

## Larsen & Toubro

### Performance Highlights

#### Quarterly highlights - Standalone

Y/E March (₹ cr)	3QFY16	2QFY16	3QFY15	% chg (yoy)	% chg (qoq)
Net sales	14,774	13,324	14,995	(1.5)	11.6
EBITDA	1,002	1,012	1,569	(36.2)	(1.0)
Adj. PAT	791	643	1,060	(25.3)	23.1

Source: Company, Angel Research

**Standalone numbers disappoint:** For 3QFY2016, Larsen & Toubro (L&T) reported 1.5% yoy decrease in its top-line to ₹14,774cr, reflecting revenue de-growth across Infrastructure and Others segments. The EBITDA margin for the quarter is down 368bp yoy to 6.8%, on account of surge in SAO and employee expenses. The PAT came in at ₹791cr, down 25.3% yoy, reflecting poor operational performance.

Order inflows for the consolidated entity in 9MFY2016 declined 13.2% yoy to ₹93,524cr. The order backlog stands at ₹2,56,458cr, thereby giving revenue visibility for over the next 10 quarters.

**Hydro-carbon reports minimal losses:** Despite completion of legacy projects in the international business, strong execution of ongoing projects helped the Hydro-carbon segment report revenues of ₹2,184cr in 3QFY2016. For the quarter, this segment reported a turnaround in its EBIT to ₹39cr vs a loss of ₹137cr in 3QFY2015. On the whole, this segment ended 9MFY2016 with an EBIT level profit of ₹77cr.

**Key Positives:** Surprise on the order inflow numbers for the quarter, turnaround in the Hydro-carbon segment; net WC cycle at 24% of sales.

**Key Negatives:** Lowering of order inflow guidance for FY2016, revenue de-growth in 3QFY2016.

**Outlook and valuation:** L&T's diversified presence and an anticipated recovery in the capex cycle coupled with the company's strong balance sheet comfort us that it is well positioned to benefit from a revival in the award activity environment. With order backlog expected to grow, execution should pick-up gradually. We have valued the company using the sum-of-the-parts (SoTP) methodology, to capture the value of all its businesses and investments. Ascribing separate values to its parent business (on a P/E basis) and investments in subsidiaries (using P/E, P/BV and M-cap basis), we arrive at FY2017E based target price of ₹1,310. We are of the view that L&T is a good proxy play for investors wanting to ride on the revival of the Indian infrastructure growth story. **Given the 16.7% upside potential in the stock from the current levels, we maintain our BUY rating on the stock.**

#### Key financials (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	51,611	56,599	57,017	58,870	65,708
% chg		9.7	0.7	3.2	11.6
Net Profit	4,385	5,493	5,056	3,981	4,975
% chg		25.3	(8.0)	(21.3)	25.0
EBITDA (%)	10.6	11.8	11.4	8.3	10.3
EPS (₹)	53	59	54	42	53
P/E (x)	21.2	19.0	20.7	26.5	21.2
P/BV (x)	2.4	2.3	2.1	1.9	1.7
RoE (%)	14.2	15.6	13.3	8.8	11.2
RoCE (%)	17.5	18.7	16.3	11.6	13.9
EV/Sales (x)	2.0	2.0	2.0	2.0	1.8
EV/EBITDA (x)	18.5	17.0	17.8	24.1	17.5

Source: Company, Angel Research; Note: CMP as of February 1, 2016

## BUY

CMP	₹1,122
Target Price	₹1,310

Investment Period	12 Months
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#### Stock Info

Sector	Infrastructure
Market Cap (₹ cr)	104,496
Net debt (₹ cr)	11,421
Beta	1.2
52 Week High / Low	1,893/1,070
Avg. Daily Volume	2,542,243
Face Value (₹)	2
BSE Sensex	26,656
Nifty	8,066
Reuters Code	LART.BO
Bloomberg Code	LT@IN

#### Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian Fls	39.3
FII / NRIs / OCBs	16.7
Indian Public / Others	44.0

