

# Retail Equity Research

## Larsen & Toubro Limited

Construction & Engineering

BSE CODE: 500510

NSE CODE: LT

Bloomberg CODE: LT:IN

SENSEX: 34,247

**BUY**

12M Investment period Rating as per Large Cap  
CMP Rs. 947 TARGET Rs. 1,120 RETURN 18% ↑  
(Closing: 10-06-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

### Topline and order book growth continues

Larsen & Toubro Ltd Larsen & Toubro Ltd. (LT) is an engineering & construction (E&C) conglomerate. Further, it has presence in IT & financial services sectors.

- Revenue grew 2.2% YoY in Q4FY20 despite lockdown, primarily on growing IT Services, Hydrocarbon, and Financial Services segments. Order inflow increased 4.9% YoY, driven by domestic order inflow.
- EBITDA margin contracted 60bps YoY to 11.6% due to higher staff cost and G&A expense. PAT fell 6.5% YoY, further impacted by higher D&A and interest expenses.
- Given attractive valuation and upside potential post recent correction, we reiterate our BUY rating on the stock, with a revised target price of Rs. 1,120 based on SOTP valuation.

### LTI & Mindtree led topline growth

Company reported Q4FY20 revenue of Rs. 44,245cr (+2.2% YoY), driven by growth from IT Services (+68.8% YoY, led by LTI, LTTS, and Mindtree), Hydrocarbon (+15.1%, driven by execution of large opening order book) and Financial Services segment (+5.8%). This was partially offset by weaker revenue from Infrastructure (-5.7% YoY), Power (-39.5%), Electrical & Automation (-27.8%) and Heavy Engineering (-22.0%). Order inflow rose to Rs. 57,785cr (+4.9% YoY), driven by significant order inflow in Infrastructure segment. Domestic order inflow grew 9.3% YoY, more-than-offsetting subdued inflow for International orders (-4.6% YoY). The order book rose 4.5% YoY to Rs. 303,857cr in FY20 (~25% representing international orders).

### Margins contracted on higher G&A costs

Q4FY20 EBITDA declined to Rs. 5,121cr (-3.0% YoY) due to higher employee and administrative expenses. EBITDA margin shrank 60bps YoY to 11.6%, primarily due to execution and job mix in Infrastructure (-120bps YoY), higher employee cost in IT & Technology Services (-110bps YoY), and impact of cost provisions in Heavy Engineering (-430bps YoY), partially offset by efficient execution, job mix & claims in Hydrocarbon (+120bps YoY) and Power (improved to 38.3% vs. 4.7% in Q4FY19). PAT fell to Rs. 3,197cr (-6.5% YoY) further impacted by higher D&A (+63.3% YoY) and interest expenses (+62.1%).

### Key concall highlights

- The company expects impact of COVID-19 in H1FY21 and also expects growth in later part of the year once lockdown is lifted.
- The labour force dropped down to almost half at the sites, despite the requirement being around 2.2 lacs.
- L&T ensures no risk in execution, as 80% of domestic order book is from government clients, 35% of which is funded by multilateral agencies and 50% by state/central.
- The Company ensures enough liquidity buffers in Balance Sheet despite the current global situation and will introduce new digital initiatives at the sites.

### Valuation

The company has a strong order book and we expect order inflow momentum to improve further post-lockdown. Given attractive valuation and upside potential post recent correction, we reiterate our BUY rating on the stock with a revised target price of Rs. 1,120 using Sum-of-the-Parts (SOTP) valuation methodology (SOTP table on page 2), factoring in the challenging market scenario, order pipeline and management potential.

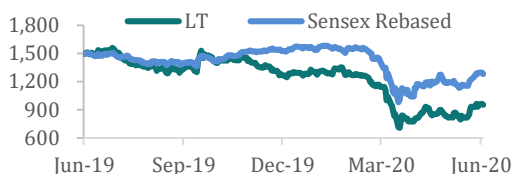
### Company Data

Market Cap (cr)	Rs. 133,047
Enterprise Value (cr)	Rs. 276,309
Outstanding Shares (cr)	140.5
Free Float	87.0%
Dividend Yield	1.9%
52 week high	Rs. 1,592
52 week low	Rs. 661
6m average volume (cr)	0.03
Beta	1.0
Face value	Rs. 2

