

Company Background and Business Model

Larsen & Toubro a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations in over 30 countries around the world. L&T addresses critical needs in key sectors – Hydrocarbon, Infrastructure, Power, Process Industries and Defence. The company is also present in the IT (LTTS, L&T Infotech and MindTree) and financial space (L&T Financial services) to suffice the needs of various industries. The management is working on a five year strategic plan "LAKSHYA" to boost the RoE.

Important Statistics

M.Cap (bn)	₹1,134.4
52 Week H/L (₹)	1607 / 661
NSE Code	LT
BSE Code	500510

Investment Argument

- **L&T likely to miss its targeted guidance growth, first benefactor from post lockdown recovery** – L&T a large-cap company with major operations in the construction sector and a barometer of India's macro economy is likely to witness decline in domestic EPC business by 10% due to delay in getting new orders and international business may decline 25% due to issues in the export markets. It likely to miss its targeted revenue and earnings guidance of 10-12% for FY20.

The recent crude oil price crash to sub-\$35 barrel is expected to impact the future hydrocarbon ordering pipeline in the Middle-East. Subsequently, it is likely to impact order intake and order book which could have a spiraling effect on working capital and receivables resulting from tight liquidity. Currently this region contributes ~13% of L&T's order book and 14% to consolidated revenues.

While the L&T's Middle-East order book by the crude price crash, operations and revenue of IT subsidiaries of L&T (LTTS, MindTree, L&T Infotech) with exposure to Europe, US and China are also likely to get impacted in the near to medium term.

- **Strong Q3FY20 performance in a subdued environment** - The company posted 15.2% YoY rise in net profit at ₹23,520mn for the quarter ended Dec'19 against ₹20,416.2mn for the corresponding quarter last year on large value order wins in Power Transmission & Distribution and Metallurgical & Material Handling business.

The Company successfully won new orders worth ₹415,790mn amid subdued business environment. International orders during the quarter were at ₹179,010mn, increased to 43% of the total order inflow. Net Profit from continuing operations for the quarter was at ₹21,610mn a YoY rise of 13.8% over the corresponding quarter of the previous year.

Consolidated revenue was at ₹362,430mn from continuing operations, a growth of 6% YoY. The International revenue during the quarter was at ₹128,710mn constituting 36% of the total revenue. Consolidated order book of the group stood at ₹3.06tn as on 31 December 2019, posting a growth of 8% over Dec'18.

Infrastructure segment secured orders worth ₹281,150mn, a growth of 28% compared to previous year. Order wins were mainly in Power Transmission & Distribution business, Industrial water systems, Network management system and Freight facility package. The Power Segment recorded revenue of ₹6,940mn, posting a decrease of 23% YoY, a depleted opening order book and the new awards yet to pick up execution momentum.

Financials

(₹ mn)

Particulars	FY17	FY18	FY19
Revenue	663,014	744,544	869,879
EBITDA	64,252	74,077	84,986
<i>EBITDA Margin (%)</i>	<i>9.7</i>	<i>9.9</i>	<i>9.8</i>
Net Profit	54,538	53,871	66,779
EPS (Rs)	39.3	38.8	48.1
RoNW (%)	11.9	11.0	12.7
RoCE (%)	9.2	10.6	11.8

Source: Company Filing

30th March 2020

CMP – ₹807.3/-

View – POSITIVE

Key Risks

Major risk due to slowdown in infra ordering and delays in economic recovery.
Temporary slowdown in international orders with the current COVID-19 pandemic.

Investment Rationale

At a trailing consolidated P/E of ~17x, the stock price is trading close to global financial crisis lows on core business P/E and EV/EBITDA. The recent stock price fall is similar or larger in other global EPC stocks as well. A rebound in 2HFY21 is likely but it may not outperform meaningfully given vulnerabilities of the EPC business. We are likely to see major uptick in orders and execution in 2HFY21 and FY22 making it a compelling **BUY** for those investors who missed the opportunity previously. Considering its strong order book, disciplined balance sheet and major benefactor in terms of new orders post the lockdown and economic recovery, **we continue to be POSITIVE on the growth prospects of the company with TP of ₹1200-1370.**

30th March 2020

CMP – ₹807.3/-

View – POSITIVE

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Disclosure of Interest Statement Larsen & Toubro Ltd. as on March 30th, 2020

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