

May 10, 2023

**RESULT REPORT Q4 FY23** | Sector: Capital Goods

# Larsen & Toubro Ltd

## Miss on margins; order book at record high

### Our view

L&T reported a mixed set of numbers with 10% YoY revenue growth on the back of decent performance of the Hi-Tech Manufacturing, Energy Projects and IT&TS business. During 4Q, the company recorded OI of Rs761bn, up 3% YoY on a high base led by large order wins from sectors such as Public Spaces, Hydel & Tunnels, Irrigation Systems, Ferrous Metals, Oil & Gas, Power Transmission & Distribution and Defence. Order Book stands at all-time high of Rs4trn (2.2x TTM revenues) providing a strong revenue visibility for next 2-3 years. Management indicated that order pipeline for FY24 stands healthy at ~Rs9.73trn with good traction witnessed in sectors such as Metros/RRTS/HSR, Roads and Expressways, Water, Renewables, Non-Ferrous Metals and Power T&D. On the international front, with pickup in economic activity in GCC led by high crude prices, management is witnessing good traction in order inflows in both oil and non-oil segments

We believe that L&T is well-placed to emerge stronger given its financial, technical & managerial capability for sustaining and gaining market share. At CMP, the stock is trading at 26.6x/20.8x FY24E/FY25E earnings. We remain positive on the company's strong business model, robust bid pipeline, diversified order book and healthy balance sheet. We maintain our ADD rating a revised SOTP-based TP of Rs2,654.

### Result Highlights

- Consolidated sales came in at ~Rs583.3bn (up 10% YoY; YSL estimate of ~Rs584.8bn) driven by revenue growth across segments such as Infrastructure (up 4% YoY), IT&TS (up 22% YoY), Hi-Tech Manufacturing (up 25% YoY) and Energy Projects (up 17% YoY)
- Owing to below-expected gross margin, EBITDA came in below estimates at Rs68.3bn (YSLe ~Rs72.8bn) with EBITDA margins coming in at 11.7% (~60bps YoY contraction)
- Adj PBT came in at Rs59.1bn (up 6% YoY), on the back of a 15% YoY increase in interest cost. Depreciation was up 11% YoY while other income grew 44% YoY
- During the quarter, Adj PAT grew 10% to Rs39.9bn (YSLe ~Rs40.2bn)
- Order inflows grew by 3% YoY to Rs761bn in 4QFY23 driven by order wins in Public Spaces, Hydel & Tunnels, Irrigation Systems, Ferrous Metals, Oil & Gas, Power Transmission & Distribution and Defence sectors. International orders constituted 47% of total OI
- Order book stands at a record ~Rs3.99trn, up 12% YoY as on 4QFY23

### Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	583,352	584,854	587,959	(0.3)	(0.8)	OPM miss due to weak gross margin
EBITDA	68,330	72,789	71,037	(6.1)	(3.8)	
EBITDA margin %	11.7	12.4	12.1	-73bps	-37bps	
Adj.Pat	39,868	40,253	38,913	(1.0)	2.5	

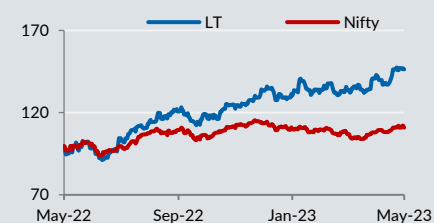
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 2,364
Target Price	: Rs 2,654
Potential Return	: +12%

### Stock data (as on May 10, 2023)

Nifty	18,315
52 Week h/l (Rs)	2416 / 1456
Market cap (Rs/USD mn)	3337107 / 40816
Outstanding Shares (mn)	1,405
6m Avg t/o (Rs mn):	4,099
Div yield (%):	0.9
Bloomberg code:	LT IN
NSE code:	LT

### Stock performance



	1M	3M	1Y
Absolute return	2.4%	9.3%	47.0%

### Shareholding pattern (As of Mar'23 end)

Promoter	0.0%
FII+DII	62.7%
Others	36.1%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	2,654	2,388

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	106.9	118.8
EPS (Old)	88.9	113.7
% change	-16.8	-4.3

