

Ongoing uncertainty leads to no guidance. Focus on WC in a tough FY21. Maintain Buy

- Q1 execution continued to be impacted by the pandemic but LT managed to avoid losses. Order inflows were decent at Rs235bn and orderbook continues to be strong at Rs3.05trn. WC, at 26.8% sales, while high, has to be seen in context of the lower revenue base in Q1.
- LT remains cautious and continues to withhold guiding on FY21 on inflows or execution, given the ongoing operating uncertainty. We expect execution disruptions to continue in H1, mainly due to labor challenges, before it picks momentum in H2.
- LT is fully focused on cash and working capital in these challenging times. LT remains the best play for the recovery in the capex cycle. We believe its size, diversity and balance sheet will be key competitive advantages. Current valuations continue to be supportive in our view. We maintain Buy with a SOTP based TP of Rs1200.

Q1- a weak quarter as expected; Order book remains strong

Larsen had revenues of Rs212bn down 28% yoy, better than expectations (Refer Exhibit 1), in what was anyway expected to be a weak quarter. International revenues were 45% of the mix, optically higher due to lower domestic execution. Core infra segment revenues were Rs63bn, down 53% yoy. This is broadly in line with what LT said in early June that they were operating at 40% levels. EBIDTA in this segment has been stable at 6.3% vs 6.4% in Q4 last year, most likely due to its project mix in the quarter. Overall EBIDTA was 7.6%, compared to the usual range of 11-12% margins. PAT came in at Rs3bn down 79%, and the company avoided losses. Order inflows were at Rs235bn, with 38% inflows from international orders. Infra orders were half at Rs113bn. Order book continues to be strong at Rs3.05tr, similar to the Rs3.04trn reported the previous quarter. In the infra segment it is Rs2.21trn with book to bill of ~3x. 82% of its domestic order book comprises of government and PSU orders with little cancellation risk.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	212,600	296,360	(28.3)	442,453	(51.9)
Total Expense	196,395	265,676	(26.1)	391,242	(49.8)
EBITDA	16,205	30,683	(47.2)	51,210	(68.4)
Depreciation	6,722	4,615	45.7	7,109	(5.4)
EBIT	9,482	26,069	(63.6)	44,101	(78.5)
Other Income	7,774	6,350	22.4	6,605	17.7
Interest	10,559	5,867	80.0	8,208	28.6
EBT	8,945	26,552	(66.3)	42,497	(79.0)
Tax	2,564	7,948	(67.7)	9,663	(73.5)
RPAT	3,031	14,726	(79.4)	31,971	(90.5)
APAT	3,031	14,726	(79.4)	31,971	(90.5)
			(bps)		(bps)
Gross Margin (%)	56.6	39.5	1711	35.2	2136
EBITDA Margin (%)	7.6	10.4	(273)	11.6	(395)
NPM (%)	1.4	5.0	(354)	7.2	(580)
Tax Rate (%)	28.7	29.9	(126)	22.7	593
EBIT Margin (%)	4.5	8.8	(434)	10.0	(551)

CMP	Rs 921
Target / Upside	Rs 1,200 / 30%
BSE Sensex	37,903
NSE Nifty	11,133

Script Details

Equity / FV	Rs 2,808mn / Rs 2
Market Cap	Rs 1,293bn
	USD 17bn
52-week High/Low	Rs 1,551/Rs 661
Avg. Volume (no)	5,541,070
NSE Symbol	LT
Bloomberg Code	LT IN

Shareholding Pattern Jun'20(%)

Promoters	0.0
MF/Banks/FIs	35.8
FII	18.9
Public / Others	45.3

Valuation (x)

	FY20A	FY21E	FY22E
P/E	13.5	20.4	12.2
EV/EBITDA	15.8	20.9	14.5
ROE (%)	14.8	9.2	14.3
RoACE (%)	6.3	4.5	6.1

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	1,454,524	1,309,071	1,597,067
EBITDA	163,290	126,980	186,857
PAT	95,490	63,380	106,135
EPS (Rs.)	68.1	45.2	75.6

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Labor mobilization remains the main short-term challenge for FY21 ramp up.

