Credit Appraisal Note

Company Profile

Introduction	– Larsen & Toubro Ltd is a multinational conglomerate primarily engaged in providing engineering, procurement, and construction (EPC) solutions in key sectors such as Infrastructure, Hydrocarbon, Power, Process Industries, Defence, Information Technology, and Financial Services in domestic and international markets.
Core Products and Services	– Infrastructure Segment: Engineering and construction of buildings and factories, transportation infrastructure, heavy civil infrastructure, power transmission & distribution, water & effluent treatment, smart world & communication projects, and metallurgical & material handling systems. This segment constitutes 51% of revenues. – Hydrocarbon Segment: Complete EPC solutions for the global oil & gas industry from design through detailed engineering, fabrication, procurement, project management, construction, installation, and commissioning. This segment constitutes 13% of revenues. – Power Segment: Turnkey solutions for coal-based and gas-based thermal power plants including power generation equipment with associated systems and/or balance-of-plant packages. This segment constitutes 3% of revenues. – Defence Engineering Segment: Design, development, serial production, and life-support of equipment, systems, and platforms for defense and aerospace sectors; design, construction, and repair/refit of defense vessels. This segment constitutes 7% of revenues. – Heavy Engineering Segment: Manufacture and supply of custom-designed, engineered critical equipment and systems for core sector industries like fertilizer, refinery, petrochemical, chemical, oil & gas, and thermal & nuclear power. This segment constitutes 2% of revenues. – Others: Includes realty, manufacture, sale, marketing of industrial valves, construction equipment, rubber processing, etc. It also has a presence in the mining and aviation sectors. This segment constitutes 4% of revenues. – Information Technology Segment: IT and integrated engineering services to many customers across the globe. This segment constitutes 25% of revenues. – Financial Services Segment: Rural finance, housing finance, wholesale finance, mutual fund, and wealth management. This segment constitutes approximately 8% of revenues. – Development Projects Segment: Development, operation, and maintenance of basic infrastructure projects, toll and fare collection, power development, development and operation of port facilities, and providing related advisory services. This segment constitutes approximately 3% of revenues.

Primary Revenue	– Infrastructure Segment: 51% of revenues – Hydrocarbon Segment: 13% of revenues – Power Segment: 3% of revenues – Defence Engineering Segment: 7% of revenues – Heavy Engineering Segment: 2% of revenues – Others: 4% of revenues – Information Technology Segment: 25% of revenues – Financial Services Segment: 8% of revenues – Development Projects Segment: 3% of revenues
Corporate Offices	– Headquarters: Mumbai, India
Research and Development	– Focus on indigenous design and contribution to India's lunar programme through Chandrayaan-3.

PROMOTER BACKGROUND

Key Executives	– **Mr. S. N. Subrahmanyan**: Chairman & Managing Director, Non-Executive Vice-Chairman of LTIMindtree Limited, Non-Executive Vice-Chairman of L&T Technology Services Limited, Non-Executive Chairman of L&T Finance Limited – **Mr. R. Shankar Raman**: Executive Director & Chief Financial Officer, Non-Executive Director of LTIMindtree Limited, Non-Executive Director of L&T Finance Limited – **Mr. M. V. Satish**: Executive Director – **Mr. Subramanian Sarma**: Executive Director – **Mr. S. V. Desai**: Executive Director – **Mr. T. Madhava Das**: Executive Director – **Mr. Anil V Parab**: Executive Director – **Mr. M. M. Chitale**: Independent Director – **Mr. M. Damodaran**: Independent Director – **Mr. Vikram Singh Mehta**: Independent Director – **Mr. Adil Zainulbhai**: Independent Director – **Mr. Sanjeev Aga**: Independent Director – **Mr. Narayanan Kumar**: Independent Director – **Mr. Hemant Bhargava**: Non-Executive Director, Representing equity interest of Life Insurance Corporation of India – **Mrs. Preetha Reddy**: Independent Director – **Mr. Pramit Jhaveri**: Independent Director – **Mr. Rajnish Kumar**: Independent Director – **Mr. Jyoti Sagar**: Independent Director – **Mr. Ajay Tyagi**: Independent Director – **Mr. P. R. Ramesh**: Independent Director

Key Issues

- **Revenue Recognition - Construction Contracts**: Significant accounting judgements are involved in estimating revenue to be recognized on contracts with customers, including estimation of costs to complete. Revenue is recognized based on the stage of completion in proportion to the contract costs incurred at the balance sheet date relative to the total estimated costs of the contract at completion. This involves significant judgements in determining expected losses, cost contingencies, and variable consideration.
- **Supply Chain Risks**: Volatile geopolitical environment, especially in the Middle East, has increased supply chain risks. These risks are closely monitored, but long-term persistence may result in adverse outcomes. Despite this, commodity-related inflation has remained subdued.
- **Climate Change Risks**: Climate change increases the impact and likelihood of physical risks, leading to execution disruption and losses. These risks manifest as both acute (extreme weather conditions) and chronic (higher ambient temperatures, sea level rise). Major challenges include extreme weather events, high temperatures affecting workforce health and productivity, heavy precipitation impacting project schedules, and resource scarcity.
- **Cyber Security Risks**: The company has a Cyber Security Assurance Framework encompassing processes, standards, and technology. These risks are monitored and managed at the level of individual businesses/domains and by various committees, including the Risk Management Committee.
- **Legal and Contractual Risks**: Legal and contractual risks are thoroughly reviewed at the pre-bid stage to ensure they stay within the company's overall risk appetite. Issues in the execution of large/marquee orders can pose risks to reputation.

Key Strengths

- **Geographical Diversification**: L&T's strategic geographical diversification mitigates geopolitical risks. The company's order book for FY24 shows 62% domestic orders, 35% from the Middle East, and 3% from other regions. Revenue distribution includes 57% from India, 17% from the USA and Europe, 22% from the Middle East, and 4% from other regions.
- **Employee Development and Engagement**: L&T's commitment to employee development is evident through initiatives like Project NEEV, Talent Council, and the People Leadership Excellence Framework. The company clocked 36 lakh learning hours for 42,000 employees and aims to achieve a 10% female workforce by 2026, with 1,766 female hires in FY24.
- **Technological Transformation**: L&T's transformation into a technology powerhouse is driven by its investment in frontier technologies and the creation of a team of digital natives. The company leverages AI, SDx, and other emerging technologies to deliver top-quality output and maintain a competitive edge.
- **Customer-Centric Innovations**: L&T's focus on customer-centric innovations across major industry segments ensures enhanced customer delight. The company invests in frontier technologies and excellent governance to deliver improved performance, better solutions, and timely project completion.
- **Recognition and Awards**: L&T has been recognized as a 'Great Place to Work' for the second consecutive year and has received multiple awards, including India's Best Employer among Nation Builders 2023, Great Managers Award, CII HR Excellence Award, Golden Peacock Awards 2023, ET HR Awards 2023, Brandon Hall HCM Excellence Awards, and Gold Stevie Best Employer 2023.