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	1,833,407	2,039,463	2,239,443
YoY growth (%)	17.1	11.2	9.8
OPM (%)	11.3	11.5	12.5
EPS (Rs)	74.5	88.9	113.7
EPS growth (%)	20.8	19.3	28.0
P/E (x)	31.7	26.6	20.8
EV/EBITDA (x)	20.6	18.0	15.2
Debt/Equity (x)	1.3	1.2	1.1
RoE (%)	14.2	14.7	15.8
RoCE (%)	5.8	6.4	7.3

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	528,507	358,532	427,626	463,897	583,352	10.4	25.8	1,833,407	1,565,212	17.1
Total Revenues	528,507	358,532	427,626	463,897	583,352	10.4	25.8	1,833,407	1,565,212	17.1
Expenditure	463,302	318,965	378,688	413,167	515,022	11.2	24.7	1,625,842	1,383,056	17.6
as % of sales	87.7	89.0	88.6	89.1	88.3			88.7	88.4	
Consumption of RM	347,927	195,207	252,850	278,072	379,659	9.1	36.5	1,105,787	938,974	17.8
as % of sales	65.8	54.4	59.1	59.9	65.1			60.3	60.0	
Employee Cost	79,746	85,560	91,544	95,325	99,811	25.2	4.7	372,240	297,194	25.3
as % of sales	15.1	23.9	21.4	20.5	17.1			20.3	19.0	
Other expenditure	35,628	38,199	34,294	39,770	35,552	(0.2)	(10.6)	147,815	146,887	0.6
as % of sales	6.7	10.7	8.0	8.6	6.1			8.1	9.4	
EBITDA	65,205	39,567	48,938	50,730	68,330	4.8	34.7	207,565	182,157	13.9
Depreciation	7,694	9,634	8,602	8,252	8,535	10.9	3.4	35,023	29,480	18.8
EBIT	57,512	29,933	40,337	42,479	59,795	4.0	40.8	172,543	152,677	13.0
Other Income	5,156	6,947	7,385	7,550	7,409	43.7	(1.9)	29,292	22,671	29.2
Interest	7,051	7,561	8,357	8,025	8,130	15.3	1.3	31,257	31,257	-
Exceptional Items	-	-	-	(1,360)	-			1,360	969	
PBT	55,616	29,319	39,366	43,364	59,074	6.2	36.2	171,937	145,060	18.5
Total Tax	15,550	6,389	11,174	12,705	14,606	(6.1)	15.0	44,874	42,150	6.5
Adjusted PAT	40,067	22,930	28,192	30,659	44,468	11.0	45.0	127,063	102,910	23.5
Minority Interest	(5,178)	(5,263)	(5,563)	(5,055)	(4,718)	-	-	20,599	(17,499)	-
PAT after MI	34,889	17,668	22,629	25,604	39,750	13.9	55.2	147,662	85,411	72.9
Share in profit/(loss) after tax of joint ventures/associates (net)	1,318	(647)	(339)	(75)	118			(943)	1,282	
PAT From Continued Operation	36,207	17,021	22,290	25,529	39,868	10.1	56.2	146,720	86,693	69.2
Adjusted PAT from continued operation	36,207	17,021	22,290	24,169	39,868	10.1	65.0	148,080	87,662	68.9
Profit from discontinued operation	-	-	-	-	-	-	-	-	-	-
PAT including DO	36,207	17,021	22,290	25,529	39,868	10.1	56.2	148,080	87,662	68.9
Adjusted EPS	25.8	12.1	15.9	18.2	28.4	10.1	56.2	74.5	61.7	20.8

