

July 27, 2022

RESULT REPORT Q1 FY23 | Sector: Capital Goods

Larsen & Toubro Ltd

Robust execution; healthy order inflows

Our view

L&T reported a strong set of numbers despite a seasonally weak quarter led by pick-up in execution in its core infra segment and IT&TS business. Segments such as Infrastructure (up 36% YoY) and IT&TS (up 30% YoY) reported strong revenue growth. During 1Q, the company recorded healthy OI of Rs418bn, up 57% YoY led by large order wins in Hydrocarbon segment in the export market while in India it bagged orders from sectors such as Public Spaces, Metros, Water Management & Waste Water, Minerals and Metal, Factories, Data Centers, Defence, Power Transmission and Distribution and Hydrocarbon. Order Book stands at all-time high of Rs3.6trn (2.2x TTM revenues) providing a strong revenue visibility for next 2-3 years. Management indicated that order pipeline stands healthy at ~Rs7.6trn 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.

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 22.5/18.5x FY23E/FY24E earnings. We remain positive on the company's strong business model, robust bid pipeline, diversified order book and healthy balance sheet; however, owing to the recent run up in the price we downgrade our rating to ADD from BUY with a revised SOTP-based TP of Rs1,918. TP has been reduced mainly on account of downward revision of Target Mcap of its subsidiaries.

Result Highlights

- Consolidated sales came in at ~Rs358.5bn (up 22% YoY; YSL estimate of ~Rs350bn) driven by revenue growth across segments such as Infrastructure (up 36% YoY) and IT&TS (up 30% YoY)
- EBITDA came in at Rs39.6bn, ahead of our estimate (YSLe ~Rs37.8bn) with EBITDA margins coming in at 11.0% (up ~20bps YoY).
- PBT came in at Rs29.3bn, mainly led by decline in interest cost (down ~9% YoY). Depreciation was up 34% YoY while other income grew 7% YoY.
- During the quarter, Adj. PAT grew 45% to Rs17bn.
- Order inflows grew by 57% YoY to Rs418bn in 1QFY23 driven by order wins in Public Spaces, Metros, Water Management & Waste Water, Minerals and Metal, Factories, Data Centers, Defence, Power Transmission and Distribution and Hydrocarbon Offshore verticals. International orders constituted 43% of total OI.
- Order book stands strong at ~Rs3.6trn, up 12.3% YoY as on 1QFY23.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	358,532	350,115	316,441	2.4	13.3	Strong execution; record high order book
EBITDA	39,567	37,849	37,880	4.5	4.5	
EBITDA margin %	11.0	10.8	12.0	23bp	-93bp	
Adj.Pat	17,021	16,628	15,439	2.4	10.2	

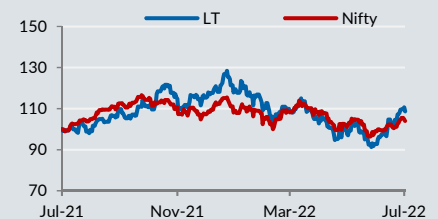
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,751
Target Price	: Rs 1,918
Potential Return	: +10%

Stock data (as on July 26, 2022)

Nifty	16,484
52 Week h/l (Rs)	2079 / 1456
Market cap (Rs/USD mn)	2460841 / 30845
Outstanding Shares (mn)	1,405
6m Avg t/o (Rs mn):	3,873
Div yield (%):	1.3
Bloomberg code:	LT IN
NSE code:	LT

Stock performance



	1M	3M	1Y
Absolute return	18.6%	4.3%	12.2%

Shareholding pattern (As of Jun'22 end)

Promoter	0.0%
FII+DII	55.7%
Others	44.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	1,918	2,075

Δ in earnings estimates

	FY23E	FY24E
EPS (New)	76.5	76.5
EPS (Old)	84.8	84.8
% change	-	-

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenues	1,565,212	1,750,573	1,960,304
YoY growth (%)	15.1	11.8	12.0
OPM (%)	11.6	11.3	11.6
EPS (Rs)	61.7	77.7	94.5
EPS growth (%)	-25.2	26.0	21.5
P/E (x)	28.4	22.5	18.5
EV/EBITDA (x)	19.4	18.0	15.7
Debt/Equity (x)	1.5	1.4	1.3
RoE (%)	13.1	13.8	14.4
RoCE (%)	4.9	5.5	6.0