Abs. (%)	3m	1yr	3yr
Sensex	(6.9)	(14.9)	25.5
LT	(20.5)	(34.0)	9.7

#### 3-year price chart



Source: Company, Angel Research

#### Yellapu Santosh

022 - 3935 7800 Ext: 6811

santosh.yellapu@angelbroking.com

**Exhibit 1: Quarterly Performance (Standalone)**

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)	9mFY16	9mFY15	% chg
<b>Net Sales</b>	<b>14,774</b>	<b>13,234</b>	<b>11.6</b>	<b>14,995</b>	<b>(1.5)</b>	<b>38,718</b>	<b>38,049</b>	<b>1.8</b>
<b>Total Expenditure</b>	<b>13,772</b>	<b>12,222</b>	<b>12.7</b>	<b>13,426</b>	<b>2.6</b>	<b>35,730</b>	<b>34,052</b>	<b>4.9</b>
Operating Expenses	11,819	10,372	14.0	11,921	(0.9)	30,405	29,581	2.8
Employee benefits Expense	1,200	1,254	(4.4)	959	25.1	3,443	3,141	9.6
Sales, Admin & Other Expenses	753	596	26.4	546	38.0	1,882	1,330	41.6
<b>EBITDA</b>	<b>1,002</b>	<b>1,012</b>	<b>(1.0)</b>	<b>1,569</b>	<b>(36.2)</b>	<b>2,988</b>	<b>3,998</b>	<b>(25.2)</b>
EBITDA %	6.8	7.6		10.5		7.7	10.5	
Depreciation	244	254	(3.6)	264	(7.4)	744	762	(2.4)
EBIT	757	759	(0.2)	1,306	(42.0)	2,244	3,236	(30.6)
Interest and Financial Charges	381	383	(0.6)	500	(23.8)	1,052	1,085	(3.1)
Other Income	617	487	26.6	622	(0.8)	1,658	1,713	(3.2)
PBT before Exceptional Items	993	863	15.1	1,427	(30.4)	2,851	3,864	(26.2)
Exceptional Items	(92)	(546)		0		(638)	(171)	
PBT after Exceptional Items	1,085	1,409	(23.0)	1,427	(24.0)	3,488	4,035	(13.6)
Tax	202	220	(8.2)	367	(44.9)	716	1,040	(31.1)
% of PBT	18.6	15.6		25.7		20.5	25.8	
<b>PAT</b>	<b>883</b>	<b>1,188</b>	<b>(25.7)</b>	<b>1,060</b>	<b>(16.7)</b>	<b>2,772</b>	<b>2,996</b>	<b>(7.5)</b>
<b>Adj. PAT (for excep. Items)</b>	<b>791</b>	<b>643</b>	<b>23.1</b>	<b>1,060</b>	<b>(25.3)</b>	<b>2,135</b>	<b>2,824</b>	<b>(24.4)</b>
Adj. PAT %	5.4	4.9		7.1		5.5	7.4	
Dil. EPS	9.44	12.71	(25.7)	11.34	(16.8)	29.63	32.06	(7.6)

Source: Company, Angel Research

## Standalone business

### Revenues de-grew 1.5% yoy

For the quarter, L&T reported a 1.5% yoy decline in its top-line to ₹14,774cr. The reported revenues were below our expectation of ₹15,895cr. Revenue de-growth on a yoy basis reflects (1) 8.7% decrease in Infrastructure segment, 2.6% decrease in Metallurgical & Material Handling segment and 23.3% decrease in Others segment. Revenue de-growth across Infrastructure segment was owing to slowdown in payments cycle and delayed clearances. Sharp revenue de-growth in Others segment reflects slowdown in the Realty business, and delayed receipt of new orders. Whereas, on the other hand, Power segment reported strong yoy revenue growth reflecting strong execution of large ticket projects won in the previous year.

**Exhibit 2: Segment-wise Gross Revenue Split (Standalone)**

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)	9mFY16	9mFY15	% chg
Infrastructure	9,785	9,241	5.9	10,720	(8.7)	26,226	26,374	(0.6)
Power	2,107	1,352	55.9	1,075	96.1	4,551	3,034	50.0
Metallurgical & Material Handling	678	646	4.9	696	(2.6)	1,852	2,378	(22.1)
Heavy Engineering	826	568	45.5	749	10.3	1,989	2,361	(15.8)
Electrical & Automation	1,085	1,038	4.6	1,060	2.4	2,992	2,814	6.3
Others	791	833	(5.0)	1,030	(23.3)	2,376	2,086	13.9
Less: Inter-segment Revenues	327	289	13.2	205	59.9	803	633	26.7
<b>Gross Segmental Revenues</b>	<b>14,944</b>	<b>13,388</b>	<b>11.6</b>	<b>15,125</b>	<b>(1.2)</b>	<b>39,183</b>	<b>38,412</b>	<b>2.0</b>