While the lockdown had a major impact in Q1, LT is still ramping up and currently has 95% of its sites running, though with less than optimal labor available. They need ~250-260k workers to reach normal levels, while they are currently at ~190k, and adding 1500 people per day. They expect between 45-60 days to reach normal level. We believe once normal levels are reached, LT will have a better grip on execution trajectory and more likely to give a guidance, perhaps in Q2

Focus stays on cash management and working capital

LT saw WC go up to 26.8% in Q1, while elevated yoy and qoq, but this has to be seen in context of the lower revenue base in Q1. The higher WC is due to a combination of receivables as well as LT extending its support to its vendor base-something they have been doing for the past 5-6 quarters. Collections in Q1 was robust and the operations largely funded out of collections, without having to draw down on the balance sheet cash. Their focus is on cash and they have built ample liquidity buffers with net cash and cash equivalent of ~Rs150bn for the core business.

Remains the top play for capex recovery. Maintain Buy

LT remains the top play for the recovery in the capex cycle. We believe its size, diversity and balance sheet will be key competitive advantages. As per its annual report, it is in the process of firming up its next strategic plan from FY22-26, though we expect some original target of getting to 18% RoEs in the current strategic plan to be pushed to the next. Current valuations at 12x FY22E are very supportive in our view. We maintain Buy with a SOTP based TP of Rs1200.

Exhibit 1: Actual v/s DART estimates

Particulars(Rsmn)	Actual	DART	Consensus	DART	Consensus	Comment
	Q1FY21	Q1FY21E	Q1FY21E	Var (%)	Var (%)	
Sales	212,600	194,104	201,969	9.5	5.3	Drop in execution on account of lockdown
EBITDA	16,205	(15,788)	(12,306)	(202.6)	(231.7)	EBIDTA managed better with control on costs and Rs2bn savings on SGA
EBITDA margins	7.6	(8.1)	(6.1)	(193.7)	(225.1)	
PAT	3,031	(23,090)	(16,436)	(113.1)	(118.4)	Impact on topline led to lower PAT
Pat margins	1.4	(11.9)	(8.1)	(112.0)	(117.5)	
EPS	2.2	-16.4	-11.7	(113.1)	(118.4)	

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21E			FY22E		
	Earlier	New	Var (%)	Earlier	New	Var(%)
Sales	1,309,071	1,309,071	0.0	1,597,067	1,597,067	(0.0)
EBITDA	126,980	126,980	(0.0)	186,857	186,857	(0.0)
EBITDA Margin	9.7	9.7	(0)	11.7	11.7	(0)
PAT	63,380	63,380	(0.0)	106,135	106,135	(0.0)
EPS	45.1	45.1	0.1	75.6	75.6	(0.0)

Source: Company, DART

Exhibit 3: SOTP Valuation Target Price: Rs 1,200

	Earnings/ Book Value (Rs mn)	Target P/E, P/B (X)	Value (Rs mn)	Valuation Type	L&T Stake (%)	Value (Rs mn)	Per share value (Rs)
Core E&C business	90,831	13	1,137,203	PER	100.0	1,137,203	811
L&T Infotech	429,780		343,824	20% disc to current DART FV	74.5	256,252	183
L&T Tech. services	148,596		118,877	20% disc to current Mcap	74.6	88,706	63
L&T Finance Holdings	125,012		100,009	20% disc to current Mcap	63.7	63,726	45
Mindtree	136,950		109,560	20% disc to DART FV	61.1	66,919	48
Rest of the investments	140,259	0.5	70,129	PBV	100.0	70,129	50
							1,200

Source: DART, Company

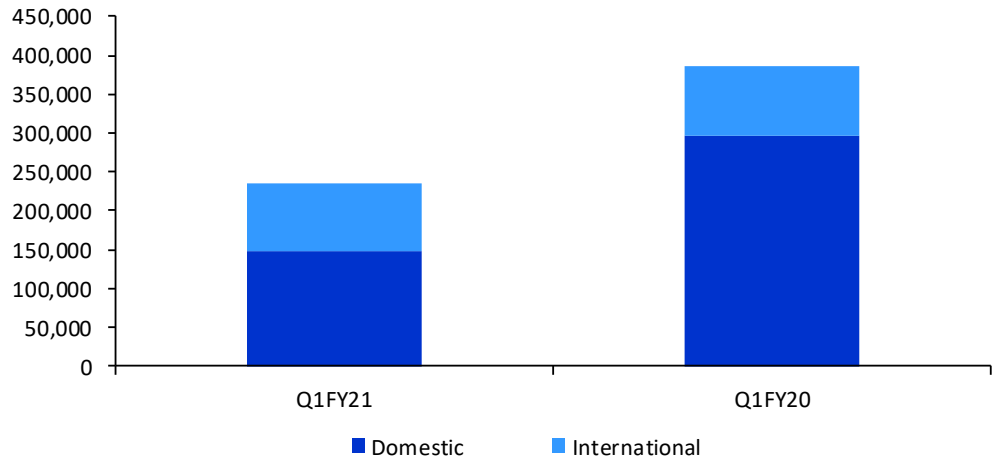
Exhibit 4: Consolidated quarterly financials