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY gr. (%)	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Revenue	293,347	347,729	395,629	528,507	358,532	22.2	(32.2)	1,565,212	1,359,790	15.1
Total Revenues	293,347	347,729	395,629	528,507	358,532	22.2	(32.2)	1,565,212	1,359,790	15.1
Expenditure	261,632	307,780	350,325	463,302	318,965	21.9	(31.2)	1,383,039	1,203,549	14.9
as % of sales	89.2	88.5	88.5	87.7	89.0			88.4	88.5	
Consumption of RM	154,811	197,431	238,360	347,927	195,207	26.1	(43.9)	937,860	790,099	18.7
as % of sales	52.8	56.8	60.2	65.8	54.4			59.9	58.1	
Employee Cost	68,718	72,520	76,315	79,746	85,560	24.5	7.3	297,313	247,620	20.1
as % of sales	23.4	20.9	19.3	15.1	23.9			19.0	18.2	
Other expenditure	38,104	37,830	35,651	35,628	38,199	0.3	7.2	147,866	165,830	(10.8)
as % of sales	13.0	10.9	9.0	6.7	10.7			9.4	12.2	
EBITDA	31,715	39,949	45,304	65,205	39,567	24.8	(39.3)	182,173	156,241	16.6
Depreciation	7,174	7,288	7,325	7,694	9,634	34.3	25.2	29,480	29,042	1.5
EBIT	24,541	32,661	37,980	57,512	29,933	22.0	(48.0)	152,694	127,199	20.0
Other Income	6,480	5,321	5,714	5,156	6,947	7.2	34.7	22,671	34,294	(33.9)
Interest	8,275	7,793	8,138	7,051	7,561	(8.6)	7.2	31,257	39,134	(20.1)
Exceptional Items	-	(969)	(245)	-	-			969	(35,560)	
PBT	22,746	31,159	35,801	55,616	29,319	28.9	(47.3)	145,077	157,918	(8.1)
Total Tax	7,184	8,845	10,587	15,550	6,389	(11.1)	(58.9)	42,166	40,108	5.1
Adjusted PAT	15,562	22,313	25,214	40,067	22,930	47.3	(42.8)	102,910	117,810	(12.6)
Minority Interest	(3,572)	(4,125)	(4,624)	(5,178)	(5,263)	-	-	(17,499)	(13,384)	-
PAT after MI	11,990	18,188	20,590	34,889	17,668	47.4	(49.4)	85,411	104,427	(18.2)
Share in profit/(loss) after tax of joint ventures/associates (net)	(245)	6	203	1,318	(647)			1,282	144	
PAT From Continued Operation	11,744	18,195	20,792	36,207	17,021	44.9	(53.0)	86,693	104,571	(17.1)
Adjusted PAT from continued operation	11,744	17,225	20,547	36,207	17,021	44.9	(53.0)	86,693	69,010	25.6
Profit from discontinued operation	-	-	-	-	-	-	-	-	82,379	-
PAT including DO	11,744	18,195	20,792	36,207	17,021	44.9	(53.0)	86,693	115,829	(25.2)
Adjusted EPS	8.4	13.0	14.8	25.8	12.1	44.9	(53.0)	62.0	82.5	(24.8)

