LARSEN & TOUBRO

FINANCIAL ANALYSIS

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Larsen & Toubro

"It's all about Imagineering"

About: Larsen & Toubro (L&T) is an Indian multinational conglomerate headquartered in Mumbai, India. It was established in 1938 by two Danish engineers, Henning Holck-Larsen and Soren Kristian Toubro. Over the years, L&T has evolved into one of the most prominent and diversified companies in India and globally. The company is known for its strong presence in various sectors, including engineering, construction, manufacturing, technology, and financial services. with operations in over 30 countries.

Key Services:

Infrastructure & Construction
L&T is a leader in developing large-scale infrastructure projects, including roads, bridges, airports, ports, and urban development. It also provides engineering and construction solutions for industrial facilities, power plants, and water treatment systems.

Defense
L&T Defence, a subsidiary, specializes in manufacturing advanced defense technologies, including armored vehicles, naval ships, and weapon systems. It contributes to both domestic and international defense projects, enhancing national security.

Power & Hydrocarbon
L&T delivers engineering, procurement, and construction (EPC) services in the power sector, covering thermal, hydro, and renewable energy projects. The company also offers expertise in oil and gas infrastructure through its Hydrocarbon division, providing solutions for both onshore and offshore projects.

Technology & IT Services
Through L&T Infotech (LTI), L&T offers cutting-edge IT services, including cloud solutions, data analytics, and digital transformation, enabling businesses to enhance their performance through technology.

Financial Services
L&T Finance Holdings provides a comprehensive range of financial products, including retail loans, insurance, asset management, and investment solutions, catering to both individual and corporate clients.

Real Estate
L&T Realty focuses on the development of residential, commercial, and mixed-use properties, with a strong presence in premium real estate projects that emphasize quality and innovation.

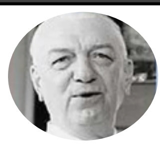
Manufacturing
L&T's manufacturing division produces critical industrial equipment, such as construction machinery, electrical systems, and automation products, supporting sectors like energy, transport, and industrial automation.

Smart Cities & Automation
Through L&T Smart World & Communication, the company provides smart city solutions, offering integrated technology for infrastructure management, surveillance, and urban automation aimed at improving city living standards

Company Background

Timeline of Larsen & Toubro (L&T):

- **1938-1945: Founding and Early Growth**
  - 1938: Henning Holck-Larsen and Søren Kristian Toubro, Danish engineers, established L&T in India to represent Danish dairy equipment manufacturer FLSmidth. Initially operated through an oral agreement.
  - 1939-1945: World War II disrupted trade, prompting L&T to innovate:
    - Manufactured dairy equipment locally after the German invasion of Denmark halted imports.
    - Entered ship repair and fabrication due to wartime demand, forming Hilda Ltd to manage ship-related operations.
    - Entered installation services after German engineers were interned during the war, assisting Tata Group in setting up a soda ash plant.
  - 1944: Established Engineering Construction & Contracts Ltd. (ECC) to focus on construction projects.
- **1946-1959: Incorporation and Expansion**
  - 1946: L&T was legally incorporated as Larsen & Toubro Private Limited.
  - 1947: Expanded into marketing:
    - Represented manufacturers of equipment for hydrogenated oils, biscuits, soaps, and glass.
    - Signed an agreement with Caterpillar Tractor Company to market earth-moving equipment.
    - Opened offices in Calcutta, Madras, and New Delhi.
  - 1948: Acquired 55 acres in Powai, Mumbai, transforming marshland into a manufacturing hub.
  - 1950: Became a public company with a paid-up capital of ₹20 lakh and a sales turnover of ₹1.09 crore.
  - 1956: Moved headquarters to ICI House (later renamed L&T House) in Ballard Estate, Mumbai.
- **1960-1979: Diversification and Technological Growth**
  - 1960-1963: Initiated new ventures:
    - UTMAL (1960), Audco India Limited (1961), Eutectic Welding Alloys (1962), and TENGL (1963).
  - 1962: Søren Kristian Toubro retired from active management.
  - 1965: Became a key partner in nuclear reactor fabrication, collaborating with Dr. Homi Bhabha and the Atomic Energy Commission.
  - 1970s: Partnered with ISRO for manufacturing in the aerospace sector.
  - 1976: Merged ECC into L&T, later renamed L&T Construction, becoming the largest revenue contributor to the group.
  - 1978: Henning Holck-Larsen retired as chairman.

	Founder	Founder
 S N Subrahmanyan CEO & MD	 Henning Holck Larsen Co-Founder	 Soren Kristian Toubro Co-Founder

Board of Directors

- Sudhindra Vasantrao Desai
- S N Subrahmanyan
- Siddhartha Mohanty
- Prathivadibhayankara Rajagopalan Ramesh
- Ajay Tyagi
- Rajnish Kumar
- Jyoti Sagar
- Anil Vithal Parab
- Pramit Shashikant Jhaveri
- Preetha Reddy
- Tharayil Madhava Das
- Narayanan Kumar
- Sanjeev Aga
- Subramanian Sarma
- Ramamurthi Shankar Raman

