

Retail Equity Research

Larsen & Toubro Limited

Construction & Engineering

BSE CODE: 500510

NSE CODE: LT

Bloomberg CODE: LT:IN

SENSEX: 38,025

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 922

TARGET Rs. 1,154

RETURN 25% ↑

(Closing:06-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Weak quarter, however valuation intact

L&T Finance Holdings Limited is a financial holding company offering financial products and services in the corporate, retail and infrastructure finance areas, along with fund products and investment services.

- **Topline contracted 28.3% YoY on account of lockdowns resulting in slowdown in economic activities and resultant shortages of labour.**
- **EBITDA margin shrank 280bps YoY to 7.6%. Adj. PAT declined 94.7% YoY to Rs. 78cr on reduction in revenues, under-recovery of overheads and credit provisions made in the Financial Services business.**
- **Backed by a strong order book, L&T is expected to get back on the growth trajectory soon, as the economy opens up in the coming months.**
- **Given current upside potential, we reiterate our BUY rating on the stock with a revised target price of Rs. 1,154 based on SOTP valuation.**

Economic disruption impacts performance

Q1FY21 consolidated revenue came in at Rs. 21,260cr (-28.3% YoY), as the company saw declines in revenue from its verticals across the board, with exception of IT&TS which registered a 57.2% YoY growth to Rs. 6,043cr. Among its key segments, Infrastructure revenues stood at Rs. 6,456cr (-53.1% YoY), Hydrocarbon at Rs. 3,070cr (-18.5%) and Financial Services at 3,284cr (-5.1). EBITDA fell 47.2% YoY to Rs. 1,620cr, as EBITDA margin contracted by 280bps YoY to 7.6% on under-recovery of overheads owing to lower capacity and manpower utilisation levels. Adj. PAT (ex. exceptional items) came in at Rs. 78cr (-94.7% YoY).

Key concall highlights

- Q1FY21 order inflows stood at Rs. 23,574cr, of which international orders totaled Rs. 8,872cr (~38% of total inflows).
- Management expects bottom-up project pipeline of Rs. 6.32tn over the next nine months of FY21.
- Despite negative operating leverage affecting EBITDA and bottom-line, collections remained robust thereby aiding liquidity.

Steady order inflows to aid future growth

As of Q1FY21, L&T had a strong consolidated order book amounting to Rs. 305,083cr. Though the order inflows slowed down as companies across the world looked to conserve cash in the current disruptive environment, L&T managed to secure orders across most of its business segments. New orders worth Rs. 11,349cr were secured in the Infrastructure segment, while orders worth Rs. 1,220cr were signed in the Hydrocarbon segment. Moreover, Heavy Engineering and Defence Engineering saw an order inflow amounting to Rs. 476 and Rs. 140cr, respectively.

Valuation

~82% of L&T's strong domestic order book is dominated by governments and PSUs, thus providing a level of stability and lower cyclical risks. We expect recovery for the construction sector in the months ahead owing to early signs of a pick-up in ordering activity in both domestic and international markets. Additionally, Mindtree acquisition should aid growth in its IT&TS vertical and help boost the overall margins further going forward. We reiterate our BUY rating on the stock with a revised target price of Rs. 1,154 using a target multiple using SOTP valuation methodology.

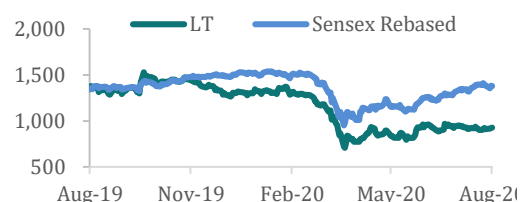
Company Data

Market Cap (cr)	Rs. 129,389
Enterprise Value (cr)	Rs. 276,565
Outstanding Shares (cr)	140.3
Free Float	87.0%
Dividend Yield	2.0%
52 week high	Rs. 1,554
52 week low	Rs. 661
6m average volume	310,176
Beta	1.0
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	0.0	0.0	0.0
FII's	18.8	16.9	18.8
MFs/Insti	37.7	38.4	36.6
Public	33.2	34.6	35.3
Others	10.4	10.1	9.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.1%	-30.0%	-33.2%
Absolute Sensex	20.0%	-7.9%	2.8%
Relative Return*	-9.9%	-22.1%	-36.0%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	145,452	146,513	166,025
Growth (%)	7.6	0.7	13.3
EBITDA	16,329	16,313	19,422
EBITDA Margin (%)	11.2	11.1	11.7
Adj. PAT	9,549	8,108	10,263
Growth (%)	10.9	(15.1)	26.6
Adj. EPS	68.0	57.7	73.0
Growth (%)	10.8	(15.1)	26.6
P/E	11.9	16.0	12.6
P/B	1.7	1.8	1.6
EV/EBITDA	15.4	17.0	13.8
ROE (%)	14.3	11.5	12.9
D/E	1.9	1.8	1.6

