

Larsen & Toubro Ltd.

BUY

CMP Rs1,416

Target Rs1,643

Upside 16%

Result Highlights

- ✓ Revenues grew 9% yoy to Rs480.9 bn (est. Rs462.4bn) as execution moved towards the pre-COVID levels.
- ✓ Order inflow stood at Rs506.5bn, down 12% yoy
- ✓ Consolidated Order Book stands at Rs3.27 trn with international order book constituting 21% of the total.
- ✓ EBITDA came in at Rs63.9bn, up 25% yoy with EBITDA margins as 13.3% (+170 bps yoy)
- ✓ Infra EBIT margins was stable yoy at 10.6%
- ✓ Adjusted PAT came in at Rs34.2bn, up 12% yoy due to higher tax outgo.
- ✓ The company has declared the dividend of Rs.18/share

Our view: L&T has reported healthy operational performance despite COVID-19 situation. The Core EBITDA margins stood at 12.8%, up 60 bps yoy driven by healthy execution in Q4. The management is confident of achieving the stable margin of 10-10.5% for FY22 while order inflow to grow at low to mid-teens. Segments like hydrocarbon, defence, and water segment are growing well in India. Further, the Infrastructure segment should benefit from the higher infra allocation in the budget. We believe that the diversified orderbook, strong execution capabilities across geographies, competent workforce, thrust on technology along with international presence and proven track record works in favor of the company. We remain optimistic over the medium to long term growth. We maintain our BUY rating on the stock for revised target price of Rs.1,643 (based on SOTP valuation). We value the core business at 13x EV/EBITDA and listed subsidiaries at current market value adjusted for holding company discount.

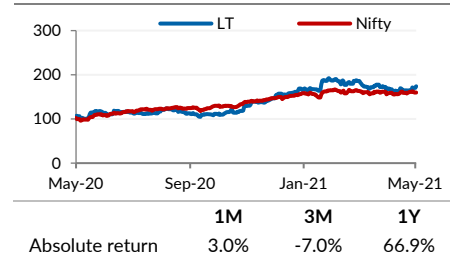
Exhibit 1: Result table (Cons)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Total sales	480,879	442,453	8.7	355,964	35.1
EBITDA	63,889	51,211	24.8	42,800	49.3
EBITDAM (%)	13.3	11.6	171 bps	12.0	126 bps
Depreciation	8,168	7,109	14.9	7,021	16.3
Interest	8,531	8,208	3.9	9,620	(11.3)
Other income	10,283	6,605	55.7	10,647	(3.4)
PBT	57,474	42,498	35.2	36,805	56.2
Tax	20,867	9,663	116.0	10,408	100.5
Adjusted PAT	34,173	30,647	11.5	22,574	51.4
Exceptional item	1,245	(1,324)	NA	(2,093)	NA
Reported PAT	32,928	31,971	3.0	24,667	33.5
PATM (%)	7.1	6.9	18 bps	6.3	76 bps
EPS (Rs)	24.4	21.8	11.6	16.1	51.4

Stock data (as on May 14, 2021)

Nifty	14,678
52 Week h/l (Rs)	1593 / 777
Market cap (Rs/USD mn)	1988148 / 27125
Outstanding Shares (mn)	1,405
6m Avg t/o (Rs mn):	5,856
Div yield (%):	0.6
Bloomberg code:	LT IN
NSE code:	LT

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	0.00%
FII+DII	54.71%
Others	44.29%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,643	1,584

Financial Summary (Cons)

(Rs mn)	FY21	FY22e	FY23e
Revenue	1,359,790	1,541,413	1,772,013
YoY	(6.5)	13.4	15.0
EBITDA	156,241	175,709	204,590
Margin (%)	11.5	11.4	11.5
PAT	69,010	92,880	114,904
YoY	(27.7)	34.6	23.7
ROE	9.7	11.8	13.3
EPS	49.1	66.1	81.8
P/E	28.8	21.4	17.3

Δ in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	49.1	66.1	81.8
EPS (Old)	49.1	70.9	88.9
% change	-	(6.7)	(8.0)

