

July 28, 2017

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Rating	BUY
Price	Rs1,159
Target Price	Rs1,328
Implied Upside	14.6%
Sensex	32,310
Nifty	10,015

(Prices as on July 28, 2017)

Trading data

Market Cap. (Rs bn)	1,611.9
Shares o/s (m)	1,390.7
3M Avg. Daily value (Rs m)	3422.7

Major shareholders

Promoters	0.00%
Foreign	17.60%
Domestic Inst.	39.29%
Public & Other	43.11%

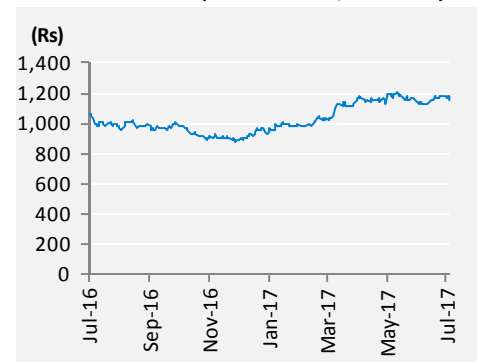
Stock Performance

(%)	1M	6M	12M
Absolute	2.4	20.8	10.3
Relative	(2.4)	4.9	(4.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	45.8	46.5	-1.5
2019	54.8	54.5	0.6

Price Performance (RIC: LART.BO, BB: LT IN)



Source: Bloomberg

L&T reported PAT of Rs8.9bn up 46.4% YoY below our estimates. The sales were up 9.6% YoY led pick up in domestic execution which was up 11% yoy (infrastructure domestic sales up 17% YoY). EBITDA margins were impacted by weak profitability in power and development project segment and Rs1bn write off in shipbuilding segment. While overall order inflow for quarter was down 11% YoY, domestic inflow was up 12% YoY. The working capital cycle continue to be steady at 20% of sales (19% for Q4FY17). Cash from operation improved to Rs 3.9bn vis-a-vis -9.2bn. The company maintained its guidance of 12% sales growth, 12-14% order inflow growth and 25bps margin improvement in FY18. The company continues to focus on its strategic plan of achieving profitable growth and improving RoE in medium term. We Maintain 'BUY' on L&T given its strong business model, diverse skill sets, strong execution capabilities and relatively healthy/large balance sheet with TP of Rs 1328.

■ **Healthy pick up in domestic execution:** L&T reported consolidated sales of Rs238bn (PLRs234bn), up 9.6% YoY. Domestic sales were up 11% YoY and International sales were up 7% YoY. While E&C business was up 12.6% YoY, Services businesses were up (IT&Ts and Financial services) up ~ 8% YoY. Domestic infrastructure showed strong growth of 17.5% YoY. EBITDA for the quarter was up 8.9% YoY to Rs20.6bn and EBITDA margin stood at 8.6% down 10bpsYoY (PLe 9.0%). PAT was up by 46.4% YoY at Rs8.9bn (PLe9.7bn) led by lower tax provisions and increase in Treasury earnings (non-operating income).

Contd...2

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	1,019,753	1,093,118	1,224,292	1,407,936
Growth (%)	10.8	7.2	12.0	15.0
EBITDA (Rs m)	104,628	110,747	126,090	149,122
PAT (Rs m)	47,623	60,412	64,109	76,677
EPS (Rs)	34.2	43.2	45.8	54.8
Growth (%)	7.8	26.1	6.1	19.6
Net DPS (Rs)	8.6	8.8	10.2	12.3

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	10.3	10.1	10.3	10.6
RoE (%)	10.1	12.7	12.6	14.7
RoCE (%)	4.3	4.1	4.2	4.7
EV / sales (x)	2.6	2.5	2.2	1.9
EV / EBITDA (x)	25.2	24.2	21.5	18.3
PE (x)	33.8	26.8	25.3	21.2
P / BV (x)	3.7	3.6	3.3	2.9
Net dividend yield (%)	0.7	0.8	0.9	1.1

