

Larsen & Toubro

Performance Update (Standalone)

Quarterly Summary:

Y/E March (₹ cr)	Q2FY20	Q2Y19	% yoy	Q1FY20	% qoq
Revenue	18,752	17,520	7.0	16,499	13.7
EBITDA	1,553	1,483	4.7	1,216	27.7
OPM (%)	8.3	8.5	(20 bps)	7.4	90 bps
Adjusted PAT	1,984	1,257	58	765	159

Source: Company, Angel Research

Strong order inflow: At group level, L&T registered strong order inflow of ~₹483 billion up 20% YoY. At quarter end, group level order book stood at ~₹3032 billion, up 16% YoY. Major new orders came from hydrocarbon, power and building factory segment. Order Inflow was primarily driven by public investment as private capex still remains weak. In Q2FY20, standalone revenue, EBITDA, and adjusted PAT grew by 7%, 4.7% and 58% YoY respectively. Operating margin however reduced by 20bps to 8.3%.

Guidance: L&T maintained its guidance of 10-12% order inflow growth & 12-15% revenue growth on consolidated basis (including Mindtree) for FY20. Given how H1FY20 has panned out, above numbers looks achievable. On consolidated basis, L&T has included Mindtree number for the quarter.

Opted for lower tax rate: L&T has opted for reduced tax rate of 25.2% for most group companies barring IT&TS. The unutilized credit for MAT has been written off and deferred tax assets/ deferred tax liabilities have been restated at 25.2%.

Other highlights: Working capital as a percentage of sales deteriorated by 3% to 23% in H1FY20 compared to 20% in H1FY19, due to elongated credit period & vendor support on account of liquidity crunch in the market. QoQ working capital remains stable while receivables payment cycle also remains unchanged. Electrical & Automation (E&A) has been shown under discontinued operations as sale of this business is expected to be completed within one year for cash consideration of ₹14,000cr to Schneider.

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 5 years. We maintain "Buy" on L&T with a SOTP based target price of ₹1809.

Key Financials:

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
Net Sales	74,463	86,988	91,855	1,02,877
% chg		16.8	5.6	12.0
Net Profit	5,387	6,678	8,637	8,721
% chg		24.0	29.3	1.0
EBITDA (%)	10.3	10.0	9.8	9.8
EPS (Rs)	38.5	47.6	61.6	62.2
P/E (on FDEPS)	36.9	29.8	23.0	22.9
P/BV (x)	4.1	3.8	3.4	3.1
RoE (%)	11.32	13.13	15.61	14.51
RoCE (%)	11.44	12.44	11.03	11.07
EV/EBITDA	23.4	20.7	20.0	17.3
EV/Sales	2.4	2.1	2.0	1.7

Source: Company - Valuation as on closing price as on 11/11/2019 (standalone basis)

BUY

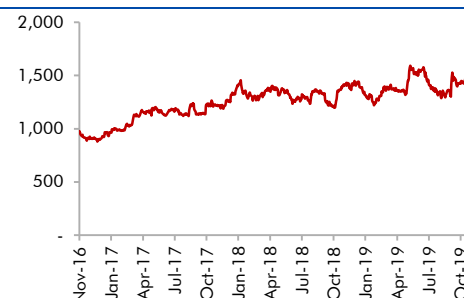
CMP	₹1417
Target Price	₹1809
Investment Period	12 months

Stock Info	
Sector	Infrastructure
Market Cap (₹ cr)	198,887
Net Debt (₹ cr)	16,245
Beta	1.3
52 Week High / Low	1607/1183
Avg. Daily Monthly Volume	2,518,032
Face Value (₹)	2
BSE Sensex	40,345
Nifty	11,913
Reuters Code	LART.NS
Bloomberg Code	LT.IN

Shareholding Pattern (%)	
Promoters	0.0
MF / Banks / Indian FIs	37.8
FII / NRIs / OCBs	19.5
Indian Public / Others	42.7

Abs. (%)	3m	1yr	3yr
Sensex	10.8	14.0	45.1
L&T	4.6	4.2	53.6

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

Q2FY20 Performance:

Y/E March (₹ cr)	Q2FY20	Q2Y19	% yoy	Q1FY20	% qoq	FY2020E	FY2019	% chg
Net Sales	18751.7	17520.2	7.0	16498.9	13.7	91854.6	86987.9	5.6
Cost of Materials Consumed	7376.4	6996.2	5.4	6733.1	9.6	39515.9	36932.2	7.0
(% of Sales)	39.3	39.9		40.8		107.0	42.5	
Purchases of Stock-in-Trade	196.2	190.5	3.0	188.9	3.9	0.0	1786.1	-100.0
(% of Sales)	1.0	1.1		1.1		0.0	2.1%	
Changes in Inventories	-70.5	-209.6	-66.4	-245.9	-71.3	0.0	-1296.1	-100.0
(% of Sales)	-0.4	-1.2		-1.5		0.0	-1.5%	
Employee Benefits Expenses	1547.7	1477.2	4.8	1448.0	6.9	6521.7	6082.5	7.2
(% of Sales)	8.3	8.4		8.8		17.7	7.0%	
Other Expenses	8148.9	7582.9	7.5	7158.8	13.8	36833.7	34799.4	5.8
(% of Sales)	43.5	43.3		43.4		99.7	40.0%	
Total Expenditure	17198.6	16037.1	7.2	15282.9	12.5	82871.3	78304.1	5.8
Operating Profit	1553.1	1483.1	4.7	1216.0	27.7	8983.4	8683.7	3.5
OPM margin	8.3	8.5		7.4		9.8	10.0	
Interest	559.0	369.7	51.2	481.6	16.1	2105.4	1641.4	28.3
Depreciation	249.7	227.2	9.9	233.9	6.7	1158.1	1068.0	8.4
Other Income	1022.2	662.3	54.3	462.1	121.2	3050.0	2768.8	
PBT (excl. Ext Items)	1766.5	1548.4	14.1	962.5	83.5	8769.9	8743.2	0.3
Exceptional item (Income)/Expense	0.0	-496.8	0.0	-627.0	0.0	-627.0	-474.9	
Share of profit/ (loss) of associates & JV	0.0	0.4		0.4				
PBT (incl. Ext Items)	1766.5	2045.2	-13.6	1589.5	11.1	9396.9	9218.2	1.9
(% of Sales)	9.4	11.7		9.6		10.2	10.6	
Provision for Taxation	-10.1	430.7		315.8		1409.5	2313.3	
Taxation pertaining to earlier years	0.0	0.0		0.0		0.0	227.1	
(% of PBT)	-0.6	21.1		19.9		15.0	25.1	
Reported PAT (Continued Operation)	1776.6	1614.5	10.0	1273.7	39.5	7987.4	6677.7	19.6
Adjusted PAT	1776.6	1117.7		646.7		7360.4	6429.9	
Reported PAT (Discontinued Operation)	207.0	139.2		118.3		650.0		
Reported PAT (Continued Operation & Discontinued Operation)	1983.6	1753.7		1392.0		8637.4	6677.7	
Adjusted PAT (Continued Operation & Discontinued Operation)	1983.6	1256.9		765.0		8010.4	6429.9	
PATM	9.5	6.4		3.9		8.0	7.4	
Equity shares (cr)	140.3							
FDEPS (Rs)	14.1	12.5	13.1	9.9	42.5	61.6	47.6	29.3

Source: Company, Angel Research

Segment Performance:

Gross Segment Revenue	Q2FY20	Q2FY19	Q1FY19
Infrastructure	15,998	14,345	13,357
Power	492	1060	563
Heavy Engineering	706	544	991
Defense Engineering	1020	886	967
Electrical & Automation	1217	1175	1173
Others	643	813	721
Total	20076	18824	17773
Less: Revenue of discontinued operations	1217	1175	1173
Less: Inter Segment Revenue	107	128	101
Revenue from Continuing operations	18752	17520	16499

Segment Results	Q2FY20	Q2FY19	Q1FY19
Infrastructure	924	765	638
Power	10	53	9
Heavy Engineering	142	103	159
Defence Engineering	160	237	166
E&A (discontinued operations)	253	205	178
Others	97	194	163
Total	1585	1556	1312
Less : Result of discontinuing operations	253	205	178
Less : Inter-segment margins on capital jobs	17	-	6
Less : Finance costs	559	370	482
Add : Unallocable corporate income net of exp	1010	567	316
Add/(Less) : Exceptional items(net)	-	497	627
PBT from continuing operations	1766	2045	1589

Source: Company, Angel Research

Valuation:

	L&T Stake %	Discount%	Methodology	₹/ share	Value %
L&T Standalone	100		FY21E - 21x PE	1315	72.7
Hydrocarbon	100		FY21E - 20x PE	90	5.0
L&T Infotech	74.8	20	Mcap	124	6.8
L&T Technology	75.0	20	Mcap	67	3.7
Mindtree	60.6	20	Mcap	40	2.2
L&T Finance Holdings	63.9	20	Mcap	70	3.8
L&T IDPL	97.0		BV - 2x	55	3.1
Others		20	BV - 0.8x	47	2.6
			Total	1809	100.0