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CON-CALL HIGHLIGHTS

- ✓ **Orderbook:** (1) Consolidated Order Book stood at Rs3.27 trn of which international order book constitutes 21%. ~Rs.1 trn is funded by multi-lateral agency forming ~31% of total order book. (2) During the year the company has achieved good order wins in infrastructure and hydrocarbons space with notable projects like Ahmedabad Mumbai high speed rail project, Brahmaputra bridge and EPCC contract of Rajasthan refinery. (3) Public sector contributes around 83% of the orderbook (4) The company continues to review projects and remove slow moving projects which forms around 2-3% of the order book. The current order book is completely executable.
- ✓ **Projects business pipeline** has improved by 8.5% in comparison to beginning of FY21. The total prospects stood at Rs. 9.6 trn of which domestic and international prospects stood at Rs.6.7 trn/Rs.2.6 trn respectively. Of the domestic Rs.2.6 trn order book, central govt formed 9%, state govt 31%, public sector operations 44% and private sector 16%. (2) The management was of the view that the order prospects can jump by 8-10% in FY22, driven by international money fiscal allocation and leading to the rise in opportunities in the segments like heavy civil, water, and power T&D. (3) The company expects to maintain its winning share of around 15-16% of the prospective business. Infrastructure has a larger share of these prospects of 77% and Hydrocarbons of 16%.
- ✓ **Margins:** (1) The margins have improved in the segments like Infra/Heavy Engineering/ Defence primarily due to execution efficiency and job mix. (2) There are no one off in the current operating margins and the improvement in margins is a function of several factors such as mix of projects, degree of cost released, release of cost contingencies, price variation, execution efficiency etc.
- ✓ **Labor availability:** During the lockdown, last year the labor strength at sites hit a low of 64,000 but it is not the same this time. The total labor at sites as at end of March 2021 was 2.4 lac and it has come down by only 20%. The company has been able to convince them that the health facilities at sites is better than rural area as these regions are also been affected now. The company is looking towards increasing the strength to 2.8 lac to 3.0 lac labors.
- ✓ **Raw Material:** The company don't expect it will be much impacted by the recent increase in raw material cost. Around 60% of the projects has escalation clause and for the balance 40% projects the company generally factors in the escalation and keeps a buffer while bidding. Also, most of the projects were won when the escalation in raw material cost has shown early signs so were able to assess the increase. The company is a large buyer with long-term relation with customers so would be able to negotiate well.
- ✓ **Guidance:** The company expects that the government would continue the spending, which was announced in the budget, the required capital will be available at lower rate and expects the second wave will subside by August of 2021. Hence, the company expects a revenue growth of low to mid-teens in FY22 and margins to remain stable backed by its robust order book. Most of the execution like last year will be executed in H2 FY22. (2) The company's target is to reach back to 18% RoE. It was largely on track, but it was disrupted in FY21. The company would also unlock value by selling assets earning less than cost of capital, also by selling power assets and restructuring Hyderabad metro project.

Segment Wise:

- ✓ **Infrastructure:** During the quarter, the Infrastructure Segment recorded order inflow of Rs313bn, down by 24%YoY driven by 22% fall in domestic market while for FY21, inflow stood flat at Rs1trn. During the quarter, the company received order for largest solar PV project in Saudi Arabia. Bottoms up business prospects for FY22 stood at Rs.7 trn of which share of international prospects is 24%. EBITDA margin improved in Q4 to 11.5% due to tapering of some stressed jobs in transportation infrastructure subsidiary and reduced expected credit loss provisions due to collection of overdue claim settlement in few projects. FY21 EBITDA margins remained stable at 8.5% vs 8.1% yoy. The company informed that, of the infrastructure order inflow of Rs. 1 trillion, Water and Power transmission was around Rs.200 bn each, Building and Factory of Rs.100bn, Transport infra of Rs. 120bn and Heavy civil of Rs. 360bn.
- ✓ **Power:** The order inflow for the quarter and FY21 stood at Rs8bn and Rs10bn respectively. International orders constituted 5% of the total order inflow of the segment during the year. The Order book for FY21 stood at Rs124bn, down 19% yoy on the back of lower order inflow. Award activity deferment was witnessed in this segment, but revenue was not impacted due to a large opening order book. The margins were subdued as major part of the order book is yet to cross the margin recognition threshold. The margins declined to 4.6% vs 12% yoy.
- ✓ **Heavy Engineering:** The segment recorded order inflow of Rs18bn, up 79% yoy during the quarter. The robust order win in nuclear power business of Rs. 12.0bn from NPCIL has driven the Q4 FY21 order inflow. The share of Domestic: International order inflow for FY21 was 65:35%. The robust margin reflects job mix and claims. There was a settlement with an international client pertaining to warranty claims.
- ✓ **Defense:** The order momentum remained subdued in Q4. Multiple small orders have helped to relish the order book. The recent policy announcement is encouraging for the company and it remains optimistic about the outlook. The company has clarified that they are not into the manufacturing of ammunitions, bomb etc but are into the precision engineering and system integration.
- ✓ **Hydro Carbon:** The order inflow for the quarter and FY21 stood at Rs36bn and Rs177bn respectively. International orders constituted 35% of the total order inflow of the segment during the quarter and 17% for the year. The Order book for FY21 stood at Rs442bn of which international book formed 36%. The healthy domestic win has helped in replenishing the order book. The margin improvement in Q4 is a factor of cost saving and job mix. The lower full year margins are due to under recoveries because of covid. Bottoms up business prospects for FY22 is Rs. 1.4 trillion, Rs. 600bn of domestic and Rs. 800bn of international prospects. With Brent crude prices stabilizing around USD 60/barrel the company expects international orders to return.
- ✓ **Real Estate:** The company has projects in the selected cities like Mumbai, Bangalore, Chennai, and Hyderabad. The land is provided by the parent company on which project is developed thus providing some time for the launch. In FY21, the company handed over 400 flats vs 800 flats in FY20. Mumbai's sales benefited partly by stamp duty reduction.
- ✓ **Hyderabad Metro Project:** The company is working toward restructuring the loan of Hyderabad metro project. The company has invested around Rs. 10.0bn in FY21 and have estimated an investment of Rs.20.0bn in FY22. The company believes it's a very good asset with 60 years of concession period and has available transit orient space of 18mn sqft. The company is in discussion with lenders as the footfalls have come down sharply with most IT company's employees working from home. The company is looking towards longer repayment period and for conversion of some debt into equity or preference equity. It is also working towards fair escalation.

Other Highlights:

- ✓ The net working capital has improved from 23.7% to 22.3%. The company has repaid part borrowing.
- ✓ The crude price is stabilizing around USD 60/barrel which will lead to more projects in GCC countries. The company has recently won one of the largest solar power project in this region
- ✓ The company currently has good cash on books. It has rewarded shareholders by giving a good dividend of Rs. 18/share this time. The company is looking towards buyback but SEBI has a criteria of debt equity and it takes into account LT Financial services while computing it in the consolidated book. The company is discussing with SEBI on the same. Also given the uncertainty the company wants to keep good cash on books.
- ✓ The company works extensively on skill development of its work force and towards training them on site safety protocols. The company has reduced the number of fatalities at its site to 25 in FY21 but it is not happy and it is working towards zero fatalities.
- ✓ The management believes that private sector order backlog can rise from 16% to 25-30% in coming years.

Exhibit 2: Segmental Performance

Particulars (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Consolidated (ex-services)	372,079	351,796	5.8	251,822	47.8
Infrastructure	264,367	255,597	3.4	159,732	65.5
Power	12,202	5,653	115.9	9,037	35.0
Heavy Engineering & Defence	22,228	16,297	36.4	18,273	21.6
Electrical & Automation	-	12,391	NA	48	NA
Hydrocarbon	54,217	49,792	8.9	44,224	22.6
Others	19,065	12,066	58.0	20,507	(7.0)
IT and Technology services	68,454	64,613	5.9	65,301	4.8
Financial services	33,767	33,657	0.3	34,007	(0.7)
Developmental projects	11,138	9,815	13.5	8,138	36.9
Total revenues	485,438	459,880	5.6	359,268	35.1
Inter-segment revenue	4,559	5,037	(9.5)	3,256	40.0
Discontinued ops rev.	-	12,391	NA	48	NA
Net revenue	480,879	442,453	8.7	355,964	35.1

