

01st February 2024

CMP – ₹3,412.3/-

View – ACCUMULATE

Q3FY24 Result Highlights

- **Strong execution enabled broad based growth in Q3FY24** – L&T reported strong growth of ~19%/~14%/~16% YoY in consolidated Revenue/EBITDA/PAT to ₹551.3bn/₹57.6bn/₹29.5bn for Q3FY24. The Core E&C (ex-services) sales grew 25.4% YoY (+12.2% QoQ) to ₹440.6bn as execution in infrastructure segment picked up pace which grew 27% YoY. The growth was broad-based across segments and equally healthy for both domestic and overseas geographies with Energy Projects (+24% YoY) and Hi-Tech Manufacturing (+17% YoY) reported strong growth while services business dragged revenue. IT Services grew ~7% YoY while Financial Services saw a revenue growth of ~2% YoY. Development Projects (+10% YoY) and Others Segment (+13% YoY) saw low double digit revenue growth. Infrastructure segment continues to report low single digit EBIT margin at 4.3% (-160bps YoY, +20bps QoQ) due to weakness in execution of new order wins, as the related boost from reaching margin threshold was absent to offset uptick in execution of legacy projects. PBT grew 10% YoY to ₹47.7bn with PAT growth of 16% YoY helped by a lower ETR of 25%. Order inflows grew by 25.2% YoY to ~₹760bn with order book standing at a record ₹4.7tn, +22% YoY. Once again, it was overseas order inflows that supported growth. Domestic order inflow at ₹251bn (-45% YoY) while exports order inflow at ₹509bn (+236% YoY). Export order inflows have been driven by mega order wins in Middle-East while domestic order inflows have remained weak compared to last year. Domestic constitutes 61% at ₹2.87tn (Central Govt. – 12%, State Govt. – 31%, PSUs – 35%, Private – 22%). International Orderbook of ₹1.83tn (Middle East – 92% (80% of this is from Saudi Arabia), Africa – 2%, RoW – 6%). Order prospect pipeline at ₹6.27tn (Infrastructure at ₹4.1tn, +6% YoY; Hydrocarbon at ₹1.7tn, +179% YoY; Power at ₹0.3tn, +50% YoY; Rest at ₹0.16tn) suggestive of a strong end to the year.
- **EBITDA Margin came in lower than expected with management lowering its earlier guidance** – EBITDA Margin stood at 10.4% dropping both sequentially and on-YoY basis. Infrastructure segment margin has been in the low single digit range in each of the last three quarters impacted by execution of legacy projects. The company expects sequential improvement in the margin profile with increased proportion of newer projects in the revenue mix. However, it has lowered its earlier guided range of 8.5-9% EBITDA margin for the Projects & Manufacturing segment to 8.25-8.5%. Apart from infrastructure, each of the other segments reported improvement in margin on YoY basis with Energy Projects reporting EBIT margin expansion of 100bps with margin at 8.8%, Hi-Tech Manufacturing reporting 20bps YoY expansion with margin at 13.5%, IT&TS reporting 130bps YoY expansion with margin at 17.4%.
- **Middle East continued to bolster order inflow growth; exports accounted for 67% of order inflow for Q3FY24** – L&T continues to benefit from large order wins in the Saudi geography resulting in an international order inflow growth of 174% YoY during 9MFY24. Exports contributed 42%, 67%, 67% in the first three quarters of FY24 order inflow. On the other hand, domestic ordering has remained subdued compared to the previous year with domestic order inflow reporting decline of 11% YoY during 9MFY24. Election related slowdown remains an overhang on domestic order inflows in the next few quarters.

Important Statistics

Nifty	21,756
Sensex	71,749
MCAP (₹ bn)	4,690.3
52 Week H/L (₹)	3,739/2,074
NSE Code	LT
BSE Code	500510
Bloomberg Code	LT:IN

Shareholding Pattern	Dec'23 (%)
Promoter	-
DII	37.5
FII	25.5
Public & Others	37.0

Financials

Particulars	FY21	FY22	FY23
Revenue	1,359,790	1,565,212	1,833,407
EBITDA	156,241	182,241	207,533
EBITDA Margin (%)	11.5	11.6	11.3
Net Profit	69,010	86,693	104,707
EPS (₹)	50.2	63.1	76.2
DPS (₹)	36.0	22.0	24.0
RoE (%)	8.3	9.4	10.4
RoCE (%)	7.3	5.3	6.2
P/E (x)	68.0	54.1	44.8
EV/EBITDA (x)	37.6	32.7	27.7
P/BV (x)	5.3	4.9	4.5

