

CMP	: INR 2,929
Reco	: BUY ↔
Target	: INR 3,398 ↔
Target Price Change	: No Change
Target 1HFY26E (P/E)	: 26
EPS Change FY24/25	: No change

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Market data	
Sensex	: 63,875
Sector	: Industrials
Market Cap (INR bn)	: 4,117.2
Market Cap (USD bn)	: 49.452
O/S Shares (mn)	: 1,405.6
52-wk HI/LO (INR)	: 3115/1966
Avg. Daily Vol ('000)	: 2,368
Bloomberg	: LTI IN

Source: Bloomberg

Valuation			
	FY24e	FY25e	FY26e
EPS (INR)	98.5	129.4	157.3
P/E (x)	29.7	22.6	18.6
P/BV (x)	4.3	3.7	3.3
EV/EBITDA (x)	20.7	16.7	13.8
Dividend Yield (%)	0.5	0.5	0.5

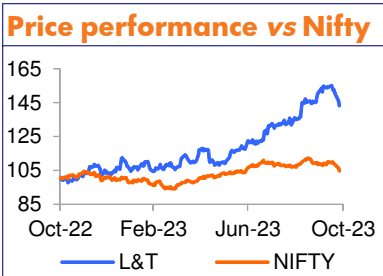
Source: Company, Antique

Returns (%)				
	1m	3m	6m	12m
Absolute	(3)	9	24	45
Relative	(0)	14	19	39

Source: Bloomberg

Shareholding pattern	
Promoters	: 0%
Public	: 100%
Others	: 0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

2QFY24 RESULT REVIEW

Larsen & Toubro

Stellar quarter; upside guidance risk on order inflow, revenue emerge

L&T's 2QFY24 operational results were ahead of our expectations supported by a) Excellent execution displayed in the P&M segment (+24% YoY) and b) Better than estimated service segment margin (18.9%; +100 bps YoY; est. of 18.5%) driven by ToD monetization in Hyderabad Metro. However, P&M margin was disappointing and stood below expectations impacted by the execution of weak margin orders bagged earlier. Given the outperformance 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: 12%-15% YoY growth) as well as on the order inflow front (FY24 guidance of 10%-12% YoY growth). L&T's long-term business prospects remain promising given infrastructure development (NIP of INR 111 trn) and GATI Shakti being the central government's pivotal theme to revive the Indian economy. And since L&T is the largest infrastructure company in India, we believe it would be a key beneficiary. We remain positive on the long-term prospects of the company and maintain BUY rating on the stock with a SoTP target of INR 3,398.

Op. perf. meaningfully ahead of estimates supported by strong beat across parameters

Operational performance was meaningfully ahead of estimates supported by a) Excellent execution displayed in the P&M segment (+24% YoY) and b) Better than estimated service segment margin (18.9%; +100 bps YoY; est. of 18.5%). Sales at INR 510 bn (+19% YoY) were ahead of our expectation of INR 480.1 bn. P&M segment (ex-services) revenue stood at INR 349 bn (+24% YoY), meaningfully ahead of our estimate of INR 321 bn, whereas service segment revenue at INR 161 bn (+10% YoY) was in line with our estimate of INR 160 bn. EBIDTA at INR 56.3 bn (+15% YoY) was ahead of our estimate of INR 50.8 bn supported by a better than estimated margin in the service business. PAT stood at INR 32.2 bn (+44.6% YoY), ahead of our estimate of INR 24.6 bn supported by higher than estimated other income.

P&M performance surprises positively on the execution front, however, margin disappoints

P&M (ex-services) sales registered growth of 24% YoY at INR 349 bn, standing meaningfully ahead of our est. of INR 281 bn as execution gained momentum in the overseas markets. 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 2QFY23) 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 P&M segment, infrastructure margin at 5.4% (-120 bps YoY) came meaningfully below our estimate of 6.5%. 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: 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.