OVERVIEW

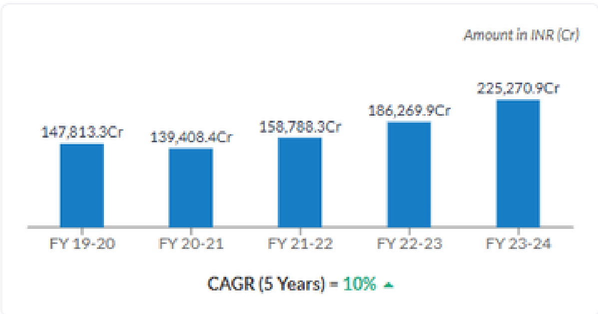
- **1980-1999: Defence and Financial Services**
  - 1985: Collaborated with DRDO on defence design and development projects but was not permitted to manufacture defence equipment directly due to government restrictions.
  - 1994: Established L&T Finance, a financial services subsidiary.
- **2000-Present: Consolidation and International Expansion**
  - 1996: Incorporated L&T Information Technology Limited, later renamed Larsen & Toubro Infotech Limited (LTI), marking L&T's entry into the IT services sector. (Economic Times)
  - 2009: Formed L&T Hydrocarbon Engineering Limited (LTHE), a wholly-owned subsidiary, to provide integrated 'design-to-build' solutions for the hydrocarbon industry globally. (Larsen & Toubro Investors)
  - 2012: Smart Cities and Security Solutions: L&T ventured into providing solutions for Smart Cities, security solutions, and communication
  - 2015: Began commercial and real estate development around the Hyderabad Metro Rail Project.
  - 2016: L&T Infotech went public, listing on the stock exchanges
  - 2019: Acquired a controlling stake in IT services company Mindtree, expanding into technology services.
  - 2020: Offshore Patrol Vessel Launch: L&T launched the final offshore patrol vessel for the Indian Coast Guard. The company also won two risk management awards from CNBC TV18
  - 2022: Merged L&T Infotech and Mindtree to form LTIMindtree, one of India's largest IT services provider.
  - 2023: S N Subrahmanyan took charge as Chairman and Managing Director

- Today With a revenue exceeding INR 200,000 crores L&T maintains a robust global presence, with operations in over 30 countries. As of November 2024, L&T's market capitalization is approximately ₹4.85 trillion , making it one of India's largest companies and the world's 352th most valuable company by market cap

In the diverse sectors that Larsen & Toubro (L&T) operates, the company faces stiff competition from a range of national and international players. In construction and infrastructure, Tata Projects, Hindustan Construction Company (HCC),Shapoorji Pallonji & Company,Gammon India and Adani Group are significant competitors, with Tata Projects known for large infrastructure projects, HCC excelling in roads, bridges, and urban infrastructure, and Adani Group competing in energy and transport. L&T's power division, for example, faces competition from global companies like Siemens, which offers a comprehensive range of power solutions, and from domestic players like NTPC and BHEL. In defense and aerospace, L&T competes with Bharat Dynamics Limited and Hindustan Aeronautics Limited (HAL), while in the technology sector, it faces competition from large IT players like TCS, Infosys, and Wipro. For financial services, L&T Financial Services competes with large players like ICICI Bank, HDFC, and Bajaj Finance. L&T's subsidiaries, such as L&T Infotech (LTI), also compete with other IT service providers like Cognizant and Accenture. Globally, companies like Bechtel and Vinci challenge L&T's market share in various sectors, with Vinci focusing on construction and infrastructure, and Bechtel excelling in energy and industrial sectors. Despite this competition, L&T's diversified portfolio across sectors such as infrastructure, energy, defense, IT, and finance gives it a strong edge in the market

COMPANY METRICS

Revenue



Net Profit/Loss

Investments & Acquisitions by L&T

EXPORT

All (13) | Investments (7) | Acquisitions (6)

Country : All (13) Sector : All (13)

	Name	Short Description	Portfolio Type	Sector	Total Equity	Founded Year	Current Stage	Location
1.	ReNew	Developer of independent power producer plants	Investment	Energy [+1]	$2.04B	2011	Public	Gurugram
2.	CYFIRMA M	SaaS-based external threat landscape management platform	Investment	Enterprise Infrastructure [+2]	$18M	2017	Series A	Singapore
3.	IntelliFlux... 4	Process automation software for water treatment facilities	Investment	Environment Tech [+2]	$3.22M	2017	Series A	California
4.	Help Ligh... M	Provider of an augmented reality-based remote collaboration solution	Investment	High Tech [+2]	$12.7M	2009	Series A	Alabama
5.	Ramboll	Provider of real estate design and engineering consultancy services	Acquisition	Business Services [+1]	-	1945	Acquired	Denmark
6.	CyanConnode	Platform offering utility solutions for energy efficiency	Investment	Real Estate and Construction Tech [+4]	$5.43M	-	Public	United Kingdom
7.	Feedback... M	Provider of infrastructure development and management services	Investment	Energy [+1]	$49.5M	1990	Late Stage	Gurugram
8.	Mindtree	Consulting and implementations company	Acquisition	Business Services	$23.9M	1999	Acquired	Bengaluru
9.	Servowatch	Designs and manufactures ship control and monitoring system	Investment	Aerospace, Maritime and Defense	-	1975	Acquired	United Kingdom
10.	LTC	Provider of engineering, manufacturing, and construction consulting services	Acquisition	Industrial Goods and Manufacturing	-	1995	Acquired	Mumbai

COMPANY METRICS

Observations over the past five fiscal years (FY 19-20 to FY 23-24).