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	0.0	0.0	0.0
FII's	19.5	18.8	16.9
MFs/Insti	37.8	37.7	38.4
Public	34.0	33.2	34.6
Others	8.7	10.4	10.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-17.2%	-24.9%	-37.4%
Absolute Sensex	-3.9%	-14.9%	-13.9%
Relative Return*	-13.3%	-10.1%	-23.5%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	145,452	140,920	165,150
Growth (%)	7.6	(3.1)	17.2
EBITDA	16,329	15,375	19,264
EBITDA Margin (%)	11.2	10.9	11.7
Adj. PAT	9,549	7,803	10,436
Growth (%)	10.9	(18.3)	33.8
Adj. EPS	68.0	55.5	74.3
Growth (%)	10.8	(18.3)	33.8
P/E	11.9	17.1	12.7
P/B	1.7	1.8	1.7
EV/EBITDA	15.4	18.0	14.7
ROE (%)	14.3	10.8	13.2
D/E	1.9	1.8	1.7

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	44,245	43,303	2.2	36,243	22.1	145,452	135,220	7.6
<b>EBITDA</b>	<b>5,121</b>	<b>5,279</b>	<i>(3.0)</i>	<b>4,118</b>	<i>24.4</i>	<b>16,329</b>	<b>15,330</b>	6.5
EBITDA margins	11.6	12.2	(60bps)	11.4	20bps	11.2	11.3	(10bps)
Depreciation	711	435	63.3	660	7.7	2,462	1,923	28.0
<b>EBIT</b>	<b>4,410</b>	<b>4,844</b>	<i>(9.0)</i>	<b>3,457</b>	<i>27.6</i>	<b>13,867</b>	<b>13,407</b>	3.4
Interest	821	507	62.1	703	16.7	2,797	1,803	55.2
Other Income	660	611	8.1	469	40.8	2,361	1,837	28.6
Exceptional Items	-	-	-	-	-	-	295	<i>n.m.</i>
<b>PBT</b>	<b>4,250</b>	<b>4,948</b>	<i>(14.1)</i>	<b>3,223</b>	<i>31.8</i>	<b>13,431</b>	<b>13,735</b>	<i>(2.2)</i>
Tax	966	1,234	<i>(21.7)</i>	711	35.9	3,263	4,067	<i>(19.8)</i>
Share of profit from Assoc.	147	(127)	<i>n.m.</i>	48	204.9	72	(21)	<i>n.m.</i>
Minority Interest	365	371	<i>(1.4)</i>	400	<i>(8.5)</i>	1,345	1,311	<i>(87.0)</i>
<b>Reported PAT</b>	<b>3,197</b>	<b>3,418</b>	<i>(6.5)</i>	<b>2,352</b>	<i>35.9</i>	<b>9,549</b>	<b>8,905</b>	7.2
Adjustments	-	-	-	-	-	-	(295)	<i>n.m.</i>
<b>Adjusted PAT</b>	<b>3,197</b>	<b>3,418</b>	<i>(6.5)</i>	<b>2,352</b>	<i>35.9</i>	<b>9,549</b>	<b>8,610</b>	10.9
No. of shares	140.5	140.7	-	140.5	-	140.5	140.7	-
<b>EPS (Rs.)</b>	<b>22.8</b>	<b>24.3</b>	<i>(6.3)</i>	<b>16.7</b>	<i>35.9</i>	<b>68.0</b>	<b>61.3</b>	10.8

### Gross Segment Revenue

Particulars	Q4FY20	Q4FY19	YoY Growth %	FY20	FY19	YoY Growth %
Infrastructure	25,560	27,094	<i>(5.7)</i>	73,777	73,204	0.8
Power	565	934	<i>(39.5)</i>	2,318	3,983	<i>(41.8)</i>
Heavy Engineering	702	899	<i>(22.0)</i>	3,205	2,514	27.5
Electrical & Automation	1,239	1,716	<i>(27.8)</i>	5,567	6,094	<i>(8.6)</i>
Hydrocarbon	4,979	4,324	15.1	17,445	15,176	15.0
IT & Technology Services	6,461	3,827	68.8	22,335	14,553	53.5
Financial Services	3,366	3,182	5.8	13,822	12,638	9.4
Developmental Projects	981	1,083	<i>(9.4)</i>	4,850	5,068	<i>(4.3)</i>
Defence Engineering	928	1,108	<i>(16.3)</i>	3,979	3,849	3.4
Others	1,207	1,413	<i>(14.6)</i>	5,309	5,935	<i>(10.6)</i>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	153,870	179,700	140,920	165,150	<i>(8.4)</i>	<i>(8.1)</i>
EBITDA	17,038	21,083	15,375	19,264	<i>(9.8)</i>	<i>(8.6)</i>
Margins (%)	11.1	11.7	10.9	11.7	<i>(16bps)</i>	<i>(7bps)</i>
Adj. PAT	9,093	11,867	7,803	10,436	<i>(14.2)</i>	<i>(12.1)</i>
EPS	64.7	84.5	55.5	74.3	<i>(14.2)</i>	<i>(12.1)</i>

