

Larsen & Toubro

Performance Update (Standalone)

Quarterly Summary:

Y/E March (₹ cr)	Q3FY20	Q3Y19	% yoy	Q2FY20	% qoq
Revenue	19,885	21,102	(5.8)	18,752	6.0
EBITDA	1,470	1,949	(24.6)	1,553	(5.3)
OPM (%)	7.4	9.2	(180 bps)	8.3	(90 bps)
Adjusted PAT	1,344	1,635	(18)	1,984	(32)

Source: Company, Angel Research

Positively surprised with order inflow: Despite challenging times, at group level, L&T registered strong order inflow of ₹41,600 crore up 2% YoY. Out of these order, ₹23,700 crore order came from domestic market down 20% YoY and rest ₹17,900 crore order came from international market up 64% YoY. Overall order book stood at ₹3.06lakh cr., up 9% YoY. In Q3FY20, standalone revenue, EBITDA, and adjusted PAT reported de-growth by 5.8%, 24.6% and 18.0% YoY respectively. Operating margin also reduced by 180bps to 7.4%.

Guidance Intact: On consolidated basis, L&T maintained its guidance of 10-12% order inflow growth & 12-15% revenue growth despite weak execution during the quarter. During the first nine months order inflow has increased by 11% YoY. Domestic ordering pipeline is strong at ₹2.5 lakh cr. for Q4FY20. Electrical & Automation (E&A) has been shown under discontinued operations as sale of this business is expected to be completed by Q1FY21 for ₹14,000cr to Schneider, this gives hope of one time special dividend.

Concall highlights: Andhra Pradesh and Delhi (due to pollution concern) stalled project and Mumbai coastal road project is expected to contribute to revenue from upcoming quarter. Working capital as a percentage of sales deteriorated by 3.9% to 23.5% in Q3FY20 compared to 19.6% in Q3FY19, due to elongated credit period & vendor support on account of liquidity crunch in the market. QoQ working capital remained similar.

Outlook and Valuation: We are positive on the prospects of the Company given the Government's thrust on infrastructure with over ₹100lakh cr. of investments lined up over the next 6 years. We maintain "Buy" on L&T with a SOTP based target price of ₹1689.

Key Financials (Standalone):

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	74,463	86,988	87,222	96,554	107,272
% chg		16.8	0.3	10.7	11.1
Net Profit	5,387	6,678	8,053	8,159	9,323
% chg		24.0	20.6	1.3	14.3
EBITDA (%)	10.3	10.0	9.0	9.9	10.1
EPS (Rs)	38.5	47.6	57.4	58.2	66.5
P/E (on FDEPS)	35.1	28.3	23.5	23.3	20.4
P/BV (x)	3.9	3.6	3.3	3.0	2.8
RoE (%)	11.3	13.1	14.6	13.6	14.4
RoCE (%)	11.4	12.4	9.9	11.2	12.3
EV/EBITDA	23.4	20.7	23.0	18.4	15.9
EV/Sales	2.4	2.1	2.1	1.8	1.6

Source: Company - Valuation as on closing price as on 28/01/2020 (standalone basis)

BUY

CMP	₹1347
Target Price	₹1689
Investment Period	12 months

Stock Info

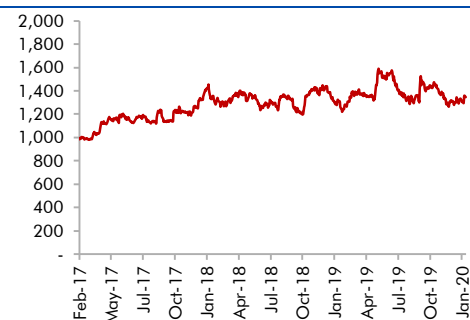
Sector	Infrastructure
Market Cap (₹ cr)	189,013
Net Debt (₹ cr)	16,245
Beta	1.3
52 Week High / Low	1607/1203
Avg. Daily Monthly Volume	3,113,950
Face Value (₹)	2
BSE Sensex	41,300
Nifty	12,157
Reuters Code	LART.NS
Bloomberg Code	LT.IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian FIs	37.2
FII / NRIs / OCBs	18.5
Indian Public / Others	44.3

