

Industry  
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BSE CODE

Eng. & Cons.  
LT IN  
500510

## Performance is likely to Bounce Back

RATING	BUY
CMP	1331
Price Target	1604
Potential Upside	21%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	1606/1202
Mkt Capital (Rs Cr)	186100
Free float (%)	87%
Avg. Vol 1M (,000)	2771
No. of Shares (Cr)	140
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	141007	148530	171082
EBITDA	16325	17985	21502
EBIT	14241	15667	19313
PAT	8675	9977	10763
EPS (Rs)	62	71	77
EPS Gr. (%)	15%	15%	8%
ROE	14%	14%	14%
ROCE	9%	9%	10%
BV / Share	445	491	544
P/B (X)	3.1	2.7	2.4
P/E (x)	22.4	18.7	17.3
EV/EBITDA	16.0	14.9	13.0

### 3QFY20 Result Update

- Revenue on consolidated basis was up by only 6% YoY, lower than our estimates mainly on account of muted performance by Infrastructure division. Revenue for the segment was down 5% YoY due to certain execution challenges and preservation of working capital level.
- While the other divisions like Hydrocarbon and Heavy engineering has maintained its execution momentum and posted strong growth of 16% and 16% respectively.
- IT and Technology business has put up strong performance (up by 65% YoY) as the mindtree revenue has started consolidating from Q2FY20. Adjusting to Mindtree, LTI and LTTS has performed well and revenue was up by 15% YoY.
- Financial services business growth was under pressure (up by only 9% YoY) on account of slowdown in realty business.
- Despite the muted performance on the revenue front, EBITDA margin has expanded by 40 bps mainly on account of better margin on the core engineering business.
- Slowdown in economic activity has resulted into negative growth (1.5%) in order inflow; Rs 41570 Cr. International business has reported order inflow of Rs 17900 Cr at growth of 55% YoY.

### Muted performance by Infrastructure business

Infrastructure division of the company has posted revenue de growth of 5% YoY on account of some execution challenges and preservation of working capital. Execution was impacted as the projects in the Delhi has stopped for the 2 and half months due to environmental related issues, projects in Andhra Pradesh was under scanner and the Mumbai costal road projects stopped due to some technical issues and PIL. In some of the projects company has deliberately slow down the execution speed in order to balance the working capital requirement. Payments are delayed from the Central and State governments on account of liquidity crunch. Though the other segments like Hydrocarbon and Heavy engineering and services business has performed strong and reported strong numbers. Despite the revenue de growth in Infrastructure, EBITDA margin has expanded by 70 bps on account of job mix and realization of variation claims. EBITDA margin is also improved on the overall basis as the entire core Engineering business reported expansion in the margin in range of 70-400 bps.

### Performance are expected to bounce back

Work on the Mumbai costal road projects has started and expected to pick up in the Q4FY20. Execution was stopped for 2 and half month on Delhi projects in last quarter has started now and the new government in Andhra Pradesh has settle down and work has started on the projects. The growth in the Infrastructure business is expected to bounce back going ahead. Management is also confident to achieve the guided growth level and maintain revenue growth guidance at 10-12% for the FY20. Some of the big EPC projects are also deferred in the last quarter are expected to award in Q4FY20. Though the progress on the government founded projects are slow but the company is focused on the multi-lateral funded projects in the domestic market. Management is also seeing strong growth in the Hydrocarbon business. Capex cycle of the private sector is still muted but some projects in the airport sectors. Management is confident to achieve the guided order inflow guidance of 10% growth in FY20.

