

# LARSEN & TOURBO LTD.

Industry **Construction & Eng**  
 Bloomberg **LT IN**  
 BSE Code **500510**  
 NSE Code **LT**

06 June 2018

RATING	BUY
CMP	1334
Price Target	1710
Previous Target	1780
Potential Upside	28%

## Stock Info

52wk Range H/L	1469/1108
Mkt Capital (Rs Cr)	186990
Free float (%)	87%
Avg. Vol 1M (,000)	1970
No. of Shares (Crore)	93
Promoters Pledged %	0%

## Key Highlights

- ☑ Lakshya:- A strategic plan for FY16-21 :- 1)Management's plan to double its revenue to Rs.200000 Cr by FY21 2) Improve margin from 10% to 11.6% by FY21 3)Divestment of non core business and improve RoCE 4)Bring down net working capital as % of sales to 18%.
- ☑ Order inflow growth may impact due to election in FY19 and expect pre-pone of some the large orders. Considering it management has guided 10-12% order inflow growth in FY19.
- ☑ Private capex is still subdued and will take couple of years to revive.
- ☑ Management has guided 12-14% revenue growth along with 25 bps improvement in operating margin in FY19. Net working capital as percentage of sales will come down to 18%.

## 4Q FY18 Result:

LT has reported better number than our estimate. Sales were up by 14.6% YoY to Rs.26942 Cr v/s our estimate of Rs.23362 Cr on account of strong execution of Infrastructure projects. Revenue of Infrastructure segment was up 20% YoY. EBITDA margin remained stable at 12.8%. PAT grew by 94% YoY on back of lower base due to impairment in same period last year. Order Inflow was Rs.49600 Cr and Rs.152800 Cr for the Q4FY18 and full year FY18 respectively. Cash generation from operation during the quarter was Rs.5210 Cr.

## View and Valuation

LT performed well on back of improved performance of Infrastructure segment and we believe that the infra continue to lead the show. 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 expect 11% and 26% CAGR growth in revenue and bottom line respectively over FY18-20. We estimate that the RoCE will improve to 11.85% from current level of 10.85%.

**We value LT on SoTP valuation method and arrived at target price of Rs.1710 and recommend BUY. We value LT standalone business at Rs.1353 (16x FY20 EPS of Rs.90) and subsidiary at Rs.357 per share**

## Key Risks to our rating and target

- ♦ Delay in execution due to external factors

KEY FINANCIAL/VALUATIONS	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	57,017	63,813	66,301	74,612	79,915	92,580
EBITDA	6,488	5,817	6,422	7,429	8,133	9,358
EBIT	5,480	4,820	5,207	6,379	7,012	8,250
PAT	5,056	5,071	5,608	5,336	7,466	8,337
EPS (Rs)	54	54	60	38	80	90
EPS growth (%)	-8%	0%	10%	-37%	110%	12%
ROE	13%	12%	12%	11%	14%	14%
ROCE	11%	9%	9%	11%	11%	12%
BV Per Share	415	452	493	351	576	631
P/B (X)	3.3	2.8	2.4	3.1	1.9	1.7
P/E (x)	25.5	23.6	19.6	28.6	13.6	12.2
EV/EBITDA	20.8	21.7	17.8	20.9	13.1	11.4

