

July 30, 2016

Kunal Sheth
kunalsheth@plindia.com
+91-22-66322257

Samir Bendre
samirbendre@plindia.com
+91-22-66322256

Rating	BUY
Price	Rs1,558
Target Price	Rs1,590
Implied Upside	2.1%
Sensex	28,052
Nifty	8,639

(Prices as on July 29, 2016)

Trading data

Market Cap. (Rs bn)	1,451.3
Shares o/s (m)	931.5
3M Avg. Daily value (Rs m)	2973

Major shareholders

Promoters	0.00%
Foreign	16.98%
Domestic Inst.	39.36%
Public & Other	43.65%

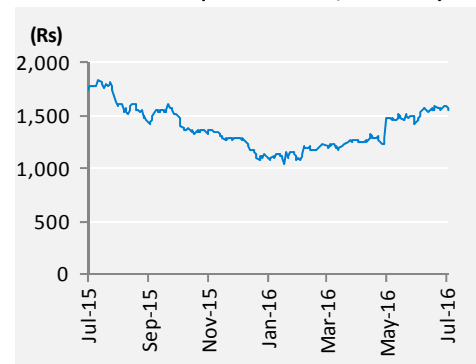
Stock Performance

(%)	1M	6M	12M
Absolute	5.1	41.4	(12.9)
Relative	0.2	28.6	(14.7)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	52.7	59.8	-12.0
2018	69.3	72.7	-4.7

Price Performance (RIC: LART.BO, BB: LT IN)



Source: Bloomberg

L&T reported decent set of numbers with sales up 9% YoY, EBITDA margin up 50bps YoY, PAT up 45% YoY and Order inflow up 14% YoY to Rs 297bn. Execution (up 18% YoY) and order inflow (up 67% YoY) was largely driven by international markets, while domestic market remained muted (execution up only 5% YoY and Inflows down 8% YoY.) E&C margins improved by 100bps YoY to 9.1% led by improvement in Power and Heavy engineering segment. L&T maintained its guidance for sales growth of 12-15%, order inflow growth of 15% and margin improvement of 50bps in FY17. Working capital remained stable at 23.5% of sales in Q1FY17 (v/s 24% sales in Q4FY16). It remained cautiously optimistic on domestic market. We have cut our earnings estimate by ~8-9% for FY17& FY18 to factor additional requirement of provision of ECL and employee benefits in INDAS. We Maintain 'BUY' with TP of Rs 1590 (roll forward to March'18) given its strong business model, diverse skill sets, strong execution capabilities and relatively healthy/large balance sheet.

- **International markets continue to drive execution growth:** L&T reported consolidated sales of Rs218.7bn, up 9% YoY. Domestic sales were up only 5% YoY and International sales were up 18% YoY. While E&C business grew by 13% YoY (infrastructures segment sales up 9% YoY), Services businesses were up (IT&Ts and Financial services) up ~ 16% YoY while sales for hydrocarbon and others segment saw a de-growth. EBITDA for the quarter was up 16% YoY to Rs19bn and EBITDA margin stood at 8.7% up 50bps YoY. Improved job mix, lower commodity price and resource optimization led to improved margins. EBITDA margin in E&C segment improved by 100bps to 9.1%. Adj. PAT was up by 45% YoY at Rs6bn.

Contd...2

Key financials (Y/e March)

	2015	2016	2017E	2018E
Revenues (Rs m)	920,046	1,001,317	1,151,514	1,358,787
Growth (%)	8.1	8.8	15.0	18.0
EBITDA (Rs m)	113,356	110,427	132,076	160,889
PAT (Rs m)	44,171	39,955	49,045	64,560
EPS (Rs)	47.5	42.9	52.7	69.3
Growth (%)	(10.6)	(9.7)	22.8	31.6
Net DPS (Rs)	13.6	13.7	14.2	17.6

Profitability & Valuation

	2015	2016	2017E	2018E
EBITDA margin (%)	12.3	11.0	11.5	11.8
RoE (%)	10.8	9.1	10.4	12.5
RoCE (%)	5.0	4.5	4.8	5.6
EV / sales (x)	2.6	2.5	2.2	1.9
EV / EBITDA (x)	20.7	22.4	19.2	16.2
PE (x)	32.8	36.3	29.6	22.5
P / BV (x)	3.5	3.3	3.1	2.8
Net dividend yield (%)	0.9	0.9	0.9	1.1

