

# Larsen & Toubro

**BUY**

## On a strong footing

We recommend a BUY on Larsen & Toubro (LT) with SoTP of Rs 1,794/sh. Reduction in subsidiaries losses, majorly provided transportation project overruns, order pick up in Domestic/International markets and strong cash flow make L&T an anchor play on infra investment and capex recovery. Higher services share in the mix will improve RoEs further. Working capital is at optimal levels. A tight lid on asset capex will only help further re-rating.

### HIGHLIGHTS OF THE QUARTER

- Good pull back to end FY19:** L&T posted a robust 10.5% YoY revenue growth in 4QFY19 (at Rs 449bn), largely driven by Infra, Hydrocarbon, Realty and the Services business. Margins improved 127bps QoQ to 12.5%, led by 690bps QoQ improvement in the Infra segment (which has lagged over 9MFY19, hit by fixed price contracts and cost overruns).
- Re-rating hinging on capex recovery:** After achieving 16% order inflow growth during FY19, L&T has guided for 10-12% for FY20E. Tight fiscal & delay in private capex revival is key risk which L&T is trying to mitigate by expanding into newer geographies and bidding for projects funded by multilateral agencies.

- Overseas market ordering recovering, newer geographies to de-risk domestic headwinds:** L&T saw good order inflows from international markets. Bid pipeline remains strong and competitive intensity is on level footing now with measured aggression.
- NWC at optimal level of 18%, further reduction challenging:** New orders now have elongated NWC and L&T is using its strong BS to advantage by winning large size orders were competitors face BS challenges. With limited customer advances, maintaining NWC at 15-20% will be optimal.

### STANCE

**FY19 was a good year for L&T, barring the moderation in Infra margins. FY20E is expected to be a better year, with (1) A new Government in place, (2) Reduction in subsidiaries' losses, (3) Mix change towards high margins services business, (4) A much awaited pickup in private capex, and (5) Strong cash generation. L&T remains a well diversified play on investment recovery. We recommend BUY. Key risks (1) Delays in private capex recovery, (2) Slowdown in government infrastructure spend, (3) Higher raw material prices, and (4) NWC deterioration.**

### Financial Summary (Consolidated)

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Revenues	449,340	406,781	10.5	357,089	25.8	1,196,831	1,410,071	1,587,273	1,759,444
EBITDA	55,991	53,905	3.9	39,963	40.1	135,713	162,792	187,854	217,307
APAT	34,182	31,675	7.9	20,416	67.4	72,469	86,104	103,746	119,195
Diluted EPS (Rs)	24.4	22.6	7.9	14.6	7.9	51.7	61.4	74.0	85.0
P/E (x)						25.5	21.5	17.8	15.5
EV / EBITDA (x)						20.3	17.5	15.4	13.7
RoE (%)						13.7	14.6	15.7	16.0

Source: Company, HDFC sec Inst Research

INDUSTRY	CAPITAL GOODS
<b>CMP (as on 13 May 2019)</b>	<b>Rs 1,318</b>
<b>Target Price</b>	<b>Rs 1,794</b>

Nifty	11,148
Sensex	37,091

### KEY STOCK DATA

Bloomberg	LT IN
No. of Shares (mn)	1,402
MCap (Rs bn) / (\$ mn)	1,848/26,234
6m avg traded value (Rs mn)	3,799

### STOCK PERFORMANCE (%)

	52 Week high / low		
	3M	6M	12M
Absolute (%)	8.3	(5.3)	(5.0)
Relative (%)	5.4	(10.8)	(9.4)

### SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	-	-
FIs & Local MFs	38.7	38.7
FPIs	18.5	18.5
Public & Others	42.9	42.9
Pledged Shares	-	-

Source : BSE

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## Analyst Meet – Key Takeaways

### Order inflows to be more back ended

- No major firework on ordering is expected during 1QFY20 as new Government will take at least 4 months to settle in. L&T had factored the same in its 10-12% YoY order inflows growth guidance for FY20E. L&T has mapped about Rs 10tn of orders and with its historical strike rate of 20%, it expects about Rs 2tn of new order wins during FY20E.

### Broad breakup of order pipeline

- Infra – Rs 4.5tn, Power T&D – Rs 1tn, Power Generation – Rs 0.5tn, Hydrocarbon – Rs 2-2.5tn Others – Rs 0.5tn. Domestic pipeline is about 75% and International 25%. Within Infra segment, Transportation, Heavy Civil, T&D, Water & Buildings segments have large bid potential.

### Capex pickup to be driven by Government

- Private sector is leveraged and needs to sweat assets and drive up utilization before a meaningful capex cycle materializes. Government shall remain the key driver of capex with support from multilateral funding. Government itself has a tight fiscal situation, so project funding is being tied up with multilateral agencies. State government loan waivers and social schemes have dented fiscal discipline. Private sector contributes about 40% to domestic order inflows for L&T.

### Defence ordering pick up likely from FY21E

- Due to bureaucratic hurdles and government inertia, defence ordering faced multiple headwinds. Management does not expect much traction in FY20 as the time window is too short for a new Government to move things. FY21E can be different. The defence export opportunity is also

building up. L&T's defence order book has about 17% share from the export market.

### International diversification to mitigate slow pickup in domestic capex

- Whilst L&T will remain a dominant force in India, it is expanding into newer overseas markets. Government has divested substantial financial assets and the next logical step would be to monetise its physical assets. This shall ease pressure on infra funding.

