

28<sup>th</sup> January 2021

CMP – ₹1359.8/-

View – POSITIVE

## Quarterly Result Highlights

- **Improvement in Revenues with labor availability improving execution** – Consolidated sales came in at ~₹356bn (-2% YoY) mainly driven by growth across segments like Power (+29% YoY), IT&TS (+7% YoY) and Hydrocarbon (~+1% YoY). Heavy engg (flat YoY), Infra (-7% YoY) and Development Projects (-34% YoY) were the draggers. EBITDA grew by 4% YoY to ₹42.8bn with EBITDA margins expanding by 66bps YoY to 12% led by better topline & operational performance. PBT was up by 14% YoY to ₹36.8bn. During the quarter, Adj. PAT came in at ₹24.7bn, ~+5% YoY on back of rise in other income (+124%YoY). Execution has resumed at all sites, with sites operating with labour availability near pre-Covid levels of 265,000, which should help improve execution in coming quarters. L&T expects its execution to move in line with visibility on collections from customers, however productivity is yet to reach pre-COVID levels. Execution can witness sharp pick up going ahead if productivity related challenges are overcome as order backlog remains healthy and company has not seen any cancellations of awarded orders and payments from customers remain healthy.

- **Realty boosts E&C EBITDA margin, core margin hit by cost under recoveries** – Execution weakness prevailed in domestic as well as overseas projects. Domestic E&C segment registered decline of 2% YoY mainly impacted by Infrastructure segment (-7% YoY) and heavy engineering segment. Infrastructure domestic business saw a decline of 5%YoY, while overseas infra declined 14% YoY. Revenue for the quarter continued to remain impacted on account of COVID-19, however sequentially execution has picked up meaningfully on account of supply chain normalization and higher availability of work force. Infrastructure margin improved 10bps YoY to 6.2% on account of favourable job mix.

Power revenue grew by 29% YoY driven by opening Orderbook (OB). Award deferrals were seen in 9MFY21 due to pandemic, Orderbook remains healthy on back of large wins in FY20. Margins remained subdued as major part of OB is yet to cross margin recognition threshold.

Hydrocarbon segment sales stood muted at ~1% YoY to ₹44bn, as domestic business stood flat YoY whereas overseas business registered muted growth of 1% YoY. Margins stood at 12.2% (+10bp YoY) supported by steady execution and better revenue mix.

Heavy engineering segment witnessed marginal improvement with flat YoY sales as overseas revenue stood flattish and domestic revenue registered marginal growth of 1% YoY. However EBITDA Margin declined 350bps YoY to 20% impacted by adverse revenue mix.

Defence engineering segment revenue improved marginally by 2% YoY as large order execution tapered down. Domestic sales which constitutes 69% of revenue declined 23% YoY, while International revenue registered 256% YoY growth on lower base. EBITDA Margin came in at 16.9% v/s 209% in Q3FY20 impacted by weaker revenue mix. Recent policy pronouncements were encouraging for domestic industry; implementation over course of time. Final stages of execution of a large order led to 2% YoY increase in revenue.

## Important Statistics

<b>MCAP (₹ bn)</b>	₹1,909.44
<b>52 Week H/L (₹)</b>	1487 / 661
<b>NSE Code</b>	LT
<b>BSE Code</b>	500510

## Financials

Particulars	₹ mn			
	FY18	FY19	FY20	9MFY21
Revenue	1,196,831	1,352,203	1,454,524	878,911
EBITDA	135,713	153,296	163,290	92,351
<i>EBITDA Margin (%)</i>	<i>11.3</i>	<i>11.3</i>	<i>11.2</i>	<i>10.5</i>
Adjus.Net Profit	73,698	80,410	88,945	82,900
EPS (₹)	51.7	57.3	63.4	59.0
DPS (₹)	17	18	18	18
RoNW (%)	13.7	15.1	14.6	
RoCE (%)	5.3	5.6	5.6	
P/E (x)	26.3	23.7	21.4	
EV/EBITDA (x)	23.7	21.9	21.9	
P/BV (x)	3.5	3.1	2.9	

Source: Company Filing, Way2wealth Research

## Shareholding pattern (%)

	Dec'20
<b>Promoter</b>	-
<b>DII</b>	33.3
<b>FII</b>	20.8
<b>Public &amp; Others</b>	45.9

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Developmental projects sales declined 34% YoY to ₹8.1bn. Sales decline was on account of weak ridership in the Hyderabad Metro services and as Nabha power PLF suffered coal supply issues on account of agitation in Punjab. EBITDA margin stood at 0.1% v/s 17.3% in Q3FY20 impacted by under absorption of fixed cost. For Hyderabad metro ₹5bn was infused during Q3FY21. It has ₹40bn of Debt and ₹25bn of equity.