Source: Company Data; PL Research

- **Order inflow down 11% YoY:** Order flow for the quarter was down 11% YoY to Rs264bn and order book stood at Rs2.6trn up 2% YoY. The Domestic inflow for Q1FY18 was up 12.1% YoY while international inflow for Q1FY18 was down 40% YoY **Domestic Order Inflow growth was 12%**, mainly contributed by Power T&D, Water and MMH businesses. Weak order inflow reflects muted capex environment; however public capex continues to see uptick. While reported inflow was weak, it was in with management internal expectation. Order pipeline continues to be robust including few large deal in pipeline, however order finalization continues to take time. Pipeline size ~ Rs6tn.

Exhibit 1: Key Large orders in pipeline

Key large order in pipeline	(Rs bn)
LPD (4 nos)	200
Mumbai Trans Harbour Link	150
Bandra Versova Sea link	7.5
Mumbai Coastal Road	150
Mumbai Nagpur Expressway	150
Anti Submarine Corvettes	80
Artillery Guns	100
Zojila Tunnel	80

Source: Company Data, PL Research

Exhibit 2: Prospects size (Rs bn)

Infrastructure	3000
Power and T&D	1600
MMH	200
Hydrocarbon	800
Shipbuilding/Heavy engineering	200
Others	200
Total	6000

Source: PL Research, Company Data

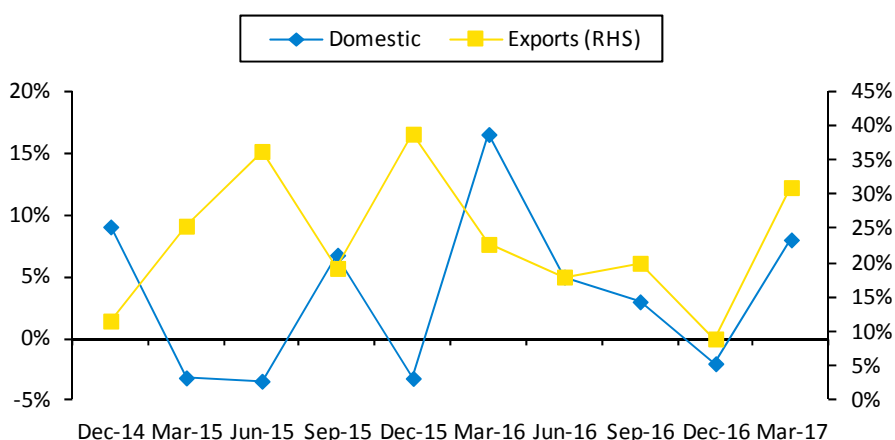
- **Guidance:** The Company has maintained its guidance of 12% sales growth, 12-14% order inflow growth and 25bps margin improvement in FY18.
- **Other key highlights from the Conference Call:** 1) WC at 20% of sales in Q1FY18 (20% in Q1FY17 and 19% in Q4FY17) 2) Increase in interest cost primarily due to higher proportion of interest bearing customer advances 3) Depreciation increase due to asset impairment upon capacity rebalancing in Middle East 4) All low margin legacy jobs have been closed out in Hydrocarbon segment 5) Looking at a possibility of an InvIT 6) Katapali port divestment expected in 1-2 quarters 7) In Nabha power, key dispute are in coal washing charges and mega power status

- **Strategic Plan:** Under its new five-year strategic plan, LT aims to: (a) grow sales at a 12-15% CAGR to reach INR2tn by 2021; (b) increase margins to 11.2%, +120bp over FY16, driven by higher profitability in key manufacturing verticals (power, process, forgings and Kattupalli yard) and hydrocarbons; (c) unlock value via asset sales to drive ROE improvement (d) reduce working capital to 18% of sales.
- **Outlook and Valuation:** The stock is trading at 19.5x FY19E earnings. The company continues to focus on its strategic plan of achieving profitable growth and improving RoE in medium term and improving capital allocation. We Maintain 'BUY' given its strong business model, diverse skill sets, strong execution capabilities and relatively healthy/large balance sheet and being the go to go company in the Indian infrastructure space with TP of Rs 1328. We expect company to deliver 20% earning CAGR over FY16-19E.

