

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

## Strong Performance despite Slowdown in Economy

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>1431</b>
<b>Price Target</b>	<b>1711</b>
<b>Potential Upside</b>	<b>20%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	1606/1183
Mkt Capital (Rs Cr)	200800
Free float (%)	87%
Avg. Vol 1M (,000)	2293
No. of Shares (Cr)	140
Promoters Pledged %	0

Fig in Rs Cr			
FINANCIAL	FY19	FY20E	FY21E
Net Sales	141007	155335	178479
EBITDA	16325	18972	22631
EBIT	14241	16747	20442
PAT	8675	10369	11581
EPS (Rs)	62	74	83
EPS Gr. (%)	15%	20%	12%
ROE	14%	15%	15%
ROCE	9%	9%	10%
BV / Share	445	493	550
P/B (X)	3.1	3.0	2.7
P/E (x)	22.4	20.0	17.9
EV/EBITDA	16.0	15.4	13.4

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### Q2FY20 Result Update

- The Revenue grew by 15% YoY on backed by strong growth in Infrastructure, Hydrocarbon and heavy engineering business. IT&TS business started consolidating Mindtree numbers which are not included in Q1FY19.
- Growth trajectory of Infra business is continuing with revenue growth of 9% YoY in Q2FY20 supported by strong opening order book. Power business continues to decline on account of lower opening order book. Revenue was down by 54% YoY for Q2FY20.
- EBITDA margin remained stable at 11.4% in Q2FY20. Infrastructure margin has improved by 30 bps YoY while the operating margin of both the services business contracted by 710 bps (IT&TS) and 340 bps (Financial services).
- Finance cost has gone up by 72% YoY to Rs 686 Cr as against Rs 398 Cr on account of higher borrowings. The borrowings level has gone up to fund the working capital requirement and to create some buffer cash reserve.
- The working capital as % of sales remained at 23% as against 20%. The extended support to vendors led to higher working capital requirement.
- Despite the sharp jump in interest cost, PAT has improved by 13% YoY to Rs 2525 Cr on account of higher other income and lower tax rate.
- Despite the uncertain and volatile economy, LT has managed to bag new orders worth Rs 48300 Cr at the growth of 15% YoY.

### Strong Performance in Uncertain and Volatile Economic Condition

L&T reported revenue growth of 15% YoY led by the infrastructure segment which grew by 9% YoY on account of robust order book conversion across business verticals. Heavy engineering segment saw a growth of 33% driven by the healthy opening orders book. Executions of tracked artillery gun continue to support the growth of Defense business (9% YoY). Hydrocarbon business reported the growth of 21% YoY backed higher-order book. Services business has witness slowdown in revenue; the financial business has reported the growth of 10% as against 25-30% growth in last year. Similarly IT&TS business reported growth of 11% YoY (Adjusted to Mindtree revenue of Rs 1900 Cr, started consolidating from Q2FY20) compared to growth of 25% in last year. Along with the slow revenue growth margin has also witness compression. Overall EBITDA during the quarter grew by 14% YoY to Rs 4020 Cr. PAT grew by 13% on account of higher other income (on the liquid investment made by the company) and lower tax rate.

### Robust Order Pipeline to Support Growth

Despite the slowdown in economic condition LT has been able to bag new orders worth Rs 48300 Cr at growth of 15% YoY. The Private sector CapEx be it PPP projects or Industrial CapEx, continuous to remain sluggish. The robust spending by the public sector is the only silver lining event. Currently Rs 4.5 lakh Cr of Infra projects from various public sector undertaking are in pipeline (from all the sub-segments:- Building and Factory, Power T&D, Transpiration, Water and Heavy Civil projects) & around Rs 50K Cr worth of projects from Hydrocarbon orders mainly from ONGC and Saudi Aramco. In the first half LT has bagged around Rs 12000 Cr worth of orders in Power business and targeting to another two big projects, one in Bangladesh. Another orders worth Rs 10K Cr are from Material handling business. In totality, currently Rs 5.2 lakh Cr worth of projects are in the pipeline. The current strong order pipeline will support the revenue going ahead.