Particulars (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Gross Revenue	296,360	353,285	362,427	442,453	212,600	(28.3)	(51.9)	296,360	212,600	(28.3)
Operating Income	296,360	353,285	362,427	442,453	212,600	(28.3)	(51.9)	296,360	212,600	(28.3)
RM, Stores & Spares Cost	39,251	44,848	45,726	42,112	26,216	(33.2)	(37.7)	39,251	26,216	(33.2)
Subcontracting charges	51,233	59,568	69,069	84,670	20,888	(59.2)	(75.3)	51,233	20,888	(59.2)
Construction materials consumed	55,238	64,541	68,679	114,704	20,577	(62.7)	(82.1)	55,238	20,577	(62.7)
Purchases of stock-in-trade	1,855	1,889	2,431	2,237	1,395	(24.8)	(37.6)	1,855	1,395	(24.8)
Chg. in Inventory, WIP & SIP	(2,159)	3,133	(1,140)	6,643	(1,926)	(10.8)	(129.0)	(2,159)	(1,926)	(10.8)
Other Manufact, Const & Opex	33,988	34,653	33,732	36,309	25,182	(25.9)	(30.6)	33,988	25,182	(25.9)
Total Manufacturing & Operating Cost	179,406	208,631	218,497	286,674	92,331	(48.5)	(67.8)	179,406	92,331	(48.5)
Staff Expenditure	45,518	61,406	61,332	62,884	61,535	35.2	(2.1)	45,518	61,535	35.2
Finance Cost of Financial Services & Leases	20,786	20,233	20,044	19,356	21,039	1.2	8.7	20,786	21,039	1.2
Sales Admin & Other Expenses	17,461	22,797	21,377	22,328	21,490	23.1	(3.8)	17,461	21,490	23.1
EBITDA	33,189	40,219	41,177	51,210	16,205	(51.2)	(68.4)	33,189	16,205	(51.2)
Other Income	3,844	5,964	4,749	6,605	7,774	102.2	17.7	3,844	7,774	102.2
Depreciation	4,615	6,297	6,602	7,109	6,722	45.7	(5.4)	4,615	6,722	45.7
EBIT	32,419	39,887	39,324	50,706	17,256	(46.8)	(66.0)	32,419	17,256	(46.8)
Interest Cost	5,867	6,859	7,092	8,208	10,559	80.0	28.6	5,867	10,559	80.0
Exceptional items	(936)	-	-	-	2,247	(340.2)	#DIV/0!	(936)	2,247	(340.2)
PBT	25,617	33,028	32,232	42,497	8,945	(65.1)	(79.0)	25,617	8,945	(65.1)
Tax	7,948	7,911	7,110	9,663	2,564	(67.7)	(73.5)	7,948	2,564	(67.7)
Associates & JV- Profit/(Loss)	428	400	2,394	2,790	(941)	35.8	(133.7)	(693)	(941)	35.8
Minority Interest - (Profit)/Loss	3,371	-	3,995	3,654	2,408			3,371	2,408	(28.6)
Net Profit	14,726	25,517	23,521	31,971	3,031	(77.7)	(90.5)	13,605	3,031	(77.7)
Reported EPS	10.5	18.0	16.8	22.8	2.1	(78.2)	(90.7)	9.7	2.1	(78.2)
Operating Cost as a % of Sales										
Manufacturing & Operating cost	60.5	59.1	60.3	64.8	43.4	(1,711)	(2,136)	60.5	43.4	(1,711)
Staff Cost	15.4	17.4	16.9	14.2	28.9	1,358	1,473	15.4	28.9	1,358
Sales Admin & Other Expenses	5.9	6.5	5.9	5.0	10.1	422	506	5.9	10.1	422
Margins (%)										
EBITDA	11.2	11.4	11.4	11.6	7.6	(358)	(395)	11.2	7.6	(358)
EBIT	10.9	11.3	10.9	11.5	8.1	(282)	(334)	10.9	8.1	(282)
PBT	8.6	9.3	8.9	9.6	4.2	(444)	(540)	8.6	4.2	(444)
NPM	4.6	7.2	6.5	7.2	1.4	(316)	(580)	4.6	1.4	(316)
Segmental Revenue										