INDUSTRY RISK

- **Foreign Exchange and Commodity Price Risks**:The Company's businesses are exposed to fluctuations in foreign exchange rates and commodity prices. Net foreign exchange risk on revenues, costs, assets, and liabilities are managed through a combination of forwards and options. Commodity price risks are managed through price variation clauses, hedges in financial markets, and price pass-through arrangements. For instance, the company has significant exposure in commodities like Aluminium (INR 2,314.98 crore buy, INR 23.30 crore sell), Copper (INR 2,774.60 crore buy, INR 283.80 crore sell), and Steel (INR 19,410.19 crore buy).
- **Credit Risk Management**:The Company's customer profile includes public sector enterprises, state-owned companies, and large private corporates, resulting in low credit risk. The average project execution cycle is around 24 to 36 months with payment terms including mobilisation advance, monthly progress payments with a credit period of 45 to 90 days, and retention money. Provisions on trade receivables are based on the Expected Credit Loss (ECL) model. As of March 31, 2024, the balance for ECL stood at INR 4,148.78 crore.
- **Climate Change Risks**:Climate change poses both transition and physical risks. Transition risks include regulatory, technology, and market risks, while physical risks include acute risks like extreme temperatures and precipitation, and chronic risks like changing weather patterns and water stress. The company has initiated measures such as rescheduling work hours, providing hydration, and implementing monsoon preparedness plans to mitigate these risks.
- **Liquidity and Interest Rate Risks**:The Company maintains access to liquidity through approved banking lines, trade finance, and capital markets. Surplus funds are judiciously deployed in short-term investments. Interest rate risks are managed through a mix of fund-raising, investment products, and derivatives. The company plans to raise long-term debt to refinance about INR 5,000 crore of maturing debt and to fund capital expenditure.
- **Supply Chain Risks**:Volatile geopolitical environments, especially in the Middle East, pose supply chain risks. These risks are monitored closely, and while they are not likely to have a significant short-term impact, long-term persistence could result in adverse outcomes. The company has seen a significant volume of large-value contracts in the Middle East, requiring large banking facilities, primarily non-fund based.

BRIEF FINANCIALS

All figures (in crore Rs.)	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024
Sales	145452	135979	156521	183341	221113
EBIDTA	120899	112519	132207	156175	191248
PAT	24553	23460	24314	27166	29865
Total Equity Capital	3015	8111	2364	2891	3847
Non-current liabilities	11021	11750	9235	9445	9512
Non-current assets	2462	2904	2948	3502	3682
Current assets	14086	16918	14495	17109	20517
RoE (in %)	23	24	29	26	24
Current Ratio	10894	12921	10419	12531	15547

Financial Data

Metrics	Q4 FY24
Sales	221112.91
Expenses	204847.44
Operating Profit	
OPM (%)	
Other Income	4158.03
Interest	3545.85
Depreciation	3682.33
Profit Before Tax	20517.11
Tax (%)	4947.39
Net Profit	15547.1
EPS	20.25

Commentary on Financial Data

- Sales: Sales for Q4 FY24 were INR 221,112.91 Cr, reflecting a significant increase from the previous fiscal year.
- Expenses: Total expenses for Q4 FY24 amounted to INR 204,847.44 Cr, indicating a substantial rise compared to the previous fiscal year.
- Other Income: Other income for Q4 FY24 was INR 4,158.03 Cr, showing an increase from the previous fiscal year.
- Interest: Interest payments for Q4 FY24 were INR 3,545.85 Cr, reflecting a slight decrease from the previous fiscal year.
- Depreciation: Depreciation expenses for Q4 FY24 were INR 3,682.33 Cr, showing a marginal increase from the previous fiscal year.
- Profit Before Tax (PBT): PBT for Q4 FY24 was INR 20,517.11 Cr, indicating a significant rise from the previous fiscal year.
- Tax Percentage: Tax expenses for Q4 FY24 were INR 4,947.39 Cr, reflecting an increase from the previous fiscal year.
- Net Profit: Net profit for Q4 FY24 was INR 15,547.10 Cr, showing a substantial increase from the previous fiscal year.

Peer Ratings

Company Name	**Long Term Rating**	**Short Term Rating**
L&T	CRISIL AAA/Stable	CRISIL A1+
BHEL	CRISIL AA+/Stable	CRISIL A1+
Siemens	CRISIL AAA/Stable	CRISIL A1+
ABB India	CRISIL AAA/Stable	CRISIL A1+
Thermax	CRISIL AA+/Stable	CRISIL A1+

Commentary on Peer Ratings

- L&T, Siemens, and ABB India have been assigned the highest long-term rating of CRISIL AAA/Stable, reflecting their robust financial profiles, strong market positions, and consistent operational performance. Their short-term ratings of CRISIL A1+ further underscore their superior liquidity positions and ability to meet short-term obligations.
- BHEL and Thermax, while not at the pinnacle, still maintain strong credit profiles with long-term ratings of CRISIL AA+/Stable. This indicates a very low credit risk, supported by their solid business models and financial metrics. Their short-term ratings of CRISIL A1+ also highlight their strong liquidity positions.

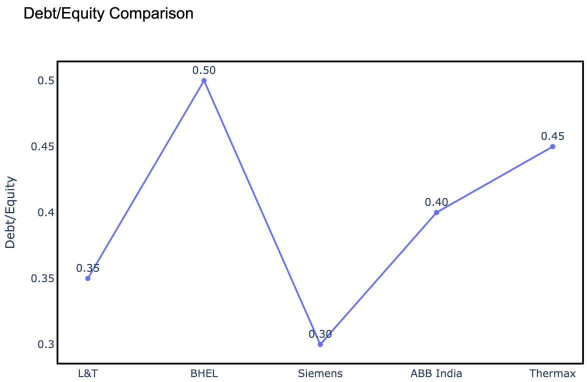
Balance Sheet Analysis

Description	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Equity Capital	281	281	281	281	275
Reserves	66,442	75,588	82,127	89,045	86,084
Borrowings - Long term	82,331	82,120	61,618	61,218	56,507
Borrowings - Short term	35,021	27,766	30,477	30,896	27,834
Lease Liabilities	2,167	2,024	2,040	2,137	2,282
Preference Capital	1,404	1,124	216	0	0
Other Borrowings	23,655	22,719	31,373	26,399	29,699
Other Liabilities	96,790	99,597	111,312	119,395	136,412
Non controlling interest	9,521	12,052	12,966	14,241	16,190
Trade Payables	43,644	45,745	51,366	49,784	53,293
Advance from Customers	16,353	15,876	17,963	20,425	26,875
Other liability items	27,272	25,925	28,817	35,295	40,054
Total Liabilities	3,068,687	3,109,095	3,199,028	3,299,722	3,399,094
Fixed Assets + CWIP	43,653	44,319	42,945	42,641	42,964
Investments	20,047	39,627	39,395	44,798	45,648
Other Assets - Inventories	2,397,675	2,625,649	2,335,438	2,399,217	2,417,437
Inventories	5,747	5,821	5,943	6,829	6,620
Trade receivables	40,732	42,230	46,139	44,732	48,771
Cash Equivalents	15,118	16,242	18,953	22,520	15,358
Short term loans	42,295	42,594	44,189	44,008	36,499
Other asset items	1,355,784	1,180,763	1,220,213	1,121,129	1,440,189
Total Assets	3,068,687	3,109,095	3,199,028	3,299,722	3,399,094