### View and Valuation

Performance in the Q3FY20 was the one off for the company and it is expected to come back on the tract by the next quarter only. We expect execution is likely to improve on the back of work resumption on the key projects and management's focus on the better cash flow project execution. Strong growth prospectus in hydrocarbon business and orders from the multi-lateral funding agencies are likely to support the order inflow, though the orders for the central and state government is running at the slow pace. Working capital continues to remain under pressure and key thing to look out. Considering the higher working capital requirement, we have marginally reduced our FY21 EPS estimates by 5%. **We continue to remain positive on the stock and maintain our BUY rating with the target price of Rs 1604 per share on SoTP basis (Core E&C business at 23x FY21 EPS and Rs 395 per share for the Subsidiary business).**

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## Muted Performance

### 3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	9MFY19	9MFY20	YoY %
<b>Net Sales</b>	<b>34,234</b>	<b>43,303</b>	<b>29,636</b>	<b>35,328</b>	<b>36,243</b>	<b>6%</b>	<b>3%</b>	<b>91,917</b>	<b>101,207</b>	<b>10.1%</b>
Other Income	589	611	384	596	475	-19%	-20%	1,226	1,456	18.8%
COGS	12,840	17,099	9,958	11,441	11,570	-10%	1%	31,872	32,968	3.4%
Emp. Exp.	4,445	4,489	4,552	6,141	6,133	38%	0%	12,978	16,826	29.7%
Sub-Cont.Exp.	1,976	1,967	2,079	2,023	2,004	1%	-1%	5,419	6,106	12.7%
Mfg Exp	3,661	3,664	2,859	3,465	3,373	-8%	-3%	9,600	9,698	1.0%
Other Exp.	1,522	1,546	1,746	2,280	2,138	40%	-6%	5,245	6,163	17.5%
<b>Total Exp.</b>	<b>30,483</b>	<b>38,024</b>	<b>26,317</b>	<b>31,309</b>	<b>32,125</b>	<b>5%</b>	<b>3%</b>	<b>81,866</b>	<b>89,751</b>	<b>9.6%</b>
<b>EBITDA</b>	<b>3,751</b>	<b>5,279</b>	<b>3,319</b>	<b>4,020</b>	<b>4,118</b>	<b>10%</b>	<b>2%</b>	<b>10,051</b>	<b>11,457</b>	<b>14.0%</b>
Dep	405	435	461	630	660	63%	5%	1,488	1,751	17.7%
<b>EBIT</b>	<b>3,346</b>	<b>4,844</b>	<b>2,857</b>	<b>3,390</b>	<b>3,457</b>	<b>3%</b>	<b>2%</b>	<b>8,563</b>	<b>9,705</b>	<b>13.3%</b>
Intreset	534	507	587	686	709	33%	3%	1,296	1,982	52.9%
Except. Item	-	-	94	-	-	NA	NA	(295)	94	NA
<b>PBT</b>	<b>3,401</b>	<b>4,948</b>	<b>2,655</b>	<b>3,301</b>	<b>3,223</b>	<b>-5%</b>	<b>-2%</b>	<b>8,492</b>	<b>9,179</b>	<b>8.1%</b>
Tax	1,126	1,234	795	791	711	-37%	-10%	2,833	2,297	-18.9%
<b>PAT</b>	<b>2,042</b>	<b>3,216</b>	<b>1,361</b>	<b>2,525</b>	<b>2,352</b>	<b>15%</b>	<b>-7%</b>	<b>5,262</b>	<b>6,350</b>	<b>20.7%</b>

