

Healthy performance amid execution pick-up...

L&T's adjusted standalone revenues (ex-E&A business) for the quarter grew 9.2% YoY to ₹ 29754.1 crore (vs. our estimate of ₹ 29159 crore). On a standalone basis, infrastructure segment revenue (contributing ~83%) grew 2.9% to ₹ 24765 crore YoY owing to job mix and site productivity, though execution improved sequentially due to higher work force mobilisation and supply chain normalisation. On a consolidated basis, adjusted revenues from continuing operations on a like-to-like basis grew 8.7% to ₹ 48087.8 crore YoY. During the quarter, standalone EBITDA margins improved 240 bps to 12.1% (vs. our estimate of 10.5%) YoY owing to job mix and cost control initiatives. On a consolidated basis, EBITDA margins came in at 13.3% (vs. 11.6% in Q4FY20).

Decent order inflows led by infrastructure segment...

For Q4FY21, L&T registered reasonable order inflows at the group level worth ₹ 50651 crore, down 12% YoY owing to deferral of a few awards. Key order wins received in various segments like factories, hydel and tunnel, metros, special bridges, nuclear power, rural water, renewable energy, hydrocarbon, minerals & metals segment. International orders for Q4FY21 came in at ₹ 18439 crore contributing 36% to order inflows. Overall, FY21 order inflows came in at ₹ 175497 crore, down 6% YoY. L&T's order backlog as on FY21 was at ₹ 327354 crore, up 8% YoY with international orders contributing 21%. L&T expects order prospects to the tune of ₹ 9.06 lakh crore for FY22E, up 8.7% YoY.

Strong collections aid working capital, cash flows...

For Q3FY21, the cash flow from operations was robust, which was strongly supplemented by improvement in collections for Q4FY21. The CFO came in robust ₹ 10110 crore (vs. ₹ 6100 crore in Q4FY20). CFO for FY21 came in at ₹ 18130 crore. New working capital to sale ratio improved to 22.3% for FY21 (vs. 23.7% in FY20) on account of a gradual improvement in business activities. For FY21, overall debt has declined by ₹ 1000 to ₹ 46100 crore while it declined by ₹ 7900 crore QoQ. It expects to maintain working capital ratio at FY21 levels.

Valuation & Outlook

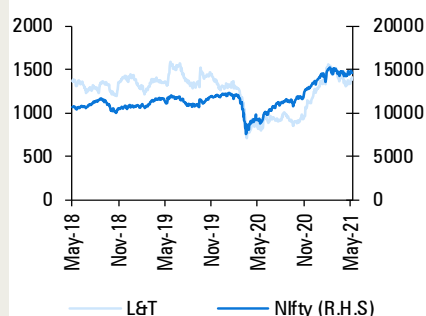
L&T reported decent order inflows while execution improved amid onsite productivity and supply chain normalisation leading to better margins. Also, better collections improved the working capital situation while cash proceeds from E&A has provided much needed liquidity comfort and ability to further repay the debt. We expect L&T to deliver standalone revenue CAGR of 12%, EBITDA CAGR of 11.8% and PAT CAGR of 15.1% in FY21-23E. We value L&T on SoTP (base business at 20x FY23E EPS of ₹ 52.6) basis with a target price of ₹ 1700 (earlier ₹ 1640) and maintain **BUY** rating.



Particulars

Particular	Amount
Market Capitalization	₹ 198815.0 crore
Total Debt (FY21)	₹ 23808.7 crore
Cash & Inv. (FY21)	₹ 3268.0 crore
EV	₹ 222295.7 crore
52 week H/L	₹1593/₹ 791
Equity capital	₹ 277.5 Crore
Face value	₹ 2

Price Performance



Key risk to our call

- Any execution headwinds, order deferments to adversely affect operating performance and order book position.
- Delay in Hyderabad Metro refinancing and hurdles in sale of non-core assets to affect long term strategic goals and value creation for company.