### Risk management in place whilst choosing projects in newer geographies

- L&T is bidding for projects which have multilateral funding in place rather than direct government funding. Large state companies in the Middle East are well funded (relatively low risk).

### International competitive intensity strong but manageable

- Large Chinese companies are aggressively competing with L&T for projects in Africa but the overall opportunity size is big enough to win profitable orders. L&T stays away from direct competition vs. the Chinese. **Algeria** is a tough geography to execute. In the **Middle East** Koreans are not very active, though they are trying to make a comeback albeit with lesser aggression. European majors are key competitors in the Middle East now. Most of the overseas Governments now prefer localization. L&T has an advantage as it has been building local capabilities.

### International geographies where L&T is focusing

- Over the last few years L&T has established its presence in the Middle East. Key focus segments in

Middle East include Hydrocarbons, Power T&D and Water. L&T has entered Africa which now contributes about Rs 140bn to order book (~5% of the order book; large part from Algeria). L&T has also expanded operations in Bangladesh with Power, Railways and Bridges the key segments. In Malaysia and Thailand, L&T has secured orders in Power T&D. CIS countries are next on the radar.

- **Middle-East outlook:** Stabilization of oil prices has driven up ordering. Saudi, Kuwait and Qatar are witnessing good investments. UAE has plans to invest \$ 45bn over next 6-7yrs. Saudi Aramco has budgeted \$7-8bn in offshore during FY20E and L&T believes it is a preferred contractor, with a long history of executing projects for Aramco.

#### **Net working capital at optimal level, limited scope for further contraction**

- Since 2008, NWC goalposts (ex services) have shifted from 10-12% of revenue to 15-20% now. Working capital cycles in Government contracts have gradually become elongated. Even in the Middle East, payment terms have increased from 60 days to 90 days over the last few years. It is difficult to reach NWC/Sales of 15%. Customer advances have shrunk. With a strong balance sheet L&T is bidding for large projects.

#### **Story over for BOT/HAM assets, surplus cash may be partly deployed in real estate assets**

- L&T is done with equity investment in Infra Assets. Co is looking to monetise the same. Surplus cash may partly be deployed in building a real estate annuity income portfolio.

#### **E&C margins may improve as cost overruns largely provided**

- Delays on account of 'Right of Way' & 'Mining ban' in India resulted in cost overruns and impacted

FY19 margins, primarily on NHAI & DFC projects in India and overseas projects in Oman. A few T&D projects had lower margins as well. These claims will be taken up with clients. L&T has legally documented these variations, which may go into arbitration, and get fully recovered over the next two years. L&T has conservatively provided Rs 3bn loss on these. Further, since 80% of the order book is fixed price in nature, an increase in raw material prices also impacted margins. Infra margins may improve over FY20, but L&T has on conservative side given EBITDA margin (ex services) guidance of 10.5% (within a narrow band of 25bps).

#### **Conservative EBIDTA margin guidance factors in lumpy nature of real estate sales and large ticket size order wins**

- L&T has won Rs 400bn of new orders with average order size of Rs 25bn+. Margin recognition in these projects is typically back ended as initially costs are incurred in mobilizing site and actual billing starts after 6M. Besides, high margins real estate sales under IND-AS 115 are now recognized on project completion vs. percentage completion earlier. This may result in lumpiness. Credit squeeze, slow pickup in GST momentum, resistance to formalization and NPA mess in financial sector are other factors which may impact execution and margins. Underlying margins are stronger, but L&T is being conservative in our view.

#### **Key domestic segment which added to order wins**

- L&T saw good traction in building segment with large wins from Airports and Hospitals. In infra, coastal roads and metro projects contributed to the wins. Domestic private capex has been low as most of the companies have participated in NCLT process and lapped up stressed assets. They need to first sweat these before investing further. On

Power orders, L&T expects 6GW of coal based power plants to be awarded and it expects to win at least 1GW.

#### **Real estate segment may lead growth momentum**

- L&T has four residential projects under execution totaling 4,500 units. Out of this about 1,500 units have been sold, while the balance 2,500 units will get sold depending on market conditions. L&T had also monetized a commercial property, but it is looking to build and retain real estate office assets and earn rental yield on same. This shall be funded by cash flow surplus. L&T won't be acquiring land for residential development; rather it will look to enter into a JV or Joint Development Agreement with the landowner.

#### **FY20E guidance looks achievable**

- L&T exceeded its own 10-12% order inflow growth guidance for FY19 and achieved 16% growth. Government infra push was the key driver of this growth. The likely 4QFY19 ordering disruptions, ahead of central election didn't happen, this aided order bookings. Strong inflow resulted in L&T achieving 18% revenue growth vs. 12-15% growth guidance. For FY20E, L&T has guided for 10-12% order inflow growth and 12-15% revenue growth.

#### **Services portfolio doing well**

- L&T's rationale on acquiring Mindtree was to increase the share of services' revenue contribution in the mix. LTI/LTTS are looking to acquire smaller companies in the digital and niche segments.

