

ICICI Securities Limited
is the author and
distributor of this report

Capital Goods

Q4FY21 result review
and earnings revision

Target price: Rs1,670

Earnings revision

		FY22E	FY23E
Revenue	↓	6.2	4.1
EBITDA	↑	0.2	3.5
PAT	↓	13.9	6.1

Target price revision

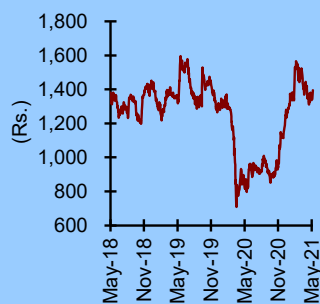
Rs1,670 from Rs1,684

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	0.0	0.0	0.0
Institutional investors	53.5	54.4	55.2
MFs and other	16.6	14.9	15.4
FIs/Ins Co	18.9	18.2	17.4
FII	18.0	21.3	22.4
Others	46.5	45.6	44.8

Source: BSE

Price chart



Research Analysts:

Renjith Sivaram

renjith.sivaram@icicisecurities.com
+91 22 6637 7340

Vipin Goel

vipin.goel@icicisecurities.com
+91 22 6637 7397

INDIA

ICICI Securities

Larsen & Toubro

BUY

Maintained

Focus on margins and asset liquidation

Rs1,414

Larsen & Toubro (L&T) witnessed healthy execution and margins recovery, especially in the infrastructure segment. Advent of covid second wave has brought uncertainty on growth and order intake fronts in the near term; however, L&T expects the situation to normalise Q2FY22-end onwards. Hyderabad Metro operations continue to be under stress and the company has set aside ~Rs20bn as support for the same in FY22. Working capital is stable and L&T continues to provide support to its suppliers given the continuing liquidity challenges. Order pipeline for FY22 stands at Rs9.6trn and the management guides for low to mid teens growth in revenues and order inflow with stable margins during FY22. Factoring-in near-term headwinds, we cut consolidated earnings by 14%/6% for FY22E/FY23E. Given the focus towards margins and asset sales, we maintain BUY with a revised SoTP-based target price of Rs1,670 (earlier: Rs1,684).

- ▶ **Return of pandemic has reshuffled some of the migrant workers:** Covid second wave has put a spanner in the works, which had reached pre-covid levels of activity. Assuming lockdown-related risks, some of the migrant workers have moved back home. However, due to the spread of pandemic equally to rural hinterlands, the exodus has been limited and the company is ensuring care and proper hygiene, etc. to limit any major movement as was witnessed in FY21.
- ▶ **Healthy growth outlook and government thrust:** Government is trying to minimise economic damage from the second wave by not opting for a complete pan-India lockdown. L&T expects the pandemic situation to normalise by Q2FY22-end and that the government will be able to execute the expenditure portion of the Budget, thereby boosting overall GDP. Company foresees Rs9.6trn overall order prospects, of which Rs6.56trn is domestic led by infrastructure followed by hydrocarbon.
- ▶ **Cash burn at Hyderabad Metro to continue:** Low ridership at Hyderabad Metro is continuing to impact overall cashflows as L&T has reserved a further Rs20bn for FY22E towards the same. It is in negotiations toward restructuring or stake sale, but will be careful not to sell at a discount given the long-term value accretion from this asset. For FY20, the metro operations reported a net loss of ~Rs17bn due to low volumes.
- ▶ **Working capital stable; support to suppliers continues:** Q4FY21 saw improvement in cash from operations and the management has guided towards YoY flat net working capital for FY22. Collections have improved and advances from customers have increased; however, given the liquidity scenario, L&T continues to support its suppliers.
- ▶ **Maintain BUY on strong balance sheet and focus on asset sales:** We believe both state and Central governments will start focusing on investment towards building infrastructure and creating jobs post normalisation of the pandemic situation. The focus on asset sales, especially Nabha Power and Hyderabad Metro, will boost cashflows in the medium to long term. Given the strong balance sheet, control on working capital and expected recovery of growth in H2FY22E, we maintain **BUY** on the stock with a revised SoTP-based target price of Rs1,670 (earlier: Rs1,684).