Key points:

- **Revenue:** The company's revenue has been steadily increasing over the years, with a CAGR (Compound Annual Growth Rate) of 10%.
- **Net Profit/Loss:** The net profit has also shown a positive trend with a CAGR of 9%.
- In FY 23-24, the revenue reached its highest point at 225,270.9 Cr.
- The net profit/loss reached its highest point at 15,547.1 Cr.
- Overall, the company has experienced significant growth in both revenue and profitability over the past five years

- **Share Price :** Larsen & Toubro (L&T) shares experienced a significant price surge in the past five years, rising from ₹1,274.28 in 2019 to ₹3,526.25 in 2024. This surge resulted in a remarkable 176% return with a 22.5% CAGR. While the COVID-19 pandemic in 2019 led to initial price stability, subsequent economic recovery and strong company performance fueled the remarkable growth.

- **L&T's Employee Count**: L&T's employee count has exhibited a volatile trend over the years. While there have been periods of growth, the overall trajectory appears slightly downward. Significant fluctuations, characterized by sharp increases and decreases, are evident. Most recently, a *notable 11% year-over-year* decline has been observed. These fluctuations and downnard trajectory can be attributed to factors like project cycles, acquisitions, and layoffs.

Acquisitions by L&T :

- Larsen & Toubro (L&T) has strategically acquired several companies to expand its operations and capabilities. These acquisitions include LTC, a provider of engineering and construction services Rs 75 crore.; Mindtree, a consulting firm for 11,000 crore; L & T Ramboll Consulting Engineers, a real estate and construction company; Ramboll, a real estate design and engineering consultancy; All Audco India, a valve manufacturer; and Valdel, a construction management services provider. These acquisitions have enabled L&T to diversify its portfolio, strengthen its core businesses, and enter new markets.

Investment by L&T:

- Larsen & Toubro (L&T) has strategically invested in companies across diverse sectors such as energy, technology, and infrastructure. These investments include ReNew, a renewable energy company; CYFIRMA, a cybersecurity firm; IntelliFlux a water technology company; Help Lightning, an augmented reality solutions provider; CyanConnode, an energy efficiency solutions provider; Feedback Infra, an infrastructure development company; and Servowatch, a marine technology company. These investments align with L&T's focus on innovation, sustainability, and emerging technologies, positioning the company for future growth and diversification

Shareholding Pattern : As of September 30, 2024, L&T's shareholding pattern indicates a 100% public shareholding with no promoter or promoter group holdings. Institutional investors constitute a significant portion of the public shareholding, with mutual funds and insurance companies collectively accounting for a substantial share (over 37.88%). Foreign Portfolio Investors hold a dominant position among public institutions with a 20.94% stake. Non-institutional investors, including resident individuals and employee trusts, make up a significant portion, notably the L&T Employee Trust, which holds 14.36%. Other public categories, such as retail investors and HUFs, contribute meaningfully to the broad-based ownership. The company's fully dematerialized structure and diverse investor base highlight robust governance and market trust.Major institutional investors include Life Insurance Corporation of India (LIC) with a 12.31% stake, SBI Equity Minimum Variance Fund with 4.24%, and Bharat 22 ETF with 3.67%.

HORIZONTAL AND VERTICAL ANALYSIS

Horizontal Analysis - Balance Sheet

From 31-Mar-2019 to 31-Mar-2024, the company experienced solid growth in key financial areas. Total assets rose by 22.02%, reflecting consistent expansion, particularly between 2020 and 2022. Equity surged by 48.19%, driven by a significant 237.18% increase in non-controlling interests, indicating a strategic focus on increasing minority stakes. Liabilities grew by a more moderate 13.35%, with non-current liabilities declining by 19.73%, showcasing improved long-term debt management, while current liabilities increased by 31.99%, primarily due to higher trade payables and provisions. The company's non-current assets grew by 8.96%, with property, plant, and equipment up by 22.11%, highlighting significant investments in infrastructure and assets. Goodwill and intangible assets also showed substantial growth, reflecting strategic investments. Current assets rose by 30.15%, with cash and cash equivalents growing by 83.71%, investments up by 150.66%, and trade receivables increasing by 32.36%, signaling stronger liquidity and financial positioning. The company has effectively managed its liabilities while strategically expanding its asset base and improving cash flow, suggesting a well-executed growth strategy

Veritical Analysis - Balance Sheet

The vertical analysis of the company's assets and liabilities from FY 2019-20 to FY 2023-24 reveals a trend toward enhanced liquidity and a more balanced financial structure. Non-current assets decreased from 40.71% in FY 2020-21 to 35.79% in FY 2023-24, indicating a shift away from long-term investments to more liquid assets. Within non-current assets, Loans towards financing activities saw an increase to 15.36%, reflecting a strategic focus on financing activities rather than capital expenditure. Conversely, Property, plant, and equipment remained relatively stable at around 3.9%, signaling consistent investment in core operational infrastructure. Current assets grew from 57.87% in FY 2020-21 to 63.92% in FY 2023-24, reflecting an increase in short-term liquidity, with Trade receivables rising to 14.36%, a trend indicating growing revenue or efficient collection. However, the Cash and cash equivalents decreased from 5.12% to 3.52%, suggesting the company may be optimizing its cash reserves or investing in working capital. The company's Equity improved from 24.74% in FY 2020-21 to 30.19% in FY 2023-24, driven by growth in Other equity, indicating stronger shareholder confidence and financial health. This trend highlights an increase in retained earnings and a more sustainable financial foundation. Non-current liabilities fell from 28.29% to 17.81%, with Borrowings decreasing from 26.72% to 16.64%, suggesting a reduction in long-term debt obligations, potentially as a result of debt repayment or refinancing. This aligns with the overall reduction in Liabilities, which declined from 75.26% in FY 2020-21 to 69.81% in FY 2023-24, reflecting the company's focus on deleveraging and improving financial stability. Current liabilities showed a slight reduction from 52.00% to 49.06%, but Trade payables remained a significant proportion at 15%, implying that supplier relationships or payment terms remain stable. The increase in Other current liabilities from 10.00% to 15.41% suggests a shift towards managing short-term operational costs and obligations more efficiently. Overall, the company's strategy appears to focus on maintaining liquidity while reducing debt, with an improved equity position signaling stronger financial resilience and potential for future growth.

