

Larsen & Toubro Ltd.**₹ 1073****HUGE** orderbook....**Accumulate**

Gateway to Prosperity

January 06, 2012

Financial Performance

Larsen & Toubro (LNT) the engineering major Indian company posted mixed results for the quarter ended on September 2011. Total income of the company has increased by 19.35% at ₹ 112.45 bn for Q2FY12 as against ₹ 94.22 bn for Q2FY11. The Engineering & Construction (E&C) segment clocked gross revenue of ₹ 97.04 bn, up 21% Y-o-Y driven by strong order book execution whilst Electrical & Electronics gross revenue stood at ₹ 7.82 bn, up 21% Y-o-Y. However the sales of Machinery & Industrial Products (MIP) segment were lower by 3% to ₹ 6.78 bn. The subdued industrial offtake and lower mining activity due to bans and environmental issues etc have impacted the sales of this segment.

The margins have been a cause for worry. The stiff competition has already put great pressure on the margins of the company. The rising cost of employee due to considerable addition in headcount coupled with higher depreciation & lack of other income dragged the operating margins down by 20 bps. Consequently it posted growth of 4.37% in Q2FY12 to ₹ 7.98 bn against ₹ 7.65 bn for Q2FY11. Order inflow of ₹ 160.96 bn during the quarter took the company's order book to ₹ 1,421.85 bn as on Sept. 30, 2011. The management reduced the Order inflow growth guidance for FY12 to 5% yoy compared to 15-20% originally given.

Investment Rationale

Though management's revision to 5% came a shock, LNT remains fundamentally very strong. Despite its huge order book it has been able to execute projects in record time. LNT has been trying to diversify into various markets and segments to counter the inherent risk of recessionary phase in infrastructure sector. The company is eyeing growing sectors in the Middle East and the Far East to bring in numbers which can partially offset the impact of loss of orders from India. It has emerged as one of the major EPC turnkey solutions provider for the large rooftop solar power generation systems. It also recently entered into a partnership with Japan's Mitsubishi Heavy Industries to source technology for shipbuilding. This would enable the company in commercial shipbuilding, repair, retrofit & defense vessels. It is also in advanced stage of talks with the state ministry of West Bengal to set up a power plant.

Key Financials

Year Ended 31 st	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	360650.7	393220.6	455778.4
Rev. growth (%)	40.27	9.03	15.91
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
EPS growth (%)	(20.04)	22.22	(10.54)
P/E (x)	11.3	22.4	25.4
EV/ EBITDA	74.1	144.7	143.4
ROCE (%)	2.14	22.49	22.35

Arpit Jain

aj@indiratrade.com

Previous Report

Date	: Jan 14, 2011
Recommendation	: Buy
Price	: ₹ 1721
Target	: ₹ 2065
High Reached	: ₹ 1998

Market Data

52 Wk Range (₹)	: 1998 / 971
Shares in Issue (mn)	: 611
Mkt. Cap (₹ bn)	: 660.5
BSE 2 Wk Avg Vol	: 427000

Share Holding Pattern (%)

Promoters	: -
DII's	: 36.24
FII's	: 15.94
Others	: 47.82

Investment Theme

The management of the LNT is quite cautious about order inflow. In Q3 LNT won more than 20 bn worth orders. It is also in advanced stage of talks with the state ministry of West Bengal to set up a power plant. Since land is provided for in it, its a safer proposal. Since RBI remained open with its stand, the rates seem to be peaking. Whenever RBI starts to reduce rates, it would definitely boost investors' morale & downfall may be arrested. The share price of the company has fallen below 1000 mark & rebounded. The price has corrected more than 50%. The company which is considered as the proxy to the economy has corrected far more than the index. We believe the negative factors- mainly the concern about order book & margin pressure seem to have been priced in. we remain bullish on the company.

Time for The Revival !