Particulars	FY24E	FY25E	FY26E
Revenue	2,203,835	2,546,841	260,337
EBITDA	239,466	297,657	34,315
EBITDA Margin (%)	10.9	11.7	13.2
Net Profit	135,877	174,089	209,193
EPS (₹)	98.9	126.7	152.2
DPS (₹)	26.0	28.0	30.0
RoE (%)	14.5	15.8	16.6
RoCE (%)	7.0	8.3	9.4
P/E (x)	34.5	26.9	22.4
EV/EBITDA (x)	23.8	18.9	16.2
P/BV (x)	4.4	4.3	4.1

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
L&T	59.4	141.8	181.5
Nifty 50	23.5	52.3	99.7
Sensex	20.2	47.6	96.7

Source: Company, Way2Wealth

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- **Net Working Capital continues to see improvement leading to an improved RoE** – L&T's Net Working Capital/Sales improved 10bps QoQ, 240bps YoY to 16.6% during Q3FY24. The company reported robust cash collections (ex-financial service) of ₹494bn (+14% YoY). Despite softness in margin, the company's trailing twelve-month RoE improved 280bps YoY to 15.2%. It aims to continue the RoE improvement path with focus on cash collections and margin improvement.
- **Energy Projects** – Net revenue stood at ₹78.6bn (+24% YoY) with EBITDA margin expanding 100bps YoY to 9.7%. International revenue has almost doubled while domestic revenue has declined 24% YoY. Last few years, power business has been supported by FGD orders. Utilisation of BTG power plant is 30%. Some part of facility is getting utilised for other sectors. 50% utilization level is needed to break-even.
- **IT&TS** – Net revenue grew 5% YoY to ₹112bn with EBITDA margin expanding 180bps YoY to 20.7%. Improved utilisation levels drove margin improvement in LTI Mindtree.
- **Other Segment** – Net revenue grew 12% YoY to ₹15.3bn with EBITDA margin expanding 100bps to 13.3%. Revenue growth is driven by Realty business which saw revenue of ₹19bn in 9MFY24, Order Inflow of ₹21bn/₹5.25bn in 9M/Q3FY24
- **Nabha Power sees improving PLF load factor, with the Hyderabad Metro having QoQ ridership decline.** Nabha Power contributes incrementally at the PAT level, with higher PLF load factor, while the Hyderabad Metro is seeing a ridership decline QoQ - 4.4Lakh in Q3FY24 versus 4.6Lakh in Q2FY24 owing to recent government scheme of free bus ridership for Telangana women, albeit a meaningful improvement in contribution to PAT at a loss of ₹3.5bn in 9MFY24 versus ₹9.9bn in 9MFY23. The related party debt for the Hyderabad Metro has been converted into equity during the quarter of ₹30bn, which is expected to save ₹2.4bn in interest on the Hyderabad Metro's financial statements. This transaction is undertaken with L&T focusing on reducing the financial burden of metro operations, essentially improving its case of deleveraging the asset, which is not fruitful at the moment.
- Q3FY24 saw a 3MW hydrogen electrolyzer plant being commissioned, with an expected outlay of ₹5-6bn for a hydrogen manufacturing factory. L&T is planning for a semiconductor facility, with the Board approving an equity infusion of ₹8bn over the next 2 years, which also includes inorganic routes to acquire design companies in pursuit of talent acquisition
- **Guidance** – L&T has improved its Revenue/Order Inflow guidance to growth of +15%/+20% for FY24 from the beginning year guidance of 12%/15%, on the onset of healthy execution of order book. Yet, the margin improvement expected to come from the new order additions post-FY21 is expected to defer further to the next quarter, with legacy projects getting tapered out ahead. That being said, the company is expecting sequential margin improvement in the consol. ex-services in the next 4-5 quarters, with an onus of reaching a double-digit margin. The working capital as a percentage of sales is also expected to improve, reaching a range of 16.3-17% from the previously guided levels of 16-18%. While the domestic execution could be subdued owing to elections in the following quarter, overseas execution is not seeing any risk emanating with respect to execution. Given the

01st February 2024

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company's stance on seeing commodity prices cooling down, ahead in the year, it believes in securing order book from lower margins by undertaking 43% of its orders as fixed contracts (historically at 33%) and sees no risk in cancellation of orders from the Middle East.