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Key Financial Summary (Standalone)

Particulars (₹ crore)	FY19	FY20*	FY21*	FY22E*	FY23E*	CAGR (FY21-FY23E)*
Net Sales	82,106.4	82,383.6	73,315.6	83,369.0	92,038.7	12.0%
EBITDA	7,708.7	6,838.2	7,266.2	7,893.8	9,076.1	11.8%
EBITDA Margin (%)	9.4	8.3	9.9	9.5	9.9	
Adj. Net Profit	6,107.7	5,414.6	5,505.2	6,227.8	7,295.3	15.1%
Adj. EPS (₹)	44.0	39.0	39.7	44.9	52.6	
P/E (x)	32.1	29.4	17.3	31.5	26.9	
RoNW (%)	12.2	12.9	18.7	9.8	11.0	
RoCE (%)	10.7	7.5	7.4	7.8	8.8	

*PAT, EPS adjusted for E&A business sale and exceptional items.

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Standalone)

	Q4FY21	Q4FY21E	Q4FY20	YoY (Chg %)	Q3FY21	QoQ (Chg %)	Comments
Revenue	29,754.1	29,159.0	27,252.8	9.2	19,619.8	51.7	Revenue growth, aided by better execution and supply chain normalisation
Other Income	674.4	1,006.0	801.7	-15.9	1,127.7	-40.2	
Employee Expenses	1,327.2	1,545.4	1,425.8	-6.9	1,395.8	-4.9	
Raw Material Expenses	24,133.5	23,648.0	22,395.2	7.8	15,829.3	-68.6	
Other Operating Expense	703.5	903.9	808.8	-13.0	530.9	32.5	
EBITDA	3,589.9	3,061.7	2,623.0	36.9	1,863.8	92.6	
EBITDA Margin (%)	12.1	10.5	9.6	244 bps	9.5	257 bps	Margin improvement reflective of job mix and site productivity
Depreciation	301.0	266.9	257.1	17.1	240.4	25.2	
Interest	486.9	577.1	563.7	-13.6	567.8	-14.2	
PBT (befor exp. item)	3,476.4	3,223.7	2,603.9	33.5	2,183.2	59.2	
PBT (after exp. item)	3,476.4	3,223.7	2,603.9	-	2,183.2	-	
Total Tax	1,009.3	757.6	489.6	106.1	478.3	111.0	
Adj. PAT (Ex-E&A)	2,467.1	2,466.1	2,114.3	16.7	1,704.9	24.0	Adjusted PAT (excluding exceptional item and E&A) in line with our estimates aided by improved margins and reduction in interest cost.

Key Metrics

Order inflows	35,962.2	39,759.0	50,746.0	-29.1	49,064.1	-26.7	Decent order inflows in infrastructure segment despite challenges
Order backlog	299,311.5	303,842.0	258,315.0	15.9	293,241.6	2.1	Backlog provides strong visibility for next two to three years

Adjusted for E&A business Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E*			FY23E*			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	84,672.0	83,369.0	-1.5	91,981.3	92,038.7	0.1	
EBITDA	7,508.1	7,893.8	5.1	8,489.0	9,076.1	6.9	
EBITDA Margin (%)	8.9	9.5	57 bps	9.2	9.9	66 bps	Margins expected to sustain at current levels.
PAT	5,889.0	6,227.8	5.8	6,872.4	7,295.3	6.2	
EPS (₹)	42.4	44.9	5.8	49.5	52.6	6.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21*	FY22E*	FY23E*	FY22E*	FY23E*	
Order Inflow growth	-12.7	-12.7	12.8	10.4	11.0	10.2	
Order Backlog growth	1.9	1.9	15.3	14.7	10.0	16.4	
Revenue growth	0.3	-11.0	13.7	10.4	29.5	8.6	Revised in line with gradual execution normalisation amid pandemic
EBITDA Margins	8.3	9.9	9.5	9.9	8.9	9.2	