Research Analyst

**SANDIP JABUANI**

sandip.jabuani@narnolia.com

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## 4Q FY 18 Results

Financials	4QFY17	1QFY18	2QFY18	3QFY18	Q4FY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	23,500	14,086	15,860	17,716	26,942	14.6%	52.1%	66,301	74,612	12.5%
Other Income	345	424	661	446	375	8.5%	-16.1%	1,972	1,885	-4.4%
COGS	10,302	5,978	7,006	7,868	11,622	12.8%	47.7%	29,410	32,629	10.9%
Emp. Exp.	1,364	1,387	1,420	1,429	1,475	8.1%	3.2%	5,146	5,714	11.0%
Sub-Cont.Exp.	6,045	3,597	3,807	4,687	7,534	24.6%	60.7%	16,771	19,621	17.0%
Other Mfg.Exp.	1,930	1,386	1,820	1,416	1,763	-8.6%	24.6%	5,809	6,389	10.0%
Other Exp.	837	624	498	643	1,088	30.0%	69.2%	2,742	2,831	3.3%
Total Exp.	20,479	13,121	14,551	16,043	23,482	14.7%	46.4%	59,879	67,183	12.2%
EBITDA	3,021	965	1,309	1,673	3,460	14.5%	106.8%	6,422	7,429	15.7%
EBITDA M (%)	0	0	0	0	0	69.6%	-9.5%	0	0	2.8%
Depreciation	396	258	259	265	267	-32.8%	0.6%	1,215	1,049	-13.6%
EBIT	2,625	707	1,049	1,408	3,193	21.6%	126.7%	5,207	6,379	22.5%
Intreset	269	359	367	332	374	38.8%	12.5%	1,318	1,432	8.7%
Except. Item	961	-	(175)	(57)	(199)	-120.7%	250.0%	894	431	-51.8%
PBT	2,701	772	1,343	1,522	3,194	18.3%	109.8%	6,755	7,262	7.5%
Tax	486	213	356	358	948	95.1%	164.6%	1,304	1,875	43.8%
PAT	1,254	558	1,162	1,221	2,445	95.0%	100.3%	5,451	5,387	-1.2%
PAT %	0	0	0	0	0	70.1%	31.7%	0	0	-12.2%

### Strong revenue growth on back of improved performance of Infra

LT posted strong revenue numbers during the quarters on back of improved performance of Infra segment. Revenue from Infra has up by 20% YoY driven by pick up in execution of domestic projects. Revenue from heavy engineering has also shown healthy growth of 13 YoY%. While, revenue from power segment was down by 18% YoY on account of low order book. Stiff competition and lower ticket size hampering order book growth in power segment. Operating margin remained stable at 12.8% but the PAT margin has improved by 380 bps due to improved net working capital, exception item and lower depreciation. Net working capital as percentage of sales has come down to 19.5% compared to 21.5% in last quarter Q3FY18.

### Growth momentum will continue

Based on the current order book and improved working condition of infra projects we will believe that the current growth momentum will continue going forward. Management expects some of the large projects may pre-pone considering the election in late 2019 and expect 10-12% growth in order intake. Net working capital as percentage of sale has come down to 19.5% from 24% and it will reduce further. We believe the growth rate is sustainable going ahead and we anticipate 11% CAGR revenue growth over FY18-20 along with 25 bps improvement in operating margin.

### Concall Highlights

- ✓ Management has guided for 10-12% growth in order inflow with 12-14% growth in revenue and 25 bps improvement in EBITDA margin.
- ✓ Management is target to bring down net working capital at 18% as % of sales.
- ✓ Slow moving of stalled projects of Rs.16000 Cr has removed from order book. Most of the orders are from real estate and transportation infrastructure.
- ✓ During the quarter company has sold land in Bangalore worth Rs.650 Cr.
- ✓ Water, Heavy civil, transportation and smart world business will drive the growth in FY19.
- ✓ Private sector capex is still muted and will take time to revive.
- ✓ Election in late 2019 will affect the order inflow. But company expects pre-pone of some of the orders.
- ✓ Management stick to 25 bsp improvement in margin as major Infra projects are in initial stage and so margin recognition is not happen yet.
- ✓ During the quarter company has provide provision of Rs.220 Cr for Nabha power projects.