Abs. (%)	3m	1yr	3yr
Sensex	2.8	16.0	48.0
L&T	(5.1)	4.7	42.1

Price Chart



Source: Company, Angel Research

Research Analyst

Jyoti Roy

+022 39357600, Extn: 6842

jyoti.roy@angelbroking.com

Keshav Lahoti

+022 39357600, Extn: 6363

keshav.lahoti@angelbroking.com

Q3FY20 Performance (Standalone):

Y/E March (₹ cr)	Q3FY20	Q3Y19	% yoy	Q2FY20	% qoq	FY2020E	FY2019	% chg
Net Sales	19885.3	21102.2	-5.8	18751.7	6.0	87221.5	86987.9	0.3
Cost of Materials Consumed	7795.4	9863.3	-21.0	7376.4	5.7	35505.6	36932.2	-3.9
(% of Sales)	39.2	46.7		39.3		96.1	42.5	
Purchases of Stock-in-Trade	245.1	231.8	5.8	196.2	24.9	1821.9	1786.1	2.0
(% of Sales)	1.2	1.1		1.0		4.9	2.1	
Changes in Inventories	-72.9	-659.3	-89.0	-70.5	3.3	-520.0	-1296.1	-59.9
(% of Sales)	-0.4	-3.1		-0.4		-1.4	-1.5	
Employee Benefits Expenses	1490.7	1377.8	8.2	1547.7	-3.7	6192.7	6082.5	1.8
(% of Sales)	7.5	6.5		8.3		16.8	7.0	
Other Expenses	8956.5	8339.7	7.4	8148.9	9.9	36371.4	34799.4	4.5
(% of Sales)	45.0	39.5		43.5		98.5	40.0	
Total Expenditure	18414.9	19153.2	-3.9	17198.6	7.1	79371.6	78304.1	1.4
Operating Profit	1470.4	1949.0	-24.6	1553.1	-5.3	7849.9	8683.7	-9.6
OPM margin	7.4	9.2		8.3		9.0	10.0	
Interest	558.5	488.6	14.3	559.0	-0.1	1902.9	1641.4	15.9
Depreciation	227.0	230.5	-1.5	249.7	-9.1	975.2	1068.0	-8.7
Other Income	695.1	822.8	-15.5	1022.2	-32.0	2960.0	2768.8	
PBT (excl. Ext Items)	1380.0	2052.7	-32.8	1766.5	-21.9	7931.8	8743.2	-9.3
Exceptional item (Income)/Expense	0.0	0.0	0.0	0.0	0.0	-627.0	-474.9	
Share of profit/ (loss) of associates & JV	0.0	0.0		0.0				
PBT (incl. Ext Items)	1380.0	2052.7	-32.8	1766.5	-21.9	8558.8	9218.2	-7.2
(% of Sales)	6.9	9.7		9.4		9.8	10.6	
Provision for Taxation	225.3	562.2		-10.1		1155.4	2313.3	
Taxation pertaining to earlier years	0.0	0.0		0.0		0.0	227.1	
(% of PBT)	16.3	27.4		-0.6		13.5	25.1	
Reported PAT (Continued Operation)	1154.7	1490.5	-22.5	1776.6	-35.0	7403.4	6677.7	10.9
Adjusted PAT	1154.7	1490.5		1776.6		6776.4	6429.9	
Reported PAT (Discontinued Operation)	188.8	144.3		207.0		650.0		
Total Reported PAT	1343.5	1634.8		1983.6		8053.4	6677.7	
Total Adjusted PAT	1343.5	1634.8		1983.6		7426.4	6429.9	
PATM	5.8	7.1		9.5		7.8	7.4	
Equity shares (cr)	140.3			0.0				
FDEPS (Rs)	9.6	11.7	(17.8)	14.1	(32.3)	57.4	47.6	20.6

Source: Company, Angel Research

Segment Performance:

Gross Segment Revenue	Q3FY20	Q3FY19	Q2FY20
Infrastructure	16628	17292	15998
Power	698	908	492
Heavy Engineering	806	693	706
Defense Engineering	1063	1013	1020
Electrical & Automation	1162	1289	1217
Others	770	1314	643
Total	21127	22509	20076
Less: Revenue of discontinued operations	1161	1289	1217
Less: Inter Segment Revenue	80	118	107
Revenue from Continuing operations	19886	21102	18752

