

Larsen & Toubro Limited

Industry Eng. & Cons.
Bloomberg LT IN
BSE CODE 500510

Strong Order Inflow despite Election Impact

RATING	BUY
CMP	1410
Price Target	1736
Potential Upside	23%

Rating Change

Estimate Change

Target Change

Stock Info

52wk Range H/L	1606/1183
Mkt Capital (Rs Cr)	197836
Free float (%)	87%
Avg. Vol 1M (,000)	2293
No. of Shares (Cr)	140
Promoters Pledged %	0

KEY FINANCIAL/VALUATIONS

	FY19	FY20E	FY21E
Net Sales	141007	152162	173882
EBITDA	16325	19045	22251
EBIT	14241	16950	20062
PAT	8675	9255	9537
EPS (Rs)	62	66	68
EPS Gr. (%)	15%	7%	3%
ROE	14%	14%	13%
ROCE	9%	9%	10%
BV / Share	445	487	535
P/B (X)	3.1	2.9	2.6
P/E (x)	22.4	21.2	20.6
EV/EBITDA	16.0	14.7	13.1

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1QFY20 Result Update

- ❑ The Revenue was up by 10% YoY backed by strong growth in Infrastructure, Heavy Engineering & Services business. Though the Services business growth has slowdown on account of tight liquidity situation and client specific issue in IT&TS business.
- ❑ Growth trajectory of Infra business is continuing with revenue growth of 14% YoY in Q1FY20 supported by strong opening order book. Power business continues to decline on account of lower order book. Revenue was down by 48% YoY for Q1FY20.
- ❑ EBITDA margin has improved by 100 bps on account of higher revenue contribution by higher margin services business. Core E&C business margin come down by 60 bps on account of lower margin from Infrastructure business. Some provision related to transportation orders resulted in the lower margin.
- ❑ Despite the election quarter company was able to grow its order inflow by 11% YoY to Rs 38700 Cr without Electrical & Automation business.
- ❑ Power Segment secured Mega order of Rs 6700Cr for Construction of Power Plant in Bihar.
- ❑ E&A business has been classified as discontinued business and expected to complete the process in a year time.
- ❑ Working capital has gone up to 23% of the sales from 21% on account of delayed payment from State & Central Govt. due to election and extended support to its vendors.

Revenue growth remained strong with improvement in Operating margin

For 1QFY20, L&T reported revenue growth of 10% YoY led by the infrastructure segment which grew by 14% YoY on account of robust order book conversion across business verticals. Heavy engineering segment saw a robust growth of 163% driven by the healthy opening orders book. Services business has reported growth of 14% YoY. Execution of tracked artillery gun has led to strong growth of 33% YoY in Defense business. Hydrocarbon business reported growth of 7% YoY backed higher order book. EBITDA during the quarter grew by 20% YoY to Rs 3319 Cr while EBITDA margin was up by 100 bps on account of higher contribution of services business. Margin in Defence and Hydrocarbon has improved in range of 60-630 bps. Quarter has accounted 20% growth in PAT on account of higher other income (on liquid investment made by the company) and lower tax rate.

Strong order Inflow despite Election Impact

Order Inflow during the quarter was up by 11% YoY to Rs 38700 Cr led by the strong growth in domestic orders. Domestic orders were up by 16% YoY to Rs 29700 Cr compared to Rs 25700 cr. On the other hand international order inflow was flat (up by -1% YoY) to Rs 9000 Cr due to deferment in Hydrocarbon orders. Order inflow is mainly supported by the PSUs and some of the private players. Current bid pipeline is strong at Rs 8.4 lakh Cr of orders mainly from Public sector. The Private capex are still muted and will take time to revive.

View and Valuation

Larsen and Toubro come up with another strong set of numbers in Q1FY20 led by the Infrastructure and Services business. Private capex witness some traction in Airport segment but the Industrial capex cycle and other PPP projects continue to remain sluggish. Though the bid pipeline remain strong at Rs 8.4 lakh Cr mainly from the Public sector. We have largely maintained our estimates and expect revenue growth of 13/14% (ex Electrical and Automation) in FY20/FY21 with EBITDA margin of 12.5%. We value core E&C business at Rs 1398 per share (24x FY21E EPS) and Subsidiary business at Rs 288 per share and the Investment into Mindtree share at Rs. 49 per share. We maintain our BUY rating on the stock with target price of Rs 1736/share.

