

Q2FY22 Result Highlights

- **Mix bagged Q2FY22 performance** – Revenue at ₹347.7bn +12% YoY/~+19% QoQ was impacted by hurdles to execution due to erratic weather conditions in Sep'21, global supply-chain bottlenecks and remobilisation of labor resources. Despite execution delays and raw material inflation EBITDA was at ₹39.9bn +19.8% YoY/26% QoQ with margins at 11.5% +74 bps YoY/+68 bps QoQ due to better overhead costs recovery and various measures taken such as digital initiatives, value engineering and process optimisation. Core E&C order inflows were strong despite the deferral in finalization of tendered prospects. This led to an order backlog up 11% YoY/+2.1% QoQ at ₹3,305bn. Ex-Services business including Hydrocarbon revenue was at ₹231.6bn +7.6% YoY/27.2% QoQ as L&T adopted a calibrated approach in executing projects in line with cashflow availability. Domestic E&C segment registered growth of 27% YoY on a weak base of Q2FY21 whereas Overseas E&C revenue witnessed a revenue decline of 22% YoY. Execution has resumed at all sites, with sites operating with labour availability at pre-covid levels. Execution can witness a sharp pick up going ahead as productivity related challenges are broadly addressed, order backlog remains healthy and company has not seen any cancellations of awarded orders. Services revenue was at ₹120.4bn ~+13%YoY/5.4% QoQ. Adjus. Net Profit was at ₹17.3bn +~56% YoY/~+47% QoQ.

The Infrastructure segment reported growth in overall performance, led by higher execution momentum and workforce availability. The order book currently stands at ₹2.42tn and has an average execution cycle of 27-28 months. Management remains conscious of bidding in quality projects, and maintains low- to mid-teen growth guidance in this segment. It is of the opinion that reasonable private capex will only kick in from FY23.

Despite the muted performance in the Power business, there is a strong order pipeline of ₹160bn for 2HFY22, in both domestic and international markets. Inflows too stagnated on ESG concerns revolving around thermal assets.

Defense Engineering reported a decline in order inflows due to the deferral of some contracts into the future. EBITDAM was optically impacted as last year margins benefitted from the completion of certain jobs and payment releases.

The Hydrocarbon segment reported strong order inflows of ₹145bn, led by a large-value order won in the international market. The order book period is over 2.5 years and total prospects for this segment for 2HFY22 stands at ~₹1.2tn, of which ~80% will be contributed by the international market as per the management. Post receiving of specific client approvals, the company will make the necessary disclosures for the large-value order.

- **Order pipeline is healthy and has started moving** – After a weak Q1FY22, there was a meaningful jump in tendering activity in Q2FY22. The overall order pipeline at ₹6.8tn bodes well for a ₹1tn ordering for L&T at a lower end of the 15-20% strike rate. Order prospects are 10% higher YoY, at ₹6.8tn, of which infra is likely to be ₹5.3tn (+20% YoY) and Hydrocarbon likely to be at ₹1.2tn (including large orders). Note that such ordering would help L&T reach the higher end of its 12-15% growth guidance for FY22. Beyond the quantum, the composition of the ordering pipeline is healthy from the perspective of (1) sectors where L&T has a higher hit rate and (2)

Important Statistics

MCAP (₹ bn)	₹2,481.75
52 Week H/L (₹)	1885/ 921
NSE Code	LT
BSE Code	500510

Shareholding Pattern	Sep'21 (%)
Promoter	-
DII	34.3
FII	22.9
Public &Others	42.8

Financials

Particulars	₹ mn			
	FY19	FY20	FY21	1HFY22
Revenue	1,352,203	1,454,524	1,359,790	641,076
EBITDA	153,296	163,290	156,241	71,664
EBITDA Margin (%)	11.3	11.2	11.5	11.2
Adjus.Net Profit	80,410	88,945	69,010	30,908
EPS (₹)	57.3	63.4	49.1	22.0
DPS (₹)	18	18	36	
RoE (%)	12.6	13.2	12.2	
RoCE (%)	5.6	5.6	4.1	
P/E (x)	30.8	27.9	36.0	
EV/EBITDA (x)	25.7	25.1	25.5	
P/BV (x)	4.0	3.7	3.2	

