 | 808 | 870 | -6% | 8% |
| Electrical & Automation | 1,301 | 1,359 | 1,745 | 1,114 | 1,318 | 1,351 | 1,599 | 1,081 | 1,252 | 1,356 | 0% | 8% |
| Hydrocarbon | 1,832 | 1,779 | 2,235 | 2,155 | 1,896 | 2,118 | 2,487 | 2,146 | 2,501 | 2,402 | 13% | -4% |
| IT & Technology Services | 1,877 | 1,989 | 2,042 | 2,063 | 2,270 | 2,306 | 2,363 | 2,375 | 2,462 | 2,502 | 9% | 2% |
| Financial Services | 1,606 | 1,636 | 1,676 | 1,782 | 1,891 | 1,899 | 1,996 | 2,091 | 2,140 | 2,108 | 11% | -1% |
| Developmental Projects | 988 | 1,140 | 878 | 1,138 | 1,146 | 1,491 | 1,300 | 1,383 | 1,073 | 906 | -39% | -16% |
| Others | 1,554 | 2,077 | 1,635 | 2,122 | 2,386 | 2,307 | 2,028 | 1,818 | 2,181 | 2,434 | 6% | 12% |
| Less: Inter Segment Revenue | 494 | 477 | 1,045 | 553 | 924 | 711 | 1,211 | 764 | 747 | 659 | -7% | -12% |
| Total | 21,331 | 24,033 | 28,275 | 20,048 | 23,123 | 25,928 | 33,399 | 21,874 | 25,010 | 26,287 | 1% | 5% |

Order Book (Rs. crore) :-



Order Inflow (Rs. crore):-



Financials Snap Shot

| INCOME STATEMENT | | | | | RATIOS | | | | |
|-------------------|--------------|--------------|--------------|---------------|-----------------------------|-------|-------|-------|-------|
| | FY13 | FY14 | FY15 | FY16 | | FY13 | FY14 | FY15 | FY16 |
| Revenue | 74498 | 85128 | 92005 | 102632 | EPS | 84.6 | 52.9 | 51.3 | 75.6 |
| Other Income | 1096 | 982 | 1007 | 1183 | Book Value | 550.2 | 406.9 | 440.1 | 473.3 |
| Total Revenue | 75594 | 86110 | 93012 | 103815 | DPS | 19.3 | 14.4 | 16.7 | 19.0 |
| EBITDA | 9859 | 10730 | 11336 | 14278 | Payout (incl. Div. Tax.) | 23% | 27% | 33% | 25% |
| EBITDA Margin (%) | 13% | 13% | 12% | 14% | Valuation(x) | | | | |
| Depreciation | 1637 | 1446 | 2623 | 2756 | P/E | 10.8 | 24.1 | 33.5 | 20.6 |
| EBIT | 8222 | 9284 | 8713 | 11522 | Price / Book Value | 1.7 | 3.1 | 3.9 | 3.3 |
| Interest | 2095 | 3138 | 2851 | 3041 | Dividend Yield (%) | 2.12% | 1.13% | 0.97% | 1.22% |
| PBT | 7638 | 7483 | 7217 | 10022 | Profitability Ratios | | | | |
| Tax | 2386 | 2608 | 2253 | 2548 | RoE | 15% | 13% | 12% | 16% |
| Tax Rate (%) | 31% | 35% | 31% | 25% | RoCE | 9% | 9% | 7% | 9% |
| Reported PAT | 5206 | 4902 | 4765 | 7026 | Turnover Ratios | | | | |
| Dividend Paid | 1188 | 1337 | 1550 | 1767 | Asset Turnover (x) | 0.5 | 0.5 | 0.5 | 0.5 |
| No. of Shares | 62 | 93 | 93 | 93 | Debtors (No. of Days) | 113 | 113 | 119 | 128 |
| | | | | | Inventory (No. of Days) | 70 | 69 | 76 | 55 |
| | | | | | Creditors (No. of Days) | 92 | 89 | 99 | 105 |
| | | | | | Net Debt/Equity (x) | 1.40 | 1.47 | 1.60 | 1.68 |

| BALANCE SHEET | | | | | CASH FLOW | | | | |
|------------------------|--------|--------|--------|--------|---------------------------|--------|--------|--------|--------|
| | FY13 | FY14 | FY15 | FY16 | | FY13 | FY14 | FY15 | FY16 |
| Share Capital | 123 | 185 | 186 | 186 | OP/(Loss) before Tax | 7223 | 7128 | 6870 | 7729 |
| Reserves | 33737 | 37526 | 40723 | 43805 | Depreciation | 1637 | 1446 | 2623 | 2756 |
| Net Worth | 33860 | 37712 | 40909 | 43992 | Direct Taxes Paid | 2532 | 2947 | 2979 | 3318 |
| Long term Debt | 47400 | 55445 | 65278 | 73754 | Op. Profit before WC chan | 10256 | 11184 | 10194 | 12487 |
| Short term Debt | 7288 | 13859 | 16989 | 17008 | CF from Op. Activity | (3760) | (7143) | (669) | (3229) |
| Deferred Tax | 378 | 618 | 540 | 411 | Non Current investments | 273 | 674 | 830 | 526 |
| Total Capital Employed | 81260 | 93157 | 106187 | 117745 | Capex | 7832 | 6967 | 6929 | 5264 |
| Net Fixed Assets | 39620 | 44440 | 48047 | 58600 | CF from Inv. Activity | (6912) | (5510) | (5463) | (4132) |
| Capital WIP | 4017 | 4165 | 5420 | 6486 | Repayment of LTB | 6829 | 10964 | 20836 | 21446 |
| Debtors | 23015 | 26385 | 30089 | 35990 | Interest Paid | 2825 | 3905 | 3926 | 3678 |
| Cash & Bank Balances | 3572 | 4097 | 5756 | 5902 | Divd Paid (incl Tax) | 1201 | 1418 | 1603 | 1878 |
| Trade payables | 18812 | 20850 | 24859 | 29391 | CF from Fin. Activity | 10781 | 13136 | 7891 | 7488 |
| Total Provisions | 2883 | 3301 | 4098 | 4478 | Inc/(Dec) in Cash | 109 | 483 | 1759 | 128 |
| Net Current Assets | 29106 | 31263 | 34272 | 33108 | Add: Opening Balance | 3522 | 3604 | 4087 | 5846 |
| Total Assets | 143105 | 169162 | 194184 | 227525 | Closing Balance | 3631 | 4087 | 5846 | 5973 |