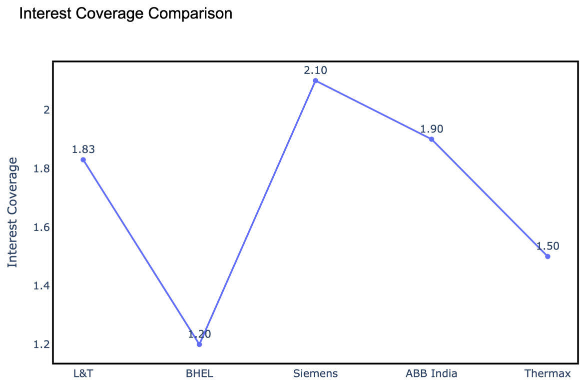
Commentary on Balance Sheet Analysis

- The total assets of Larsen & Toubro (L&T) have shown a year-on-year increase from Rs. 330,352.31 crore in FY23 to Rs. 339,627.24 crore in FY24, indicating a growth of 2.81%.
- A significant portion of the current assets is held in trade receivables, which increased from Rs. 44,731.53 crore in FY23 to Rs. 48,770.95 crore in FY24, reflecting a rise of 9.03%.
- Cash and cash equivalents have decreased substantially by 29.36%, from Rs. 16,926.69 crore in FY23 to Rs. 11,958.50 crore in FY24, which may indicate higher cash utilization or reallocation to other asset classes.
- Inventories have slightly decreased from Rs. 6,828.78 crore in FY23 to Rs. 6,620.19 crore in FY24, showing a marginal decline of 3.05%.
- The non-current assets have also increased, with notable growth in property, plant, and equipment from Rs. 11,336.28 crore in FY23 to Rs. 13,297.64 crore in FY24, marking a 17.28% increase.
- The overall increase in total assets is primarily driven by the rise in trade receivables and property, plant, and equipment, despite the reduction in cash and cash equivalents.

Leverage Ratio



(a) Debt/Equity Ratio

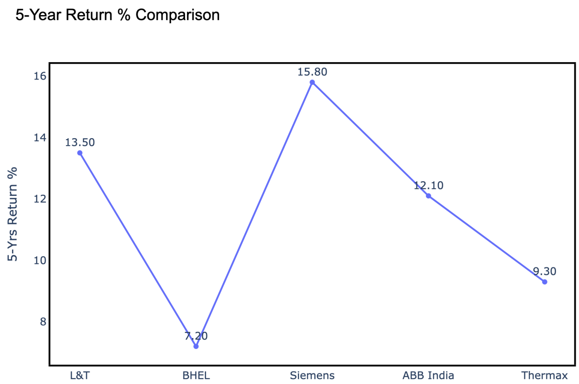


(b) Interest Coverage Ratio

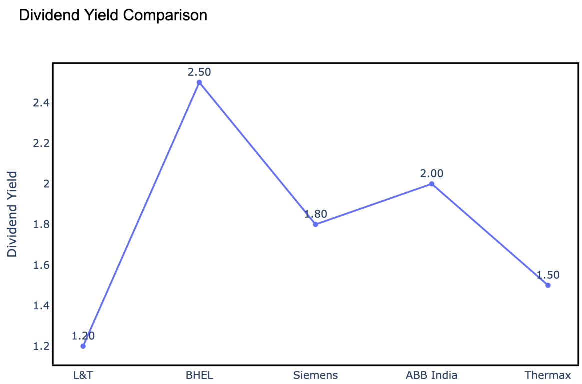
Commentary on Leverage Ratio

- Larsen & Toubro exhibits a robust financial structure with a high sales figure of Rs. 228350.36 Cr and a PAT of Rs. 13290.19 Cr, indicating strong profitability. The company maintains an efficient inventory turnover of 11.73 and a negative cash cycle of -142.64 days, reflecting excellent working capital management.
- GMR Airports Infrastructure shows a weaker financial position with a sales figure of Rs. 8754.56 Cr and a negative PAT of Rs. -614.44 Cr. The inventory turnover is low at 1.62, and the cash cycle is significantly high at 20.08 days, indicating potential liquidity issues.
- Techno Electric & Engineering has a moderate financial standing with sales of Rs. 1502.38 Cr and a PAT of Rs. 268.46 Cr. The inventory turnover is relatively high at 18.31, and the cash cycle is 15.22 days, suggesting efficient inventory management.
- HFCL demonstrates a solid financial performance with sales of Rs. 4628.10 Cr and a PAT of Rs. 371.67 Cr. The inventory turnover is 4.20, and the cash cycle is 177.34 days, indicating room for improvement in working capital management.
- Rites shows a strong financial position with sales of Rs. 2394.26 Cr and a PAT of Rs. 426.41 Cr. The inventory turnover is high at 41.67, and the cash cycle is 64.26 days, reflecting efficient operations.
- Waaree Renewable Technologies has a moderate financial performance with sales of Rs. 983.91 Cr and a PAT of Rs. 162.23 Cr. The inventory turnover is 0.00, and the cash cycle is 155.15 days, indicating potential issues in inventory management.
- Engineers India exhibits a solid financial performance with sales of Rs. 3280.86 Cr and a PAT of Rs. 445.26 Cr. The inventory turnover is extremely high at 545.79, and the cash cycle is -297.46 days, reflecting excellent working capital management.

