

Industry	Eng. & Cons.	Strong revenue growth maintained, bid pipeline to remain robust
Bloomberg	LT IN	
BSE CODE	500510	

RATING	BUY
CMP	1317
Price Target	1808
Potential Upside	37%
Rating Change	↔
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	1459/1168
Mkt Capital (Rs Cr)	184767
Free float (%)	87%
Avg. Vol 1M (,000)	2293
No. of Shares (Cr)	140
Promoters Pledged %	0

Research Analyst

SANDIP JABUANI

sandip.jabuani@narnolia.com

+91-22-62701228

4QFY19 Result Update

- The Net sales grew by 11% YoY on account of strong contribution from Infrastructure, Services business and Hydrocarbon business.
- Growth trajectory of Infra business is continuing with revenue growth of 11% YoY in Q4FY19 and 15% for the full year FY19. Large opening order book and healthy collection has enabled the growth.
- Power business continues to decline on account of lower order book and high competition. Revenue was down by 38% YoY for Q4FY19 and 36%.
- EBITDA growth was up by 3.9% YoY on account of lower than expected margin. Margin was down due to lower margin of Infrastructure business.
- The margins in the infrastructure segment were down by 120 bps on account of increase in commodity prices, job mix and one time provision of Rs 300 Cr.
- PAT grew by 14% YoY on the back of higher other income and lower tax during the quarter. Higher other income on account of treasury income on liquid investment.
- Finance cost was up by 21% YoY on account of operation commencement of Hyderabad Metro.
- Order inflow saw a growth of 14% on account of inflows from international Hydrocarbon orders. The order inflow grew 16% for the full year FY19.

View and Valuation

Larsen and Toubro come up with another strong set of numbers in Q4FY19. Revenue was up by 11% YoY led by strong growth in Infrastructure (up by 11% YoY) Services business (up by 19% YoY) and Hydrocarbon (up by 21% YoY). Robust 14% growth in Order inflow led by the International market (up by 72% YoY) while Domestic order inflow (up by 2%) was impacted due to election. Current bid pipeline looks strong with Rs 9-10 lakh Cr worth of orders are lined up. Though, the H1FY20 may be impacted due to ongoing election but H2FY20 is expected to come back strongly. We have built in 10-12% growth in order inflow in FY20. We increase our FY20E revenue estimates by 4%. **We value LT standalone business at Rs.1219 (24x FY20 EPS) and subsidiaries at Rs.590 per share. Maintain BUY rating on the stock.**

Key Risks to our rating and target

- Order inflow during H1FY20 considering the elections
- Delay in execution

KEY FINANCIAL/VALUATIONS(\$t)	FY16	FY17	FY18	FY19	FY20E
Net Sales	63813	66301	74612	86988	98620
EBITDA	5817	6422	7429	8684	10067
EBIT	4820	5207	6379	7616	8863
PAT	5071	5608	5336	6203	7116
EPS (Rs)	54	60	38	44	51
EPS growth (%)	0%	10%	-37%	16%	15%
ROE	12%	12%	11%	12%	13%
ROCE	9%	9%	11%	13%	13%
BV Per Share	452	493	351	375	406
P/B (X)	3.3	2.9	4.1	3.8	3.5
P/E (x)	27.3	23.9	37.7	32.4	27.8
EV/EBITDA	24.9	21.6	27.4	23.1	19.5

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4QFY19 Results

Strong Performance

Financials	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	40,678	28,283	32,081	35,709	44,934	10%	26%	119,862	141,007	17.6%
Other	433	244	425	606	621	44%	2%	1,430	1,897	32.6%
COGS	14,392	9,063	11,046	13,597	17,917	24%	32%	42,008	51,623	22.9%
Emp. Exp.	4,128	4,282	4,569	4,607	4,655	13%	1%	15,291	18,112	18.4%
Sub-	-	-	-	-	-			179	-	
Mfg Exp	1,577	1,655	1,788	1,976	1,967	25%	0%	6,020	7,386	22.7%
Other Exp.	9,485	5,095	5,770	6,095	9,354	-1%	53%	24,639	26,313	6.8%
Total Exp.	35,288	25,370	28,310	31,713	39,335	11%	24%	106,309	124,728	17.3%
EBITDA	5,390	2,913	3,771	3,996	5,599	4%	40%	13,553	16,279	20.1%
Dep	492	645	516	449	475	-4%	6%	1,929	2,084	8.1%
EBIT	4,898	2,268	3,255	3,547	5,124	5%	44%	11,625	14,195	22.1%
Intreset	418	365	399	535	507	21%	-5%	1,539	1,806	17.4%
Except.	-	-	(295)	-	-			(123)	(295)	139.7%
PBT	4,913	2,148	3,281	3,619	5,239	7%	45%	11,516	14,286	24.1%
Tax	1,458	935	886	1,200	1,323	-9%	10%	3,199	4,343	35.8%
PAT	3,338	1,472	2,593	2,362	3,789	14%	60%	8,286	10,217	23.3%