Exhibit 3: EBIT Performance

EBIT (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Consolidated (ex-services)	43,656	38,995	12.0	22,498	94.0
Infrastructure	27,955	26,149	6.9	8,226	239.8
Power	949	2,032	(53.3)	88	980.0
Heavy Engineering & Defence	5,834	1,901	206.8	2,731	113.7
Electrical & Automation	-	1,877	NA	(32)	NA
Hydrocarbon	6,583	5,023	31.1	4,932	33.5
Others	2,333	2,013	15.9	6,553	(64.4)
IT and Technology services	13,660	10,230	33.5	13,595	0.5
Financial services	7,308	4,467	63.6	3,520	107.6
Developmental projects	(652)	(96)	580.4	(760)	(14.2)
Total EBIT	63,972	53,597	19.4	38,853	64.7

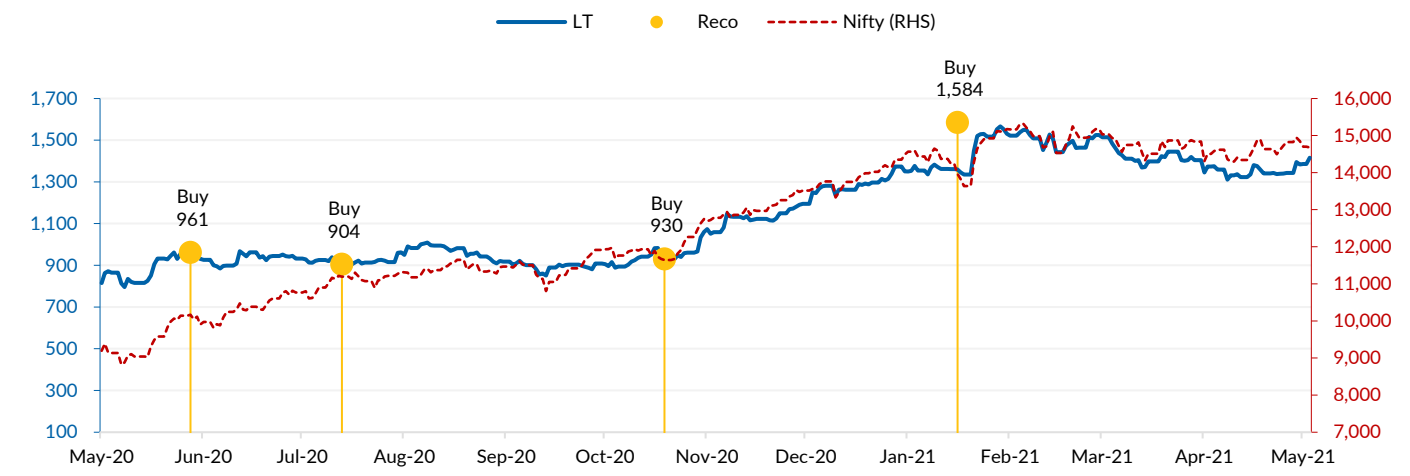
Exhibit 4: EBIT Margin Performance

EBIT Margin (%)	Q4 FY21	Q4 FY20	bps yoy	Q3 FY21	bps qoq
Consolidated (ex-services)	11.7	11.1	65	8.9	280
Infrastructure	10.6	10.2	34	5.2	542
Power	7.8	35.9	(2,816)	1.0	681
Heavy Engineering & Defence	26.2	11.7	1,458	14.9	1,130
Electrical & Automation	-	15.1	NA	(66.7)	NA
Hydrocarbon	12.1	10.1	205	11.2	99
Others	12.2	16.7	(444)	32.0	(1,971)
IT and Technology services	20.0	15.8	412	20.8	(86)
Financial services	21.6	13.3	837	10.4	1,129
Developmental projects	(5.9)	(1.0)	(488)	(9.3)	348

Exhibit 5: Financial Summary (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Revenues	1,454,524	1,359,790	1,541,413	1,772,013
yoy growth (%)	7.6	(6.5)	13.4	15.0
Operating profit	163,290	156,241	175,709	204,590
OPM (%)	11.2	11.5	11.4	11.5
Reported PAT	95,491	115,829	92,880	114,904
Adjusted PAT	95,491	69,010	92,880	114,904
yoy growth (%)	9.8	(27.7)	34.6	23.7
EPS (Rs)	68.0	49.1	66.1	81.8
P/E (x)	20.8	28.8	21.4	17.3
EV/EBITDA (x)	19.1	18.2	17.8	15.4
Debt/Equity (x)	2.1	1.7	1.6	1.4
RoE (%)	14.8	9.7	11.8	13.3

Recommendation Tracker



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