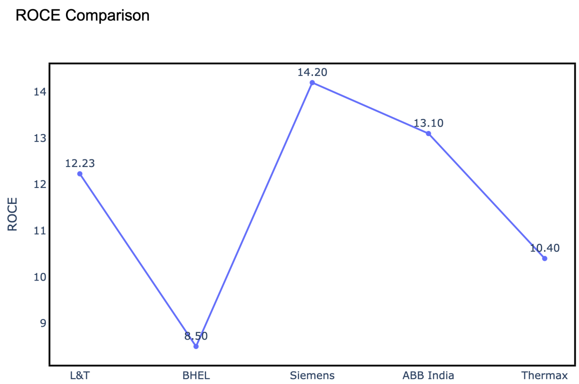
Performance Ratios



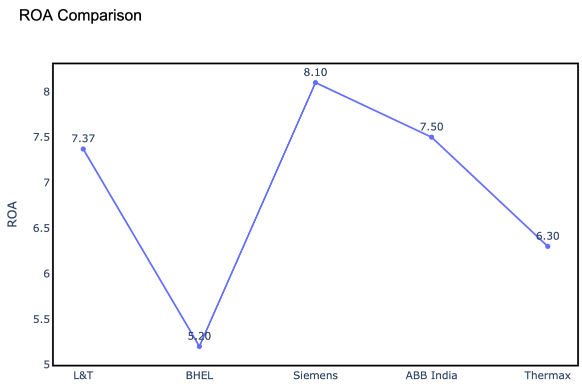
(a) Five Years Return



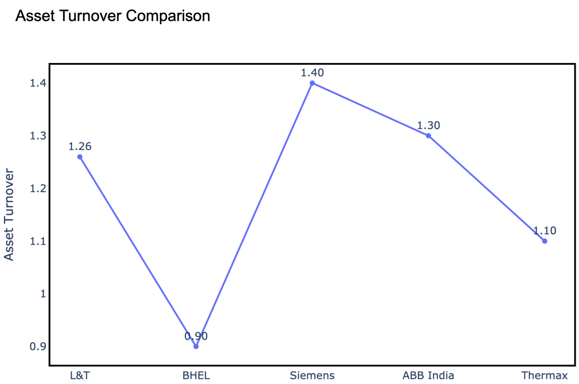
(b) Dividend Yield



(c) ROCE



(d) ROA

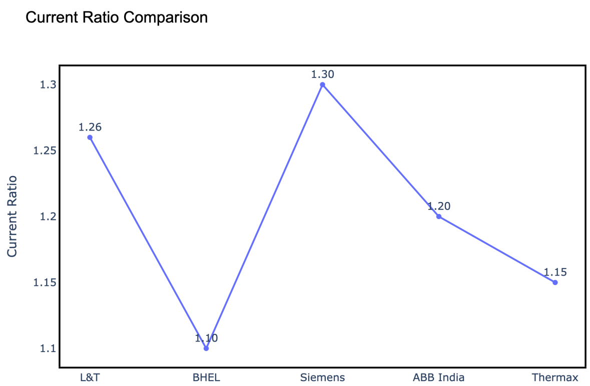


(e) Asset Turnover

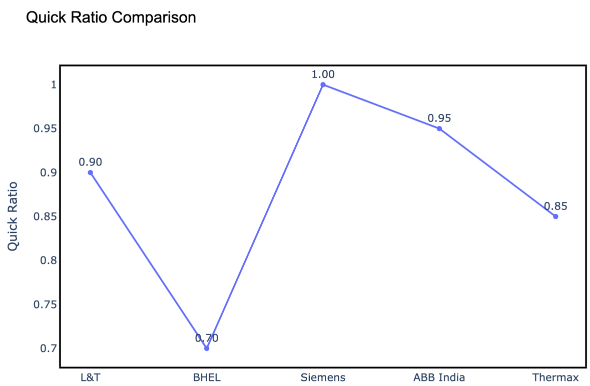
Commentary on Performance Ratios

- Larsen & Toubro exhibits a robust sales figure of Rs. 228350.36 Cr with an impressive PAT of Rs. 13290.19 Cr, reflecting a strong operational performance. The company maintains an OPM of 13.11% and an inventory turnover ratio of 11.73, indicating efficient inventory management. The negative cash cycle of -142.64 days suggests a highly efficient working capital cycle.
- GMR Airports Infrastructure shows a sales figure of Rs. 8754.56 Cr but reports a negative PAT of Rs. -614.44 Cr, indicating operational challenges. The company has a cash cycle of 20.08 days and an inventory turnover ratio of 1.62, reflecting slower inventory movement.
- Techno Electric & Engineering has a sales figure of Rs. 1502.38 Cr and a PAT of Rs. 268.46 Cr, with an OPM of 13.98%. The inventory turnover ratio stands at 18.31, and the cash cycle is 15.22 days, indicating efficient operations.
- HFCL reports sales of Rs. 4628.10 Cr and a PAT of Rs. 371.67 Cr, with an OPM of 13.39%. The inventory turnover ratio is 4.20, and the cash cycle is 177.34 days, suggesting room for improvement in inventory management.
- Rites shows a sales figure of Rs. 2394.26 Cr and a PAT of Rs. 426.41 Cr, with a high OPM of 24.58%. The inventory turnover ratio is 41.67, and the cash cycle is 64.26 days, indicating efficient operations.
- Waaree Renewable Technologies reports sales of Rs. 983.91 Cr and a PAT of Rs. 162.23 Cr, with an OPM of 23.61%. The inventory turnover ratio is 0.00, and the cash cycle is 155.15 days, suggesting potential issues in inventory management.
- Engineers India has sales of Rs. 3280.86 Cr and a PAT of Rs. 445.26 Cr, with an OPM of 9.05%. The inventory turnover ratio is 545.79, and the cash cycle is -297.46 days, indicating extremely efficient working capital management.

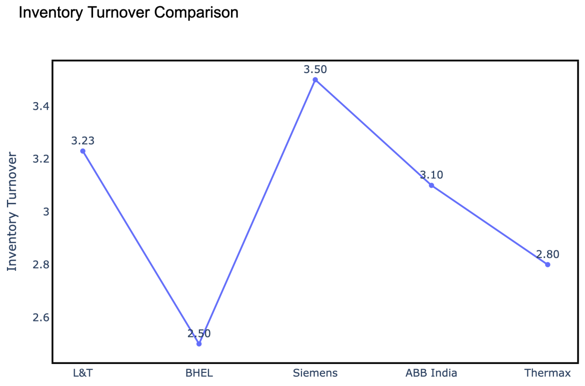
Activity Ratios



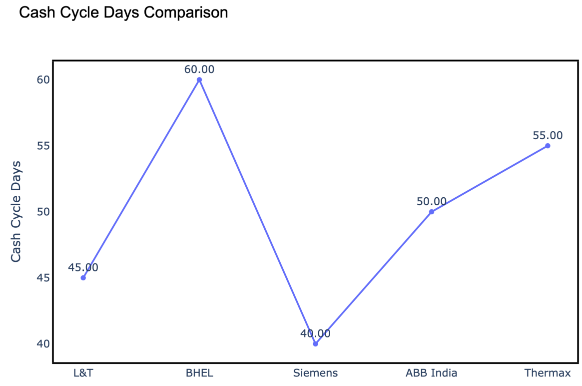
(a) Current Ratio



(b) Quick Ratio



(a) Inventory Turnover



(b) Cash Cycle Days

- Larsen
  Toubro exhibits a robust inventory turnover ratio of 11.73, indicating efficient inventory management. However, the company has a negative cash cycle of -142.64 days, suggesting it receives payments from customers before paying its suppliers. The sales figure stands at Rs. 228350.36 Cr with an operating profit margin (OPM) of 13.11

- GMR Airports Infrastructure has an inventory turnover ratio of 1.62 and a cash cycle of 20.08 days. The company reports sales of Rs. 8754.56 Cr, an OPM of 33.88

- Techno Electric
  Engineering shows an inventory turnover ratio of 18.31 and a cash cycle of 15.22 days. The sales are Rs. 1502.38 Cr with an OPM of 13.98

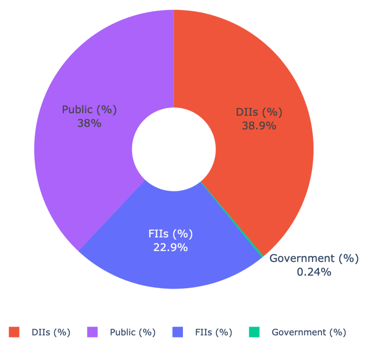
- HFCL has an inventory turnover ratio of 4.20 and a cash cycle of 177.34 days, indicating slower inventory movement. The sales are Rs. 4628.10 Cr with an OPM of 13.39

- Rites demonstrates an inventory turnover ratio of 41.67 and a cash cycle of 64.26 days. The sales are Rs. 2394.26 Cr with an OPM of 24.58

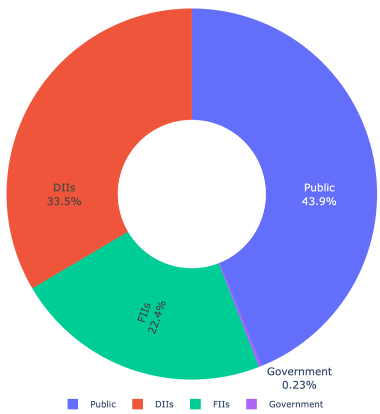
- Waaree Renewable Technologies has an inventory turnover ratio of 0.00 and a cash cycle of 155.15 days. The sales are Rs. 983.91 Cr with an OPM of 23.61

- Engineers India reports an inventory turnover ratio of 545.79 and a negative cash cycle of -297.46 days, indicating extremely efficient inventory management. The sales are Rs. 3280.86 Cr with an OPM of 9.05

Ownership Structure



(a) Shareholding Data 2024



(b) Shareholding Data 2022

Commentary on Ownership Structure

- The shareholding pattern of the company has seen significant changes over the years. As of March 2024, Foreign Institutional Investors (FIIs) hold 22.85%, Domestic Institutional Investors (DIIs) hold 38.89%, Government holds 0.24%, and the Public holds 38.01%.
- Comparing this to March 2022, FIIs held 22.42%, DIIs held 33.49%, Government held 0.23%, and the Public held 43.86%.
- There has been a notable increase in the shareholding by DIIs from 33.49% in March 2022 to 38.89% in March 2024, indicating a growing confidence among domestic institutions.
- Conversely, the Public shareholding has decreased from 43.86% in March 2022 to 38.01% in March 2024, reflecting a shift in ownership towards institutional investors.
- The number of shareholders has also increased significantly from 14,92,124 in March 2022 to 17,36,844 in June 2024, indicating a growing interest in the company's stock.