Order inflow registers sharp improvement; prospective pipeline looks healthy at INR 8.8 trn

2QFY24 order inflow stood at INR 892 bn (+72% YoY), meaningfully ahead of our estimate of INR 600 bn supported by large ticket order finalization in the export market (+244% YoY). Incrementally, ordering pipeline stands extremely healthy at INR 8.8 trn, of which infrastructure segment opportunity stands at INR 5.1 trn, hydrocarbon at INR 2.9 trn, power at INR 0.5 trn, and hi-tech manufacturing at INR 0.3 trn. The order backlog at INR 4.5 trn (+21% YoY) provides strong revenue visibility (3.1x its TTM revenue) and comfort on P&M revenue ramp-up.

ToD monetization helps Hyderabad Metro book profits; ridership data shows material improvement

Developmental project segment registered a profit of INR 1 bn for 1HFY24 supported by ToD monetization that materialized during 2QFY24. Sale consideration from ToD monetization stood at INR 10.5 bn which resulted in a profit of INR 5 bn. Additionally, 2QFY24 ridership data for Hyderabad Metro stood at 4.26 lakh daily as compared to 4.2 lakh on a daily basis in 1QFY24. Debt currently stands at INR 12.5 bn and L&T has received a soft loan of INR 9 bn, out of which total state government support was INR 30 bn.

Investment Summary

Since L&T is the largest infrastructure company in India, we believe it would be a key beneficiary of various infrastructure development projects and the central government's GATI Shakti, which is a pivotal theme to revive the Indian economy. We remain positive on the long-term prospects of the company and maintain BUY rating on the stock with a revised SoTP target of INR 3,398.

Segmental Highlights

- **Infrastructure segment** sales saw a growth of 27% YoY to INR 246 bn where domestic business saw a growth of 12% YoY, while overseas infra grew 90% YoY. Domestic and international ordering momentum continued in 2QFY24 and the order book continues to remain robust leading to strong execution during the quarter. Order inflow stood at INR 280 bn registering a growth of 12% YoY supported by high-value orders. The prospect pipeline for FY24 remains strong at INR 5.06 trn (+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 INR 68 bn, 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 INR 401 bn (+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 INR 3.4 trn (+125% YoY). Margin stood at 9.5% (+100 bps YoY) despite in-line margin in the hydrocarbon business supported by strong margin improvement in a power business job.
- **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 INR 24 bn 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 INR 0.26 trn.
- **IT&TS segment** witnessed 7% YoY growth to INR 112 bn, 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 INR 30.8 bn while PAT witnessed a strong 46% growth to INR 3.9 bn due to strong retail disbursements, lower credit costs, better asset quality, and run down of wholesale and expansion of retail (88% of book).
- **Developmental project** sales saw 38% YoY growth to INR 18.5 bn supported by monetization 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 monetization in Hyderabad Metro and consolidation of the Nabha profits. Profit consolidation of L&T IDPL at PAT level has been discontinued from 4QFY23, post signing of a definitive agreement for the stake sale. The investment in the JV is classified as "Held for Sale".
- **Others segment** reported 14% YoY growth during the quarter to INR 16.2 bn mainly due to higher handover of residential flats in the Realty business. EBITDA margin witnessed a 250 bps YoY expansion to 20.0% supported by the same.