Source: Company, ICICI Direct Research

Key result highlights

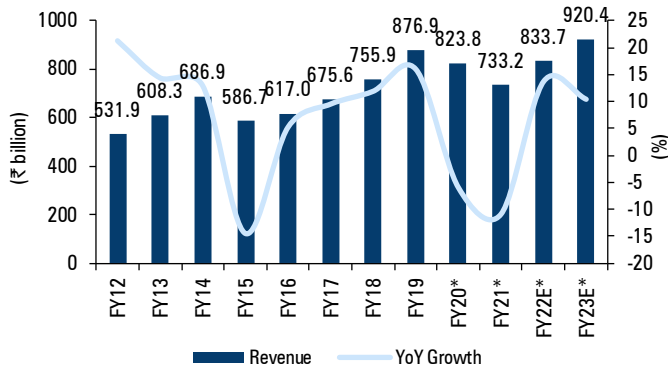
- L&T's adjusted standalone revenues (ex-E&A business) for the quarter grew 9.2% YoY to ₹ 29754.1 crore (vs. our estimate of ₹ 29159 crore). On a standalone basis, infrastructure segment revenue grew 2.9% to ₹ 24765 crore YoY. Heavy engineering segment revenue grew 54.2% to ₹ 1081.9 crore YoY while defence engineering segment revenue grew 42.8% to ₹ 1140.8 crore. On the other side, power segment revenues more than doubled to ₹ 1220.2 crore on a YoY basis
- On a consolidated basis, adjusted revenues from continuing operations on like to like basis grew 8.7% to ₹ 48087.8 crore on a YoY basis. On a consolidated basis, infrastructure segment net revenue grew 4.4% YoY to ₹ 26436.7 crore. While hydrocarbon segment registered revenue growth of 8.9% to ₹ 5421.7 crore, IT & technology segment grew 5.9% to ₹ 6845.4 crore, YoY. Financial services segment grew 0.3% to ₹ 3376.7 crore for the quarter while IDPL segment revenue grew 13.5% to ₹ 1113.8 crore YoY
- For Q4FY21, L&T registered reasonable order inflows at group level worth ₹ 50651 crore, down 12% YoY owing to deferral of few awards. Key order wins were received in various segments like factories, hydel and tunnel, metros, special bridges, nuclear power, rural water, renewable energy, hydrocarbon, minerals & metals. International orders for Q4FY21 came in at ₹ 18439 crore, contributing 36% to order inflows. Overall infrastructure segment secured orders worth ₹ 31256 crore (~62% of total inflows). Overall, FY21 order inflows came in at ₹ 175497 crore, down 6% YoY. L&T's order backlog as on FY21 was at ₹ 327354 crore, up 8% YoY with international orders contributing 21%
- During the quarter, standalone EBITDA margins improved 240 bps to 12.1% (vs. our estimate of 10.5%) on a YoY basis owing to job mix and cost control initiatives. On a consolidated basis, EBITDA margins came in at 13.3% (vs. 11.6% in Q4FY20). From a segmental perspective, infrastructure segment EBITDA margins marginally improved by 40 bps to 11.5% owing to productivity, job mix and improved execution. While hydrocarbon EBITDA margin improved 200 bps to 13% YoY due to efficient execution and job mix
- Consequently, for Q4FY21, standalone adjusted PAT (adjusting for E&A proceeds) comes in at ₹ 2467.1 crore, up 16.7% YoY (in line with our estimates of ₹ 2466.1 crore) despite lower other income which came in at ₹ 674.4 crore, declining 15.9% YoY. While interest expense declined 13.6% to ₹ 486.9 crore improving profitability. The consolidated adjusted PAT for Q4FY21 came in at ₹ 3820.2 crore (vs. ₹ 3430.1 crore in Q4FY20), up 11.4% on a YoY basis
- For Q4FY21, cash generation from operations came in robust ₹ 10110 crore (vs. ₹ 6100 crore in Q4FY20). CFO for FY21 came in at ₹ 18130 crore
- New working capital to sale ratio improved to 22.3% for FY21 (vs. 23.7% in FY20) on account of a gradual improvement in business activities. For FY21, overall debt declined by ₹ 1000 to ₹ 46100 crore while it declined by ₹ 7900 crore on a QoQ basis