Infrastructure	140,376	167,806	173,994	255,597	64,561	(54.0)	(74.7)	140,376	64,561	(54.0)
Power	5,632	4,916	6,983	5,653	3,800	(32.5)	(32.8)	5,632	3,800	(32.5)
Heavy Engineering	9,915	7,058	8,061	7,016	4,251	(57.1)	(39.4)	9,915	4,251	(57.1)
Defence Engineering	9,692	10,173	10,647	9,281	4,765	(50.8)	(48.7)	9,692	4,765	(50.8)
Electrical & Automation	14,237	14,844	14,198	12,391	7,549	(47.0)	(39.1)	14,237	7,549	(47.0)
Hydrocarbon	37,687	43,049	43,926	49,792	30,701	(18.5)	(38.3)	37,687	30,701	(18.5)
IT & Technology Services	38,444	59,036	61,259	64,613	60,434	57.2	(6.5)	38,444	60,434	57.2
Financial Services	34,621	34,445	35,501	33,657	32,842	(5.1)	(2.4)	34,621	32,842	(5.1)
Development Projects	11,784	14,523	12,382	9,815	5,543	(53.0)	(43.5)	11,784	5,543	(53.0)
Others	11,938	15,921	13,162	12,066	7,684	(35.6)	(36.3)	11,938	7,684	(35.6)
Less: Inter Segment Revenue	11,938	3,642	3,489	5,037	1,980	(83.4)	(60.7)	11,938	1,980	(83.4)
Total	302,388	368,129	376,625	454,844	220,148	(27.2)	(51.6)	302,388	220,148	(27.2)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
EBIT										
Infrastructure	7,046	9,920	8,843	26,266	2,448	(65.3)	(90.7)	7,046	2,448	(65.3)
Power	86	104	139	2,032	(50)	(158.2)	(102.5)	86	(50)	(158.2)
Heavy Engineering	1,599	1,419	1,586	1,057	543	(66.0)	(48.6)	1,599	543	(66.0)
Defence Engineering	1,242	1,465	1,816	1,236	250	(79.9)	(79.8)	1,242	250	(79.9)
Electrical & Automation	1,732	2,701	2,571	1,877	178	(89.7)	(90.5)	1,732	178	(89.7)
Hydrocarbon	2,468	5,041	4,930	5,023	1,179	(52.2)	(76.5)	2,468	1,179	(52.2)
IT & Technology Services	7,842	8,905	9,955	10,230	9,670	23.3	(5.5)	7,842	9,670	23.3
Financial Services	7,463	7,587	7,269	4,467	995	(86.7)	(77.7)	7,463	995	(86.7)
Development Projects	937	1,207	1,825	(96)	(386)	(141.1)	302.4	937	(386)	(141.1)
Others	2,550	3,118	2,522	1,505	229	(91.0)	(84.8)	2,550	229	(91.0)
Total	32,964	41,466	41,455	53,597	15,055	(54.3)	(71.9)	32,964	15,055	(54.3)
EBIT Margin (%)										
Infrastructure	5.0	5.9	5.1	10.3	3.8	(123)	(648)	5.0	3.8	(123)
Power	1.5	2.1	2.0	35.9	(1.3)	(285)	(3,726)	1.5	(1.3)	(285)
Heavy Engineering	16.1	20.1	19.7	15.1	12.8	(335)	(229)	16.1	12.8	(335)
Defence Engineering	12.8	14.4	17.1	13.3	5.2	(757)	(808)	12.8	5.2	(757)
Electrical & Automation	12.2	18.2	18.1	15.1	2.4	(981)	(1,279)	12.2	2.4	(981)
Hydrocarbon	6.5	11.7	11.2	10.1	3.8	(271)	(625)	6.5	3.8	(271)
IT & Technology Services	20.4	15.1	16.3	15.8	16.0	(440)	17	20.4	16.0	(440)
Financial Services	21.6	22.0	20.5	13.3	3.0	(1,853)	(1,024)	21.6	3.0	(1,853)
Development Projects	8.0	8.3	14.7	(1.0)	(7.0)	(1,491)	(598)	8.0	(7.0)	(1,491)
Others	21.4	19.6	19.2	12.5	3.0	(1,838)	(949)	21.4	3.0	(1,838)