### Sum-of-the-Parts (SOTP) valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr)	Value/share (Rs.)
Core E&C	FY22E P/E	16.0x	100%	128,061	912
Financial Services	Geojit TP	1.0x	64%	7,903	56
Developmental Projects	FY22E P/BV	0.3x	97%	6,341	45
Hydrocarbon	FY22E P/BV	2.5x	100%	14,814	106
L&T Infotech	FY22E P/E	13.0x	75%	16,858	120
L&T Technology services	FY22E P/E	13.0x	75%	7,903	56
Others	FY22E P/BV	0.6x	100%	3,027	22
Conglomerate discount (15%)				<i>(27,736)</i>	<i>(198)</i>
<b>Total</b>				<b>157,171</b>	<b>1,120</b>

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>119,862</b>	<b>135,220</b>	<b>145,452</b>	<b>140,920</b>	<b>165,150</b>
% change	9.0	12.8	7.6	(3.1)	17.2
<b>EBITDA</b>	<b>13,571</b>	<b>15,330</b>	<b>16,329</b>	<b>15,375</b>	<b>19,264</b>
% change	22.5	13.0	6.5	(5.8)	25.3
Depreciation	1,929	1,923	2,462	3,171	3,081
<b>EBIT</b>	<b>11,643</b>	<b>13,407</b>	<b>13,867</b>	<b>12,204</b>	<b>16,184</b>
Interest	1,539	1,803	2,797	3,158	3,249
Other Income	1,535	2,131	2,361	2,479	2,479
<b>PBT</b>	<b>11,639</b>	<b>13,735</b>	<b>13,431</b>	<b>11,524</b>	<b>15,414</b>
% change	31.0	18.0	(2.2)	(14.2)	33.8
Tax	3,199	4,067	3,263	2,623	3,508
Tax Rate (%)	27.5	29.6	24.3	22.8	22.8
<b>Reported PAT</b>	<b>7,370</b>	<b>8,905</b>	<b>9,549</b>	<b>7,803</b>	<b>10,436</b>
Adj*	(123)	(295)	-	-	-
<b>Adj PAT</b>	<b>7,247</b>	<b>8,610</b>	<b>9,549</b>	<b>7,803</b>	<b>10,436</b>
% change	22.4	18.8	10.9	(18.3)	33.8
No. of shares (cr)	140.4	140.5	140.5	140.5	140.5
<b>Adj EPS (Rs.)</b>	<b>51.6</b>	<b>61.3</b>	<b>68.0</b>	<b>55.5</b>	<b>74.3</b>
% change	(18.4)	18.8	10.8	(18.3)	33.8
DPS (Rs.)	16.0	18.0	18.0	18.0	22.0
CEPS (Rs.)	65.3	75.0	85.5	78.1	96.2

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>9,299</b>	<b>10,828</b>	<b>12,011</b>	<b>10,974</b>	<b>13,517</b>
Non-cash adj.	(15,913)	(15,584)	(5,317)	(6,836)	(6,382)
Changes in W.C	(3,416)	-	-	488	(2,713)
<b>C.F. Operation</b>	<b>(10,031)</b>	<b>(4,756)</b>	<b>6,694</b>	<b>4,626</b>	<b>4,421</b>
Capital exp.	(2,015)	(3,499)	(3,299)	(2,241)	(2,395)
Change in inv.	2,679	(4,474)	(7,251)	-	-
Other invest.CF	3,250	(3,050)	2,294	(1,514)	(1,373)
<b>C.F - Investment</b>	<b>3,915</b>	<b>(11,023)</b>	<b>(8,256)</b>	<b>(3,755)</b>	<b>(3,768)</b>
Issue of equity	50	11	18	-	-
Issue/repay debt	12,619	18,174	14,126	6,957	5,932
Dividends paid	(1,961)	(2,647)	(4,551)	(2,526)	(3,088)
Other finance.CF	(1,337)	(98)	(3,221)	(2,065)	(2,149)
<b>C.F - Finance</b>	<b>9,370</b>	<b>15,440</b>	<b>6,372</b>	<b>2,365</b>	<b>696</b>
Chg. in cash	3,254	(338)	4,809	3,237	1,349
Closing cash	8,033	11,726	15,118	18,355	19,704

