

Larsen & Toubro

₹ 1411

*Looks good Tap now!***Buy**

Oct 30, 2015

Company Background

Larsen & Toubro Limited (Larsen) 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. Larsen 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, Larsen 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 expanding to newer economies.

Key Highlights

- ➔ Larsen's capability profile is convergent with the needs of the nation. The Government's recent emphasis on developing infrastructure, creating Smart Cities and the 'Make in India' thrust opens up an exciting canvas of opportunity for the company which encompasses major segments in the economy.
- ➔ Order Inflows in the company are its level best it includes an unexecuted Order Book of Rs. 232,649 crores representing a 28% growth over the Order Book at the end of the Previous Year. The International unexecuted Orders were at Rs. 60,000 Cr at the FYE 2014-2015.
- ➔ Larsen has been trying to diversify into various markets and segments to counter the inherent risk of any recessionary phase in just infrastructure, It is also eyeing growing sectors in the Middle East, Far East and expanding its footprints in new geographies like Australia, CIS & some African countries.
- ➔ With its diverse reach, superior execution capabilities & strong organization base is well positioned to convert the emerging Indian opportunities into profitable business prospects.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	6,36,752.6	5,94,680.7	5,98,177.7
Rev. growth (%)	16.18	(6.61)	0.59
EBITDA (INR mn)	88,056.4	96,378.7	95,835.3
Net profit (INR mn)	49,102.7	54,931.3	50,561.8
Shares outstanding (mn)	615.4	926.9	929.6
EPS (INR)	79.8	59.3	54.4
EPS growth (%)	9.66	(25.73)	(8.22)
P/E (x)	11.46	21.47	31.60
RONW (%)	14.84	16.74	14.24
ROCE (%)	11.03	12.65	10.58

Nishant Chopra

nishantc@indiratrade.com

Info Codes

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

Market Data

52 Wk Range (₹)	: 1400 / 1893
Shares in Issue (mn)	: 929.6
Mkt. Cap (₹ bn)	: 1313.30
BSE 2 Wk Avg Vol	: 1029000

Share Holding Pattern (%)

Promoters	: 0.00
FII's	: 18.18
DII's	: 37.10
Others	: 44.72

Investment Theme

Larsen is among leading technology intensive custom equipment & project builder & expects to continue its growth in the time to come. It would be one of the major beneficiaries of the 3 motions launched by the Government of India i.e. Infrastructure, Smart City and the Make in India. The Company is well placed to capitalize on longterm infrastructure demand. The Indian defence sector shows good promise in the medium to long term in land and marine business segments. Defence Offset Programme & recent Gol initiatives for encouraging private sector for partnering with Defence Public Sector Undertakings provide a range of opportunities. Further RBI has also remained open about the cutting of rates. The fundamentals of the company remain excellent. We remain bullish on the company. And thus recommend to accumulate the stock in the current market prices.

Growth expected in all segments.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	5,20,268.7	5,70,066.4	9.57	5,73,893.6	0.67
Other Income	31,945.5	30,265.3	(5.26)	29,782.6	(1.59)
Change in Stocks	11,061.1	(66.00)	(100.60)	2,785.3	(4320.15)
Raw Material Con.	2,36,906.0	2,41,380.4	1.89	2,59,226.2	7.39
Employee Exp.	39,914.9	47,254.3	18.39	42,006.1	(11.11)
Indirect Taxes	7,949.7	8,561.9	7.70	8,035.3	(6.15)
Other Exp.	1,91,566.0	2,07,921.4	8.54	2,02,902.6	(2.41)
Operating Exp.	4,65,275.5	5,05,184.0	8.58	5,09,384.9	0.83
Operating Profit	54,993.2	64,882.4	17.98	64,508.7	(0.58)
Total Interest	15,356.2	14,352.1	(6.54)	17,312.7	20.63
Gross Profit	71,582.5	80,795.6	12.87	76,978.6	(4.72)
Net Dep.	7,066.8	8,116.5	14.85	9,966.4	22.79
Total Taxation	15,413.0	17,747.8	15.15	16,450.4	(7.31)
Net Profit/Loss	49,102.7	54,931.3	11.87	50,561.8	(7.95)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	3,50,976.5	3,79,567.6	4,51,015.0	5,00,056.0
Equity Share capital	1,224.8	1,230.8	1,853.8	1,859.1
Share Application Money	-	-	-	-
Preference Share Capital	-	-	-	-
Reserves & Surplus	2,50,794.0	2,89,994.5	3,34,572.0	3,68,831.0
Long Term Loans	72,920.5	80,996.8	83,955.4	86,027.6
Short Term Loans	26,037.2	7,345.5	30,633.8	43,338.3
USES OF FUNDS	3,50,976.5	3,79,567.6	4,51,015.0	5,00,056.0
Gross Block	1,05,364.4	1,19,856.3	1,16,632.1	1,22,903.6
Less : Revaluation Reserves	211.4	201.9	192.5	155.7
Less : Accumulated Depreciation	29,526.1	36,805.9	39,884.1	48,030.0
Net Block	75,626.9	82,848.5	76,555.5	74,717.9
Capital Work in Progress	7,586.8	5,968.4	5,624.1	4,940.4
Investments	1,35,118.2	1,83,682.4	2,04,230.1	2,50,397.4
Current Assets	4,86,869.9	4,78,724.9	5,22,316.5	5,64,987.6
Less : Current Liabilities	3,54,413.2	3,72,206.1	3,58,437.3	3,95,757.9
Total Net Current Assets	1,32,456.7	1,06,518.8	1,63,879.2	1,69,229.7
Misc. Expenses not writtenoff	187.9	549.5	726.1	770.6
NOTE				
Bk Val Unquoted Investments	1,02,882.2	1,40,574.9	1,49,442.5	1,81,283.5
Mkt Val. Quoted Investments	82,411.3	1,30,509.1	1,35,558.3	1,34,414.7
Contingent Liabilities	25,284.9	55,721.5	1,15,984.1	3,44,875.5
Dividend (%)	725.0	616.5	712.5	812.5

