

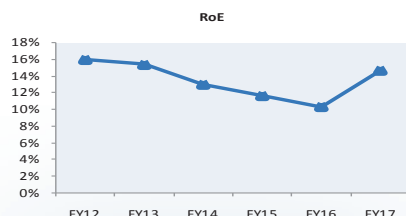
LT
HOLD
31-May-17

INDUSTRY - Con. & Eng.
BSE Code - 500510
NSE Code - LT
NIFTY - 9624

Company Data

CMP	1766
Target Price	1860
Previous Target Price	1780
Upside	5%
52wk Range H/L	1834/1295
Mkt Capital (Rs Cr)	1,64,895
Av. Volume (,000)	

RoE will maintain over 13%

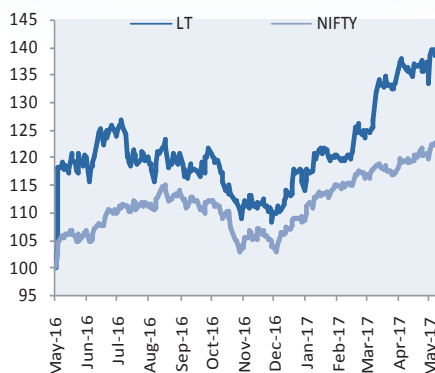


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	-	-	-
Public	100.0	100.0	100.0
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	1.1	20.2	19.8
Rel.to Nifty	(2.4)	11.8	1.8



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Key Highlights of the Report:

- ✓ Infrastructure, Financial Services and IT business lead to revenue growth of 12% YoY in Q4FY17.
- ✓ Higher provision at L&T Financial Holding and impairment of sea woods and Hazira yard depressed EBITDA. EBITDA margin down by 190 bps YoY in Q4FY17.
- ✓ Strong opening order book ensures healthy revenue growth on 10-11% in FY18 with improvement in EBITDA margin.
- ✓ Management expect 10-15% growth in order inflow in FY18.
- ✓ Considering the strong revenue growth along with margin and working capital improvement we recommend "HOLD" with revised target price of 1860.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	92,005	1,01,975	1,10,011	1,21,562	1,35,069
EBITDA	11,336	10,465	11,075	12,642	14,047
EBIT	8,713	8,678	8,705	10,418	11,575
PAT	4,765	4,547	6,485	6,771	7,523
EPS (Rs)	51	49	70	73	81
EPS growth (%)	-3%	-5%	42%	4%	11%
ROE (%)	11.6%	10.3%	14.7%	13.1%	13.4%
ROCE (%)	7.1%	6.4%	7.2%	7.8%	8.3%
BV	440	473	474	538	553
P/B (X)	3.9	2.6	3.3	3.3	3.2
P/E (x)	33.5	24.9	22.4	24.3	21.9

Recent Development

- ✓ The construction arm of L&T has secured orders worth of 5146 Cr across various business segments on 30th May 2017. These orders are over and above of 2613 bn of order book at the end of the year.
- ✓ Power Transmission & Distribution segment has secured major orders worth of 2780 Cr from domestic and international markets.
- ✓ Another big order of 1292 Cr from Government of Gujarat for EPC work for Sauni Yojana link 2 package.
- ✓ L&T has secured small orders of 221 Cr in smart world & communication, 534 Cr in B&F, 319 Cr in Metallurgical and material and rest from the ongoing jobs.
- ✓ Board of directors has approved issue of bonus share to the equity share holders in the ratio of 1:2, which is the subject of shareholders approval.

Quarterly Performance (In Cr)

Financials								Yearly figure in Bn		
	4QFY16	1QFY16	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Sales	32,876	21,719	24,924	26,018	36,828	12%	42%			
Other Operating Income	-	155	98	269	-					
Net Sales	32,876	21,874	25,022	26,287	36,828	12%	40%	1,020	1,100	8%
Other Income	145	302	470	257	399	175%	56%	9	14	55%
COGS	12,539	7,576	9,082	9,495	13,101	4%	38%	366	388	6%
Finance cost of Fin. Serv	3,429	3,420	3,437	3,497	3,500	2%	0%	50	54	8%
Employee Expenses	1,341	1,322	1,355	1,332	1,340	0%	1%	133	139	4%
Sub contracting	6,497	3,562	4,879	5,148	8,346	28%	62%	208	226	9%
Other Mfg. Con.Exp.	3,038	2,515	2,521	2,640	3,807	25%	44%	100	113	13%
Other Exp.	1,535	1,574	1,452	1,652	2,398	56%	45%	58	70	22%
Total Expenditure	28,381	19,969	22,725	23,764	32,492	14%	37%	915	989	8%
EBITDA	4,495	1,905	2,297	2,523	4,336	-4%	72%	105	111	6%
EBITDA M%	13.7	8.7	9.2	9.6	11.8	-14%	23%	10.3	10.1	-2%
Depreciation	424	465	460	722	723	70%	0%	18	24	33%
EBIT	4,070	1,440	1,837	1,800	3,613	-11%	101%	87	87	0%
Intreset	439	338	340	379	297	-32%	-22%	17	13	-19%
Exceptional Item	(49)	-	(402)	-	281			1	1	28%
PBT	3,776	1,405	1,967	1,678	3,716	-2%	121%	80	89	11%
Tax	1,009	549	681	440	337	-67%	-23%	25	20	-19%
PAT	2,590	494	1,513	812	3,405	31%	319%	45	65	43%

EBITDA Margin down by 190 bps due to higher provision and impairment

Higher provision at L&T Finance Holding and Impairment depressed EBITDA

- ✓ Total consolidated sales in Q4FY17 up by 12% YoY to 36828 Cr on back of strong growth in Infrastructure (9% YoY), Financial Services (11% YoY) and IT business (8% YoY)
- ✓ LT has reported EBITDA of 4336 Cr down by 3.5% YoY. EBITDA was impacted due by 630 Cr of provision in L&T Finance holding and 240 Cr of impairment in seawoods and Hazira Yard. EBITDA margin during the quarter stood at the 11.8%, down 190 bps YoY.
- ✓ However, PAT has grown by 29.5% YoY to 3405 Cr as compared to 2590 Cr a year back. Higher other income and lower tax has helped to post 8.2% PAT margin as against 7.1% (up by 110 bps).