Source: Company Filing, Way2wealth Research

presence of several large-sized ordering prospects. This may explain why L&T has been selective in bidding for jobs in 1HFY22. Current order book is split between Central Government (10%), State (33%), Public Sector/State-owned enterprises (42%) and the private sector (15%). Bilateral or multilateral institutional funding is at 31% for total OB. Variable price contracts as a percentage of total OB is 60-65%.

- **Order Inflow Ex-Services was at ₹314bn +74.4% YoY/107.1% QoQ** – Strong Inflows from Hydrocarbon at ₹145bn followed by Infra enabled a strong 74% YoY growth in core Projects & Manufacturing (P&M) orders at ₹314bn in Q2FY22. With Ex-services order inflow at ₹466bn registering 47.3% YoY growth in 1HFY22, the management sounds confident of driving 11-15% growth in FY22.
- **Execution that has started recovering and is devoid of any big hiccups.** L&T has reached a 260k labor availability at present and is well on track for delivering pre-Covid level of execution. With an average execution sighted of 27-28 months and with 95%+ share of moving projects in order backlog, L&T should start reflecting the strength of order backlog into revenues.
- **Sufficient levers available to maintain margins** – Variable pricing clause covering 60% of the order book, claim reversals, cost-saving initiatives, technology adoption and negotiations with clients will help the company maintain margins at FY21 levels.
- **Monetisation plans** – L&T is continuously exploring offloading stake in Nabha power and IDPL. It expects to reach some closure on Hyderabad metro refinancing by March 2022. Ridership levels have improved to 1,46,000 pax per day in 2QFY22 from 55,000 pax per day in 2QFY21. Current ridership stands around 190,000-200,000 pax day. Interest outgo continues to remain high at ₹3.5bn per quarter for the project. Real estate monetization also provides a funding avenue for the project. Out of the total amount of ₹20bn set aside for funding support for Hyderabad metro, L&T has already provided for ₹12bn loss funding support during 1HFY22 and expects ₹10bn to be provided during 2HFY22.
- **Real estate saleable area** – L&T has a saleable area of 50 mn sq. ft across Mumbai, Navi Mumbai and Bangalore. Residential saleable area out of this stands at 30-35 mn sq. ft. L&T has already booked revenues worth ₹29bn and the remaining ₹22bn is yet to be booked from the launches of 7,600 units.
- **FY22 Guidance** – L&T has maintained the guidance of low to mid-teens order inflow and revenue growth for FY22 and margins for core E&C to be maintained at similar levels seen during FY21. It expects working capital cycle to be maintained at similar levels as seen in FY21. Net working capital (% of sales) in H2FY22 improved to 22% from 26.7% in H1FY21, led by higher sales. Group-level customer collections have improved as well at ₹322bn during Q2FY22 vs. ₹296bn YoY. Management aims to close FY22 with NWC at 23.1%, same as last year. Capex stood at ₹5.7bn in the vs. ₹3.3bn YoY.