Source: Company, YES Sec

## Exhibit 3: Segmental Revenue

Rs mn	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
<b>Segmental Revenue</b>										
Infrastructure Projects	302,412	144,005	196,682	222,057	315,488	4.3	42.1	878,232	735,601	19.4
Energy Projects	67,776	50,875	55,934	63,462	79,292	17.0	24.9	249,563	237,134	5.2
Hi-Tech Manufacturing	18,633	13,881	15,889	18,631	23,208	24.6	24.6	71,609	62,652	14.3
IT & Technology Services	88,135	94,602	101,839	106,051	107,393	21.9	1.3	409,885	324,647	26.3
Financial Services	29,634	29,581	31,519	33,486	31,163	5.2	(6.9)	125,749	119,711	5.0
Developmental Projects	10,958	13,454	13,446	11,067	12,321	12.4	11.3	50,288	43,675	15.1
Others	19,107	16,319	17,432	15,360	21,605	13.1	40.7	70,715	62,802	12.6
Total	536,655	362,717	432,741	470,112	590,470	10.0	25.6	1,856,040	1,586,222	17.0
Less: Inter-segment revenue	8,150	4,185	5,115	6,214	7,118	(12.7)	14.5	22,633	21,012	7.7
<b>Net segment revenue</b>	<b>528,504</b>	<b>358,532</b>	<b>427,626</b>	<b>463,897</b>	<b>583,352</b>	<b>10.4</b>	<b>25.8</b>	<b>1,833,407</b>	<b>1,565,210</b>	<b>17.1</b>
<b>Segmental EBIT</b>										
Infrastructure Projects	25,392	6,862	10,668	13,042	20,830	(18.0)	59.7	51,402	51,824	(0.8)
Energy Projects	5,377	3,797	4,192	4,966	7,712	43.4	55.3	20,667	17,300	19.5
Hi-Tech Manufacturing	3,804	1,503	2,216	2,480	3,753	(1.3)	51.3	9,952	10,039	(0.9)
IT & Technology Services	17,584	17,749	18,928	17,053	18,076	2.8	6.0	71,806	63,785	12.6
Financial Services	4,803	3,556	6,132	6,304	6,596	37.3	4.6	22,588	14,698	53.7
Developmental Projects	(564)	(211)	(115)	(56)	4,300	(862.2)	(7,805.7)	3,918	(2,306)	(269.9)
Others	3,520	2,516	2,427	2,645	3,876	10.1	46.6	11,464	9,667	18.6
Total	59,915	35,771	44,448	46,434	65,143	8.7	40.3	191,796	165,007	16.2
Less/(Add) Intersegment revenue on capital jobs	283	93	179	164	258	(8.7)	57.5	694	653	6.3
Less: Finance Cost	7,051	7,561	8,357	8,025	8,130	15.3	1.3	32,072	31,257	2.6
Add/(Less) : Unallocable corporate income net of expenditure	2,998	1,202	3,509	3,759	2,319	(22.6)	(38.3)	10,789	10,748	0.4
Add/(Less) : Exceptional items	-	-	-	1,360	-			1,360	1,197	13.6
<b>EBIT from continuing operations</b>	<b>55,578</b>	<b>29,319</b>	<b>39,421</b>	<b>43,364</b>	<b>59,074</b>	<b>6.3</b>	<b>36.2</b>	<b>171,179</b>	<b>145,042</b>	<b>18.0</b>

Source: Company, YES Sec

\*Note: Effective from April 1, 2022, the operating segments have been re-organized, in line with the business strategy to be adopted by the company under its 5-year plan (Lakshya 2026). Accordingly, the Hydrocarbon and Power segments have been merged to form the Energy Projects segment. The Heavy Engineering and Defence Engineering segments have been clubbed together to form the Hi-Tech Manufacturing segment and the IT&TS segment now includes Data Centres and E-Commerce/Digital Platforms which were earlier reported under 'Others' segment. We have accordingly added the numbers of the previous quarters to make a more meaningful comparison with the new reporting format.