Conference call highlights

- As of now, the company has guided for low to mid teen growth in order inflows and revenue for FY22E while there could be near term challenges amid second wave of pandemic. Margins are expected to remain stable at current levels
- On the labour front, the company had 240000 labourers at various sites leading to near normalisation of pre-Covid levels and gradually ramp-up to 275000 labourers in FY22E. However, productivity challenges at site are expected to gradually normalise
- Total 79% of domestic backlog comes from the central government/state governments (~40%) and PSU (~44%) and private (16%) where the risk of cancellation or deferral are very minimal. While ~31% of the order backlog is funded by multilateral agencies like JICA, ADB and World Bank
- On the ordering pipeline front, L&T expects order prospects to the tune of ₹ 9.06 lakh crore for FY22E, up 8.7% YoY. Out of this, ₹ 6.56 lakh crore is in infrastructure segment and rest in other segments. Geography wise, ~₹ 6.97 lakh crore order prospects in domestic markets across urban infra, transportation, water, power T&D, renewables and ~₹ 2.1 lakh crore in International market across hydrocarbon, power T&D in Middle East, Africa, Asean, Indonesia, Philippines, etc
- During the quarter, in IDPL segment, revenue was largely contributed by power development business. Strong electricity demand drives revenue growth in Nabha while Hyderabad Metro ridership is continuing to get impacted by Pandemic. While Singoli Bhatwari Hydro power is fully commissioned. The company is looking to sell these assets at appropriate valuations once market normalises
- The company has identified infrastructure asset to monetise and de-risk its balance sheet including Nabha Power, Hyderabad Metro in medium to long term
- The company expects some developments soon on restructuring of the capital allocation in Hyderabad Metro project for which it is working out a re-financing package, seeking assistance from Telangana government and has allocated ~₹ 2000 crore capital in FY21. Hyderabad Metro reported a net loss in the range of ₹ 500 crore each quarter owing to impact of pandemic on ridership. However, it has 18 msf of transit oriented developmental space which can be monetised over a period of time
- The current order book has ~60% cost plus contracts and remaining 40% are fixed price contracts. L&T expects to withstand higher commodity prices for its fixed price contracts with overall cost efficiencies and continuously factors in the increase in cost to completion of project. It considers current level of commodity prices unsustainable and likely to normalise in the medium term

Financial Story in charts

Exhibit 4: Trend in revenue growth



*E&A business has been restated as discontinued Ops.

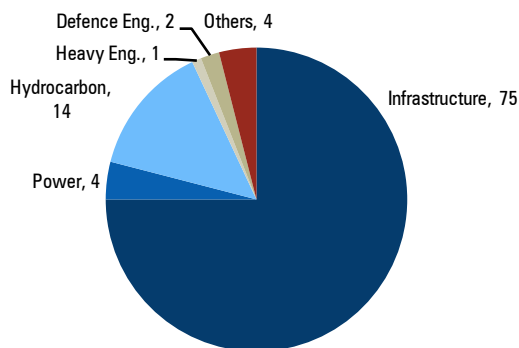
Source: ICICI Direct Research, Company

Exhibit 5: How L&T has fared across business cycles

	Inflow Growth (%)		Revenue Growth (%)	
	Guidance	Achievement	Guidance	Achievement
FY08	30	40	30-35	45
FY09	30	28	30	47
FY10	25-35	41	15-20	14
FY11	25	14	20	19
FY12	5	-12	25.00	21
FY13	15-20	25	15-20	15
FY14	15-20	15	15	10
FY15	20	22	15	3
FY16	0	-13	15	12
FY17	15	10.9	15	10
FY18	0	7	10	9.5
FY19	10%-12%	16	12%-15%	18
FY20	10%-12%	9	12%-15%	8
FY21E	Not Provided	-600%	Not Provided	-6
FY22E	Low to Mid teens		Low to Mid teens	

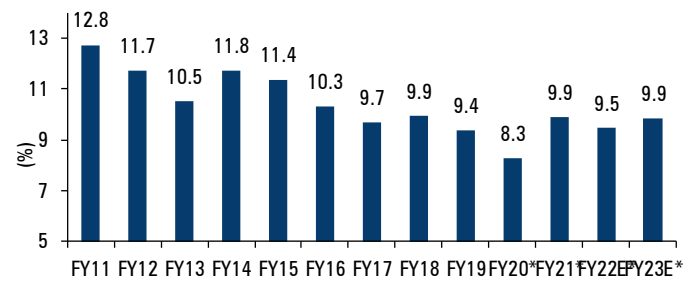
Source: ICICI Direct Research, Company

Exhibit 6: Break-up of consolidated backlog...