Quarterly results table

Particulars (INR mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Total revenues (net)	510,240	427,626	19.3	478,824	6.6	989,064	786,158	25.8
RM	324,728	267,416	21.4	307,634	5.6	632,362	477,187	32.5
% of Sales	63.6	62.5	111 bps	64.2	-61 bps	63.9	60.7	324 bps
Staff cost	102,989	91,663	12.4	98,894	4.1	201,883	177,222	13.9
% of Sales	20.2	21.4	-125 bps	20.7	-47 bps	20.4	22.5	-213 bps
Other operating expenses	26,204	19,553	34.0	23,610	11.0	49,813	43,188	15.3
% of Sales	5.1	4.6	56 bps	4.9	20 bps	5.0	5.5	-46 bps
Total expenditure	453,921	378,632	19.9	430,137	5.5	884,058	697,597	26.7
EBITDA	56,320	48,994	15.0	48,686	15.7	105,006	88,561	18.6
EBITDA Margin(%)	11.0	11.5	-42 bps	10.2	87 bps	10.6	11.3	-65 bps
Depreciation	9,099	8,602	5.8	8,305	9.6	17,404	18,236	(4.6)
Interest	8,640	8,357	3.4	8,514	1.5	17,154	15,917	7.8
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
Tax rate (%)	22.8	28.5	-573 bps	28.1	-532 bps	25.2	25.6	-41 bps
Minority Interest & Share in associates	6,128	5,224	17.3	5,821	5.3	11,949	9,839	21.4
Reported net profit	32,226	22,290	44.6	24,930	29.3	57,156	39,310	45.4
Adjusted net profit	32,226	22,290	44.6	24,930	29.3	57,156	39,310	45.4
EPS (INR)	23.0	15.9	44.6	17.8	29.3	40.8	28.0	45.4

Source: Company, Antique

Segment-wise details

Particulars (INR mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Sales								
Infrastructure	246,130	193,700	27.1	220,580	11.6	466,710	335,510	39.1
Hydrocarbon	67,880	55,860	21.5	66,820	1.6	134,700	106,590	26.4
Heavy Engineering	18,860	14,560	29.5	17,810	5.9	36,670	27,280	34.4
E&C total	332,870	264,120	26.0	305,210	9.1	638,080	469,380	35.9
IT&TS	111,820	101,500	10.2	108,510	3.1	220,330	195,740	12.6
Financial Services	30,840	31,520	(2.2)	30,200	2.1	61,040	61,100	(0.1)
Development Projects	18,490	13,440	37.6	12,940	42.9	31,430	26,890	16.9
Others	16,220	17,040	(4.8)	21,970	(26.2)	38,190	33,030	15.6
Total Revenues	510,240	427,620	19.3	478,830	6.6	989,070	786,140	25.8
EBITDA								
Infrastructure	13,320	12,784	4.2	11,250	18.4	24,570	22,002	11.7
Hydrocarbon	6,460	4,636	39.3	6,081	6.2	12,541	8,948	40.1
Heavy Engineering	2,810	2,694	4.3	2,992	(6.1)	5,802	4,614	25.7
E&C total	22,590	20,114	12.3	20,322	11.2	42,912	35,565	20.7
IT&TS	22,570	22,229	1.5	22,353	1.0	44,923	40,382	11.2
Financial Services	8,250	6,410	28.7	7,440	10.9	15,690	10,255	53.0
Development Projects	7,150	699	923.1	2,040	250.5	9,190	1,304	604.7
Others	3,240	2,658	21.9	4,086	(20.7)	7,326	5,409	35.5
Total EBITDA	63,800	52,110	22.4	56,242	13.4	120,042	92,914	29.2
EBITDA Margins (%)								
Infrastructure	5.4	6.6	-119 bps	5.1	31 bps	5.3	6.6	-129 bps
Hydrocarbon	9.5	8.3	122 bps	9.1	42 bps	9.3	8.4	91 bps
Heavy Engineering	14.9	18.5	-360 bps	16.8	-190 bps	15.8	16.9	-109 bps
E&C total	6.8	7.6	-83 bps	6.7	13 bps	6.7	7.6	-85 bps
IT&TS	20.2	21.9	-172 bps	20.6	-42 bps	20.4	20.6	-24 bps
Financial Services	26.8	20.3	641 bps	24.6	212 bps	25.7	16.8	892 bps
Development Projects	38.7	5.2	3347 bps	15.8	2290 bps	29.2	4.8	2439 bps
Others	20.0	15.6	438 bps	18.6	138 bps	19.2	16.4	281 bps
Total EBITDA	12.5	12.2	32 bps	11.7	76 bps	12.1	11.8	32 bps