Market Cap	Rs1988bn/US\$27.1bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	LART.BO/LT IN	Revenue (Rs bn)	1,455	1,360	1,525	1,723
Shares Outstanding (mn)	1,404.6	Rec. Net Income (Rs bn)	89	69	90	113
52-week Range (Rs)	1566/796	EPS (Rs)	63.2	49.1	64.2	80.2
Free Float (%)	100.0	% Chg YoY	6.7	(22.3)	30.7	24.8
FII (%)	22.4	P/E (x)	24.0	31.0	23.7	19.0
Daily Volume (US\$/000)	84,110	CEPS (Rs)	89.8	79.1	94.4	111.7
Absolute Return 3m (%)	(7.0)	EV/E (x) (Incl. Indus)	20.0	20.3	18.5	16.1
Absolute Return 12m (%)	66.9	Dividend Yield (%)	1.2	1.2	1.2	1.3
Sensex Return 3m (%)	(5.3)	RoCE (%)	7.8	7.3	7.2	8.0
Sensex Return 12m (%)	58.3	RoE (%)	13.8	9.7	11.3	12.6

Please refer to important disclosures at the end of this report

Outlook and valuation

The current ex-services orderbook at Rs3.3trn (3.5x TTM ex-services sales) provides growth visibility. Given the restart of ordering activity on large multilateral projects such as high-speed rail, we believe demand will improve and aid ordering from similar projects in segments like metro, water, etc. Taking into account the near-term headwinds, we cut our FY22E/FY23E earnings by 14%/6% on a consolidated basis. Maintain **BUY** on the stock with a revised target price of Rs1,670 (earlier: Rs1,684).

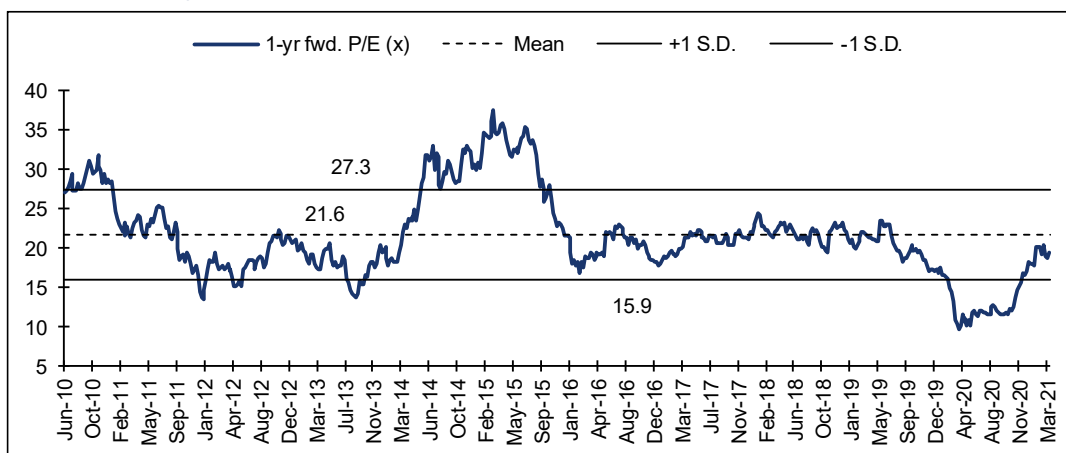
We adjust the balance sheet to factor-in the acquisition of 60.6% stake in Mindtree. We have consolidated the financials of Mindtree in our FY22E/FY23E estimates. We value the 60.6% stake as per the current market cap of Mindtree.

We have rolled over our valuation multiple to FY23E from Sep'22E and maintain the SoTP valuation methodology. Given the business moat in terms of execution capabilities, we assign a target P/E multiple of 22x to the standalone business (vs 25x earlier). Hydrocarbon business has been valued separately at 18x FY23E earnings, and 'other businesses' are valued as per industry norms. We arrive at an SoTP-based target price of Rs1,670 where the standalone business is valued at Rs880, and other subsidiaries, associates and BOT assets at Rs790 per share.

Table 1: Valuation summary

	Method	Valuation multiple	Value (Rs bn)	Value (Rs/sh)
Construction Business				
L&T Standalone	FY23 P/E (x)	22	1,238	880
International Ventures (L&T FZE)	FY23 P/E (x)	12	59	42
Mindtree	Market cap		210	150
Hydrocarbon				
Hydrocarbon Engineering	FY23 P/E (x)	18	238	169
Service Segments				
L&T Infotech	Market cap		472	335
L&T Technologies	Market cap		200	142
Finance	Market cap		139	99
Asset Ownership / Project Developer				
Infrastructure Development	P/BV	1	34	24
Seawoods	FY23 P/E (x)	10	6	5
Nabha Power	P/BV	1	23	17
Manufacturing Ventures				
Power Equipments	FY23 P/E (x)	25	2	1
L&T Komatsu	FY23 P/E (x)	18	6	2
Audco India	FY23 P/E (x)	15	7	2
Less: Holding Company Discount (@20%)			(279)	(197)
Total				1,670