Revenue Mix (Cr)

	2QFY17	3QFY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (+/-)	QoQ (+/-)
Infrastructure	10,229	10,959	17,605	9,612	10,850	13,137	21,187	20%	61%
Power	1,745	1,633	1,839	1,764	1,667	1,270	1,507	-18%	19%
Heavy Engineering	804	834	1,020	716	1,198	971	1,153	13%	19%
E&A	1,008	1,075	1,356	1,042	1,033	1,032	1,340	-1%	30%
Others	1,218	1,671	2,141	1,209	1,341	1,556	2,009	-6%	29%
Total	14,705	15,919	23,500	14,086	15,860	17,716	26,942	15%	52%

Order Book Break Up (bn)

	2QFY17	3QFY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (+/-)	QoQ (+/-)
Infrastructure	1,863	1,940	1,934	1,972	1,906	1,914	1,955	1%	2%
Power	176	155	131	131	103	103	95	-28%	-8%
Heavy Engineering	76	78	131	105	129	129	134	3%	4%
E&A	25	26	26	26	26	26	32	21%	22%
Others	176	181	131	158	155	129	150	15%	16%
Total	2,317	2,379	2,353	2,392	2,318	2,302	2,365	1%	3%

Order Inflow (bn)

	2QFY17	3QFY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (+/-)	QoQ (+/-)
Infrastructure	156	192	260	150	141	250	283	9%	13%
Power	12	10	9	5	3	10	8	-16%	-18%
Heavy Engineering	9	7	24	5	11	19	19	-20%	-2%
Electrical & Auto.	16	17	19	13	14	19	18	-3%	-5%
Others	19	21	24	26	26	38	34	43%	-12%
Total	211	248	336	201	195	337	362	8%	8%

Margin Performance (%)

	2QFY17	3QFY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (+/-)	QoQ (+/-)
Infrastructure	7.1	8.3	13.5	8.1	7.5	7.8	13.5	0.0	5.7
Power	3.0	1.5	3.8	1.3	5.4	2.5	4.2	0.4	1.7
Heavy Engineering	14.6	20.3	27.6	15.9	15.4	18.8	18.1	-9.5	-0.7
E&A	15.0	15.7	19.4	10.3	15.3	17.3	19.7	0.3	2.4
Others	6.5	15.8	14.8	2.2	13.1	15.3	29.6	14.8	14.3

