

# Larsen & Toubro

## Bottoming out; order pick-up awaited

L&T reported 5%/37% beat on our revenue/APAT estimates, supported by resilient performance in services business. Labor availability has recovered to near-normal level for monsoon season. Despite 39% YoY decline in order wins in 1QFY21, order book (OB) of Rs 3.05tn provides visibility for more than two years of revenue at FY20 level. We maintain BUY on Larsen & Toubro Ltd (LT) as it is well-placed to ride out the pandemic, given its (1) strong order book, (2) healthy balance sheet and (3) robust services business. Key risks: (1) delays in government infrastructure spending, (2) delayed pick-up in private sector spend and (3) stressed payment cycles for government projects. We cut our FY21/FY22 estimate by 7.6/2.5% to account for increase in finance cost. We raise TP to Rs 1,260 (1,235 earlier), increase primarily driven by services valuation.

- **Topline supported by services business:** LT reported revenue of Rs 213bn beating our estimate by 5%. While revenue from core EPC business fell by 47% YoY, services business remained robust with IT & ITES registering growth of 58% YoY and finance clocking de-growth of 5% YoY. Depreciation and finance cost rose sharply by 46% and 80% YoY respectively. APAT came in Rs 1.3 bn beating our estimate by 37%.
- **Ex-services orders decline by 55%; order backlog at Rs 3.05tn:** LT reported order inflow of Rs 236bn, decline of 39% YoY. Ex-services order inflow fell more sharply, by 55% YoY, taking OB to Rs 3.05tn. Management sees ordering prospect of Rs 6.32tn with domestic market contributing Rs 5.1tn, mainly from water, power T&D and affordable housing segment. Crude prices will drive international ordering. We expect order inflow of Rs 1.5tn in FY21 and Rs 1.6tn in FY22.
- **Near-normal level of labor, strong OB to could lead execution recovery:** Labor availability has improved from the low of 70k during the lockdown to 1.9L in mid-July, which is adequate for monsoon season, as per management commentary. L&T is expecting labor situation to normalize in 2-3 quarters. Although there are challenges in ramping up execution due to social distancing, we believe the near-normal level of labor, coupled with a diversified and robust OB of Rs 3.05tn, could lead to recovery in execution recovery. We expect L&T to report revenue of Rs 1.4/1.53tn in FY21/FY22.
- **Balance sheet stable:** Net working capital (NWC) as a percentage of sales rose sharply to 26.8% during the quarter from 23.9% in 1QFY20. However, absolute increase in NWC was marginal and was impacted by lower denominator. Management emphasized focus on liquidity and iterated that execution will largely be a function of cash collection to keep working capital in check. Although gross debt rose to Rs 1.55tn from Rs 1.41tn at the end of FY20, net debt remained stable as the company increased liquidity for repayment and uncertain times ahead.

### Financial summary

(Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Revenues	2,12,600	2,96,360	(28.3)	4,42,453	(51.9)	13,52,203	14,54,524	13,92,126	15,35,782
EBITDA	16,205	33,188	(51.2)	51,210	(68.4)	1,53,296	1,63,290	1,32,274	1,76,688
APAT	1,279	14,539	(91.2)	30,647	(95.8)	80,410	88,945	63,821	99,379
Diluted EPS (Rs)	0.9	10.4	(91.2)	21.8	(95.8)	57.3	63.4	45.5	70.8
P/E (x)						16.0	14.5	20.1	12.9
EV / EBITDA (x)						14.9	14.9	17.8	13.0
RoE (%)						15.1	14.6	9.1	13.0

Source: Company, HSIE Research

BUY

CMP (as on 23 Jul 2020) Rs 916

Target Price Rs 1,260

NIFTY 11,215

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,235	Rs 1260
	FY21E	FY22E
EPS %	-7.6	-2.5

### KEY STOCK DATA

Bloomberg code	LT IN
No. of Shares (mn)	1,404
MCap (Rs bn) / (\$ mn)	1,287/17,196
6m avg traded value (Rs mn)	5,452
52 Week high / low	Rs 1,554/661

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.0	(31.2)	(35.0)
Relative (%)	(10.7)	(23.4)	(35.4)

### SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	0.0	0.0
FIs & Local MFs	38.2	36.56
FPIs	16.9	18.77
Public & Others	44.9	44.67
Pledged Shares	0.0	0.0

Source : BSE

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## Quarterly Financials Snapshot - Consolidated

**Revenue – Rs 213bn (-28/-52% YoY/QoQ, 5.0% beat);**

**EBITDA – Rs 16.2bn (-51/-68% YoY/QoQ, 12% miss);**

**EBITDA margins: 7.6% (-358/-395bps YoY/QoQ)**

**Finance cost: Rs 10.6bn (+80/+29% YoY/QoQ, vs estimate of Rs 10bn)**

**Other income: Rs 7.8bn (+102/+18% YoY/QoQ)**

**PBT ex-EO items: Rs 6.7bn (-75/-84% YoY/QoQ, vs. our est. of Rs 7.7bn)**

**RPAT: Rs 3bn (-79/-90% YoY/QoQ)**

**APAT incl. E&A: Rs 1.35bn (-91/-96% YoY/QoQ; 37% beat), adjusting for Rs 2.25bn exceptional gain on sale of wealth management business**

(Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY20	FY19	YoY%
Net Sales	2,12,600	2,96,360	(28.3)	4,42,453	(51.9)	14,54,524	13,52,203	7.6
Material Expenses	1,13,370	2,00,193	(43.4)	3,06,031	(63.0)	9,73,627	9,20,113	5.8
Employee Expenses	61,535	45,518	35.2	62,884	(2.1)	2,31,140	1,74,664	32.3
SG&A Expenses	21,490	17,461	23.1	22,328	(3.8)	86,467	1,04,130	(17.0)
<b>EBITDA</b>	<b>16,205</b>	<b>33,188</b>	<b>(51.2)</b>	<b>51,210</b>	<b>(68.4)</b>	<b>1,63,290</b>	<b>1,53,296</b>	<b>6.5</b>
Interest Cost	10,559	5,867	80.0	8,208	28.6	27,967	18,026	55.1
Depreciation	6,722	4,615	45.7	7,109	(5.4)	24,623	19,230	28.0
Other Income (Incl. EO)	10,021	2,909	244.5	6,605	51.7	22,674	21,313	6.4
<b>PBT</b>	<b>8,945</b>	<b>25,615</b>	<b>(65.1)</b>	<b>42,497</b>	<b>(79.0)</b>	<b>1,33,374</b>	<b>1,37,353</b>	<b>(2.9)</b>
Tax	2,564	7,948	(67.7)	9,663	(73.5)	32,632	40,671	(19.8)
Minority Interest	2,408	3,371	(28.6)	3,654	(34.1)	13,453	13,115	2.6
Associate Profits	(1,011)	(693)	46.0	1,467	(169.0)	720	(210)	(442.7)
PAT from discontinued operations	71	1,121	(93.7)	1,324	(94.7)	6,546	5,693	15.0
<b>Reported PAT</b>	<b>3,031</b>	<b>14,724</b>	<b>(79.4)</b>	<b>31,971</b>	<b>(90.5)</b>	<b>94,555</b>	<b>89,051</b>	<b>6.2</b>
E/o (adj for tax) *	1,752	185		1,324		5,610	8,641	(35.1)
<b>APAT</b>	<b>1,279</b>	<b>14,539</b>	<b>(91.2)</b>	<b>30,647</b>	<b>(95.8)</b>	<b>88,945</b>	<b>80,410</b>	<b>10.6</b>

Source: Company, HSIE Research

## Margin Analysis

	1QFY21	1QFY20	YoY (bps)	4QFY20	QoQ (bps)	FY20	FY19	YoY (bps)
Material Expenses as % of Net Sales	53.3	67.6	(1,422.5)	69.2	(1,584.1)	66.9	68.0	(110.8)
Employee Expenses as % of Net Sales	28.9	15.4	1,358.5	14.2	1,473.1	15.9	12.9	297.4
Other operating expenses as % of Net Sales	10.1	5.9	421.7	5.0	506.2	5.9	7.7	(175.6)
<b>EBITDA Margin (%)</b>	<b>7.6</b>	<b>11.2</b>	<b>(357.6)</b>	<b>11.6</b>	<b>(395.2)</b>	<b>11.2</b>	<b>11.3</b>	<b>(11.0)</b>
Tax Rate (%)	28.7	31.0	(235.8)	22.7	593.2	24.5	29.6	(514.4)
<b>Net Profit Margin (%)</b>	<b>0.6</b>	<b>4.9</b>	<b>(430.4)</b>	<b>6.9</b>	<b>(632.5)</b>	<b>6.1</b>	<b>5.9</b>	<b>16.8</b>

Source: Company, HSIE Research

## Consolidated Segmental Revenue

Revenue from core EPC business fell by 47% YoY

Services business remained resilient with IT & ITES registering growth of 57% and finance clocking de-growth of 5% YoY

Power segment reported negative margin as many of the large order won last year are yet to reach profit booking level

Developmental projects, mainly Nabha Power and Hyderabad Metro business also registered negative margin

While Nabha Power suffered from weak power demand, Hyderabad metro remained in lockdown during the whole quarter

Nabha Power, however, was able to book full capacity charges on higher than normative PAF