Source: Company data, I-Sec research

Chart 1: One-year forward P/E band (standalone)

Source: Company data, I-Sec research

Table 2: Earnings revision (consolidated)

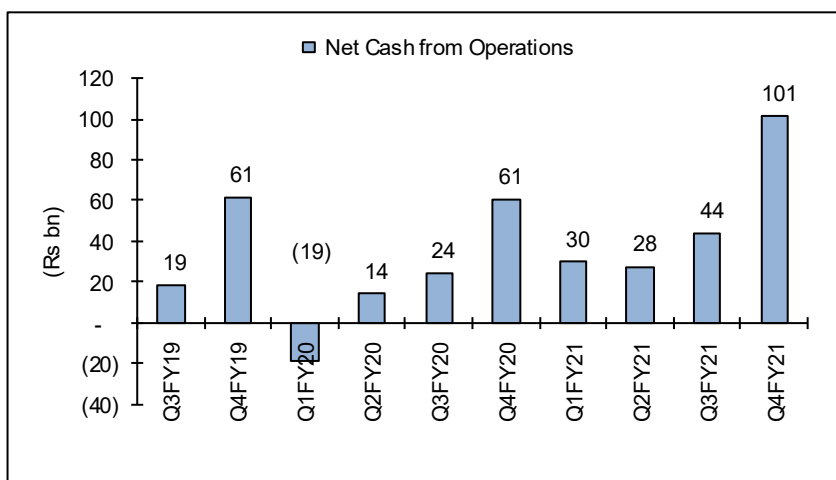
Rs mn	FY22E			FY23E		
	Previous	Revised	YoY (%)	Previous	Revised	YoY (%)
Revenue	16,26,795	15,25,470	(6.2)	17,96,303	17,22,983	(4.1)
EBIDTA	1,74,930	1,75,216	0.2	1,96,344	2,03,195	3.5
PAT	1,04,772	90,222	(13.9)	1,19,915	1,12,578	(6.1)

Source: Company data, I-Sec research

Table 3: Earnings revision (standalone)

Rs mn	FY22E			FY23E		
	Previous	Revised	YoY (%)	Previous	Revised	YoY (%)
Revenue	8,89,717	8,38,298	(5.8)	9,63,852	9,54,320	(1.0)
EBIDTA	84,413	79,953	(5.3)	92,474	92,510	0.0
PAT	63,611	63,160	(0.7)	68,894	72,002	4.5

Source: Company data, I-Sec research

Chart 2: Positive cash from operations despite cash infusion to Hyderabad Metro

Source: Company data, I-Sec research

Despite the cash burn of ~Rs4.5bn per quarter on Hyderabad Metro, the net cash from operations was positive at Rs101bn for Q4FY21. We expect this trend to continue till Hyderabad Metro's restructuring, post which, we believe cashflow from operations will further improve.

Concall highlights

- **Guidance:** Company has given its FY22 revenue and order inflow growth guidance at low-mid teens. However, it maintains caution and assumes recovery from Q2FY22. Working capital improved from 23.7% in FY20 to 22.3% in FY21 and the management is hopeful of maintaining the working capital at similar levels
- **Prospect pipeline** for FY22 is at Rs9.6trn (up from Rs8.35trn last year) where domestic is Rs6.56trn and overseas is Rs2.5trn. The hydrocarbon prospects are Rs1.4trn with domestic at Rs600bn and international at Rs800bn. Ordering outlook is positive given the leniency by Parliament towards debt funding for the government and international funding are also supporting financing etc. Outlook for overseas business has improved due to steady oil prices (Middle East region) and economic recovery in many parts of the world.
- Rs1.02trn of domestic infrastructure order intake in FY21 includes Rs200bn from water, Rs200bn from T&D, Rs100bn from B&F, Rs115bn from transport infrastructure and Rs350bn from heavy civil engineering. Company won Rs12bn of fleet orders under heavy engineering in Q4FY21. Management continues to be optimistic on retaining ~15% market share in infrastructure projects. States, PSUs and the Central government will be the pecking order in terms of order prospects.
- **Orderbook** for FY21 stood at Rs3.27trn (79% domestic, 21% international) where >Rs1trn of projects are funded by multilateral agencies. Central / state / PSU / private contribution accounted for 9% / 31% / 44% / 16% of the orderbook. Management is hopeful of increasing the private sector contribution to 25-30% over next 2-3 years.
- **Execution:** Low growth in infrastructure segment was due to external reasons, and is expected to improve. Company had 240,000 people on site in Mar'21 and the number was expected to increase due to execution of large projects; however this has been impacted by covid second wave. Workers currently carry the impression that the company sites are safer at the moment given that rural India is equally impacted as urban this time. The orders are of longer-term duration and will pick up speed with progression of execution. Generally, two-thirds of the revenue is booked in the second half and one-third in the first half.
- **Margins:** Margins under defence and heavy engineering were higher due to the closure of projects leading to playing out of operational efficiencies. In relation to increase in commodity prices, management indicated that 60% of the projects are pass-through and there is a way to increase the pricing of these projects. For EPC business, the international portion has ~7% margins (given client preference for high-cost local manpower) and domestic business has 8-9% margin. Overall, the infrastructure margins are likely to be in the range of 8-10%.
- **Capital allocation:** After the Rs20bn rights issue at L&T Finance (LTF) last year, the management does not see further infusion of fresh capital. LTF, like the IT subsidiary, is core to the service business and will continue to be part of the company. The company is in discussion with SEBI to tweak the law in terms of buyback; management has kept cash buffer taking the pandemic into consideration. Rs20bn has been set aside in case of any further equity infusion in Hyderabad Metro.