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1QFY20 Results

Strong Performance

Financials	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	27,005	32,081	35,709	43,303	29,636	10%	-32%	119,862	138,098	15.2%
Other	228	425	606	611	384	69%	-37%	1,430	1,871	30.8%
COGS	8,629	11,046	13,597	17,099	9,958	15%	-42%	42,008	50,371	19.9%
Emp. Exp.	4,129	4,569	4,607	4,489	4,552	10%	1%	15,291	17,793	16.4%
Sub-	1,655	1,788	1,976	1,967	2,079	26%	6%	6,020	7,386	22.7%
Mfg Exp	2,825	3,096	3,766	3,664	2,859	1%	-22%	10,467	13,351	27.6%
Other Exp.	1,974	2,041	1,673	1,546	1,746	-12%	13%	7,705	7,234	-6.1%
Total Exp.	24,247	28,310	31,713	38,024	26,317	9%	-31%	106,309	122,294	15.0%
EBITDA	2,758	3,771	3,996	5,279	3,319	20%	-37%	13,553	15,804	16.6%
Dep	605	516	449	435	461	-24%	6%	1,929	2,005	3.9%
EBIT	2,153	3,255	3,547	4,844	2,857	33%	-41%	11,625	13,799	18.7%
Intreset	364	399	535	507	587	61%	16%	1,539	1,804	17.3%
Except.	-	(295)	-	-	94	NA	NA	(123)	(295)	139.7%
PBT	2,017	3,281	3,619	4,948	2,655	32%	-46%	11,516	13,865	20.4%
Tax	890	886	1,200	1,234	795	-11%	-36%	3,199	4,210	31.6%
PAT	1,129	2,230	2,042	3,216	1,361	20%	-58%	7,370	8,617	16.9%

Concall Highlights

- Management maintain Order inflow guidance at 10-12%, Revenue guidance at 12-15% with Stable EBITDA margin for core E&C business.
- Private Sector:- witnessing some traction in Airport projects but the Industrial capex and PPP orders are still sluggish.
- Bid pipeline as on date amounts to Rs 8.4 Lakh Cr with 33% from private and 77% from Public sector. Of this Rs 1.65 Lakh Cr of order is from International spread over Hydrocarbon and Power T&D.
- Management targets to win 7 GW orders in Power segment from Domestic and Bangladesh market.
- Orders of Rs 5000-6000 Cr for Mumbai Costal road projects are included in Order book and clarity will emerge in next 2-3 months.
- Orders from Andhra Pradesh is 2-3% of the order book and management is in wait and watch mode.
- Currently 55 km out of 71 km route is operational of Hyderabad Metro and it will be fully operational in next 2 quarters.
- Some of the Hydrocarbon orders are differed into Q2FY20.
- Still 2900 apartments are yet to deliver to the final customers and management expect it will deliver over next 2-3 years.
- Working Capital has gone up as the centre government delayed payment on account of election. The State government holding back the payment as their budget is not approved. Also extended support to vendors resulted in increase in increase in working capital.
- Infra margins were impacted in Q1FY20 by 40bps due to job mix and different level of execution. Management expect margin will improve in FY20 compared to FY19. Hyderabad metro is positive at EBITDA.
- Revenue from International business was down by 4% on account of lower order book while there was 15% growth in domestic business revenue.
- Other income increased due to increase in yield from 5% to 7% on treasury income.
- Mindtree numbers will start consolidating from Q2FY20. Currently stake in mindtree recorded under Investment.
- Disinvestment of Electrical & Automation business will be completed in 3-4 quarters.
- Consol debt has increased in books due to creation of buffer debt for protect from tight liquidity situation. Increase in standalone debt mainly to balance the capital mix.