Source: Company, YES Sec

Exhibit 3: Segmental Revenue

Rs mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY gr. (%)	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Segmental Revenue										
Infrastructure Projects	105,435	141,564	186,190	302,412	144,005	36.6	(52.4)	735,601	619,616	18.7
Energy Projects	49,660	60,020	59,678	67,776	50,875	2.4	(24.9)	237,134	201,564	17.6
Hi-Tech Manufacturing	13,198	15,337	15,485	18,633	13,881	5.2	25.5)	62,645	64,286	(2.6)
IT & Technology Services	72,413	79,033	85,066	88,226	94,602	30.6	7.2	324,553	256,188	26.7
Financial Services	30,614	29,757	29,706	29,634	29,581	(3.4)	(0.2)	119,711	134,036	(10.7)
Developmental Projects	11,263	11,699	9,756	10,958	13,454	19.5	22.8	43,675	36,214	20.6
Others	13,840	14,724	15,131	19,124	16,319	17.9	(14.7)	62,619	60,928	2.8
Total	296,423	352,134	401,011	536,763	362,717	22.4	(32.4)	1,585,938	1,372,832	15.5
Less: Inter-segment revenue	2,970	4,405	5,382	8,150	4,185	40.9	(48.6)	20726.1	13,041	58.9
Net segment revenue	293,452	347,729	395,629	528,612	358,532	22.2	(32.2)	1,565,212	1,359,790	15.1
Segmental EBIT										
Infrastructure Projects	5,567	9,719	11,147	25,392	6,862	23.3	(73.0)	51,824	45,215	14.6
Energy Projects	3,703	3,815	4,629	5,377	3,797	2.5	(29.4)	16,401	16,795	(2.3)
Hi-Tech Manufacturing	1,974	1,729	2,533	3,804	1,503	(23.9)	(60.5)	10,039	11,053	(9.2)
IT & Technology Services	13,827	15,369	17,005	17,904	17,749	28.4	(0.9)	63,332	48,232	31.3
Financial Services	2,338	3,216	4,340	4,803	3,556	52.1	(26.0)	14,698	12,858	14.3
Developmental Projects	(907)	(354)	(480)	(564)	(211)	(76.7)	(62.6)	(2,306)	(1,966)	17.3
Others	1,777	2,635	1,735	3,238	2,516	41.6	(22.3)	10,158	11,230	(9.5)
Total	28,280	36,129	40,908	59,953	35,771	26.5	(40.3)	164,147	143,418	14.5
Less/(Add) Intersegment revenue on capital jobs	80	88	203	283	93	16.3	(67.2)	653	250	161.8
Less: Finance Cost	8,275	7,793	8,138	7,051	7,561	(8.6)	7.2	31,257	39,134	(20.1)
Add/(Less) : Unallocable corporate income net of expenditure	2,821	1,941	2,988	2,998	1,202	(57.4)	(59.9)	11,871	18,324	(35.2)
Add/(Less) : Exceptional items	-	1,197	-	-	-	-	-	969	(36,938)	(102.6)
EBIT from continuing operations	22,746	31,386	35,556	55,617	29,319	28.9	(47.3)	145,077	85,420	69.8

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 robust macroeconomic fundamentals
- India remains a bright spot amidst turbulence in the global economy and rise in energy costs. Govt and RBI have succeeded in controlling inflation vis a vis other countries
- L&T witnessed strong executional performance in a seasonally weak quarter on the back of strong execution in Infra segment and IT & TS business
- Order inflows in Q1FY23 at Rs418bn grew by 57% YoY. Projects and manufacturing business secured OI of Rs281bn (up 85% YoY) led by infra, defence and hydrocarbon. International share stands at 33% vs 15% in Q1FY22
- Tendering pipeline is robust at Rs7.6trn of which Rs6.1trn is from domestic and international comprises of Rs1.5trn. Segment wise: Infra - Rs5.6 trn, Energy - Rs1.6 trn, Projects & Manufacturing - Rs0.4 trn. Management remains confident of achieving order inflow guidance of 12-15% for FY23
- Order book of Rs3.63trn is at a record high out of which domestic accounts for 72% and rest is international. International is comprised of Middle East (79%), Africa (11%) while rest is from other geographies. The company sees healthy opportunities in Middle East due to high crude prices
- Domestic order book is comprised of Central Govt (11%), State Govts (30%), PSU (42%) and private players (17%). 26% of the order book is funded by bilateral and multilateral institutions. 91% of the total order book is from infra and energy segments
- NWC to sales ratio stood at 20.9% vs 22.9% in Q1FY22 and 19.9% in Q4FY22. Sequentially NWC to sales increased due to vendor payments that fell during the quarter. For FY23 company maintained its guidance of ~20%
- **Guidance** - Management maintained FY23 guidance of revenue and order inflow growth of 12-15% and EBITDA margins of 9.5%. Company is optimistic on growth prospects in India owing to higher than estimated tax collections, govt's continued thrust on infra spending and is hopeful of private capex revival by H2FY23. Tendering activity in Q1FY23 was Rs2.6trn vs Rs1.35trn in Q1FY22. Award-to-tender ratio improved significantly from 39% to 70% YoY. In the Middle East region, it expects strong traction on the back of higher crude prices.