Source: Company, Antique

Order inflow details

Particulars (INR mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Order Inflow								
Infrastructure	279,900	250,580	11.7	400,510	(30.1)	680,410	434,010	56.8
Hydrocarbon	401,410	84,410	375.5	72,450	454.1	473,860	126,391	274.9
Heavy Engineering/Defense	23,950	17,680	35.5	10,510	127.9	34,460	52,570	(34.4)
Services	161,150	146,470	10.0	138,710	16.2	299,860	283,740	5.7
Others	25,120	20,000	25.6	20,080	25.1	45,200	38,790	16.5
Total Orders (Cont Op)	891,530	519,140	71.7	655,200	36.1	1,546,730	937,190	65.0
Ex- Services	730,380	372,670	96.0	516,490	41.4	1,246,870	653,450	90.8

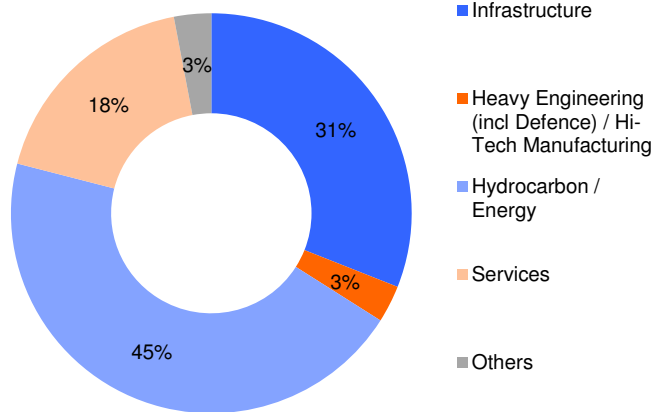
Source: Company, Antique

SoTP valuation table

Description	Method	Valuation multiple	Value (INR bn)	Value (INR/sh)
Construction Business				
L&T Standalone	1HFY26E PER (x)	26	2,378	1,697
L&T Hydrocarbons	1HFY26E PER (x)	26	672	479
Service Segments				
LTI Mindtree (69% stake)	1HFY26E PER (x)	28	1,171	835
L&T Technology Sevices(74% stake)	1HFY26E PER (x)	30	353	252
Finance Sevices (64% stake)	1HFY26E PBV (x)	3	425	303
Asset Ownership / Project Developer				
IDPL - Roads, Transmission	1HFY26E PBV (x)	1	14	10
Hyderabad Metro	1HFY26E PBV (x)	1	24	17
Power Development Projects	1HFY26E PBV (x)	1	31	22
Manufacturing Ventures				
Power Equipment	1HFY26E PER (x)	26	117	84
Less: Holding Company Discount of 20%				-304
Total			5,191	3,398