Source: Company Data; PL Research

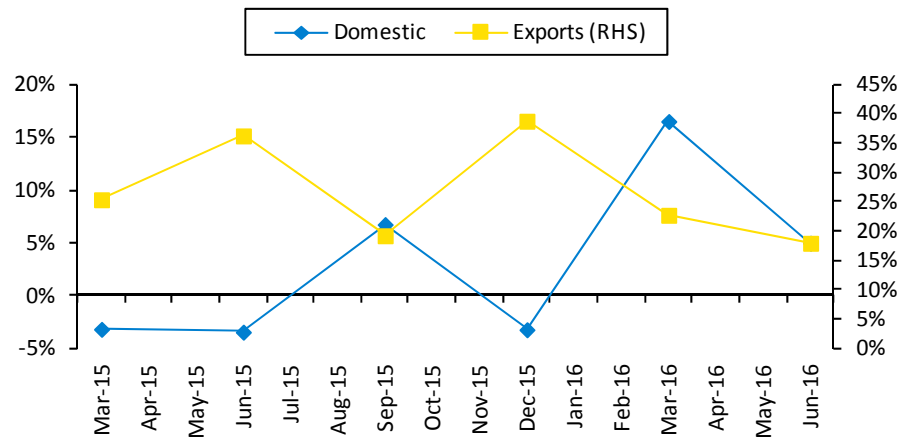
- **Guiding for FY17 maintained:** Order flow for the quarter was up 14% YoY to Rs290bn and order book stood at Rs2.5trn up 8% YoY. The order flow was largely contributed by sectors like Hydrocarbon, Water (Telangana), and Heavy Civil verticals. The domestic inflows were down 8% YoY and international inflows were up 67% YoY. The current prospect pipeline is Rs4.25trn. Out of prospect pipeline; Rs3.2trn is from domestic markets, ~Rs ~1trn from international markets. The company highlighted that the domestic capex is still muted and ordering is largely driven by public expenditure. They also mentioned that the quality of orders in domestic markets has improved and the company has guided for Inflow growth of 15% (FY16 De growth of 12%), sales growth of 12-15% and margin improvement of 50bps in FY17.
- **Standalone numbers:-** Standalone sales were up 6% YoY to Rs121bn. EBITDA was up 13% YoY to Rs9.6bn, EBITDA margin improved 50bps YoY to 7.9%. Adjusted PAT was up 6% YoY to Rs26bn. Significant improvement in power and heavy engineering margin helped overall performance.
- **Other key highlights from call:** 1) working capital remained steady at 23.5% sales at end of Q1FY17 (Vs 24% end of Q4FY16) 2) have taken provision in hydrocarbon to close out few legacy projects in Middle East, margin should improve in subsequent quarters 3) Not seeing any delay in payment or working capital issues in Middle East markets. 4) Under utilization MMH segment continues 6) Building & factory segment saw fast sales in Q1 7) Have taken write off on inventory in shipping in others segment ~ Rs 1bn 8) Provision for Expected Credit Loss/ Provision for Employee Benefits based on constructive obligations are incremental provision to be made under IND AS. This provision explains large part of difference between IND AS PAT and IGAAP.
- **Outlook and Valuation:** The stock is trading at 17x FY18E earnings. We have cut our earnings estimate by ~8-9% for FY17& FY18 to factor additional requirement of provision of ECL and employee benefits in INDAS. We Maintain 'BUY' with TP of Rs 1590 (roll forward to March'18) given its strong business model, diverse skill sets, strong execution capabilities and relatively healthy/large balance sheet We expect company to deliver 25% earning CAGR over FY16-18E. Maintain 'BUY'.

Exhibit 1: SOTP

	Fair Value (Rs)	Basis
L&T Core business	1,142	20x Macrh'18 EPS Ex dividends
L&T Hydrocarbon business	7	10x FY17E EPS
L&T IDPL	117	1.1x P/B
L&T InfoTech	196	12x FY17E EPS
L&T Finance Holding	74	68% stake; 20% Hold co discount on current market cap
L&T's equity investment in BTG	4	1.5x equity investment
Other businesses	44	1.5x book value.
Target price	1,590	