### View and Valuation

LT is continuously performing strongly despite the economical slowdown on account of strong order book across the segment though the services business has impacted. The current order pipeline will continue to support the strong revenue momentum in core E&C business. We expect the growth in services business will be lower compared to last year but higher than the E&C business. Additionally, consolidation of Mindtree will further increase the revenue contribution of services business. We largely maintain our estimates and maintain our BUY rating on the stock with the unchanged target price of Rs 1711 (value on SoTP basis, Core E&C business at 24x of FY21 EPS and Subsidiary at Rs 284 per share).

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## 2QFY20 Results

## Strong Performance

Fig in Rs Cr										
Financials	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY %	QoQ%	H1FY19	H1FY20	YoY %
Net Sales	32,081	35,709	43,303	29,636	35,328	10%	19%	59,086	64,964	9.9%
Other	425	606	611	384	596	40%	55%	653	981	50.1%
COGS	11,046	13,597	17,099	9,958	11,441	4%	15%	19,675	21,399	8.8%
Emp. Exp.	4,569	4,607	4,489	4,552	6,141	34%	35%	8,698	10,692	22.9%
Sub-	1,788	1,976	1,967	2,079	2,023	13%	-3%	3,443	4,102	19.1%
Mfg Exp	3,096	3,766	3,664	2,859	3,465	12%	21%	5,921	6,325	6.8%
Other Exp.	2,041	1,673	1,546	1,746	2,280	12%	31%	4,015	4,026	0.3%
Total Exp.	28,310	31,713	38,024	26,317	31,309	11%	19%	52,557	57,626	9.6%
EBITDA	3,771	3,996	5,279	3,319	4,020	7%	21%	6,528	7,339	12.4%
Dep	516	449	435	461	630	22%	36%	1,120	1,091	-2.6%
EBIT	3,255	3,547	4,844	2,857	3,390	4%	19%	5,408	6,248	15.5%
Intreset	399	535	507	587	686	72%	17%	763	1,273	66.8%
Except.	(295)	-	-	94	-	NA	NA	(295)	94	NA
PBT	3,281	3,619	4,948	2,655	3,301	1%	24%	5,298	5,956	12.4%
Tax	886	1,200	1,234	795	791	-11%	0%	1,776	1,586	-10.7%
PAT	2,230	2,042	3,216	1,473	2,525	13%	71%	3,360	3,998	19.0%

## Concall Highlights

- Economy is going through very volatile and uncertain while private apex is still muted (PPP and Industrial capex both). The public sector capex is the only silver lining.
- Order Pipeline :- 4.5 lakh Cr in Infra segment ,Rs 40000 Cr from Hydrocarbon, Rs 10000 Cr from Material handling and Rs 10000 Cr from others.
- Couple of big power projects is in pipeline of which one is from Bangladesh.
- Revenue guidance is constant at 12-15% for FY20.
- Rs 16000 Cr of Andra Projects and costal road projects are not contributing in Revenue.
- Core E&C business margins are likely to remain flat.
- Tax rate will be 28% going forward.
- High speed Rail project has been postponed to January. EPC portion of high speed rail is Rs 50-60k Cr which will award over the period of time and is currently under technical evaluation stage.
- Electrical & Automation deal will be closed by next year.
- Due to volatile environment and extended support to vendors, working capital cycle to remain higher.
- Borrowings have been increased to create cash buffer and fund working capital.
- Large amount of receivables from Punjab Power Authority is pending despite receiving favorable judgment.
- Company has completed acquisition of Mindtree and started consolidating numbers line by line.
- Order inflow in Heavy Engineering segment impacted on account of deferment in some orders worth Rs 400 Cr.
- The whole IT sector is going through the slowdown and the outlook for the IT business likely to remain challenging. The margin was contracted due to localization impact in US market and higher visa cost