Exhibit: Order book and Book to bill

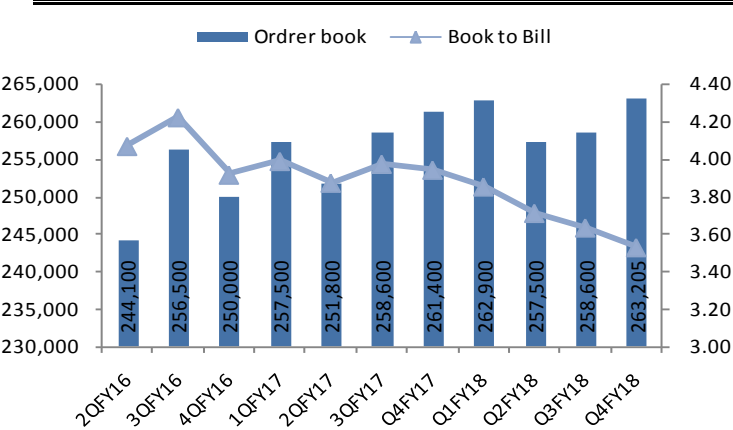


Exhibit: Q4FY18 Order book Break Up

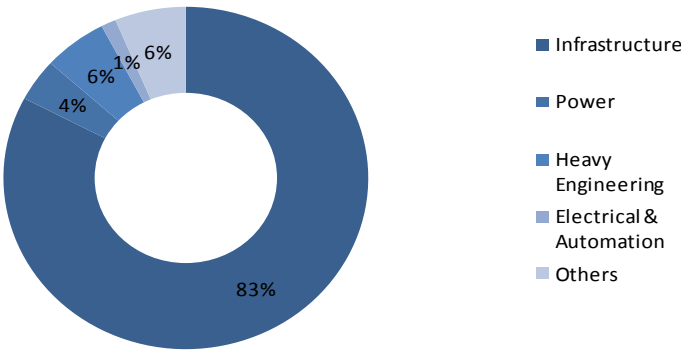


Exhibit: Order Book Mix

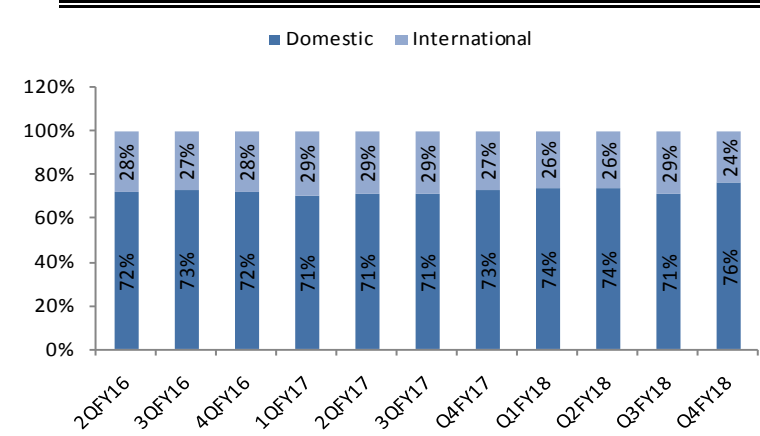


Exhibit: Order Inflow Mix

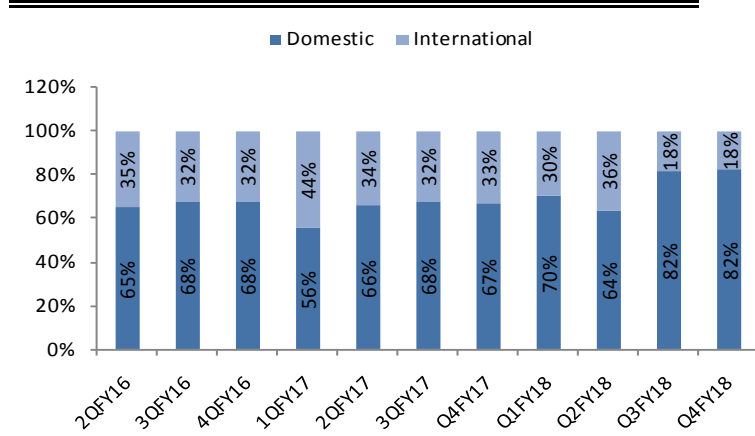


Exhibit: EBITDA and EBITDA margin trend

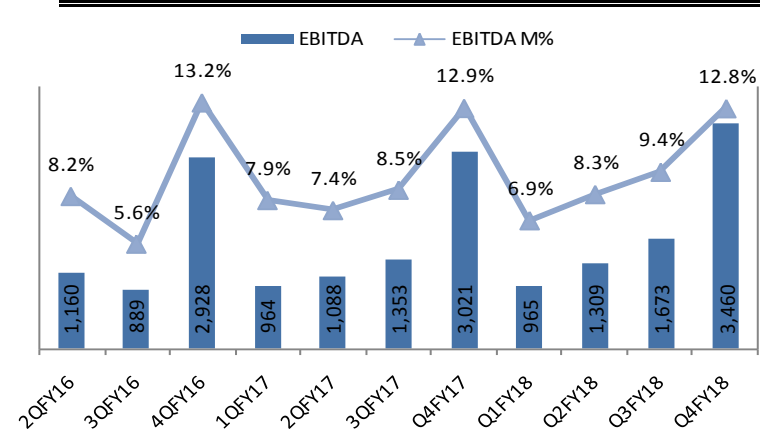
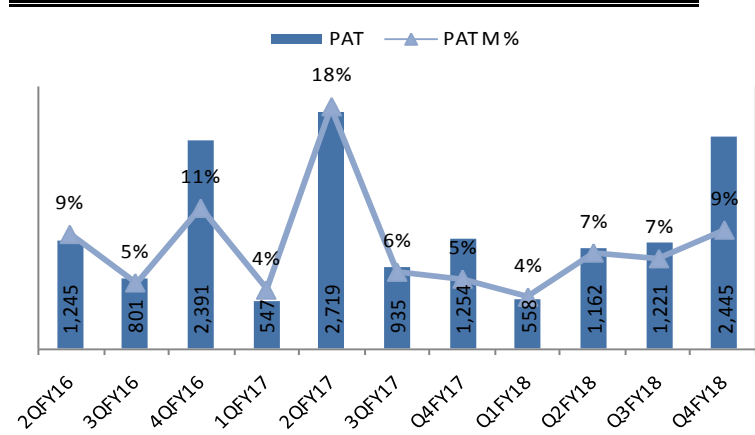