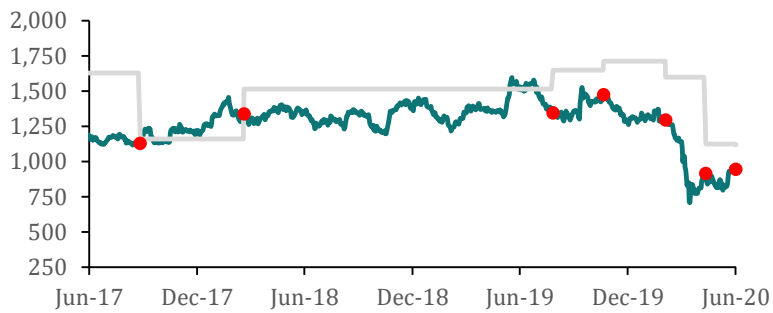
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	8,033	11,726	15,118	18,355	19,704
Accounts Receivable	34,654	36,846	40,732	39,744	46,248
Inventories	4,848	6,414	5,747	7,447	8,782
Other Cur. Assets	88,704	111,805	121,094	122,267	123,464
Investments	10,193	11,215	11,062	11,025	10,989
Gross Fixed Assets	15,032	16,614	19,913	22,154	24,548
Net Fixed Assets	10,642	10,890	10,104	11,254	10,418
CWIP	2,143	2,484	3,225	3,289	3,355
Intangible Assets	14,893	17,486	29,921	27,697	27,700
Def. Tax (Net)	2,132	3,419	3,847	3,962	4,081
Other Assets	68,812	66,063	67,291	68,805	70,178
<b>Total Assets</b>	<b>245,053</b>	<b>278,347</b>	<b>308,140</b>	<b>313,846</b>	<b>324,918</b>
Current Liabilities	74,664	82,368	85,628	77,929	74,173
Provisions	524	557	709	744	781
Debt Funds	107,878	125,910	144,075	150,996	156,891
Other Liabilities	706	312	1,484	1,557	1,633
Equity Capital	280	281	281	281	281
Reserves & Surplus	55,377	62,094	66,442	71,719	79,068
Shareholder's Fund	55,657	62,375	66,723	72,000	79,348
Minority Interest	5,625	6,826	9,521	10,620	12,090
<b>Total Liabilities</b>	<b>245,053</b>	<b>278,347</b>	<b>308,140</b>	<b>313,846</b>	<b>324,918</b>
<b>BVPS (Rs.)</b>	<b>396</b>	<b>444</b>	<b>475</b>	<b>512</b>	<b>565</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	11.3	11.3	11.2	10.9	11.7
EBIT margin (%)	9.7	9.9	9.5	8.7	9.8
Net profit mgn.(%)	6.1	6.6	6.6	5.5	6.3
ROE (%)	13.2	14.3	14.3	10.8	13.2
ROCE (%)	6.9	6.9	6.3	5.2	6.5
<b>W.C &amp; Liquidity</b>					
Receivables (days)	105.5	99.5	102.2	102.9	102.2
Inventory (days)	42.0	47.8	42.3	52.9	54.8
Payables (days)	327.5	320.5	321.6	327.0	326.3
Current ratio (x)	1.2	1.2	1.3	1.4	1.5
Quick ratio (x)	0.5	0.5	0.5	0.5	0.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	8.2	8.5	8.0	6.7	7.1
Total asset T.O (x)	0.5	0.5	0.5	0.5	0.5
Int. coverage ratio (x)	7.6	7.4	5.0	3.9	5.0
Adj. debt/equity (x)	1.8	1.8	1.9	1.8	1.7
<b>Valuation</b>					
EV/Sales (x)	2.4	2.3	1.7	2.0	1.7
EV/EBITDA (x)	21.3	20.6	15.4	18.0	14.7
P/E (x)	25.4	22.6	11.9	17.1	12.7
P/BV (x)	3.3	3.1	1.7	1.8	1.7

## Recommendation Summary



Dates	Rating	Target
1-Feb-17	BUY	1,629
4-Sep-17	HOLD	1,161
27-Feb-18	BUY	1,515
5-Aug-19	BUY	1,650
30-Oct-19	BUY	1,714
13-Feb-20	BUY	1,599
20-Apr-20	BUY	1,125
10-Jun-20	BUY	1,120

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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