

Q2FY24 Result Highlights

- **Strong execution enabled robust performance in Q2FY24** – L&T reported strong growth of 19.3%/15%/~45% YoY in consolidated revenues/EBITDA/PAT to ₹510.2bn/₹56.3bn/₹32.2bn for Q2FY24. The Core E&C (ex-services) sales grew~25% YoY (~+7% QoQ) to ₹357bn as execution in infrastructure segment picked up pace. The growth was broad-based across segments and equally healthy for both domestic and overseas geographies. The domestic E&C segment registered muted performance with 7% YoY growth, whereas overseas E&C revenue witnessed a stellar growth of 93% YoY. The core business margin was under pressure (7.4% vs. 8.1% in Q2FY23) impacted by the execution of weak-margin legacy orders that it bagged during the pandemic and expects the margin to improve gradually in 2HFY24. Within the Core segment, infrastructure margin was at 5.4% (-120 bps YoY). Given the outperformance on the revenue and order inflow front, management believes that there emerges an upside risk of beating the top end of the guidance on revenue (FY24 guidance of 12-15% YoY growth) as well as order inflow front (FY24 guidance of 10%-12% YoY growth) thus suggesting growth momentum to continue for the company in 2HFY24.
- **Improvement in working capital by ensuring better collection visibility.** The company said that its gross working capital/Revenue has improved to 16.1% from 17% in Q1FY24 and Q4FY23. Management also emphasized that improvement in working capital is not merely due to more customer advances from the large order inflows, more because the company ensured that there are no slippages in execution by ensuring better collection visibility.
- **Prospective order pipeline at ₹8.8tn** – Core E&C order inflows remained healthy, +96.3% YoY to ₹731bn, supported by large ticket order finalisation in the Hydrocarbon Ultra-mega Saudi order (+376% YoY). Incrementally, prospective ordering pipeline stands extremely healthy at ₹8.8tn, of which infrastructure segment opportunity stands at ₹5.1tn, hydrocarbon at ₹2.9tn, power at ₹0.55tn, and hi-tech manufacturing at ₹0.3tn. The domestic prospective pipeline of ₹3.84 tn is Transportation-26%, Water-20%, Buildings & Factories-18%, Power T&D-13% and Minerals-10%.The order backlog at ₹4.51tn (+21% YoY) provides strong revenue visibility (3.1x its TTM revenue) and comfort on revenue rampup.
- **Infrastructure segment sales saw a growth of 27% YoY to ₹250bn** where domestic business saw a growth of 10.5% YoY to ₹176bn, while overseas infra grew 98.1% YoY to ₹74bn. Domestic and international ordering momentum continued in Q2FY24 and the order book continues to remain robust leading to strong execution during the quarter. Order inflow stood at ₹277bn registering a growth of 10.4% YoY (-30.8% QoQ) supported by high-value orders. The prospect pipeline for FY24 remains strong at ₹5.06tn (+11% YoY). Infrastructure margin declined 120 bps YoY to 5.4% due to job mix and execution of legacy contracts.
- **Energy segment sales grew by 22% YoY to ₹68bn**, where domestic business declined 22% YoY whereas overseas business registered healthy growth of 103% YoY. Robust execution momentum in international projects drove hydrocarbon revenue growth; lower revenue in power is reflective of a depleting order book. Order inflow stood at ₹401bn (+376% YoY) with receipt of two ultra-mega hydrocarbon orders in the offshore vertical and a FGD order in power business. The prospect pipeline for FY24 improves drastically to ₹3.4tn (+125% YoY). Margin stood at 9.5% (+100 bps YoY)

Important Statistics

Nifty	19,114
Sensex	64,000
MCAP (₹ bn)	4,096.3
52 Week H/L (₹)	3,114/1,970
NSE Code	LT
BSE Code	500510
Bloomberg Code	LT:IN

Shareholding Pattern	Sep'23 (%)
Promoter	-
DII	37.3
FII	25.7
Public & Others	37.0

Financials

(₹ mn)

Particulars	FY20	FY21	FY22
Revenue	1,454,524	1,359,790	1,565,212
EBITDA	163,290	156,241	182,241
EBITDA Margin (%)	11.2	11.5	11.6
Net Profit	88,945	69,010	86,693
EPS (₹)	64.7	50.2	63.1
DPS (₹)	18.0	36.0	22.0
RoE (%)	12.2	8.3	9.4
RoCE (%)	8.4	7.3	5.3
P/E (x)	45.0	58.0	46.2
EV/EBITDA (x)	33.3	33.8	29.4
P/BV (x)	5.3	4.6	4.2

Particulars	FY23	FY24E	FY25E
Revenue	1,833,407	2,126,357	2,455,705
EBITDA	207,533	242,799	296,991
EBITDA Margin (%)	11.3	11.4	12.1
Net Profit	104,707	137,977	181,246
EPS (₹)	76.2	100.4	131.9
DPS (₹)	24.0	26.0	28.0
RoE (%)	10.4	15.1	17.9
RoCE (%)	6.2	7.3	8.6
P/E (x)	38.3	29.0	22.1
EV/EBITDA (x)	24.8	20.6	16.6
P/BV (x)	3.9	4.2	3.7

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
L&T	44.7	228.2	114.6
Nifty 50	5.7	63.9	81.2
Sensex	5.2	61.1	82.9

Source: Company, Way2Wealth

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supported by inline margin in the hydrocarbon business and strong margin improvement in a power business job crossing valuation threshold.