View

The company expects sequential improvement in core business margins, however, meaningful improvement could be seen Q2FY25 onwards as FY25 will have significant share of newer high margin orders in revenue mix. Claim settlement is in progress for some specific high value projects that saw cost and time overruns during covid. The management sees the risk of an election related slowdown impact on execution and inflows for Q4FY24 and Q1FY25. However, an increased share of international orderbook implies a reduced impact of the domestic slowdown. Private capex, though, is witnessing green shoots, but it is yet to see a full recovery. Management has increased its guidance on both revenue an order inflow for FY24 while lowering its EBITDA margin guidance for Projects & Manufacturing segment. While an orderbook growth of ~22% YoY is expected to translate into strong execution, election related slowdown in both ordering and execution momentum cannot be completely ruled out. We expect margin to gradually inch up starting FY25 with greater share of energy projects in the revenue mix and lower share of legacy projects. We remain positive on the company's strong business model, robust bid pipeline, diversified order book and healthy balance sheet. Hence, we continue to remain **ACCUMULATE** on the stock with **TP** of **₹3,800-3,850**.

01st February 2024

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CONSOLIDATED FINANCIAL PERFORMANCE

(₹ mn)								
Particulars	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	9MFY24	9MFY23	YoY(%)
Net Sales	551,278	463,897	18.8	510,240	8.0	1,540,342	1,250,055	23.2
Material Expenses	366,691	293,876	24.8	324,728	12.9	999,835	771,281	29.6
Employee Expenses	102,533	95,325	7.6	102,989	(0.4)	304,415	272,330	11.8
SG&A Expenses	24,465	23,966	2.1	26,204	(6.6)	73,496	67,242	9.3
EBITDA	57,590	50,730	13.5	56,320	2.3	162,597	139,203	16.8
EBITDA Margin (%)	10.4	10.9	(49)	11.0	(59)	10.6	11.1	(58)
Interest Cost	9,042	8,025	12.7	8,640	4.6	26,195	23,942	9.4
Depreciation	9,208	8,252	11.6	9,099	1.2	26,611	26,488	0.5
Exceptional Item	-	1,360	(100.0)	-	#DIV/0!	-	1,360	(100.0)
Other Income	8,378	7,550	11.0	11,330	(26.1)	31,163	21,883	42.4
PBT	47,718	43,364	10.0	49,911	(4.4)	140,953	112,017	25.8
Tax	11,773	12,705	(7.3)	11,355	3.7	35,291	30,235	16.7
Minority Interest	(6,455)	(5,055)	27.7	(6,229)	3.6	(18,709)	(15,881)	17.8
Associate Profits	(17)	(75)	(77.6)	(101)	(83.4)	(323)	(1,061)	(69.6)
Reported PAT	29,474	25,529	15.5	32,226	(8.5)	86,630	64,839	33.6
EPS (₹)	21.4	18.2	18.0	23.4	(8.6)	63.0	46.1	36.6
Adjus.PAT	29,474	24,169	21.9	32,226	(8.5)	86,630	63,480	36.5
Adjus.EPS (₹)	21.4	17.2	24.7	23.4	(8.6)	63.0	45.2	39.5

Source: Company, Way2Wealth

CONSOLIDATED SEGMENTAL REVENUE

(₹ mn)								
Segment	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	9MFY24	9MFY23	YoY(%)
Infrastructure	282,664	222,057	27.3	249,768	13.2	756,388	562,744	34.4
Energy	78,703	63,462	24.0	67,943	15.8	213,550	170,271	25.4
Hi- Tech Manufacturing	21,847	18,631	17.3	20,411	7.0	61,941	48,401	28.0
Others	17,418	15,360	13.4	18,880	(7.7)	59,770	49,110	21.7
Ex-Services	400,632	319,508	25.4	357,002	12.2	1,091,649	830,526	31.4
IT&TS	113,260	106,051	6.8	112,470	0.7	335,336	302,492	10.9
Financial Services	34,067	33,486	1.7	30,841	10.5	95,104	94,586	0.5
Development Projects	12,199	11,067	10.2	18,531	(34.2)	43,694	37,967	15.1
Services	159,525	150,603	5.9	161,842	(1.4)	474,134	435,044	9.0
Gross Revenue	560,157	470,112	19.2	518,843	8.0	1,565,783	1,265,570	23.7
Less: Intersegment	8,879	6,214	42.9	8,603	3.2	25,441	15,515	64.0
NET REVENUE	551,278	463,897	18.8	510,240	8.0	1,540,342	1,250,056	23.2

