

Larsen & Toubro Ltd.**₹ 1500****The Heavy weight !!!****Buy**

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Company Background

Larsen & Toubro Limited is a technology, engineering, construction, manufacturing and financial services company. The Company's segments include Infrastructure, which is engaged in engineering and construction of building and factories; Power, which offers solutions for thermal power plants; Metallurgical & Material Handling, which consists of solutions for ferrous and non-ferrous metal industries; Heavy Engineering, which manufactures and supplies custom designed, engineered critical equipment and systems; Electrical & Automation, which manufactures and sells control and automation products; Hydrocarbon, which is engaged in engineering, procurement and construction solutions for the oil and gas industry; IT & Technology Services, which includes information technology; Financial Services, which includes retail and corporate finance; Developmental projects, which develops, operates & maintains basic infrastructure projects, and Others, which include realty and shipbuilding.

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.
- ➔ While consolidated revenue growth was muted at 1.4% YoY during Q3FY17, EBIDTA margin expanded 140 bps to 9.6% YoY driven by margin improvement in Infra (110 bps YoY), Heavy Engg. (1880 bps YoY) & Hydrocarbon businesses (630 bps YoY). Order backlog, remains healthy at INR 2.6 tn. The management is eyeing an order inflow of INR 800 billion for Q4FY17E.
- ➔ 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 14	Mar 15	Mar 16
Revenue (INR mn)	5,96,332.4	6,01,986.0	6,33,812.5
Rev. growth (%)	9.67	0.95	5.29
EBITDA (INR mn)	82,420.9	92,686.5	92,888.4
Net profit (INR mn)	54,931.3	50,561.8	53,114.6
Shares outstanding (mn)	926.9	929.6	931.5
EPS (INR)	58.4	53.0	55.5
EPS growth (%)	(25.48)	(9.36)	4.83
P/E (x)	21.78	32.46	21.91
RONW (%)	15.55	12.61	11.93
ROCE (%)	18.20	15.61	14.14

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Info Codes

Reuters	: LART.NS
Bloomberg	: LT:IN
NSE	: LT
BSE	: 500510

Market Data

52 Wk Range (₹)	: 1017 / 1615
Shares in Issue (mn)	: 931.5
Mkt. Cap (₹ bn)	: 1400.48
BSE 2 Wk Avg Vol	: 82000

Share Holding Pattern (%)

Promoters Holding	: 00.00
Corporate Holding	: 06.63
Domestic Institution	: 38.42
Foreign Institution	: 20.21
Public & Others	: 34.74

Investment Theme

L&T is a technology, engineering, construction & manufacturing company, the largest and most respected in India's private sector. More than 7 decades of a strong, customer-focused approach and the continuous quest for world-class quality have enabled it attain leadership in all its major lines of business. It 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. L&T's businesses are supported by a wide 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.

The Biggest & the Best !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	5,65,989.2	5,70,174.1	0.7	5,97,796.1	4.8
Other Income	24,693.9	26,405.3	6.9	29,662.5	12.3
Change in Stocks	(1,100.3)	2,156.1	(296.0)	(1,149.8)	(153.3)
Raw Material Con.	2,40,317.5	2,52,203.7	4.9	2,63,309.0	4.4
Employee Exp.	46,569.0	41,624.6	(10.6)	44,802.0	7.6
Indirect Taxes	5,649.3	5,406.6	(4.3)	6,353.9	17.5
Other Exp.	2,04,360.5	2,06,612.2	1.1	2,18,645.1	5.8
Operating Exp.	4,96,896.3	5,05,847.1	1.8	5,33,110.0	5.4
Operating Profit	92,686.5	92,888.4	0.2	93,198.8	0.3
Total Interest	12,083.2	15,794.7	30.7	16,318.9	3.3
Gross Profit	80,603.3	77,093.7	(4.4)	76,879.9	(0.3)
Net Dep.	7,924.2	10,081.5	27.2	9,988.8	(0.9)
Total Taxation	17,747.8	16,450.4	(7.3)	13,776.5	(16.3)
Net Profit/Loss	54,931.3	50,561.8	(8.0)	53,114.6	5.0

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	3,87,648.8	4,55,139.3	5,04,856.2	5,48,493.9
Equity Share capital	1,230.8	1,853.8	1,859.1	1,863.0
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	2,90,196.4	3,34,764.5	3,68,986.7	4,05,320.3
Secured Loans	12,340.1	13,072.3	6,640.4	5,205.4
Unsecured Loans	83,881.5	1,05,448.7	1,27,370.0	1,36,105.2
USES OF FUNDS	3,87,648.8	4,55,139.3	5,04,856.2	5,48,493.9
Gross Block	1,19,857.3	1,16,632.1	1,22,903.6	1,28,875.3
Less : Revaluation Reserves	69.3	69.3	69.3	69.3
Less : Accumulated Depreciation	36,705.9	39,784.1	47,930.0	56,185.4
Net Block	83,082.1	76,778.7	74,904.3	72,620.6
Capital Work in Progress	5,937.7	5,593.4	4,909.7	4,065.3
Investments	1,61,033.9	1,92,146.4	2,30,529.0	2,45,689.2
Current Assets	4,36,672.7	4,70,683.8	5,19,027.6	6,16,125.8
Less : Current Liabilities	3,34,169.3	3,23,807.3	3,60,551.5	4,20,169.5
otal Net Current Assets	1,02,503.4	1,46,876.5	1,58,476.1	1,95,956.3
Misc. Expenses not writtenoff	35,091.7	33,744.3	36,037.1	30,162.5
NOTE				
Book Value of Unquoted Investments	0.0	0.0	0.0	0.0
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	51,444.9	1,45,011.6	1,98,225.5	1,79,496.5
Dividend (%)	925.0	712.5	812.5	912.5

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 15	Mar 16	Jun 16	Sep 16
Net Sales	2,08,407.4	1,19,727.1	1,45,894.4	1,57,691.9
Cost Of Sales	1,79,454.6	1,12,357.1	1,36,177.6	1,45,940.5
Operating Profit	28,952.8	7,370.0	9,716.8	11,751.4
Other Income	9,572.4	6,597.2	26,664.7	6,757.5
Adjusted PBDIT	38,525.2	13,967.2	36,381.5	18,508.9
Financial Expenses	3,972.7	3,311.1	3,603.3	3,573.4
Depreciation	2,545.3	2,793.2	2,729.3	2,666.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	32,007.2	7,862.9	30,048.9	12,269.0
Tax Charges	6,615.8	2,395.5	2,861.5	2,927.2
Reported Profit	25,391.4	5,467.4	27,187.4	9,341.8
Extra Ordinary Items	(613.2)	(347.7)	17,236.4	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	26,004.6	5,815.1	9,951.0	9,341.8

52 Week Index Relative Percentage Appreciation



LNT 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

LNT 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 & 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.

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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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