Revenue Mix (In Rs. Cr)

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	14,923	24,349	12,331	15,408	18,371	27,094	14,038	14%	-48%
Power	1,270	1,507	1,081	1,060	908	934	563	-48%	-40%
Heavy Engineering	391	504	377	544	693	899	992	163%	10%
Defence Engineering	740	964	734	962	1,045	1,108	969	NA	-13%
E&A	1,287	1,643	1,324	1,490	1,565	1,716	1,424	8%	-17%
Hydrocarbon	3,090	3,559	3,516	3,558	3,778	4,324	3,769	7%	-13%
IT & TS	2,915	3,152	3,356	3,606	3,764	3,827	3,844	15%	0%
Financial Services	2,634	2,722	3,058	3,139	3,259	3,182	3,462	13%	9%
Develop. Projects	1,213	1,217	1,494	1,297	1,194	1,083	1,178	-21%	9%
Others	961	1,626	1,373	1,488	1,661	1,413	1,194	-13%	-16%
Total	28,725	40,678	27,005	32,081	35,709	43,303	29,636	10%	-32%

Order Book (In Rs.Bn)

	Q3FY18	Q4FY18	Q1FY19	Q2FY19E	Q3FY19E	Q4FY19	Q1FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	2,003	1,955	2,082	2,182	2,192	2,218	2,253	8%	2%
Power	108	95	81	93	82	70	132	63%	87%
Heavy Engineering	135	34	40	51	48	47	39	-3%	-17%
Defence engineering	-	101	116	121	114	114	109	NA	NA
E&A	27	32	30	31	28	26	12	-59%	-54%
Hydrocarbon	298	267	279	278	318	399	396	42%	-1%
Others	135	150	59	56	57	59	64	9%	9%
Total	2,707	2,632	2,687	2,812	2,840	2,934	3,004	12%	2%

Order Inflow (In Rs.Bn)

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	250	283	187	234	219	306	175	-6%	-43%
Hydracarbon	10	8	1	25	1	10	67	6313%	597%
Power	19	19	14	13	5	13	2	-86%	-85%
Heavy Engineering	-	-	0	13	5	10	4	30482%	-56%
Defence Engineering	19	18	13	16	16	19	-	NA	NA
E&A	58	51	46	27	78	89	34	-25%	-61%
Services	87	83	76	81	81	102	85	12%	-17%
Others	38	34	10	12	17	16	20	89%	20%
Total	481	496	347	421	422	565	387	12%	-32%

Margin Performance (%)

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	7.8	13.5	6.8	6.8	5.4	12.3	6.9	10	(540)
Power	2.5	4.2	4.1	6.0	2.4	4.7	4.1	-	(60)
Heavy Engineering	18.8	19.8	36.1	24.2	20.5	22.8	36.1	-	1,330
Defence engineering	-	13.3	11.1	25.0	9.0	18.6	11.1	-	(750)
Electrical & Automatic	17.3	19.7	13.3	17.8	17.4	20.6	13.3	-	(730)
Hydrocarbon	8.0	5.9	7.0	9.9	8.2	9.8	7.0	-	(280)
IT & Technology Servic	21.3	21.0	24.8	24.1	22.2	21.9	19.9	(486)	(196)
Financial Services	31.6	31.4	37.3	36.6	33.7	31.0	37.3	-	630
Developmental Projec	8.5	(14.4)	30.4	4.3	4.2	(3.6)	30.4	-	3,400
Others	15.3	29.6	26.5	23.1	47.2	13.9	26.5	-	1,260

Exhibit: Order Book and Book to Bill

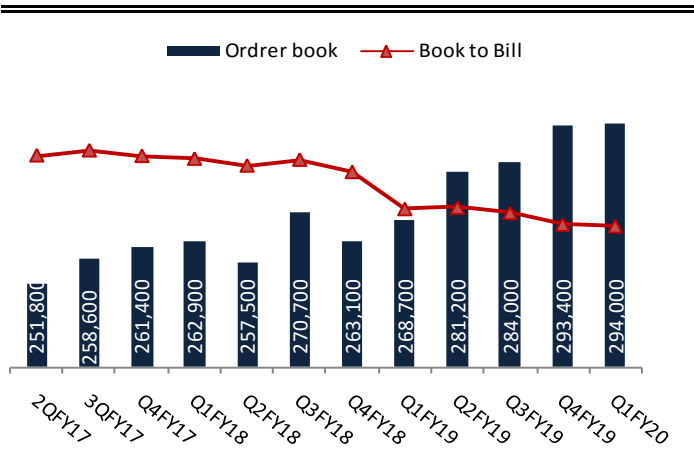


Exhibit: Order Book Break Up (Q1FY20)