### Concall Highlights

- Management has maintained revenue guidance at 12-15% despite the muted performance in Q3FY20. Resumption of the work on Mumbai Coastal projects, Delhi projects and projects in Andhra Pradesh will support the growth going ahead.
- LT will focus on the execution of better cash flow projects compared to state and central government projects.
- Private sector capex cycle is still muted and the new orders continue to drive by the public spending. Company mainly focuses on the multi-lateral funded projects. Order pipeline is Rs 3 lakh Cr for the Q4FY20. Of Rs 2.5 lakh Cr domestic ordering prospects, Rs 2.2 lakh Cr is from the infrastructure.
- Order inflow guidance has been maintained at 10-12% for FY20
- 50% of international order book is non-Middle East. Operations in Middle East have become a bit more challenging due to localization efforts. That is one of the key reasons for L&T diversifying into new geographies
- Management is seeing some traction in Africa and Middle East as far as Infrastructure business is concerned.
- Policy is the big issue in the Defence business and hence no big orders for the private sector. Management does not expect the P75 submarine orders (INR450bn) to be ordered in the near term.
- Margins are expected to remain stable, except of services business.
- Working Capital is under stress, as the payment from central and state government has been delayed on account of liquidity issues. Current working capital is 23.5% of the sales
- Finance cost jumped 33% commensurate with debt levels and phased commencement of Hyderabad Metro. Borrowing cost at the parent level is 7.5%.
- During the quarter company reported a forex gain of Rs100 Cr (part of other expenses)
- Hyderabad Metro: Partial CoD of 30km in November 2017, 16km in September 2018 and 9km in March 2019. Total commissioning of 57km to date. Management expects to complete the entire commissioning by year-end.
- Final claims are still pending in Development business and management will be in a better position to guide on margin towards the end of the year.

## Revenue Mix (In Rs. Bn)

Fig in Rs Cr

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Infrastructure	154	184	271	140	168	174	-5%	4%
Power	11	9	9	6	5	7	-23%	42%
Heavy Engineering	5	7	9	10	7	8	16%	14%
Defence Engineering	10	10	11	10	10	11	NA	5%
E&A	15	16	17	14	15	14	-9%	-4%
Hydrocarbon	36	38	43	38	43	44	16%	2%
IT & TS	36	38	38	38	59	61	63%	4%
Financial Services	31	33	32	35	34	36	9%	3%
Develop. Projects	13	12	11	12	15	12	4%	-15%
Others	15	17	14	12	16	13	-21%	-17%
<b>Total</b>	<b>306</b>	<b>342</b>	<b>433</b>	<b>296</b>	<b>353</b>	<b>362</b>	<b>6%</b>	<b>3%</b>

## Order Book (In Rs.Bn)

Fig in Rs Bn

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Infrastructure	2,182	2,192	2,218	2,187	2,153	2,236	2%	4%
Power	93	82	70	129	152	184	123%	21%
Heavy Engineering	51	48	47	41	30	31	-37%	1%
Defence engineering	121	114	114	112	121	92	-19%	-24%
E&A	31	28	26	-	-	-	NA	NA
Hydrocarbon	278	318	399	403	515	459	44%	-11%
Others	56	57	59	68	61	61	8%	1%
<b>Total</b>	<b>2,812</b>	<b>2,840</b>	<b>2,934</b>	<b>2,940</b>	<b>3,032</b>	<b>3,063</b>	<b>8%</b>	<b>1%</b>

## Order Inflow (In Rs.Bn)

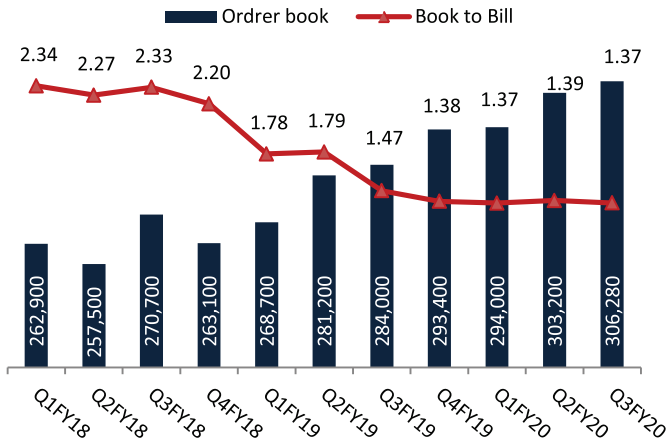
Fig in Rs Bn

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Infrastructure	234	219	306	175	184	200	-9%	9%
Hydracarbon	25	1	10	67	63	37	5299%	-40%
Power	13	5	13	2	5	4	-19%	-14%
Heavy Engineering	13	5	10	4	5	4	-13%	-14%
Defence Engineering	16	16	19	-	-	-	NA	NA
E&A	27	78	89	34	101	58	-25%	-43%
Services	81	81	102	85	106	100	23%	-6%
Others	12	17	16	20	19	12	-27%	-35%
<b>Total</b>	<b>421</b>	<b>422</b>	<b>565</b>	<b>387</b>	<b>483</b>	<b>416</b>	<b>-1%</b>	<b>-14%</b>