	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY20	FY19	YoY%
<b>Segmental Revenues</b>								
-Infrastructure	64,561	1,40,376	(54.0)	2,55,597	(74.7)	7,37,773	7,32,038	0.8
-Power	3,800	5,632	(32.5)	5,653	(32.8)	23,185	39,831	(41.8)
-Heavy engineering	4,251	9,915	(57.1)	7,016	(39.4)	32,050	25,137	27.5
-Defence	4,765	9,692	(50.8)	9,281	(48.7)	39,792	38,492	3.4
-Hydrocarbon	30,701	37,687	(18.5)	49,792	(38.3)	1,74,455	1,51,762	15.0
<b>Engineering &amp; Construction</b>	<b>1,08,078</b>	<b>2,03,303</b>	<b>(46.8)</b>	<b>3,27,339</b>	<b>(67.0)</b>	<b>10,07,254</b>	<b>9,87,260</b>	<b>2.0</b>
-Electrical and automation	7,549	14,237	(47.0)	12,391	(39.1)	55,670	60,936	(8.6)
-IT and TS	60,434	38,444	57.2	64,613	(6.5)	2,23,352	1,45,531	53.5
-Financial Services	32,842	34,621	(5.1)	33,657	(2.4)	1,38,224	1,26,377	9.4
-Developmental projects	5,543	11,784	(53.0)	9,815	(43.5)	48,503	50,680	(4.3)
-Others	7,684	11,938	(35.6)	12,066	(36.3)	53,087	59,350	(10.6)
-Intersegment revenue	(1,980)	(3,729)	(46.9)	(5,037)	(60.7)	(15,897)	(16,995)	(6.5)
-Discontinued Operations	(7,549)	(14,237)	(47.0)	(12,391)	(39.1)	(55,670)	(60,936)	
<b>Total</b>	<b>2,12,600</b>	<b>2,96,359</b>	<b>(28.3)</b>	<b>4,42,453</b>	<b>(51.9)</b>	<b>14,54,524</b>	<b>13,52,203</b>	<b>7.6</b>
<b>EBIT</b>								
-Infrastructure	2,448	7,046	(65.3)	26,266	(90.7)	52,073	53,888	(3.4)
-Power	(50)	86	(158.2)	2,032	(102.5)	2,361	1,299	81.8
-Heavy engineering	543	1,599	(66.0)	1,057	(48.6)	5,660	4,870	16.2
-Defence	250	1,242	(79.9)	1,236	(79.8)	5,758	4,722	21.9
-Hydrocarbon	1,179	2,468	(52.2)	5,023	(76.5)	17,462	11,781	48.2
<b>Engineering &amp; Construction</b>	<b>4,369</b>	<b>12,440</b>	<b>(64.9)</b>	<b>35,613</b>	<b>(87.7)</b>	<b>83,315</b>	<b>76,560</b>	<b>8.8</b>
-Electrical and automation	178	1,732	(89.7)	1,877	(90.5)	8,881	8,501	4.5
-IT and TS	9,670	7,842	23.3	10,230	(5.5)	36,932	30,842	19.7
-Financial Services	995	7,463	(86.7)	4,467	(77.7)	26,787	30,526	(12.3)
-Developmental projects	(386)	937	(141.1)	(96)	302.4	3,873	3,144	23.2
-Others	229	2,550	(91.0)	1,505	(84.8)	9,694	7,762	24.9
-Discontinued Operations	(178)	(1,732)	(89.7)	(1,877)	(90.5)	(8,881)	(8,501)	4.5
<b>Total</b>	<b>14,877</b>	<b>31,232</b>	<b>(52.4)</b>	<b>51,720</b>	<b>(71.2)</b>	<b>1,60,601</b>	<b>1,48,834</b>	<b>7.9</b>

Source: Company, HSIE Research

## Segmental Margin (EBITDA): Consolidated Trend

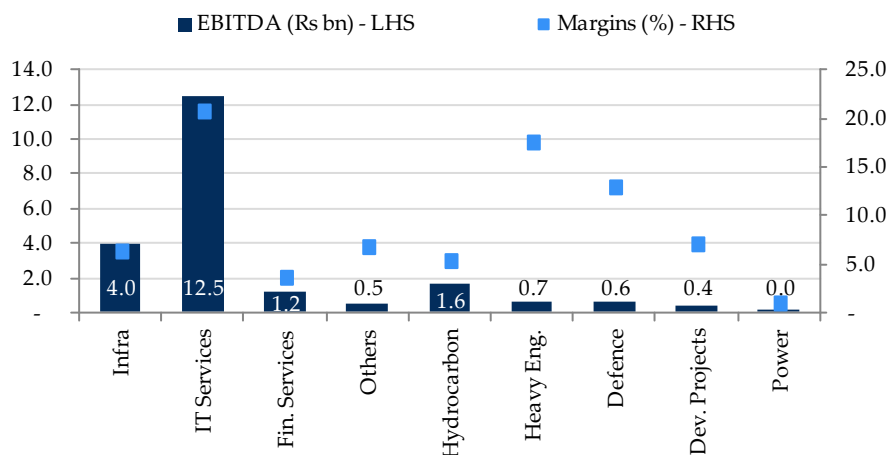
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Infra	6.8	6.8	5.4	12.3	6.4	7.1	6.1	11.1	6.3
Power	4.1	6.0	2.9	4.7	3.3	4.2	3.4	37.6	1.0
Heavy Engineering	36.1	24.2	20.5	22.8	19.5	24.9	23.5	23.5	17.5
Defence	11.1	25.0	9.0	18.6	16.5	17.9	20.5	17.5	12.9
Hydrocarbons	7.0	9.9	8.2	9.8	7.6	12.5	12.1	11.0	5.3
Electrical Automation	13.3	17.8	17.4	20.6	16.9	-	-	-	-
Others	26.5	23.1	47.2	13.9	24.1	21.8	21.9	21.9	6.7
IT & services	24.8	24.1	22.2	21.9	23.2	19.5	21.0	21.0	20.7
Financial Services	24.2	22.7	24.2	23.3	22.0	22.5	21.3	13.8	3.6
Development projects	30.4	4.3	4.2	(3.6)	10.0	10.2	17.3	6.1	7.0