Revenue growth remained strong, one time provision hits the margin

In 4QFY19, L&T reported revenue growth of 11% YoY led by the infrastructure segment which grew by 11% YoY on account of robust order book conversion across business verticals. Though, it was lower compared to expectation due to issues like mining ban, design change and delay in approval process. Heavy engineering segment which was grew by 58% driven by the orders from Oil & Gas sectors. Services business has reported strong growth of 23% YoY. Execution of tracked artillery gun has led to strong growth of 15% YoY in Defense business. Hydrocarbon business reported growth of 22% YoY backed higher order book. EBITDA during the quarter grew by 4% YoY to Rs 5599 Cr while EBITDA margin was down by 80 bps on account of lower margin in Infrastructure business. Infrastructure margin was impacted due to increase in commodity prices, job mix and one time provision of Rs 300 Cr. Margin in Hydrocarbon, Services business, Heavy Engineering and E&A segment has improved in range of 90-530 bps. However, quarter has accounted 14% growth in PAT on account of higher other income (on liquid investment made by the company) and lower tax rate.

Robust order Inflow with healthy bid pipeline

Order Inflow during the quarter was up by 14% YoY to Rs 56.5 bn led by the strong growth in International orders. International orders were up by 72% YoY to Rs 14.9 bn compared to Rs 8.7 bn. On the other hand domestic order inflow was flat (up by only 2% YoY) to Rs 41.5 bn on account of election. Some of the big orders from International market in Hydrocarbon business (up by 75%) has helped to post strong growth. Stability in oil prices will further improves the outlook. Power business has reported order inflow of Rs 9 bn at 21% growth YoY. Retrofitting of old plants (40 GW) with emission control equipment increase the opportunity. Currently, total bid pipeline is robust with Rs 9-10 lakh Cr of projects are in pipeline across the segment. Rs 4.5 lakh Cr contributes by Infrastructure projects, out of it 1 lakh Cr is from Power T&D and Rs 0.5 lakh Cr from Power Generation. SAARC countries especially Bangladesh is big area for Power T&D and Railway projects. General outlook in Middle East is positive led by the Saudi, Qatar and Kuwait though the competition is intensified. Still private capex has not picked up in meaningful way and market is dependent on public sector. Based on this management is confident about 10-12% growth in Order inflow in FY20.

Continuous focus on RoCE Improvement

Management is fully focused towards the betterment of the return profile. Company continuously moving away from the noncore and lower margin business and focused on to increase revenue contribution of high margin Services (IT and Finance) business. Company has received CCI approval for the sales of Electronics and Automation business and proceed will be utilize to increase the services business. In FY19 RoCE has improved by 950 bps to 9.63% and it will increase further.