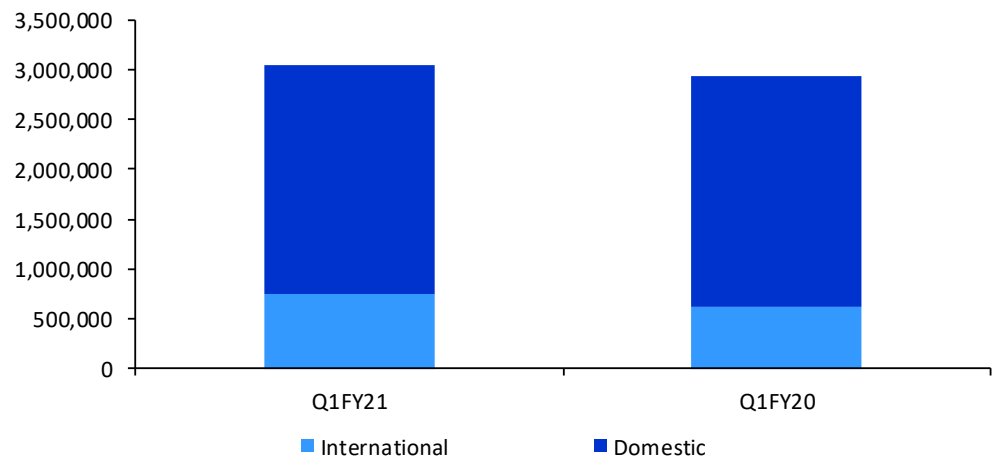
Source: Company, DART

Exhibit 5: Order Inflow Mix for Q1FY21 (in Rs bn)



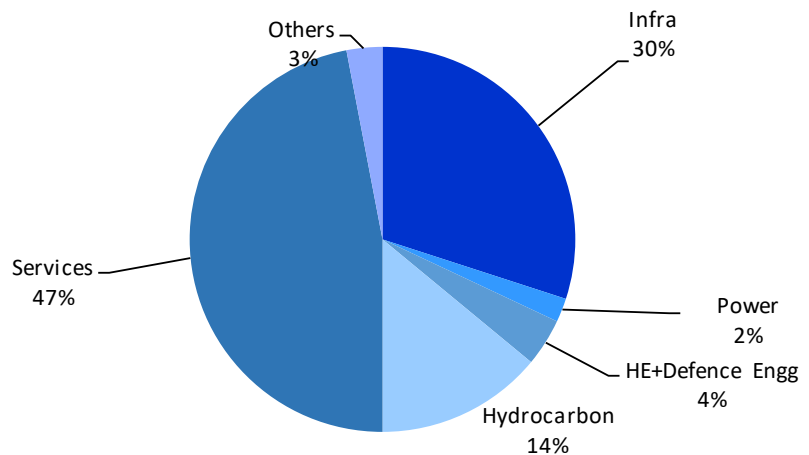
Source: DART, Company

Exhibit 6: Order book Q1FY21 (Rs bn)



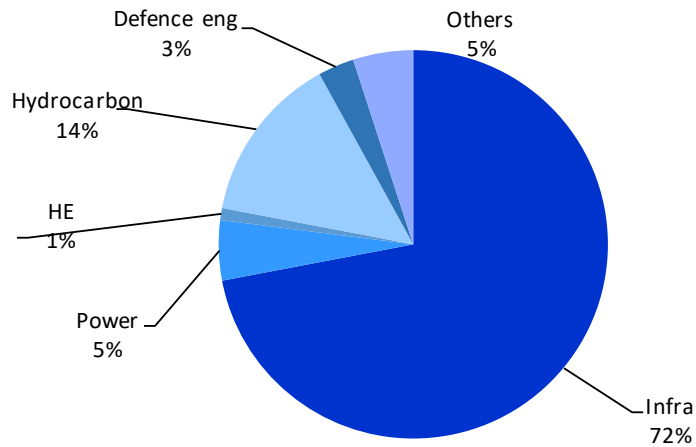
Source: DART, Company

Exhibit 7: Q1FY21 Order Inflow(%)