Source: Company, HSIE Research

EBITDA margin of infra segment remained resilient, falling 50bps YoY, on favourable commodity price and cost control measures

Power segment reported EBITDA margin of 1% as large orders won in last year yet to reach profit booking level

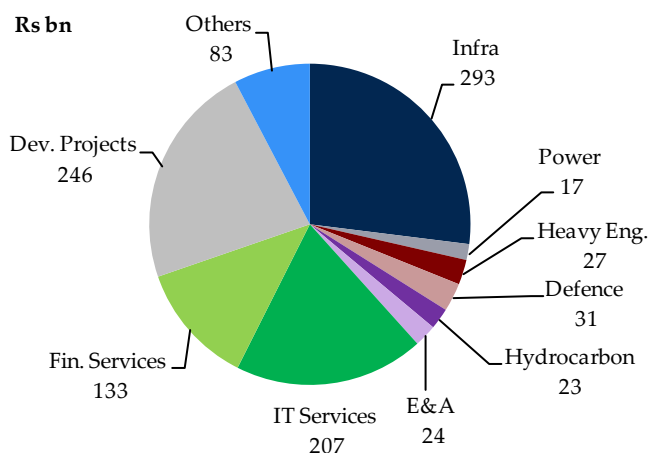
**1QFY21 Segmental EBITDA breakup**



Source: Company, HSIE Research

**1QFY21 Segmental Net Assets Employed**

Net capital employed stood at Rs 772bn at the end of 1QFY21

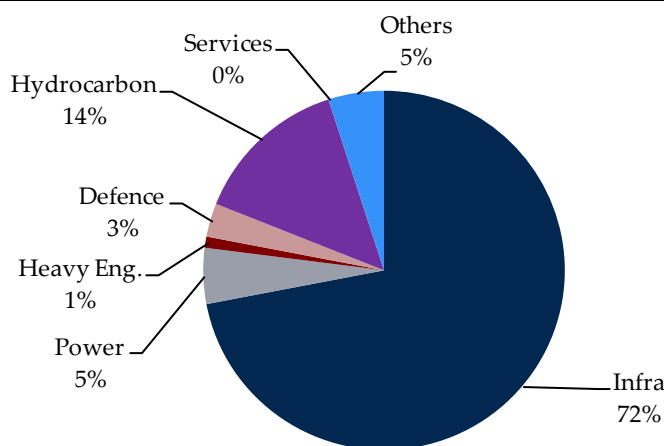


Source: Company, HSIE Research

**Order Book Break-up (1QFY21-Rs 3,051bn)**

Share of infra in order book decreased by 2.4% YoY on muted order wins for the segment in 1QFY21

International orders constitute 24% of the order book



Source : Company, HSIE Research

Order inflow for the quarter stood at Rs 236bn, a decline of 39% YoY;

Increase of services share in order inflow was largely due to muted order wins in other business segments

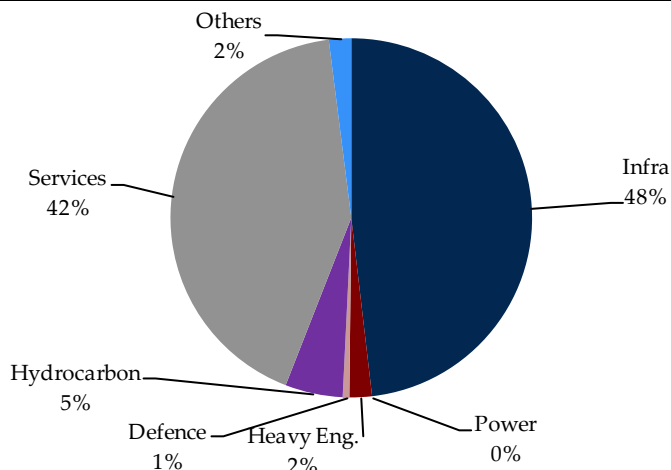
Of the total order wins in the quarter, 38% of orders came from international clients

