

May 12, 2022

RESULT REPORT Q4 FY22 | Sector: Capital Goods

Larsen & Toubro Ltd

Core execution ramping up

Our view

L&T reported decent set of numbers led by pick-up in execution in its core infra segment, owing to improved work force availability and supply chain issues normalizing. Segment such as Infrastructure (up 14% YoY), Power (up 22% YoY) and IT&TS (up 29% YoY) reported strong revenue growth. During 4Q, company recorded healthy OI of Rs739bn, up 46% YoY led by large order wins in Infra and Hydrocarbon segment in the domestic market and sizeable export orders. Order Book stands at all-time high of Rs3.6trn (2.3x TTM revenues) providing a strong revenue visibility for next 2-3 years. Management indicated that order pipeline stands healthy at ~Rs8.6trn with good traction witnessed in sectors such as Metros/RRTS/HSR, Roads and Expressways, Water, Renewables and Power T&D. On global front, with pickup in economic activity in GCC and African region 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 currently trading at 20.0x/16.4x FY23E/24E earnings. Given strong business model, robust bid pipeline, diversified order book and healthy balance sheet we maintain our BUY rating with a revised SOTP-based TP of Rs2,075. TP has been reduced downward mainly on account of downward revision of Target Mcap of its subsidiaries.

Result Highlights

- Consolidated sales came in at ~Rs528.5bn (up 10% YoY; YSL estimate of ~Rs550bn) driven by revenue growth across segments such as Infrastructure (up 14% YoY), Power (up 22% YoY), and IT&TS (up 29% YoY)
- EBITDA came in at Rs65.2bn, missing our estimate (YSLe ~Rs88.2bn) with EBITDA margins coming in at 12.3%.
- PBT came in at Rs55.6bn, mainly led by decline in interest cost (down ~17% YoY). Depreciation was down 5.8% YoY while other income declined 49.9% YoY.
- During the quarter, Adj. PAT grew 21.7% to Rs36.2bn.
- Order inflows grew by 46% YoY to Rs739.4bn in 4QFY22 driven by order wins in Metro, Water, Residential, T&D, Defence Engineering and Hydrocarbon verticals. International orders constituted 44% of total OI.
- Order book stands strong at ~Rs3.6trn, up 9.2% YoY as on 4QFY22.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	528,507	550,142	529,677	(3.9)	(0.2)	Strong execution; record high order book
EBITDA	65,205	88,195	67,442	(26.9)	(3.3)	
EBITDA margin %	12.3	16.0	12.7	-370bp	-40bp	
Adj.Pat	36,207	71,910	34,830	(49.8)	(4.0)	

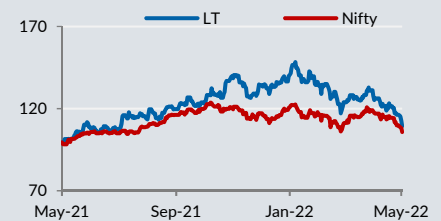
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,526
Target Price	: Rs 2,075
Potential Return	: +36%

Stock data (as on May 12, 2022)

Nifty	15,808
52 Week h/l (Rs)	2079 / 1368
Market cap (Rs/USD mn)	2144285 / 27695
Outstanding Shares (mn)	1,405
6m Avg t/o (Rs mn):	4,131
Div yield (%):	0.0
Bloomberg code:	LT IN
NSE code:	LT

Stock performance



	1M	3M	1Y
Absolute return	-12.7%	-18.4%	11.4%

Shareholding pattern (As of Mar'22 end)

Promoter	0.0%
FII+DII	56.0%
Others	29.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,075	2,188

Δ in earnings estimates

	FY23E	FY24E
EPS (New)	76.5	93.2
EPS (Old)	84.8	94.5
% change	(9.8)	(1.4)

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	76.5	93.2
EPS growth (%)	-25.2	23.9	21.9
P/E (x)	24.7	20.0	16.4
EV/EBITDA (x)	17.6	16.4	14.3
Debt/Equity (x)	1.5	1.4	1.3
RoE (%)	13.1	13.6	14.2
RoCE (%)	4.9	5.4	6.0