HORIZONTAL AND VERTICAL ANALYSIS

Horizontal Analysis - Income Statement

The horizontal analysis of the income statement, with 2018-19 as the base year, shows a strong upward trend in key financial metrics from 2018-19 to 2023-24. Revenue from operations rose by 63.52%, reflecting consistent growth in operational income. Other income saw a significant increase of 126.41%, highlighting growth in non-operating income. Total income grew by 64.36%, indicating overall financial strength. However, expenses also increased, with notable rises in cost of raw materials (31.62%) and construction materials consumed (75.51%), suggesting higher production costs. Employee benefits and sales, administration expenses grew by 135.72% and 53.43%, respectively, indicating more investment in workforce and operations. Depreciation, amortization, and impairment also rose by 91.49%, while finance costs surged by 96.71%, reflecting higher interest expenses. Despite these increases in costs, profit before tax grew by 49.37% and net profit after tax rose by 61.04%, demonstrating strong profitability. Earnings per share (EPS) grew by 47.94%, reflecting the company's improved financial performance. While the company has achieved solid growth, rising expenses and finance costs indicate that cost management will be key to sustaining profitability.

Vertical Analysis - Income Statement

The vertical analysis of the income statement reveals that revenue from operations consistently contributes over 98% of total income, with other income remaining a smaller component. Manufacturing, construction, and operating expenses, particularly costs related to construction materials and subcontracting, make up a significant portion of total expenses, with construction material costs peaking at 24.33% in 2023-24. Employee benefits and finance costs have shown gradual increases, particularly in employee expenses, which rose to 19.98% in 2022-23 but dropped slightly to 18.28% in 2023-24. Despite rising costs, the company has maintained stable profit margins, with profit before tax and net profit after tax hovering around 9% and 6.9%, respectively. Exceptional items have had minimal impact on overall performance in recent years, and tax expenses have remained consistent, accounting for around 2.2% to 3% of total revenue. Overall, the company demonstrates efficient cost management and stable profitability amidst fluctuating costs in certain areas

Cash Flow Statement Analysis

In the fiscal year 2023-24, the company experienced a significant decline in cash and cash equivalents, with a net decrease of ₹4,984.04 million, compared to an increase of ₹2,892.77 million in the previous year, reflecting a swing of ₹7,876.81 million or -272.29%. This decline was primarily driven by a decrease in cash flow from operating activities, which fell by ₹4,575.23 million (-20.03%) due to a large outflow from loans and advances for financing activities and a rise in trade receivables. On the other hand, cash flow from investing activities showed an improvement, turning from a negative outflow of ₹8,311.70 million in 2022-23 to a positive inflow of ₹2,163.04 million, largely due to higher net proceeds from current investments and a significant increase in other bank balances. Financing activities saw an increased outflow of ₹13,840.87 million (119.60%) driven by the buyback of equity shares and higher dividend payments, although reduced repayments of non-current borrowings helped offset some of the outflow.

Ratio Analysis

This analysis examines the financial performance and position of the company over five consecutive years, focusing on liquidity, solvency, profitability, and market value ratios. Each ratio's importance is highlighted, followed by observations on trends and potential reasons for these trends.

Liquidity Ratios

1. Current Ratio (Current Assets / Current Liabilities)

- Importance: Measures the company's ability to pay short-term obligations with short-term assets. A ratio above 1 indicates that current assets exceed current liabilities.
- Observations:
- - The ratio fluctuated between 1.23 and 1.42, peaking in Year 4 at 1.42.
- - A slight downward trend is observed from Year 4 (1.42) to Year 1 (1.23).
- Possible Reasons:
- - Decrease in current assets due to inventory reduction or increased accounts receivable collection period.
- - Increase in current liabilities from higher short-term borrowing or accounts payable.

2. Quick Ratio (Current Assets - Inventory) / Current Liabilities

- Importance: Assesses the company's ability to meet short-term obligations without relying on the sale of inventory.
- Observations:
- - Remained relatively stable, ranging from 1.19 to 1.38.
- - Mirrors the trend of the current ratio, indicating consistent inventory levels relative to current assets.
- Possible Reasons:
- - Efficient inventory management maintaining low levels relative to other current assets.
- - Stable liquid assets like cash and receivables

3. Cash Ratio (Cash + Cash Equivalents) / Current Liabilities

- Importance: Evaluates the company's ability to pay off short-term liabilities with cash and cash equivalents alone.
- Observations:
- - Low ratios between 0.07 and 0.10, indicating limited cash reserves relative to current liabilities.
- - Slight decrease from 0.10 in Year 2 to 0.07 in Year 1.
- Possible Reasons:
- - Increased investment activities reducing cash reserves.
- - Reliance on other current assets or financing to meet short-term obligations.