Segment Results	Q3FY20	Q3FY19	Q2FY20
Infrastructure	884	732	924
Power	13	15	10
Heavy Engineering	159	104	142
Defence Engineering	207	83	160
E&A (discontinued operations)	250	218	253
Others	97	727	97
Total	1610	1879	1585
Less : Result of discontinuing operations	250	217	253
Less : Inter-segment margins on capital jobs	7	1	17
Less : Finance costs	558	489	559
Add : Unallocable corporate income net of exp	585	881	1010
Add/(Less) : Exceptional items(net)	-	0	-
PBT from continuing operations	1380	2053	1766

Source: Company, Angel Research

Valuation:

Valuation	L&T Stake %	HoldCo. Dis%	Methodology	Value/sh	Value %
L&T Standalone	100		FY22E - 16x PE	1163	68.9
Hydrocarbon	100		FY19 (adj PAT) - 20x PE	90	5.3
L&T Infotech	74.8	20	Mcap	145	8.6
L&T Technology	75.0	20	Mcap	77	4.6
Mindtree	60.6	20	Mcap	50	3.0
L&T Finance Holdings	63.9	20	Mcap	88	5.2
L&T IDPL	97		BV - 1x	28	1.6
Others		20	BV - 0.8x	47	2.8
			Total	1689	100

Source: Company, Angel Research

Downside risks to our estimates

- Decrease in order inflow.
- Reduced Infrastructure spends by Government.
- Delay in pickup in private capex.
- Weak global financial situation.

Standalone Profit & Loss Statement:

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E	FY2022E
Revenue	74463	86988	87222	96554	107272
% chg		16.8	0.3	10.7	11.1
Total Expenditure	66762	78304	79372	86995	96437
Cost of Materials Consumed	30180	36,932	35,506	40,143	44,768
Purchases of Stock-in-Trade	1531	1,786	1,822	1,858	1,895
Changes in Inventories	(1,047)	(1,296)	(520)	(1,448)	(1,609)
Employee Benefits Expenses	5615	6,082	6,193	6,759	7,402
Other Expenses	30484	34799	36371	39684	43981
EBITDA	7701	8684	7850	9559	10834
% chg		12.8	(9.6)	21.8	13.3
(% of Net Sales)	10.3	10.0	9.0	9.9	10.1
Depreciation & Amortisation	1049	1068	975	1046	1109
EBIT	6651	7616	6875	8512	9725
% chg		14.5	(9.7)	23.8	14.2
(% of Net Sales)	8.9	8.8	7.9	8.8	9.1
Interest & other Charges	1432	1641	1903	1683	1479
Other Income	1613	2769	2960	3108	3263
(% of PBT)	23.6	31.7	37.3	31.3	28.4
Recurring PBT	6832	8743	7932	9937	11510
% chg		28	-9	25	16
Exceptional Items	431	475	627	0	0
Tax	1875	2540	1155	1888	2187
Current & deferred tax	1710	2313	1155	1888	2187
Taxation pertaining to earlier years	166	227	0	0	0
(% of PBT)	25.0	26.5	14.6	19.0	19.0
PAT (reported - Continued operation)	5387	6678	7403	8049	9323
PAT (reported - Discontinued operation)	0	0	650	110	0
Total PAT (reported)	5387	6678	8053	8159	9323
ADJ. PAT	5122	6430	7426	8159	9323
% chg		25.5	15.5	9.9	14.3
(% of Net Sales)	6.9	7.4	8.5	8.5	8.7
Basic EPS (Rs)	38.5	47.6	57.4	58.2	66.5
Fully Diluted EPS (Rs)	38.4	47.5	57.3	57.8	66.1
% chg		23.9	20.6	0.8	14.4

Source: Company, Angel Research

Note: Due to lack of clarity when E&A (Electrical & Automation) division will be sold, its sale effect is not given in the financials.