- **Hyderabad Metro:** Ridership has been impacted due to covid and various efforts are being made to restructure the loan and monetise the investment. However, due to pandemic, the timeline cannot be certain. Management considers Hyderabad Metro a top class asset with long-term concession period. It estimates average 700,000-800,000 commuters on the metro. During FY21, Hyderabad Metro booked revenues of Rs2bn and incurred a net loss of Rs17bn, hit by Rs14bn in interest cost and Rs3bn in amortisation.
- **Realty:** In FY21 L&T handed over 400 flats (vs 800 in FY20). It expects to fare similar or better in FY22.
- **RoE target:** Company would like to reach 18% RoE, which was earlier set for FY21. Key actions other than improving core performance include selling power assets (likely sooner than later), monetising Hyderabad Metro, and other assets. Power asset sales are likely to move towards closure in the course of FY22.

Table 4: Quarterly financial trend (consolidated)

<i>Rs mn</i>)	Q4FY20	Q3FY21	Q4FY21	YoY(%)	I-Sec est.	Var(%)	FY20	FY21	YoY(%)
Revenue	4,42,453	3,55,964	4,80,879	8.7	5,79,065	(17.0)	14,54,524	13,59,790	(6.5)
EBITDA	51,210	42,800	63,889	24.8	64,278	(0.6)	1,63,290	1,56,241	(4.3)
Margin(%)	11.6	12.0	13.3	170bps	11.1	220bps	11.23	11.49	30bps
Depreciation	7,109	7,021	8,168	14.9	6,210	31.5	24,623	29,042	17.9
Finance Cost	8,208	9,620	8,531	3.9	7,769	9.8	27,967	39,134	39.9
Other Income	6,605	10,647	10,283	55.7	8,726	17.8	23,609	34,294	45.3
PBT	42,497	36,805	57,474	35.2	59,025	(2.6)	1,34,310	1,22,358	(8.9)
Tax	9,663	10,408	20,867	116.0	15,937	30.9	32,632	40,593	24.4
Tax rate(%)	22.7	28.3	36.3	1360bps	27	930bps	24.30	33.18	890bps
PAT	32,835	26,398	36,607	11.5	43,088	(15.0)	1,01,678	81,765	(19.6)
Share of Associates net of Minority interest	(2,188)	(3,824)	(2,434)	11.2	(2,210)	10.1	(11,797)	(13,240)	12.2
Adjusted PAT	30,647	22,574	34,173	11.5	40,879	(16.4)	89,880	68,526	(23.8)
Extraordinary	-	-	-	-	-	-	-	45,924	-
Reported PAT	30,647	22,574	34,173	11.5	40,879	(16.4)	89,880	1,14,450	27.3
Adjusted EPS	21.8	16.1	24.4	-	29.1	-	64.1	48.8	-
Order Intake	5,77,850	7,32,330	5,06,540	(12.3)	5,48,809	(7.7)	18,63,560	17,55,000	(5.8)
Order Book	30,38,570	33,10,610	32,74,000	7.7	32,76,119	(0.1)	30,38,570	32,74,000	7.7

Source: Company data, I-Sec research

Table 5: Quarterly segmental trend (consolidated)