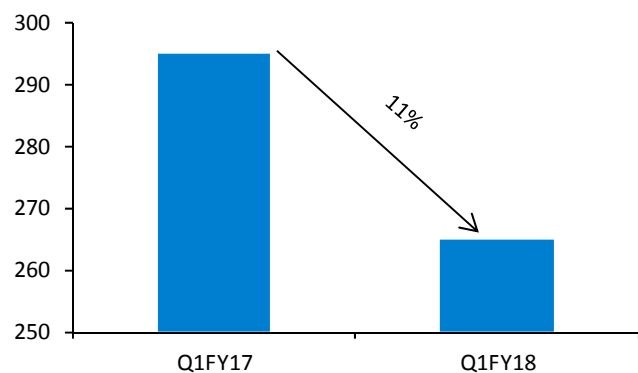
Exhibit 3: SOTP

	Fair Value (Rs)	Basis
L&T Core business	961	23x March 19EPS Ex dividends
L&T Hydrocarbon business	7	10x FY18E EPS
L&T IDPL	71	1.1x P/B
L&T InfoTech	128	M.cap
L&T Finance Holding	119	68% stake; 20% Hold co discount on current market cap
L&T's equity investment in BTG	3	1.5x equity investment
Other businesses	40	1.5x book value.
Target price	1,328	

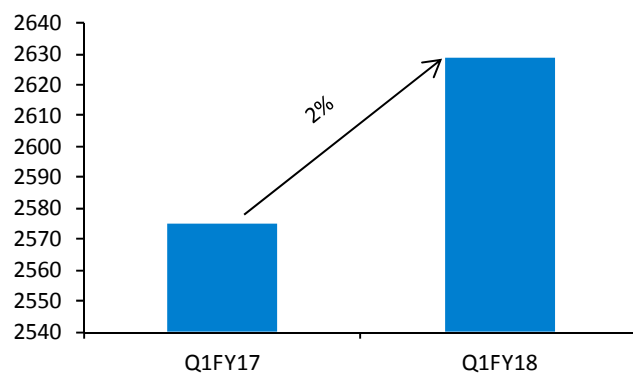
Source: PL Research

Exhibit 4: Sales growth


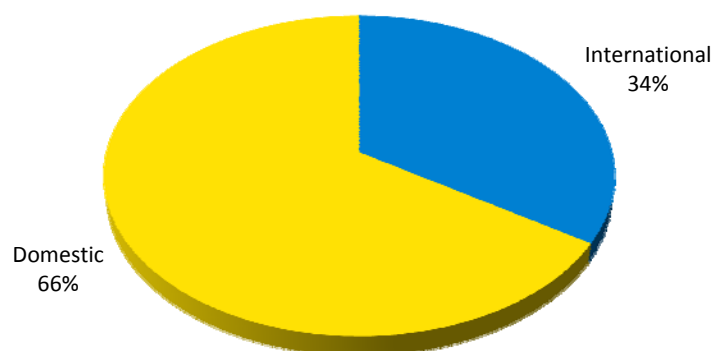
Source: Company Data, PL Research

Exhibit 5: Consolidated Order inflow (Rs bn)


Source: Company Data, PL Research

Exhibit 6: Consolidated Order book (Rs bn)


Source: Company Data, PL Research

Exhibit 7: Revenue Break-up


Source: Company Data, PL Research

Exhibit 8: Cash flow statement

₹ Billion	Q1 FY18	Q1 FY17
Operating Profit	21.3	20.1
Changes in Working Capital	(9.5)	(23.3)
Direct Taxes paid	(7.8)	(6.0)
Net Cash from Operations (A)	3.9	(9.2)
Investments in Fixed Assets (Net)	(9.4)	(12.0)
Net Purchase of Long Term & Curr. Inv.	(18.3)	(15.7)
Loans/Deposits made with JV/Associate Cos.	(2.6)	(1.6)
Interest & Dividend Received & Others	0.1	0.8
Net Cash from/(used in) Invest. Act. (B)	(30.2)	(28.5)
Issue of Share Capital / Minority	4.1	0.2
Net Borrowings	31.2	31.9
Disbursements towards financing activities*	(10.9)	2.4
Interest & Dividend paid	(4.2)	(4.8)
Net Cash from Financing Activities (C)	20.2	29.7
Net (Dec) / Inc in Cash & Bank (A+B+C)	(6.1)	(7.9)

