

Larsen and Toubro

₹ 1636

*Lot behind just Two letters !***Accumulate**

Oct 19, 2012

Company Background

Larsen & Toubro Limited (L&T) is a technology, engineering, construction and manufacturing company. It is one of the largest and most respected companies in India's private sector. More than seven decades of a strong, customer-focused approach and the continuous quest for world-class quality have enabled it to attain and sustain leadership in all its major lines of business. L&T has an international presence, with a global spread of offices. A thrust on international business has seen overseas earnings grow significantly. It continues to grow its global footprint, with offices and manufacturing facilities in multiple countries. The company's businesses are supported by a wide marketing and distribution network, and have established a reputation for strong customer support. Today, L&T is one of India's biggest and best known industrial organisations with a reputation for technological excellence, high quality of products and services, and strong customer orientation. It is also taking steps to grow internationally.

Key Highlights

- ➔ L&T Heavy Engg has bagged a prestigious order for manufacture & installation of ITER's Cryostat for the world's largest experimental Thermonuclear Fusion Reactor, coming up in Cadarache, south of France. This large value order will be executed over a period of 8 years.
- ➔ L&T has restructured its IT and L&T Integrated Engineering Services businesses with a view to accelerate growth in the technology space. L&T Infotech has been reorganised around two business clusters, "Industrial" and "Services" and the current L&T Integrated Engineering Services (IES) will be rebranded as L&T Technology Services.
- ➔ The Electrical & Automation business of L&T completed the share sale agreement formalities for the acquisition of Thalest Ltd, the UK based holding company of Servowatch Systems Ltd, Bond Instrumentation & Process Control Ltd and Servowatch Inc, (USA).
- ➔ L&T has secured an offshore contract valued at Rs. 749 crore from ONGC for total Engineering Procurement Construction & Installation of four wellhead platforms. The contract was won against international competitive bidding.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	387,688.7	459,974.8	546,910.4
Rev. growth (%)	8.98	18.65	18.90
EBITDA (INR mn)	74,052.5	76,598.5	86,931.0
Net profit (INR mn)	43,755.2	39,578.9	44,565.0
Shares outstanding (mn)	602.2	608.9	612.4
EPS (INR)	72.7	65.0	72.8
EPS growth (%)	22.23	(10.53)	11.95
Networth	182883.5	218107.4	251830.9
RONW(%)	28.5	18.6	18.7
ROCE (%)	19.8	13.8	13.7

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Info Codes

Reuters	: LART.BO
Bloomberg	: LT@IN
NSE	: LT
BSE	: 500510

Market Data

52 Wk Range (₹)	: 1663 / 971
Shares in Issue (mn)	: 612
Mkt. Cap (₹ bn)	: 1002.16
BSE 2 Wk Avg Vol	: 218000

Share Holding Pattern (%)

Promoters	: 00.00
DII's	: 37.84
FII's	: 15.40
Others	: 46.76

Investment Theme

L&T is one of worlds leading technology-intensive custom-built equipment builder and expects to continue its growth in process equipment in FY13. Although the unfortunate Fukushima nuclear incident in Japan has reduced the pace of growth in this sector, the Company is targeting international prospects such as Spent Fuel storage & decommissioning of Generation II plants. The defence sector shows good promise in the medium to long term - both in land and marine business segments. The Defence Offset Programme and recent Government initiatives for encouraging private sector for partnering with Defence Public Sector Undertakings provide a range of opportunities. The company remains fundamentally strong. We remain bullish on the company. And thus recommend to accumulate the stock.

Professionally Managed !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	371875.0	440555.5	18.47	538494.8	22.23
Other Income	23216.7	17812.8	(23.28)	8853.2	(50.30)
Change in Stocks	(4229.9)	5594.9	(232.27)	5397.7	(3.52)
Raw Material Con.	95935.3	123723.2	28.97	144564.3	16.84
Employee Exp.	23791.4	28845.3	21.24	35067.2	21.57
Indirect Taxes	3173.1	3988.4	25.69	5835.3	46.31
Other Exp.	193909.5	230807.8	19.03	280347.9	21.46
Operating Exp.	321039.2	381769.8	18.92	460417.0	20.60
Operating Profit	50835.8	58785.7	15.64	78077.8	32.82
Total Interest	9953.7	11992.3	20.48	16833.1	40.37
Gross Profit	64098.8	64606.2	0.79	70097.9	8.50
Net Dep.	3836.5	5758.1	50.09	6994.6	21.47
Total Taxation	15770.2	18584.7	17.85	18538.3	(0.25)
Net Profit/Loss	43755.2	39578.9	(9.54)	44565.0	12.60

4 Years Balance Sheet

(₹ mn)