Exhibit: PAT and PAT margin trend



## Financials 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	79,915	92,580
Change (%)	14%	-7%	1%	12%	4%	13%	7%	16%
<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>8,133</b>	<b>9,358</b>
Change (%)	2%	4%	-3%	-10%	10%	16%	9%	15%
Margin (%)	11%	12%	11%	9%	10%	10%	10%	10%
Depr & Amor.	818	792	1,008	997	1,215	1,049	1,121	1,109
<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>7,012</b>	<b>8,250</b>
Int. & other fin. Cost	982	1,076	1,419	1,477	1,318	1,432	1,504	1,579
Other Income	1,851	1,881	2,283	2,341	1,972	1,885	1,905	1,905
<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>9,319</b>	<b>10,481</b>
Exp Item	254	589	357	560	894	431	-	-
Tax	1,801	1,775	1,645	1,256	1,304	1,875	1,853	2,144
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<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>7,466</b>	<b>8,337</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>7,466</b>	<b>8,337</b>
Change (%)		7%	-5%	-5%	4%	7%	47%	12%
Margin(%)	8%	9%	8%	7%	7%	7%	9%	9%

### 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	53,416	58,466
<b>Networth</b>	<b>29,143</b>	<b>33,662</b>	<b>38,553</b>	<b>42,135</b>	<b>46,013</b>	<b>49,174</b>	<b>53,696</b>	<b>58,746</b>
Debt	8,006	9,354	12,429	12,488	9,469	9,625	10,961	11,567
Other Non Cur Liab	1,030	803	449	450	563	583	583	583
<i>Total Capital Employed</i>	<i>37,148</i>	<i>43,016</i>	<i>50,982</i>	<i>54,624</i>	<i>55,482</i>	<i>58,799</i>	<i>64,657</i>	<i>70,313</i>
<i>Net Fixed Assets (incl CWIP)</i>	<i>8,902</i>	<i>8,237</i>	<i>8,200</i>	<i>8,128</i>	<i>7,548</i>	<i>7,593</i>	<i>7,501</i>	<i>7,423</i>
<i>Non Cur Investments</i>	<i>10,523</i>	<i>15,168</i>	<i>17,446</i>	<i>19,188</i>	<i>19,777</i>	<i>22,994</i>	<i>22,994</i>	<i>22,994</i>
<i>Other Non Cur Asst</i>	<i>3,746</i>	<i>3,784</i>	<i>4,704</i>	<i>5,214</i>	<i>4,779</i>	<i>5,452</i>	<i>5,546</i>	<i>5,546</i>
Non Curr Assets	23,171	27,190	30,350	32,530	32,104	36,040	36,042	35,963
Inventory	2,064	1,983	2,261	1,955	1,763	2,500	2,678	3,102
Debtors	22,613	21,539	16,790	18,967	19,920	24,454	26,193	30,343
Cash & Bank	1,456	1,783	3,021	3,570	3,802	4,318	3,051	3,399
<b>Other Curr Assets</b>	<b>22,870</b>	<b>25,810</b>	<b>36,783</b>	<b>42,598</b>	<b>44,220</b>	<b>47,910</b>	<b>52,766</b>	<b>61,871</b>
<i>Curr Assets</i>	<i>49,003</i>	<i>51,115</i>	<i>58,854</i>	<i>67,091</i>	<i>69,705</i>	<i>79,182</i>	<i>84,687</i>	<i>98,716</i>
Creditors	16,731	16,345	18,376	22,216	24,032	31,097	28,966	33,557
Provisions	2,084	13,922	801	897	1,092	1,102	1,316	1,525
Other Curr Liab	15,181	16,027	18,700	21,434	21,027	24,029	25,594	29,089
Curr Liabilities	33,996	46,294	37,878	44,547	46,151	56,228	55,877	64,171
<b>Net Curr Assets</b>	<b>15,007</b>	<b>4,821</b>	<b>20,976</b>	<b>22,543</b>	<b>23,554</b>	<b>22,954</b>	<b>28,810</b>	<b>34,545</b>
<b>Total Assets</b>	<b>72,174</b>	<b>78,305</b>	<b>89,346</b>	<b>1,04,648</b>	<b>1,02,197</b>	<b>1,15,610</b>	<b>1,21,117</b>	<b>1,35,067</b>