Source: Company Data, PL Research

Exhibit 9: Q1FY18 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY18	Q1FY17	YoY gr. (%)	Q4FY17	FY18E	FY17	YoY gr. (%)
Net Sales	238,109	217,265	9.6	366,187	1,224,292	1,093,118	12.0
RM cost	151,423	135,108	12.1	250,446	877,422	773,401	13.4
Personnel cost	35,306	34,200	3.2	35,004	148,228	138,531	7.0
Other expense	30,812	29,068	6.0	37,387	72,553	70,440	3.0
EBITDA	20,567	18,890	8.9	43,351	126,090	110,747	13.9
<i>EBITDA margin (%)</i>	<i>8.6</i>	<i>8.7</i>		<i>11.8</i>	<i>10.3</i>	<i>10.1</i>	
Other income	3,849	3,058	25.9	3,995	16,112	14,010	15.0
PBIDT	24,416	21,948	11.2	47,346	142,201	124,757	14.0
Depreciation	5,513	4,648	18.6	7,227	24,173	23,699	2.0
Interest	3,651	3,248	12.4	2,966	14,738	13,398	10.0
PBT	15,253	14,052	8.5	37,152	103,290	87,659	17.8
Tax	4,597	5,488	(16.2)	3,372	32,020	20,066	59.6
PAT	10,655	8,564	24.4	33,780	71,270	67,593	5.4
Share in Profit/loss of joint ventures	(372)	(1,736)	NA	834	(3,162)	(3,953)	NA
Adjustment for non-controlling interest in subsidiaries	(1,358)	(732)	NA	(1,558)	0	(4,443)	NA
Net PAT	8,925	6,096	46.4	33,056	68,108	59,198	15.1
Other comprehensive income	1,561	(1,196)	NA	3,800	0	0	NA
Total PAT	10,487	4,900	114.0	36,857	68,108	59,198	15.1

Source: Company Data, PL Research

Exhibit 10: Segmental snapshot - Consolidated (Rs m)

Y/e March	Q1FY18	Q1FY17	YoY gr. (%)	Q4FY17
Revenues				
Infrastructure	107,284	92,875	15.5	203,010
Power	17,643	17,227	2.4	18,386
Heavy Engineering	7,313	7,338	(0.3)	10,347
Total	132,240	117,440	12.6	231,742
Electrical & Electronics	12,684	10,812	17.3	16,786
Hydrocarbon	25,492	21,457	18.8	25,797
IT & Technology Services	25,663	23,749	8.1	25,486
Financial Services	22,945	20,907	9.7	22,065
Developmental Projects	12,599	13,831	(8.9)	10,065
Others	17,538	18,181	(3.5)	44,173
Total	249,160	226,378	10.1	376,115
Less: Intersegment	9,262	7,640	21.2	7,835
Net Segment Revenue	239,898	218,738	9.7	368,280
PBIT Margins				
Infrastructure	6.5%	7.3%		12.4%
Power	0.7%	5.2%		3.2%
Heavy Engineering	9.6%	9.1%		21.8%
Total E&C	5.9%	7.1%		12.1%
Electrical & Electronics	6.2%	3.3%		14.3%
Hydrocarbon	5.6%	0.4%		8.1%
IT & Technology Services	19.2%	19.2%		17.9%
Financial Services	15.6%	12.2%		-2.4%
Developmental Projects	-3.9%	7.1%		-6.2%
Others	-2.9%	-4.0%		9.2%

