



Larsen & Toubro

Estimate changes



TP change



Rating change



Bloomberg	LT IN
Equity Shares (m)	1375
M.Cap.(INRb)/(USDb)	4686.5 / 55.7
52-Week Range (INR)	3949 / 2856
1, 6, 12 Rel. Per (%)	-2/-13/-11
12M Avg Val (INR M)	9225

Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Net Sales	2,638.0	2,945.1	3,315.6
EBITDA	280.3	324.8	365.4
PAT	152.7	188.5	220.4
EPS (INR)	111.1	137.2	160.3
GR. (%)	19.4	22.2	16.9
BV/Sh (INR)	714.9	820.6	944.2

Ratios

ROE (%)	16.8	17.9	18.2
RoCE (%)	9.6	10.3	10.6

Valuations

P/E (X)	30.3	24.8	21.2
P/BV (X)	4.8	4.2	3.6
EV/EBITDA (X)	16.7	14.4	12.8
Div Yield (%)	0.8	0.9	1.1

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	40.3	38.7	37.1
FII	22.7	23.9	26.6
Others	37.0	37.4	36.3

FII Includes depository receipts

CMP: INR3,407

TP: INR4,300 (+26%)

Buy

Ticking the right boxes

Larsen & Toubro (LT)'s results came ahead of our estimates, primarily led by better-than-expected order inflow and execution, decent margin performance, further decline in NWC, and improving RoEs. The company reported 21%/13%/5% YoY growth in revenue/EBITDA/PAT on a consolidated basis. The core E&C revenue growth at 28% YoY continued to outperform in 2QFY25 too, vs. guidance of mid-teens growth for the full year. Core E&C margins improved slightly YoY. Further support for execution growth and margins will come from improved execution in the coming quarters. Though a large part of inflows during the quarter were driven by international projects, it has hedged the company very well against weaker domestic inflows. Beyond the core business, LT is also focusing on building up newer initiatives such as electrolyzers, semiconductors, data centers, and nuclear technology, as well as to further grow its real estate business. We tweak our estimates to factor in LT's improved execution. Reiterate BUY with a revised SoTP-based TP of INR4,300.

Core E&C execution and order inflow above estimates

LT reported better-than-expected consolidated revenue/EBITDA/PAT of INR616b/INR64b/INR34b, which grew 21%/13%/5%. For the core E&C business, order inflows came in above estimates at INR630b, down only 14% YoY vs. our estimate of 25% YoY decline due to high base as the company had bagged two ultra-mega hydrocarbon orders in 2QFY24. This outperformance in order inflows during the quarter was driven by sharp 77% YoY growth in order inflows for the Infrastructure segment, mainly from the international market. Domestic orders continue to be muted. Core E&C revenue came in at INR445.3b, a growth of 28% YoY vs. our estimate of 14% YoY growth. This is driven by robust execution in international projects, which jumped 83% YoY while domestic execution was largely flat YoY, presumably owing to monsoons. EBITDA margin at 7.6% for the core business came in below our estimates of 8%. Margins stood flat QoQ and up 20bp YoY. Core order book stood at INR5.1t, up 13% YoY. Net working capital improved sharply to 12.2% of sales in 1HFY25 vs. 16.7% in 1HFY24. RoE too improved from 15.3% to 16.1% YoY. Notably, operating cash flow jumped from INR35b to INR77b YoY.

Prospect pipeline down 8% YoY; domestic orders likely to improve

LT's prospect pipeline for 2HFY25 is down 8% YoY at INR8.08t, owing to a fall in hydrocarbon and carbon lite prospects. While domestic orders have been muted in 1HFY25, this softness was already factored in at the beginning of the year. With elections and government formation behind us, LT is confident of a pickup in domestic ordering, with prospects of INR4.13t across data centers, hospitals, residential and industrial real estate, rail, expressways, airports, hydel-related projects, etc. The company is well-placed to garner a decent share if these opportunities were to fructify. LT's order book grew 13% YoY to INR5.1t (3x TTM revenue). The international segment forms 40% of the overall order book. Within international, 85% comes from the Middle East.