

Q3FY23 Result Highlights

- **Healthy Core E&C performance in Q3FY23 with improving W.C management** – The company reported strong 17.3% YoY & 8.5% QoQ growth with Core E&C (ex-services) sales registered growth of 15.6% YoY at ₹319.5 bn, as execution in infrastructure segment picked up pace. Domestic E&C segment registered growth of 19% YoY, whereas overseas E&C revenue witnessed growth of 9% YoY. Given stellar core business revenue growth of 20% and order inflow growth of 32% in 9MFY23, management is confident of achieving the upper end of its guidance of 12-15% YoY growth both on the revenue as well as on the order inflow front with the potential to over shoot both the guidance. However, given margin pressure witnessed in core business, management expects some moderation in its margin guidance for FY23 and now expects margin to decline 30-50 bps YoY in FY23 due to weak margins seen in 1HFY23 on higher commodity prices and project closure costs. It expects to maintain working capital around 19-20% of net sales for FY23. While suggesting bottoming out of margin, the company remained non-committal to the extent of recovery on most key parameters of execution, ordering and margin.
- **Order book up 14% YoY to ₹3.87tn** – Driven by strong order inflow growth of 34% for 9MFY23, the order book for L&T was up by 14% yoy at ₹3.87tn. Unlike the same period last year, this year witnessed strong awarding from domestic markets, particularly in infrastructure from segments such as heavy civil infrastructure, metals and mining, T&D and buildings and factories. Central, public sector spending and private sector spending drove the growth in inflows. A large part of the domestic order book of ₹2.86 tn is from PSUs (40%) and states (31%), with the center (9%) and private sector accounting for 20% share. Nearly 27% of the total order book is funded by multilateral agencies. GCC is the one bright spot (~18% of order backlog), where conditions are supportive for an uptick in both oil and non-oil capex.
- **Prospect pipeline of ₹4.9 tn for Q4FY23** – Q3FY23 order inflow stood at ₹607bn (+21% YoY) meaningfully ahead of supported by sharp improvement in domestic orders, which formed 75% of total order inflow and witnessed 52% YoY improvement. The management has indicated a prospect pipeline of ₹4.9tn for Q4FY23 across both domestic (₹3.8tn) and international (₹1.05tn). Infrastructure segment prospects stand at ₹3.89tn, spread across heavy civil (32%), transportation (29%), water (14%), building and factories (13%), power (9%) and metals and mining (3%). Hydrocarbon project prospect pipeline stands at ₹0.6tn, power ₹0.2tn, heavy engineering and defense at around ₹0.17tn.
- **Metro ridership improving continuously** – Hyderabad's metro ridership has improved to 394,000 pax per day from 355,000 pax per day in Q2FY23 and 218,000 per day in Q3FY22. During Jan'23, average ridership crossed 471,000 pax per day. Improving ridership levels reduced the loss for L&T metro to ₹3.3bn in Q3FY23 versus ₹4.8bn in Q3FY22. The company received ₹1bn from the state government as interest-free soft loan and expects to receive ₹9bn in coming quarters. Along with this, it is targeting ToD monetization of ₹10-15bn every year. Thus, timely receipt of state government support and ToD monetization would reduce overall burden of loss funding from L&T. Loss funding till 9MFY23 stood at ₹3bn. L&T is relying on 150 bn of debt reduction on ~₹30bn of state support and ~₹20bn from

Important Statistics

MCAP (₹ bn)	2,986.5
52 Week H/L (₹)	2,297/1,457
NSE Code	LT
BSE Code	500510

Shareholding Pattern	Dec'22 (%)
Promoter	-
DII	39.9
FII	23.5
Public & Others	36.6

Financials

(₹ mn)

Particulars	FY20	FY21	FY22
Revenue	1,454,524	1,359,790	1,565,212
EBITDA	163,290	156,241	182,241
<i>EBITDA Margin (%)</i>	<i>11.2</i>	<i>11.5</i>	<i>11.6</i>
Adjus.Net Profit	88,945	69,010	86,693
EPS (₹)	63.4	49.1	61.7
DPS (₹)	18.0	36.0	22.0
RoE (%)	12.2	8.3	9.4
RoCE (%)	5.6	8.0	4.9
P/E (x)	33.5	43.3	34.4
EV/EBITDA (x)	30.2	30.6	22.2
P/BV (x)	4.5	3.9	3.6

Particulars	FY23E	FY24E	FY25E
Revenue	1,843,761	2,105,991	2,367,895
EBITDA	211,798	256,397	296,871
<i>EBITDA Margin (%)</i>	<i>11.5</i>	<i>12.2</i>	<i>12.5</i>
Net Profit	106,992	141,467	170,951
EPS (₹)	76.1	100.7	121.7
DPS (₹)	24.0	26.0	28.0
RoE (%)	10.6	12.8	13.9
RoCE (%)	5.4	6.7	7.4
P/E (x)	27.9	21.1	17.5
EV/EBITDA (x)	19.3	15.8	13.7
P/BV (x)	3.3	3.1	2.8

Source: Company, Way2Wealth

transit-oriented development by FY25. Coupled with ridership levels becoming 1.5x current levels over this period, L&T hinted at Hyderabad Metro becoming cash breakeven by FY25.