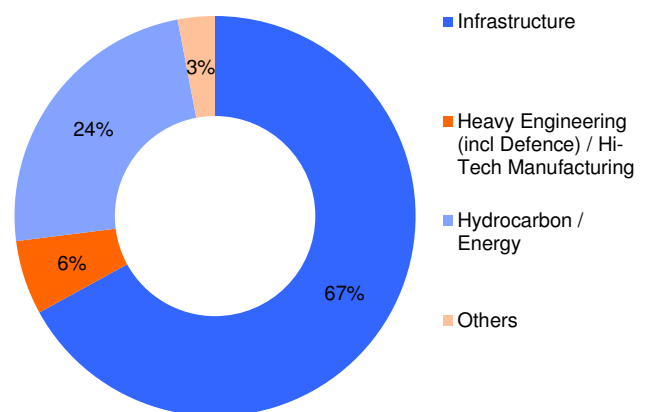
Source: Company, Antique

Order inflow



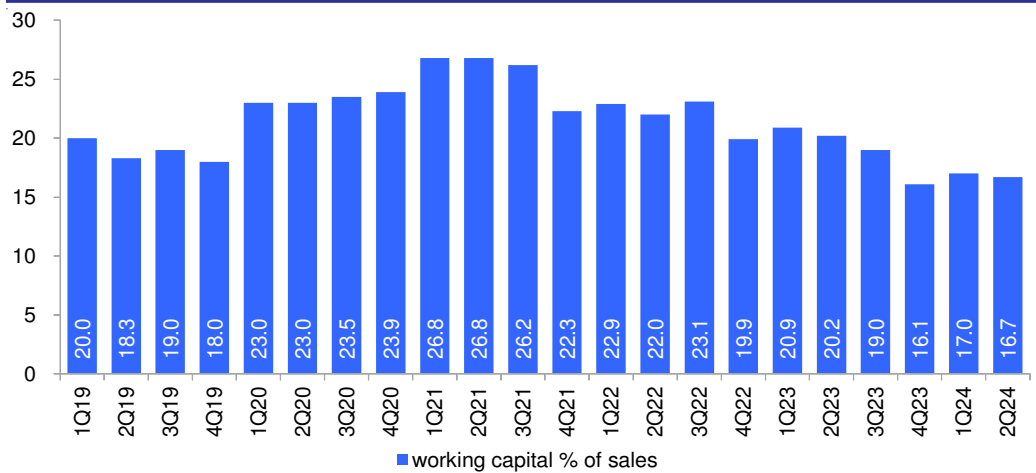
Source: Company, Antique

Order backlog



Source: Company, Antique

Working capital



Source: Company, Antique

Financials - Consolidated

Profit and loss account (INR mn)

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Net Revenue	1,565,212	1,833,407	2,126,248	2,454,694	2,807,664
Op. Expenses	1,383,166	1,625,874	1,883,592	2,159,590	2,459,560
EBITDA	182,046	207,533	242,656	295,104	348,104
Depreciation	29,480	35,023	35,464	29,922	32,080
EBIT	152,567	172,510	207,192	265,182	316,024
Other income	22,671	29,292	42,600	47,435	54,318
Interest Exp.	31,257	32,072	35,279	38,807	42,687
Extra Ordinary Items -gain/(loss)	969	1,360	-	-	-
Reported PBT	143,980	169,730	214,514	273,810	327,655
Tax	42,039	44,842	54,057	69,000	82,569
PAT before exceptions	102,911	126,249	160,456	204,810	245,086
Minority Int./Profit (loss) From Asso.	16,217	21,542	22,571	23,653	24,788
Reported Profit (post minority interest)	86,693	104,707	137,885	181,157	220,297
Adjusted PAT	85,724	103,347	137,885	181,157	220,297
Adjusted EPS (INR)	61.2	73.8	98.5	129.4	157.3

EPS includes E&A; Does Not including Mindtree

Balance sheet (INR mn)

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Share Capital	2,810	2,811	2,811	2,811	2,811
Reserves & Surplus	821,267	890,449	960,642	1,092,105	1,255,772
Networth	824,077	893,260	963,453	1,094,916	1,258,583
Debt	1,234,682	1,185,134	1,196,183	1,186,183	1,176,184
Minority Interest	129,661	142,413	164,042	186,752	210,598
Net deferred Tax liabilities	(18,008)	(33,544)	(33,544)	(33,544)	(33,544)
Capital Employed	2,170,412	2,187,262	2,290,133	2,434,307	2,611,821
Gross Fixed Assets	585,017	619,082	685,469	737,694	789,918
Accumulated Depreciation	157,649	192,672	228,136	258,057	290,138
Capital work in progress	12,496	30,656	16,493	16,493	16,493
Net Fixed Assets	439,864	457,066	473,826	496,129	516,273
Investments	396,034	447,983	447,983	447,983	447,983
Current Assets, Loans & Adv.	2,336,191	2,358,626	2,616,667	2,931,373	3,295,975
Inventory	59,433	68,288	79,195	91,429	104,575
Debtors	461,389	447,315	518,763	598,897	685,015
Cash & Bank balance	189,532	225,196	273,431	352,821	464,538
Loans & advances and others	730,443	797,941	925,392	1,068,340	1,221,960
Current Liabilities & Provisions	1,001,676	1,076,413	1,248,343	1,441,177	1,648,409
Liabilities	1,001,676	1,076,413	1,248,343	1,441,177	1,648,409
Net Current Assets	1,334,515	1,282,214	1,368,325	1,490,196	1,647,565
Application of Funds	2,170,412	2,187,262	2,290,134	2,434,308	2,611,822