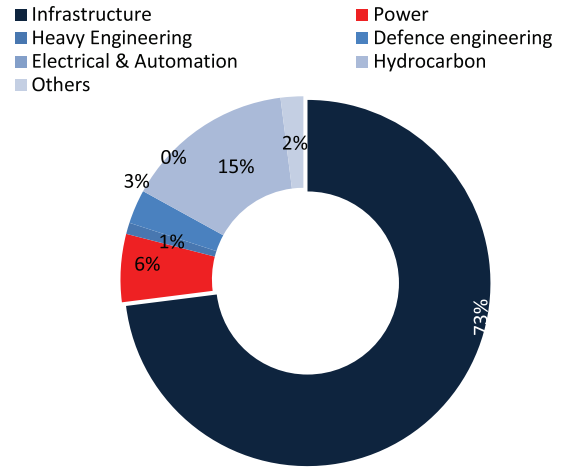
## Margin Performance (%)

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Infrastructure	6.8	5.4	12.3	6.9	7.1	6.1	70	(100)
Power	6.0	2.4	4.7	4.1	4.2	3.4	100	(80)
Heavy Engineering	24.2	20.5	22.8	36.1	24.9	23.5	300	(140)
Defence engineering	25.0	9.0	18.6	11.1	17.9	20.5	1,150	260
Electrical & Automation	17.8	17.4	20.6	13.3	-	-	NA	NA
Hydrocarbon	9.9	8.2	9.8	7.0	12.5	12.1	390	(40)
IT & Technology Services	24.1	22.2	21.9	19.9	19.5	21.0	(120)	150
Financial Services	36.6	33.7	31.0	37.3	-	-	NA	NA
Developmental Projects	4.3	4.2	(3.6)	30.4	10.2	17.3	1,310	710
Others	23.1	47.2	13.9	26.5	21.8	21.9	(2,530)	10

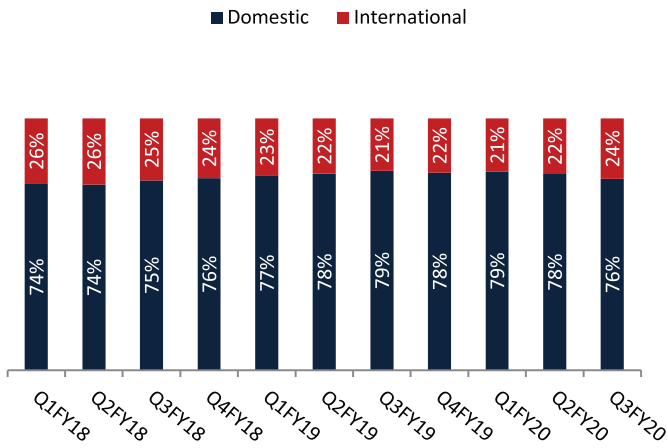
**Exhibit: Order Book and Book to Bill**



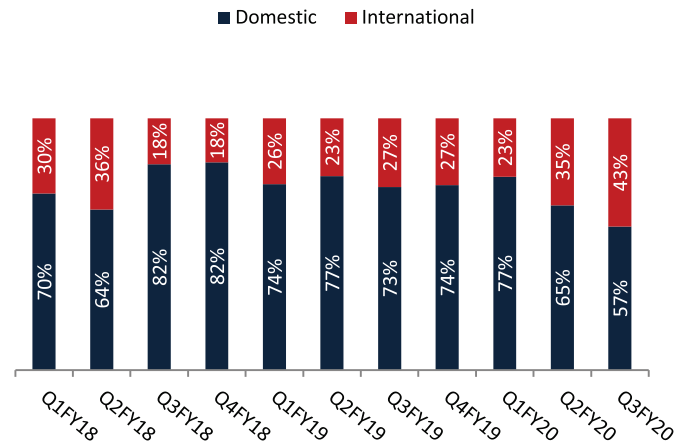
**Exhibit: Order Book Break Up (Q2FY20)**