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	21,260	29,636	(28.3)	44,245	(51.9)
EBITDA	1,620	3,068	(47.2)	5,121	(68.4)
EBITDA margins	7.6	10.4	(280bps)	11.6	(400bps)
Depreciation	672	461	45.7	711	(5.4)
EBIT	948	2,607	(63.6)	4,410	(78.5)
Interest	1,056	587	80.0	821	28.6
Other Income	777	635	22.4	660	17.7
Exceptional Items	225	-	n.m.	-	n.m.
PBT	894	2,655	(66.3)	4,250	(79.0)
Tax	256	795	(67.7)	966	(73.5)
Share of profit from Associate	(101)	(163)	37.9	147	n.m.
Minority Interest	241	337	(28.6)	365	(34.1)
Reported PAT	303	1,473	(79.4)	3,197	(90.5)
Adjustments	(225)	-	n.m.	-	n.m.
Adj. PAT	78	1,473	(94.7)	3,197	(97.5)
No. of shares	140.3	140.5	(0.1)	140.5	(0.1)
Adj. EPS (Rs.)	0.6	10.5	(94.7)	22.8	(97.5)

Gross Segment Revenue

Particulars	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Infrastructure	6,456	13,767	(53.1)	25,319	(74.5)
Power	380	563	(32.5)	565	(32.8)
Heavy Engineering	425	992	(57.1)	702	(39.4)
Electrical & Automation	755	1,424	(47.0)	1,239	(39.1)
Hydrocarbon	3,070	3,769	(18.5)	4,979	(38.3)
IT & Technology Services	6,043	3,844	57.2	6,461	(6.5)
Financial Services	3,284	3,462	(5.1)	3,366	(2.4)
Developmental Projects	554	1,178	(53.0)	981	(43.5)
Defence Engineering	476	939	(49.3)	799	(40.4)
Others	768	1,494	(48.6)	1,577	(51.3)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	140,920	165,150	146,513	166,025	4	0.5
EBITDA	15,375	19,264	16,313	19,422	6.1	0.8
Margins (%)	10.9	11.7	11.1	11.7	20bps	0bps
Adj. PAT	7,803	10,436	8,108	10,263	3.9	(1.7)
Adj. EPS	55.5	74.3	57.7	73.0	3.9	(1.7)

Sum-of-the-Parts (SOTP) valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr.)	Value/share (Rs.)
Core E&C	FY22E P/E	16.5x	100%	132,063	941
Financial Services	Geojit TP	1.0x	64%	8,923	64
Developmental Projects	FY22E P/BV	0.3x	97%	6,341	45
Hydrocarbon	FY22E P/BV	2.5x	100%	14,814	106
L&T Infotech	FY22E P/E	13.0x	75%	16,858	120
L&T Technology services	FY22E P/E	13.5x	75%	8,207	58
Others	FY22E P/BV	0.6x	100%	3,302	24
Conglomerate discount		15%		(28,576)	(204)
Total				161,932	1,154

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	119,862	135,220	145,452	146,513	166,025
% change	9.0	12.8	7.6	0.7	13.3
EBITDA	13,571	15,330	16,329	16,313	19,422
% change	22.5	13.0	6.5	(0.1)	19.1
Depreciation	1,929	1,923	2,462	2,819	3,024
EBIT	11,643	13,407	13,867	13,494	16,398
Interest	1,539	1,803	2,797	4,127	4,362
Other Income	1,535	2,131	2,361	2,940	3,122
PBT	11,639	13,735	13,431	12,307	15,158
% change	31.0	18.0	(2.2)	(8.4)	23.2
Tax	3,199	4,067	3,263	2,801	3,449
Tax Rate (%)	27.5	29.6	24.3	22.8	22.8
Reported PAT	7,370	8,905	9,549	8,333	10,263
Adj*	(123)	(295)	-	(225)	-
Adj PAT	7,247	8,610	9,549	8,108	10,263
% change	22.4	18.8	10.9	(15.1)	26.6
No. of shares (cr)	140.4	140.5	140.5	140.5	140.5
Adj EPS (Rs.)	51.6	61.3	68.0	57.7	73.0
% change	(18.4)	18.8	10.8	(15.1)	26.6
DPS (Rs.)	16.0	18.0	18.0	18.0	22.0
CEPS (Rs.)	65.3	75.0	85.5	77.8	94.6