4. Net Working Capital Ratio (Current Assets - Current Liabilities) / Total Assets

- Importance: Indicates the proportion of net working capital relative to total assets, reflecting liquidity in the context of the company's size.
- Observations:
- - Fluctuated between 0.12 and 0.18, with higher ratios in Years 2 and 4 (0.18).
- - Decrease to 0.12 in Year 1 suggests reduced liquidity relative to total assets.
- Possible Reasons:
- - Reallocation of assets from current to long-term investments.
- - Increased current liabilities or decreased current assets impacting net working capital.

5. Operating Cash Flow Ratio Operating Cash Flow / Current Liabilities

- Importance: Measures the ability to cover current liabilities with cash generated from operations.
- Observations:
- - Declined significantly from 0.17 in Year 4 to 0.05 in Year 1.
- - Indicates reduced operating cash flow relative to current liabilities.
- Possible Reasons:
- - Decreased cash flow from operations due to lower revenues or higher operating expenses.
- - Increased current liabilities without a proportional increase in operating cash flow.

RATIO ANALYSIS

Leverage/Solvency Ratios

1. Debt Ratio Total Liabilities / Total Assets

- Importance: Reflects the proportion of assets financed through liabilities, indicating financial leverage.
- Observations:
- - Consistently high ratios around 0.70, peaking at 0.75 in Year 5.
- - Slight improvement in Years 2 and 1, dropping to 0.69 and 0.70, respectively.
- Possible Reasons:
- - Gradual reduction in total liabilities or increase in total assets.
- - Strategic debt management reducing reliance on liabilities.

2. Debt-to-Equity Ratio Total Debt / Shareholder’s Equity

- Importance: Shows the balance between debt and equity financing, indicating financial risk.
- Observations:
- - Decreased from 3.04 in Year 5 to 2.19 in Year 2.
- - Slight increase to 2.31 in Year 1, suggesting cautious use of debt.
- Possible Reasons:
- - Increase in shareholder equity through retained earnings or new equity issuance.
- - Controlled borrowing practices to maintain optimal capital structure

3. Equity Ratio Total Equity / Total Assets

- Importance: Measures the proportion of assets financed by shareholders' equity, indicating financial stability.
- Observations:
- - Improved from 0.25 in Year 5 to 0.31 in Year 2.
- - Slight decline to 0.30 in Year 1, but overall stronger equity position compared to earlier years.
- Possible Reasons:
- - Accumulation of retained earnings boosting equity.
- - Asset growth outpacing equity growth in the most recent year.

4. Interest Coverage Ratio EBIT / Interest Expense

- Importance: Assesses the company's ability to pay interest expenses from operating earnings.
- Observations:
- - Improved from 4.13 in Year 4 to 6.76 in Year 1.
- - Indicates enhanced capacity to cover interest obligations.
- Possible Reasons:
- - Increased EBIT due to higher operating income.
- - Decreased interest expenses from debt repayment or refinancing at lower rates.

5. Debt Service Coverage Ratio (DSCR) Net Operating Income / Total Debt Service

- Importance: Evaluates the ability to service debt with operating income.
- Observations:
- - Significant improvement from 0.37 in Year 4 to 0.85 in Year 1.
- - Suggests enhanced financial health concerning debt obligations.
- Possible Reasons:
- - Increased net operating income through revenue growth or cost management.
- - Reduction in total debt service due to lower interest rates or debt restructuring.

RATIO ANALYSIS

Profitability Ratios

1. Operating Margin Operating Income (EBIT) / Sales

- Importance: Indicates operational efficiency and profitability from core business activities.
- Observations:
- - Stable margins around 11%, with a slight peak at 12% in Year 4.
- - Consistency suggests steady operational performance.
- Possible Reasons:
- - Effective cost control maintaining consistent margins.
- - Stable pricing strategies and revenue streams.

2. Net Profit Margin Net Income / Revenue

- Importance: Reflects the overall profitability after all expenses, including taxes and interest.
- Observations:
- - Maintained at 7%, with a peak of 9% in Year 4.
- - Indicates consistent net profitability.
- Possible Reasons:
- - One-time gains or tax benefits boosting net income in Year 4.
- - Steady revenue and expense management.

3. Return on Equity (ROE) Net Income / Shareholders' Equity

Importance: Measures the return generated on shareholders' investments.
Observations:
- Fluctuated between 11% and 15%, with higher returns in Years 1 and 4 (15%).
- Indicates efficient use of equity to generate profits.
Possible Reasons:
- Increased net income without a proportional increase in equity.
- Share repurchases reducing equity base and enhancing ROE.

4. Return on Assets (ROA) Net Income / Total Assets

- Importance: Assesses how effectively assets generate profits.
- Observations:
- - Slight improvement from 3% in Year 3 to 5% in Year 1.
- - Overall low ROA due to high asset base.
- Possible Reasons:
- - Incremental gains in net income.
- - Stable or optimized asset utilization.

5. Basic Earning Power EBIT / Total Assets

- Importance: Evaluates the earning ability of assets before taxes and interest.
- Observations:
- - Increased from 5% in Year 5 to 7% in Year 1.
- - Suggests improved operational efficiency.
- Possible Reasons:
- - Enhanced EBIT through revenue growth or cost reductions.
- - Strategic investments yielding higher returns.

RATIO ANALYSIS

Market Value Ratios

1. Price-to-Earnings (P/E) Ratio Market Price per Share / Earnings per Share

- Importance: Indicates market expectations; higher ratios may suggest anticipated growth.
- Observations:
- - Decreased from 57.28 in Year 3 to 37.62 in Year 1.
- - Suggests the stock became more reasonably priced relative to earnings.
- Possible Reasons:
- - Increase in earnings per share outpacing stock price growth.
- - Market correction adjusting overvalued stock prices.