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
Revenue	74463	86988	91855	102877
% chg		16.8	5.6	12.0
Total Expenditure	66762	78304	82871	92795
Cost of Materials Consumed	30180	36932	39516	44443
Purchases of Stock-in-Trade	1531	1786	0	0
Changes in Inventories	-1047	-1296	0	0
Employee Benefits Expenses	5615	6082	6522	7201
Other Expenses	30484	34799	36834	41151
EBITDA	7701	8684	8983	10082
% chg		12.8	3.5	12.2
(% of Net Sales)	10.3	10.0	9.8	9.8
Depreciation & Amortisation	1049	1068	1158	1237
EBIT	6651	7616	7825	8845
% chg		14.5	2.8	13.0
(% of Net Sales)	8.9	8.8	8.5	8.6
Interest & other Charges	1432	1641	2105	2040
Other Income	1613	2769	3050	3203
(% of PBT)	23.6	31.7	34.8	32.0
Recurring PBT	6832	8743	8770	10008
% chg		28	0	14
Exceptional Items	431	475	627	0
Tax	1875	2540	1410	2002
Current & deferred tax	1710	2313	1410	2002
Taxation pertaining to earlier years	166	227	0	0
(% of PBT)	25.0	26.5	16.1	20.0
PAT (reported - Continued operation)	5387	6678	7987	8006
PAT (reported - Discontinued operation)	0	0	650	715
Total PAT (reported)	5387	6678	8637	8721
ADJ. PAT	5122	6430	8010	8721
% chg		25.5	24.6	8.9
(% of Net Sales)	6.9	7.4	8.7	8.5
Basic EPS (Rs)	38.5	47.6	61.6	62.2
Fully Diluted EPS (Rs)	38.4	47.5	61.5	61.8
% chg		23.9	29.4	0.5

Source: Company, Angel Research

Note: Due to lack of clarity when E&A will be sold, it is shown in FY20E & FY21E under PAT from discontinued operation.

Standalone Balance Sheet:

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	280	281	281	281
Reserves & Surplus	48,890	52,270	57,865	63,206
Shareholders Funds	49,171	52,551	58,146	63,486
Total Debt	10,561	10,192	21,000	19,000
Non Current Liabilities	583	552	580	625
Total Liabilities	60,314	63,294	79,726	83,111
APPLICATION OF FUNDS				
Gross Block	9,759	10,990	12,190	13,590
Less: Acc. Depreciation	3,293	4,190	5,348	6,584
Net Block	6,466	6,800	6,842	7,006
Capital Work-in-Progress	653	753	800	820
Non current Investments	23,469	20,521	30,500	31,500
Long-Term Loans and Advances	4,797	5,080	5,689	6,315
Other non-current assets	816	1,419	1,442	1,472
Current Assets	79,402	91,153	1,00,384	1,10,209
Investment	4,345	4,695	5,000	5,500
Inventories	2,500	3,220	3,607	4,040
Sundry Debtors	22,917	28,217	31,359	34,678
Cash & Bank Balance	4,318	7,599	8,385	8,894
Short-Term Loans and Advances	7,960	6,475	6,993	7,553
Other Current Assets	37,362	40,946	45,041	49,545
Current liabilities	55,289	62,431	65,933	74,211
Net Current Assets	24,114	28,722	34,452	35,998
Total Assets	60,314	63,294	79,726	83,111

Source: Company, Angel Research

Standalone Cash Flow Statement:

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net Profit	6,832	8,743	10,047	10,723
Depreciation	1,049	1,068	1,158	1,237
Change in Working Capital	(3,222)	(3,712)	(4,331)	(213)
Others	57	(1,165)	(1,467)	(1,749)
Taxes paid	(1,764)	(2,685)	(1,410)	(2,002)
Cash Flow from Operations	2,952	2,249	3,997	7,996
(Inc.)/ Dec. in Fixed Assets	(1,013)	(786)	(1,247)	(1,420)
(Inc.)/ Dec. in Investments	(2,197)	4,822	(10,284)	(1,500)
Others	4,997	(2,282)	1,167	1,444
Cash Flow from Investing	1,787	1,753	(10,364)	(1,476)
Issue of Equity	50	11	-	-
Inc./(Dec.) in borrowings	(1,871)	(185)	10,808	(2,000)
Dividend(includind DDI)	(1,961)	(2,243)	(3,043)	(3,381)
Others	293	(2,032)	(1,300)	(1,000)
Cash Flow from Financing	(3,489)	(4,449)	6,466	(6,381)
Inc./(Dec.) in Cash	1,250	(447)	99	140
Opening Cash balances	1,938	3,188	2,741	2,840
Closing Cash balances	3,188	2,741	2,840	2,980

Source: Company, Angel Research

Key Ratios:

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	36.9	29.8	23.1	22.9
P/CEPS	31.3	26.2	20.3	20.0
P/BV	4.1	3.8	3.4	3.1
Dividend yield (%)	1.0	1.1	1.3	1.4
EV/Sales	2.4	2.1	2.0	1.7
EV/EBITDA	23.4	20.7	19.9	17.4
EV / Total Assets	1.6	1.4	1.2	1.1
Per Share Data (Rs)				
EPS (Basic)	38.5	47.6	61.6	62.2
EPS (fully diluted)	38.4	47.5	61.5	61.8
Cash EPS	45.2	54.2	69.8	71.0
DPS	14.0	16.0	18.0	20.0
Book Value	349.8	373.5	414.5	452.6
Returns (%)				
Angel ROIC (Pre-tax)	25.4	27.1	24.6	25.2
ROCE	11.4	12.4	11.0	10.9
ROE	11.3	13.1	15.6	14.3

Source: Company, Angel Research

Note: Valuation as on closing price as on 11/11/2019 (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)	