**4QFY19 Revenue growth was largely led by Infra, Hydrocarbon, Realty and the services business**

### Quarterly Financials Snapshot: Consolidated

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY%
<b>Net Sales</b>	<b>449,340</b>	<b>406,781</b>	<b>10.5</b>	<b>357,089</b>	<b>25.8</b>	<b>1,410,071</b>	<b>1,196,832</b>	<b>17.8</b>
Material Expenses	310,666	269,446	15.3	234,572	32.4	917,064	771,138	18.9
Employee Expenses	46,550	41,284	12.8	46,066	1.1	181,122	152,914	18.4
SG&A Expenses	36,133	42,146	(14.3)	36,489	(1.0)	149,093	137,263	8.6
<b>EBITDA</b>	<b>55,991</b>	<b>53,905</b>	<b>3.9</b>	<b>39,963</b>	<b>40.1</b>	<b>162,792</b>	<b>135,713</b>	<b>20.1</b>
Interest Cost	5,071	4,181	21.3	5,349	(5.2)	18,060	15,385	17.4
Depreciation	4,747	4,924	(3.6)	4,490	5.7	20,840	19,287	8.1
Other Income (Incl. EO)	6,213	4,328	43.6	6,064	2.5	21,918	15,548	41.0
<b>PBT</b>	<b>52,386</b>	<b>49,128</b>	<b>6.6</b>	<b>36,189</b>	<b>44.8</b>	<b>145,809</b>	<b>116,392</b>	<b>25.3</b>
Tax	13,225	14,580	(9.3)	12,002	10.2	43,433	31,989	35.8
Minority Interest	3,707	1,705	117.4	3,207	15.6	13,114	6,346	106.7
Associate Profits	(1,272)	(1,168)	8.9	(565)	125.3	(210)	(4,359)	(95.2)
<b>Reported PAT</b>	<b>20,416</b>	<b>31,675</b>	<b>(35.5)</b>	<b>20,416</b>	<b>-</b>	<b>89,052</b>	<b>73,698</b>	<b>20.8</b>
E/o (adj for tax) *	-	-	N.M	-	N.M	2,948	1,230	139.7
<b>APAT</b>	<b>34,182</b>	<b>31,675</b>	<b>7.9</b>	<b>20,416</b>	<b>67.4</b>	<b>86,104</b>	<b>72,468</b>	<b>18.8</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis: Consolidated

	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (bps)
Material Exp as % of Net Sales	69.1	66.2	290.0	65.7	344.8	65.0	64.4	60.5
Employee Exp as % of Net Sales	10.4	10.1	21.1	12.9	(254.1)	12.8	12.8	6.8
Other operating exp. as % of Net Sales	8.0	10.4	(232.0)	10.2	(217.7)	10.6	11.5	(89.5)
<b>EBITDA Margin (%)</b>	<b>12.5</b>	<b>13.3</b>	<b>(79.1)</b>	<b>11.2</b>	<b>126.9</b>	<b>11.5</b>	<b>11.3</b>	<b>22.2</b>
Tax Rate (%)	25.2	29.7	(443.2)	33.2	(791.8)	29.8	27.5	230.4
Net Profit Margin (%)	7.6	7.8	(17.9)	5.7	189.0	6.1	6.1	5.1

Source: Company, HDFC sec Inst Research

*Power segment continued to reel from aggressive competition in the limited opportunities available*

*Execution of tracked artillery gun contributed significantly to defence segment*

*Hydrocarbon segment strong performance was backed by strong domestic and international wins*

### Segmental Quarterly Performance: Consolidated

Rs mn	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY%
<b>Segmental Revenues</b>								
-Infrastructure	270,936	243,493	11.3	183,713	47.5	732,038	634,175	15.4
-Power	9,343	15,068	(38.0)	9,083	2.9	39,831	62,079	(35.8)
-Heavy engineering	8,995	5,120	75.7	6,928	29.8	25,137	16,351	53.7
-Defence	11,084	9,528	16.3	10,449	6.1	38,492	32,202	19.5
-Hydrocarbon	43,243	35,591	21.5	37,777	14.5	151,762	117,596	29.1
<b>Engineering &amp; Construction</b>	<b>343,599</b>	<b>308,800</b>	<b>11.3</b>	<b>247,950</b>	<b>38.6</b>	<b>987,260</b>	<b>862,403</b>	<b>14.5</b>
-Electrical and automation	17,155	16,431	4.4	15,647	9.6	60,936	55,083	10.6
-IT and TS	38,268	31,524	21.4	37,641	1.7	145,531	113,574	28.1
-Financial Services	31,823	27,221	16.9	32,589	(2.4)	126,377	100,638	25.6
-Developmental projects	10,829	12,170	(11.0)	11,935	(9.3)	50,680	42,941	18.0
-Others	14,128	16,257	(13.1)	16,611	(14.9)	59,350	44,347	33.8
-Intersegment revenue	(6,463)	(5,653)	14.3	(5,284)	22.3	(20,063)	(20,397)	(1.6)
<b>Total</b>	<b>449,340</b>	<b>406,748</b>	<b>10.5</b>	<b>357,089</b>	<b>25.8</b>	<b>1,410,071</b>	<b>1,198,588</b>	<b>17.6</b>
<b>EBIT</b>								
-Infrastructure	30,883	30,803	0.3	7,656	303.4	53,888	54,401	(0.9)
-Power	284	520	(45.4)	154	84.2	1,299	1,640	(20.8)
-Heavy engineering	1,046	792	32.2	1,046	-	4,870	2,052	137.3
-Defence	1,702	874	94.7	555	206.6	4,722	1,204	292.3
-Hydrocarbon	2,699	1,791	50.7	2,699	-	11,781	7,718	52.6
<b>Engineering &amp; Construction</b>	<b>36,614</b>	<b>34,780</b>	<b>5.3</b>	<b>12,110</b>	<b>202.3</b>	<b>76,560</b>	<b>67,015</b>	<b>14.2</b>
-Electrical and automation	2,176	2,657	(18.1)	2,176	-	8,501	6,688	27.1
-IT and TS	7,631	5,658	34.9	7,616	0.2	30,842	21,465	43.7
-Financial Services	7,498	4,087	83.5	7,758	(3.4)	30,526	14,406	111.9
-Developmental projects	(603)	(1,993)	(69.8)	327	(284.6)	3,144	1,964	60.1
-Others	1,550	6,866	(77.4)	7,285	(78.7)	15,112	11,826	27.8
<b>Total</b>	<b>54,866</b>	<b>52,055</b>	<b>5.4</b>	<b>37,272</b>	<b>47.2</b>	<b>164,685</b>	<b>123,364</b>	<b>33.5</b>