## CONCALL HIGHLIGHTS

- The company is seeing strong execution momentum as the Indian economy is exhibiting resilience supported by uptick in high-frequency indicators, tax collections, healthy bank and private corporate balance sheets while in the GCC region it is seeing robust investments both on oil and non-oil side led by stable crude prices. India and GCC regions are relatively stable vis a vis the rest of the world
- Order inflows crossed Rs2trn for the first time in FY23 coupled with closing order book of Rs4trn which is at a record high. For 4QFY23 order inflows came in at Rs761bn, a 3% YoY growth. International orders constituted 47% of the total orders
- Tendering pipeline for FY24 is robust at Rs9.73trn vs Rs8.53trn in FY23. Segment wise: Infra - Rs6.5 trn, Hydrocarbons - Rs2.44trn, Power - Rs0.5trn and Hi-Tech Manufacturing - Rs0.29trn
- Order book of Rs3.99trn is at a record high out of which domestic accounts for 72% and rest is international. International is comprised of Middle East (87%), Africa (4%) with the balance being from RoW. The company sees healthy opportunities in Middle East due to high crude prices and thrust on green energy
- Domestic order book is comprised of Central Govt (14%), State Govts (30%), State PSU (36%) and private players (20%). 22% of the order book is funded by bilateral and multilateral institutions
- NWC to sales ratio came in better than guidance at 16.1% vs 19.7% in FY22
- FY23 margins came in lower than guidance owing to execution at unfavourable prices, timing mismatch and customer claims. Competitive intensity is increasing so the company might not be able to replicate historical double-digit margins. 60% of the legacy backlog has been executed with the balance to be completed by FY25
- The company believes RoE margins will improve on the back of a) sale of IDPL, b) improving operational performance of Hyderabad Metro and Nabha power plant, c) better margin in P&M business and d) share buyback
- **FY24 Guidance** - Revenue growth of 12-15%, order inflow growth of 10-12%, margin at ~9% and NWC to sales at ~16-18%. Domestic revenue guidance is on the conservative side owing to the upcoming state elections and general elections in 2024. In the Middle East region, it expects strong traction on the back of higher crude prices

### Segment wise:

- **Infra:** Revenue at Rs23bn (up 5% YoY) led by execution growth. Secured orders worth Rs410.9bn (down 9% YoY) on a high base. Order prospects are Rs6.5trn for FY24 (Rs5.19trn domestic and rest is international). Order book has an execution visibility of 3 years. Margin at 7.5% contracted on a YoY basis led by cost pressures
- **Energy:** Revenue at Rs79.2bn grew by 18% YoY led by execution momentum in hydrocarbons while lower execution in Power segment is reflective of depleting OB. Received multiple orders in export market for Hydrocarbons while Power witnessed muted order inflows. Order prospects for FY24 stands at Rs2.94trn. EBITDA margins improved to 10.4% vs 8.8% YoY
- **Hi-Tech Manufacturing:** Revenue at Rs21.3bn grew by 21% YoY led by strong execution in Heavy Engg and in Defence. Margins declined by ~430bps YoY due to higher margin in nuclear jobs in 4QFY22
- **Developmental Projects:** Revenue grew by 12% YoY at Rs12.3bn led by improved ridership in Hyderabad Metro (480k pax/day vs 199k pax/day in 4QFY22 and 394k pax/day in 3QFY23) and higher Nabha PLF

## Exhibit 4: SOTP Valuation

	Earnings/Book	Valuation	Target	Stake	Value	Fair Value	Basis
	(Rs mn)	basis	multiple	(%)	(Rs mn)	(Rs)	
L&T Core Business	119,340	P/E	22	100	2,625,485	1872	22x FY25 EPS
L&T Finance Holdings	235,572	Mcap		64	105,306	75	30% discount to Current Mkt cap
L&T Infotech - Mindtree	1,585,188	Mcap		69	762,206	543	30% discount to Tgt Mkt cap
L&T Technology Services	388,147	Mcap		75	203,696	145	30% discount to Tgt Mkt cap
L&T Energy Projects	17,394	P/E	15	100	260,914	186	15x FY25 EPS
L&T's equity investment in BTG	17,000	P/B	0.8	51	6,936	5	0.8x equity investment
Other Business	40,000	P/B	0.8	100	32,000	23	0.8x book value
Total subsidiaries				30% holding co. disc.	1,096,846	782	
<b>Grand total</b>						<b>2,654</b>	

