

Q4FY23 Result Highlights

- **Strong execution , health cash generation with margin weakness in Q4FY23** – L&T reported strong growth of 10%/5%/10% YoY in consolidated revenues/EBITDA/PAT to ₹583bn/₹68.3bn/₹39.8bn for Q4FY23. The Core E&C (ex-services) sales registered growth of ~8% YoY &~38% QoQ at ₹439.5bn as execution in infrastructure segment picked up pace with EBITDA margin at 9.2% compared to 10% YoY and 8.5% QoQ. The 80 bps YoY margin decline was on account of low base. Order inflows saw growth of 3% YoY (low compared to historical standards) and 25% QoQ to ₹761bn on high base last year, leading to a ~12% YoY higher order backlog to ₹4tn. 72% of the order book is domestic and rest is international. 87% of the international order book is from the Middle East with 4% from Africa and rest from other countries. Private orders stood at 18% v/s 22% last year. Cash generation was strong for the second straight year, with full-year collections being 20% ahead of the revenues. Working capital as the share of sales fell to a decadal low of 16.6% due to higher GCC order, timely payout and certification. The company on a consolidated level has generated ₹350bn of cash over FY18-23, after paying almost 40% of its PAT as dividends.
- **Share of private sector in order backlog improves to 20%** – The domestic order book of the company comprises 14% from the central government, 30% from the state government, 36% from PSUs and 20% from private players. This likely puts an emphasis on how the government is going to proceed with its capital expenditure plans or shift politically. The war is also likely to have an impact, primarily owing to the supply chain disruptions where the company sources its supply chain globally.
- **Order inflow guidance of 10-12%, Revenue growth of 12-15% with Core E&C margin at 9-9.1% for FY24** – The management has given a guidance of 10-12% growth in order inflows, a 12-15% growth in revenues, with an EBITDA margin expectation of 9-9.1% for the core E&C and a working capital cycle of around 16-18% of sales during FY24. It views order prospects pipeline of ₹9.73tn, up 14% YoY. This includes ₹6.5tn from the infrastructure project segment, ₹2.94tn from the energy segment and ₹0.29tn from the Hitech manufacturing vertical. Within infrastructure projects ordering pipeline, key sub-segments include heavy civil (21%), water and effluent water (22%), transportation infrastructure (19%), power T&D (18%), buildings and factories (13%), and minerals and metals (6%). The management highlighted union elections to impact execution in part for FY24 and FY25. This again helped bring about the vagaries in the process of project award (allocation of capital), ability to get in-time clearances (allocation of bandwidth) and recent escalation of the Russia-Ukraine war (supply chain disruption).
- **Expects margin to improve in 2HFY24** – The margin guidance of 9% is back-loaded. The company also remarked the difficulties in breaching the 10% margin quantum in light of competitive intensity, customers seeking several bids before placing order, timing mismatch between bid and RM order placement, and changes in scope of work. L&T's endeavor is to lower resource intensity, go for placement of RM order prior to bid placement (sharing of risks) and completion high cost projects in terms of execution. It highlighted that 60% of the execution of projects high on cost happened in FY23.

Important Statistics

MCAP (₹ bn)	3,130.0
52 Week H/L (₹)	2,416/1,457
NSE Code	LT
BSE Code	500510

Shareholding Pattern	Mar'23 (%)
Promoter	-
DII	38.8
FII	24.5
Public & Others	36.7

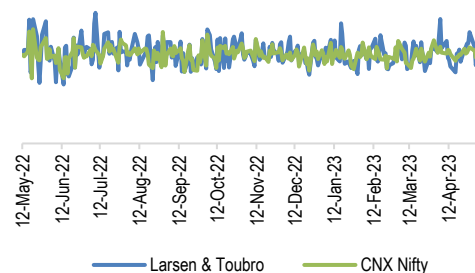
Financials

Particulars	₹ mn		
	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 (₹)	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)	35.1	45.3	36.1
EV/EBITDA (x)	27.4	27.6	24.1
P/BV (x)	4.7	4.1	3.8

Particulars	₹ mn		
	FY23P	FY24E	FY25E
Revenue	1,833,407	2,047,859	2,321,586
EBITDA	207,533	243,682	282,799
EBITDA Margin (%)	11.3	11.9	12.2
Net Profit	104,707	135,295	166,249
EPS (₹)	74.5	96.3	118.3
DPS (₹)	24.0	26.0	28.0
RoE (%)	10.4	11.7	13.5
RoCE (%)	5.8	6.6	7.5
P/E (x)	29.9	23.1	18.8
EV/EBITDA (x)	20.2	16.3	13.9
P/BV (x)	3.5	2.8	2.5