Source: Company, HDFC sec Inst Research

*FY19 Infra margins were affected by provisioning and conservatively booking cost overruns in transportation segment. L&T has lodged claims for same with clients viz. NHAI, DFC & Oman*

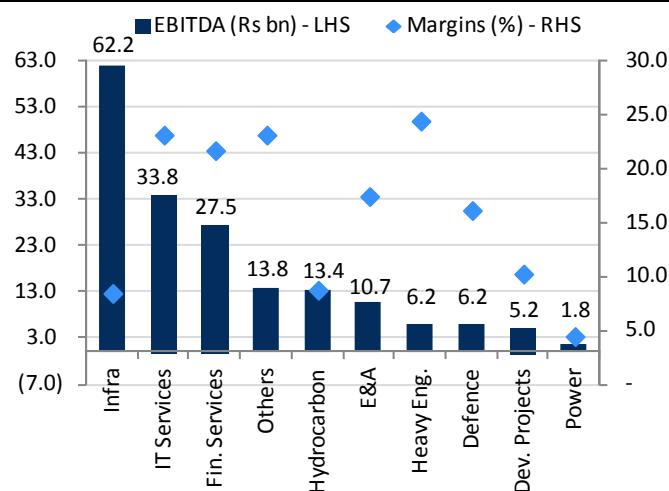
*'Others' segment includes Realty where margins are volatile depending on the number of flats 'handed over' every quarter*

**Segmental Margins (EBITDA): Consolidated - Trend**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	FY17	FY18	FY19
Infra	7.1	7.5	7.8	13.5	6.8	6.8	5.4	12.3	10.2	10.0	8.5
Power	1.3	5.4	2.5	4.2	4.1	6.0	2.9	4.7	3.5	3.4	4.5
Heavy Engineering	12.3	22.8	28.4	18.1	36.1	24.2	20.5	22.8	20.0	17.1	24.5
Defence	(4.4)	10.6	7.4	13.3	11.1	25.0	9.0	18.6	.*	8.2	16.2
Hydrocarbons	6.8	10.9	8.0	6.1	7.0	9.9	8.2	9.8	6.8	7.7	8.8
Electrical Automation	10.3	15.3	17.3	19.7	13.3	17.8	17.4	20.6	15.1	16.0	17.5
Others	21.3	13.1	25.6	29.6	26.5	23.1	47.2	13.9	10.9	17.3	23.2
IT & services	21.5	21.7	21.3	21.0	24.8	24.1	22.2	21.9	21.2	21.4	23.2
Financial Services	16.2	13.0	14.6	11.4	24.2	22.7	24.2	23.3	12.0	14.8	21.8
Development projects	(4.1)	32.2	8.5	(14.4)	30.4	4.3	4.2	(3.6)	2.3	6.3	10.3

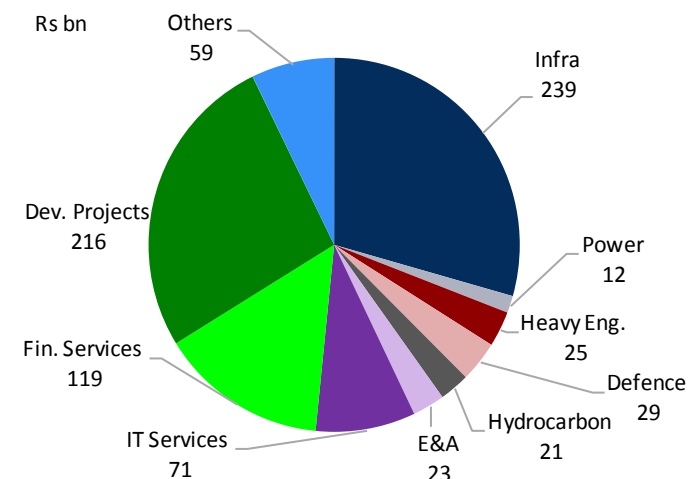
\*For FY17 Defence was clubbed under Heavy Engineering