## Revenue Mix (In Rs. Cr)

Fig in Rs Cr

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	24,349	12,331	15,408	18,371	27,094	14,038	16,780	9%	20%
Power	1,507	1,081	1,060	908	934	563	492	-54%	-13%
Heavy Engineering	504	377	544	693	899	992	706	30%	-29%
Defence Engineering	964	734	962	1,045	1,108	969	1,017	NA	5%
E&A	1,643	1,324	1,490	1,565	1,716	1,424	1,484	0%	4%
Hydrocarbon	3,559	3,516	3,558	3,778	4,324	3,769	4,305	21%	14%
IT & TS	3,152	3,356	3,606	3,764	3,827	3,844	5,904	64%	54%
Financial Services	<b>2,722</b>	<b>3,058</b>	<b>3,139</b>	<b>3,259</b>	<b>3,182</b>	<b>3,462</b>	<b>3,444</b>	10%	-1%
Develop. Projects	1,217	1,494	1,297	1,194	1,083	1,178	1,453	12%	23%
Others	1,626	1,373	1,488	1,661	1,413	1,194	1,592	7%	33%
<b>Total</b>	<b>40,678</b>	<b>27,005</b>	<b>30,591</b>	<b>34,144</b>	<b>43,303</b>	<b>29,636</b>	<b>35,328</b>	<b>15%</b>	<b>19%</b>

## Order Book (In Rs.Bn)

Fig in Rs Bn

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	1,955	2,082	2,182	2,192	2,218	2,187	2,153	-1%	-2%
Power	95	81	93	82	70	129	152	63%	17%
Heavy Engineering	34	40	51	48	47	41	30	-40%	-26%
Defence engineering	101	116	121	114	114	112	121	0%	9%
E&A	32	30	31	28	26	-	-	NA	NA
Hydrocarbon	267	279	278	318	399	403	515	85%	28%
Others	150	59	56	57	59	68	61	8%	-10%
<b>Total</b>	<b>2,632</b>	<b>2,687</b>	<b>2,812</b>	<b>2,840</b>	<b>2,934</b>	<b>2,940</b>	<b>3,032</b>	<b>8%</b>	<b>3%</b>

## Order Inflow (In Rs.Bn)

Fig in Rs Bn

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	283	187	234	219	306	175	184	-22%	5%
Hydracarbon	8	1	25	1	10	67	63	154%	-6%
Power	19	14	13	5	13	2	5	-64%	150%
Heavy Engineering	-	0	13	5	10	4	5	-64%	13%
Defence Engineering	18	13	16	16	19	-	-	NA	NA
E&A	51	46	27	78	89	34	101	271%	194%
Services	83	76	81	81	102	85	106	32%	25%
Others	34	10	12	17	16	20	19	63%	-2%
<b>Total</b>	<b>496</b>	<b>347</b>	<b>421</b>	<b>422</b>	<b>565</b>	<b>387</b>	<b>483</b>	<b>15%</b>	<b>25%</b>

## Margin Performance (%)

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (+/-)	QoQ (+/-)
Infrastructure	13.5	6.8	6.8	5.4	12.3	6.9	7.1	30	20
Power	4.2	4.1	6.0	2.4	4.7	4.1	4.2	(180)	10
Heavy Engineering	19.8	36.1	24.2	20.5	22.8	36.1	24.9	70	(1,120)
Defence engineering	13.3	11.1	25.0	9.0	18.6	11.1	17.9	(710)	680
Electrical & Automatic	19.7	13.3	17.8	17.4	20.6	13.3	-	NA	NA
Hydrocarbon	5.9	7.0	9.9	8.2	9.8	7.0	12.5	260	550
IT & Technology Servic	21.0	24.8	24.1	22.2	21.9	19.9	19.5	(460)	(44)
Financial Services	31.4	37.3	36.6	33.7	31.0	37.3	-	NA	NA
Developmental Projec	(14.4)	30.4	4.3	4.2	(3.6)	30.4	10.2	590	(2,020)
Others	29.6	26.5	23.1	47.2	13.9	26.5	21.8	(130)	(470)