Infrastructure segment registered 35% YoY decline in order inflow

Order wins were largely in power T&D, water supply & distribution

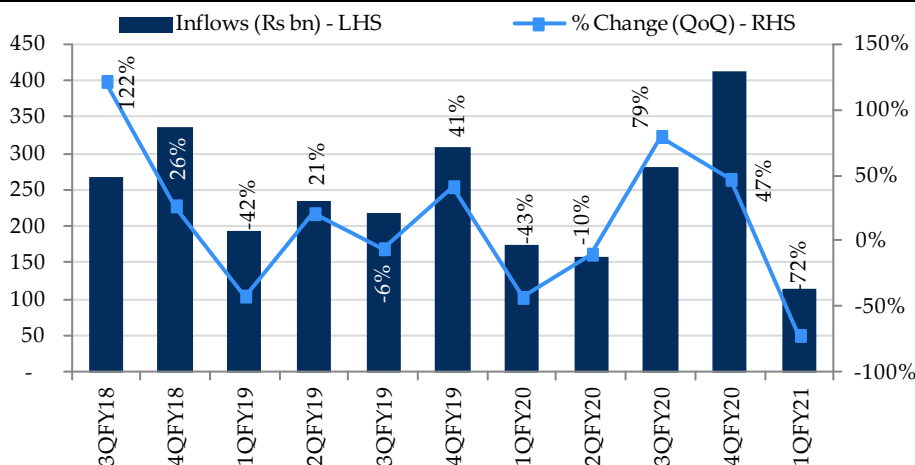
Order inflow ex-services and ex-infra fell sharply (-82%/81% YoY/QoQ)

### Order Inflow Breakup (1QFY21-Rs 236bn)



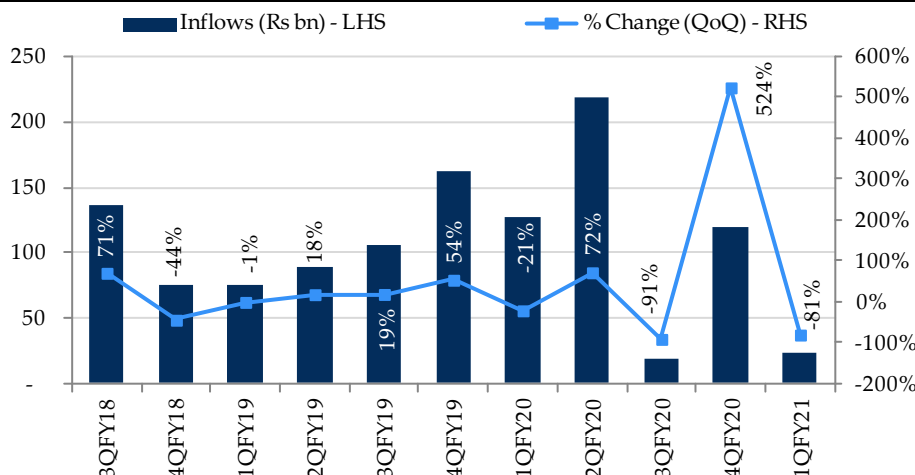
Source : Company, HSIE Research

### Infra Segment Order Inflow Trend



Source : Company, HSIE Research

### Ex-Services (Ex-Infra)- Order Inflow Trend



Source : Company, HSIE Research

While L&T reported order wins of Rs 113bn for infra segment in the quarter, it did not report any major award in power segment

Hydrocarbon business is likely to see tepid ordering given lower crude prices

Reported order book of Rs 3.05tn is well diversified and is net of slow moving orders which give revenue visibility for more than two years at FY20 revenue

We cut our FY21/FY22 estimate by 7.6%/2.5%, account for higher depreciation and interest costs

We re-iterate our BUY on L&T with increased TP of Rs 1,260 (earlier Rs 1,235).

Increase largely driven by increase in valuation of IT services business

### Segmental Order inflow Trend

Order Inflows (Rs bn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Infrastructure	194	234	219	309	175	157	281	412	113
Power	1	25	1	4	67	43	8	12	-
Heavy Engineering*	14	13	5	8	2	7	5	5	5
Defence	1	12	5	12	4	6	2	7	1
Subtotal	16	25	10	20	6	13	7	12	6
Hydrocarbons	48	27	78	127	34	149	-	22	12
Others	11	12	17	12	20	15	4	73	5
<b>Ex Services Inflows</b>	<b>269</b>	<b>323</b>	<b>325</b>	<b>471</b>	<b>302</b>	<b>375</b>	<b>300</b>	<b>532</b>	<b>137</b>
Services	79	81	81	79	85	107	116	47	99
<b>Total Inflow</b>	<b>348</b>	<b>403</b>	<b>406</b>	<b>551</b>	<b>387</b>	<b>482</b>	<b>416</b>	<b>579</b>	<b>236</b>

Source: Company, HSIE Research

### Segmental Order Book Trend

Rs bn	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Infrastructure	2,106	2,182	2,192	2,218	2,187	2,153	2,236	2,249	2,197
Power	82	93	82	70	129	152	184	152	153
Heavy Engineering*	41	51	48	47	41	30	31	30	31
Defense	117	121	114	114	112	121	92	91	92
Subtotal	158	172	162	161	153	152	123	122	122
Hydrocarbons	283	278	318	399	403	515	459	456	427
Others	60	56	57	59	68	61	61	61	153
<b>Total Order Book</b>	<b>2,717</b>	<b>2,812</b>	<b>2,840</b>	<b>2,934</b>	<b>2,940</b>	<b>3,032</b>	<b>3,063</b>	<b>3,039</b>	<b>3,051</b>

