NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

Larsen & Toubro Ltd.

"On Track of Revival………"

"Neutral"
24th Jan' 14

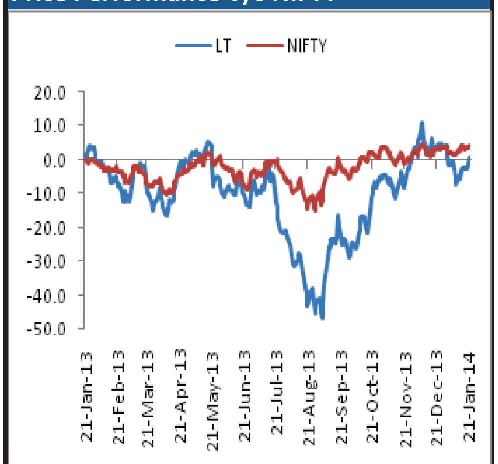
Result update	Neutral
CMP	1033
Target Price	NA
Previous	NA
Upside	NA
Change from	NA

Market Data	
BSE Code	500510
NSE Symbol	LT
52wk Range	861/114
Mkt Capital	80,145
Average Daily	95,662
Nifty	6,346

Stock Performance-%			
	1M	1yr	YTD
Absolute	(2.7)	0.8	13.5
Rel. to Nifty	1.1	4.6	11.6

Share Holding Pattern-%			
	3QFY14	2QFY14	1QFY14
Promoters	0.0	0.0	0.0
FII	17.9	15.3	16.1
DII	36.6	37.4	36.9
Others	45.5	47.4	47.2

Price Performance V/s NIFTY



Construction & engineering major, L&T posted a surprisingly set of numbers for the quarter ended Dec, 13. The company's net sales grew by a mere 11.8% on a yearly basis to Rs 14387.5crore. The company recurring bottom line witnessing a upstik of 12.15% , and came in at Rs. 1136.3 crore. the results have been adjusted for the quarter as it transferred hydrocarbon business to its subsidiary L&T Hydrocarbon Engineering with effect from April 1, 2013. Accordingly, the company restated suitably its earnings for the previous quarter ended September 2013 and numbers relating to previous periods. However, if we If we consider the exceptional gains on dilution of part stake in a subsidiary company, the overall PAT grew by 22.1 % during the quarter. While the operational performance has been good, the company has witnessed good traction in its order book also. Order inflow for the quarter stood at Rs 21722 crore showing a growth of 21% on Y-o-Y basis. The total order book as on December 31st 2013 stood at Rs 171184 crore showing an increase of 13 % on Y-o-Y basis. EBITDA margins for the Dec 2013 quarter expanded by 180 bps to 11.6% against 9.8% last year. However, as per the management, the quarterly margins differ for every quarter as the project completion cycle is different and hence it is difficult to capture the EBITDA movement every quarter. Though we agree with the management's comment, we still believe that there would be some amount of pressure on the margins on a yearly basis due to risks related to competition, inflation, adverse mix and a slowdown. As regards the results we are of the opinion that, despite the gloomy scenario the results have been good. Consistent order inflow is a major positive factor. We expect the sector to witness revival in coming quarters, whereas we see a near term earnings growth muted and look for a better entry point. Currently we

Why neutral…???

Contribution margin expansion came as a surprise and in our recent meeting the management attributed it to quarterly skews rather than improvement in project-level profitability. We build slightly higher margins for FY2014E at 10.9% (versus 10% earlier). However, we believe margins face downward trajectory over FY2014-16E (build EBITDA margin of 10.5% in FY2015E and 10.3% in FY2016E) due to risks related to competition, inflation, adverse mix and a slowdown. L&T maintained its revenue growth guidance of 15% yoy for FY2014 (9% posted in 9MFY14). We build lower revenue growth of 12% in FY2014 implying 16% growth requirement in 4QFY14. L&T also maintained its inflow guidance of 15-20% in FY2014 (strong 23% growth in 9MFY14; but is a bit wary about maintaining this traction on delayed decision making by customers).

Outlook

We have a **Neutral** on L&T as we think it will be difficult rate L&T from today's level without earnings upgrade and/or uncertainty across sector. Downside risks are project delays, weaker margins and stronger Rupee. Upside risks are higher than expected order inflow and higher operating margins a head.

Financials **Rs, Crore**

	3QFY14	2QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	14387.5	12308.4	16.9%	12869.3	11.8%
EBITDA	1674.8	1185.7	41.3%	1258.3	33.1%
PAT	1240.7	864.6	43.5%	1013.2	22.4%
EBITDA Margin	11.6%	9.6%	200 bps	9.8%	180 bps
PAT Margin	8.4%	6.8%	160 bps	7.5%	90 bps

(Source: Company/ Eastwind Research) **(Standalone)**