Analyst Meet Highlights :-

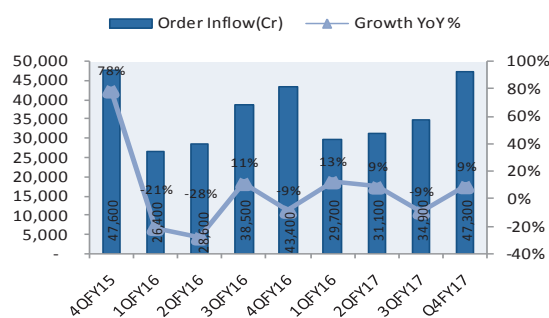
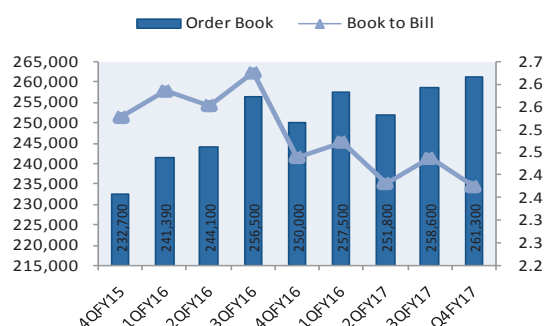
- ✓ Management targeting 12% Revenue growth in FY18
- ✓ Order inflow during the Q4FY17 was 47300 Cr and 14300 Cr in FY17. Management expects 12-15% growth in FY18
- ✓ EBITDA margin will improve by 25 bps in FY18
- ✓ Working capital improved from 23% of sales at the start of the year to 19% of sales at the end of Q4FY17
- ✓ LT will focus submarine building through strategic partnership
- ✓ LT looking to sales some of the assets to improve RoCE.
- ✓ Companies aim is to grow at a 12-15% CAGR to achieve 2 tn sales by 2021
- ✓ Mgt. expects to pick up in Power business after two years once manufacturing picks up
- ✓ Sharp margin improvement in Hydrocarbon business from -1.7% to 9.8% in Q4FY17
- ✓ Heavy Eng. margin improved to 27.6% from 2.5% in Q4FY17 based on operational efficiency and closure of legacy projects
- ✓ Order book at the end of the year stands at 261300 Cr (5% Up YoY) post cancellation of 18000 Cr of slow moving orders. Recently LT has secured order worth of 5146 Cr across various vertical.

Order Book Break Up

Order Book										In Bn.
	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Infrastructure	1,875	1,906	1,863	1,940	1,934	3%	0%	1,875	1,934	3%
Power	200	180	176	155	131	-35%	-16%	200	131	-35%
Metallurgical	100	-	-	-	-			100	-	
Heavy Engineering	75	77	76	78	131	74%	68%	75	131	74%
E&A	25	26	25	26	26	5%	1%	25	26	5%
Hydrocarbon	150	206	201	207	261	74%	26%	150	261	74%
Others	75	180	176	181	131	74%	-28%	75	131	74%
Total	2,500	2,575	2,518	2,586	2,613	5%	1%	2,500	2,613	5%

Strong Order Book led by Hydrocarbon and Heavy Eng.

- ✓ LT ends the FY17 with orders of 2613 bn in hands, which is up by 5% YoY. Strong order inflow in Hydrocarbon and Heavy Engineering helped to grow order book in FY17
- ✓ Order inflow is up by 9% and 4% YoY in 4QFY17 and FY17 respectively. Order inflow in Hydrocarbon and Heavy Engineering increased 2x and 1.45x respectively in FY17.
- ✓ Order inflow in Infrastructure segment remained depressed during FY17. Order inflow was down by 5% YoY to 726 bn as compared to 767 bn a year ago.
- ✓ **Strong Order Book :-** Order book at the end of the FY17 stands at 2613 bn, which is the 2.3x of TTM revenue. Strong order book at the end of the year provides healthy revenue visibilities going ahead. Management has guided for the 10-12% revenue growth in FY18 with 25 bps improvement in EBITDA margin and it will be achievable considering the healthy order book at the start of the year. LT expects 10-15% order inflow in FY18.
- ✓ **Working Capital Improvement:-** Management's continuous focus on working capital management has resulted into lower interest outgo during the year. Interest cost has come down by 19% YoY despite growth in top line on consolidated basis. Working capital has come down from 23% to 19% of sales in FY17 and management has guided for 18% in FY18.



Outlook and Valuation :-

LT's continuous focus on improving RoE and its strategic five years plan to grow at 12-15% CAGR to achieve 2 trillion sales by 2021 with improvement in EBITDA margin. Strong order book at the opening of the year ensures the healthy revenue growth going ahead. We expect 10-11% revenue growth in FY18 and FY19 considering the current order book and healthy order inflow. EPS will grow 4% and 11% in FY18 and FY19 respectively. We expect RoE to remain over 13% going ahead. Considering the strong revenue growth along with margin and working capital improvement we recommend "HOLD" with revised target price of 1860.