Source: Company, Angel Research

**Exhibit 3: Segment-wise Unadj. EBIT & EBIT Margins (Standalone)**

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)	9mFY16	9mFY15	% chg
Infrastructure	833	703	18.6	937	(11.1)	2,280	2,485	(8.3)
EBIT Margin (%)	8.5	7.6		8.7		8.7	9.4	
Power	79	82	(3.5)	66	20.6	182	150	21.7
EBIT Margin (%)	3.8	6.1		6.1		4.0	4.9	
Metallurgical & Material Handling	(24)	7	nmf	36	nmf	(39.6)	178	nmf
EBIT Margin (%)	(3.6)	1.1		5.2		(2.1)	7.5	
Heavy Engineering	(17)	(88)	nmf	64	nmf	(64.7)	225	nmf
EBIT Margin (%)	(2.1)	(15.5)		8.6		(3.3)	9.6	
Electrical & Automation	122	103	17.6	126	(3.7)	322	308	4.7
EBIT Margin (%)	11.2	10.0		11.9		10.8	10.9	
Others	136	162	(16.0)	352	(61.4)	453	554	(18.2)
EBIT Margin (%)	17.2	19.4		34.2		19.0	26.5	
<b>Segmental EBIT (unadj.)</b>	<b>1,129</b>	<b>969</b>	<b>16.4</b>	<b>1,582</b>	<b>(28.7)</b>	<b>3,132</b>	<b>3,900</b>	<b>(19.7)</b>

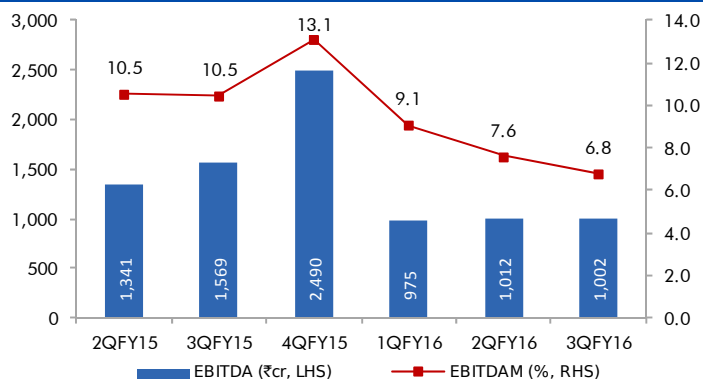
Source: Company, Angel Research; Note- nmf- Not Meaningful

**Reports sub-7% EBITDA margin since 2QFY2007**

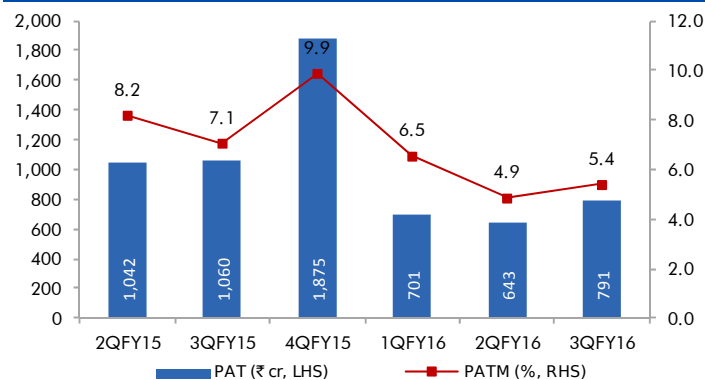
L&T reported lower than expected EBITDA of ₹1,002cr in 3QFY2016. L&T, for the first time since 2QFY2007 (6.4% margins), reported EBITDA margins below 7.0% levels, ie at 6.8%. Further, 3QFY2016 is the third successive quarter where L&T reported yoy decline in its EBITDA margins (down 368bps). Top-line de-growth coupled with (a) 25.1% yoy increase in employee expenses (to ₹1,200cr), and (b) 38.0% yoy increase in Sales, Administrative and other (SAO) expenses (to ₹753cr) led to the yoy decline in EBITDA margins.

At the segment level, EBIT margin pressure on yoy basis was seen across Infrastructure (down 23bp to 8.5%), Electrical & Automation segment (down 72bp to 11.2%); and Others segment (down 1,701bp to 17.2%). Margin compression across Electrical & Automation segment is on account of change in project/product sales mix and new product introductions.

Sharp decline in Other segment's margin is owing to lower contribution from the high margin Realty business. In 3QFY2016 there were no benefits of accumulated margin recognition as in 3QFY2015.

**Exhibit 4: EBITDA margin declines to 6.8%**


Source: Company, Angel Research

**Exhibit 5: Adj. PAT margin decline yoy to 5.4%**


Source: Company, Angel Research

### Adj. PAT numbers report yoy decline

L&T reported PAT of ₹883cr for the quarter, again below our estimate. On adjusting for gains on divestment of part stake in 3 subsidiaries and stake in an associate company (at ₹92cr), the Adjusted PAT of the company stood at ₹791cr. The Adj. PAT margin of the company declined from 7.1% a year ago to 5.4% in 3QFY2016. Decline in yoy Adj. PAT is on account of decline in EBITDA and 23.8% decrease in depreciation expenses to ₹381cr.