2. Price-to-Book (P/B) Ratio Market Price per Share / Book Value per Share

- Importance: Compares market valuation to book value, indicating how much investors are willing to pay for net assets.
- Observations:
- - Increased from 2.68 in Year 4 to 4.61 in Year 1.
- - Suggests growing investor confidence and perceived value.
- Possible Reasons:
- - Rising market prices due to positive market sentiment.
- - Stable or decreasing book value per share enhancing the ratio.

3. Dividend Payout Ratio Total Dividends / Net Income

- Importance: Shows the proportion of earnings distributed as dividends.
- Observations:
- - Fluctuated between 24% and 36%, with a decrease to 24% in Year 3 and increase to 27% in Year 1.
- - Indicates a balanced approach to dividend distribution.
- Possible Reasons:
- - Adjustments in dividend policy to retain more earnings for growth.
- - Variations in net income affecting the ratio

4. Price-to-Sales (P/S) Ratio Market Price per Share / Revenue per Share

Importance: Measures the value placed on each dollar of revenue.
Observations:
- Increased from 1.28 in Year 5 to 1.80 in Year 1.
- Reflects higher market valuation relative to sales.
Possible Reasons:
- Market optimism about future sales growth.
- Stock price appreciation exceeding revenue growth

5. Dividend Yield Annual Dividends per Share / Market Price per Share

- Importance: Indicates the return on investment from dividends alone.
- Observations:
- - Remained low between 1% and 2%, with a slight decrease over time.
- - Suggests lower income return due to rising stock prices.
- Possible Reasons:
- - Rapid increase in market price outpacing dividend growth.
- - Company retaining earnings for reinvestment rather than increasing dividends.

6. Market Capitalization Market Price per Share × Total Shares Outstanding

Importance: Represents the total market value of the company's equity.
Observations:
- Increased significantly from 186,178 million in Year 5 to 397,930 million in Year 1.
- Reflects substantial growth in shareholder value.
Possible Reasons:
- Rising stock prices due to strong financial performance or market conditions.
- Share repurchases slightly reducing shares outstanding, amplifying market capitalization growth.

7 .EV/EBITDA (Enterprise Value) / EBITDA

- Importance: Assesses the company's overall valuation relative to earnings, useful for comparing companies with different capital structures.
- Observations:
- - Increased from 9.37 in Year 5 to 13.96 in Year 1.
- - Indicates higher valuation multiples being applied to earnings.
- Possible Reasons:
- - Market optimism leading to higher enterprise values.
- - EBITDA growth not keeping pace with increases in enterprise value.

Key Takeaways:

The company's financial ratios reveal a generally positive trend in financial health and market perception:

- - Liquidity: While liquidity ratios have slightly declined in the most recent year, they remain adequate, indicating the company can meet its short-term obligations.
- - Solvency: Leverage ratios have improved, showing prudent debt management and a stronger equity base.
- - Profitability: Consistent profit margins and improving returns on equity and assets suggest effective management and operational efficiency.
- - Market Valuation: Increased market capitalization and valuation ratios reflect investor confidence and favorable market conditions.

Possible Strategic Actions Influencing Trends:

- - Debt Reduction: Efforts to reduce debt levels have improved solvency ratios and interest coverage.
- - Operational Efficiency: Cost management and revenue growth have sustained profitability and enhanced returns.
- - Investment in Growth: Retention of earnings for reinvestment may explain lower dividend yields and higher market valuations.
- - Market Dynamics: External factors such as economic conditions and investor sentiment have positively impacted stock prices and valuation multiples

Operational Interpretation: The market perceives the company favorably, with increased valuations and investor willingness to pay more for its earnings and assets. This confidence is likely driven by the company's improved financial performance and growth prospects.

Overall Operational Insights:

The company's operations are characterized by:

- Effective Financial Management: Prudent debt management and strong solvency ratios indicate a focus on maintaining a healthy financial structure.
- Operational Efficiency: Stable profitability ratios reflect consistent performance in core business activities and cost control.
- Growth and Investment: Increased market valuations and capital investments suggest the company is investing in growth opportunities, which is positively received by the market.

Shareholder Value Creation: Strategies like share buybacks and balanced dividend policies demonstrate a commitment to enhancing shareholder value.

Conclusion:

The ratio analysis indicates that the company has strengthened its financial position over the analyzed period. Improved solvency and profitability ratios suggest effective management strategies, while market value ratios point to increased investor confidence. The company appears well-positioned for sustainable growth, although attention to liquidity trends may be warranted to ensure continued short-term financial stability.

COMMENTARY ON MANAGEMENT

Management Commentary:

Management has strategically steered the company towards growth and financial stability through several initiatives:

- Debt Reduction and Capital Structure Optimization**:** By reducing debt levels and improving the debt-to-equity ratio, management has decreased financial risk and enhanced the company's borrowing capacity. This is evident from improved solvency ratios and interest coverage.
- Enhancing Operational Efficiency: The focus on cost control and revenue growth has maintained stable profit margins and improved returns on equity and assets. Management's efforts in streamlining operations contribute to consistent profitability.
- Strategic Investments and Divestments: The company has made significant investments in growth opportunities while divesting non-core assets. This is reflected in the cash flow from investing activities, where proceeds from the disposal of business undertakings and increased interest received have bolstered cash inflows.
- Shareholder Value Initiatives: The buyback of equity shares and increased dividend payouts demonstrate a commitment to returning value to shareholders. Although these actions have led to higher cash outflows in financing activities, they have contributed to increased earnings per share and market capitalization.
- Working Capital Management: Management is addressing the challenges in operating cash flow by focusing on receivables and inventory management. The decrease in inventories provided additional cash flow, indicating efforts to optimize working capital.
- Market Positioning and Investor Relations: The company's rising market capitalization and favorable valuation ratios suggest effective communication of its growth story to investors and a strong market presence.