Source: Company, ICICI Direct Research

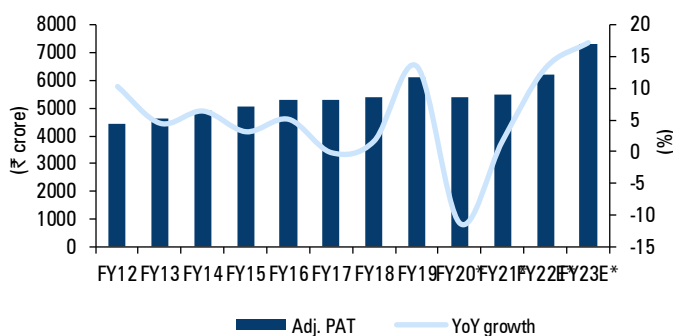
Exhibit 7: Trend in EBITDA margins...



*E&A business has been restated as discontinued ops.

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability...



*E&A business has been restated as discontinued ops.

Source: Company, ICICI Direct Research

Exhibit 9: SoTP valuation of L&T

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	1203	59.5	1052.0	61.9	875.0	65.5
L&T Finance Holdings	81	4.0	72	4.2	38	2.9
L&T IT Subsidiaries	382	18.9	358	21.1	310.5	23.2
L&T Power Development	13	0.6	8.6	0.5	7.7	0.6
L&T MHI JV	12	0.6	5.0	0.3	5.7	0.4
L&T IDPL	144	7.1	58.0	3.4	30.9	2.3
Other E&C, MIP & E&E Sub	29	1.4	14.3	0.8	12.3	0.9
Hydrocarbon	30	1.5	16	1.0	3	0.2
Others (Mindtree)	126.1	6.2	113.1	6.7	51.9	3.9
Total	2021	100.0	1698	100.0	1336	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20*	FY21*	FY22E*	FY23E*
Total operating income	82,383.6	73,315.6	83,369.0	92,038.7
Growth (%)	0.3	-11.0	13.7	10.4
Raw Material Expenses	6,943.4	7,455.1	8,598.0	9,661.3
Employee Expenses	5,956.0	5,485.4	5,979.1	6,352.6
Other Operating Expenses	51,976.3	43,278.2	49,873.8	54,821.8
Sales, admin & Other Exp	2,707.4	2,273.9	2,975.9	3,345.3
Other Mfg. Expenses	7,962.3	7,556.8	8,048.4	8,781.6
Total Operating Expenditu	75,545.4	66,049.4	75,475.2	82,962.6
EBITDA	6,838.2	7,266.2	7,893.8	9,076.1
Growth (%)	-11.3	6.3	8.6	15.0
Depreciation	1,020.5	1,025.6	1,165.0	1,309.9
Interest	2,266.6	2,419.5	1,950.1	1,856.5
Other Income	2,807.8	3,435.5	3,000.2	3,241.6
PBT	6,359.0	7,256.5	7,778.8	9,151.3
Others	0.0	0.0	0.0	0.0
Total Tax	961.1	1,751.3	1,551.1	1,856.0
Adj. PAT (Ex-E&A)	5,414.6	5,505.2	6,227.8	7,295.3
Growth (%)	-6.0	1.7	13.1	17.1
Adj. EPS (₹)	39.0	39.7	44.9	52.6

*E&A business has been restated as discontinued ops.