Source: Company, Way2Wealth

01st February 2024

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SEGMENTAL ORDER INFLOW TREND

(₹ bn)

Order inflows	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	YoY (%)	QoQ (%)
Infrastructure	281	412	113	145	456	314	112	121	252	451	184	251	325	411	400	277	432	32.8	56.3
Energy	8	34	12	9	128	46	19	146	82	76	42	84	91	91	72	401	133	46.7	(66.9)
HI-Tech manufacturing	7	12	6	16	15	20	11	11	30	61	33	18	19	84	13	27	20	5.8	(23.7)
Others	4	73	5	10	22	15	11	23	15	24	21	20	22	23	20	27	16	(26.5)	(38.9)
Ex Services	300	531	136	180	621	395	152	301	379	611	280	373	457	609	504	731	602	31.5	(17.7)
Services	116	47	99	106	111	112	114	120	126	128	138	146	150	152	151	161	158	5.7	(1.5)
TOTAL	416	578	235	287	732	507	266	421	504	739	418	519	607	761	655	892	760	25.2	(14.8)

Source: Company, Way2Wealth

SEGMENTAL ORDER BOOK TREND

(₹ bn)

Order Book	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	YoY (%)	QoQ (%)
Infrastructure	2,236	2,249	2,197	2,212	2,450	2,456	2,460	2,446	2,485	2,610	2,653	2,681	2,575	2,836	3,012	3,020	3,177	23.4	5.2
Energy	643	608	580	538	596	589	550	628	647	644	654	708	679	719	743	1,082	1,128	66.0	4.3
HI-Tech manufacturing	123	121	123	120	132	98	97	99	136	179	182	186	179	280	248	270	258	44.1	(4.8)
Others	61	61	153	120	132	131	129	132	136	143	145	149	143	160	124	135	136	(5.1)	0.4
TOTAL	3,063	3,039	3,053	2,990	3,311	3,274	3,237	3,305	3,404	3,576	3,634	3,724	3,576	3,995	4,126	4,507	4,698	31.4	4.2

Source: Company, Way2Wealth

01st February 2024

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FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Order Inflow	1,863,560	1,754,970	1,929,970	2,305,280	2,957,889	3,251,771	3,651,549
Order Book	3,038,570	3,273,540	3,574,780	3,995,260	4,879,991	5,311,805	5,995,638
Revenue	1,454,524	1,359,790	1,565,212	1,843,761	2,203,835	2,546,841	260,337
EBITDA	31,715	156,241	182,173	207,533	239,466	297,657	34,315
EBITDA Margin (%)	2.2	11.5	11.6	11.3	10.9	11.7	13.2
Net Profit	88,945	115,829	86,693	104,707	135,877	174,089	209,193
EPS (₹)	64.7	50.2	63.1	76.2	98.9	126.7	152.2
DPS (₹)	18.0	36.0	22.0	24.0	26.0	28.0	30.0
RoE (%)	12.2	8.3	9.4	10.4	14.5	15.8	16.6
RoCE (%)	8.4	7.3	5.3	6.2	7.0	8.3	9.4
P/E (x)	52.7	68.0	54.1	44.8	34.5	26.9	22.4
EV/EBITDA (x)	36.9	37.6	32.7	27.7	23.8	18.9	16.2
P/BV (x)	6.2	5.3	4.9	4.5	4.4	4.3	4.1
Net Debt/Equity (x)	1.7	1.3	1.0	0.9	1.1	1.0	0.9
Cash Balances	151,178	162,415	189,532	225,196	268,725	363,991	401,802
FCF	33,944	219,218	161,237	190,678	107,159	116,864	148,334

Source: Company, Way2Wealth

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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	
Analyst :	No
Analyst's Relative : Yes / No	No
Date of buying	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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