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY gr. (%)	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Revenue	480,879	293,347	347,729	395,629	528,507	9.9	33.6	1,565,212	1,359,790	15.1
Total Revenues	480,879	293,347	347,729	395,629	528,507	9.9	33.6	1,565,212	1,359,790	15.1
Expenditure	416,990	261,632	307,780	350,325	463,302	11.1	32.2	1,383,039	1,203,549	14.9
as % of sales	86.7	89.2	88.5	88.5	87.7			88.4	88.5	
Consumption of RM	311,855	154,405	197,431	238,360	347,665	11.5	45.9	937,860	790,099	18.7
as % of sales	64.9	52.6	56.8	60.2	65.8			59.9	58.1	
Employee Cost	63,539	68,795	72,520	76,315	79,683	25.4	4.4	297,313	247,620	20.1
as % of sales	13.2	23.5	20.9	19.3	15.1			19.0	18.2	
Other expenditure	41,595	38,432	37,830	35,651	35,953	(13.6)	0.8	147,866	165,830	(10.8)
as % of sales	8.6	13.1	10.9	9.0	6.8			9.4	12.2	
EBITDA	63,889	31,715	39,949	45,304	65,205	2.1	43.9	182,173	156,241	16.6
Depreciation	8,168	7,174	7,288	7,325	7,694	(5.8)	5.0	29,480	29,042	1.5
EBIT	55,722	24,541	32,661	37,980	57,512	3.2	51.4	152,694	127,199	20.0
Other Income	10,283	6,480	5,321	5,714	5,156	(49.9)	(9.8)	22,671	34,294	(33.9)
Interest	8,531	8,275	7,793	8,138	7,051	(17.3)	(13.4)	31,257	39,134	(20.1)
Exceptional Items	-	(182)	(969)	(245)	-			969	(35,560)	
PBT	57,474	22,928	31,159	35,801	55,616	(3.2)	55.4	145,077	157,918	(8.1)
Total Tax	20,867	7,184	8,845	10,587	15,550	(25.5)	46.9	42,166	40,108	5.1
Adjusted PAT	36,607	15,743	22,313	25,214	40,067	9.5	58.9	102,910	117,810	(12.6)
Minority Interest	(4,029)	(3,572)	(4,125)	(4,624)	(5,178)	-	-	(17,499)	(13,384)	-
PAT after MI	32,578	12,171	18,188	20,590	34,889	7.1	69.4	85,411	104,427	(18.2)
Share in profit/(loss) after tax of joint ventures/associates (net)	1,595	(245)	6	203	1,318			1,282	144	
PAT From Continued Operation	34,173	11,926	18,195	20,792	36,207	6.0	74.1	86,693	104,571	(17.1)
Adjusted PAT from continued operation	34,173	11,744	17,225	20,547	36,207	6.0	76.2	86,693	69,010	25.6
Profit from discontinued operation	(1,245)	-	-	-	-	-	-	-	82,379	-
PAT including DO	32,928	11,926	18,195	20,792	36,207	10.0	74.1	86,693	115,829	(25.2)
Adjusted EPS	23.5	8.5	13.0	14.8	25.8	9.9	74.1	62.0	82.5	(24.8)