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	280.8	280.8	280.8	280.8
Reserve and Surplus	51,597.5	60,227.9	62,954.9	66,054.5
Total Shareholders funds	51,878.2	60,508.6	63,235.7	66,335.3
Total Debt	25,785.3	23,808.7	22,808.7	21,808.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	78,578.7	85,198.8	86,940.8	89,115.5
Assets				
Gross Block	11,872.8	13,404.3	14,904.3	16,604.3
Less: Acc Depreciation	4,529.0	5,481.4	6,568.9	7,801.3
Net Block	7,343.8	7,922.9	8,335.4	8,803.0
Capital WIP	796.6	236.1	900.0	1,100.0
Total Fixed Assets	8,140.3	8,159.0	9,235.4	9,903.0
Investments	34,710.0	47,674.1	45,374.1	44,874.1
Inventory	2,769.9	2,858.5	2,988.7	3,315.3
Debtors	27,913.0	29,948.1	31,063.5	32,276.6
Loans and Advances	515.1	435.0	565.4	631.1
Other Current Assets	54,439.6	48,172.5	52,087.1	55,598.2
Cash	3,065.8	3,268.5	3,712.0	4,169.7
Total Current Assets	88,703.4	84,682.6	90,416.7	95,990.8
Creditors	36,629.4	37,469.7	38,829.4	40,345.7
Provisions	1,555.4	1,320.0	1,669.7	1,815.6
Total Current Liabilities	62,780.7	62,948.7	66,028.0	70,014.7
Net Current Assets	25,922.7	21,733.9	24,388.7	25,976.1
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	78,578.7	85,198.8	86,940.8	89,115.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,679.3	11,363.0	6,227.8	7,295.3
Add: Depreciation	1,020.5	1,025.6	1,165.0	1,309.9
(Inc)/dec in Current Assets	-6,905.3	4,223.4	-5,290.5	-5,116.4
Inc/(dec) in CL and Provisions	739.0	168.0	3,079.4	3,986.7
Others	-	-	-	-
CF from operating activiti	1,533.4	16,780.0	5,181.6	7,475.5
(Inc)/dec in Investments	-6,919.3	-12,964.1	2,300.0	500.0
(Inc)/dec in Fixed Assets	-327.0	-1,067.9	-2,163.9	-1,900.0
Others	0.0	0.0	0.0	0.0
CF from investing activitie	-10,247.3	-11,868.2	-237.3	-1,822.2
Issue/(Buy back) of Equity	0.2	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-4,159.2	-4,714.8	-2,862.5	-3,367.7
Inc/(dec) in Sec. premium	127.6	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing activitie	9,046.1	-4,709.2	-4,500.7	-5,195.7
Net Cash flow	332.2	202.6	443.6	457.6
Opening Cash	2,733.6	3,065.8	3,268.5	3,712.0
Closing Cash	3,065.8	3,268.5	3,712.0	4,169.7

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20*	FY21E*	FY22E*	FY23E*
Per share data (₹)				
EPS	39.0	39.7	44.9	52.6
Cash EPS	55.5	89.3	53.3	62.0
BV	374.7	436.9	456.5	478.9
DPS	28.0	28.0	17.0	20.0
Cash Per Share	22.1	23.6	26.8	30.1
Operating Ratios (%)				
EBITDA Margin	8.3	9.9	9.5	9.9
PBT / Total Operating income	9.3	17.9	9.3	9.9
PAT Margin	8.1	15.5	7.5	7.9
Inventory days	13.6	14.0	12.8	12.5
Debtor days	123.7	149.1	136.0	128.0
Creditor days	162.3	186.5	170.0	160.0
Return Ratios (%)				
RoE	10.7	10.4	9.8	11.0
RoCE	7.5	7.4	7.8	8.8
RoIC	7.8	7.6	8.9	9.1
Valuation Ratios (x)				
P/E	29.4	17.3	31.5	26.9
EV / EBITDA	32.0	29.8	27.3	23.6
EV / Net Sales	2.7	3.0	2.6	2.3
Market Cap / Sales	2.4	2.7	2.4	2.1
Price to Book Value	3.8	3.2	3.1	3.0
Solvency Ratios				
Debt/EBITDA	3.8	3.3	2.9	2.4
Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	1.4	1.3	1.4	1.4
Quick Ratio	1.4	1.3	1.3	1.3

*Adjusted for E&A business

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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