**FY19 Segmental EBITDA Breakup (Rs bn)**



Source : Company, HDFC sec Inst Research

**FY19 Segmental Net Assets Employed\***



Source : Company, HDFC sec Inst Research \*Excl. Inter Segmental



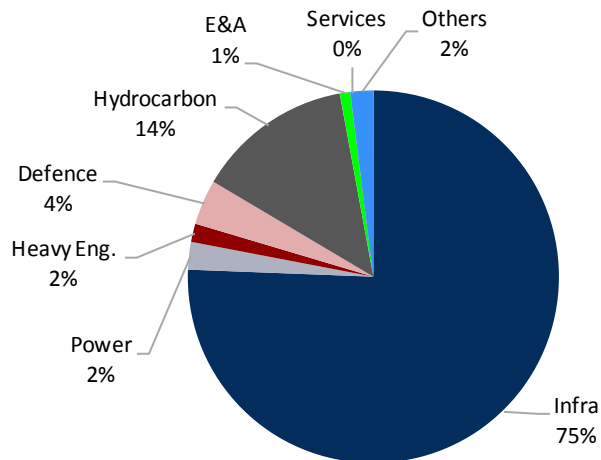
**FY19 Order book includes Rs 633bn of International orders (vs Rs 625bn in FY18)**

**International wins during FY19 were Rs 468bn (vs Rs 359bn during FY18)**

**In FY19 strong inflows were seen in Hydrocarbon apart from Infra whereas power segment continued to remain muted**

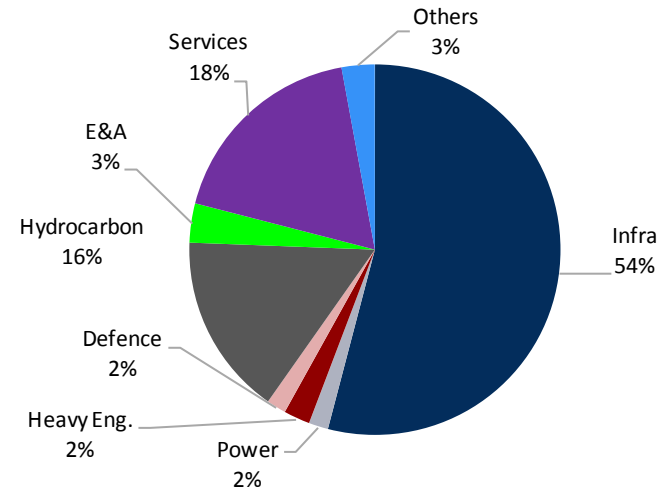
**Defence segment is yet to see meaningful tendering although the segment holds tremendous potential in the time to come**

**Order Book Breakup (FY19 – Rs 2,934bn)**



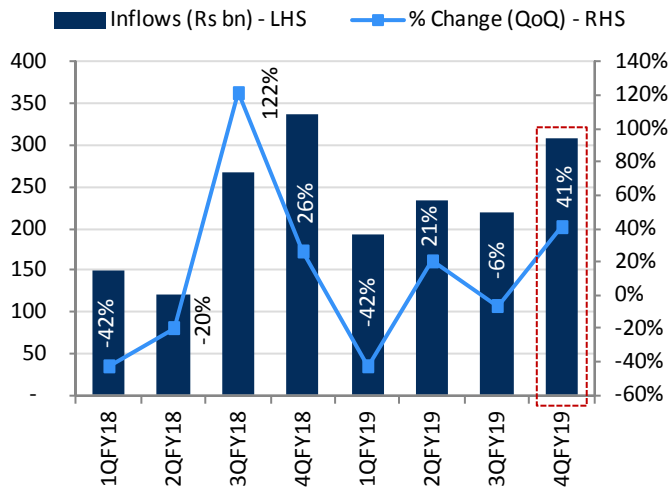
Source : Company, HDFC sec Inst Research

**Order Inflow Breakup (FY19 – Rs 1,768bn)**



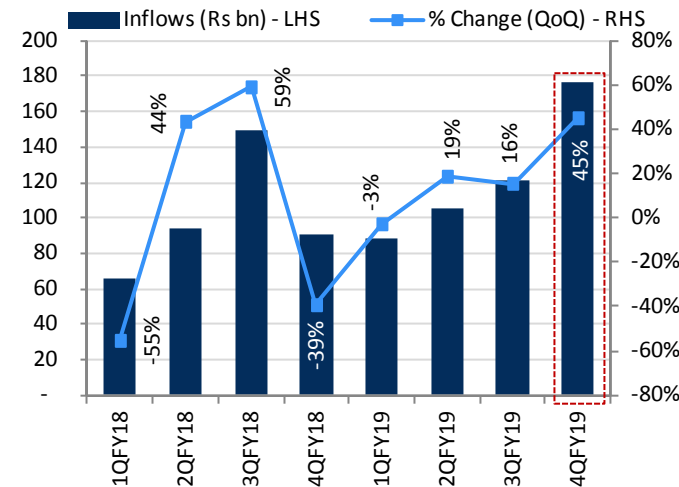
Source : Company, HDFC sec Inst Research