Source: Company, HSIE Research

### Change in Estimates

Rs mn	FY21E New	FY21E Old	(% Change)	FY22E New	FY22E Old	(% Change)
Net Revenues	13,92,126	13,92,126	-	15,35,782	15,35,782	-
EBITDA	1,32,274	1,32,274	-	1,76,688	1,76,688	-
Margins (%)	9.5	9.5		11.5	11.5	
APAT	63,821	69,107	(7.6)	99,379	1,01,972	(2.5)

Source: Company, HSIE Research

### Valuation Summary

Business	Valuation methodology	Rs bn	Rs/sh
L&T E&C business	21x Mar-21 E&C Earnings	1,232	879
L&T Infotech	HSIE Target Valuation with 25% holdco disc	230	164
L&T Tech services	HSIE Target Valuation with 25% holdco disc	73	52
Mindtree	HSIE Target Valuation with 25% holdco disc	100	71
L&T Finance	Mcap with 25% holdco disc	30	21
Other Subsidiaries, Associates and Developmental Portfolio	0.7x P/BV of Invested Equity	103	73
<b>Target price</b>		<b>1,767</b>	<b>1,260</b>

Source: HSIE Research



## Financials

### Consolidated Income Statement

Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues (including E&A)	10,93,118	11,96,831	13,52,203	14,54,524	13,92,126	15,35,782
<i>Growth (%)</i>	8.1	9.5	13.0	7.6	(4.3)	10.3
Material Expenses	7,19,780	7,71,067	9,56,330	9,73,627	9,29,540	9,96,735
Employee Expenses	1,38,531	1,52,925	1,74,664	2,31,140	2,47,694	2,73,494
Other Operating Expenses	1,24,061	1,37,127	67,912	86,467	82,617	88,864
<b>EBIDTA</b>	<b>1,10,747</b>	<b>1,35,713</b>	<b>1,53,296</b>	<b>1,63,290</b>	<b>1,32,274</b>	<b>1,76,688</b>
<i>EBIDTA (%)</i>	<i>10.1</i>	<i>11.3</i>	<i>11.3</i>	<i>11.2</i>	<i>9.5</i>	<i>11.5</i>
<i>EBIDTA Growth (%)</i>	<i>5.8</i>	<i>22.5</i>	<i>13.0</i>	<i>6.5</i>	<i>(19.0)</i>	<i>33.6</i>
Depreciation	23,699	19,287	19,230	24,623	26,691	27,481
<b>EBIT</b>	<b>87,048</b>	<b>1,16,426</b>	<b>1,34,066</b>	<b>1,38,667</b>	<b>1,05,583</b>	<b>1,49,208</b>
Other Income (Incl. EO Items)	15,224	15,350	18,365	23,609	28,233	27,470
Interest	13,398	15,385	18,026	27,967	35,829	28,411
<b>PBT</b>	<b>88,874</b>	<b>1,16,391</b>	<b>1,34,406</b>	<b>1,34,310</b>	<b>97,987</b>	<b>1,48,267</b>
Tax	20,066	31,989	40,671	32,632	24,663	37,319
Minority Interest	4,443	6,346	13,115	13,453	9,899	11,650
Share of Associate profits	(3,952)	(4,359)	(210)	720	396	80
<b>APAT</b>	<b>60,413</b>	<b>73,698</b>	<b>80,410</b>	<b>88,945</b>	<b>63,821</b>	<b>99,379</b>
EO items (net of tax)	(1,214)	(1,230)	8,641	5,610		
<b>RPAT</b>	<b>59,198</b>	<b>72,468</b>	<b>89,051</b>	<b>94,555</b>	<b>63,821</b>	<b>99,379</b>