Standalone Balance Sheet:

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E	FY2022E
SOURCES OF FUNDS					
Equity Share Capital	280	281	281	281	281
Reserves & Surplus	48,890	52,270	57,281	61,722	66,988
Shareholders Funds	49,171	52,551	57,562	62,002	67,268
Total Debt	10,561	10,192	18,000	15,000	14,000
Non Current Liabilities	583	552	580	625	657
Total Liabilities	60,314	63,294	76,142	77,627	81,925
APPLICATION OF FUNDS					
Gross Block	9,759	10,990	12,190	13,590	14,990
Less: Acc. Depreciation	3,293	4,190	5,165	6,211	7,320
Net Block	6,466	6,800	7,025	7,379	7,670
Capital Work-in-Progress	653	753	800	820	790
Non-current Investments	23,469	20,521	30,500	31,500	33,075
Long term Loan & Advances	4,797	5,080	5,689	6,315	6,821
Other non-current assets	816	1,419	1,442	1,472	1,516
Current Assets	79,402	91,153	95,397	102,946	113,260
Investment	4,345	4,695	5,000	5,500	5,700
Inventories	2,500	3,220	3,416	3,782	4,201
Sundry Debtors	22,917	28,217	30,546	32,224	35,181
Cash & Bank Balance	4,318	7,599	4,401	4,343	5,102
Shor term Loans and Advances	7,960	6,475	6,993	7,553	8,081
Other Current Assets	37,362	40,946	45,041	49,545	54,995
Current liabilities	55,289	62,431	64,712	72,805	81,206
Net Current Assets	24,114	28,722	30,685	30,141	32,054
Total Assets	60,314	63,294	76,142	77,627	81,925

Source: Company, Angel Research

Standalone Cash Flow Statement:

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E	FY2022E
Net Profit	6,832	8,743	9,209	10,047	11,510
Depreciation	1,049	1,068	975	1,046	1,109
Change in Working Capital	(3,222)	(3,712)	(4,548)	1,350	(641)
Others	57	(1,165)	2,517	(1,222)	(2,020)
Taxes paid	(1,764)	(2,685)	(1,155)	(1,888)	(2,187)
Cash Flow from Operations	2,952	2,249	6,997	9,335	7,771
(Inc.)/ Dec. in Fixed Assets	(1,013)	(786)	(1,247)	(1,420)	(1,370)
(Inc.)/ Dec. in Investments	(2,197)	4,822	(10,284)	(1,500)	(1,775)
Others	4,997	(2,282)	1,167	1,444	1,551
Cash Flow from Investing	1,787	1,753	(10,364)	(1,476)	(1,594)
Issue of Equity	50	11	-	-	-
Inc./(Dec.) in borrowings	(1,871)	(185)	7,808	(3,000)	(1,000)
Dividend(includind DDt)	(1,961)	(2,243)	(3,043)	(3,719)	(4,057)
Others	293	(2,032)	(1,300)	(1,000)	(1,000)
Cash Flow from Financing	(3,489)	(4,449)	3,466	(7,719)	(6,057)
Inc./(Dec.) in Cash	1,250	(447)	99	140	120
Opening Cash balances	1,938	3,188	2,741	2,840	2,980
Closing Cash balances	3,188	2,741	2,840	2,980	3,100

Source: Company, Angel Research

Key Ratios:

Y/E March	FY2018	FY2019	FY2020E	FY2021E	FY2022E
Valuation Ratio (x)					
P/E (on FDEPS)	35.1	28.3	23.5	23.3	20.4
P/CEPS	29.8	24.9	20.9	20.5	18.1
P/BV	3.9	3.6	3.3	3.0	2.8
Dividend yield (%)	1.0	1.2	1.3	1.6	1.8
EV/Sales	2.4	2.1	2.1	1.8	1.6
EV/EBITDA	23.4	20.7	23.0	18.4	15.9
EV / Total Assets	1.6	1.4	1.3	1.2	1.1
Per Share Data (Rs)					
EPS (Basic)	38.5	47.6	57.4	58.2	66.5
EPS (fully diluted)	38.4	47.5	57.3	57.8	66.1
Cash EPS	45.2	54.2	64.4	65.6	74.4
DPS	14.0	16.0	18.0	22.0	24.0
Book Value	349.8	373.5	410.3	442.0	479.5
Returns (%)					
Angel ROIC (Pre-tax)	25.4	27.1	21.5	24.4	27.2
ROCE	11.4	12.4	9.9	11.2	12.3
ROE	11.3	13.1	14.6	13.6	14.4

Source: Company, Angel Research

Note: Valuation as on closing price as on 28/01/2020 (standalone basis)

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement	Larsen & Toubro
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on Expected Returns: Over 12 months investment period)	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)
		Hold (Fresh purchase not recommended)	