## FINANCIALS

**Exhibit 6: Balance Sheet (Consolidated)**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds					
Equity capital	2,809	2,810	2,811	2,811	2,811
Reserves	755,876	821,267	890,449	995,445	1,121,577
Non-Controlling Int.	120,515	129,661	142,413	142,413	142,413
Net worth	758,685	824,077	893,260	998,256	1,124,388
Debt	1,346,291	1,255,081	1,185,134	1,200,134	1,215,134
Deferred tax liab (net)	(15,183)	(18,008)	(33,544)	(33,544)	(33,544)
<b>Total liabilities</b>	<b>2,210,308</b>	<b>2,190,810</b>	<b>2,187,262</b>	<b>2,307,259</b>	<b>2,448,391</b>
Application of Funds					
<b>Gross Block</b>	<b>196,092</b>	<b>199,656</b>	<b>263,632</b>	<b>288,632</b>	<b>313,632</b>
Depreciation	82,229	93,868	128,890	167,855	210,196
<b>Fixed Asset</b>	<b>407,846</b>	<b>388,531</b>	<b>393,973</b>	<b>380,007</b>	<b>362,667</b>
CWIP	3,884	11,703	29,491	29,491	29,491
Investments	432,734	435,664	481,585	550,655	604,650
Net Working Capital	1,365,845	1,354,913	1,282,214	1,347,105	1,451,583
Inventories	58,205	59,433	68,288	78,226	85,896
Sundry debtors	422,298	461,389	447,315	502,881	552,191
Cash & equivalents	162,415	189,532	225,196	294,407	295,662
Loans & Advances	990,912	955,424	888,845	993,219	1,090,609
Other Current Asset	607,474	670,413	728,982	750,522	824,115
Sundry creditors	455,046	511,442	497,841	670,508	736,255
Provisions	37,725	41,736	43,635	50,987	55,986
Other current liabilities	382,688	428,099	534,937	550,655	604,650
<b>Total Assets</b>	<b>2,210,308</b>	<b>2,190,810</b>	<b>2,187,262</b>	<b>2,307,259</b>	<b>2,448,391</b>

Source: Company, YES Sec

## Exhibit 7: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,359,790	1,565,212	1,833,407	2,039,463	2,239,443
% Change YoY	(6.5)	15.1	17.1	11.2	9.8
Operating profit	156,241	182,046	207,533	234,863	279,455
EBITDA margins	11.5	11.6	11.3	11.5	12.5
% Change YoY	(4.3)	16.5	14.0	13.2	19.0
Depreciation	29,042	29,480	35,023	38,965	42,340
EBIT	127,199	152,567	172,510	195,898	237,115
EBIT margins	9.4	9.7	9.4	9.6	10.6
Interest expense	39,134	31,257	32,072	44,868	49,268
Other income	34,294	22,671	29,292	30,592	33,592
Profit before tax	122,358	143,980	169,730	181,622	221,439
Taxes	40,108	42,039	44,842	45,405	55,360
Effective tax rate (%)	32.8	29.2	26.4	25.0	25.0
Net profit	82,250	101,941	124,889	136,216	166,079
Minorities and other	(69,140)	16,217	21,542	11,336	6,290
Net profit after minorities	151,390	85,724	103,347	124,880	159,789
Exceptional items	(35,560)	969	1,360	0	0
Net profit	115,829	86,693	104,707	124,880	159,789
% Change YoY	21.3	(25.2)	20.8	19.3	28.0
EPS (Rs)	82.5	61.7	74.5	88.9	113.7

Source: Company, YES Sec

## Exhibit 8: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	230,263	144,107	169,730	181,622	221,439
Interest	39,134	31,257	32,072	44,868	49,268
Depreciation	29,042	29,480	35,023	38,965	42,340
Other Items	(134,990)	(15,253)	(11,575)	-	-
(Inc)/Dec in WC	99,702	47,566	53,791	4,319	(103,223)
Direct Taxes Paid	34,710	45,521	51,272	45,405	55,360
CF from Oper.Activity	228,441	191,636	227,770	224,369	154,464
(Inc)/Dec in FA	18,077	31,106	41,438	25,000	25,000
Free Cash Flow	210,364	160,530	186,332	199,369	129,464
(Pur)/Sale of Invest.	(72,365)	(67,783)	(124,555)	(119,070)	(103,995)
CF from Inv. Activity	(54,288)	(36,677)	(83,117)	(94,070)	(78,995)
Change in Network	159	110	103	-	-
Inc/(Dec) in Debt	(78,697)	(92,890)	(50,213)	15,000	15,000
Interest Paid	(31,844)	(28,123)	(28,886)	(44,868)	(49,268)
Dividends Paid	(36,509)	(25,284)	(30,914)	(31,220)	(39,947)
Others	(5,852)	(5,628)	(5,814)	-	(0)
CF from Fin. Activity	(152,744)	(151,815)	(115,725)	(61,088)	(74,215)
Inc/(Dec) in Cash	21,409	3,144	28,928	69,211	1,255
Opening cash Balance	111,180	133,735	137,702	169,267	238,478
Others	27,496	823	2,637	-	-
Closing cash Balance	160,085	137,702	169,267	238,478	239,733