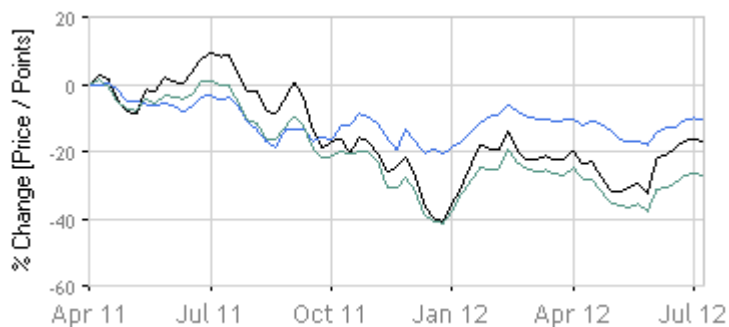
Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	189,911.3	250,891.8	289,852.4	350,976.5
Equity Share capital	1,171.4	1,204.4	1,217.7	1,224.8
Share Application Money	0.0	250.9	3,683.1	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	123,179.6	181,428.2	213,340.5	250,794.0
Secured Loans	11,023.8	9,557.3	10,630.4	14,533.4
Unsecured Loans	54,536.5	58,451.0	60,980.7	84,424.3
USES OF FUNDS	189,911.3	250,891.8	289,852.4	350,976.5
Gross Block	55,750.0	72,357.8	88,970.2	106,187.4
Less : Revaluation Reserves	245.9	232.9	221.3	211.4
Less : Accumulated Depreciation	14,213.9	17,276.8	22,208.2	29,526.1
Net Block	41,290.2	54,848.1	66,540.7	76,449.9
Capital Work in Progress	10,409.9	8,576.6	7,850.0	8,079.4
Investments	82,637.2	137,053.5	146,848.2	158,719.0
Current Assets	238,347.1	266,734.9	352,343.4	438,574.4
Less : Current Liabilities	182,775.7	216,321.3	283,729.9	330,846.2
Total Net Current Assets	55,571.4	50,413.6	68,613.5	107,728.2
Misc. Expenses not written	2.6	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	38865.6	73703.8	121,763.90	150,429.00
Mkt Val. Quoted Investments	45,274.10	80,229.70	24,125.60	82,411.30
Contingent Liabilities	25,001.9	16,476.6	17,193.9	13,718.6
Dividend (%)	525	625	725	825

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 11	Sep 11	Dec 11	Mar 12
Net Sales	112,452.40	139,985.80	184,609.00	119,553.50
Cost Of Sales	100,711.90	126,554.70	159,001.40	108,683.60
Operating Profit	11,740.50	13,431.10	25,607.60	10,869.90
Recurring Income	3,631.70	4,487.10	3,142.00	6,058.40
Adjusted PBDIT	15,372.20	17,918.20	28,749.60	16,928.30
Financial Expenses	1,970.10	1,907.10	1,210.90	2,284.10
Depreciation	1,709.00	1,803.40	1,803.60	1,919.40
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	11,693.10	14,207.70	25,735.10	12,724.80
Tax Charges	3,709.20	4,292.20	7,081.00	3,704.90
Adjusted PAT	7,983.90	9,915.50	18,654.10	9,019.90
Non Recurring Items	0.00	0.00	550.00	(383.40)
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	7,983.90	9,915.50	19,204.10	8,636.50

52 Week Index Relative Percentage Appreciation



L&T vs SENSEX vs Capital Goods

Points to Ponder

L&T bagged an order in August 2011 for a large value Gas Pipeline Project on EPC basis from GASCO (a subsidiary of ADNOC – engaged in the extraction of natural gas liquids from associated and natural gas) with an execution timeline of 26 months. The project includes detailed design, engineering, procurement, construction, installation, pre-commissioning, commissioning and test run for 52"x108 km and 48"x15 km pipelines, as well as station work and eight major road crossings. In August 2012, L&T bagged another order from Petroleum Development Oman LLC valued around Rs. 1302 crore (USD 235 million). The new order involves Engineering, Procurement & Construction (EPC) of the Saih Rawl Depletion Compression phase 2 (SRDC2) project. The order was won against stiff competition from nine international EPC bidders. Petroleum Development Oman (PDO) is the leading exploration and production company in the Sultanate of Oman. It accounts for more than 70% of the country's crude oil production and nearly all of its natural gas supply.

Risks Associated

One key threat to L&T 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

L&T 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. With its superior execution capabilities and a strong organization base its 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. Over the last few years, it has built manufacturing capacities in areas of strategic significance and in low cost regions. Production at the state of the art manufacturing facilities for supercritical boilers and turbines, which were commissioned over a year ago, has been streamlined - thus enhancing productivity. This has been achieved through increased indigenisation of manufacturing processes. The company is augmenting its presence in existing international markets such as Middle East and South East Asia Regions and expanding its footprints in new geographies like Australia, CIS and select African countries. New offices have been set up at key locations such as Perth and Istanbul. 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.

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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

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