Segment wise:

- **Infra:** Revenue at Rs141.8bn (up 36% YoY) led by robust execution growth. Secured order worth Rs183bn (up 66% YoY). Orders are well diversified across metros, waste management and wastewater, data centre, power T&D, minerals and metals. Order prospects are Rs5.61trn for remaining 9 months (Rs4.76trn domestic and rest is international). Margins were impacted by input cost headwinds
- **Energy:** Revenue at Rs50.7bn grew by 3% YoY largely led by execution in Power segment. Hydrocarbon revenue was impacted due to client delays and supply chain issues. In Q1FY23 the company received a large order in the Hydrocarbon segment in Middle East. Order prospects for the balance 9 months stands at Rs1.6trn. EBITDA margins improved from 7.5% to 8.5% YoY
- **Hi-Tech Manufacturing:** Revenue at Rs12.7bn grew by 3% YoY led by improved execution in Heavy Engineering while Defence Engineering was impacted due to tapering of certain shipbuilding jobs. The quarter saw broad-based pickup in OI across segments. Order prospects stood at Rs300bn
- **Developmental Projects:** Revenue grew by 19% YoY at Rs13.5bn led by improved ridership in Hyderabad Metro (285k pax/day vs 85k pax/day in Q1FY22 and 199k pax/day in Q4FY22) and higher Nabha PLF (95%). Metro has reported positive EBITDA vs a loss in Q1FY22. With higher ridership and govt's support the company expects better performance in FY23.

Exhibit 4: SOTP Valuation

	Earnings/Book (Rs mn)	Valuation basis	Target multiple (X)	Stake (%)	Value (Rs bn)	Fair Value (Rs)	Basis
L&T Core Business	75,262	P/E	22	100	1,655,759	1180	22x FY24 EPS
L&T Finance Holdings	178,768	Mcap		64	79,913	57	30% discount to Current Mkt cap
L&T Infotech	869,340	Mcap		75	455,186	324	30% discount to Tgt Mkt cap
L&T Technology Services	357,543	Mcap		75	187,635	134	30% discount to Tgt Mkt cap
Mindtree	565,710	Mcap		60	237,598	169	30% discount to Tgt Mkt cap
L&T Hydrocarbon	14,814	P/E	15	100	222,212	158	15x FY24 EPS
L&T IDPL	93,000	P/B	0.8	97	72,466	52	0.8x P/B
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.	1,035,157	738	
Grand total						1918	

FINANCIALS

Exhibit 6: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Equity capital	2,808	2,809	2,810	2,810	2,810
Reserves	664,424	755,876	821,267	910,598	1,013,072
Non Minority Controlling Int.	95,208	120,515	129,661	129,661	129,661
Net worth	667,232	758,685	824,077	913,408	1,015,882
Debt	1,431,737	1,346,291	1,255,081	1,270,081	1,285,081
Deferred tax liab (net)	(23,935)	(15,183)	(18,008)	(18,008)	(18,008)
Total liabilities	2,170,242	2,210,308	2,190,810	2,295,142	2,412,616
Application of Funds					
Gross Block	172,784	196,092	199,656	224,656	249,656
Depreciation	71,746	82,229	93,868	124,196	157,900
Fixed Asset	400,248	407,846	388,531	383,202	374,498
CWIP	32,249	3,884	11,703	11,703	11,703
Investments	237,622	432,734	435,664	525,172	588,091
Net Working Capital	1,500,122	1,365,845	1,354,913	1,375,064	1,438,323
Inventories	57,467	58,205	59,433	76,737	85,931
Sundry debtors	407,315	422,298	461,389	503,590	563,923
Cash & equivalents	151,178	162,415	189,532	162,373	150,913
Loans & Advances	1,061,171	990,912	955,424	1,032,838	1,131,096
Other Current Asset	695,685	607,474	670,413	691,476	729,233
Sundry creditors	436,439	455,046	511,442	575,531	644,484
Provisions	34,595	37,725	41,736	43,764	49,008
Other current liabilities	401,659	382,688	428,099	472,655	529,282
Total Assets	2,170,242	2,210,308	2,190,810	2,295,142	2,412,616