IT&TS segment witnessed 7% YoY growth to ₹65.1bn, led by Manufacturing and Energy & Utilities, Transportation, CPG, Retail and Pharma. EBITDA margin for the business saw sharp improvement of 450bps coming in at 25.5% on account of improved utilization, efficiency and better revenue mix.

L&T Finance reported 4% decline in sales to ₹34bn while EBIDTA declined 50% YoY to ₹3.7bn impacted by higher provisioning during the quarter. Others segment reported 30% YoY improvement during the quarter to ₹19.9bn, supported by sale of commercial property in Realty segment. EBIDTA margin stood at 34.3% v/s 18.7% in Q3FY20.

L&T expects under-recoveries to come down as execution scales up. L&T's 50% of order book has a variable pricing clause protecting it against higher commodity prices. For the rest, it doesn't expect the impact of higher commodity prices to be significant as large part of cost items is already booked during Q3FY21.

- **Realty business** – Of the total 5600 units, 2600 units have been sold (booked revenue) and from balance 1900 have been contracted to be sold and have unsold inventory of 1100 residential units. Management indicated that response to Phase-2 unit in Navi Mumbai and Bangalore have been good. Due to commercial sale of asset during Q3, the company reported ₹3.4bn at a PBT level for realty business.
- **Reduction in debt and extraordinary gains push net profits** – L&T repaid debt of ₹50bn during the quarter resulting in reduction in interest expenses. Net profits came in ahead of our estimates, lifted by extraordinary gains of ₹2.1bn from further adjustments for E&A sale and the sale of the UK-based Marine Control and Automation Systems subsidiary to Rolls-Royce Power Systems AG.
- **Strong Orderbook (OB) provides revenue visibility** – OB stands healthy at ₹3.3trn (up 8% YoY). Of the total ₹2.6tn domestic OB, 12% is from Central Govt., State- 34%, PSU's- 41% and Private-13%. Management saw strong enquiry pipeline from Infra, Hydrocarbon and Heavy engineering segments from both domestic as well as international markets. Going ahead, management expects healthy ordering from key sectors like Water, Power T&D, Metro/RRTS, Railways, Roads and Expressways that comprises strong pipeline of ₹2.65tn for next 3-4 months.
- **Strong ordering prospects for Q4FY21** – 1HFY21 order inflow was down 41% YoY as order finalisation slowed down meaningfully on account of COVID-19 led challenges, however Q3FY21 witnessed sharp pick up in order finalization of large ticket orders like HSR (₹323bn) and HPCL Barmer Refinery (+₹70bn) which helped L&T to clock order

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inflow of ₹732bn (+76% YoY) for Q3FY21. For 9MFY21 order inflow was at ₹1.2tn (-3% YoY) as against ₹1.3tn in 9MFY20. L&T has been able to cover large part of the lost ground supported by successful bagging of large ticket orders in Q3FY21. Management indicated a healthy prospect pipeline of ₹2.65tn spread across domestic (₹2.2tn) and international (₹450bn), which should start materializing during Q4FY21. The domestic prospects pipeline is spread across infrastructure (80%) and hydrocarbon (7%). The international pipeline is dominated by water, renewable and power T&D.

- **Competitive intensity lower for large projects** – L&T stands to benefit versus peers domestically for its large-projects pipeline on financial and technical qualification and expects to continue to gain market share on the same.
- **Working capital reduction driven by improved customer collections** – Working capital cycle for 9MFY21 stood at 26.2% compared to 23.5% in 9MFY20, as fall in revenue booking in 9MFY21 has optically stretched the working capital cycle, however management highlighted that no incremental cash has been deployed for providing working capital support. Consolidated Debt (Ex-Financials services) has seen marginal decline during the quarter from ₹557bn to ₹540bn as on Dec'20. L&T had increased the borrowing levels to ₹613bn (end of 1HFY21) to provide liquidity and support the business in anticipation of liquidity tightness on account of COVID-19, however with regular customer payment and improved order inflow, debt has subsequently been brought down to ₹540bn (down 73bps as compared to Q1FY21). The company expects absolute working capital to be maintained at FY20 levels for the full year with a further improvement in collections expected during Q4FY21. L&T has rightly prioritized Balance Sheet strength over growth during the current COVID-19 crisis. On the back of E&A sale, current cash and cash equivalents stand over ₹450bn, with negligible net gearing in the core business.