Financials Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	6,457	6,679	6,344	5,695	5,864	7,262	9,319	10,481
(inc)/Dec in Working Capital	(3,056)	(4,203)	(2,143)	(1,490)	831	(2,195)	(6,401)	(3,492)
Non Cash Op Exp	818	792	1,008	997	1,215	1,049	1,121	1,109
Int Paid (+)	982	1,076	1,419	1,477	1,318	1,432	1,504	1,579
Tax Paid	1,868	1,977	1,725	1,616	1,519	1,875	1,853	2,144
others	(1,220)	(1,321)	(1,760)	(1,764)	(1,561)	-	-	-
CF from Op. Activities	2,115	1,047	3,143	3,300	6,147	6,138	3,690	7,534
(inc)/Dec in FA & CWIP	(1,505)	(1,015)	(953)	(1,087)	(749)	(1,095)	(1,029)	(1,030)
Free Cashflow	610	32	2,190	2,213	5,398	5,044	2,661	6,504
(Pur)/Sale of Inv	1,109	(1,195)	(3,063)	532	(2,332)	(580)	(816)	(1,895)
others	861	996	2,106	(967)	3,112	-	-	-
CF from Inv. Activities	465	(1,214)	(1,909)	(1,522)	31	(1,675)	(1,845)	(2,925)
inc/(dec) in NW	163	144	99	70	53	94	-	-
inc/(dec) in Debt	(1,182)	2,612	1,015	321	(3,110)	(505)	1,336	606
Int. Paid	856	1,025	1,150	1,209	1,153	1,432	1,504	1,579
Div Paid (inc tax)	1,115	1,227	1,401	1,647	1,843	2,104	2,944	3,287
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(2,990)	504	(1,437)	(2,464)	(6,052)	(3,948)	(3,112)	(4,260)
Inc(Dec) in Cash	(411)	337	(203)	(687)	127	515	(1,266)	348
Add: Opening Balance	1,905	1,457	1,794	2,765	2,078	3,802	4,318	3,051
Closing Balance	1,495	1,794	1,591	2,078	2,205	4,317	3,051	3,399

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	17%	16%	13%	12%	12%	11%	14%	14%
ROCE	15%	14%	11%	9%	9%	11%	11%	12%
Asset Turnover	0.84	0.72	0.64	0.61	0.65	0.65	0.66	0.69
Debtor Days	136	139	107	108	110	120	120	120
Inv Days	12	13	14	11	10	12	12	12
Payable Days	100	105	118	127	132	152	132	132
Int Coverage	5.69	5.46	3.86	3.26	3.95	4.45	4.66	5.22
P/E	10	14	26	24	20	29	14	12
Price / Book Value	2	2	3	3	2	3	2	2
EV/EBITDA	8	12	21	22	18	21	13	11
FCF per Share	10	0	24	24	58	36	29	70
Div Yield	2%	2%	1%	1%	2%	1%	2%	3%

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