Source: Company, YES Sec

Exhibit 3: Segmental Revenue

Rs mn	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY gr. (%)	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Segmental Revenue										
Infrastructure	264,367	105,435	141,564	186,190	302,412	14.4	62.4	574,753	619,616	(7.2)
Power	12,202	7,645	11,182	10,710	14,946	22.5	39.5	40,718	31,926	27.5
Heavy Engineering	10,819	6,298	6,877	7,552	9,661	(10.7)	27.9	27,604	30,185	(8.5)
Defence Engineering	11,408	6,901	8,460	7,933	8,972	(21.4)	13.1	31,752	34,101	(6.9)
Electrical & Automation (discontinued)	-	-	-	-	-	-	NA	-	16,057	(100.0)
Hydrocarbon	54,217	42,016	48,838	48,968	52,831	(2.6)	7.9	188,660	169,638	11.2
IT & Technology Services	68,454	72,413	79,033	85,066	88,226	28.9	3.7	315,545	256,188	23.2
Financial Services	33,767	30,614	29,757	29,706	29,634	(12.2)	(0.2)	119,834	134,036	(10.6)
Developmental Projects	11,138	11,263	11,699	9,756	10,958	(1.6)	12.3	44,417	36,214	22.6
Others	19,065	13,840	14,724	15,131	19,124	0.3	26.4	58,419	60,928	(4.1)
Total	485,438	296,423	352,134	401,011	536,763	10.6	33.9	1,401,701	1,388,888	0.9
Less: Revenue of discontinued operation	-	-	-	-	-	-	NA	-	16,057	(100.0)
Less: Inter-segment revenue	4,559	3,075	4,405	5,382	8,256	81.1	53.4	17,267	13,041	32.4
Total revenue from continuing operations	480,879	293,347	347,729	395,629	528,507	9.9	33.6	1,384,435	1,359,790	1.8
								347,729	480,879	
Segmental EBIT										
Infrastructure	27,955	5,567	9,719	11,147	25,392	(9.2)	127.8	51,824	45,215	14.6
Power	949	110	221	371	693	(27.0)	86.7	1,395	1,112	25.4
Heavy Engineering	2,806	867	860	951	2,027	(27.8)	113.2	4,705	4,883	(3.7)
Defence Engineering	3,028	1,107	869	1,582	1,777	(41.3)	12.3	5,335	6,170	(13.5)
Electrical & Automation (discontinued)	-	-	-	-	-	NA	NA	-	844	(100.0)
Hydrocarbon	6,583	3,593	3,595	4,258	4,684	(28.8)	10.0	16,129	15,683	2.8
IT & Technology Services	13,660	13,827	15,369	17,005	17,904	31.1	5.3	64,104	48,232	32.9
Financial Services	7,308	2,338	3,216	4,340	4,803	(34.3)	10.7	14,698	12,858	14.3
Developmental Projects	(652)	(907)	(354)	(480)	(564)	(13.5)	17.5	(2,306)	(1,966)	17.3
Others	2,333	1,777	2,635	1,735	3,238	38.8	86.7	9,385	11,230	(16.4)
Total	63,972	28,280	36,129	40,908	59,953	(6.3)	46.6	165,270	144,261	14.6
Less: Result of discontinued operation	-	-	-	-	-	-	-	-	844	(100.0)
Less/(Add) Intersegment revenue on capital jobs	145	80	88	203	283	95.8	39.7	653	250	161.8
Less: Finance Cost	8,531	8,275	7,793	8,138	7,051	(17.3)	(13.4)	31,257	39,134	(20.1)
Add/(Less) : Unallocable corporate income net of expenditure	2,177	2,821	1,941	2,988	2,998	37.7	0.3	10,748	18,324	(41.3)
Add/(Less) : Exceptional items	-	-	1,197	-	-	#DIV/0!	#DIV/0!	1,197	(36,938)	(103.2)
EBIT from continuing operations	57,474	22,746	31,386	35,556	55,617	(3.2)	56.4	145,304	85,420	70.1

Source: Company, YES Sec

CONCALL HIGHLIGHTS

- With improving economic activity led by easing of covid cases and rise in vaccinations, the company is seeing strong momentum in execution activity.
 - Labour availability improved to 263,000 with 97-98% of all employees vaccinated with the second dose.
- Order inflows came in at Rs739bn in 4Q largely contributed by Infrastructure, Hydrocarbons and Defence engineering segments.
 - Central govt and PSU capex is at a brisk pace while state govt capex is muted.
- Tendering activity continues to remain robust at Rs8.5trns for FY23 (Vs Rs9.1trns in FY22); of which domestic comprises of Rs6.31trn and Rs2.22trn from international.
 - Slight degrowth in tendering activity is mainly on the back of company being selective in bidding for orders
- Order book is at an all-time high of Rs3.6trn out of which domestic order book is 73% (Rs2.62trn); Central Govt- 11%, State Govts-29%, State PSUs-45% and 16%-private players. Rs952bn of overseas order book largely comprising from GCC (76%) and African region (13%).
 - 89% of the order book is comprised of infra and hydrocarbons segments of which 30% are funded by multilateral agencies.
 - 85% of the order book has some level of price escalation clauses.
- Cash collection in FY22 was healthy at Rs1.35trn vs Rs1.26trn in FY21 which resulted into better NWC as % of sales to 19.9% in FY22 (Vs 22.3% in FY21). This is led by better collection, vendor management and high revenue.
- Gross and net debt decreased on account of repayment of Rs41bn on account of monetization of non-core assets.
- Normalized RoE improved from 10.1% in FY21 to 11% in FY22.
- Guidance: Revenue and order inflow growth of 12-15% with EBITDA margins of 9.5% and NWC to sales ratio of 20-22%.
 - Management is optimistic of FY23 growth owing to revival in private capex led by PLI scheme, healthy corporate balance sheets, etc. In the Middle East, high crude prices are expected to lead to strong capex activity in the coming year.