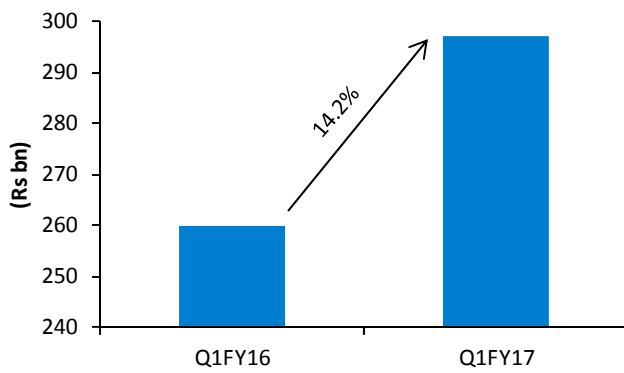
Source: PL Research

Exhibit 2: Sales growth



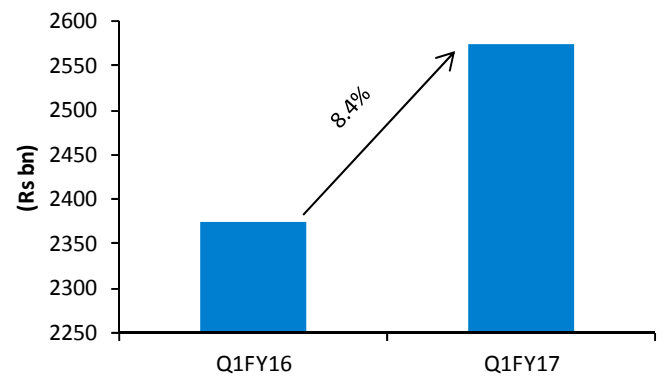
Source: Company Data, PL Research

Exhibit 3: Consolidated Order inflow

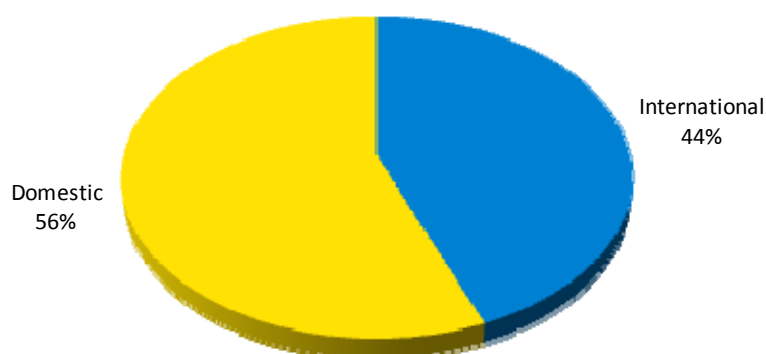


Source: Company Data, PL Research

Exhibit 4: Consolidated Order book



Source: Company Data, PL Research

Exhibit 5: Order inflow break up for Q4FY16 (%)


Source: Company Data, PL Research

Exhibit 6: Q1FY17 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY17	Q1FY16	YoY gr.
Net Sales	218,738	200,482	9.1
RM cost	136,533	127,095	7.4
Personnel cost	34,200	31,494	8.6
Other expense	28,955	25,482	13.6
EBITDA	19,050	16,411	16.1
<i>EBITDA margin (%)</i>	<i>8.7</i>	<i>8.2</i>	
Other income	3,024	2,833	6.8
PBIDT	22,074	19,243	14.7
Depreciation	4,648	4,658	(0.2)
Interest	3,375	3,893	(13.3)
PBT	14,052	10,692	31.4
Tax	5,488	4,282	28.2
PAT	8,564	6,410	33.6
Share in Profit/loss of joint ventures	(1,736)	(1,963)	
Adjustment for non-controlling interest in subsidiaries	(732)	(258)	
Net PAT	6,096	4,189	45.5
Other comprehensive income	(1,156)	(60)	
Total PAT	4,940	4,130	19.6

Source: Company Data, PL Research

Exhibit 7: Segmental snapshot - Consolidated (Rs m)

Y/e March	Q1FY17	Q1FY16	YoY gr. (%)
Infrastructure	92,875	85,043	9.2
Power	17,227	10,788	59.7
Heavy Engineering	7,338	6,444	13.9
Electrical & Electronics	10,812	11,140	(2.9)
	128,252	113,415	13.1
Hydrocarbon	21,457	21,546	(0.4)
IT & Technology Services	23,749	20,633	15.1
Financial Services	20,907	17,817	17.3
Developmental Projects	13,831	11,382	21.5
Others	18,181	21,223	(14.3)
Total	226,378	206,015	9.9
Less: Intersegment	7,640	5,533	38.1
Net Segment Revenue	218,738	200,482	9.1