Analyst meet

- Management expects 10-12% growth in order inflow for FY20.
- Revenue will grow by 15-20% in FY20 with stable EBITDA margin (10.5%).
- Bid pipeline is 9-10 lakh Cr and company's strike rate is 20%. 4.5 lakh Cr of bid pipeline from Infrastructure alone and out of it 1 Lakh Cr from Power T&D and 0.5 Lakh Cr from Power Generation. Around 2-2.5 Lakh Cr from Hydrocarbon business.
- Market is continuing to dependent on Central or State government Capex while private sector companies are do not coming up with large ticket orders.
- Order inflow in H1FY20 will be impacted due to ongoing general election but expect strong traction in second part.
- Company do not expect traction in defense business due to election in FY20 as the 8-9 months is shorter period for any government to take decision but from next year management expect strong traction.
- Government's financial position is tight but government will fund the projects from multilateral agencies and through monetization of assets. Foreign funding will be another source of funding in some of the projects.
- General outlook in Middle East is positive led by the Saudi, Qatar and Kuwait but the competition is intensified. Water and waste water treatment business in Middle East showing good traction.
- Bangladesh is the big area for power T&D and Railway business.
- In Africa most of the projects are multilateral agency funded so no risk related to delay in the payment. In Africa competition from Chinese and Korean players is high but the pie is big enough to take projects at decent margin. Additionally, Chinese and Korean players bid in selective pockets.
- To counter the competition company is increasing the localization and tie up with the other companies. JV route is also preferable for the clients as well.
- Before taking any projects company consult with the special consultant and peer companies regarding the payment terms and other condition.
- Large opening order book of infra and healthy collections led to full swing of execution.
- Lower margin in infra business due to commodity price increases, job mix and some provision of Rs 300 Cr in Q4FY19. Margin will improve in FY20 of infra business.
- Airport and Hospitals are driving the Factory and Building segment growth.
- Over capacity and cut throat competition led to decline in power business performance.
- 40 MG of old power plant will be going under Retrofitting in FY20 with emission control equipment (FGD & SCR) provides new business opportunity.
- During the year revenue from realty business was higher as the 1500 flats were handed over out of 4000 flats. Remaining flats will be completed in next 2 years. Currently 3 residential projects are going on. Management expects traction in residential sales in Mumbai.
- Now company will develop commercial real estate property and lease out the space.
- Net working capital as % of sales has come down by 200 bps to 18% and it will remain in 15-18% range going ahead.

Revenue Mix (In Rs. Cr)

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	12,790	14,923	24,349	12,331	15,408	18,371	27,094	11%	47%
Power	1,667	1,270	1,507	1,081	1,060	908	934	-38%	3%
Heavy Engineering	362	391	504	377	544	693	899	78%	30%
Defence Engineering	986	740	964	734	962	1,045	1,108	NA	6%
E&A	1,309	1,287	1,643	1,324	1,490	1,565	1,716	4%	10%
Hydrocarbon	2,561	3,090	3,559	3,516	3,558	3,778	4,324	21%	14%
IT & TS	2,724	2,915	3,152	3,356	3,606	3,764	3,827	21%	2%
Financial Services	2,413	2,634	2,722	3,058	3,139	3,259	3,182	17%	-2%
Develop. Projects	1,218	1,213	1,217	1,494	1,297	1,194	1,083	-11%	-9%
Others	905	961	1,626	1,373	1,488	1,661	1,413	-13%	-15%
Total	26,936	29,425	41,243	28,644	32,552	36,237	45,580	11%	26%

Order Book (In Rs.Bn)

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	1,906	2,003	1,955	2,106	2,182	2,192	2,218	13%	1%
Power	103	108	95	82	93	82	70	-26%	-15%
Heavy Engineering	129	135	134	41	51	48	47	-65%	-3%
Defence engineering	-	-	-	117	121	114	114	NA	NA
E&A	26	27	32	30	31	28	26	-16%	-7%
Hydrocarbon	258	298	267	283	278	318	399	50%	25%
Others	155	135	150	60	56	57	59	-61%	3%
Total	2,575	2,707	2,632	2,717	2,812	2,840	2,934	11%	3%

Order Inflow (In Rs.Bn)

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	141	250	283	194	234	219	306	8%	39%
Hydracarbon	29	58	51	48	27	78	89	75%	15%
Power	3	10	8	1	25	1	10	21%	1286%
Heavy Engineering	11	19	19	14	13	5	13	-31%	153%
Defence Engineering	-	-	-	0	13	5	10	NA	NA
E&A	14	19	18	13	16	16	19	5%	20%
Services	63	87	83	79	81	81	102	23%	26%
Others	26	38	34	11	12	17	16	-51%	-4%
Total	287	481	496	360	421	422	565	14%	34%

Margin Performance (%)