View

Q2FY22 witness strong recovery in the Indian economy. Although there has been some a delay in awarding activity (down 22% YoY), tendering activity has been strong (up 19% YoY). For L&T the overall business pipeline for 2HFY22 stands at ₹6.83tn (Sept'21) vs. ₹6.13tn last year (₹8.96tn as of June'21). Out of this, domestic prospects are ~₹4.67tn and balance is international. Achieving pre-Covid level execution momentum is quite possible, assuming no 3rd Covid wave and continued revival in industrial capex. Domestic supply chain is back on track, while management remains cautious about supply chains in the international markets. L&T has maintained its FY22 revenue booking and order inflow guidance of low to mid teen growth as it expects business activity to pick up momentum in rest of 2HFY22. Revenue visibility remains strong given healthy order book of ₹3.3tn (3.2x its ttm revenue). Core business execution is expected to witness traction in 2HFY22, even long term business prospects of L&T remains promising given infrastructure development (NIP of ₹111tn) and GATI Shakti remains key pivotal theme of Central government to revive and put Indian Economy on growth trajectory and we believe that L&T, India's largest infrastructure company would be key beneficiary of the same. Hence, **we continue to remain POSITIVE on the stock with TP of ₹2100- 2200.**

1st November 2021

CMP – ₹1766.8/-

 View – **Positive**
Consolidated Financial Performance

(₹ mn)								
Particulars	Q2FY22	Q2FY21	YoY(%)	Q1FY22	QoQ(%)	1HFY22	1HFY21	YoY(%)
Net Sales	347,729	310,347	12.0	293,347	18.5	641,076	522,947	22.6
Material Expenses	212,345	175,101	21.3	170,063	24.9	382,407	308,319	24.0
Employee Expenses	72,520	60,844	19.2	68,795	5.4	141,315	122,316	15.5
SG&A Expenses	22,916	41,055	(44.2)	22,775	0.6	45,690	42,760	6.9
EBITDA	39,949	33,347	19.8	31,715	26.0	71,664	49,552	44.6
<i>EBITDA Margin (%)</i>	<i>11.5</i>	<i>10.7</i>	<i>74</i>	<i>10.8</i>	<i>68</i>	<i>11.2</i>	<i>9.5</i>	<i>170</i>
Interest Cost	7,793	10,425	(25.2)	8,275	(5.8)	16,068	20,984	(23.4)
Depreciation	7,288	7,131	2.2	7,174	1.6	14,461	13,854	4.4
Exceptional Item	(969)	37,323	NA	-	NA	(969.3)	35,560	NA
Other Income	5,321	5,590	(4.8)	6,480	(17.9)	11,801	13,364	(11.7)
PBT	31,159	(15,942)	(295.4)	22,746	37.0	53,905	(7,481)	(820.6)
Tax	8,845	6,754	31.0	7,184	23.1	16,030	8,834	81.5
Minority Interest	(4,125)	(3,037)	35.8	(3,572)	15.5	(7,697)	(5,445)	41.4
Associate Profits	6	(526)	(101.2)	(245.2)	(102.6)	(238.9)	(1,537)	(84.5)
PAT from discontinued operations	-	81,460	(100.0)	-	#DIV/0!	-	81,531	(100.0)
Reported PAT	18,195	55,201	(67.0)	11,744	54.9	29,939	58,234	(48.6)
Adjus PAT	17,225	11,064	55.7	11,744	46.7	30,908	12,264	152.0

Source: Company, Way2Wealth

Consolidated Segmental Revenue

(₹ mn)								
Segment	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Infrastructure	141,564	130,957	8.1	105,435	34.3	246,999	195,517	26.3
Power	11,182	6,887	62.4	7,645	46.3	18,826	10,687	76.2
Heavy Engg	6,877	7,081	(2.9)	6,298	9.2	13,175	11,332	16.3
Defence	8,460	7,688	10.0	6,901	22.6	15,360	12,453	23.3
Electrical &Automation(Discontinued)	-	8,460	-	-	-	-	16,008	-
Hydrocarbon	48,838	40,497	20.6	42,016	16.2	90,854	71,198	27.6
Others	14,724	13,762	7.0	13,840	6.4	28,564	21,355	33.8
Ex-Services	231,645	215,332	7.6	182,133	27.2	413,777	338,550	22.2
IT&TS	79,033	61,998	27.5	72,413	9.1	151,446	122,432	23.7
Financial Services	29,757	33,419	(11.0)	30,614	(2.8)	60,371	66,261	(8.9)
Development Projects	11,699	11,396	2.7	11,263	3.9	22,962	21,355	7.5
Services	120,489	106,813	12.8	114,290	5.4	234,779	210,049	11.8
Gross Revenue	352,134	322,145	9.3	296,423	18.8	648,557	548,599	18.2
Less: Discontinued operations	-	8,460	NA	-	#DIV/0!	-	16,008	NA
Less: Intersegment	4,405	3,246	35.7	3,075	43.2	7,480	5,227	43.1
NET REVENUE	347,729	310,439	12.0	293,347	18.5	641,076	527,364	21.6