- **Plans for new ventures** – L&T is eyeing a total investment of ₹15bn for electrolyzers, ₹25bn for battery storage and ₹18-20bn for data center over the next few years. It is looking for a joint venture partner for electrolyzers and battery storage and is also under discussion with players for the required technology.

View

L&T Core E&C business performance in Q3FY23 showcased sharp improvement in order inflow (+20% YoY), revenue (+16% YoY), and working capital cycle (19% v/s 22.9% in 9MFY23); however, margins witnessed pressure on account of Adverse job mix, Cost pressures, and Closure related cost. L&T's long-term business prospects remain promising given infrastructure development (NIP of ₹111 tn) and GATI Shakti being central government's pivotal theme to revive the Indian economy. A robust order book, strong balance sheet, diversified business portfolio and proven execution capabilities have acted as an economic moat for L&T in the current volatile and challenging economic environment. With continued focus on selective order acquisition, efficient execution of large order book, foray into new businesses like electrolyzers, green energy and its focus on improving its RoE, we believe L&T will continue to perform well in such challenging times. Transformation into new business portfolio via its long-term strategic plan will drive future growth and profitability as it scales up gradually. We believe execution for Core E&C business should pick-up meaningfully given the strong inflow and improving working capital cycle. Hence, we continue to remain **ACCUMULATE** on the stock with **TP** of **₹2430- 2450**.

01st February 2023

CMP – ₹2,125.1/-

 View – **ACCUMULATE**
CONSOLIDATED FINANCIAL PERFORMANCE

(₹ mn)								
Particulars	Q3FY23	Q3FY22	YoY(%)	Q2FY23	QoQ(%)	9MFY23	9MFY22	YoY(%)
Net Sales	463,897	395,629	17.3	427,626	8.5	1,250,055	1,036,706	20.6
Material Expenses	293,876	253,340	16.0	267,416	9.9	771,281	635,302	21.4
Employee Expenses	95,325	76,210	25.1	91,663	4.0	272,330	217,630	25.1
SG&A Expenses	23,966	20,791	15.3	19,553	22.6	67,242	66,806	0.7
EBITDA	50,730	45,288	12.0	48,994	3.5	139,203	116,968	19.0
<i>EBITDA Margin (%)</i>	<i>10.9</i>	<i>11.4</i>	<i>(51)</i>	<i>11.5</i>	<i>(52)</i>	<i>11.1</i>	<i>11.3</i>	<i>(15)</i>
Interest Cost	8,025	8,138	(1.4)	8,357	(4.0)	23,942	24,206	(1.1)
Depreciation	8,252	7,325	12.7	8,602	(4.1)	26,488	21,786	21.6
Exceptional Item	463,897	395,629	17.3	427,626	8.5	1,250,055	1,036,706	20.6
Other Income	7,550	5,714	32.1	7,385	2.2	21,883	17,515	24.9
PBT	43,364	35,539	22.0	39,421	10.0	112,017	89,460	25.2
Tax	12,701	10,571	20.2	11,229	13.1	30,235	26,616	13.6
Minority Interest	(5,055)	(4,624)	9.3	(5,563)	(9.1)	(15,881)	(12,321)	28.9
Associate Profits	(75)	203	(136.8)	(339)	(78.0)	(1,061)	(36)	2,838.8
Reported PAT	25,533	20,547	24.3	22,290	14.6	64,839	50,486	28.4
Adjus PAT	24,173	20,547	17.6	22,290	8.4	63,480	49,517	28.2