Source: Company Data, PL Research

Exhibit 8: PBT Margins %

Y/e March	Q1FY17	Q1FY16
Infrastructure	7%	7.3%
Power	-1%	5.2%
Heavy Engineering	4%	9.1%
Electrical & Electronics	2%	3.3%
Hydrocarbon	0.6%	0.4%
IT & Technology Services	15.5%	19.2%
Financial Services	10.3%	12.2%
Developmental Projects	3.8%	7.1%
Others	7.3%	-4.0%
Total	6.5%	7.1%

Source: Company Data, PL Research

Exhibit 9: Q1FY17 Result Overview – Standalone (Rs m)

Y/e March	Q1FY17	Q1FY16	YoY gr. (%)
Net Sales	121,500	114,437	6.2
RM cost	92,441	88,423	4.5
Personnel cost	12,898	11,452	12.6
Other expense	6,520	6,046	7.8
EBITDA	9,642	8,515	13.2
<i>EBITDA margin (%)</i>	<i>7.9</i>	<i>7.4</i>	
Other income	4,826	5,222	(7.6)
PBIDT	14,467	13,737	5.3
Depreciation	2,793	2,688	3.9
Interest	3,311	3,154	5.0
PBT	8,363	7,895	5.9
Tax	2,396	2,263	5.9
Adjusted PAT	5,967	5,632	6.0
Extra ordinary income/ (exp.)	(500)	-	NA
Reported PAT	5,467	5,632	(2.9)
Other Comprehensive income	(463)	(75)	NA
Total income	5,005	5,557	(9.9)

Source: Company Data, PL Research

Exhibit 10: Segmental Revenue Breakup (Rs m)

Y/ e March	Q1FY17	Q1FY16	YoY gr. (%)
Infrastructure	80,740	78,394	3.0
Power	17,227	10,788	59.7
Heavy engineering	6,748	6,001	12.4
Electrical & Electronics	8,435	8,474	(0.5)
Others	10,856	12,643	(14.1)
Total	124,005	116,300	6.6
Less: Intersegment	2,505	1,863	34.4
Net segment revenue	121,500	114,437	6.2

Source: Company Data, PL Research

Exhibit 11: PBIT Margins %

Y/ e March	Q1FY17	Q1FY16
Infrastructure	7.6%	7.5%
Power	5.2%	-0.8%
Heavy engineering	10.4%	5.8%
Electrical & Electronics	9.3%	7.5%
Others	-0.3%	3.3%
Total	6.8%	6.2%

Source: Company Data, PL Research

Exhibit 12: Reconciliation of Net PAT Q1 FY 2015-16

Adjustments	₹ Billion	₹ Billion
Net Profit After Tax as per previous IGAAP		6.06
Provision for Expected Credit Loss	(1.69)	
Provision for Employee Benefits based on constructive obligations	(0.99)	
Gain on fair valuation of investments	0.62	
Increase in borrowing cost pursuant to application of Effective Interest Rate method	(0.12)	
Reclassification of net actuarial gain on Employee Defined Benefit Obligations to OCI	(0.20)	
Increase in borrowing cost due to initial fair valuation of long term financial liabilities	(0.39)	
Deferred and current taxes in respect of above adjustments	0.75	
Others	0.14	(1.87)
Net Profit After Tax as per IND AS		4.19

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	920,046	1,001,317	1,151,514	1,358,787
Raw Material Expenses	672,937	749,463	855,810	1,015,503
Gross Profit	247,109	251,854	295,705	343,284
Employee Cost	79,222	92,048	105,856	121,734
Other Expenses	54,531	49,378	57,773	60,661
EBITDA	113,356	110,427	132,076	160,889
Depr. & Amortization	26,225	27,560	29,765	32,146
Net Interest	28,507	30,412	33,453	36,799
Other Income	10,072	11,830	13,250	14,840
Profit before Tax	68,695	64,286	82,108	106,784
Total Tax	22,532	25,487	27,917	36,307
Profit after Tax	46,163	38,799	54,191	70,477
Ex-Od items / Min. Int.	8,989	6,056	5,088	5,851
Adj. PAT	44,171	39,955	49,045	64,560
Avg. Shares O/S (m)	929.6	931.5	931.5	931.5
EPS (Rs.)	47.5	42.9	52.7	69.3

