

**Larsen & Toubro Ltd.****₹ 1304***The Solar Power***Accumulate**

Gateway to Prosperity

March 23, 2012

**Financial Performance**

Larsen & Toubro (L&T) has reported revenue of ₹ 140bn for the QE Dec 2011. It has done well at execution level thanks to huge order backlog. E&C revenue grew 25% YoY while Electrical business & Machinery & Industrial Product (MIP) revenues grew moderately by 6% to ₹ 8.4 and ₹ 7.2 bn respectively. Surprisingly, the operating margin of the company was impacted during the quarter. L&T's EBITDA margin dropped by 280 bps during the quarters. RM and construction cost was at 71.2% of sales - down 175bp YoY but up 427bp QoQ. L&T's net working capital to revenue ratio also increased to 13% as on December 2011, as against 8% during the Mar 2011. Consequently, net profit of ₹ 9.91 bn for the quarter ended on December 2011 as against ₹ 8.40 bn during the corresponding previous quarter. During the quarter L&T received orders worth ₹ 171 bn growing strongly by 28% to ₹ 1458 bn. Order inflows were led by Infrastructure (+39% yoy to ₹ 93 bn) and Process (+212% YoY to ₹ 22 bn). Both in the domestic and international markets rebounded backed by pick-up in investment activity. L&T reiterated its guidance for growth in order inflow at 5%.

**Investment Rationale****➔ Top Player in Solar Sector**

L&T has emerged as the largest EPC payer in the solar energy segment with an order book of projects worth 200 MW. The Company is approaching an installed capacity of 112 MW by April 2012. Its strong design and execution power backed by vat experience in EPC works has positioned it s the leader in the domain. L&T expects to bag 200 MWs of solar projects in the next year on EPC basis, taking its cumulative tally of solar power experience to approximately 400 MWs by 2012-2013.

**➔ The Successor Issue eased**

L&T management recently decided to split topmost post to a CEO-MD structure. This is going to be crucial for the company as the issue of successor was getting more difficult. The management expects to have a easier task to control over 60 different domains from nuclear power to construction and gear.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	360650.7	393220.6	455778.4
<b>Rev. growth (%)</b>	<b>40.27</b>	<b>9.03</b>	<b>15.91</b>
EBITDA (₹ mn)	53789.6	68052.6	70565.2
Net profit (₹ mn)	34816.1	43751.7	39573.2
Shares outstanding (mn)	585.7	602.2	608.9
EPS (₹)	59.4	72.7	65.0
<b>EPS growth (%)</b>	<b>(20.04)</b>	<b>22.22</b>	<b>(10.54)</b>
P/E (x)	11.3	22.4	25.4
EV/ EBITDA	74.1	144.7	143.4
<b>ROCE (%)</b>	<b>2.14</b>	<b>22.49</b>	<b>22.35</b>

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**Previous Report**

Date : Jan 14, 2011  
 Recommendation : Buy  
 Price : ₹ 1721

**Market Data**

52 Wk Range (₹) : 1998 / 971  
 Shares in Issue (mn) : 612  
 Mkt. Cap (₹ bn) : 795.19  
 BSE 2 Wk Avg Vol : 379000

**Share Holding Pattern (%)**

Promoters : -  
 DII's : 37.81  
 FII's : 13.84  
 Others : 48.35

**Investment Theme**

L&T management has recently decided on a critical issue of succession. The management has decided to split top most post to MD-CEO structure. Though Mr. Naik may get extension. This has going to ease pressure on successor. Further LNT has done surprisingly well in execution during quarter. The order book grew by 28% which is a very good sign for the company. The company has emerged as the largest EPC player in the solar segment. It is expected to double the orders worth 200 MW to 400 MW in the coming year. The diversified order inflow augurs well for the future. L&T is well placed to capitalize on long-term infrastructure demand. The fundamentals of the company remain excellent. We remain bullish on the company. And thus recommend to accumulate the stock.

**The King is (exten)dead !  
 Long Live the King !!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	343566.0	373837.9	8.81	442915.6	18.48
Other Income	21017.8	22555.8	7.32	16851.2	(25.29)
Change in Stocks	1051.1	(4025.4)	(482.97)	5594.9	(238.99)
Raw Material Con.	154669.6	153986.5	(0.44)	198361.9	28.82
Employee Exp.	19749.8	23819.1	20.60	28845.3	21.10
Indirect Taxes	4557.3	3928.6	(13.80)	4981.0	26.79
Other Exp.	132868.6	142581.5	7.31	162608.3	14.05
Operating Exp.	310794.2	328341.1	5.65	389201.6	18.54
Operating Profit	32771.8	45496.8	38.83	53714.0	18.06
Total Interest	4155.6	5053.1	21.60	6473.7	28.11
Gross Profit	49634.0	62999.5	26.93	64091.5	1.73
Net Dep.	3046.2	4071.9	33.67	5933.6	45.72
Total Taxation	11771.7	15175.9	28.92	18584.7	22.46
Net Profit/Loss	34816.1	43751.7	25.67	39573.2	(9.55)

### 4 Years Balance Sheet

(₹ mn)