Source: Company Data, PL Research

Exhibit 11: Q1FY18 Result Overview – Standalone (Rs m)

Y/e March	Q1FY18	Q1FY17	YoY gr. (%)	Q4FY17	FY18E	FY17	YoY gr. (%)
Net Sales	139,370	120,365	15.8	233,236	736,022	660,118	11.5
RM cost	109,603	91,352	20.0	181,019	568,437	516,996	10.0
Personnel cost	13,868	12,898	7.5	13,641	56,611	51,469	10.0
Other expense	6,244	6,473	(3.5)	8,365	39,791	27,401	45.2
EBITDA	9,655	9,643	0.1	30,211	71,183	64,253	10.8
<i>EBITDA margin (%)</i>	<i>6.9</i>	<i>8.0</i>		<i>13.0</i>	<i>9.7</i>	<i>9.7</i>	
Other income	4,237	4,824	(12.2)	3,453	27,150	19,718	37.7
PBIDT	13,892	14,467	(4.0)	33,664	98,333	83,971	17.1
Depreciation	2,584	2,793	(7.5)	3,963	11,786	12,152	(3.0)
Interest	3,593	3,311	8.5	2,693	14,966	13,180	13.5
PBT	7,715	8,363	(7.7)	27,008	71,581	58,639	22.1
Tax	2,134	2,396	(10.9)	4,857	18,611	13,041	42.7
Adjusted PAT	5,581	5,967	(6.5)	22,152	52,970	45,598	16.2
Extra ordinary income/ (exp.)	-	(500)	NA	(9,611)	-	8,940	NA
Reported PAT	5,581	5,467	2.1	12,541	52,970	54,537	(2.9)
Other Comprehensive income	970	(463)	NA	1,526	-	1,574	NA
Total income	6,551	5,004	30.9	14,067	52,970	56,111	(5.6)

Source: Company Data, PL Research

Exhibit 12: Segmental snapshot - Standalone (Rs m)

Y/e March	Q1FY18	Q1FY17	YoY gr. (%)	Q4FY17
Segment Revenue				
Infrastructure	96,123	80,740	19.1	176,055
Power	17,643	17,227	2.4	18,386
Heavy Engineering	7,163	6,748	6.2	10,200
Electrical & Electronics	10,423	8,435	23.6	13,557
Others	12,094	10,856	11.4	21,414
Total	143,446	124,005	15.7	239,611
Less: Intersegment	2,585	2,505	3.2	4,614
Net Segment Revenue	140,861	121,500	15.9	234,997
PBIT Margins				
Infrastructure	6.3%	7.6%		12.3%
Power	0.7%	5.2%		3.2%
Heavy Engineering	11.8%	10.4%		23.3%
Electrical & Electronics	8.6%	9.3%		13.8%
Others	-0.4%	-0.3%		11.7%
Total	5.5%	6.8%		12.1%

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	1,019,753	1,093,118	1,224,292	1,407,936
Raw Material Expenses	724,089	773,401	877,422	1,012,171
Gross Profit	295,664	319,718	346,871	395,765
Employee Cost	133,308	138,531	148,228	170,462
Other Expenses	57,728	70,440	72,553	76,181
EBITDA	104,628	110,747	126,090	149,122
Depr. & Amortization	17,867	23,699	24,173	26,107
Net Interest	16,551	13,398	14,738	16,949
Other Income	9,986	14,010	16,112	18,045
Profit before Tax	80,196	87,659	103,290	124,111
Total Tax	24,848	20,066	32,020	39,715
Profit after Tax	55,349	67,593	71,270	84,395
Ex-Od items / Min. Int.	(7,726)	(9,609)	(7,161)	(7,719)
Adj. PAT	47,623	60,412	64,109	76,677
Avg. Shares O/S (m)	1,390.7	1,399.4	1,399.4	1,399.4
EPS (Rs.)	34.2	43.2	45.8	54.8