### Consolidated business

#### Revenue grew 8.3% yoy

L&T reported an 8.3% yoy and 10.4% qoq growth in its consolidated business' top-line to ₹25,829cr. Revenue growth on yoy basis reflects (1) weak execution across Infrastructure segment (2.5% revenue growth to ₹12,112cr), (2) strong execution across Power segment (100.8% increase in revenue to ₹2,296cr), (3) 22.7% increase in Hydro-carbon segment (to ₹2,184cr), and 16.6% increase in IT & Technology Services segment (to ₹2,320cr).

Weak project execution in domestic markets was offset by strong execution across International business within the Infrastructure segment. Despite legacy projects still nearing completion, stronger execution across Hydro-carbon segment led the segment report strong 22.7% yoy revenue increase. IT & Technology Services benefitted from strong revenue contribution from wide range of sectors (barring Energy sector). Commissioning of new roads and increase in traffic across GSRDC roads led to 12.4% yoy increase in Developmental project revenues to ₹1,288cr.

**Exhibit 6: Quarterly Performance (Consolidated)**

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)	9mFY16	9mFY15	% chg
<b>Net Sales</b>	<b>25,829</b>	<b>23,393</b>	<b>10.4</b>	<b>23,848</b>	<b>8.3</b>	<b>69,475</b>	<b>63,982</b>	<b>8.6</b>
<b>Total Expenditure</b>	<b>23,179</b>	<b>20,802</b>	<b>11.4</b>	<b>20,962</b>	<b>10.6</b>	<b>61,943</b>	<b>56,255</b>	<b>10.1</b>
Man. Cons. & Opex Exp. (MCO)	19,049	16,996	12.1	17,763	7.2	50,499	46,458	8.7
Employee benefits Expense	2,411	2,433	(0.9)	1,929	25.0	6,937	5,949	16.6
Sales, Admin & Other Expenses	1,719	1,372	25.3	1,271	35.3	4,508	3,849	17.1
<b>EBITDA</b>	<b>2,650</b>	<b>2,592</b>	<b>2.3</b>	<b>2,886</b>	<b>(8.2)</b>	<b>7,531</b>	<b>7,727</b>	<b>(2.5)</b>
EBITDA %	10.3	11.1		12.1		10.8	12.1	
Depreciation	620	694	(10.6)	679	(8.7)	1,936	2,035	(4.9)
EBIT	2,030	1,898	7.0	2,207	(8.0)	5,596	5,692	(1.7)
Interest and Financial Charges	745	828	(10.0)	918	(18.9)	2,279	2,379	(4.2)
Other Income	452	219	106.2	237	90.8	929	728	27.5
PBT before Exceptional Items	1,737	1,289	34.8	1,525	13.9	4,245	4,041	5.0
Exceptional Items	0	(310)		0		(310)	(249)	
PBT after Exceptional Items	1,737	1,599	8.7	1,525	13.9	4,555	4,291	6.2
Tax	556	494	12.6	569	(2.4)	1,595	1,487	7.2
% of PBT	32.0	30.9		37.3		35.0	34.7	
<b>PAT before Minority Int.</b>	<b>1,182</b>	<b>1,105</b>	<b>6.9</b>	<b>956</b>	<b>23.6</b>	<b>2,960</b>	<b>2,803</b>	<b>5.6</b>
Extra-Ordinary Items	0	0		0		0	0	
Share in profit of Associates (net)	(2)	(1)		2		(1)	4	
Adj. of Minority Interests	(145)	(109)		(91)		(322)	(112)	
<b>PAT after Minority Interest</b>	<b>1,035</b>	<b>996</b>	<b>3.9</b>	<b>867</b>	<b>19.4</b>	<b>2,637</b>	<b>2,695</b>	<b>(2.2)</b>
<b>Adj. PAT (for excep. Items)</b>	<b>1,035</b>	<b>686</b>	<b>50.8</b>	<b>867</b>	<b>19.4</b>	<b>2,327</b>	<b>2,446</b>	<b>(4.8)</b>
Adj. PAT %	4.0	2.9		3.6		3.3	3.8	
Dil. EPS	11.07	10.65	3.9	9.27	19.4	28.20	28.84	(2.2)

Source: Company, Angel Research

### EBITDA margin declines yoy to 10.3%

L&T reported an 184bps yoy decline in EBITDA margin in 3QFY2016 to 10.3%. The decline is owing to (1) 25.0% increase in employee expenses to ₹2,411cr and (2) 35.3% increase in SAO expenses to ₹1,719cr. Surge in employee expenses is on account of manpower augmentation, normal revisions and higher staff mix from international operations. Increase in yoy SAO expenses is mainly attributable to higher provisions.