Subsidiary and JV Information:

Subsidiaries	**Name of the Subsidiary**	**Date of creation of interest**	**Nature of interest / % of shareholding**	**Location**
	Panipat Elevated Corridor Limited	21-Jul-05	51.00%	India
	Vadodara Bharuch Tollway Limited	23-Dec-05	51.00%	India
	L&T Interstate Road Corridor Limited	02-Feb-06	51.00%	India
	L&T Transportation Infrastructure Limited	24-Sep-97	51.00%	India
	Ahmedabad-Maliya Tollway Limited	09-Sep-08	51.00%	India
	L&T Samakhiali Gandhidham Tollway Limited	05-Feb-10	51.00%	India
	L&T Deccan Tollways Limited	20-Dec-11	51.00%	India

	Kudgi Transmission Limited	18-Oct-13	51.00%	India
	Rourkela Tollway Limited	16-Feb-09	51.00%	India
	L&T Sambalpur-PNG Tollway Limited	30-Aug-13	37.74%	India
	L&T Rajkot-Vadinar Tollway Limited	20-May-99	51.00%	India
	L&T Chennai-Tada Tollway Limited	24-Mar-08	51.00%	India
	Watrak Infrastructure Private Limited	18-Nov-21	51.00%	India
	Rewin Infrastructure Limited	21-Mar-23	51.00%	India
	LTH Milcom Private Limited	17-Aug-15	56.67%	India
	Larsen & Toubro (Oman) LLC	21-Jan-94	65.00%	Oman
	Larsen & Toubro Qatar LLC	31-Mar-04	49.00%	Qatar
	Larsen & Toubro Saudi Arabia LLC	22-Jun-99	100.00%	Saudi Arabia
	Larsen & Toubro T&D SA (Proprietary) Limited	06-Sep-10	72.50%	South Africa
	Larsen & Toubro (East Asia) Sdn. Bhd.	13-Jun-96	30.00%	Malaysia
	PT Larsen and Toubro	17-Dec-21	100.00%	Indonesia
	L&T Himachal Hydropower Limited	22-Jun-10	100.00%	India
	L&T Power Development Limited	12-Sep-07	100.00%	India
	Nabha Power Limited	09-Apr-07	100.00%	India
	Chennai Vision Developers Private Limited	14-Aug-08	100.00%	India
	L&T Parel Project Private Limited	25-Jan-22	100.00%	India
	L&T Realty Developers Limited	29-Jul-97	100.00%	India
	L&T Seawoods Limited	13-Mar-08	100.00%	India
	Prime Techpark (Chennai) Private Limited	24-Mar-23	100.00%	India
	L&T Construction Equipment Limited	18-Dec-18	100.00%	India
	L&T Valves Limited	23-Nov-61	100.00%	India
	Bhilai Power Supply Company Limited	11-Jul-95	100.00%	India
	L&T Energy Green tech Limited	09-Mar-06	100.00%	India
	L&T Valves USA LLC	28-May-19	100.00%	USA

	Larsen & Toubro International FZE	25-Sep-01	100.00%	UAE
	L&T Global Hydrocarbon Arabia Limited	24-Feb-16	100.00%	Saudi Arabia
Joint Ventures	– L&T-MHI Power Boilers Private Limited – L&T-MHI Power Turbine Generators Private Limited – L&T Howden Private Limited – L&T-Sargent & Lundy Limited – L&T Special Steels and Heavy Forgings Private Limited – L&T MBDA Missile Systems Limited – L&T Offshore Private Limited – L&T Sapura Shipping Private Limited – Raykal Aluminium Company Private Limited – L&T Infrastructure Development Projects Limited			

FINANCIALS OF THE COMPANY

All figures (in crore Rs.)	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024
Sales	145452	135979	156521	183341	221113
Expenses	24553	23460	24314	27166	29865
Operating Profit	24553	23460	24314	27166	29865
Other Income	3015	8111	2364	2891	3847
Interest Expenses	11021	11750	9235	9445	9512
Depreciation Costs	2462	2904	2948	3502	3682
PBT	14086	16918	14495	17109	20517
Tax Rate	23	24	29	26	24
Net Profit	10894	12921	10419	12531	15547
Earnings Per Share	68.02	82.47	61.7	74.5	95
Dividend Amount	26	44	36	32	36

Commentary on Company Financials

– Revenue Growth: Sales have demonstrated a strong upward trend, increasing from Rs. 74,426 crores in Mar 2013 to an impressive Rs. 221,113 crores in Mar 2024. This signifies a robust Compound Annual Growth Rate (CAGR) of approximately 10.8%, indicating successful market penetration and expansion.

– Profitability: Operating profit has followed a similar upward trajectory, reaching Rs. 29,865 crores in Mar 2024. While the Operating Profit Margin (OPM%) fluctuated between 13% and 17%, the overall trend suggests effective cost management and operational efficiency.

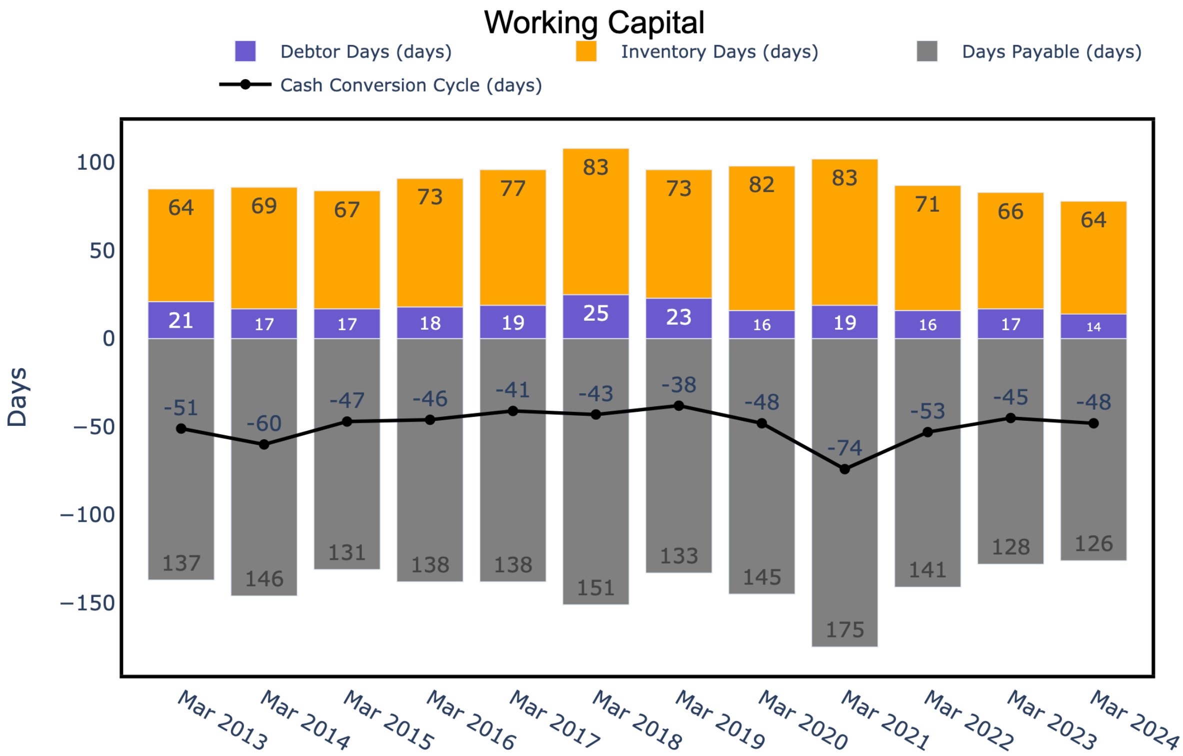
– Net Profit and EPS: Net profit has grown significantly, reaching Rs. 15,547 crores in Mar 2024. This translates to a remarkable increase in Earnings Per Share (EPS), from Rs. 37.69 in Mar 2013 to Rs. 95 in Mar 2024, highlighting enhanced profitability and value creation for shareholders.