Segment wise:

- **Infra:** OI strong at Rs450bn (up 44% YoY) spread across segments. 46% OI from international customers while domestic ordering activity slowed down a bit. Going forward it expects domestic to improve. OB stands at Rs2.6trn out of which international orders are 22%. For FY23 order prospects stands healthy at Rs5.72trn comprising of domestic prospects of Rs.4.5trn an international order of Rs.1.2trn.
- **Power:** Ordering environment is tepid owing to Govt.'s focus on increasing renewable energy. 4QFY22 revenues came in at Rs14.8bn grew by 22% YoY led by strong order book while margin at 5.2% vs 8.5% in 4QFY21.
- **Heavy engineering:** Q4FY22 witnessed deferral of orders leading to lower OI. Revenues declined 13% YoY due to late receipt of orders in FY22. Margin contracted from 29.3% to 24.7% YoY.
- **Defence Engineering:** Company is optimistic of order wins on account of govt's thrust on defence localization. Robust OI in 4QFY22 on account of shipbuilding orders. Revenue declined by 21% YoY while margins declined by 600bps YoY to 23.3%.

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- **Hydrocarbons:** Strong order inflows from both domestic and international markets in 4QFY22. GCC onshore and offshore orders at Rs564bn. 60% of the order book is international. 4QFY22 revenue was impacted by supply chain disruption which is a temporary phenomenon.
- **Developmental projects:** Nabha PLF was impacted due to planned maintenance activity. Subsidizing covid wave led to improved metro ridership. Average ridership in FY22 was ~155k/day. 4QFY22 saw ridership cross the threshold of ~300k/day. Govt of Telangana has agreed to provide a soft loan of Rs30bn over 3 years for Hyderabad metro and the company is in talks with third party investors to reduce its stake to 51% which will help reduce its debt.

Moving to future technology:

- Robust business portfolio focuses on cash generation and distribution, an eye on capital employed and divestment of some construction assets is expected to bring better ROE.
- The company is planning to enter in the business of electrolyser manufacturing with a capacity of 500MW by 2026 which is expected to be ramped up to 1GW by 2028. The company plans to start with Alkaline in Ph-I and gradually shift towards membrane technology in Ph-II with capital outlay of ~Rs.12bn. The projects are expected to be funded from internal accruals.
- Further, management is evaluating various advanced chemical cell manufacturing based on technology tie ups. The capacity aimed at is 5 GW of cell manufacturing capacity and 3GW of battery module capacity by 2027. Total capital outlay expected is at ~Rs.31bn.

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	75,051	P/E	22	100	1,651,131	1177	22x FY24 EPS
L&T Finance Holdings	186,732	Mcap		64	83,473	60	30% discount to Current Mkt cap
L&T Infotech	1,130,668	Mcap		75	592,018	422	30% discount to Tgt Mkt cap
L&T Technology Services	483,654	Mcap		75	253,817	181	30% discount to Tgt Mkt cap
Mindtree	742,906	Mcap		60	312,020	222	30% discount to Tgt Mkt cap
L&T Hydrocarbon	14,814	P/E	15	100	222,212	158	15x FY243 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.	1,259,953	898	
Grand total						2075	

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	909,243	1,010,362
Non Minority Controlling Int.	95,208	120,515	129,661	129,661	129,661
Net worth	667,232	758,685	824,077	912,053	1,013,172
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	2,293,787	2,409,906
Application of Funds					
Gross Block	172,784	196,092	217,497	242,497	267,497
Depreciation	71,746	82,229	111,708	144,445	180,557
Fixed Asset	400,248	407,846	388,531	380,794	369,682
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	1,376,118	1,440,430
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	163,427	153,020
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	2,293,787	2,409,906

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	32,737	36,112
EBIT	138,667	127,199	152,694	165,366	192,203
EBIT margins	9.5	9.4	9.8	9.4	9.8
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	153,112	178,481
Taxes	32,632	40,108	42,166	38,278	44,620
Effective tax rate (%)	24.3	32.8	29.3	25.0	25.0
Net profit	101,678	82,250	101,941	114,834	133,861
Minorities and other	6,187	(69,140)	16,217	7,404	2,894
Net profit after minorities	95,490	151,390	85,724	107,430	130,967
Exceptional items	0	(35,560)	969	0	0
Net profit	95,490	115,829	86,693	107,430	130,967
% Change YoY	7.2	21.3	(25.2)	23.9	21.9
EPS (Rs)	68.0	82.5	61.7	76.5	93.2