- **Hi-tech manufacturing segment witnessed a growth of 30% in sales supported by both heavy engineering and defence business.** EBITDA margin contracted 3.6 pps YoY to 14.9% mainly reflecting the execution phase of jobs in the portfolio. Order inflow witnessed a 35% YoY growth to ₹24bn supported by a key order in the defence business, however, deferrals impacted order inflow in heavy engineering business. The prospect pipeline for FY24 remains stable at ₹0.26tn.
- **IT&TS segment witnessed 7% YoY growth to ₹112bn, led by manufacturing & resources, BFSI, transportation, medical devices, and industrial products.** EBITDA margin for the business saw a decline of 120 bps coming in at 20.2% on account of higher employee costs, though operational efficiencies partially negated the impact.
- **L&T Finance reported a 2% decline in sales to ₹30.8 bn while PAT witnessed a strong 46% growth to ₹3.9bn due to strong retail disbursements,** lower credit costs, better asset quality, and run down of wholesale and expansion of retail (88% of book).
- **ToD monetisation helps Hyderabad Metro book profits; ridership data shows material uptick** – Developmental project sales saw 38% YoY growth to ₹18.5bn supported by monetisation of a commercial property and improved ridership in Hyderabad Metro. Margin witnessed a staggering 33.5 pps expansion to 38.7% primarily due to ToD monetisation in Hyderabad Metro and consolidation of the Nabha profits. Nabha power was impacted in the quarter due to lower power demand while recording highest PLF of ~97.6%. Developmental project segment registered a profit of ₹1bn for 1HFY24 supported by ToD monetisation that materialised during Q2FY24. Sale consideration from ToD monetisation stood at ₹10.5bn which resulted in a profit of ₹5bn. Additionally, Q2FY24 ridership data for Hyderabad Metro stood at 4.26 lakh daily as compared to 4.2 lakh on a daily basis in Q1FY24. Debt currently stands at ₹12.5bn and as the company received a soft loan of ₹9bn, out of which total state government support was ₹30bn.

View

L&T business performance in Q2FY24 was strong on the back excellent execution displayed in the Core E&C segment (+24% YoY) and better than estimated service segment margin (18.9%; +100 bps YoY) driven by ToD monetization in Hyderabad Metro. However, the core margin was impacted by the execution of weak margin orders bagged earlier. Given the strong on the revenue and order inflow front in 1HFY24, management has guided for an upward risk of beating the top end of its guidance on revenue (FY24 guidance of 12-15% YoY growth) as well as on the order inflow front (FY24 guidance of 10-12% YoY growth). The order pipeline has strengthened qoq with changing seasonality and externalities coming in way of reflecting such strength in guidance. L&T further shared its conservative stance on margin in association with the ongoing execution of legacy jobs (lower-margin), which are expected to end in FY24, and new jobs being undertaken in the Hi-Tech manufacturing segment, whose margin recognition threshold (% job completion) is only at 40%, will start reflecting toward the end of the year and in the upcoming years. The company also emphasized that international orders would not reduce the margin profile of the consolidated revenues (ex-services). Hence, we continue to remain **ACCUMULATE** on the stock with **TP** of **₹3,300-3,320**.

CONSOLIDATED FINANCIAL PERFORMANCE

(₹ mn)								
Particulars	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	1HFY24	1HFY23	YoY(%)
Net Sales	510,240	427,626	19.3	478,824	6.6	989,064	786,158	25.8
Material Expenses	324,728	267,416	21.4	307,634	5.6	632,362	477,187	32.5
Employee Expenses	102,989	91,663	12.4	98,894	4.1	201,883	177,222	13.9
SG&A Expenses	26,204	19,553	34.0	23,610	11.0	49,813	43,188	15.3
EBITDA	56,320	48,994	15.0	48,686	15.7	105,006	88,561	18.6
EBITDA Margin (%)	11.0	11.5	(42)	10.2	87	10.6	11.3	(65)
Interest Cost	8,640	8,357	3.4	8,514	1.5	17,154	15,917	7.8
Depreciation	9,099	8,602	5.8	8,305	9.6	17,404	18,236	(4.6)
Exceptional Item	-	-	-	-	-	-	-	-
Other Income	11,330	7,385	53.4	11,456	(1.1)	22,785	14,333	59.0
PBT	49,911	39,421	26.6	43,324	15.2	93,234	68,741	35.6
Tax	11,355	11,229	1.1	12,163	(6.6)	23,518	17,619	33.5
Minority Interest	(6,229)	(5,563)	12.0	(6,026)	3.4	(12,255)	(10,826)	13.2
Associate Profits	(101)	(339)	(70.4)	(205)	(51.0)	(306)	(986)	(69.0)
Reported PAT	32,226	22,290	44.6	24,930	29.3	57,156	39,310	45.4
EPS (₹)	23.4	15.9	47.8	17.7	32.2	41.6	28.0	48.7
Adjus.PAT	32,226	22,290	44.6	24,930	29.3	57,156	39,310	45.4
Adjus.EPS (₹)	23.4	15.9	47.8	17.7	32.2	41.6	28.0	48.6