Future Outlook:

Management is likely to continue focusing on:

- Sustainable Growth: Investing in profitable ventures and exploring new markets to drive revenue growth while maintaining cost efficiency.
- Financial Stability: Further optimizing the capital structure to balance debt and equity, ensuring long-term solvency and flexibility.
- Liquidity Enhancement: Implementing strategies to improve operating cash flows, such as tightening credit terms and improving collections, to bolster liquidity.
- Shareholder Engagement: Maintaining transparent communication with investors and aligning corporate actions with shareholder interests to sustain market confidence.

Conclusion:

The company's significant accounting policies are aligned with best practices, ensuring transparency and reliability in financial reporting. Management's strategic initiatives have positively impacted the company's operations, leading to improved financial metrics and market perception. While the company shows strong operational and financial performance, ongoing attention to liquidity management and prudent investment decisions will be crucial to sustaining this positive trajectory.

NOTES TO ACCOUNTS / SIGNIFICANT ACCOUNTING POLICIES

Dividends and Equity Share Allotments:

- 2023-24: Final dividend of ₹28 per equity share and a special dividend of ₹6 per equity share. Allotted 1,20,304 equity shares (₹2 each) under employee stock options.
- 2022-23: Final dividend of ₹24 per equity share. Allotted 1,18,063 equity shares (₹2 each) under employee stock options.
- 2021-22: Final dividend of ₹22 per equity share. Allotted 1,89,856 equity shares (₹2 each) under employee stock options.
- 2020-21: Final dividend of ₹18 per equity share and a special dividend of ₹18 per equity share. Allotted 2,98,601 equity shares (₹2 each).
- 2019-20: Final dividend of ₹8 per equity share and an interim dividend of ₹10 per equity share. Allotted 3,10,646 equity shares (₹2 each).

Business Divestments and Exceptional Items:

- 2023-24:
  - Concluded sale of stake in L&T Infrastructure Development Projects Limited (L&T IDPL) on April 10, 2024. Investment classified as "Held for Sale" as of March 31, 2024.
  - Exceptional items (net of tax) totaled ₹93.61 crore, including:
    - ₹60.56 crore gain on divestment of L&T Transportation Infrastructure Limited.
    - ₹33.05 crore reversal of impairment in L&T IDPL.
- 2022-23: Initiated sale of L&T IDPL shares via a Share Purchase Agreement dated December 16, 2022, pending necessary approvals.
- 2020-21: Profit from discontinued operations included divestment gains from the Electrical & Automation business.
- 2019-20: Electrical & Automation business classified as discontinued operations.

COVID-19 Impacts and Operational Adjustments:

- 2020-21: Business recovery observed post-COVID-19 slowdown, with continuous monitoring of uncertainties and asset recovery assessments.
- 2019-20: Asset carrying amounts deemed recoverable despite disruptions.

Consolidations, Amalgamations, and Tax Adjustments:

- 2019-20:
  - Adopted Ind AS 116 “Leases” with immaterial profit impact.
  - Consolidated Mindtree Limited financials from Q2 FY20, making figures non-comparable with previous periods.
  - Tax adjustments under Section 115BAA (Tax rate: 25.17%) effective April 1, 2019.
  - Approved amalgamation of L&T Shipbuilding Limited with L&T, effective April 1, 2019, by the National Company Law Tribunal.

Cash Flow Notes: Same for Every Year :

- Statement of Cash Flows has been prepared under the indirect method as set out in the Indian Accounting Standard (Ind AS) 7 “Statement of Cash Flows” as specified in the Companies (Indian Accounting Standards) Rules, 2015.
- Property, plant and equipment, Investment property and Intangible assets are adjusted for movement of ***(a) capital work-in-progress for Property, plant and equipment and Investment property*** and ***(b) Intangible assets under development during the year***

RECENT NEWS

1. India's New Nuclear Submarines (Oct 10):
- India's government has approved the construction of two new nuclear-powered attack submarines as part of a larger plan to build six such vessels. The project is set to cost approximately 450 billion rupees ($5.4 billion). These efforts are aimed at modernizing India's naval capabilities amidst increasing maritime presence of China in the Indian Ocean. Construction will be undertaken at Visakhapatnam, with participation from Larsen & Toubro. These submarines are distinct from the Arihant-class, which are capable of launching nuclear weapons. link

2. India's Infrastructure Budget for 2024-25 (July 23):
- India will maintain its infrastructure spending at a record 11.11 trillion rupees ($132.85 billion) for the fiscal year 2024-25, equating to 3.4% of GDP. This budget aims to support economic growth and job creation. Despite this significant investment, the allocation remains unchanged from the interim budget. Infrastructure spending has doubled over the past three years and is seen as crucial for stimulating the economy, benefiting sectors like cement and steel. However, a recent 1.4% drop in capital goods stocks was noted post-announcement. link