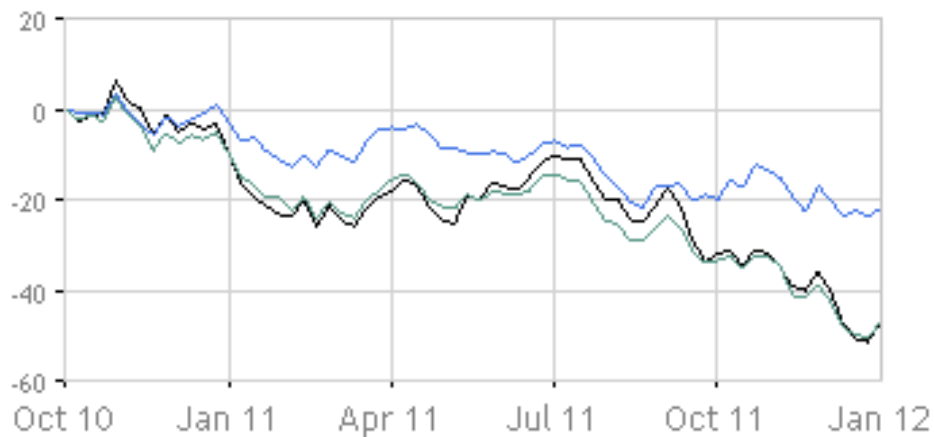
Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>131162.0</b>	<b>189942.0</b>	<b>250922.5</b>	<b>289883.1</b>
Equity Share capital	584.7	1171.4	1204.4	1217.7
Share Application Money	0.0	0.0	250.9	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	94737.8	123210.3	181458.9	217054.3
Loan Funds	3092.3	12486.4	10811.3	11641.1
Unsecured Loans	32747.2	53073.9	57197.0	59970.0
<b>USES OF FUNDS</b>	<b>131162.0</b>	<b>189942.0</b>	<b>250922.5</b>	<b>289883.1</b>
Gross Block	41988.2	55835.7	72831.6	89497.4
Less : Revaluation Reserves	259.0	245.9	232.9	221.3
Less : Accumulated Depreciation	12795.8	14661.8	17885.3	23024.8
<b>Net Block</b>	<b>28933.4</b>	<b>40928.0</b>	<b>54713.4</b>	<b>66251.3</b>
Capital Work in Progress	7292.7	10802.8	8742.0	8139.4
Investments	69886.1	76258.4	152927.6	163944.5
Current Assets	165233.9	244728.6	262478.8	351330.9
Less : Current Liabilities	140214.7	182778.4	227939.3	299783.0
<b>Total Net Current Assets</b>	<b>25019.2</b>	<b>61950.2</b>	<b>34539.5</b>	<b>51547.9</b>
Misc. Expenses not written	30.6	2.6	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	26292.2	38865.6	73703.8	125776.6
Mkt Val. Quoted Investments	54779.2	45274.1	80229.7	37850.3
Contingent Liabilities	10961.4	14383.0	17560.1	16476.6
Dividend (%)	850	525	625	725

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 11	Jun 11	Sep 11	Dec 11
Net Sales	153842.10	94826.10	112452.40	139985.80
Cost Of Sales	130433.50	83561.40	100711.90	126554.70
Operating Profit	23408.60	11264.70	11740.50	13431.10
Recurring Income	5965.90	2961.80	3631.70	4487.10
Adjusted PBDIT	29374.50	14226.50	15372.20	17918.20
Financial Expenses	1361.70	1612.60	1970.10	1907.10
Depreciation	2357.70	1678.50	1709.00	1803.40
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	25655.10	10935.40	11693.10	14207.70
Tax Charges	8793.00	3473.90	3709.20	4292.20
Adjusted PAT	16862.10	7461.50	7983.90	9915.50
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	16862.10	7461.50	7983.90	9915.50

## 52 Week Index Relative Percentage Appreciation



LNT vs SENSEX vs CG

## Economy Overview

- The Government of India has given some strong support for the equity market in this budget. The proposed Equity scheme is expected bring support from retail investors. We expect Blue Chip companies like L&T are expected to be benefited from it.
- L&T may exit its 50% shareholding in joint venture – Dhamra Port Company, with Tata steel. this will encash the value for the company from the matured projects and which can be reinvested in Greenfield ventures in the port sector. L&T has such two dozen projects across various different domains. L&T IDPL a 97.65% subsidiary of L&T develops operates and maintains infrastructure projects.
- One key threat to LNT is the slowing down of capex projects. The slowdown in economy & higher interest rates have already delayed many capex projects. The longer gestation period coupled with gloomy political outlook remains a threat. As one-sixth of its order book represented by slow-moving orders, the company may have to venture into sub standard projects to boost short term revenues. This could impact the margins further.

## In a Nutshell

LNT was established in 1938 in Mumbai. It is essentially into Infra segment and over the years has diversified in many infra related segments ranging from rail, roads, power, etc. It remains one of the most respected companies in India. The management of the company approved to split the mammoth size company into small specialized independent companies. The process is in full swing and is expected to streamline the operations as well as unlocking the values for individual companies in their respective sectors. The Company with its superior execution capabilities and a strong organization base is well positioned to convert the opportunities into profitable business prospects. It has further diversified its markets as well as segments. The company has emerged as the largest EPC player in the solar segment. It is expected to double the orders worth 200MW to 400 MW in the coming year. The diversified order inflow augurs well for the future. L&T is well placed to capitalize on long-term infrastructure demand. The price of the share has corrected steeply on stock market, making its valuations more attractive. The company remains fundamentally strong. We remain bullish on the company. And thus recommend to accumulate the stock.

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## Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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