Source: Company, YES Sec

Exhibit 7: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,454,524	1,359,790	1,565,212	1,750,573	1,960,304
% Change YoY	7.6	(6.5)	15.1	11.8	12.0
Operating profit	163,290	156,241	182,173	198,103	228,316
EBITDA margins	11.2	11.5	11.6	11.3	11.6
% Change YoY	6.5	(4.3)	16.6	8.7	15.3
Depreciation	24,623	29,042	29,480	30,329	33,704
EBIT	138,667	127,199	152,694	167,774	194,612
EBIT margins	9.5	9.4	9.8	9.6	9.9
Interest expense	27,967	39,134	31,257	38,513	43,127
Other income	23,609	34,294	22,671	26,259	29,405
Profit before tax	134,310	122,358	144,107	155,520	180,890
Taxes	32,632	40,108	42,166	38,880	45,222
Effective tax rate (%)	24.3	32.8	29.3	25.0	25.0
Net profit	101,678	82,250	101,941	116,640	135,667
Minorities and other	6,187	(69,140)	16,217	7,404	2,894
Net profit after minorities	95,490	151,390	85,724	109,237	132,773
Exceptional items	0	(35,560)	969	0	0
Net profit	95,490	115,829	86,693	109,237	132,773
% Change YoY	7.2	21.3	(25.2)	26.0	21.5
EPS (Rs)	68.0	82.5	61.7	77.7	94.5

Source: Company, YES Sec

Exhibit 8: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Profit before Tax	143,142	230,263	144,107	155,520	180,890
Interest	27,967	39,134	31,257	38,513	43,127
Depreciation	24,623	29,042	29,480	30,329	33,704
Other Items	(10,483)	(134,990)	(15,253)	-	-
(Inc)/Dec in WC	(77,845)	99,702	47,566	(47,310)	(74,718)
Direct Taxes Paid	40,465	34,710	45,521	38,880	45,222
CF from Oper. Activity	66,939	228,441	191,636	138,171	137,779
(Inc)/Dec in FA	34,368	18,077	31,106	25,000	25,000
Free Cash Flow	32,571	210,364	160,530	113,171	112,779
(Pur)/Sale of Invest.	(116,931)	(72,365)	(67,783)	(139,508)	(112,919)
CF from Inv. Activity	(82,563)	(54,288)	(36,677)	(114,508)	(87,919)
Change in Network	176	159	110	-	-
Inc/(Dec) in Debt	140,658	(78,697)	(92,890)	15,000	15,000
Interest Paid	(27,397)	(31,844)	(28,123)	(38,513)	(43,127)
Dividends Paid	(45,513)	(36,509)	(25,284)	(27,309)	(33,193)
Others	(4,208)	(5,852)	(5,628)	0	(0)
CF from Fin. Activity	63,716	(152,744)	(151,815)	(50,822)	(61,320)
Inc/(Dec) in Cash	48,092	21,409	3,144	(27,159)	(11,460)
Opening cash Balance	64,602	111,180	133,735	137,702	110,544
Others	34,352	27,496	823	-	-
Closing cash Balance	147,045	160,085	137,702	110,544	99,084