Further, if we look at the segment-wise details, then yoy EBIT margins were impacted due to margin compression seen across Power (545bps), Electrical Automation (193bps), Infrastructure (23bps), and Others segments (224bps). Notably, the Hydro-Carbon business reported 1.8% EBIT margin during the quarter, against loss margin in the previous quarter and the year ago quarter.

### Adj. PAT margins continue to decline

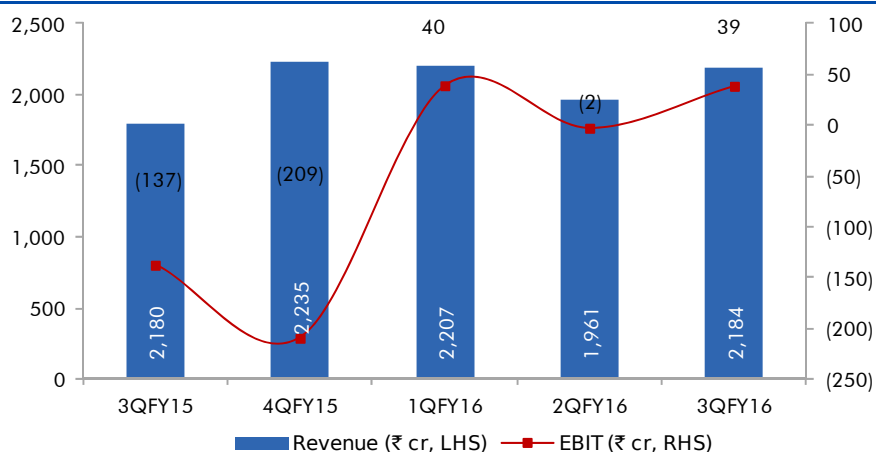
L&T reported a PAT of ₹1,035cr for 3QFY2016. PAT margins of the company were at 4.0%, higher than the previous year's 3.6%. Despite yoy EBITDA de-growth, 90.8% increase in other income to ₹452cr and lower tax rates (at 32.0% in

3QFY2016 vs 37.3% in 3QFY2015) led to a 19.4% yoy increase in PAT. Increase in other income on a yoy basis is owing to treasury gains. PAT numbers also benefitted from 18.9% yoy decrease in interest expenses (to ₹745cr), which reflects impact of loan refinancing and debt retrials.

### Hydro-carbon business turns around

At the backdrop of stronger execution, Hydro-carbon business reported revenues of ₹2,184cr.

**Exhibit 7: Hydro-carbon - Quarterly Revenues & EBIT**



Source: Company, Angel Research

Hydro-carbon business reported strong ₹39cr EBIT in 3QFY2016 (vs ₹137cr EBIT level loss in the corresponding period a year ago). EBIT level turn around reflects loss minimisation of international projects in the current year and legacy projects nearing completion.

### IT & Technology Services business report strong growth

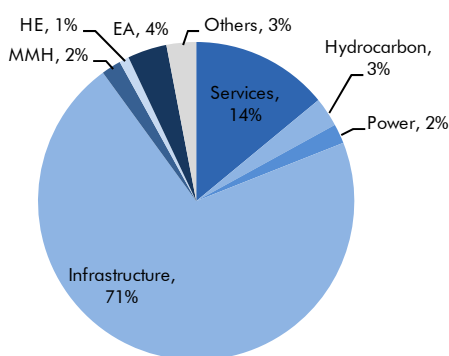
L&T's IT & Technology Services business reported an impressive 16.6% yoy increase in revenue for the quarter to ₹2,320cr. Top-line growth was driven across all the end-markets across sectors, except the Energy segment. On the profitability front, operational efficiencies led to EBIT margin expanding by 233bp yoy to 19.8%.

## Order inflow growth disappoints

The consolidated order inflow for the quarter increased 11.3% yoy to ₹38,528cr (on excluding the Services business, order inflow reported 9.9% yoy increase). A majority of 3QFY2016 order inflows were from Transportation Infra, PT&D and Water business.

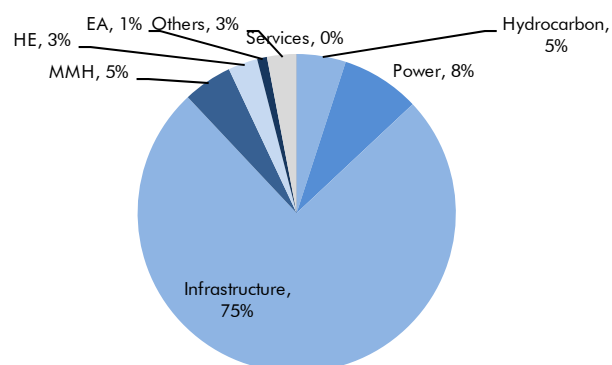
On the whole, order inflows for 9MFY2016 declined 13.2% yoy to ₹93,524cr.