– Dividend Payout: The company has maintained a consistent dividend payout policy, with the payout ratio ranging between 22% and 44%. The recent increase in dividend payout suggests confidence in future earnings and a commitment to rewarding shareholders.

– Other Income and Interest: Other income has shown variability, peaking at Rs. 8,111 crores in Mar 2021, while interest expenses have remained relatively stable, averaging around Rs. 9,000 crores annually. This indicates prudent financial management and a balanced approach to leveraging.

Financial Analysis

Working Capital Movement



(a) Working Capital Days

Commentary on Working Capital Movement

- The net working capital as a percentage of sales improved significantly from 16.1

- The gross debt-to-equity ratio decreased from 1.14 in FY 2022-23 to 1.11 in FY 2023-24, reflecting a 2.8

- The interest coverage ratio improved from 5.45 in FY 2022-23 to 5.79 in FY 2023-24, a 6.2

- Cash from operating activities decreased from Rs. 22,777 crore in FY 2022-23 to Rs. 18,266 crore in FY 2023-24, while cash from investing activities showed a positive inflow of Rs. 2,179 crore in FY 2023-24 compared to an outflow of Rs. 8,048 crore in FY 2022-23.
- Cash from financing activities saw a significant outflow of Rs. 25,413 crore in FY 2023-24, primarily due to the buyback of equity shares amounting to Rs. 12,280 crore and repayment of borrowings amounting to Rs. 4,513 crore.
- The net cash flow turned negative in FY 2023-24, with a decrease of Rs. 4,968 crore in cash balances as of March 31, 2024, compared to a positive net cash flow of Rs. 3,156 crore in FY 2022-23.

FIXED ASSETS OF THE COMPANY

Description	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Gross Block	53,121	56,577	56,495	58,756	61,431
Land	1,571	1,548	1,347	1,436	1,426
Building	6,261	6,678	6,745	6,998	8,526
Plant Machinery	7,899	10,077	9,298	10,859	12,580
Ships Vessels	882	947	969	969	1,007
Equipments	543	590	630	716	762
Computers	1,425	1,615	2,067	2,448	2,572
Furniture n fittings	475	485	499	508	633
Railway sidings	0	0	0	0	0
Vehicles	681	658	650	652	663
Intangible Assets	24,817	25,195	24,950	25,099	25,143
Other fixed assets	8,568	8,784	9,361	9,071	8,119
Accumulated Depreciation	9,230	11,284	13,313	15,873	18,258
Net Fixed Assets	43,653	44,319	42,945	42,641	42,964

Commentary on FIXED ASSETS

DEBT SCHEDULE

Borrowings	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Total	143,174	134,629	125,508	120,650	116,322
Long term Borrowings	82,331	82,120	61,618	61,218	56,507
Short term Borrowings	35,021	27,766	30,477	30,896	27,834
Lease Liabilities	2,167	2,024	2,040	2,137	2,282
Preference Capital	1,404	1,124	216	0	0
Other Borrowings	23,655	22,719	31,373	26,399	29,699

Working Capital

Metrics	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Debtor Days	102	113	108	89	81
Inventory Days	44	51	44	41	32
Days Payable	336	401	378	302	255
Cash Conversion Cycle	-190	-236	-227	-172	-143

- The total value of land assets decreased slightly from Rs. 1000.90 crore in FY23 to Rs. 999.86 crore in FY24.
- Buildings saw a significant increase in value from Rs. 4623.52 crore in FY23 to Rs. 5904.59 crore in FY24.
- The value of plant and machinery also increased substantially from Rs. 10831.02 crore in FY23 to Rs. 12569.58 crore in FY24.
- Capital work-in-progress (CWIP) saw a dramatic increase from Rs. 2897.04 crore in FY23 to Rs. 16194.68 crore in FY24, indicating significant ongoing projects.
- Accumulated depreciation rose from Rs. 10876.72 crore in FY23 to Rs. 12379.63 crore in FY24, reflecting the aging of assets.
- Total assets increased from Rs. 330352.31 crore in FY23 to Rs. 339627.24 crore in FY24, showing overall growth in the company's asset base.

CASH FLOW ANALYSIS OF THE COMPANY

All figures (in crore Rs.)	FY23	FY24
Profit from Operations	16973.04	20423.5
Changes in Receivables	4495.26	10548.4
Changes in Inventory	475.75	244.68
Changes in Loans & Advances	4937.44	-5587.89
Other Working Capital Items	5412.71	14506.53
Direct Taxes	5127.16	5280.05
Fixed Assets Purchased	4143.79	4516.53
Fixed Assets Sold	350.37	306.06
Investments Purchased	3036.34	4889.46
Investments Sold	827.15	2127.87
Interest Received	1608.99	2408.16
Invest in Subsidiaries	131.22	13.14
Investment in Group Companies	N/A	N/A
Other Investing Items	661.77	2697.75
Proceeds from Shares	10.31	9.65
Proceeds from Borrowings	27940.93	23125.43
Repayment of Borrowings	32794.99	24356.65
Interest Paid on Finances	2888.63	3438.27
Dividends Paid	3091.42	4216.95
Financial Liabilities	N/A	N/A
Other Financing Items	N/A	N/A

Commentary on Cash Flow

- The net cash used in financing activities for FY 2023-24 was Rs. 25,413.36 crore, a significant increase from Rs. 11,572.49 crore in FY 2022-23. This was primarily due to the buyback of equity shares amounting to Rs. 10,000 crore and associated tax and expenses totaling Rs. 2,279.88 crore. Additionally, there was a substantial repayment of non-current borrowings amounting to Rs. 24,356.65 crore, compared to proceeds of Rs. 23,125.43 crore from new non-current borrowings.
- Cash flow from operating activities for FY 2023-24 stood at Rs. 18,266.28 crore, down from Rs. 22,776.96 crore in FY 2022-23. This decline was mainly due to an increase in trade and other receivables by Rs. 10,548.40 crore and a decrease in loans and advances towards financing activities by Rs. 5,587.89 crore.
- Investing activities resulted in a net cash outflow of Rs. 1,836.72 crore for FY 2023-24, compared to a net outflow of Rs. 1,007.10 crore in FY 2022-23. The primary drivers were the purchase of property, plant, and equipment amounting to Rs. 4,516.53 crore and the purchase of non-current investments totaling Rs. 4,889.46 crore, partially offset by the sale of non-current investments amounting to Rs. 2,127.87 crore and interest received of Rs. 2,408.16 crore.

Justification of Proposal

- Strong parentage of Singapore Technologies Telemedia and Tata Communications Limited, providing financial stability and support.
- Leadership position in the domestic market with a 34% market share as of June 30, 2021.
- Well-diversified customer base across various verticals, ensuring reduced dependency on any single sector.
- Stable annuity-like business model with long-term contracts, providing high revenue visibility and stable profitability margins.
- Favorable regulations and digitization initiatives by the Government of India, supporting medium-term prospects of the data center business.