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	153,112	178,481
Interest	27,967	39,134	31,257	38,513	43,127
Depreciation	24,623	29,042	29,480	32,737	36,112
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	38,278	44,620
CF from Oper. Activity	66,939	228,441	191,636	138,773	138,382
(Inc)/Dec in FA	(34,368)	(18,077)	(31,106)	(25,000)	(25,000)
Free Cash Flow	101,307	246,518	222,742	163,773	163,382
(Pur)/Sale of Invest.	(48,195)	(36,211)	(5,571)	(89,508)	(62,919)
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)	(26,858)	(32,742)
Others	(4,208)	(5,852)	(5,628)	0	(0)
CF from Fin. Activity	63,716	(152,744)	(151,815)	(50,370)	(60,868)
Inc/(Dec) in Cash	48,092	21,409	3,144	(26,105)	(10,406)
Opening cash Balance	64,602	111,180	133,735	137,702	111,597
Others	34,352	27,496	823	-	-
Closing cash Balance	147,045	160,085	137,702	111,597	101,191

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%	13.6%	14.2%

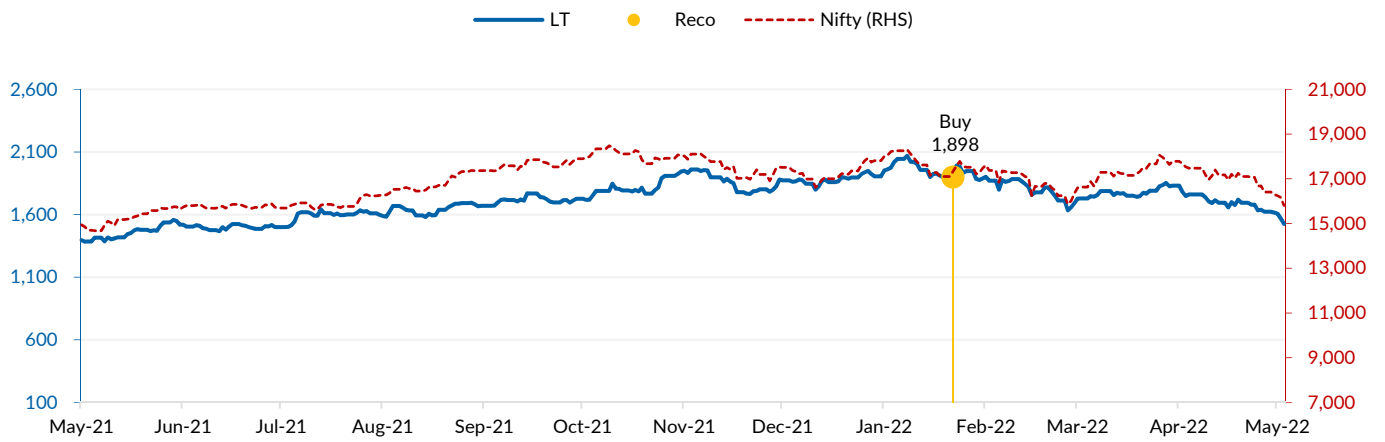
Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Basic (Rs)					
EPS	68.0	82.5	61.7	76.5	93.2
Dividend per share	21.6	18.0	18.0	19.1	23.3
Cash EPS	85.6	103.2	82.7	99.8	118.9
Book value per share	543.1	626.3	678.8	741.4	813.4
Div. payout (%)	24.9	54.1	24.6	23.4	24.5
Valuation ratios (x)					
P/E	22.4	18.5	24.7	20.0	16.4
P/CEPS	17.8	14.8	18.5	15.3	12.8
P/B	2.8	2.4	2.2	2.1	1.9
EV/EBIDTA	21.0	21.3	17.6	16.4	14.3
Dividend yield (%)	1.4	1.2	1.2	1.3	1.5
Profitability Ratios (%)					
RoIC	6.9	5.5	6.1	6.6	7.3
RoE	15.7	11.3	13.1	13.6	14.2
RoCE	4.8	3.9	4.9	5.4	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

Exhibit 11: Recommendation Tracker



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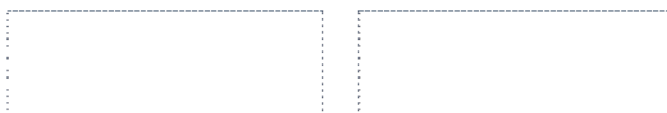
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