3. L&T's Aerospace and Space Market Expansion (Oct 31):
- Larsen & Toubro (L&T) is planning to expand its aerospace division to capitalize on India's growing private space market, expected to reach $44 billion in the next decade. L&T aims to leverage its long-standing relationship with the Indian Space Research Organisation (ISRO) to enhance its role in manufacturing launch vehicles and satellites. The company is currently involved in producing the Polar Satellite Launch Vehicle (PSLV) and is interested in the privatization of the Small Satellite Launch Vehicle (SSLV) program, which targets 12 launches per year at a cost of $15,000 per kg. link

4. L&T's Q2 Financial Performance (Oct 30):
- Larsen & Toubro reported a 5% increase in profit after tax to 33.95 billion rupees (about $404 million) for Q2, although it fell short of expectations. The company's revenue rose by 21% to 615.55 billion rupees, with significant contributions from international markets, particularly the Middle East. However, the company's order book declined by 10% due to a spike in orders the previous year, and its profit margins contracted slightly to 10.3% from 11% the previous year, partly due to increased expenses and operational challenges like labor shortages link

5. L&T wins ultra mega order for thermal plants from NTPC (Nov 14)
Larsen & Toubro (L&T) has recently secured a major contract from NTPC (National Thermal Power Corporation) to build thermal power plants in Madhya Pradesh and Bihar, considered an "ultra mega" order valued at over ₹15,000 crore, signifying a significant win for the company in the energy sector; this project will involve design, engineering, manufacturing, and installation of critical components like boilers and turbine link

6. Larsen & Toubro (L&T), India’s premier tech-led conglomerate, has announced a strategic partnership with E2E Networks, an ‘Indian Cloud and AI Cloud’ provider. The partnership is a significant step towards the adoption of GenAI solutions in India to foster a fundamental shift in the way Accelerated Computing on Cloud is used by Indian organisations. (Oct 5) link

7. L&T and US-based Clean Core Thorium Energy sign an MoU to provide clean energy solutions globally. Their partnership aims to accelerate nuclear power deployment, particularly in developing countries, using CCTE's patented Aneel fuel, which offers enhanced safety, reduced waste, and energy security (Oct 18) link

QUESTION

Question: Now assume that you could invest Rs. 10,000 every month (first trading day) in the stock of the company for the last 5 years. Work out the total value of your investments today. Assume all the dividends received were reinvested back into the company. You would need to look at the stock quotations for the respective company. Give only summary of the results. Attach the calculations as an annexure.

Steps to Solve:

- Determine Shares Purchased Each Month:
  - With ₹10,000 each month, calculate the number of shares purchased using the closing price on the first trading day of each month.
    - Shares Purchased = 10000 / Closing Price
- Track Dividend Reinvestment:
  - For each dividend payout, calculate the total dividend earned based on your accumulated shares. Then determine how many new shares this dividend would buy at the stock price on the dividend date
    - Dividend Received=Shares Owned × Dividend per Share
    - New Shares from Dividend = Dividend Received / Stock Price on Dividend Date
- Repeat Monthly:
  - Keep adding shares bought monthly and those acquired through reinvested dividends.
- Calculate the Final Portfolio Value:
  - Multiply the total shares accumulated by the current stock price
    - Total value = Cumulative shares × Current Stock Price

Summary:
Over the last five years, assuming an investment of ₹10,000 made monthly on the first trading day in Larsen & Toubro's (L&T) stock and reinvesting all received dividends, the following results were achieved:

- **Total Shares Acquired**: 367.76
  - This reflects the accumulation of shares through monthly investments and reinvested dividends.
- **Portfolio Value**: ₹1,296,823.18
  - This is the final value of the shares based on the current stock price of ₹3,526.25 as of November 1, 2024.
- This simulation emphasizes the remarkable growth potential of disciplined, long-term investing. The steady ₹10,000 monthly contribution over five years, totaling ₹600,000, has more than doubled in value, highlighting the impressive financial health and stock performance of L&T. Despite market fluctuations, the reinvestment of dividends helped accelerate growth. The company's strong fundamentals, including its dominant position in the infrastructure and engineering sectors, have driven consistent returns, making it a valuable long-term investment.

Note:
This calculation was performed using Python, with historical price and dividend data sourced from Yahoo Finance.

References

- Wikipedia
- L&T Website
- Yahoo Finance
- bseindia
- tracxn

Google Sheets

Balance Sheet , Income Statement , Cash Flow Statement , Ratio Analysis :
https://docs.google.com/spreadsheets/d/1MFRsiL55g31LKedfrgGQl8pNE4CNbRvmBdNHxE31Gok/edit?usp=sharing
Historical Data L&T :
https://docs.google.com/spreadsheets/d/1pWf2cj0g93WPTiloqsg64oxJvMi_Rg8LolUJo4qj6Yk/edit?usp=sharing

Python file for calculations:
https://drive.google.com/file/d/1YgqTHjP3k8kve7jSyO6-Y-LKUK1wS73Y/view?usp=sharing

Financial Data Source:
2024: https://www.larsentoubro.com/media/12zhghwx/2024-05-08-lt-financial-results-for-the-year-ended-march-31-2024.pdf
2023:https://investors.larsentoubro.com/upload/Quarterly/FY2023QuarterlyFY2023QuarterlyLTResultsQ4FY23.pdf
2022: https://www.larsentoubro.com/media/46643/2022-05-12-financial-performance-for-the-period-ended-march-31-2022.pdf
2021: https://www.larsentoubro.com/media/45183/2021-05-14-group-performance-for-the-quarter-year-ended-march-31-2021-ends-on-a-strong-note.pdf
2020: https://www.lntecc.com/media/t4kpumgf/press_release_cfs_financial_results_q4-2019-20.pdf