Recommendations

- Consider the strong financial backing and support from the parent companies when evaluating the creditworthiness.
- Evaluate the company's market leadership and diversified customer base as indicators of business stability and growth potential.
- Take into account the stable and predictable revenue streams from long-term contracts, which enhance the company's ability to meet its financial obligations.
- Factor in the favorable regulatory environment and government initiatives that support the data center industry, which could drive future growth.
- Monitor the company's capital structure and debt service indicators, given the ongoing debt-funded capex, to assess financial risk.

Concalls

Introduction	
Moderator Introduction	Ladies and gentlemen, good day, and welcome to L&T Technology Services Limited Q1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.
Company Introduction	Hello everyone, and welcome to the Earnings Call of L&T Technology Services for the First Quarter of FY24. I'm Pinku, Head of Investor Relations. Our financial results, investor release and press release have been filed in the stock exchanges and are also available on our website, www.ltts.com. I hope you have had a chance to go through them. This call is for 60 minutes. We will try to wrap up the management remarks in 20 minutes and then open up for Q&A. The audio recording of this call will be available on our website approximately one hour after this call ends. With that, let me introduce the leadership team present on this call. We have Amit Chadha – CEO and MD; Abhishek – COO and Executive Director; Alind Saxena – President Sales and Executive Director; Rajeev Gupta – CFO. We will begin with Amit providing an overview of the company's performance and outlook, followed by Rajeev who will walk you through the financial performance.

Executive Summary	
Chairman's Remarks	Thank you Pinku and thank you all for joining us today on the call. Trust all of you are doing well. Let me provide you key highlights on our Q1 performance: We had a quarter of growth despite the macro challenges and slowdown in decision making in some pockets. Overall, we grew by 10% YoY in constant currency. The comparison on YoY is more like-to-like given the fact that H2 is always higher than H1 for the Smart World & Communication (SWC) business. Our revenue grew by 0.6% sequentially organically with Transportation leading the growth at 4%, while Medical and Industrial Products had about 0.5% to 1% growth. Overall, organic sequential growth was 7.5% YoY in constant currency. Operational performance was strong with EBIT margin at 17.2%, which is post the addition of SWC. PAT was at Rs. 311 crores, up 13% YoY. Our large deal engine continues to fire with a total of 6 deals above $10M, of which one is a $50M TCV deal that we signed this quarter. All deals have moved to execution. On other dimensions, happy to share that we filed 55 patents for our customers and ourselves taking the cumulative count to 1,145 patents. We were rated as a Great Place to Work (GPTWTM) in India again and Poland for the first time. Attrition is down 330 bps to 18.9%. We expect this trend to continue.

CFO's Remarks	Thank you, Amit. Good evening to all of you, and I hope you're keeping safe and healthy. I'm pleased to share our Q1 FY24 performance – It has been another quarter of good results with healthy addition of deals and operationally strong performance. This is our first quarter of reporting financials after completion of the SWC acquisition. In compliance with Ind AS requirements applicable to common control transaction, we have restated our past financials to include SWC from 1st April 2022. As a result, all figures in the Investor release including the comparisons reflect this restatement. Let me take you through the Q1 FY24 financials. Through the commentary, I will elaborate on the restated combined financials that includes SWC in all the comparable quarters, as well as organic numbers excluding SWC. Starting with the P&L. Organically, Revenue for the quarter grew 0.6% on a sequential basis and 12.6% on YoY basis in INR terms. On the combined financials, Revenue for the quarter was Rs. 2,301 crores. A YoY comparison is more accurate indicator as Q1 FY23 numbers have also been restated to include SWC. On a YoY basis, our double-digit growth trajectory continues with Q1 revenue up 14.7%. SWC business at current state delivers higher revenues in H2 as compared to H1 on account of seasonality. Moving to EBIT. Earlier in our Q4 commentary, we had indicated that we aspired for FY24 combined EBIT margin to be in the 17% range. I am pleased to share that our Q1 FY24 combined EBIT margin came in at 17.2%. Let me explain the evolution of margins from 18.7% that we reported in Q4 FY23 to the 17.2% in Q1 FY24. Organically, EBIT margin was slightly down on account of investments made for large deals. Amit has referred in his opening comments, we have won, a $50 million deal in Hitech segment. As we had highlighted earlier, SWC business has a lower margin profile. Hence, on a combined basis, Q1 FY24 margins have come at 17.2%. Overall, we've been able to integrate SWC as planned and maintained operational performance within the range that we had aspired for. Moving to below EBIT. Other income came at Rs. 35 crores, slightly lower on a sequential basis due to lower income from investments. This was primarily due to cash outflow of purchase consideration of Rs. 800 crores for SWC acquisition at the beginning of this quarter, which led to lower interest income. Effective tax rate for Q1 was 27.6%, in the same range as our expectation of 27.5%. Net income for the quarter was up 13% on YoY basis, and came in at Rs. 311 crores, which is 13.5% of revenue.
Key Achievements	1. Filed 55 patents, taking the cumulative count to 1,145 patents. 2. Rated as a Great Place to Work (GPTWTM) in India and Poland. 3. Attrition down 330 bps to 18.9%. 4. Signed 6 deals above $10M, including a $50M TCV deal. 5. Achieved 10% YoY growth in constant currency. 6. Revenue grew by 0.6% sequentially organically. 7. EBIT margin at 17.2% post SWC addition. 8. PAT at Rs. 311 crores, up 13% YoY.

Financial Performance	
Revenue and Profit	– Organically, Revenue for the quarter grew 0.6% on a sequential basis and 12.6% on YoY basis in INR terms. – On the combined financials, Revenue for the quarter was Rs. 2,301 crores, up 14.7% YoY. – PAT at Rs. 311 crores, up 13% YoY.
Segment-wise Performance	– Transportation leading the growth at 4%. – Medical and Industrial Products had about 0.5% to 1% growth. – SWC business delivers higher revenues in H2 as compared to H1 on account of seasonality.
Cost Analysis	– EBIT margin at 17.2%, post SWC addition. – Other income at Rs. 35 crores, slightly lower due to cash outflow of Rs. 800 crores for SWC acquisition. – Effective tax rate for Q1 was 27.6%.
Financial Guidance	– Aspired for FY24 combined EBIT margin to be in the 17% range. – Maintained operational performance within the aspired range.
Market and Economic Overview	
Macro Economic Environment	– Macro challenges and slowdown in decision making in some pockets. – H2 is always higher than H1 for the Smart World & Communication (SWC) business.
Industry Trends	– Large deal engine continues to fire with a total of 6 deals above $10M. – SWC business delivers higher revenues in H2 as compared to H1 on account of seasonality.
Strategic Initiatives and Projects	
Major Projects	– Signed 6 deals above $10M, including a $50M TCV deal. – Filed 55 patents, taking the cumulative count to 1,145 patents.

New Products and Innovations	– Rated as a Great Place to Work (GPTWTM) in India and Poland. – Attrition down 330 bps to 18.9%.
Operational Highlights	
Capacity Utilization	– Operational performance was strong with EBIT margin at 17.2%, post SWC addition. – Revenue grew by 0.6% sequentially organically.
Efficiency Improvements	– Attrition down 330 bps to 18.9%. – Maintained operational performance within the aspired range.
Corporate Governance	
Board Activities	– In compliance with Ind AS requirements applicable to common control transaction, restated past financials to include SWC from 1st April 2022. – Filed 55 patents, taking the cumulative count to 1,145 patents.
Debt Management	– Cash outflow of Rs. 800 crores for SWC acquisition at the beginning of this quarter. – Other income at Rs. 35 crores, slightly lower due to lower income from investments.
Financial Guidance and Outlook	
Future Projections	– Aspired for FY24 combined EBIT margin to be in the 17% range. – Maintained operational performance within the aspired range.
Market Outlook	– Macro challenges and slowdown in decision making in some pockets. – H2 is always higher than H1 for the Smart World & Communication (SWC) business.