Source: Company, Way2Wealth

Relative Performance



Source: Company, Way2Wealth

- **Likely increase in Ticket price in Hyderabad** – The ridership levels of Hyderabad metro significantly rose on an average level to 3.6L from 1.5L yoy, with a peaked ridership of 4.08L passengers. The EBITDA growth expectation is based on the backdrop of increase in riders and a possibility of increase in the fare price through the clauses provided to the company. Though Nabha power has been put to good use in Punjab, the value realisation has not been great owing to the higher cost of production compared with the regulated power prices. PLF improved to 85% during FY23 and stood at 81% during Q4FY23. The company is actively looking for a strategic buyer who is interested in the non-renewable assets, yet is sceptical of realising its fair value in the backdrop of current renewables theme around the world. IDPL divestment is in its last leg and the company is likely to complete the entire transaction soon. In its real estate business, L&T entered into an agreement with Capital Land India to develop 6mn sq ft of prime office space in Mumbai, Bengaluru and Chennai. The company is expecting an increase in the RoE by 6% with 2% each from the Hyderabad metro EBITDA improvements, divestment of IDPL and improved performance of Nabha Power.
- The company regarding its ongoing projects on Green Hydrogen with pilot green hydrogen plant being installed at Hazira, estimates to produce 45kg of high purity green hydrogen daily. It expects to start witnessing orders and enquiries from FY25 onwards mainly from domestic market and later from global players. The company has entered into technology licence agreement with France-based company for manufacture of pressurised alkaline electrolyzers. It also entered into MoU to develop floating green ammonia project with Norway-based company.

View

L&T Core E&C business performance in Q4FY23 was flat YoY. L&T exceeded its FY23 guidance on revenue growth (+17%), ordering growth (+19%) and working capital, but margin was lower than the initial guidance by ~90 bps. Beyond stiff commodity prices, the company was hit by difficulties/inabilities to realise claims and project mix. L&T has guided for a 12-15% revenue growth and a 10-12% ordering growth for FY24 due to election year. 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 uncertain times. Hence, we continue to remain **ACCUMULATE** on the stock with **TP of ₹2450- 2470**.

12th May 2023

CMP – ₹2,226.6/-

 View – **ACCUMULATE**
CONSOLIDATED FINANCIAL PERFORMANCE

(₹ mn)								
Particulars	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	FY23	FY22	YoY(%)
Net Sales	583,352	528,507	10.4	463,897	25.8	1,833,407	1,565,212	17.1
Material Expenses	394,872	362,444	8.9	293,876	34.4	1,166,153	998,870	16.7
Employee Expenses	99,811	79,650	25.3	95,325	4.7	372,141	296,958	25.3
SG&A Expenses	20,339	21,246	(4.3)	23,966	(15.1)	87,580	87,339	0.3
EBITDA	68,330	65,167	4.9	50,730	34.7	207,533	182,046	14.0
EBITDA Margin (%)	11.7	12.3	(62)	10.9	78	11.3	11.6	(31)
Interest Cost	8,130	7,051	15.3	8,025	1.3	32,072	31,257	2.6
Depreciation	8,535	7,694	10.9	8,252	3.4	35,023	29,480	18.8
Exceptional Item	-	-	-	1,360	(100.0)	1,360	969	40.3
Other Income	7,409	5,156	43.7	7,550	(1.9)	29,292	22,671	29.2
PBT	59,074	55,578	6.3	43,364	36.2	171,090	144,950	18.0
Tax	14,606	15,512	(5.8)	12,701	15.0	44,842	42,039	6.7
Minority Interest	(4,718)	(5,178)	(8.9)	(5,055)	(6.7)	(20,599)	(17,499)	17.7
Associate Profits	118	1,318	(91.0)	(75)	(258.5)	(943)	1,282	(173.5)
Reported PAT	39,868	36,207	10.1	25,533	56.1	104,707	86,693	20.8
EPS (₹)	28.4	25.8		18.2		74.5	61.7	
Adjus.PAT	39,868	36,207	10.1	24,173	64.9	103,347	85,724	20.6
Adjus.EPS (₹)	28.4	25.8		17.2		73.5	61.0	