Source: Company, HSIE Research

### Consolidated Balance Sheet

As at March	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>SOURCES OF FUNDS</b>						
Share Capital	1,866	2,803	2,806	2,808	2,806	2,806
Reserves	5,00,299	5,53,767	6,20,943	6,64,424	7,30,482	7,93,950
<b>Total Shareholders Funds</b>	<b>5,02,165</b>	<b>5,56,570</b>	<b>6,23,748</b>	<b>6,67,232</b>	<b>7,33,287</b>	<b>7,96,755</b>
Minority Interest	35,636	56,250	68,261	95,208	91,456	1,03,105
Long Term Debt	7,74,195	8,81,922	9,63,313	10,77,277	10,63,313	10,53,313
Short Term Debt	1,65,345	1,93,319	2,92,238	3,54,460	3,67,238	3,57,238
<b>Total Debt</b>	<b>9,39,540</b>	<b>10,75,241</b>	<b>12,55,552</b>	<b>14,31,737</b>	<b>14,30,552</b>	<b>14,10,552</b>
Other Non Current Liabilities	9,248	9,455	9,122	16,409	9,122	9,122
Deferred Taxes	6,110	6,379	3,111	14,530	3,111	3,111
<b>TOTAL SOURCES OF FUNDS</b>	<b>14,92,699</b>	<b>17,03,895</b>	<b>19,59,794</b>	<b>22,25,117</b>	<b>22,67,528</b>	<b>23,22,646</b>
<b>APPLICATION OF FUNDS</b>						
Net Block	1,16,652	1,26,726	1,51,125	1,23,303	1,42,214	1,38,235
CWIP	1,32,979	1,34,434	1,39,195	33,111	58,947	59,947
Goodwill	13,987	15,618	18,269	80,114	80,114	80,114
Investments	90,661	1,01,929	1,12,155	1,10,625	1,16,584	1,17,750
Other Non Current Assets	7,39,512	9,04,470	10,29,448	12,57,993	11,45,470	11,67,694
<b>Total Non-current Assets</b>	<b>10,93,790</b>	<b>12,83,177</b>	<b>14,50,192</b>	<b>16,05,145</b>	<b>15,43,328</b>	<b>15,63,740</b>
Inventories	41,397	48,478	64,139	57,467	58,574	60,077
Debtors	2,86,890	3,46,541	3,68,459	4,07,315	3,95,858	4,16,277
Cash & bank balances	1,96,062	1,74,968	2,56,724	2,78,175	3,62,576	4,02,096
ST Loans & Advances	19,738	23,536	31,779	36,439	32,620	39,145
Other Assets	4,68,983	5,59,215	6,12,180	6,96,860	6,62,030	6,68,651
<b>Total Current Assets</b>	<b>10,13,070</b>	<b>11,52,737</b>	<b>13,33,282</b>	<b>14,76,256</b>	<b>15,11,659</b>	<b>15,86,246</b>
Creditors	2,51,058	3,15,714	4,29,948	4,36,439	3,94,736	4,36,925
Other Current Liabilities & Provsns	3,63,103	4,16,305	3,93,731	4,19,845	4,02,461	4,00,153
<b>Total Current Liabilities</b>	<b>6,14,162</b>	<b>7,32,019</b>	<b>8,23,679</b>	<b>8,56,285</b>	<b>7,97,197</b>	<b>8,37,078</b>
<b>Net Current Assets</b>	<b>3,98,908</b>	<b>4,20,718</b>	<b>5,09,602</b>	<b>6,19,972</b>	<b>7,14,461</b>	<b>7,49,168</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>14,92,699</b>	<b>17,03,895</b>	<b>19,59,794</b>	<b>22,25,117</b>	<b>22,67,528</b>	<b>23,22,646</b>

Source: Company, HSIE Research

### Consolidated Cash Flow

Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	87,659	1,15,162	1,42,862	1,43,142	98,383	1,48,347
Non-operating & EO items	(7,971)	(10,696)	(19,383)	(10,414)	(28,233)	(27,470)
Interest expenses	9,161	8,729	18,026	27,967	35,829	28,411
Depreciation	23,699	19,287	19,230	24,623	26,691	27,481
Working Capital Change	(13,980)	(1,98,757)	(1,59,465)	(77,914)	(70,298)	(17,411)
Tax paid	(32,017)	(34,034)	(48,828)	(40,465)	(24,663)	(37,319)
<b>OPERATING CASH FLOW ( a )</b>	<b>66,553</b>	<b>(1,00,310)</b>	<b>(47,558)</b>	<b>66,939</b>	<b>37,709</b>	<b>1,22,039</b>
Capex	(28,208)	(20,150)	(34,994)	(32,994)	(21,502)	(24,502)
<b>Free cash flow (FCF)</b>	<b>38,345</b>	<b>(1,20,461)</b>	<b>(82,552)</b>	<b>33,944</b>	<b>16,207</b>	<b>97,537</b>
Investments	(1,06,978)	19,025	(86,066)	(61,481)	(1,154)	(1,166)
Non operating income	37,226	40,270	10,832	11,912	28,233	27,470
<b>INVESTING CASH FLOW ( b )</b>	<b>(97,959)</b>	<b>39,145</b>	<b>(1,10,228)</b>	<b>(82,563)</b>	<b>5,577</b>	<b>1,802</b>
Share capital Issuance	533	495	113	176	-	-
Debt Issuance	48,804	1,26,190	1,81,743	1,41,259	1,05,000	(20,000)
Dividend Payment	(20,931)	(23,898)	(26,471)	(45,513)	(28,055)	(35,910)
Interest expenses	(21,740)	(24,707)	(29,832)	(27,397)	(35,829)	(28,411)
Others	22,293	15,624	28,849	(4,809)	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>28,959</b>	<b>93,705</b>	<b>1,54,402</b>	<b>63,716</b>	<b>41,116</b>	<b>(84,321)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(2,448)</b>	<b>32,539</b>	<b>(3,385)</b>	<b>48,091</b>	<b>84,401</b>	<b>39,520</b>
Opening Cash & Equivalents	1,28,841	1,96,062	1,74,968	2,56,724	2,78,175	3,62,576
Adj - EO Items	1,608	(5,274)	40,322	2,066	-	-
Adj - Treasury Investments	68,060	(48,360)	44,819	(28,707)	-	-
Closing Cash & Equivalents	1,96,062	1,74,968	2,56,724	2,78,175	3,62,576	4,02,096