**Infra Segment Order Inflow Trend**



Source : Company, HDFC sec Inst Research

**Ex Services (Ex Infra) – Order Inflow Trend**



Source : Company, HDFC sec Inst Research



### Segmental Order Inflow Trend

Rs bn	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Infrastructure	150	120	267	337	194	234	219	309
Power	5	1	15	4	1	25	1	4
Heavy Engineering*	6	16	19	17	14	13	5	8
Defence					1	12	5	12
<b>Subtotal</b>	<b>6</b>	<b>16</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>25</b>	<b>10</b>	<b>20</b>
Hydrocarbons	8	47	69	34	48	27	78	127
E&A	13	14	14	15	13	16	16	14
Others	34	16	33	21	11	12	17	12
<b>Ex Services Inflows</b>	<b>215</b>	<b>215</b>	<b>416</b>	<b>428</b>	<b>283</b>	<b>339</b>	<b>341</b>	<b>486</b>
Services	48	73	65	70	79	81	81	79
<b>Total Inflow</b>	<b>264</b>	<b>287</b>	<b>481</b>	<b>498</b>	<b>361</b>	<b>420</b>	<b>422</b>	<b>565</b>

\*For FY18 - Includes Defence

### Segmental Order Book Trend

Rs bn	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Infrastructure	1,978	1,910	2,003	1,955	2,106	2,182	2,192	2,218
Power	123	105	108	95	82	93	82	70
Heavy Engineering*	120	122	135	134	41	51	48	47
Defence					117	121	114	114
<b>Subtotal</b>	<b>120</b>	<b>122</b>	<b>135</b>	<b>134</b>	<b>158</b>	<b>172</b>	<b>162</b>	<b>161</b>
Hydrocarbons	230	252	298	266	283	278	318	399
E&A	27	29	27	32	30	31	28	26
Others	150	158	135	150	60	56	57	59
<b>Total Order Book</b>	<b>2,629</b>	<b>2,575</b>	<b>2,707</b>	<b>2,631</b>	<b>2,717</b>	<b>2,812</b>	<b>2,840</b>	<b>2,934</b>

\*For FY18 - Includes Defence

**Broad breakup of order pipeline:**  
**Infra – Rs 4.5tn, Power T&D – Rs 1tn, Power Generation – Rs 0.5tn, Hydrocarbon – Rs 2-2.5tn Others – Rs 0.5tn**

**Domestic pipeline is about 75% and International is 25%**

*Led by a strong 4QFY19 in terms of order inflow (higher than management guidance), we have built in a robust 13/11% top line growth for FY20/21E which will be driven by Infra, hydrocarbon and the services segments*

*We value the core E&C business at ~50% premium to our EPC companies coverage universe at 22x to factor in the size effect, complexity in operations and cross country presence*

*We arrive at SOTP based TP of Rs 1,794/sh*

### Segment Wise Revenue Assumption:

Gross Revenue (Rs bn)	FY18	FY19	FY20E	FY21E
Infra	634	732	818	900
% YoY Growth		15.4	11.7	10.0
Power	62	40	44	44
% YoY Growth		(35.8)	10.0	0.3
Heavy Engineering	16	25	29	32
% YoY Growth		53.7	15.3	10.0
Defence	32	38	44	49
% YoY Growth		19.5	15.0	10.0
Hydrocarbons	118	152	167	183
% YoY Growth		29.1	10.0	9.9
E&A	55	61	68	75
% YoY Growth		10.6	12.0	10.0
Others	44	59	71	76
% YoY Growth		33.8	20.0	7.0
<b>Ex Services &amp; Dev. Projects</b>	<b>962</b>	<b>1,108</b>	<b>1,241</b>	<b>1,359</b>
% YoY Growth		15.1	12.1	9.5
IT & ITES	114	146	163	187
% YoY Growth		28.1	12.0	14.5
Fin. Services	101	126	149	174
% YoY Growth		25.6	18.0	17.0
Development projects	43	51	56	60
% YoY Growth		18.0	10.0	8.0
<b>Gross Revenue</b>	<b>1,219</b>	<b>1,430</b>	<b>1,609</b>	<b>1,780</b>
% YoY Growth		17.3	12.5	10.6
Less Inter Segmental	-22	-20	-22	-21
<b>Net Revenue</b>	<b>1,197</b>	<b>1,410</b>	<b>1,587</b>	<b>1,759</b>
% YoY Growth		17.8	12.6	10.8

Source: Company, HDFC sec Inst Research

### Valuation Summary – BUY with a TP of Rs 1,794/sh

Business	Valuation methodology	Rs bn	Rs/sh
<b>L&amp;T E&amp;C business</b>	22x Mar-21 E&C Earnings	1,984	1,414
L&T Infotech	IT Analyst's Target Valuation with 25% holdco disc	204	145
L&T Tech services	IT Analyst's Target Valuation with 25% holdco disc	115	82
L&T Finance	Mcap with 25% holdco disc	110	79
Other Subsidiaries, Associates and Developmental Portfolio	0.7x P/BV of Invested Equity	105	74
<b>Target price</b>			<b>1,794</b>