Source: Company, Way2Wealth

CONSOLIDATED SEGMENTAL REVENUE

(₹ mn)								
Segment	Q3FY23	Q3FY22	YoY(%)	Q2FY23	QoQ(%)	9MFY23	9MFY22	YoY(%)
Infrastructure	222,057	186,190	19.3	196,682	12.9	562,744	433,189	29.9
Energy	63,462	59,676	6.3	55,934	13.5	170,271	169,355	0.5
Hi- Tech Manufacturing	18,631	15,485	20.3	15,889	17.3	48,401	44,013	10.0
Others	222,057	186,190	19.3	196,682	12.9	562,744	433,189	29.9
Ex-Services	319,508	276,478	15.6	285,937	11.7	830,526	690,069	20.4
IT&TS	106,051	84,980	24.8	101,839	4.1	302,492	236,418	27.9
Financial Services	33,486	29,706	12.7	31,519	6.2	94,586	90,077	5.0
Development Projects	11,067	9,756	13.4	13,446	(17.7)	37,967	32,718	16.0
Services	150,603	124,441	21.0	146,804	2.6	435,044	359,213	21.1
Gross Revenue	470,112	400,918	17.3	432,741	8.6	1,265,570	1,049,281	20.6
Less: Intersegment	6,214	5,289	17.5	5,115	21.5	15,515	12,576	23.4
NET REVENUE	463,897	395,629	17.3	427,626	8.5	1,250,056	1,036,706	20.6

Source: Company, Way2Wealth

01st February 2023

CMP – ₹2,125.1/-

 View – **ACCUMULATE**
SEGMENTAL ORDER INFLOW TREND

(₹bn)

Order inflows	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY	QoQ
	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	(%)	(%)
Infrastructure	157	281	412	113	145	456	314	112	121	252	451	184	251	325	28.4	29.8
Energy	192	8	34	12	9	128	46	19	146	82	76	42	84	91	11.7	7.2
HI-Tech manufacturing	13	7	12	6	16	15	20	11	11	30	61	33	18	19	(36.4)	9.2
Others	15	4	73	5	10	22	15	11	23	15	24	21	20	22	43.9	11.3
Ex Services	377	300	531	136	180	621	395	152	301	379	611	280	373	457	20.3	22.7
Services	107	116	47	99	106	111	112	114	120	126	128	138	146	150	21.3	2.2
TOTAL	484	416	578	235	287	732	507	266	421	504	739	418	519	607	20.5	16.9

Source: Company, Way2Wealth

SEGMENTAL ORDER BOOK TREND

(₹ bn)

Order Book	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY	QoQ
	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	(%)	(%)
Infrastructure	2,153	2,236	2,249	2,197	2,212	2,450	2,456	2,460	2,446	2,485	2,610	2,653	2,681	2,783	12.0	3.8
Energy	667	643	608	580	538	596	589	550	628	647	644	654	708	735	13.6	3.8
HI-Tech manufacturing	151	123	121	123	120	132	98	97	99	136	179	182	186	193	42.0	3.8
Others	61	61	61	153	120	132	131	129	132	136	143	145	149	155	13.6	3.8
TOTAL	3,032	3,063	3,039	3,053	2,990	3,311	3,274	3,237	3,305	3,404	3,576	3,634	3,724	3,866	13.6	3.8

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

01st February 2023

CMP – ₹2,125.1/-

 View – **ACCUMULATE**

(₹ mn)							
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Order Inflow	1,768,340	1,863,560	1,754,970	1,929,970	2,171,531	2,413,841	2,751,821
Order Book	2,907,800	3,038,570	3,273,540	3,575,950	4,159,186	4,450,311	4,914,437
Revenue	1,352,203	1,454,524	1,359,790	1,565,212	1,843,761	2,105,991	2,367,895
EBITDA	153,296	31,715	156,241	182,173	211,798	256,397	296,871
EBITDA Margin (%)	11.3	2.2	11.5	11.6	11.5	12.2	12.5
Net Profit	80,410	88,945	115,829	86,693	106,992	141,467	170,951
EPS (₹)	57.3	63.4	49.1	61.7	76.1	100.7	121.7
DPS (₹)	18.0	18.0	36.0	22.0	24.0	26.0	28.0
RoE (%)	13.2	12.2	8.3	9.4	10.6	12.8	13.9
RoCE (%)	5.6	5.6	8.0	4.9	5.4	6.7	7.4
P/E (x)	37.1	33.5	43.3	34.4	27.9	21.1	17.5
EV/EBITDA (x)	30.9	30.2	30.6	22.2	19.3	15.8	13.7
P/BV (x)	4.8	4.5	3.9	3.6	3.3	3.1	2.8
Net Debt/Equity (x)	1.6	1.7	1.3	1.0	1.0	0.9	0.8
Cash Balances	117,262	151,178	162,415	189,532	287,678	329,442	361,502
FCF	(81,915)	33,944	219,218	161,237	20,181	88,372	91,725

Source: Company, Way2Wealth Research

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Name of the Security	Larsen & Toubro Ltd
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / No	No
Date of buying	
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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