#### View

L&T continues to refrain from providing guidance (on order inflow, revenue booking and margins). During Q3FY21, company recorded highest ever Order inflow of ₹732bn, +76% YoY led by large order wins in Infra and Hydrocarbon segment in the domestic market. OB stands strong at ₹3.3tn providing a strong revenue visibility for next 2-3 years With labour availability at full strength in Q3FY21, we expect sustained execution pick-up and improved productivity in 2HFY21. Also timely payments from Central/State governments provide comfort on working capital front. The management is clear to give preference to cash over revenue and will prefer to execute projects with timely cash payments from customers. We believe that L&T is well-placed to emerge stronger given its financial, technical and managerial capability to sustain and gain market share. Taking into account high ticket size order wins and improving economic growth we continue to remain **POSITIVE** with fair value of ₹1550-1600.

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## Consolidated Financial Performance

									(₹mn)
Particulars	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ(%)	9MFY21	9MFY20	YoY%	
<b>Net Sales</b>	<b>355,964</b>	<b>362,427</b>	<b>(1.8)</b>	<b>310,347</b>	<b>14.7</b>	<b>878,911</b>	<b>1,012,071</b>	<b>(13.2)</b>	
Material Expenses	210,812	218,497	(3.5)	175,101	20.4	478,244	606,533	(21.2)	
Employee Expenses	61,702	61,332	0.6	60,844	1.4	184,081	168,256	9.4	
SG&A Expenses	40,651	41,420	(1.9)	41,055	(1.0)	124,235	125,202	(0.8)	
<b>EBITDA</b>	<b>42,799</b>	<b>41,178</b>	<b>3.9</b>	<b>33,347</b>	<b>28.3</b>	<b>92,351</b>	<b>112,080</b>	<b>(17.6)</b>	
<i>EBITDA Margin (%)</i>	<i>12.0</i>	<i>11.4</i>	<i>66 bps</i>	<i>10.7</i>	<i>125 bps</i>	<i>10.5</i>	<i>11.1</i>	<i>(57) bps</i>	
Interest Cost	9,620	7,092	35.6	10,425	(7.7)	30,604	19,817	54.4	
Depreciation	7,021	6,602	6.3	7,131	(1.5)	20,875	17,513	19.2	
Exceptional Item	-	-	NA	37,323	(100.0)	(35,560)	-	#DIV/0!	
Other Income	10,647	4,749	124.2	5,590	90.5	24,011	17,064	40.7	
PBT	36,805	32,233	14.2	(15,942)	(330.9)	29,323	91,814	(68.1)	
Tax	10,408	7,110	46.4	6,754	54.1	19,241	22,969	(16.2)	
Minority Interest	(3,910)	(3,995)	(2.1)	(3,037)	28.7	9,355	9,798	(4.5)	
Associate Profits	86	481	(82.1)	(526)	(116.3)	(1,451)	(747)	94.3	
PAT from discontinued operations	2,093	1,913	9.4	81,460	(97.4)	83,624	5,222	1,501.4	
<b>Adjus. PAT</b>	<b>24,666</b>	<b>23,522</b>	<b>4.9</b>	<b>55,201</b>	<b>(55.3)</b>	<b>82,900</b>	<b>63,522</b>	<b>30.5</b>	