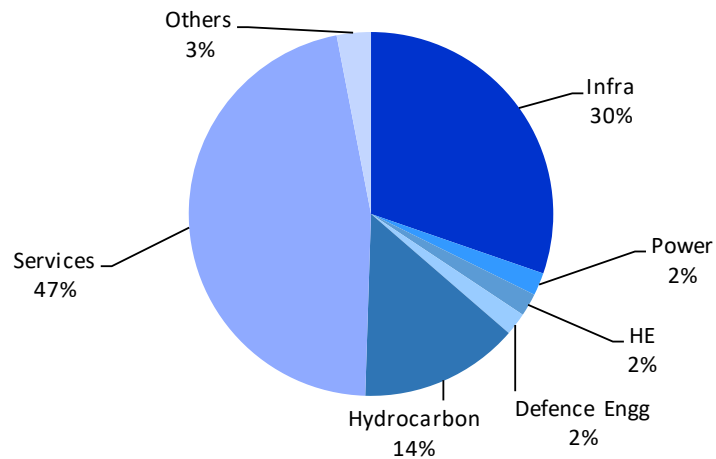
Source: DART, Company

Exhibit 8: Q1FY21 order book composition



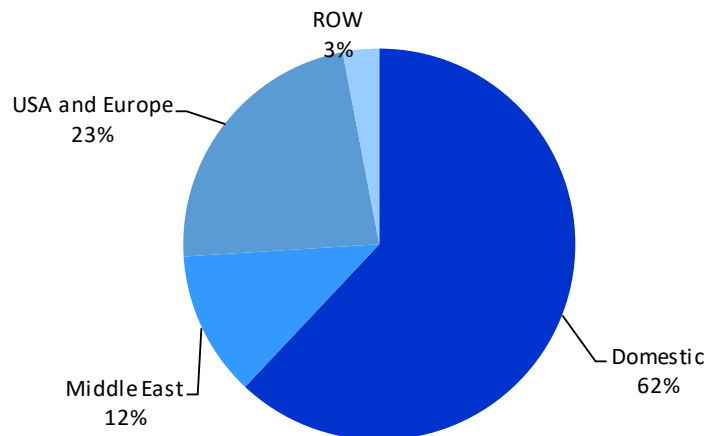
Source: DART, Company

Exhibit 9: Revenue break up for Q1FY21



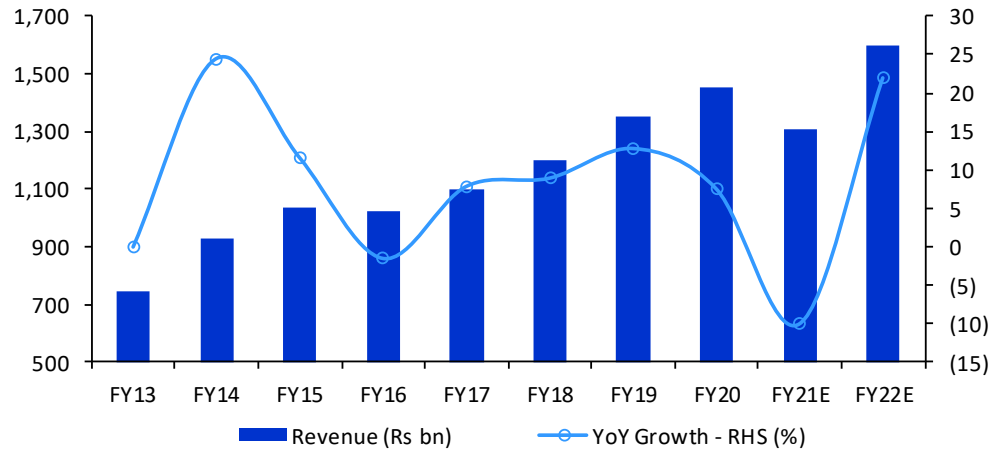
Source: DART, Company

Exhibit 10: Q1FY21 Order inflow composition



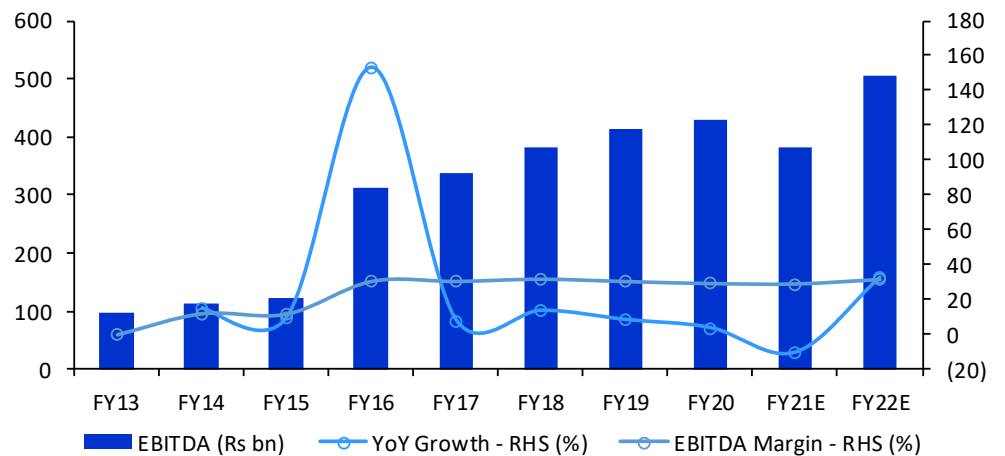
Source: Company, DART

Exhibit 11: Revenue and YoY growth (%)



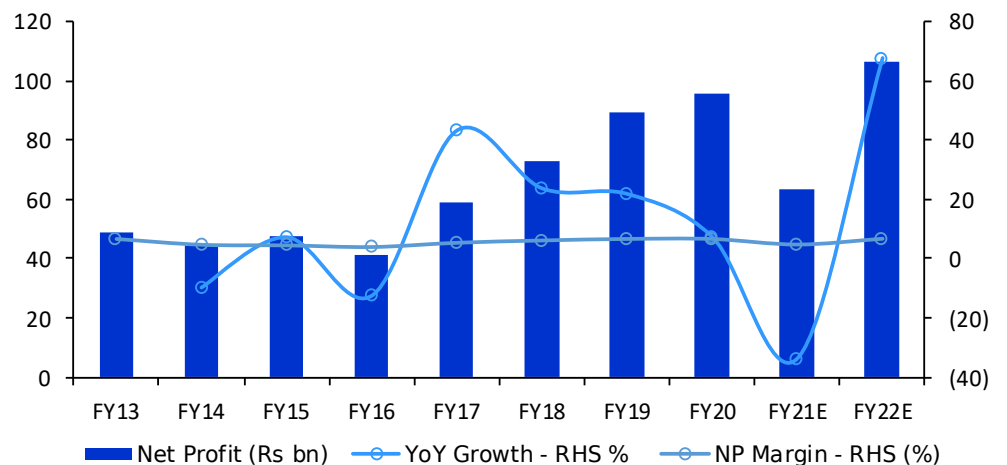
Source: DART, Company

Exhibit 12: EBITDA, EBITDA margin and YoY growth (%)



Source: DART, Company

Exhibit 13: Net profit, Net profit margin and YoY growth (%)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	1,352,203	1,454,524	1,309,071	1,597,067
Total Expense	1,198,907	1,291,234	1,182,091	1,410,210
COGS	749,830	759,921	700,353	870,401
Employees Cost	174,664	231,140	229,087	231,575
Other expenses	274,413	300,173	252,651	308,234
EBIDTA	153,296	163,290	126,980	186,857
Depreciation	19,230	24,623	28,122	31,279
EBIT	134,066	138,667	98,858	155,578
Interest	18,026	27,967	30,818	32,359
Other Income	18,365	23,609	25,970	28,567
Exc. / E.O. items	2,948	0	0	0
EBT	137,353	134,310	94,010	151,786
Tax	40,671	32,632	24,443	39,464
RPAT	89,051	95,490	63,380	106,135
Minority Interest	13,115	13,453	13,453	13,453
Profit/Loss share of associates	5,483	7,265	7,265	7,265
APAT	89,051	95,490	63,380	106,135