Source: Company, Way2Wealth

1st November 2021

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View – **Positive**

Segmental Order Inflow Trend

(₹ bn)

Order inflows	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)
Infrastructure	175	157	281	412	113	145	456	314	112	121	(16.5)	8.4
Power	67	43	8	12	-	8	-	10	8	14	83.3	79.2
Heavy Engg	2	7	5	5	5	3	7	15	5	6	116.0	21.8
Defence	4	6	2	7	1	13	7	5	5	4	(66.1)	(17.1)
Hydrocarbons	34	149	-	22	12	1	128	35	11	145	14,549.5	1,263.1
Others	20	15	4	73	5	10	22	15	11	23	121.5	113.8
Ex Services	302	377	300	531	136	180	621	395	152	314	74.4	107.1
Services	85	107	116	47	99	106	111	112	114	120	12.9	5.1
TOTAL	387	484	416	578	235	287	732	507	266	434	51.6	63.3

Source: Company, Way2Wealth

Segmental Order Book Trend

(₹ bn)

Order Book	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)
Infrastructure	2,187	2,153	2,236	2,249	2,197	2,212	2,450	2,456	2,460	2,446	10.6	(0.6)
Power	129	152	184	152	153	149	132	131	129	132	(11.3)	2.1
Heavy Engg	41	30	31	30	31	30	33	33	32	33	10.2	2.1
Defence	112	121	92	91	92	90	99	65	65	66	(26.5)	2.1
Hydrocarbons	403	515	459	456	427	389	464	458	421	496	27.5	17.8
Others	68	61	61	61	153	120	132	131	129	132	10.2	2.1
TOTAL	2,940	3,032	3,063	3,039	3,053	2,990	3,311	3,274	3,237	3,305	10.5	2.1

Source: Company, Way2Wealth

Past Performance & Future Forecasting

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E
Order Inflow	1,529,080	1,768,340	1,863,560	1,754,970	1,983,116	2,280,584
Order Book	2,631,000	2,907,800	3,038,570	3,273,540	3,561,294	4,081,890
Revenue	1,196,831	1,352,203	1,454,524	1,359,790	1,567,981	1,816,758
EBITDA	135,652	153,296	163,290	156,241	185,045	226,301
EBITDA Margin (%)	11.3	11.3	11.2	11.5	11.8	12.5
Net Profit	73,698	80,410	88,945	69,010	79,589	98,402
EPS (₹)	52	57	63	49	57	70
DPS (₹)	17	18	18	36	18	18
RoE (%)	11.7	12.6	13.2	12.2	11.7	14.3
RoCE (%)	5.3	5.6	5.6	4.1	5.0	6.0
P/E (x)	34.2	30.8	27.9	36.0	31.2	25.2
EV/EBITDA (x)	30.2	25.7	25.1	25.5	16.6	14.1
P/BV (x)	4.5	4.0	3.7	3.2	2.4	2.2
Net Debt/ Equity (x)	1.5	1.5	1.5	1.6	1.5	1.5
Cash Balances	80,325	117,262	151,178	162,415	381,765	379,651

Source: Company, Way2Wealth Research

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Name of the Security	Larsen & Toubro Ltd.
Name of the analyst	Jayakanth Kasthuri
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Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
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