Source: Company, HDFC sec Inst Research

**Income Statement: Consolidated (Rs mn)**

Year ending March	FY17	FY18	FY19P	FY20E	FY21E
<b>Net Revenues</b>	<b>1,093,118</b>	<b>1,196,831</b>	<b>1,410,071</b>	<b>1,587,273</b>	<b>1,759,444</b>
<b>Growth (%)</b>	8.1	9.5	17.8	12.6	10.8
Material Expenses	719,780	771,067	917,064	1,039,790	1,151,876
Employee Expenses	138,531	152,925	181,122	196,187	208,957
Other Operating Expenses	124,061	137,127	149,093	163,442	181,303
<b>EBIDTA</b>	<b>110,747</b>	<b>135,713</b>	<b>162,792</b>	<b>187,854</b>	<b>217,307</b>
<b>EBIDTA (%)</b>	<b>10.1</b>	<b>11.3</b>	<b>11.5</b>	<b>11.8</b>	<b>12.4</b>
<b>EBIDTA Growth (%)</b>	<b>5.8</b>	<b>22.5</b>	<b>20.0</b>	<b>15.4</b>	<b>15.7</b>
Depreciation	23,699	19,287	20,840	23,344	25,718
<b>EBIT</b>	<b>87,048</b>	<b>116,426</b>	<b>141,952</b>	<b>164,510</b>	<b>191,590</b>
Other Income (Incl. EO Items)	15,224	15,350	21,918	28,925	29,243
Interest	13,398	15,385	18,060	19,171	19,846
<b>PBT</b>	<b>88,874</b>	<b>116,391</b>	<b>145,809</b>	<b>174,264</b>	<b>200,987</b>
Tax	20,066	31,989	43,433	57,507	66,326
Minority Interest	4,443	6,346	13,114	12,843	13,466
Share of Associate profits	(3,952)	(4,359)	(210)	(168)	(2,000)
<b>RPAT</b>	<b>60,413</b>	<b>73,698</b>	<b>89,052</b>	<b>103,746</b>	<b>119,195</b>
EO items (net of tax)	(1,214)	(1,230)	(2,948)	-	-
<b>APAT</b>	<b>59,198</b>	<b>72,468</b>	<b>86,104</b>	<b>103,746</b>	<b>119,195</b>
<b>APAT Growth (%)</b>	<b>43.0</b>	<b>22.4</b>	<b>18.8</b>	<b>20.5</b>	<b>14.9</b>
EPS	42.2	51.7	61.4	74.0	85.0
<b>EPS Growth (%)</b>	<b>43.0</b>	<b>22.4</b>	<b>18.8</b>	<b>20.5</b>	<b>14.9</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet: Consolidated (Rs mn)**

As at March	FY17	FY18	FY19P	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital	1,866	2,803	2,806	2,806	2,806
Reserves	500,299	553,767	620,943	696,633	787,774
<b>Total Shareholders' Funds</b>	<b>502,165</b>	<b>556,570</b>	<b>623,748</b>	<b>699,439</b>	<b>790,579</b>
Minority Interest	35,636	56,250	68,261	81,104	94,571
Long Term Debt	774,195	881,922	963,313	983,313	1,003,313
Short Term Debt	165,345	193,319	292,238	317,238	342,238
<b>Total Debt</b>	<b>939,540</b>	<b>1,075,241</b>	<b>1,255,552</b>	<b>1,300,552</b>	<b>1,345,552</b>
Other Non Current Liabilities	9,248	9,455	9,122	9,122	9,122
Deferred Taxes	6,110	6,379	3,111	3,111	3,111
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,492,699</b>	<b>1,703,895</b>	<b>1,959,794</b>	<b>2,093,328</b>	<b>2,242,935</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	116,652	126,726	151,125	148,282	144,067
CWIP	132,979	134,434	139,195	140,195	141,195
Goodwill	13,987	15,618	18,269	18,269	18,269
Investments	90,661	101,929	114,287	164,287	214,287
Other Non Current Assets	739,512	904,470	1,037,460	1,092,555	1,198,385
<b>Total Non-current Assets</b>	<b>1,093,790</b>	<b>1,283,177</b>	<b>1,460,336</b>	<b>1,563,588</b>	<b>1,716,202</b>
Inventories	41,397	48,478	64,139	79,765	88,363
Debtors	286,890	346,541	370,382	429,998	462,759
Cash & bank balances	196,062	174,968	256,724	251,498	222,544
ST Loans & Advances	19,738	23,536	24,890	27,184	32,620
Other Assets	468,983	559,215	614,870	682,505	750,756
<b>Total Current Assets</b>	<b>1,013,070</b>	<b>1,152,737</b>	<b>1,331,005</b>	<b>1,470,951</b>	<b>1,557,043</b>
Creditors	251,058	315,714	429,948	455,798	504,932
Other Current Liabilities & Provns	363,103	416,305	401,598	485,412	525,378
<b>Total Current Liabilities</b>	<b>614,162</b>	<b>732,019</b>	<b>831,546</b>	<b>941,210</b>	<b>1,030,310</b>
<b>Net Current Assets</b>	<b>398,908</b>	<b>420,718</b>	<b>499,459</b>	<b>529,740</b>	<b>526,733</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1,492,699</b>	<b>1,703,895</b>	<b>1,959,794</b>	<b>2,093,328</b>	<b>2,242,935</b>