**Exhibit 8: 3QFY16 Order Inflows mix (consol.)**



Source: Company, Angel Research

**Exhibit 9: 3QFY16 Order Book mix (consol.)**



Source: Company, Angel Research

L&T's order book currently stands at ₹2,56,458cr, indicating a 13.6% yoy growth. As of 3QFY2016, L&T's order book is majorly dominated by Infra (75%), followed by Power (8%) and Hydro-carbon (5%) segments. MMH (5%), HE (3%) and Others (3%) which constitute the remaining order book. International order book constitutes 27% of the total order book. The current order book gives revenue visibility for over the next 10 quarters.

One of the positives of the 3QFY2016 results were 11.4% yoy increase in 3QFY2016 order inflows.

In the back-drop of lower 9MFY2016 order inflows and reduced bid pipeline of ₹2,00,000cr (from the earlier ₹5,00,000cr at the beginning of year), company Management lowered its order inflow growth guidance from earlier 5-7% to flattish levels for FY2016. L&T in order to attain its flattish order inflow growth guidance for FY2016 has to report ₹61,900cr order wins in 4QFY2016. This translates to an asking rate of 30% order inflow growth in 4QFY2016, which in our view is very challenging.

Despite management's optimistic order inflow guidance, we revise downward our order inflow (to ₹150,500cr and ₹162,600cr) and order book (to ₹2,88,800cr and ₹3,47,000cr) assumptions for FY2016E and FY2017E, respectively.

## Revision of Estimates

Considering the yoy de-growth across 9MFY2016 order inflow numbers and lower than expected revenue booking, we revise down our top-line and PAT number estimates. We now expect L&T (standalone entity) to report PAT of ₹3,981cr and ₹4,975cr for FY2016E and FY2017E, respectively.

### Exhibit 10: Revised estimates

Particulars (₹ cr)	FY2016E			FY2017E		
	Old	New	% chg.	Old	New	% chg.
Net Sales	64,148	58,870	(8.2)	73,241	65,708	(10.3)
EBITDA	7,377	4,857	(34.2)	8,569	6,735	(21.4)
EBITDA Margins (%)	11.5	8.3		11.7	10.2	
Rep. PAT	5,776	3,981	(31.1)	6,155	4,975	(19.2)
Rep. PAT Margins (%)	9.0	6.8		8.4	7.6	

Source: Company, Angel Research

## Valuation

### We recommend BUY with a target price of ₹1,310

We believe L&T has a tough chance to beat its revised order inflow guidance and also attain its revenue growth guidance for FY2016. Further, on considering 9MFY2016 results for Hydro-carbon vertical, we expect improved performance to continue in 4QFY2016. On the whole, L&T with its diverse business profile (E&C, Power, Alternate Energy, Roads & Highways, Defense, Metros, Urban Infra) is well positioned to benefit from revival in domestic infra capex cycle.

### Exhibit 11: Derivation of SOTP-based target price for L&T (FY2017E)

Business Segment	Methodology	Remarks	₹ cr	₹/share	% to TP
<b>L&amp;T- Parent</b>	P/E	15.0x FY2017E Earnings	<b>74,632</b>	<b>790</b>	<b>60.3</b>
<b>Infrastructure Subsidiaries</b>					
IDPL	P/BV	1.3x FY2017E BV	11,133	118	9.0
<b>Key Subsidiaries - Services</b>					
L&T InfoTech	P/E	15.0x FY2017E Earnings	16,574	175	13.4
L&T Finance	M-cap Basis	20% holding company discount	7,667	81	6.2
<b>Realty Space</b>					
L&T Realty (inc. Seawoods Realty)	P/BV	1.0x FY2017E BV	3,180	34	2.6
<b>Hydro-Carbons Business</b>					
Hydro-Carbons	P/BV	1.5x FY2017E BV	1,965	21	1.6
<b>Key Subsidiaries - Manufacturing</b>					
L&T Power-equipment JVs	P/BV	1.0x FY2017E BV	698	7	0.6
Other Associate Companies	P/BV	1.0x FY2017E BV	5,420	58	4.4
<b>International Business</b>					
International Subsidiaries	P/BV	1.5x FY2017E BV	2,322	25	1.9
<b>Grand Total</b>			<b>108,360</b>	<b>1,310</b>	<b>100</b>
<b>Upside</b>				<b>16.7%</b>	
CMP				1,122	

Source: Company, Angel Research



We have valued the company using sum-of-the-parts (SOTP) methodology to capture the value of all its businesses and investments. Ascribing separate values to its parent business on a P/E basis and investments in subsidiaries (using P/E, P/BV and M-cap basis), we arrive at a FY2017E target price of ₹1,310. At the current market price of ₹1,122, the standalone entity is trading at an implied P/E multiple of 11.4x (FY2017), which is attractive. We are of the view that L&T is a proxy play for investors wanting to play on the revival in the Indian infrastructure growth story. **Given the 16.7% upside potential in the stock from the current levels, we maintain our BUY rating on the stock.**

## Investment arguments

- **Indian capex recovery is a matter of time:** Recent burst of policy measures would ease environment for capex. This along with rate cuts makes us believe that strong recovery is on the cards. Considering that the award activity revival should further gain momentum, we sense that a full-fledged recovery will be seen only in FY2017, but we can expect early signs of improvement in L&T's execution and margin expansion from 1QFY2017 onwards.