<i>(Rs mn)</i>	Q4FY20	Q3FY21	Q4FY21	YoY(%)	I-Sec est.	Var(%)	FY20	FY21	YoY(%)
Revenue									
Infrastructure	2,53,188	1,59,732	2,64,367	4.4	3,64,465	(27.5)	7,26,823	6,19,616	(14.8)
Power	5,653	9,037	12,202	115.9	7,673	59.0	23,185	31,926	37.7
Heavy engineering	7,016	8,034	10,819	54.2	8,843	22.3	32,050	30,185	(5.8)
Hydrocarbon	49,792	44,224	54,217	8.9	47,630	13.8	1,74,455	1,69,638	(2.8)
Engineering & Construction	3,15,649	2,21,027	3,41,605	8.2	4,28,610	(20.3)	9,56,513	8,51,366	(11.0)
Defence engineering	7,989	10,240	11,408	42.8	12,074	(5.5)	36,991	34,101	(7.8)
E&A (disc)	12,391	48					55,670	16,057	(71.2)
IT & Technology services	64,613	65,301	68,454	5.9	64,321	6.4	2,23,352	2,56,188	14.7
Financial Services	33,657	34,007	33,767	0.3	35,163	(4.0)	1,38,224	1,34,036	(3.0)
Development Projects	9,815	8,138	11,138	13.5	10,673	4.4	48,503	36,214	(25.3)
Others	15,768	20,507	19,065	20.9	32,459	(41.3)	66,837	60,928	(8.8)
EBIT									
Infrastructure	26,149	8,226	27,955	6.9	39,362	(29.0)	51,699	45,215	(12.5)
Power	2,032	88	949	(53.3)	286	232.3	2,361	1,112	(52.9)
Heavy engineering	1,057	1,347	2,806	165.6	1,774	58.2	5,662	4,883	(13.8)
Hydrocarbon	5,023	4,932	6,583	31.1	5,265	25.0	17,462	15,683	(10.2)
Engineering & Construction	34,260	14,593	38,294	11.8	46,687	(18.0)	77,184	66,894	(13.3)
Defence Engineering	931	1,384	3,028	225.2	1,505	101.3	5,342	6,170	15.5
E&A (disc)	1,877	(32)					8,881	1,044	(88.2)
IT & Technology services	10,230	13,595	13,660	33.5	13,786	(0.9)	36,932	48,232	30.6
Financial Services	4,467	3,520	7,308	63.6	3,996	82.9	26,787	15,105	(43.6)
Development Projects	(96)	(760)	(652)	580.4	359	(281.4)	3,873	(1,966)	(150.8)
Others	1,927	6,553	2,333	21.1	4,945	(52.8)	10,439	11,230	7.6

(Rs mn)	Q4FY20	Q3FY21	Q4FY21	YoY(%)	I-Sec est.	Var(%)	FY20	FY21	YoY(%)
EBIT Margin (%)									
Infrastructure	10.3	5.2	10.6	20bps	10.8	-20bps	7.1	7.3	20bps
Power	35.9	1.0	7.8	-2820bps	3.7	410bps	10.2	3.5	-670bps
Heavy engineering	15.1	16.8	25.9	1090bps	20.1	590bps	17.7	16.2	-150bps
Hydrocarbon	10.1	11.2	12.1	210bps	11.1	110bps	10.0	9.2	-80bps
Engineering & Construction	10.9	6.6	11.2	40bps	10.9	30bps	8.1	7.9	-20bps
Defence engineering	11.7	13.5	26.5	1490bps	12.5	1410bps	14.4	18.1	370bps
E&A (disc)	15.1	(66.7)					16.0	6.5	-950bps
IT & Tech services	15.8	20.8	20.0	410bps	21.4	-150bps	16.5	18.8	230bps
Financial Services	13.3	10.4	21.6	840bps	11.4	1030bps	19.4	11.3	-810bps
Development Projects	(1.0)	(9.3)	(5.9)	-490bps	3.4	-920bps	8.0	(5.4)	-1340bps
Others	12.2	32.0	12.2	0bps	15.2	-300bps	15.6	18.4	280bps

Source: Company data, I-Sec research

Table 6: Quarterly financials (standalone)