Source: Company, HDFC sec Inst Research

**Cash Flow: Consolidated (Rs mn)**

Year ending March	FY17	FY18	FY19P	FY20E	FY21E
<i>Non-operating &amp; EO items</i>	(7,971)	(10,696)	(24,569)	(28,925)	(29,243)
Interest expenses	9,161	8,729	18,060	19,171	19,846
Depreciation	23,699	19,287	20,840	23,344	25,718
Working Capital Change	(13,980)	(198,757)	(133,575)	(90,602)	(131,776)
Tax paid	(32,017)	(34,034)	(43,433)	(57,507)	(66,326)
<b>OPERATING CASH FLOW ( a )</b>	<b>66,553</b>	<b>(100,310)</b>	<b>(16,868)</b>	<b>39,745</b>	<b>17,205</b>
Capex	(28,208)	(20,150)	(50,000)	(21,502)	(22,502)
<i>Free cash flow (FCF)</i>	<b>38,345</b>	<b>(120,461)</b>	<b>(66,868)</b>	<b>18,243</b>	<b>(5,297)</b>
Investments	(106,978)	19,025	(12,357)	(50,000)	(50,000)
Non operating income	37,226	40,270	21,918	28,925	29,243
<b>INVESTING CASH FLOW ( b )</b>	<b>(97,959)</b>	<b>39,145</b>	<b>(40,440)</b>	<b>(42,577)</b>	<b>(43,259)</b>
Share capital Issuance	533	495	3	-	-
Debt Issuance	48,804	126,190	180,311	45,000	45,000
Dividend Payment	(20,931)	(23,898)	(17,955)	(28,055)	(28,055)
Interest expenses	(21,740)	(24,707)	(18,060)	(19,171)	(19,846)
Others	22,293	15,624	(5,234)	(168)	-
<b>FINANCING CASH FLOW ( c )</b>	<b>28,959</b>	<b>93,705</b>	<b>139,064</b>	<b>(2,394)</b>	<b>(2,901)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(2,448)</b>	<b>32,539</b>	<b>81,756</b>	<b>(5,226)</b>	<b>(28,954)</b>
Opening Cash & Equivalents	128,841	196,062	174,968	256,724	251,498
Closing Cash & Equivalents	196,062	174,968	256,724	251,498	222,544

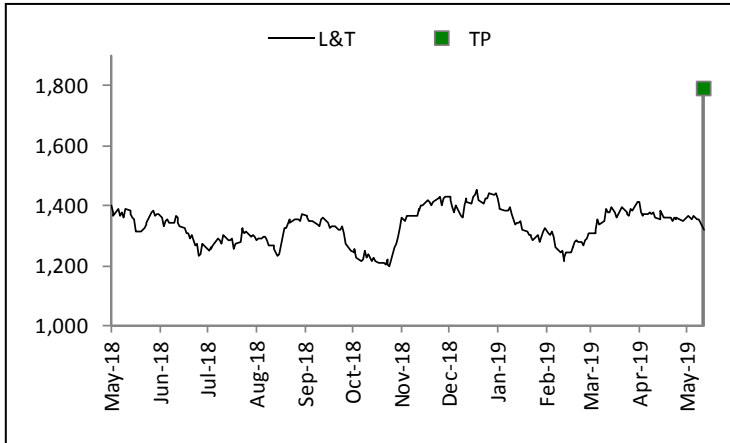
Source: Company, HDFC sec Inst Research

**Key Ratios: Consolidated**

	FY17	FY18	FY19P	FY20E	FY21E
<b>PROFITABILITY %</b>					
GPM	34.2	35.6	35.0	34.5	34.5
EBITDA Margin	10.1	11.3	11.5	11.8	12.4
EBIT Margin	8.0	9.7	10.1	10.4	10.9
APAT Margin	5.4	6.1	6.1	6.5	6.8
RoE	12.5	13.7	14.6	15.7	16.0
Core RoCE	5.7	6.4	6.6	6.7	7.4
RoCE	4.9	5.3	5.4	5.8	6.1
<b>EFFICIENCY</b>					
Tax Rate (%)	22.6	27.5	29.8	33.0	33.0
Asset Turnover (x)	3.8	3.8	3.9	4.1	4.3
Inventory (days)	14	15	17	18	18
Debtors (days)	96	106	96	99	96
Other Current Assets (days)	163	178	166	163	163
Payables (days)	84	96	111	105	105
Other Current Liab (days)	121	127	104	112	109
<b>Net Working Capital Cycle (Days)</b>	<b>68</b>	<b>75</b>	<b>63</b>	<b>64</b>	<b>63</b>
	<b>19%</b>	<b>21%</b>	<b>17%</b>	<b>18%</b>	<b>17%</b>
Debt/EBITDA (x)	8.5	7.9	7.7	6.9	6.2
Net D/E	1.5	1.6	1.6	1.5	1.4
Interest Coverage	6.5	7.6	7.9	8.6	9.7
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	42.2	51.7	61.4	74.0	85.0
CEPS (Rs/sh)	59.1	65.4	76.2	90.6	103.3
DPS (Rs/sh)	15	17	13	20	20
BV (Rs/sh)	358	397	445	499	564
<b>VALUATION</b>					
P/E	31.2	25.5	21.5	17.8	15.5
P/BV	3.7	3.3	3.0	2.6	2.3
EV/EBITDA	23.4	20.3	17.5	15.4	13.7
OCF/EV (%)	2.6	(3.6)	(0.6)	1.4	0.6
FCF/EV (%)	1.5	(4.4)	(2.3)	0.6	(0.2)
FCFE/Market Cap (%)	3.5	(1.0)	5.2	2.4	1.1
Dividend Yield (%)	1.1	1.3	1.0	1.5	1.5

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
13-May-19	1,318	BUY	1,794

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- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

## INSTITUTIONAL RESEARCH

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