Slowdown in order inflow from the Middle East markets coupled with revival in domestic capex cycle should lead to shift in the order inflow mix more towards the domestic markets, going forward. On the back of shift in order book towards domestic markets, we expect uptick in execution. Accordingly, we have modeled a 7.4% top-line CAGR over FY2015-2017E.

Given that L&T is currently sitting on an order book which gives revenue visibility for over 10 quarters, this shift in order inflow mix should help the company in faster margin recovery. We expect EBITDA margins to expand from 8.3% in FY2016E to 10.3% in FY2017E.

- **Best stock to play the Indian infrastructure theme:** We are of the view that L&T is very well positioned to benefit from gradual recovery in the domestic capex cycle, given its diverse range of sectoral exposure, strong balance sheet and better cash flow generating potential in comparison to its peers, which are struggling with higher leverage, and strained cash flows.

## Company background

L&T, the largest Indian infrastructure conglomerate, is present across almost all the infrastructure segments and is at the forefront of the Indian infra growth story. Over the years, the company has diversified across various segments to encash the untapped infra opportunity, not only in India but in other geographies as well, and has an excellent track record of achieving the same. Currently, L&T manufactures and services its business in over 30 countries worldwide.

**Profit & loss statement (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
<b>Net Sales</b>	<b>51,611</b>	<b>56,599</b>	<b>57,017</b>	<b>58,870</b>	<b>65,708</b>
% Chg		9.7	0.7	3.2	11.6
Total Expenditure	46,138	49,932	50,530	54,013	58,973
Raw Mat. & Contracting Exp.	40,205	43,346	44,397	45,889	51,679
Employee benefits Expense	3,861	4,662	4,151	5,181	4,797
Sales, Admin. & Other Expenses	2,072	1,923	1,982	2,944	2,497
<b>EBITDA</b>	<b>5,473</b>	<b>6,667</b>	<b>6,488</b>	<b>4,857</b>	<b>6,735</b>
% Chg		22	(3)	(25)	39
EBIDTA %	10.6	11.8	11.4	8.3	10.3
Depreciation	728	792	1,008	1,013	1,102
EBIT	4,745	5,875	5,480	3,844	5,633
% Chg		23.8	(6.7)	(29.8)	46.5
Interest and Financial Charges	955	1,076	1,419	1,466	1,618
Other Income	1,887	1,881	2,283	2,328	2,547
PBT	5,678	6,679	6,344	4,706	6,561
Exceptional Item	(176)	(589)	(357)	(546)	(120)
PBT after Exceptional Item	5,854	7,268	6,701	5,252	6,681
Tax Expenses	1,541	1,775	1,645	1,271	1,706
% of PBT	27.1	26.6	25.9	27.0	26.0
PAT before Extra-Ordinary Items	4,313	5,493	5,056	3,981	4,975
Extra-Ordinary Item	(72)	0	0	0	0
<b>PAT</b>	<b>4,385</b>	<b>5,493</b>	<b>5,056</b>	<b>3,981</b>	<b>4,975</b>
% Chg		25.3	(8.0)	(21.3)	25.0
PAT %	8.5	9.7	8.9	6.8	7.6
EPS (after Extra-ord. Items)	53	59	54	42	53
% Chg		11.6	(8.3)	(21.6)	25.0