Source: Company, YES Sec

## Exhibit 9: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	2.1	2.6	2.8	3.2	3.2
Interest burden (x)	0.3	0.3	0.3	0.2	0.2
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	0.6	0.7	0.8	0.9	0.9
Financial leverage (x)	2.9	2.7	2.4	2.3	2.2
RoE (%)	11.3%	13.1%	14.2%	14.7%	15.8%

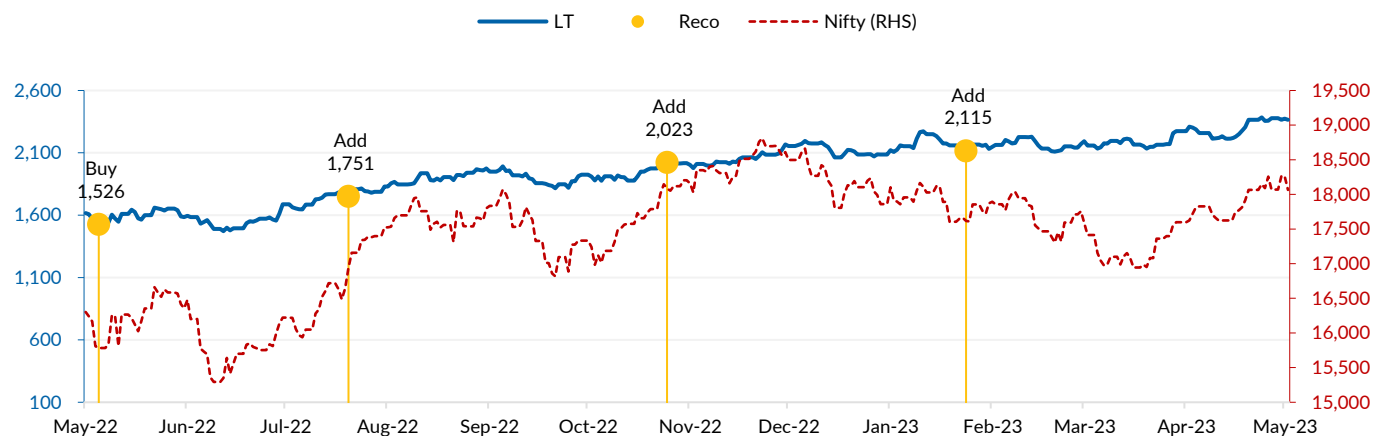
Source: Company, YES Sec

## Exhibit 10: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (Rs)</b>					
EPS	82.5	61.7	74.5	88.9	113.7
Dividend per share	18.0	18.0	18.6	22.2	28.4
Cash EPS	103.2	82.7	99.4	116.6	143.9
Book value per share	626.3	678.8	737.1	811.8	901.6
Div. payout (%)	54.1	24.6	20.7	22.9	24.1
<b>Valuation ratios (x)</b>					
P/E	28.7	38.3	31.7	26.6	20.8
P/CEPS	22.9	28.6	23.8	20.3	16.4
P/B	3.8	3.5	3.2	2.9	2.6
EV/EBIDTA	28.8	24.1	20.6	18.0	15.2
Dividend yield (%)	0.8	0.8	0.8	0.9	1.2
<b>Profitability Ratios (%)</b>					
RoC	5.5	6.1	7.2	7.7	8.9
RoE	11.3	13.1	14.2	14.7	15.8
RoCE	3.9	4.9	5.8	6.4	7.3
<b>Liquidity ratios</b>					
Debtor (days)	113	108	89	90	90
Inventory (days)	16	14	14	14	14
Creditor (days)	122	119	99	120	120
Net working Capital (days)	323	272	210	188	188
Asset Turnover (x)	0.6	0.7	0.8	0.9	0.9

Source: Company, YES Sec

## Recommendation Tracker



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