(Rs mn)	Q4FY20	Q3FY21	Q4FY21	YoY (%)	I-Sec est.	Var (%)	FY20	FY21	YoY (%)
Revenue	2,72,528	1,96,198	2,97,541	9.2	3,84,068	(22.5)	8,23,837	7,33,156	(11.0)
EBITDA	26,230	18,638	35,899	36.9	46,190	(22.3)	68,381	72,661	6.3
Margin(%)	9.6	9.5	12.1	244bps	12.0	4bps	8.3	9.9	160bps
Depreciation	2,571	2,404	3,010	17.1	3,033	(0.7)	10,205	10,256	0.5
Finance Cost	5,637	5,678	4,869	(13.6)	5,606	(13.1)	22,666	24,196	6.7
Other Income	8,017	11,277	6,744	(15.9)	6,405	5.3	28,079	34,354	22.4
PBT	26,039	21,832	34,764	33.5	43,957	(20.9)	63,589	72,564	14.1
Tax	4,896	4,783	10,093	106.1	8,935	13.0	9,612	17,513	82.2
tax rate(%)	18.8	21.9	29.0	54.4	20.3	871bps	15.1	24.1	
Adjusted PAT	21,142	17,049	24,670	16.7	35,022	(29.6)	53,978	55,051	2.0
Extraordinary							(6,270)	(52,814)	
Reported PAT	21,142	17,049	24,670	16.7	35,022	(29.6)	60,248	1,07,865	79.0
Margin(%)	7.8	8.7	8.3	6.9	9.1	-83bps	7.3	14.7	740bps
EPS	15.1	12.1	17.6	16.7	25.0		38.5	39.2	2.0

Source: Company data, I-Sec research

Table 7: Segmental quarterly result (standalone)

(Rs mn)	Q4FY20	Q3FY21	Q4FY21	YoY (%)	I-Sec est.	Var (%)	FY20	FY21	YoY (%)
Revenue									
Infrastructure	2,40,654	1,51,068	2,47,657	2.9	3,42,471	(27.7)	6,91,944	5,83,642	(15.7)
Power	5,653	9,037	12,202	115.9	7,673	59.0	23,185	31,926	37.7
Heavy Engineering	7,016	8,031	10,819	54.2	8,845	22.3	32,049	30,182	(5.8)
E&A (disc)	10,052						45,573	12,627	(72.3)
Others	12,287	18,752	16,837	37.0	14,088	19.5	43,671	56,609	29.6
Defence engineering	7,989	10,240	11,408	42.8	12,074	(5.5)	36,992	34,101	(7.8)
EBIT									
Infrastructure	23,958	7,787	26,100	8.9	37,339	(30.1)	48,156	42,742	(11.2)
Power	2,031	88	949	(53.3)	259	266.3	2,357	1,114	(52.7)
Heavy Engineering	1,052	1,348	2,805	166.6	1,658	69.2	5,652	4,895	(13.4)
E&A (disc)	1,852	(17)					8,654	1,209	(86.0)
Others	535	5,337	1,096	104.6	1,144	(4.2)	4,535	7,736	70.6
Defence engineering	939	1,384	3,028	222.6	1,629	85.9	5,281	6,170	16.8
EBIT Margin(%)									
Infrastructure	10.0	5.2	10.5	58bps	10.9	-36bps	7.0	7.3	40bps
Power	35.9	1.0	7.8	-2814bps	3.4	440bps	10.2	3.5	-670bps
Heavy Engineering	15.0	16.8	25.9	1093bps	18.7	719bps	17.6	16.2	-140bps
E&A (disc)	18.4						19.0	9.6	-940bps
Others	4.4	28.5	6.5	215bps	8.1	-161bps	10.4	13.7	330bps
Defence engineering	11.8	13.5	26.5	1479bps	13.5	1305bps	14.3	18.1	380bps

Source: Company data, I-Sec research

Table 8: Key assumptions (consolidated)

(Rs bn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue						
Heavy Engineering	16.4	25.1	32.1	30.2	30.8	33.8
Power	62.1	39.8	23.2	31.9	40.2	44.4
Infrastructure	634.2	732.0	726.8	619.6	723.6	834.0
Hydrocarbon	117.6	151.8	174.5	169.6	177.9	191.1
IT & Technology Services	113.6	145.5	223.4	256.2	284.0	320.2
Financial Services	100.6	126.4	138.2	134.0	148.2	162.4
Developmental Projects	42.9	50.7	48.5	36.2	47.5	64.3
Defence Engg	32.2	38.5	37.0	34.1	30.3	33.4
Others	44.4	59.3	66.8	60.9	56.7	53.8
Growth (% YoY)						
Heavy Engineering	(52.6)	53.7	27.5	(5.8)	2.1	9.6
Power	(10.5)	(35.8)	(41.8)	37.7	25.9	10.5
Infrastructure	17.6	15.4	(0.7)	(14.8)	16.8	15.3
Hydrocarbon	22.1	29.1	15.0	(2.8)	4.9	7.4
IT & Technology Services	14.9	28.1	53.5	14.7	10.9	12.7
Financial Services	17.8	25.6	9.4	(3.0)	10.5	9.6
Developmental Projects	(1.7)	18.0	(4.3)	(25.3)	31.1	35.4
Defence Engg		19.5	(3.9)	(7.8)	(11.0)	9.9
Others	(59.1)	33.5	12.6	(8.8)	(7.0)	(5.0)
Order Inflow						
Heavy Engineering	58.1	40.7	18.6	35.1	35.1	35.1
E&A (Disc.)	56.6	60.1	-	-	-	-
Power	24.5	30.1	130.5	17.6	17.9	18.3
Infrastructure	873.1	956.5	1,025.2	1,035.5	1,131.4	1,296.9
Hydrocarbon	157.5	279.3	205.0	175.5	184.3	221.1
Defence Engg	-	30.1	18.6	17.6	19.3	21.2
Others	104.0	51.3	111.8	52.7	57.9	63.7
Ex-services Order intake	1,274	1,448	1,510	1,334	1,446	1,656
Growth (% YoY)						
Heavy Engineering	(26.1)	(30.0)	(54.2)	88.3	-	-
Power	(14.6)	22.9	334.1	(86.5)	2.0	2.0
Infrastructure	11.2	9.6	7.2	1.0	9.3	14.6
Hydrocarbon	(15.0)	77.4	(26.6)	(14.4)	5.0	20.0
Defence Engg			(38.0)	(5.8)	10.0	10.0
Others	144.9	(50.7)	118.1	(52.9)	10.0	10.0
Ex-services Order intake	8.2	13.7	4.3	(11.7)	8.4	14.6