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	70,992	60,260	46,098	37,154
C/F from Investing	(62,667)	(5,543)	(32,635)	(21,929)
C/F from Financing	4,894	(49,786)	6,749	278
Inc. / Dec. in Cash	13,219	4,931	20,212	15,503
Opening Cash	40,866	54,085	59,016	79,228
Closing Cash	54,085	59,016	79,228	94,731
FCFF	(16,653)	(80,624)	(17,525)	(17,839)
FCFE	76,059	44,430	67,592	68,046

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	8.1	8.8	15.0	18.0
EBITDA (%)	5.4	(2.6)	19.6	21.8
PAT (%)	(10.4)	(9.5)	22.8	31.6
EPS (%)	(10.6)	(9.7)	22.8	31.6
Profitability				
EBITDA Margin (%)	12.3	11.0	11.5	11.8
PAT Margin (%)	4.8	4.0	4.3	4.8
RoCE (%)	5.0	4.5	4.8	5.6
RoE (%)	10.8	9.1	10.4	12.5
Balance Sheet				
Net Debt : Equity	2.2	2.3	2.3	2.2
Net Wrkng Cap. (days)	20	14	23	14
Valuation				
PER (x)	32.8	36.3	29.6	22.5
P / B (x)	3.5	3.3	3.1	2.8
EV / EBITDA (x)	20.7	22.4	19.2	16.2
EV / Sales (x)	2.6	2.5	2.2	1.9
Earnings Quality				
Eff. Tax Rate	32.8	39.6	34.0	34.0
Other Inc / PBT	14.7	18.4	16.1	13.9
Eff. Depr. Rate (%)	6.0	5.1	5.2	5.5
FCFE / PAT	172.2	111.2	137.8	105.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	409,091	439,917	471,348	515,511
Total Debt	955,700	1,080,754	1,165,871	1,251,755
Other Liabilities	5,396	4,112	4,111	4,112
Total Liabilities	1,370,186	1,524,783	1,641,330	1,771,378
Net Fixed Assets	480,468	586,029	614,278	630,103
Goodwill	22,150	21,717	21,717	21,717
Investments	96,121	100,800	100,800	100,800
Net Current Assets	764,205	808,238	896,535	1,010,758
<i>Cash & Equivalents</i>	<i>57,562</i>	<i>59,016</i>	<i>79,228</i>	<i>94,731</i>
<i>Other Current Assets</i>	<i>1,278,298</i>	<i>1,499,686</i>	<i>1,463,843</i>	<i>1,678,940</i>
<i>Current Liabilities</i>	<i>571,655</i>	<i>750,465</i>	<i>646,536</i>	<i>762,912</i>
Other Assets	7,242	8,000	8,000	8,000
Total Assets	1,370,186	1,524,783	1,641,330	1,771,378

Quarterly Financials (Rs m)

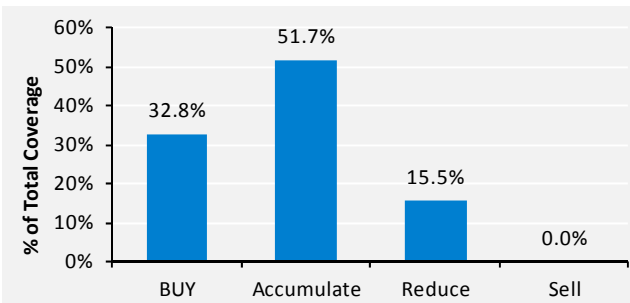
Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	233,932	258,293	331,570	218,738
EBITDA	25,917	26,499	48,592	19,050
<i>% of revenue</i>	<i>11.1</i>	<i>10.3</i>	<i>14.7</i>	<i>8.7</i>
Depr. & Amortization	6,936	6,198	8,203	4,648
Net Interest	8,278	7,446	7,737	3,375
Other Income	2,191	4,517	2,182	3,024
Profit before Tax	12,894	17,372	34,834	14,052
Total Tax	4,936	5,555	9,537	5,488
Profit after Tax	9,959	10,348	24,536	6,096
Adj. PAT	6,863	10,348	24,051	6,096

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage**PL's Recommendation Nomenclature**

BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

DISCLAIMER/DISCLOSURES**ANALYST CERTIFICATION**

We/I, Mr. Kunal Sheth (MBA), Mr. Samir Bendre (BE,MBA), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Kunal Sheth (MBA), Mr. Samir Bendre (BE,MBA), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

DISCLAIMER/DISCLOSURES (FOR US CLIENTS)**ANALYST CERTIFICATION**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

Terms & conditions and other disclosures:

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.