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY (+/-)	QoQ (+/-)
Infrastructure	7.5	7.8	13.5	6.8	6.8	5.4	12.3	(120)	690
Hydracarbon	10.9	8.0	5.9	7.0	9.9	8.2	9.8	390	160
Power	5.4	2.5	4.2	4.1	6.0	2.4	4.7	50	230
Heavy Engineering	15.4	18.8	19.8	36.1	24.2	20.5	22.8	300	230
Defence Engineering	10.6	-	13.3	11.1	25.0	9.0	18.6	530	960
E&A	15.3	17.3	19.7	13.3	17.8	17.4	20.6	90	320
Others	13.1	15.3	29.6	26.5	23.1	47.2	13.9	(1,570)	(3,330)

Exhibit: Order Book and Book to Bill

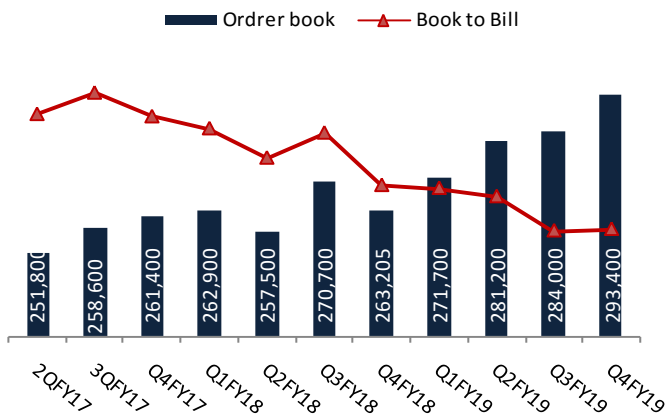


Exhibit: Order Book Mix

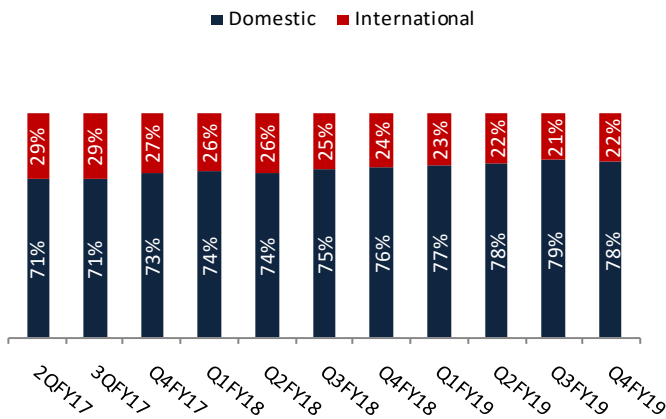


Exhibit: EBITDA and EBITDA margin trend

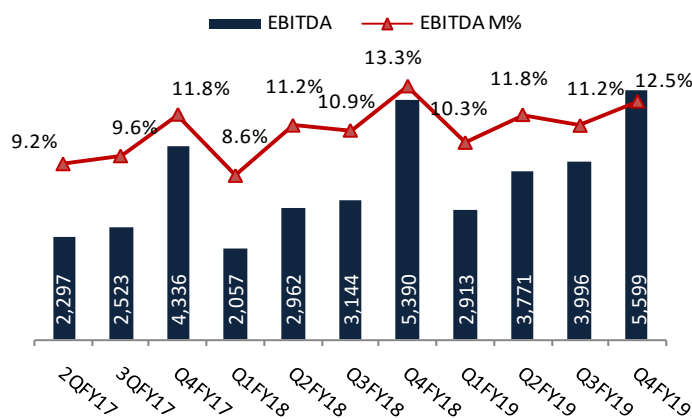


Exhibit: Order Book Break Up (Q4FY19)