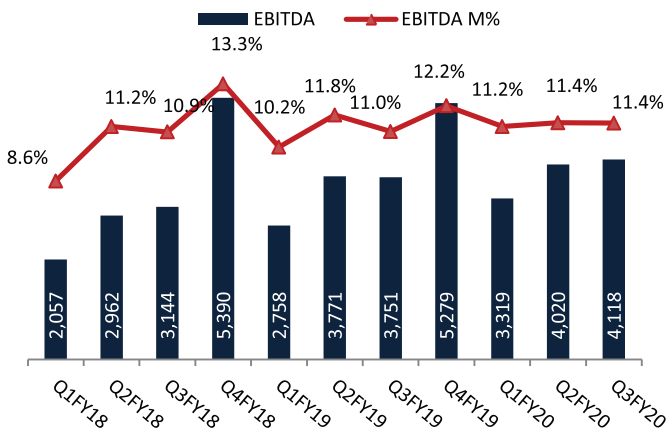
**Exhibit: Order Book Mix**



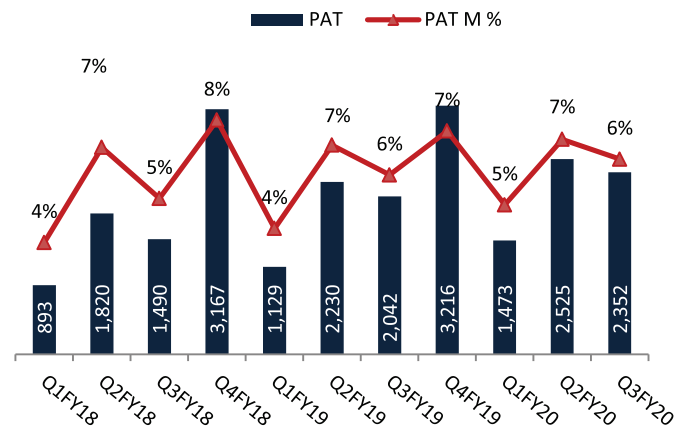
**Exhibit: Order Inflow Mix**



**Exhibit: EBITDA and EBITDA margin trend**



**Exhibit: PAT and PAT margin trend**



## Financial Details

### 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	68,537	76,071
Networth	37,712	41,208	44,180	50,217	55,657	62,375	68,818	76,352
Debt	69,303	68,607	76,121	83,875	92,247	103,345	114,507	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	183,325	200,399
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	6,756	7,782
Debtors	26,385	22,254	26,025	28,689	34,654	37,038	39,014	44,938
Cash & Bank	4,097	5,109	5,390	5,306	8,033	11,726	13,978	11,612
Other Curr Assets	49,239	59,320	69,604	82,057	87,191	111,798	115,932	131,161
Curr Assets	85,248	92,665	105,873	120,192	134,726	166,976	175,681	195,493
Creditors	20,850	22,057	27,004	30,295	37,795	42,995	45,289	52,165
Provisions	2,927	1,677	2,304	2,668	2,484	3,037	3,199	3,685
Other Curr Liab	30,208	33,000	40,829	38,532	48,201	59,330	56,473	63,335
Curr Liabilities	53,985	56,734	70,136	71,495	88,479	105,362	104,960	119,185
Net Curr Assets	31,263	35,932	35,737	48,697	46,246	61,614	70,720	76,308
Total Assets	169,162	171,122	194,726	212,182	245,053	279,134	296,338	327,637