Source: Company, HSIE Research

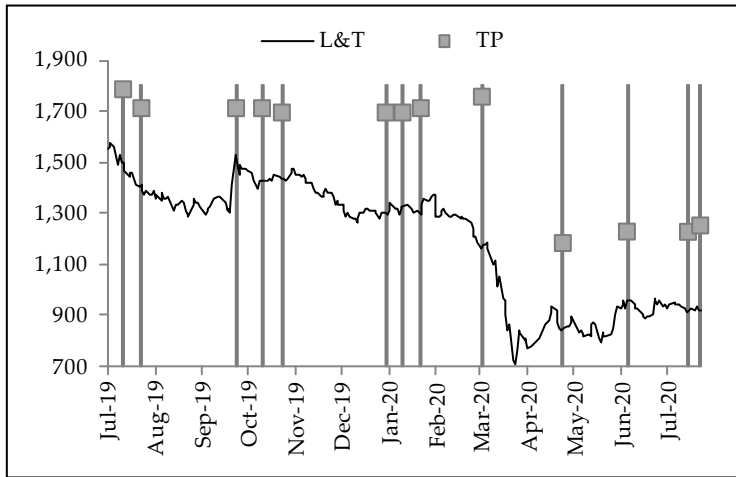
### Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>PROFITABILITY (%)</b>						
GPM	34.2	35.6	29.3	33.1	33.2	35.1
EBITDA Margin	10.1	11.3	11.3	11.2	9.5	11.5
EBIT Margin	8.0	9.7	9.9	9.5	7.6	9.7
APAT Margin	5.4	6.1	6.6	6.5	4.6	6.5
RoE	12.5	13.7	15.1	14.6	9.1	13.0
Core RoCE	5.7	6.4	6.2	6.1	4.4	6.2
RoCE	4.9	5.3	5.6	5.6	4.1	5.3
<b>EFFICIENCY</b>						
Tax Rate (%)	22.6	27.5	30.3	24.3	25.2	25.2
Asset Turnover (x)	3.8	3.8	3.7	3.8	3.4	3.6
Inventory (days)	14	15	17	14	15	14
Debtors (days)	96	106	99	102	104	99
Other Current Assets (days)	163	178	174	184	182	168
Payables (days)	84	96	116	110	103	104
Other Current Liab (days)	121	127	106	105	106	95
Net Working Capital Cycle (Days)	68	75	68	86	92	82
Debt/EBITDA (x)	8.5	7.9	8.2	8.8	10.8	8.0
Net D/E	1.5	1.6	1.6	1.7	1.5	1.3
Interest Coverage	6.5	7.6	7.4	5.0	2.9	5.3
<b>PER SHARE DATA</b>						
EPS (Rs/sh)	42.2	51.7	57.3	63.4	45.5	70.8
CEPS (Rs/sh)	59.1	65.4	77.2	85.0	64.5	90.4
DPS (Rs/sh)	15	17	19	32	20	26
BV (Rs/sh)	358	397	445	476	523	568
<b>VALUATION</b>						
P/E	21.7	17.7	16.0	14.5	20.1	12.9
P/BV	2.6	2.3	2.1	1.9	1.8	1.6
EV/EBITDA	18.3	16.1	14.9	14.9	17.8	13.0
OCF/EV (%)	3.3	(4.6)	(2.1)	2.7	1.6	5.3
FCF/EV (%)	1.9	(5.5)	(3.6)	1.4	0.7	4.3
FCFE/Market Cap (%)	5.1	(1.5)	5.4	11.5	6.6	3.8
Dividend Yield (%)	1.6	1.9	2.1	3.5	2.2	2.8

Source: Company, HSIE Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
11-Jul-19	1,495	BUY	1,794
24-Jul-19	1,410	BUY	1,720
22-Sep-19	1,412	BUY	1,720
10-Oct-19	1,425	BUY	1,720
24-Oct-19	1,431	BUY	1,703
30-Dec-19	1,300	BUY	1,703
10-Jan-20	1,325	BUY	1,703
23-Jan-20	1,294	BUY	1,720
2-Mar-20	1,188	BUY	1,765
24-Apr-20	851	BUY	1,191
7-Jun-20	957	BUY	1,236
15-Jul-20	913	BUY	1,235
24-Jul-20	916	BUY	1,260

From 2<sup>nd</sup> March 2020, we have moved to new rating system

## Rating Criteria

- BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: >10% Downside return potential

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