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	53,256	74,828	57,135	76,892
C/F from Investing	(5,543)	(32,635)	(21,929)	(21,152)
C/F from Financing	(58,122)	16,719	10,661	8,450
Inc. / Dec. in Cash	(10,410)	58,911	45,867	64,189
Opening Cash	46,790	36,380	95,292	141,159
Closing Cash	36,380	95,292	141,159	205,348
FCFF	(82,649)	29,224	22,960	26,127
FCFE	42,405	104,781	98,962	101,729

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	10.8	7.2	12.0	15.0
EBITDA (%)	(7.7)	5.8	13.9	18.3
PAT (%)	7.8	26.9	6.1	19.6
EPS (%)	7.8	26.1	6.1	19.6
Profitability				
EBITDA Margin (%)	10.3	10.1	10.3	10.6
PAT Margin (%)	4.7	5.5	5.2	5.4
RoCE (%)	4.3	4.1	4.2	4.7
RoE (%)	10.1	12.7	12.6	14.7
Balance Sheet				
Net Debt : Equity	2.3	2.3	2.2	2.0
Net Wrkng Cap. (days)	8	18	10	5
Valuation				
PER (x)	33.8	26.8	25.3	21.2
P / B (x)	3.7	3.6	3.3	2.9
EV / EBITDA (x)	25.2	24.2	21.5	18.3
EV / Sales (x)	2.6	2.5	2.2	1.9
Earnings Quality				
Eff. Tax Rate	31.0	22.9	31.0	32.0
Other Inc / PBT	11.4	16.0	15.6	14.5
Eff. Depr. Rate (%)	3.3	4.1	4.1	4.2
FCFE / PAT	89.0	173.4	154.4	132.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	439,917	455,524	490,712	555,956
Total Debt	1,080,754	1,156,311	1,232,313	1,307,914
Other Liabilities	4,112	4,111	4,112	4,112
Total Liabilities	1,524,783	1,615,946	1,727,136	1,867,982
Net Fixed Assets	586,029	614,278	630,103	660,103
Goodwill	21,717	21,717	21,717	21,717
Investments	100,800	100,800	100,800	100,800
Net Current Assets	808,238	871,151	966,516	1,077,362
<i>Cash & Equivalents</i>	<i>59,016</i>	<i>95,292</i>	<i>141,159</i>	<i>205,348</i>
<i>Other Current Assets</i>	<i>1,499,686</i>	<i>1,389,608</i>	<i>1,512,756</i>	<i>1,662,522</i>
<i>Current Liabilities</i>	<i>750,465</i>	<i>613,748</i>	<i>687,398</i>	<i>790,508</i>
Other Assets	8,000	8,000	8,000	8,000
Total Assets	1,524,783	1,615,946	1,727,136	1,867,982

Quarterly Financials (Rs m)

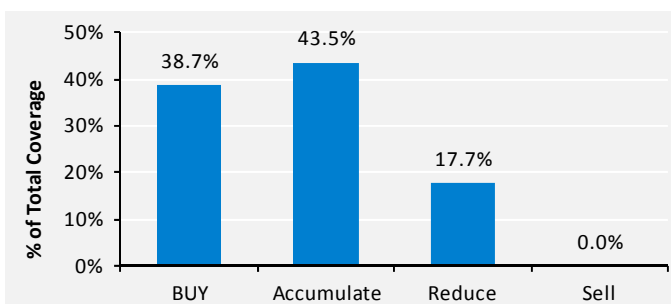
Y/e March	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Net Revenue	250,223	262,870	366,187	238,109
EBITDA	22,972	25,356	43,351	20,567
% of revenue	9.2	9.6	11.8	8.6
Depr. & Amortization	4,602	7,223	7,227	5,513
Net Interest	3,396	3,788	2,966	3,651
Other Income	4,697	2,439	3,995	3,849
Profit before Tax	19,671	16,784	37,152	15,253
Total Tax	6,807	4,399	3,372	4,597
Profit after Tax	11,297	10,901	33,056	8,925
Adj. PAT	11,297	10,901	33,056	8,925

Source: Company Data, PL Research.

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Trading Sell	: Over 10% absolute decline in 1-month
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