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E*	FY21E*
<b>Revenue from Operation</b>	<b>85,128</b>	<b>92,005</b>	<b>101,975</b>	<b>110,011</b>	<b>119,862</b>	<b>141,007</b>	<b>148,530</b>	<b>171,082</b>
Change (%)	14%	8%	11%	8%	9%	18%	5%	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>17,985</b>	<b>21,502</b>
Change (%)	9%	6%	-8%	6%	22%	20%	10%	20%
<b>Margin (%)</b>	<b>12.6%</b>	<b>12.3%</b>	<b>10.3%</b>	<b>10.1%</b>	<b>11.3%</b>	<b>11.6%</b>	12.1%	12.6%
Depr & Amor.	1,446	2,623	1,787	2,370	1,929	2,084	2,319	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>15,667</b>	<b>19,313</b>
Int. & other fin. Cost	3,138	2,851	1,655	1,339	1,539	1,806	2,697	2,974
Other Income	982	1,007	904	1,344	1,412	1,852	2,067	2,067
<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>14,332</b>	<b>16,339</b>
Exp Item	(355)	(348)	(94)	(121)	(123)	(295)	94	-
<b>Tax</b>	<b>2,608</b>	<b>2,253</b>	<b>2,485</b>	<b>2,007</b>	<b>3,199</b>	<b>4,344</b>	<b>3,556</b>	<b>4,117</b>
Minority Int & P/L share of Ass.	(8)	203	(631)	49	199	1,290	1,242	1,242
<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>9,977</b>	<b>10,763</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>10,070</b>	<b>10,763</b>
Change (%)	-5%	-3%	-7%	45%	22%	19%	17%	7%
Margin(%)	5.3%	4.8%	4.0%	5.4%	6.0%	6.1%	6.8%	6.3%

\*ex. E&A Business

## 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	12,873	14,880
(inc)/Dec in Working Capital	(8,932)	(900)	(2,165)	4,346	(3,416)	(2,392)	(5,105)	(15,302)
Non Cash Op Exp	1,446	2,623	2,756	2,370	1,929	2,084	2,319	2,189
Int Paid (+)	3,138	2,851	3,041	1,339	1,539	1,806	2,697	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)	(2,136)	(3,990)
(inc)/Dec in FA & CWIP	(6,967)	(6,929)	(5,264)	(2,977)	(2,877)	(4,283)	(2,157)	(1,713)
Free Cashflow	(14,110)	(7,598)	(8,493)	3,678	(12,908)	(8,999)	(4,293)	(5,703)
(Pur)/Sale of Inv	780	(966)	(124)	(9,768)	1,810	(4,242)	946	-
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)	(1,211)	(1,713)
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	11,163	9,540
Int. Paid	3,905	3,926	3,678	2,174	2,471	2,982	2,697	2,974
Div Paid (inc tax)	1,418	1,603	1,878	2,093	2,390	2,647	2,993	3,229
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	5,473	3,337
Inc(Dec) in Cash	483	1,759	128	(245)	3,254	(275)	2,126	(2,366)
Add: Opening Balance	3,604	4,087	5,846	3,790	3,545	6,799	11,726	13,978
Closing Balance	4,087	5,846	5,973	3,545	6,799	6,523	13,852	11,612

### Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13%	12%	9%	12%	13%	14%	14%	14%
ROCE	9%	8%	7%	7%	8%	9%	9%	10%
Asset Turnover	0.50	0.54	0.52	0.52	0.49	0.51	0.50	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	6	6
P/E	18	31	32	23	24	22	19	17
Price / Book Value	2	4	3	3	3	3	3	2
EV/EBITDA	13	17	19	19	18	16	15	13
FCF per Share	(152)	(82)	(91)	39	(92)	(64)	(31)	(41)
Div Yield	1.5%	1.0%	1.2%	0.9%	1.1%	1.1%	1.3%	1.4%

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