Exhibit: Order Book and Book to Bill

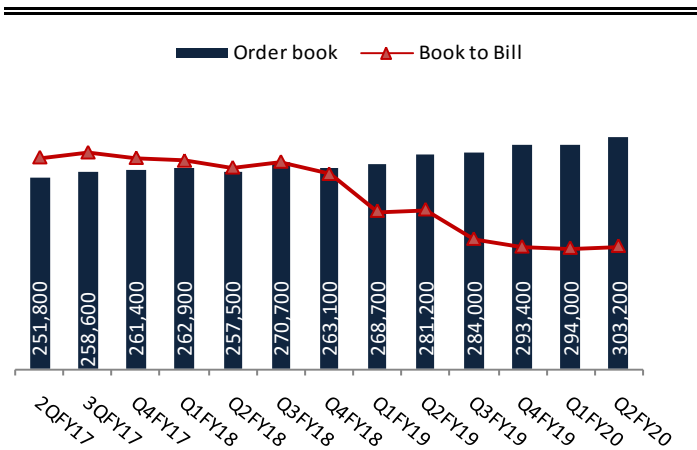


Exhibit: Order Book Break Up (Q2FY20)

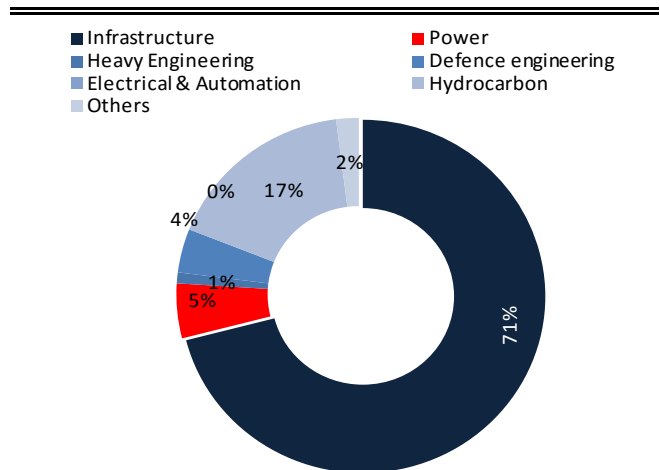


Exhibit: Order Book Mix

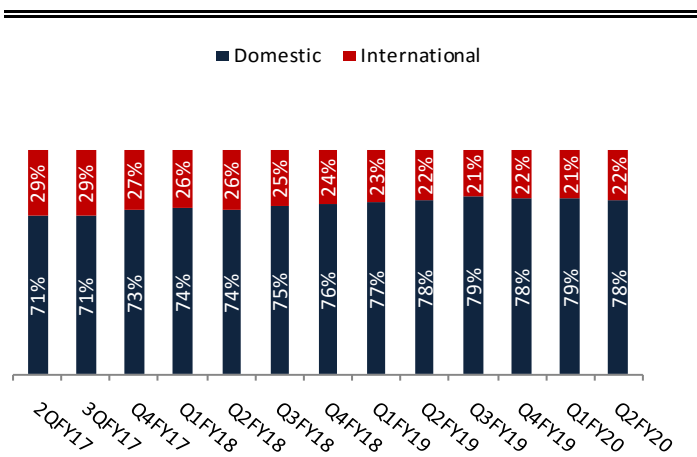


Exhibit: Order Inflow Mix

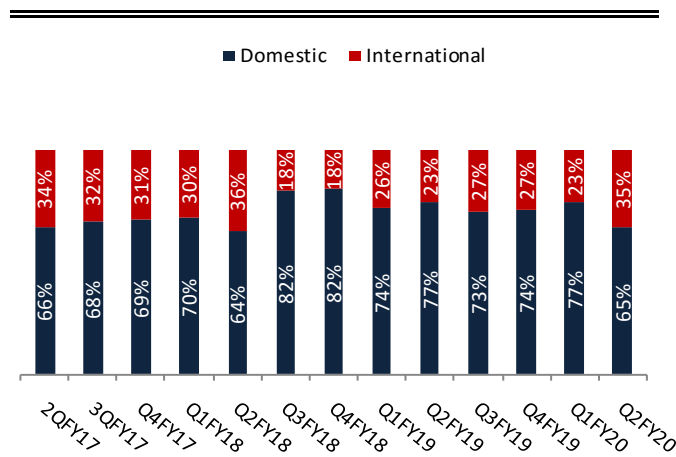


Exhibit: EBITDA and EBITDA margin trend

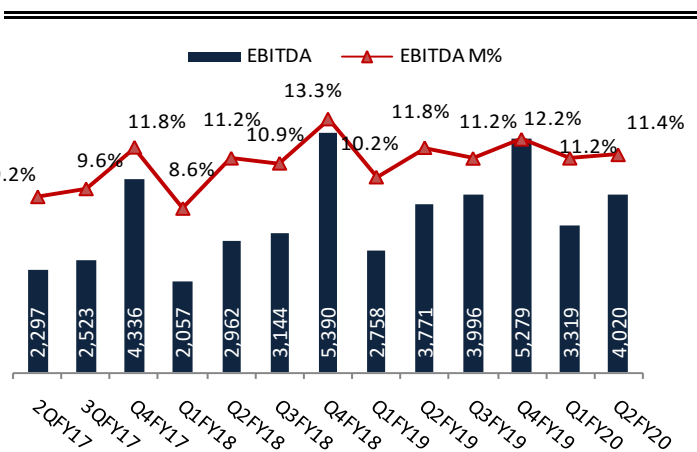
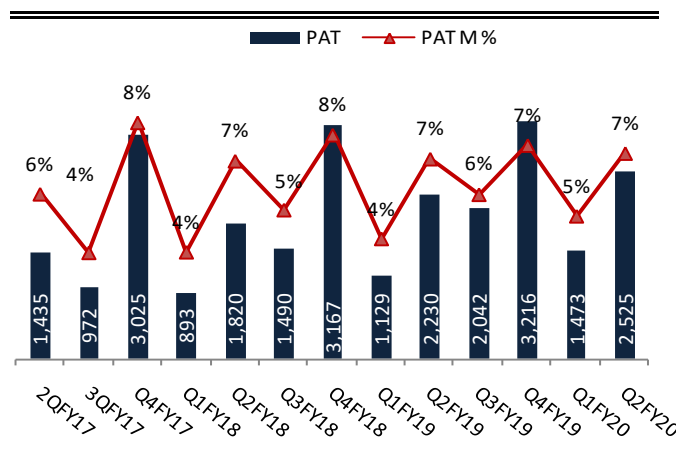


Exhibit: PAT and PAT margin trend



## Financial Details

## Income Statement

Fig in Rs Cr

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	155,335	178,479
Change (%)	14%	8%	11%	8%	9%	18%	10%	15%
<b>EBITDA</b>	<b>10,730</b>	<b>11,336</b>	<b>10,465</b>	<b>11,130</b>	<b>13,571</b>	<b>16,325</b>	<b>18,972</b>	<b>22,631</b>
Change (%)	9%	6%	-8%	6%	22%	20%	16%	19%
Margin (%)	12.6%	12.3%	10.3%	10.1%	11.3%	11.6%	12.2%	12.7%
Depr & Amor.	1,446	2,623	1,787	2,370	1,929	2,084	2,226	2,189