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	9,299	10,828	12,011	11,152	13,287
Non-cash adj.	546	363	2,467	4,830	5,101
Changes in W.C	(19,876)	(15,947)	(7,784)	(11,550)	4,828
C.F. Operation	(10,031)	(4,756)	6,694	4,431	23,217
Capital exp.	(2,015)	(3,499)	(3,299)	(2,930)	(2,988)
Change in inv.	2,679	(4,474)	(7,251)	-	-
Other invest.CF	3,250	(3,050)	2,294	(2,235)	(2,272)
C.F - Investment	3,915	(11,023)	(8,256)	(5,165)	(5,260)
Issue of equity	50	11	18	-	-
Issue/repay debt	12,619	18,174	14,126	6,957	(5,932)
Dividends paid	(1,961)	(2,647)	(4,551)	(2,526)	(3,088)
Other finance.CF	(1,337)	(98)	(3,221)	(4,127)	(4,362)
C.F - Finance	9,370	15,440	6,372	304	(13,381)
Chg. in cash	3,254	(338)	4,809	(430)	4,575
Closing cash	8,033	11,726	15,118	14,688	19,263

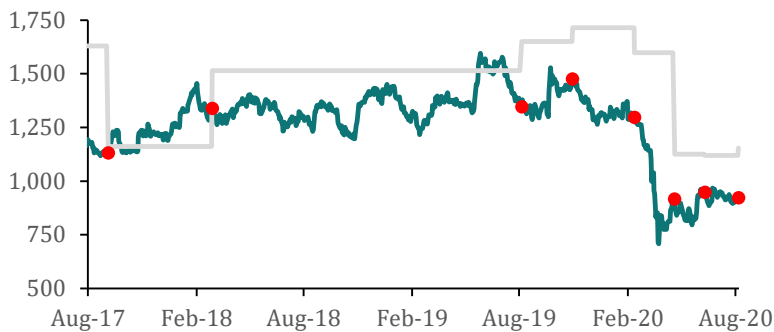
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	8,033	11,726	15,118	14,688	19,263
Accounts Receivable	34,654	36,846	40,732	41,321	47,157
Inventories	4,848	6,414	5,747	5,294	7,757
Other Cur. Assets	88,704	111,805	121,094	122,267	123,464
Investments	10,193	11,215	11,062	11,025	10,989
Gross Fixed Assets	15,032	16,614	19,913	22,843	25,832
Net Fixed Assets	10,642	10,890	10,104	12,604	12,719
CWIP	2,143	2,484	3,225	3,289	3,355
Intangible Assets	14,893	17,486	29,921	27,697	27,700
Def. Tax (Net)	2,132	3,419	3,847	3,654	3,472
Other Assets	68,812	66,063	67,291	69,526	71,798
Total Assets	245,053	278,347	308,140	311,367	327,673
Current Liabilities	74,664	82,368	85,628	74,845	88,386
Provisions	524	557	709	744	781
Debt Funds	107,878	125,910	144,075	150,996	145,027
Other Liabilities	706	312	1,484	1,557	1,633
Equity Capital	280	281	281	281	281
Reserves & Surplus	55,377	62,094	66,442	72,249	79,424
Shareholder's Fund	55,657	62,375	66,723	72,530	79,705
Minority Interest	5,625	6,826	9,521	10,695	12,141
Total Liabilities	245,053	278,347	308,140	311,367	327,673
BVPS (Rs.)	396	444	475	516	567

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	11.3	11.3	11.2	11.1	11.7
EBIT margin (%)	9.7	9.9	9.5	9.2	9.9
Net profit mgn.(%)	6.1	6.6	6.6	5.7	6.2
ROE (%)	13.2	14.3	14.3	11.5	12.9
ROCE (%)	6.9	6.9	6.3	5.8	6.9
W.C & Liquidity					
Receivables (days)	105.5	99.5	102.2	102.9	103.7
Inventory (days)	42.0	47.8	42.3	51.8	52.6
Payables (days)	327.5	320.5	321.6	327.0	323.4
Current ratio (x)	1.2	1.2	1.3	1.4	1.3
Quick ratio (x)	0.5	0.5	0.5	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	8.2	8.5	8.0	6.9	6.8
Total asset T.O (x)	0.5	0.5	0.5	0.5	0.5
Int. coverage ratio (x)	7.6	7.4	5.0	3.3	3.8
Adj. debt/equity (x)	1.8	1.8	1.9	1.8	1.6
Valuation					
EV/Sales (x)	2.4	2.3	1.7	1.9	1.6
EV/EBITDA (x)	21.3	20.6	15.4	17.0	13.8
P/E (x)	25.4	22.6	11.9	16.0	12.6
P/BV (x)	3.3	3.1	1.7	1.8	1.6

Recommendation Summary



Dates	Rating	Target
4-Sep-17	Hold	1,161
27-Feb-18	Buy	1,515
5-Aug-19	Buy	1,650
30-Oct-19	Buy	1,714
12-Feb-20	Buy	1,599
20-Apr-20	Buy	1,125
10-Jun-20	Buy	1,120
7-Aug-20	Buy	1,154

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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