**Balance Sheet (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
<b>Sources of Funds</b>					
Equity Capital	123	185	186	186	186
Reserves Total	29,020	33,476	36,899	40,847	45,111
<b>Networth</b>	<b>29,143</b>	<b>33,662</b>	<b>37,085</b>	<b>41,032</b>	<b>45,297</b>
Total Debt	8,834	11,459	12,937	15,000	16,500
Other Long-term Liabilities	788	393	470	557	569
Deferred Tax Liability	242	410	363	363	363
<b>Total Liabilities</b>	<b>39,007</b>	<b>45,924</b>	<b>50,854</b>	<b>56,952</b>	<b>62,729</b>
<b>Application of Funds</b>					
Gross Block	11,855	11,397	12,604	14,554	16,534
Accumulated Depreciation	3,550	3,836	4,844	5,856	6,959
<b>Net Block</b>	<b>8,305</b>	<b>7,561</b>	<b>7,760</b>	<b>8,697</b>	<b>9,575</b>
Capital WIP	597	676	222	250	250
<b>Investments</b>	<b>16,103</b>	<b>19,215</b>	<b>23,053</b>	<b>26,103</b>	<b>28,413</b>
Current Assets	47,419	50,853	55,869	58,436	62,051
Inventories	2,064	1,983	2,208	2,359	2,575
Sundry Debtors	22,613	21,539	23,051	23,876	24,475
Cash and Bank Balance	1,456	1,783	1,516	2,269	2,735
Loans, Advances & Deposits	9,413	10,067	10,533	12,088	13,279
Other Current Asset	11,873	15,481	18,562	17,845	18,987
Current Liabilities	33,417	32,381	36,050	36,534	37,560
<b>Net Current Assets</b>	<b>14,002</b>	<b>18,472</b>	<b>19,820</b>	<b>21,902</b>	<b>24,491</b>
<b>Total Assets</b>	<b>39,007</b>	<b>45,924</b>	<b>50,854</b>	<b>56,952</b>	<b>62,729</b>

**Cash Flow Statement (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15P	FY16E	FY17E
Profit before tax	5,678	6,679	6,344	4,706	6,561
Depreciation	728	792	1,008	1,013	1,102
Change in Working Capital	(3,703)	(5,029)	(1,579)	(2,229)	(3,030)
Net Interest & Financial Charges	422	581	909	946	1,083
Direct taxes paid	(1,653)	(1,977)	(1,645)	(1,271)	(1,706)
<b>Cash Flow from Operations</b>	<b>1,472</b>	<b>1,047</b>	<b>5,037</b>	<b>3,165</b>	<b>4,011</b>
(Inc)/ Dec in Fixed Assets	(1,000)	(962)	(1,655)	(1,922)	(1,980)
(Inc)/ Dec in Investments	1,657	(252)	(2,345)	397	149
<b>Cash Flow from Investing</b>	<b>657</b>	<b>(1,214)</b>	<b>(3,999)</b>	<b>(1,524)</b>	<b>(1,831)</b>
Issue/ (Buy Back) of Equity	163	144	0	0	0
Inc./ (Dec.) in Loans	(1,515)	2,612	1,478	2,063	1,500
Dividend Paid (Incl. Tax)	(1,115)	(1,227)	(1,375)	(1,485)	(1,595)
Interest Expenses	(850)	(1,025)	(1,419)	(1,466)	(1,618)
<b>Cash Flow from Financing</b>	<b>(3,316)</b>	<b>504</b>	<b>(1,316)</b>	<b>(888)</b>	<b>(1,713)</b>
Inc/(Dec) in cash (inc. Dis. Opr)	(410)	337	(278)	753	467
<b>Opening Cash balances</b>	<b>1,906</b>	<b>1,496</b>	<b>1,794</b>	<b>1,516</b>	<b>2,269</b>
<b>Closing Cash balances</b>	<b>1,496</b>	<b>1,794</b>	<b>1,516</b>	<b>2,269</b>	<b>2,735</b>

**Key Ratios (Standalone)**

Y/E March	FY13	FY14	FY15	FY16E	FY17E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	21.2	19.0	20.7	26.5	21.2
P/CEPS	18.7	16.6	17.4	21.1	17.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	2.0	2.0	2.0	2.0	1.8
EV/EBITDA	18.5	17.0	17.8	24.1	17.5
EV / Total Assets	2.6	2.5	2.3	2.1	1.9
<b>Per Share Data (₹)</b>					
EPS (fully diluted)	52.9	59.0	54.1	42.4	53.0
Cash EPS	59.9	67.5	64.6	53.2	64.7
DPS	12.0	12.3	13.3	14.4	15.4
Book Value	464	493	542	607	668
<b>Returns (%)</b>					
RoCE (Pre-tax)	17.5	18.7	16.3	11.6	13.9
Angel RoIC (Pre-tax)	17.5	17.2	15.5	11.0	13.2
RoE	14.2	15.6	13.3	8.8	11.2
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block) (X)	4.4	4.9	4.8	4.3	4.2
Inventory / Sales (days)	15	13	13	14	14
Receivables (days)	160	142	143	145	134
Payables (days)	134	122	127	125	113
<b>Leverage Ratios (x)</b>					
D/E ratio (x)	0.3	0.3	0.3	0.4	0.4
Interest Coverage Ratio (x)	6.9	7.2	5.5	4.2	5.1

Research Team Tel: 022 - 39357800

 E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

 Website: [www.angelbroking.com](http://www.angelbroking.com)

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	L&T
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)