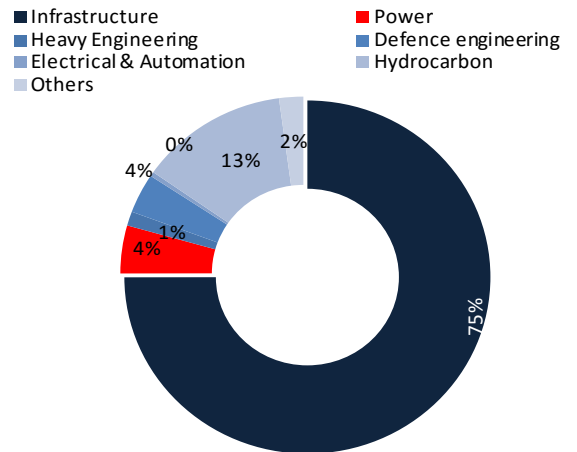


Exhibit: Order Book Mix

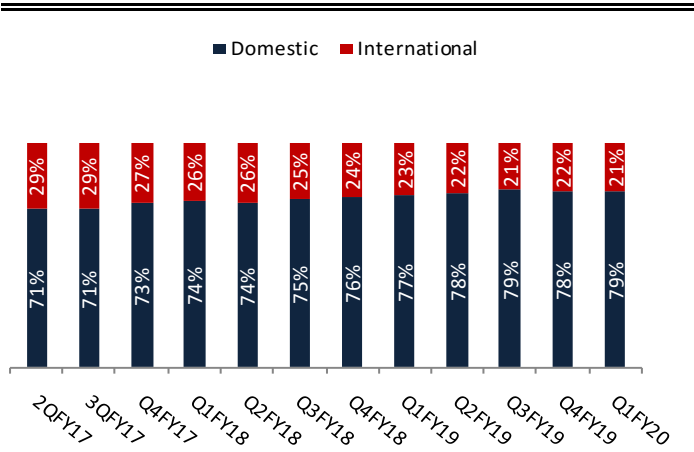


Exhibit: Order Inflow Mix

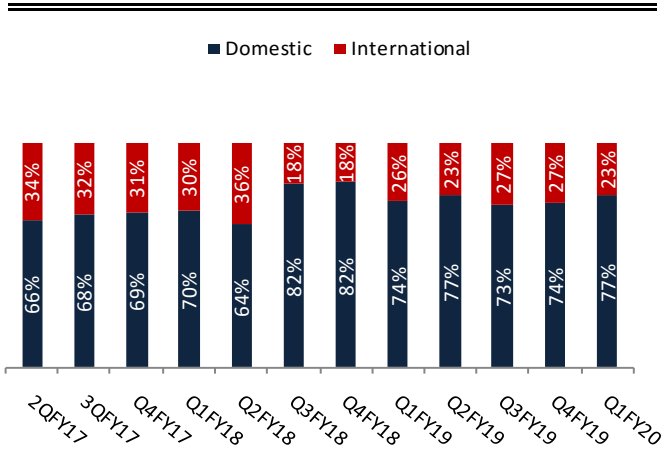


Exhibit: EBITDA and EBITDA margin trend

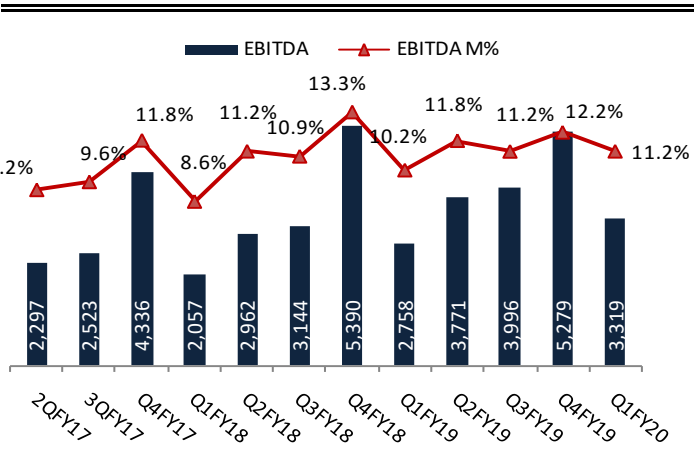
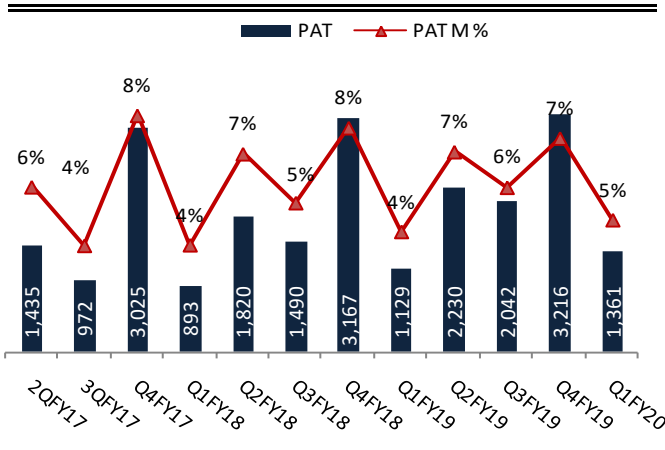


Exhibit: PAT and PAT margin trend



Financial Details

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E*	FY21E*
Revenue from Operation	85,128	92,005	101,975	110,011	119,862	141,007	152,162	173,882
Change (%)	14%	8%	11%	8%	9%	18%	8%	14%
EBITDA	10,730	11,336	10,465	11,130	13,571	16,325	19,045	22,251
Change (%)	9%	6%	-8%	6%	22%	20%	17%	17%
Margin (%)	12.6%	12.3%	10.3%	10.1%	11.3%	11.6%	12.5%	12.8%
Depr & Amor.	1,446	2,623	1,787	2,370	1,929	2,084	2,095	2,189
EBIT	9,284	8,713	8,678	8,761	11,643	14,241	16,950	20,062
Int. & other fin. Cost	3,138	2,851	1,655	1,339	1,539	1,806	2,551	2,974
Other Income	982	1,007	904	1,344	1,412	1,852	2,027	2,027
EBT	7,483	7,217	8,022	8,887	11,639	14,581	14,689	17,088
Exp Item	(355)	(348)	(94)	(121)	(123)	(295)	94	-
Tax	2,608	2,253	2,485	2,007	3,199	4,344	4,187	5,810
Minority Int & P/L share of	(8)	203	(631)	49	199	1,290	1,042	1,042
Reported PAT	4,902	4,765	4,187	6,041	7,370	8,904	9,255	9,537
Adjusted PAT	4,547	4,417	4,093	5,920	7,247	8,610	9,349	9,537
Change (%)	-5%	-3%	-7%	45%	22%	19%	9%	2%
Margin(%)	5.3%	4.8%	4.0%	5.4%	6.0%	6.1%	6.1%	5.5%

*ex. E&A Business