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 14	Dec 14	Mar 15	Jun 15
Net Sales	1,27,168.4	1,49,950.2	1,89,679.2	1,07,101.5
Cost Of Sales	1,13,756.4	1,34,255.8	1,64,780.1	97,355.4
Operating Profit	13,412.0	15,694.4	24,899.1	9,746.1
Other Income	6,033.3	6,218.9	7,558.5	5,534.5
Adjusted PBDIT	19,445.3	21,913.3	32,457.6	15,280.6
Financial Expenses	3,125.9	5,004.1	3,340.9	2,871.5
Depreciation	2,376.0	2,638.1	2,458.3	2,463.4
Other Write Offs	-	-	-	-
Adjusted PBT	13,943.4	14,271.1	26,658.4	9,945.7
Tax Charges	3,521.6	3,673.1	6,051.9	2,936.0
Adjusted PAT	10,421.8	10,598.0	20,606.5	7,009.7
Non Recurring Items	-	-	-	-
Other Non Cash Adjust	-	-	-	-
Net Profit	10,421.8	10,598.0	20,606.5	7,009.7

52 Week Index Relative Percentage Appreciation



Larsen vs SENSEX

Business Outlook

India remains rich with potential. With a stable government in place coupled with improving business sentiments and a rapidly emerging environment that is conducive for policy making, the future looks promising especially for the Infrastructure and Construction sector. The government has ambitious plans of awarding around 9000 Kms of road projects in both EPC and PPP modes amounting to around Rs. 75000 crore in the year. The Buildings and Factories segment is also upbeat about the Indian business scenario and with stimulated growth in Realty in view of easing out of interest rates, relaxation in FDI norms and rapid urbanization which will drive demand. The 'Make in India' initiative is expected to bolster the manufacturing industry. Modernization of Tier 1 & 2 city airports also give a boost. The Heavy Civil Infrastructure is also positive on new Nuclear Plants, Bridges, Tunnels and Hydro Projects etc. The emphasis of Government on Make in India would also bolster the demand of Power and boost the Power distribution and Green Power generation segment which will augur well for the company. This coupled with Urbanisation would also bring in the demand for water and generation of waste water for which Larsen already has demonstrated itself. The Steel segment is showing some gloom however with the rise in economy and positive steps from Government it is expected to be back on track soon. The new announced Defence Projects is expected to bring in good scope for the Heavy Engineering Business. The Technology services business is also expecting a good boost with the new Smart Cities announces where everything will rely on Heavy automation.

In a Nutshell

Larsen currently operates into the following segments. In Infrastructure Business it caters by; the Business & Factories Division which undertake EPC of Airports, IT Parks, Buildings & Institutional spaces, Stadiums, Hotels, Residential complexes, Cement plants & warehouses. The Heavy Civil & Infra Division undertakes Design & EPC of Nuclear, Hydel, Ports, Special Bridges, Tunnels etc. The Transportation Infra Division undertakes Roads, Runways & Railways Projects. The Power T & D division is a leading EPC player offering integrated solutions and end-to-end services ranging for Transmission Lines, Underground Cable Networks, Substations, Distribution Networks, Electrical & Instrumentation works. The Water Division which looks into projects related to fresh water and Waste water. The Power Business undertakes construction of coal and gas-based power plants. The Metallurgical & Material Handling Business provides EPC solutions for ferrous, non-ferrous & bulk material handling systems in the power, port, steel and mining sectors. The Heavy Engineering Segment is involved in design & EPC of custom designed critical equipment & systems to core sectors like Fertilizer, Refinery, Petrochemical, Chemical, Oil & Gas, Thermal & Nuclear Power, Aerospace and Defence. The Electrical & Automation Business offers a wide range of products and solutions for electricity distribution and control in industries, utilities, infrastructure, buildings and agriculture sectors. The Hydrocarbon Equipment Business offers EPC solutions in oil & gas, petroleum refining, chemicals & petrochemicals, fertiliser sectors. The IT Business offers wholesale, retail, specialised and customised IT products. The Technology Services Business offers development solutions throughout the entire product development chain across various industries. The Finance Holding Segment offers Loans & Investment and Wealth Management business and The Developmental Projects Business which is a major player in PPP. Need we say anything more on its growth.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : im@indiratrade.com

Administrative Office : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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