Source: Company, Way2Wealth

CONSOLIDATED SEGMENTAL REVENUE

(₹ mn)								
Segment	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	1HFY24	1HFY23	YoY(%)
Infrastructure	249,768	196,682	27.0	223,956	11.5	473,724	340,687	39.0
Energy	67,943	55,934	21.5	66,904	1.6	134,847	106,809	26.2
Hi- Tech Manufacturing	20,411	15,889	28.5	19,683	3.7	40,094	29,770	34.7
Others	18,880	17,432	8.3	23,472	(19.6)	42,352	33,751	25.5
Ex-Services	357,002	285,937	24.9	334,015	6.9	691,017	511,017	35.2
IT&TS	112,470	101,839	10.4	109,607	2.6	222,076	200,623	10.7
Financial Services	30,841	31,519	(2.2)	30,196	2.1	61,037	61,100	(0.1)
Development Projects	18,531	13,446	37.8	12,964	42.9	31,495	26,900	17.1
Services	161,842	146,804	10.2	152,767	5.9	314,609	284,441	10.6
Gross Revenue	518,843	432,741	19.9	486,782	6.6	1,005,626	795,458	26.4
Less: Intersegment	8,603	5,115	68.2	7,959	8.1	16,562	9,300	78.1
NET REVENUE	510,240	427,626	19.3	478,824	6.6	989,064	786,158	25.8

Source: Company, Way2Wealth

SEGMENTAL ORDER INFLOW TREND

(₹ bn)

Order inflows	Q2 FY20	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	YoY (%)	QoQ (%)
Infrastructure	157	281	412	113	145	456	314	112	121	252	451	184	251	325	411	400	277	10.4	(30.8)
Energy	192	8	34	12	9	128	46	19	146	82	76	42	84	91	91	72	401	375.5	457.1
HI-Tech manufacturing	13	7	12	6	16	15	20	11	11	30	61	33	18	19	84	13	27	51.4	104.3
Others	15	4	73	5	10	22	15	11	23	15	24	21	20	22	23	20	27	33.8	36.2
Ex Services	377	300	531	136	180	621	395	152	301	379	611	280	373	457	609	504	731	96.3	45.0
Services	107	116	47	99	106	111	112	114	120	126	128	138	146	150	152	151	161	9.6	6.6
TOTAL	484	416	578	235	287	732	507	266	421	504	739	418	519	607	761	655	892	71.8	36.2

Source: Company, Way2Wealth

SEGMENTAL ORDER BOOK TREND

(₹ bn)

Order Book	Q2 FY20	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	YoY (%)	QoQ (%)
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	2,575	2,836	3,012	3,020	12.6	0.3
Energy	667	643	608	580	538	596	589	550	628	647	644	654	708	679	719	743	1,082	52.9	45.7
HI-Tech manufacturing	151	123	121	123	120	132	98	97	99	136	179	182	186	179	280	248	270	45.2	9.2
Others	61	61	61	153	120	132	131	129	132	136	143	145	149	143	160	124	135	(9.2)	9.2
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	3,576	3,995	4,126	4,507	21.0	9.2

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Order Inflow	1,768,340	1,863,560	1,754,970	1,929,970	2,305,280	2,738,918	3,121,809
Order Book	2,907,800	3,038,570	3,273,540	3,574,780	3,995,260	4,783,096	5,239,228
Revenue	1,352,203	1,454,524	1,359,790	1,565,212	1,843,761	2,126,357	2,455,705
EBITDA	153,296	31,715	156,241	182,173	207,533	242,799	296,991
EBITDA Margin (%)	11.3	2.2	11.5	11.6	11.3	11.4	12.1
Net Profit	80,410	88,945	115,829	86,693	104,707	137,977	181,246
EPS (₹)	58.5	64.7	50.2	63.1	76.2	100.4	131.9
DPS (₹)	18.0	18.0	36.0	22.0	24.0	26.0	28.0
RoE (%)	13.2	12.2	8.3	9.4	10.4	15.1	17.9
RoCE (%)	9.2	8.4	7.3	5.3	6.2	7.3	8.6
P/E (x)	49.8	45.0	58.0	46.2	38.3	29.0	22.1
EV/EBITDA (x)	36.2	33.3	33.8	29.4	24.8	20.6	16.6
P/BV (x)	5.8	5.3	4.6	4.2	3.9	4.2	3.7
Net Debt/Equity (x)	1.6	1.7	1.3	1.0	0.9	1.1	1.0
Cash Balances	117,262	151,178	162,415	189,532	225,196	278,742	368,772
FCF	(81,915)	33,944	219,218	161,237	190,678	91,159	117,064

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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