Balance sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	185	186	186	187	280	281	281	281
Reserves	37,526	41,022	43,994	50,030	55,377	62,094	68,032	74,708
Networth	37,712	41,208	44,180	50,217	55,657	62,375	68,313	74,989
Debt	69,303	68,607	76,121	83,875	92,247	103,345	114,100	127,417
Other Non Cur Liab	4,983	1,479	1,383	1,536	1,583	1,223	1,223	1,223
Total Capital Employed	107,015	109,815	120,301	134,092	147,904	165,719	182,412	202,406
Net Fixed Assets (incl CWIP)	44,440	24,933	28,089	28,576	30,462	33,287	33,125	32,649
Non Cur Investments	-	-	-	-	-	-	-	-
Other Non Cur Asst	37,338	48,012	55,926	57,592	74,304	74,395	83,063	95,025
Non Curr Assets	83,914	76,785	87,274	90,340	108,815	112,150	120,657	132,143
Inventory	5,527	5,981	4,854	4,140	4,848	6,414	6,921	7,909
Debtors	26,385	22,254	26,025	28,689	34,654	37,038	39,968	45,673
Cash & Bank	4,097	5,109	5,390	5,306	8,033	11,726	11,587	12,023
Other Curr Assets	49,239	59,320	69,604	82,057	87,191	111,798	118,385	134,022
Curr Assets	85,248	92,665	105,873	120,192	134,726	166,976	176,861	199,627
Creditors	20,850	22,057	27,004	30,295	37,795	42,995	46,396	53,019
Provisions	2,927	1,677	2,304	2,668	2,484	3,037	3,277	3,745
Other Curr Liab	30,208	33,000	40,829	38,532	48,201	59,330	57,380	64,548
Curr Liabilities	53,985	56,734	70,136	71,495	88,479	105,362	107,054	121,313
Net Curr Assets	31,263	35,932	35,737	48,697	46,246	61,614	69,808	78,315
Total Assets	169,162	171,122	194,726	212,182	245,053	279,134	297,519	331,771