Per share data

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
No. of shares (mn)	1,400	1,400	1,400	1,400	1,400
Diluted no. of shares (mn)	1,400	1,400	1,400	1,400	1,400
BVPS (INR)	588.5	637.9	688.0	781.9	898.8
CEPS (INR)	94.5	115.2	139.9	167.6	197.9
DPS (INR)	16.0	16.0	16.0	16.0	16.0

Source: Company, Antique

Cash flow statement (INR mn)

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT	86,693	104,707	137,885	181,157	220,297
Depreciation & amortization	29,480	35,023	35,464	29,922	32,080
(Inc)/Dec in working capital	38,209	87,965	(37,876)	(42,481)	(45,653)
Other operating Cash Flow	(2,824)	(15,536)	-	-	-
CF from operating activities	151,557	212,159	135,473	168,598	206,725
Capital expenditure	(21,146)	(52,225)	(52,225)	(52,225)	(52,225)
Inc/(Dec) in investments	(21,146)	(52,225)	(52,225)	(52,225)	(52,225)
CF from investing activities	(20,913)	(104,174)	(52,225)	(52,225)	(52,225)
Inc/(Dec) in share capital	14,598	1,492	(32,614)	0	0
Inc/(Dec) in debt	(91,370)	(49,548)	11,049	(10,000)	(9,999)
Dividend Paid	(35,900)	(37,017)	(35,078)	(49,694)	(56,631)
Others	9,145	12,752	21,629	22,710	23,846
CF from financing activities	(103,527)	(72,321)	(35,014)	(36,983)	(42,784)
Net cash flow	27,117	35,664	48,235	79,390	111,717
Opening balance	162,415	189,532	225,196	273,431	352,821
Closing balance	189,532	225,196	273,431	352,821	464,538

Growth indicators (%)

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Revenue	15.1	17.1	16.0	15.4	14.4
EBITDA	16.5	14.0	16.9	21.6	18.0
Adj PAT	24.2	20.6	33.4	31.4	21.6
Adj EPS	24.2	20.6	33.4	31.4	21.6

Valuation (x)

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	47.8	39.7	29.7	22.6	18.6
P/BV (x)	5.0	4.6	4.3	3.7	3.3
EV/EBITDA (x)	28.3	24.4	20.7	16.7	13.8
EV/Sales (x)	3.3	2.8	2.4	2.0	1.7
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5

Financial ratios

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
RoE (%)	10.8	12.0	14.9	17.6	18.7
RoCE (%)	8.0	9.3	11.2	13.2	14.7
Asset/T.O (x)	0.9	1.0	1.2	1.3	1.4
Net Debt/Equity (x)	1.5	1.3	1.2	1.1	0.9
EBIT/Interest (x)	5.6	6.3	7.1	8.1	8.7

Margins (%)

Year-ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
EBITDA Margin (%)	11.6	11.3	11.4	12.0	12.4
EBIT Margin (%)	9.7	9.4	9.7	10.8	11.3
PAT Margin (%)	5.5	5.6	6.5	7.4	7.8

Source: Company Antique

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