Source: Company, YES Sec

Exhibit 9: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	3.2	2.1	2.6	3.2	3.2
Interest burden (x)	0.2	0.3	0.3	0.2	0.2
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	0.7	0.6	0.7	0.8	0.8
Financial leverage (x)	3.3	2.9	2.7	2.5	2.4
RoE (%)	15.7%	11.3%	13.1%	13.8%	14.4%

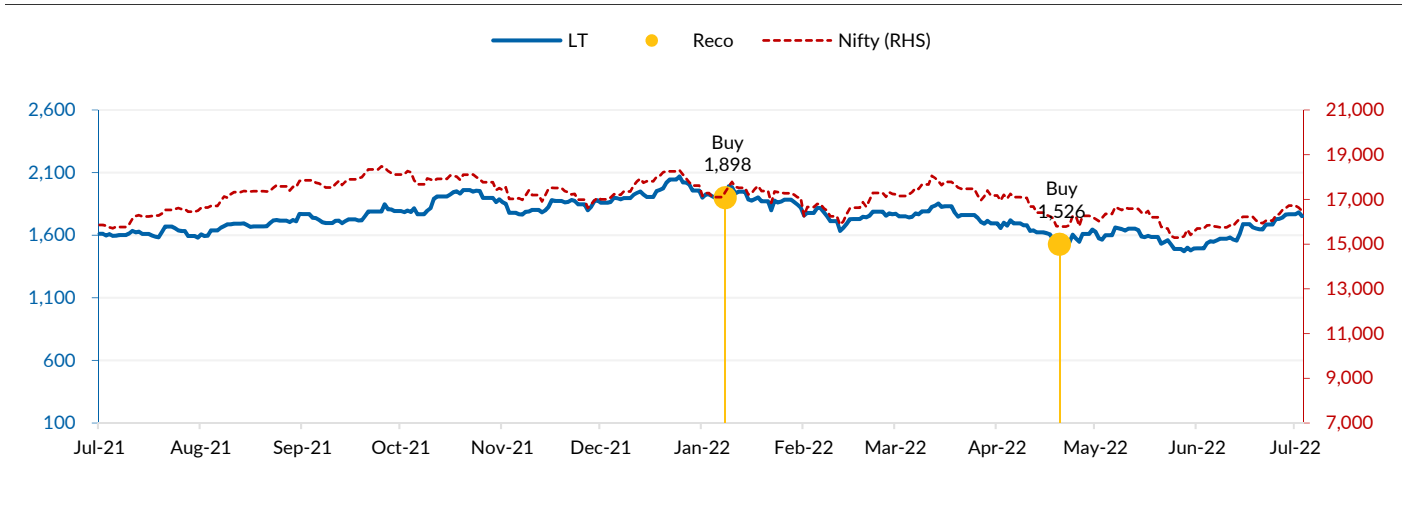
Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Basic (Rs)					
EPS	68.0	82.5	61.7	77.7	94.5
Dividend per share	21.6	18.0	18.0	19.4	23.6
Cash EPS	85.6	103.2	82.7	99.3	118.5
Book value per share	543.1	626.3	678.8	742.4	815.3
Div. payout (%)	24.9	54.1	24.6	23.4	24.5
Valuation ratios (x)					
P/E	25.7	21.2	28.4	22.5	18.5
P/CEPS	20.5	17.0	21.2	17.6	14.8
P/B	3.2	2.8	2.6	2.4	2.1
EV/EBIDTA	22.9	23.3	19.4	18.0	15.7
Dividend yield (%)	1.2	1.0	1.0	1.1	1.3
Profitability Ratios (%)					
RoIC	6.9	5.5	6.1	6.7	7.4
RoE	15.7	11.3	13.1	13.8	14.4
RoCE	4.8	3.9	4.9	5.5	6.0
Liquidity ratios					
Debtor (days)	102	113	108	105	105
Inventory (days)	14	16	14	16	16
Creditor (days)	110	122	119	120	120
Net working Capital (days)	339	323	272	253	240
Asset Turnover (x)	0.7	0.6	0.7	0.8	0.8

Source: Company, YES Sec

Recommendation Tracker



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