Financial Details

Cash Flow

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	7,128	6,870	7,729	8,766	11,516	14,286	12,948	15,347
(inc)/Dec in Working Capital	(8,932)	(900)	(2,165)	4,346	(3,416)	(2,392)	(7,569)	(14,737)
Non Cash Op Exp	1,446	2,623	2,756	2,370	1,929	2,084	2,095	2,189
Int Paid (+)	3,138	2,851	3,041	1,339	1,539	1,806	2,551	2,974
Tax Paid	6,448	6,984	10,232	5,744	16,459	13,855	8,668	11,962
others	(527)	(2,149)	(1,039)	(1,181)	(1,855)	(1,688)	-	-
CF from Op. Activities	(7,143)	(669)	(3,229)	6,655	(10,031)	(4,717)	(4,539)	(4,363)
(inc)/Dec in FA & CWIP	(6,967)	(6,929)	(5,264)	(2,977)	(2,877)	(4,283)	(1,934)	(1,713)
Free Cashflow	(14,110)	(7,598)	(8,493)	3,678	(12,908)	(8,999)	(6,473)	(6,076)
(Pur)/Sale of Inv	780	(966)	(124)	(9,768)	1,810	(4,242)	946	(970)
others	689	2,444	1,290	2,745	4,893	(2,497)	-	-
CF from Inv. Activities	(5,510)	(5,463)	(4,132)	(9,796)	3,915	(10,999)	(988)	(2,683)
inc/(dec) in NW	144	99	70	53	50	11	-	-
inc/(dec) in Debt	17,422	11,449	11,391	4,880	12,619	17,865	10,755	13,317
Int. Paid	3,905	3,926	3,678	2,174	2,471	2,982	2,551	2,974
Div Paid (inc tax)	1,418	1,603	1,878	2,093	2,390	2,647	2,776	2,861
others	893	1,871	1,583	2,059	1,413	2,885	-	-
CF from Fin. Activities	13,136	7,891	7,488	2,896	9,370	15,441	5,427	7,482
Inc(Dec) in Cash	483	1,759	128	(245)	3,254	(275)	(100)	436
Add: Opening Balance	3,604	4,087	5,846	3,790	3,545	6,799	11,726	11,587
Closing Balance	4,087	5,846	5,973	3,545	6,799	6,523	11,626	12,023

Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13%	12%	9%	12%	13%	14%	14%	13%
ROCE	9%	8%	7%	7%	8%	9%	9%	10%
Asset Turnover	0.50	0.54	0.52	0.52	0.49	0.51	0.51	0.52
Debtor Days	113	88	93	95	106	96	96	96
Inv Days	24	24	17	14	15	17	17	17
Payable Days	89	88	97	101	115	111	111	111
Int Coverage	3	3	5	7	8	8	7	7
P/E	18	31	32	23	24	22	21	21
Price / Book Value	2	4	3	3	3	3	3	3
EV/EBITDA	13	17	19	19	18	16	15	13
FCF per Share	(152)	(82)	(91)	39	(92)	(64)	(46)	(43)
Div Yield	1.5%	1.0%	1.2%	0.9%	1.1%	1.1%	1.2%	1.2%

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