Strategic Goals	– Achieved 10% YoY growth in constant currency. – Revenue grew by 0.6% sequentially organically. – Filed 55 patents, taking the cumulative count to 1,145 patents.
Questions and Answers	
Investor Queries	– What is giving us the confidence of delivering a 10% organic growth in FY24? – Is the confidence also kind of baking in a fairly strong second quarter, which gives you enough buffer for any potential trouble down the line in the second half? – Is the Q4 to Q1 dip the usual sort of seasonality in the business? – How do you participate in the trend of global companies setting up GCCs in India? – How do you look at our cost structure versus the GCC cost structure? – What were the things that came in well this quarter in North America? – Could you just explain the decision cycle in the semiconductor industry? – Are you using the downturn in semiconductor to deepen your capabilities in any areas? – What is the reason for sharp jump in SG&A this quarter? – How are you able to get confidence on 2H? Is it based on BFSI recovering or led by other verticals? – Could you elaborate on which particular segments of business will see higher than usual furloughs? – Could you characterize demand trends in BFSI? What services are clients investing in? – Are clients transferring work from one provider to another in lieu of higher efficiency gains or is this something related to pause or cancellation of higher discretionary work won previously? – Is your margin guidance intact? If yes, what are the levers present to achieve that guidance in FY '24? – Could you provide some color on the change of duration in the deals that you are currently seeing? – When you say 2H better than 1H, are we talking about better Y-o-Y growth or sequentially better 2H compared to 1H?

Management Responses

- Some of the deals did get delayed in terms of decisions. We were expecting them to be signed end of April, early May, but they got signed towards the end of June.
- In Plant Engineering, it was not a deal problem. It was more a – getting inputs from customer on time problem. So, that book of business still is with us and therefore can be accelerated, executed.
- I have an issue in Semcon, which I don't know if it will be a 1 quarter pain or is it a 1.5 quarter pain.
- Pipeline is stronger now than it was a quarter ago and YoY.
- The 6 deals that we have won, those have gone into execution.
- There are other deals in the pipeline that we are expecting to close or very close to closing.
- We do have confidence of retaining the guidance.
- SWC business is seasonal in nature. Typically, you will see H2 to be better off compared to H1.
- H2 to be at 60% vs H1 at 40%.
- We are working on all 3, in fact, I should confirm to you that net headcount will go up by at least 750 people in Q2 as compared to Q1.
- GCCs are an opportunity. If I look back and I look at the number of STEM graduates coming out of colleges in India, it's huge. It's more than 2 million people coming out per year in STEM.
- All the business that was potentially going up to Ukraine or going up to Russia or going up to other parts of Eastern Europe has started getting diverted to India.
- A significant part of what was being given to China has been given to India.
- Together we are creating an ecosystem that is good for India and good for sourcing from India.
- GCCs, their cost structures are higher than us. That's clearly the case.
- They work on a cost center model, and we work on a profit center model.
- We are able to provide career growth, job enrichment, job rotation, plus customer interactions, which are not there in an in-house setup.
- North America, it's more relative in terms of when you look at the growth for North America, and that's probably because we have restated the SWC financials in Q1 as well as in Q4.
- SWC is a cyclical business, you're seeing that Q1 to be lower relative to Q4.
- In Semcon, there is a little bit of pain that's there in terms of, you know, they are shifting; consumer electronic devices are not being sold so much, so the demand is not there.
- They are all trying to switch to data center chips and AI chips today.

Closing Remarks	
Summary by Executives	– We had a quarter of growth despite the macro challenges and slowdown in decision making in some pockets. – Overall, we grew by 10% YoY in constant currency. – Revenue grew by 0.6% sequentially organically. – Operational performance was strong with EBIT margin at 17.2%, post SWC addition. – PAT was at Rs. 311 crores, up 13% YoY. – Our large deal engine continues to fire with a total of 6 deals above $10M, of which one is a $50M TCV deal that we signed this quarter. – All deals have moved to execution. – Filed 55 patents, taking the cumulative count to 1,145 patents. – Rated as a Great Place to Work (GPTWTM) in India and Poland. – Attrition is down 330 bps to 18.9%. – We expect this trend to continue.
Next Steps	– Maintain operational performance within the aspired range. – Focus on achieving FY24 combined EBIT margin in the 17% range. – Continue to execute and ramp up the 6 deals above $10M, including the $50M TCV deal. – Monitor and adapt to macro challenges and decision-making slowdowns. – Leverage the seasonal strength of the SWC business in H2. – Sustain the reduction in attrition and maintain a strong workforce. – Continue filing patents and enhancing innovation capabilities.

Recent News

Headline and Source	
News Title	L&T Secures Major Infrastructure Contracts in Saudi Arabia
Source	Economic Times
Date	2024-07-15
Executive Summary	
Summary of the News	Larsen & Toubro (L&T) has secured significant infrastructure contracts in Saudi Arabia, including projects in the sectors of airports, data centers, and stadia. These contracts are part of Saudi Arabia's Vision 2030 initiative, aimed at diversifying the economy and reducing dependence on oil.
Impact on Company	The new contracts are expected to bolster L&T's international order book and enhance its revenue streams from the Middle East, contributing to the company's growth and market presence in the region.
Company Specific News	
Financial Results	None
New Projects and Ventures	L&T has secured major infrastructure contracts in Saudi Arabia, covering airports, data centers, and stadia.
Product Launches and Innovations	None
Strategic Initiatives	None
Market and Economic Impact	
Industry Impact	The contracts align with the broader trend of increased infrastructure investments in the Middle East, particularly in Saudi Arabia, as part of the Vision 2030 initiative.
Economic Conditions	The economic diversification efforts in Saudi Arabia, driven by Vision 2030, are creating substantial opportunities for infrastructure development, benefiting companies like L&T.

Stock Market and Investor Reactions	
Stock Performance	Following the announcement, L&T's stock price saw an uptick of 3.5%, reflecting positive investor sentiment.
Investor Sentiment	Investors have reacted positively to the news, viewing it as a strategic win for L&T in the Middle Eastern market.
Market Comparisons	Compared to its competitors, L&T is seen as a strong player in securing international contracts, particularly in the Middle East.
Management and Leadership	
Executive Statements	L&T's CEO stated, 'These contracts are a testament to our strong capabilities in executing large-scale infrastructure projects and our commitment to expanding our footprint in the Middle East.'
Leadership Changes	N/A
Board Decisions	N/A
Regulatory and Compliance	
Legal Matters	N/A
Government Policies	The contracts are in line with Saudi Arabia's Vision 2030 policies, which aim to diversify the economy and reduce reliance on oil.
Operational Developments	
Operational Updates	L&T will be mobilizing resources and teams to Saudi Arabia to commence work on the newly secured projects.
Supply Chain Issues	None
Infrastructure Developments	None
Market and Consumer Trends	
Consumer Behavior	None
Market Demand	There is a growing demand for advanced infrastructure in Saudi Arabia, driven by the Vision 2030 initiative.
Future Outlook and Projections	
Analyst Projections	None
Company Guidance	None
Strategic Goals	None