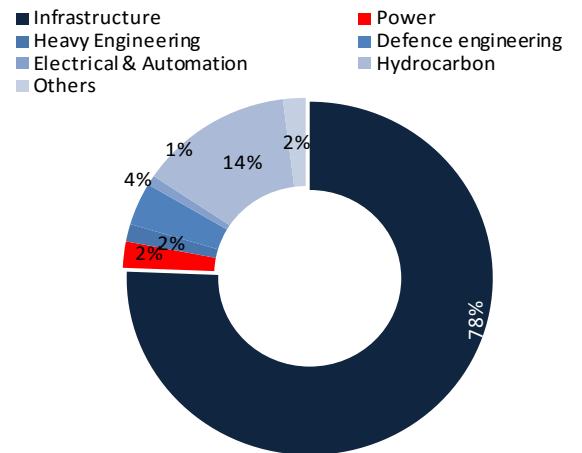


Exhibit: Order Inflow Mix

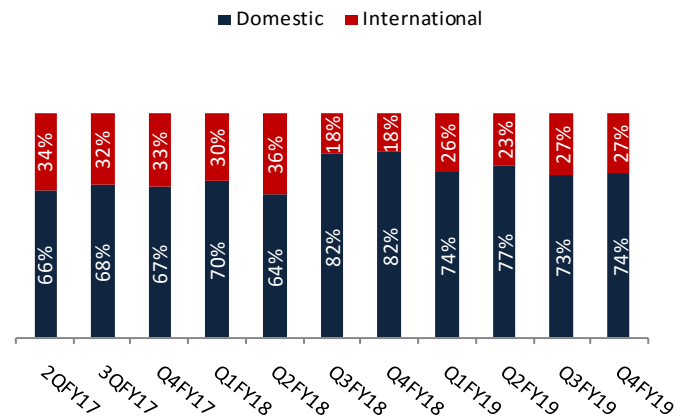
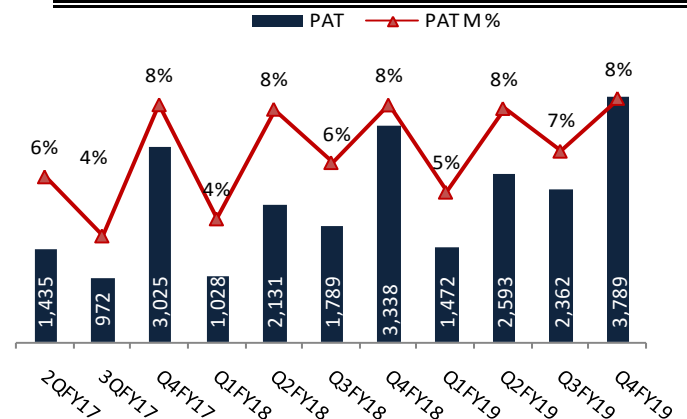


Exhibit: PAT and PAT margin trend



Financial Details (Standalone)

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	60,873	56,599	57,017	63,813	66,301	74,612	86,988	98,620
Change (%)	14%	-7%	1%	12%	4%	13%	17%	13%
EBITDA	6,407	6,667	6,488	5,817	6,422	7,429	8,684	10,067
Change (%)	2%	4%	-3%	-10%	10%	16%	17%	16%
Margin (%)	10.5%	11.8%	11.4%	9.1%	9.7%	10.0%	10.0%	10.2%
Depr & Amor.	818	792	1,008	997	1,215	1,049	1,068	1,204
EBIT	5,589	5,875	5,480	4,820	5,207	6,379	7,616	8,863
Int. & other fin. Cost	982	1,076	1,419	1,477	1,318	1,432	1,641	1,794
Other Income	1,851	1,881	2,283	2,341	1,972	1,885	2,769	2,954
EBT	6,711	7,268	6,701	6,245	6,755	7,262	8,743	10,022
Exp Item	254	589	357	560	894	431	475	-
Tax	1,801	1,775	1,645	1,256	1,304	1,875	2,540	2,906
Minority Int & P/L share of As:	-	-	-	-	-	-	-	-
Reported PAT	4,911	5,493	5,056	4,989	5,451	5,387	6,203	7,116
Adjusted PAT	4,725	5,048	4,787	4,541	4,729	5,068	5,866	7,116
Change (%)		7%	-5%	-5%	4%	7%	16%	21%
Margin(%)	7.8%	8.9%	8.4%	7.1%	7.1%	6.8%	6.7%	7.2%