Source: Company Filing, Way2wealth Research

## Consolidated Segmental Revenue

									(₹mn)
Segment	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ(%)	9MFY21	9MFY20	YoY%	
Infrastructure	159,732	171,758	(7.0)	130,957	22.0	355,250	482,176	(26.3)	
Power	9,037	6,983	29.4	6,887	31.2	19,724	17,532	12.5	
Heavy engineering	8,034	8,061	(0.3)	7,081	13.5	19,365	25,034	(22.6)	
Defence	10,240	10,042	2.0	7,688	33.2	22,693	30,511	(25.6)	
Electrical and automation	48	14,198	(99.7)	8,460	(99.4)	16,057	43,279	(62.9)	
Hydrocarbon	44,224	43,926	0.7	40,497	9.2	115,421	124,663	(7.4)	
Others	20,507	16,004	28.1	13,762	49.0	41,863	41,021	2.1	
<b>Ex-Services</b>	<b>251,822</b>	<b>270,971</b>	<b>(7.1)</b>	<b>215,332</b>	<b>16.9</b>	<b>590,373</b>	<b>764,216</b>	<b>(22.7)</b>	
IT&TS	65,301	61,259	6.6	61,998	5.3	187,733	158,739	18.3	
Financial Services	34,007	35,501	(4.2)	33,419	1.8	100,268	104,567	(4.1)	
Development Projects	8,138	12,382	(34.3)	11,396	(28.6)	25,077	38,689	(35.2)	
<b>Services</b>	<b>107,446</b>	<b>109,142</b>	<b>(1.6)</b>	<b>106,813</b>	<b>0.6</b>	<b>313,078</b>	<b>301,995</b>	<b>3.7</b>	
<b>Gross Revenue</b>	<b>359,268</b>	<b>380,113</b>	<b>(5.5)</b>	<b>322,145</b>	<b>11.5</b>	<b>903,451</b>	<b>1,066,211</b>	<b>(15.3)</b>	
Less: Discontinued operations	48	14,198	(99.7)	8,460	(99.4)	16,057	43,279	(62.9)	
Less: Intersegment	3,256	3,489	(6.7)	3,246	0.3	8,482	10,861	(21.9)	
<b>NET REVENUE</b>	<b>355,964</b>	<b>362,427</b>	<b>(1.8)</b>	<b>310,439</b>	<b>14.7</b>	<b>878,912</b>	<b>1,012,071</b>	<b>(13.2)</b>	

Source: Company Filing, Way2wealth Research

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## Segmental Order inflow Trend

(₹bn)

Order inflows	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY(%)	QoQ(%)
Infrastructure	309	175	157	281	412	113	145	456	62.3	214.5
Power	4	67	43	8	12	-	-	-	NA	NA
Heavy Engineering	8	2	7	5	5	5	3	7	46.4	144.0
Defence	12	4	6	2	7	1	13	7	266.0	(43.7)
Hydrocarbons	127	34	149	-	22	12	-	128	NA	NA
Others	12	20	15	4	73	5	11	22	449.0	99.6
<b>Ex Services</b>	<b>472</b>	<b>302</b>	<b>377</b>	<b>300</b>	<b>531</b>	<b>136</b>	<b>172</b>	<b>621</b>	<b>106.9</b>	<b>260.8</b>
Services	79	85	107	116	47	99	107	111	(4.0)	4.1
<b>TOTAL</b>	<b>551</b>	<b>387</b>	<b>484</b>	<b>416</b>	<b>578</b>	<b>235</b>	<b>279</b>	<b>732</b>	<b>76.0</b>	<b>162.4</b>

Source: Company Filing, Way2wealth Research

## Segmental Order Book Trend

(₹ bn)

Order Book	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY(%)	QoQ(%)
Infrastructure	2,218	2,187	2,153	2,236	2,249	2,197	2,212	2,450	9.6	10.8
Power	70	129	152	184	152	153	149	132	(28.0)	(11.1)
Heavy Engineering	47	41	30	31	30	31	30	33	6.8	10.4
Defence	114	112	121	92	91	92	90	99	8.0	10.4
Hydrocarbons	399	403	515	459	456	427	389	464	1.0	19.2
Others	59	68	61	61	61	153	120	132	117.1	10.4
<b>TOTAL</b>	<b>2,907</b>	<b>2,940</b>	<b>3,032</b>	<b>3,063</b>	<b>3,039</b>	<b>3,053</b>	<b>2,990</b>	<b>3,311</b>	<b>8.1</b>	<b>10.7</b>

Source: Company Filing, Way2wealth Research

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**Disclosure of Interest Statement Larsen & Toubro Ltd. as on 28 January 2021**

Name of the Security	Larsen & Toubro Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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