Source: Company, Way2Wealth

CONSOLIDATED SEGMENTAL REVENUE

(₹ mn)								
Segment	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	FY23	FY22	YoY(%)
Infrastructure	315,488	302,412	4.3	222,057	42.1	878,232	735,601	19.4
Energy	79,292	67,779	17.0	63,462	24.9	249,563	237,134	5.2
Hi- Tech Manufacturing	23,208	18,633	24.6	18,631	24.6	71,609	62,645	14.3
Others	21,605	19,107	13.1	15,360	40.7	70,716	62,619	12.9
Ex-Services	439,593	407,930	7.8	319,508	37.6	1,270,118	1,097,999	15.7
IT&TS	107,393	88,135	21.9	106,051	1.3	409,885	324,553	26.3
Financial Services	31,163	29,634	5.2	33,486	(6.9)	125,749	119,711	5.0
Development Projects	12,321	10,958	12.4	11,067	11.3	50,288	43,675	15.1
Services	150,877	128,727	17.2	150,603	0.2	585,922	487,939	20.1
Gross Revenue	590,470	536,657	10.0	470,112	25.6	1,856,040	1,585,938	17.0
Less: Intersegment	7,118	8,150	(12.7)	6,214	14.5	22,633	20,726	9.2
NET REVENUE	583,352	528,507	10.4	463,897	25.8	1,833,407	1,565,212	17.1

Source: Company, Way2Wealth

SEGMENTAL ORDER INFLOW TREND

(₹ bn)

Order inflows	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	QoQ	FY23	FY22	YoY
	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	(%)	(%)			(%)
Infrastructure	113	145	456	314	112	121	252	451	184	251	325	411	-8.8	26.3	1,176	937	25.5
Energy	12	9	128	46	19	146	82	76	42	84	91	91	20	0.9	300	322	(7.0)
HI-Tech manufacturing	6	16	15	20	11	11	30	61	33	18	19	84	37.3	333.5	161	113	43.0
Others	5	10	22	15	11	23	15	24	21	20	22	23	-3.3	2.6	92	72	27.2
Ex Services	136	180	621	395	152	301	379	611	280	373	457	609	-0.4	33.1	1,729	1,444	19.7
Services	99	106	111	112	114	120	126	128	138	146	150	152	18.7	1.7	576	486	18.5
TOTAL	235	287	732	507	266	421	504	739	418	519	607	761	2.9	25.4	2,305	1,930	19.4

Source: Company, Way2Wealth

SEGMENTAL ORDER BOOK TREND

(₹ bn)

Order Book	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	QoQ
	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	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	2,575	2,836	8.7	10.2
Energy	667	643	608	580	538	596	589	550	628	647	644	654	708	679	719	11.7	5.8
HI-Tech manufacturing	151	123	121	123	120	132	98	97	99	136	179	182	186	179	280	56.4	56.4
Others	61	61	61	153	120	132	131	129	132	136	143	145	149	143	160	11.7	11.7
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	11.7	11.7

Source: Company, Way2Wealth

12th May 2023

CMP – ₹2,226.6/-

 View – **ACCUMULATE**
FINANCIALS & VALUATIONS

(₹mn)

Particulars	FY19	FY20	FY21	FY22	FY23P	FY24E	FY25E
Order Inflow	1,768,340	1,863,560	1,754,970	1,929,970	2,305,280	2,612,635	2,982,717
Order Book	2,907,800	3,038,570	3,273,540	3,574,780	3,995,260	4,503,692	5,129,356
Revenue	1,352,203	1,454,524	1,359,790	1,565,212	1,843,761	2,047,859	2,321,586
EBITDA	153,296	31,715	156,241	182,173	207,533	243,682	282,799
EBITDA Margin (%)	11.3	2.2	11.5	11.6	11.3	11.9	12.2
Net Profit	80,410	88,945	115,829	86,693	104,707	135,295	166,249
EPS (₹)	57.3	63.4	49.1	61.7	74.5	96.3	118.3
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	11.7	13.5
RoCE (%)	5.6	5.6	8.0	4.9	5.8	6.6	7.5
P/E (x)	39.3	35.5	45.8	36.5	30.2	23.4	19.0
EV/EBITDA (x)	30.1	27.6	27.8	24.3	20.3	16.5	14.1
P/BV (x)	5.1	4.7	4.2	3.8	3.5	2.9	2.5
Net Debt/Equity (x)	1.6	1.7	1.3	1.0	0.9	0.7	0.6
Cash Balances	117,262	151,178	162,415	189,532	225,196	336,821	414,623
FCF	(81,915)	33,944	219,218	161,237	190,678	135,258	111,052

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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