<b>EBIT</b>	<b>9,284</b>	<b>8,713</b>	<b>8,678</b>	<b>8,761</b>	<b>11,643</b>	<b>14,241</b>	<b>16,747</b>	<b>20,442</b>
Int. & other fin. Cost	3,138	2,851	1,655	1,339	1,539	1,806	2,582	2,974
Other Income	982	1,007	904	1,344	1,412	1,852	2,198	2,198
<b>EBT</b>	<b>7,483</b>	<b>7,217</b>	<b>8,022</b>	<b>8,887</b>	<b>11,639</b>	<b>14,581</b>	<b>15,051</b>	<b>17,468</b>
Exp Item	(355)	(348)	(94)	(121)	(123)	(295)	94	-
Tax	2,608	2,253	2,485	2,007	3,199	4,344	3,791	4,402
Minority Int & P/L share of	(8)	203	(631)	49	199	1,290	1,059	1,059
<b>Reported PAT</b>	<b>4,902</b>	<b>4,765</b>	<b>4,187</b>	<b>6,041</b>	<b>7,370</b>	<b>8,904</b>	<b>10,369</b>	<b>11,581</b>
<b>Adjusted PAT</b>	<b>4,547</b>	<b>4,417</b>	<b>4,093</b>	<b>5,920</b>	<b>7,247</b>	<b>8,610</b>	<b>10,462</b>	<b>11,581</b>
Change (%)	-5%	-3%	-7%	45%	22%	19%	22%	11%
Margin(%)	5.3%	4.8%	4.0%	5.4%	6.0%	6.1%	6.7%	6.5%