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	2,806	2,808	2,808	2,808
Minority Interest	68,261	95,208	95,208	95,208
Reserves & Surplus	620,943	664,424	706,345	776,545
Net Worth	623,748	667,232	709,153	779,353
Total Debt	1,255,552	1,431,737	1,503,324	1,578,490
Net Deferred Tax Liability	(31,078)	(23,935)	(23,935)	(23,935)
Total Capital Employed	1,916,483	2,170,242	2,283,750	2,429,116

Applications of Funds

Net Block	169,394	399,387	381,265	359,986
CWIP	139,195	33,111	44,111	55,111
Investments	251,617	237,622	247,127	257,012
Current Assets, Loans & Advances	2,189,079	2,372,816	2,287,952	2,582,587
Inventories	64,139	57,467	89,662	78,759
Receivables	368,459	407,315	376,582	415,675
Cash and Bank Balances	117,262	151,178	143,821	153,659
Loans and Advances	1,024,275	1,025,511	1,019,676	1,131,476
Other Current Assets	614,944	731,345	658,211	803,017
Less: Current Liabilities & Provisions	832,802	872,694	676,705	825,580
Payables	802,799	838,099	645,569	787,595
Other Current Liabilities	30,003	34,595	31,136	37,986
sub total				
Net Current Assets	1,356,278	1,500,122	1,611,247	1,757,007
Total Assets	1,916,483	2,170,242	2,283,750	2,429,116

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	44.5	47.8	46.5	45.5
EBIDTA Margin	11.3	11.2	9.7	11.7
EBIT Margin	9.9	9.5	7.6	9.7
Tax rate	29.6	24.3	26.0	26.0
Net Profit Margin	6.6	6.6	4.8	6.6
(B) As Percentage of Net Sales (%)				
COGS	55.5	52.2	53.5	54.5
Employee	12.9	15.9	17.5	14.5
Other	20.3	20.6	19.3	19.3
(C) Measure of Financial Status				
Gross Debt / Equity	2.0	2.1	2.1	2.0
Interest Coverage	7.4	5.0	3.2	4.8
Inventory days	17	14	25	18
Debtors days	99	102	105	95
Average Cost of Debt	1.5	2.1	2.1	2.1
Payable days	217	210	180	180
Working Capital days	366	376	449	402
FA T/O	8.0	3.6	3.4	4.4
(D) Measures of Investment				
AEPS (Rs)	63.5	68.1	45.2	75.6
CEPS (Rs)	77.2	85.6	65.2	97.9
DPS (Rs)	18.0	18.0	13.5	22.7
Dividend Payout (%)	28.4	26.4	30.0	30.0
BVPS (Rs)	444.6	475.6	505.5	555.5
RoANW (%)	15.2	14.8	9.2	14.3
RoACE (%)	6.3	6.3	4.5	6.1
RoAIC (%)	7.9	7.3	4.8	7.0
(E) Valuation Ratios				
CMP (Rs)	921	921	921	921
P/E	14.5	13.5	20.4	12.2
Mcap (Rs Mn)	1,292,852	1,292,852	1,292,852	1,292,852
MCap/ Sales	1.0	0.9	1.0	0.8
EV	2,431,141	2,573,410	2,652,354	2,717,682
EV/Sales	1.8	1.8	2.0	1.7
EV/EBITDA	15.9	15.8	20.9	14.5
P/BV	2.1	1.9	1.8	1.7
Dividend Yield (%)	2.0	2.0	1.5	2.5
(F) Growth Rate (%)				
Revenue	12.8	7.6	(10.0)	22.0
EBITDA	12.8	6.5	(22.2)	47.2
EBIT	15.0	3.4	(28.7)	57.4
PBT	18.6	(2.2)	(30.0)	61.5
APAT	21.7	7.2	(33.6)	67.5
EPS	21.7	7.2	(33.6)	67.5
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	253,538	308,878	265,294	359,452
CFI	(106,086)	(148,532)	(21,000)	(21,000)
CFF	133,775	119,701	19,310	6,872
FCFF	202,497	160,346	244,294	338,452
Opening Cash	80,327	117,262	151,178	143,821
Closing Cash	117,262	151,178	143,821	153,659

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Buy	1,600	1,410
Oct-19	Buy	1,650	1,432
Jan-20	Buy	1,700	1,294
Mar-20	Buy	1,200	708
Mar-20	Buy	1,200	809
Jun-20	Buy	1,200	955

*Price as on recommendation date

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