Source: Company data, I-Sec research

Table 9: Standalone key financials

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue	6,57,239	7,46,117	8,22,874	8,23,837	7,33,156	8,38,298	9,54,320
EBITDA	64,795	76,957	76,531	68,381	72,662	79,953	92,510
Margin(%)	9.9	10.3	9.3	8.3	9.9	9.5	9.7
Depreciation	12,152	10,495	9,996	10,205	10,256	10,462	10,671
Finance Cost	13,169	14,322	17,876	22,666	24,196	22,986	24,135
Other Income	19,150	16,127	27,112	28,079	34,354	35,520	35,806
PBT	58,624	68,267	75,771	63,589	72,564	82,026	93,510
Tax	13,041	18,751	22,711	9,612	17,513	18,866	21,507
Tax rate(%)	22.2	27.5	30.0	15.1	24.1	23.0	23.0
Reported PAT	45,583	49,516	53,060	53,978	55,051	63,160	72,002
EPS	48.7	35.2	37.8	38.4	39.1	45.0	51.3

Source: Company data, I-Sec research

Table 10: Standalone balance sheet

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net worth	4,60,127	4,91,743	5,00,484	5,21,754	6,04,135	6,42,013	6,85,925
LT Debt	71,343	54,952	37,721	71,857	1,58,682	1,58,682	1,58,682
ST Debt	34,464	50,658	82,176	1,85,996	79,405	64,405	67,625
LT Provisions	4,707	4,729	4,976	6,112	6,390	6,710	7,045
Other Non-current liabilities	4,61,052	4,92,842	5,01,307	5,23,794	6,05,562	6,43,439	6,87,351
Total Capital Employed	5,71,566	6,03,180	6,26,180	7,87,759	8,50,039	8,73,236	9,20,703
Net Fixed Assets	68,491	66,663	83,824	69,378	75,656	81,370	82,860
NC Investments	2,01,735	2,34,692	1,85,786	2,84,657	2,89,907	2,89,913	2,90,458
Current investments	69,821	43,450	47,069	60,592	1,84,544	1,84,544	1,84,544
Other Non-Current Assets	1,10,344	1,07,748	1,43,003	1,58,692	1,15,277	1,14,354	1,56,667
NWC	1,21,175	1,50,627	1,66,499	2,14,441	1,84,654	2,03,055	2,06,175
Total Capital Employed	5,71,566	6,03,180	6,26,180	7,87,759	8,50,039	8,73,236	9,20,703

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 11: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	14,54,524	13,59,790	15,25,470	17,22,983
Operating Expenses	12,91,234	12,03,549	13,50,254	15,19,787
EBITDA	1,63,290	1,56,241	1,75,216	2,03,195
% margins	11.2	11.5	11.5	11.8
Depreciation & Amortisation	24,623	29,042	31,476	34,623
EBIT	1,38,667	1,27,199	1,43,741	1,68,572
Gross Interest	27,967	39,134	29,404	26,950
Other Income	23,609	34,294	20,731	21,631
Recurring PBT	1,34,310	1,22,358	1,35,068	1,63,253
Add: Extraordinaries	-	-	-	-
Less: Taxes	32,632	40,108	33,767	40,813
Less: Minority Interest & Share in associates	12,733	13,240	11,079	9,862
Net Income (Reported)	88,945	69,010	90,222	1,12,578
Adjusted Net Income	88,945	69,010	90,222	1,12,578