\*ex. E&amp;A Business

## Balance sheet

Fig in Rs Cr

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	68,812	76,919
Networth	37,712	41,208	44,180	50,217	55,657	62,375	69,092	77,199
Debt	69,303	68,607	76,121	83,875	92,247	103,345	113,507	124,047
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	182,600	201,247
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	7,066	8,118
Debtors	26,385	22,254	26,025	28,689	34,654	37,038	40,802	46,881
Cash & Bank	4,097	5,109	5,390	5,306	8,033	11,726	10,286	8,265
Other Curr Assets	49,239	59,320	69,604	82,057	87,191	111,798	120,527	137,126
Curr Assets	85,248	92,665	105,873	120,192	134,726	166,976	178,680	200,390
Creditors	20,850	22,057	27,004	30,295	37,795	42,995	47,364	54,421
Provisions	2,927	1,677	2,304	2,668	2,484	3,037	3,346	3,844
Other Curr Liab	30,208	33,000	40,829	38,532	48,201	59,330	57,977	64,970
Curr Liabilities	53,985	56,734	70,136	71,495	88,479	105,362	108,686	123,235
Net Curr Assets	31,263	35,932	35,737	48,697	46,246	61,614	69,994	77,156
Total Assets	169,162	171,122	194,726	212,182	245,053	279,134	299,338	332,534

## Financial Details

## Cash Flow

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	7,128	6,870	7,729	8,766	11,516	14,286	13,567	15,983
(inc)/Dec in Working Capital	(8,932)	(900)	(2,165)	4,346	(3,416)	(2,392)	(9,722)	(15,704)
Non Cash Op Exp	1,446	2,623	2,756	2,370	1,929	2,084	2,226	2,189
Int Paid (+)	3,138	2,851	3,041	1,339	1,539	1,806	2,582	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)	(4,851)	(3,430)
(inc)/Dec in FA & CWIP	(6,967)	(6,929)	(5,264)	(2,977)	(2,877)	(4,283)	(2,065)	(1,713)
Free Cashflow	(14,110)	(7,598)	(8,493)	3,678	(12,908)	(8,999)	(6,916)	(5,143)
(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)	(1,118)	(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	10,163	10,540
Int. Paid	3,905	3,926	3,678	2,174	2,471	2,982	2,582	2,974
Div Paid (inc tax)	1,418	1,603	1,878	2,093	2,390	2,647	3,111	3,474
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	4,470	4,091
Inc(Dec) in Cash	483	1,759	128	(245)	3,254	(275)	(1,500)	(2,021)
Add: Opening Balance	3,604	4,087	5,846	3,790	3,545	6,799	11,726	10,286
Closing Balance	4,087	5,846	5,973	3,545	6,799	6,523	10,226	8,265

## Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13%	12%	9%	12%	13%	14%	15%	15%
ROCE	9%	8%	7%	7%	8%	9%	9%	10%
Asset Turnover	0.50	0.54	0.52	0.52	0.49	0.51	0.52	0.54
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	6	7
P/E	18	31	32	23	24	22	20	18
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)	(49)	(37)
Div Yield	1.5%	1.0%	1.2%	0.9%	1.1%	1.1%	1.3%	1.4%

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