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)

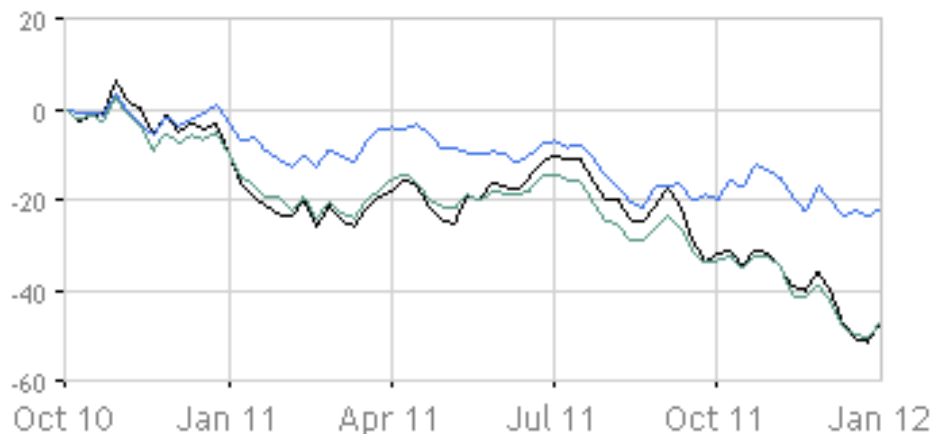
Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	131162.0	189942.0	250922.5	289883.1
Equity Share capital	584.7	1171.4	1204.4	1217.7
Share Application Money	0.0	0.0	250.9	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	94737.8	123210.3	181458.9	217054.3
Loan Funds	3092.3	12486.4	10811.3	11641.1
Unsecured Loans	32747.2	53073.9	57197.0	59970.0
USES OF FUNDS	131162.0	189942.0	250922.5	289883.1
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
Net Block	28933.4	40928.0	54713.4	66251.3
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
Total Net Current Assets	25019.2	61950.2	34539.5	51547.9
Misc. Expenses not written	30.6	2.6	0.0	0.0
NOTE				
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	Dec 10	Mar 11	Jun 11	Sep 11
Net Sales	114130.80	153842.10	94826.10	112452.40
Cost Of Sales	101751.90	130433.50	83561.40	100711.90
Operating Profit	12378.90	23408.60	11264.70	11740.50
Recurring Income	2824.80	5965.90	2961.80	3631.70
Adjusted PBDIT	15203.70	29374.50	14226.50	15372.20
Financial Expenses	1757.10	1361.70	1612.60	1970.10
Depreciation	1280.90	2357.70	1678.50	1709.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	12165.70	25655.10	10935.40	11693.10
Tax Charges	3760.40	8793.00	3473.90	3709.20
Adjusted PAT	8405.30	16862.10	7461.50	7983.90
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	8405.30	16862.10	7461.50	7983.90

52 Week Index Relative Percentage Appreciation



LNT vs SENSEX vs Capital Goods

Economy Overview

- The Government of India has made a strong bid to strengthen the domestic markets by proposing to allow Qualified Foreign Investors (“QFIs”) to invest directly into the Indian equity market. The proposed new investment route is aimed at providing stimulus to the markets which has taken a hit in previous year.
- The one reason for lower order inflow has been very competent bids from smaller players. As the interest rates shot up, these projects seems to become unviable for these players. The cash-strapped infrastructure developers are in the market looking for equity investment in as many as 40 projects. Many of these projects are up for sale. This gives the major players such as LNT to selectively pickup projects. LNT recently acquired a road project from MGR Infrastructure.
- 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. With the order book growth rate declining, L&T may be forced to enter into low-margin orders to bolster its order book. 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.

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 segment. LNT has entered into technological collaboration with Japan's Mitsubishi Heavy Industries to source technology for shipbuilding. The price of the share has corrected steeply on stock market, making its valuations more attractive. The company remains fundamentally strong. Government is pushing hard to bring more liquidity in the economy, as the inflation is tapering, If RBI takes a breather from its rate hikes, the investment morale may improve in India. Hence one can accumulate this stock.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

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

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.