Source: Company data, I-Sec research

Table 12: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	23,43,507	24,20,727	25,04,323	27,10,384
of which cash & cash eqv.	1,51,178	1,62,415	1,02,357	76,157
Total Current Liabilities & Provisions	8,40,693	8,69,196	8,69,341	9,78,493
Net Current Assets	15,02,815	15,51,531	16,34,981	17,31,891
Investments	2,73,995	2,73,995	2,73,995	2,73,995
Other Non-Current Assets	3,30,119	3,10,844	3,34,573	3,60,675
Net Fixed Assets	-	-	-	-
Goodwill	80,114	80,670	80,670	80,670
Total Assets	21,87,042	22,17,040	23,24,219	24,47,231
Liabilities				
Borrowings	14,10,071	13,26,053	13,36,544	13,47,524
Deferred Tax Liability	14,530	11,787	11,787	11,787
Minority Interest	95,208	1,20,515	1,32,515	1,43,515
Equity Share Capital	2,808	2,809	2,809	2,809
Face Value (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	6,64,424	7,55,876	8,40,564	9,41,596
Net Worth	6,67,232	7,58,685	8,43,373	9,44,405
Total Liabilities	21,87,042	22,17,040	23,24,219	24,47,231

Source: Company data, I-Sec research

Table 13: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	1,33,760	3,55,080	1,12,045	1,35,432
Working Capital Changes	(66,890)	(1,26,639)	(1,43,509)	(1,23,110)
Capital Commitments	(1,01,644)	18,719	(23,729)	(26,102)
Free Cashflow	(34,774)	2,47,160	(55,192)	(13,780)
Cashflow from Investing Activities	19,081	(73,007)	20,731	21,631
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	1,54,520	(84,019)	10,492	10,980
Interest paid	(27,967)	(39,134)	(29,404)	(26,950)
Dividend paid	(22,432)	(25,282)	(36,089)	(45,031)
Extraordinary Items/Others	(54,513)	(14,481)	29,404	26,950
Chg. in Cash & Bank balance	33,915	11,237	(60,058)	(26,200)

Source: Company data, I-Sec research

Table 14: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Diluted adjusted EPS	63.2	49.1	64.2	80.2
Recurring Cash EPS	89.8	79.1	94.4	111.7
Dividend per share (DPS)	18.0	18.0	18.0	20.0
Book Value per share (BV)	474.4	539.5	599.7	671.5
Growth Ratios (%)				
Operating Income	7.6	(6.5)	12.2	12.9
EBITDA	6.5	(4.3)	12.1	16.0
Recurring Net Income	10.6	(22.4)	30.7	24.8
Diluted adjusted EPS	6.7	(22.3)	30.7	24.8
Diluted Recurring CEPS	9.0	(11.9)	19.3	18.3
Valuation Ratios				
P/E	24.0	31.0	23.7	19.0
P/CEPS	16.9	19.2	16.1	13.6
P/BV	3.2	2.8	2.5	2.3
EV / EBITDA	20.0	20.3	18.5	16.1
EV / Operating Income	2.2	2.3	2.1	1.9
EV / Operating FCF (pre - Capex)	48.8	13.9	(102.9)	265.7
Operating Ratios				
Raw Material/Sales (%)	33.6	31.9	32.2	33.5
SG&A/Sales (%)	20.6	21.7	21.9	21.6
Other Income / PBT (%)	17.6	28.0	15.3	13.3
Effective Tax Rate (%)	24.3	32.8	25.0	25.0
NWC / Total Assets (%)	61.8	62.7	65.9	67.7
Inventory Turnover (days)	14.4	15.6	20.0	20.0
Receivables (days)	102.2	113.4	96.0	96.0
Payables (days)	122.9	138.2	118.8	118.8
Net D/E Ratio (x)	2.1	1.7	1.6	1.4
Return/Profitability Ratios (%)				
Recurring Net Income Margins	6.1	5.1	5.9	6.5
RoCE	7.8	7.3	7.2	8.0
RoNW	13.8	9.7	11.3	12.6
Dividend Payout Ratio	28.5	36.6	28.0	25.0
Dividend Yield	1.2	1.2	1.2	1.3
EBITDA Margins	11.2	11.5	11.5	11.8

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, 40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15 return; ADD: 5 to 15 return; HOLD: Negative 5 to Positive 5 return; REDUCE: Negative 5 to Negative 15 return; SELL: < negative 15 return*

ANALYST CERTIFICATION

I/We, *Renjith Sivaram, BE, MBA (Finance); Vipin Goel, MBA, BTech;* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.