Balance sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	123	185	186	186	187	280	281	280
Reserves	29,020	33,476	38,367	41,949	45,826	48,894	52,270	56,580
Networth	29,143	33,662	38,553	42,135	46,013	49,174	52,551	56,861
Debt	8,006	9,354	12,429	12,488	9,469	9,625	6,060	13,419
Other Non Cur Liab	1,030	803	449	450	563	583	552	552
Total Capital Employed	37,148	43,016	50,982	54,624	55,482	58,799	58,611	70,279
Net Fixed Assets (incl CWIP)	8,902	8,237	8,200	8,128	7,548	7,593	7,934	8,337
Non Cur Investments	10,523	15,168	17,446	19,188	19,777	22,994	20,139	20,139
Other Non Cur Asst	3,746	3,784	4,704	5,214	4,779	5,452	6,499	7,724
Non Curr Assets	23,171	27,190	30,350	32,530	32,104	36,040	34,573	36,200
Inventory	2,064	1,983	2,261	1,955	1,763	2,500	3,220	3,651
Debtors	22,613	21,539	16,790	18,967	19,920	24,454	28,217	32,423
Cash & Bank	1,456	1,783	3,021	3,570	3,802	4,318	7,599	8,938
Other Curr Assets	22,870	25,810	36,783	42,598	44,220	47,910	52,075	64,197
Curr Assets	49,003	51,115	58,854	67,091	69,705	79,182	91,111	109,209
Creditors	16,731	16,345	18,376	22,216	24,032	31,097	36,278	41,129
Provisions	2,084	13,922	801	897	1,092	1,102	1,424	1,614
Other Curr Liab	15,181	16,027	18,700	21,434	21,027	24,029	28,861	31,876
Curr Liabilities	33,996	46,294	37,878	44,547	46,151	56,228	66,563	74,620
Net Curr Assets	15,007	4,821	20,976	22,543	23,554	22,954	24,549	34,589
Total Assets	72,174	78,305	89,346	104,648	102,197	115,610	125,726	145,452

Financial Details (Standalone)

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	8,743	10,022
(inc)/Dec in Working Capital	(3,056)	(4,203)	(2,143)	(1,490)	607	(3,353)	(2,006)	(6,267)
Non Cash Op Exp	818	792	1,008	997	1,215	1,049	1,068	1,204
Int Paid (+)	982	1,076	1,419	1,477	1,317	1,432	1,641	1,794
Tax Paid	1,868	1,977	1,725	1,616	-	-	2,540	2,906
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	6,906	3,847
(inc)/Dec in FA & CWIP	(1,505)	(1,015)	(953)	(1,087)	(749)	(1,137)	(1,409)	(1,607)
Free Cashflow	610	32	2,190	2,213	5,231	1,815	5,497	2,240
(Pur)/Sale of Inv	1,109	(1,195)	(3,063)	532	(2,332)	(2,051)	(350)	(3,660)
others	861	996	2,106	(967)	3,091	5,101	3,341	-
CF from Inv. Activities	465	(1,214)	(1,909)	(1,522)	(46)	1,787	1,582	(5,267)
inc/(dec) in NW	163	144	99	70	53	50	-	-
inc/(dec) in Debt	(1,182)	2,612	1,015	321	(3,303)	(88)	(3,565)	7,359
Int. Paid	856	1,025	1,150	1,209	1,151	1,322	1,641	1,794
Div Paid (inc tax)	1,115	1,227	1,401	1,647	1,843	2,279	-	2,806
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(2,990)	504	(1,437)	(2,464)	(6,073)	(3,489)	(5,206)	2,758
Inc(Dec) in Cash	(411)	337	(203)	(687)	(139)	1,250	3,282	1,339
Add: Opening Balance	1,905	1,457	1,794	2,765	2,078	1,938	4,318	7,599
Closing Balance	1,495	1,794	1,591	2,078	1,939	3,188	7,600	8,938

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	17%	16%	13%	12%	12%	11%	12%	13%
ROCE	15%	14%	11%	9%	9%	11%	13%	13%
Asset Turnover	0.84	0.72	0.64	0.61	0.65	0.65	0.69	0.68
Debtor Days	136	139	107	108	110	120	118	120
Inv Days	12	13	14	11	10	12	14	14
Payable Days	100	105	118	127	132	152	152	152
Int Coverage	6	5	4	3	4	4	5	5
P/E	12	16	29	27	24	38	32	26
Price / Book Value	2	3	4	3	3	4	4	3
EV/EBITDA	10	14	23	25	22	27	23	18
FCF per Share	10	0	24	24	56	13	39	16
Div Yield	1.9%	1.5%	1.0%	1.2%	1.4%	1.0%	0.0%	1.3%

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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