

Larsen & Toubro Ltd.**₹1398*****Vision for Better Building...!!! Accumulate***

Dec 07, 2018

Company Background

Larsen & Toubro Ltd was incorporated in the year 1946 as a private limited company. Earlier, it was established as a partnership firm founded by two Danish engineers Henning Holk Larsen with Soren Kristian Toubro in Mumbai. In December 1950, the company became a Public Company with a paid-up capital of ₹ 2 million. L & T is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. The company operates mainly in three segments; Engineering & Construction, Electrical & Electronic, Machinery & Industrial Products and others. Company's Engineering, Construction & Contracts Division (ECCD) undertakes engineering, design and construction of infrastructure, buildings, factories, water supply, and metallurgical & material handling projects covering civil, mechanical, electrical and instrumentation engineering disciplines. L&T has an international presence, with a global spread of offices. It continues to grow its overseas manufacturing footprint, with facilities in China and the Gulf region. The company's businesses are supported by a wide marketing and distribution network, and have established a reputation for strong customer support.

Key Highlights

- ➔ Consolidated order book of the group stood at ₹ 2,70,727 crore on end of 2017. The international order book constituted 25% of the total order book.
- ➔ Company's construct of highways hit 27 km per day in FY18, registering a 20% growth over the 22.5 km per day in the previous fiscal year.
- ➔ Company has three major business activities like; Construction of Utility Projects, Construction of Roads & Railways and Construction of Buildings were generated revenues 38.42%, 26.59% and 16.22% respectively for FY18.
- ➔ During the year, major projects commissioned were Kochi, Lucknow, Hyderabad and Chennai Metros. At present, company is executing 12 projects across 9 cities in 4 countries, including the Riyadh & Doha Metros.
- ➔ Company's Financial Services perform well, representing a strong Y-o-Y growth of 26% in FY18. Its growth momentum continues in both lending and investment management.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	6,67,139.7	7,01,531.2	7,72,217.5
Rev. growth (%)	10.82	5.16	10.08
EBITDA (INR mn)	89,393.4	93,472.9	98,276.3
Net profit (INR mn)	49,995.8	54,537.4	53,873.0
Shares outstanding (mn)	931.5	933.0	1,401.4
EPS (INR)	53.7	58.5	38.4
EPS growth (%)	1.36	8.92	(34.25)
P/E (x)	15.11	17.99	34.13
RONW (%)	11.11	10.81	11.32
ROCE (%)	13.36	12.70	14.95

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Info Codes

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

Market Data

52 Wk Range (₹)	: 1176/1470
Shares in Issue (mn)	: 1,401.4
Market. Cap (bn)	: 1961
BSE 2 Wk Avg Vol	: 1,68,000

Share Holding Pattern (%)

Promoters Holding	: 00.00
Public & Others	: 34.13
Corporate Holding	: 06.53
Foreign Institution	: 21.42
Institutions	: 37.68
Govt Holding	: 00.24

Investment Theme

During the FY18, company registered a 7% growth in fresh order inflows of ₹ 1,52,908 crores over the previous year orders. The unexecuted order book at the end of FY18 stands at ₹ 2,63,107 crores which will provides good revenue in FY19. Execution was impacted in FY18 due to disruptions caused by implementation of GST as well as bottlenecks in some projects due to delayed customer payments, delayed clearances and land acquisition/right of way issue. Company clocked revenues of ₹ 1,19,862 crores on consolidated basis. The revenues improved by 8.95% for FY18 on YoY basis. Consolidated PAT also improved by 22% for FY18 as compare to the previous year. The Indian Government is thrust on develop infrastructure, will generate more orders in the future as well, these orders will improve top & bottom line numbers.

Enhancing the Future...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	6,31,772.6	6,57,238.6	4.0	7,44,625.5	13.3
Other Income	29,013.2	38,517.7	32.8	26,101.0	(32.2)
Change in Stocks	(765.7)	(1,315.9)	71.9	9,623.6	(831.3)
Fuel Charges	2,73,317.0	2,72,547.2	(0.3)	3,16,267.3	16.0
Employee Exp.	49,748.0	51,473.8	3.5	57,135.9	11.0
Indirect Taxes	6,353.9	5,774.9	(9.1)	1,491.0	(74.2)
Other Exp.	2,41,207.8	2,71,171.6	12.4	3,07,179.6	13.3
Operating Exp.	5,70,626.7	6,00,967.5	5.3	6,82,073.8	13.5
Operating Profit	89,393.4	93,472.9	4.6	98,276.3	5.1
Total Interest	16,863.2	13,742.6	(18.5)	15,157.9	10.3
Gross Profit	72,530.2	79,730.3	9.9	83,118.4	4.2
Net Dep.	9,974.0	12,151.9	21.8	10,494.6	(13.6)
Total Taxation	12,560.4	13,041.0	3.8	18,750.8	43.8
Net Profit/Loss	49,995.8	54,537.4	9.1	53,873.0	(1.2)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	5,04,856.2	5,65,095.7	5,71,342.2	6,03,180.3
Equity Share capital	1,859.1	1,863.0	1,865.9	2,802.7
Equity Application Money	0.0	0.0	1,532.0	1,567.6
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	3,68,986.7	4,19,490.1	4,56,729.5	4,87,372.2
Secured Loans	6,640.4	8,224.0	8,481.3	5,251.7
Unsecured Loans	1,27,370.0	1,35,518.6	1,02,733.5	1,06,186.1
USES OF FUNDS	5,04,856.2	5,65,095.7	5,71,342.2	6,03,180.3
Gross Block	1,22,903.6	83,689.5	94,092.3	1,02,825.2
Less : Revaluation Reserves	69.3	0.0	1,030.0	1,025.1
Less : Accumulated Depreciation	47,930.0	11,004.8	22,616.4	32,394.8
Net Block	74,904.3	72,684.7	70,445.9	69,405.3
Capital Work in Progress	4,909.7	4,121.3	5,037.8	6,528.7
Investments	2,30,529.0	2,44,380.8	2,67,588.9	2,73,392.4
Current Assets	5,19,027.6	6,22,878.2	6,31,173.9	7,52,250.9
Less : Current Liabilities	3,60,551.5	4,31,113.8	4,51,042.2	5,52,919.9
Total Net Current Assets	1,58,476.1	1,91,764.4	1,80,131.7	1,99,331.0
Misc. Expenses not writtenoff	36,037.1	52,144.5	48,137.9	54,522.9
NOTE				
Book Value of Unquoted Investments	1,91,824.8	2,08,468.6	2,22,773.6	1,94,680.3
Market Value of Quoted Investments	1,04,038.5	95,916.3	3,38,348.6	5,38,119.6
Contingent Liabilities	1,98,225.5	3,01,847.8	4,06,619.8	4,46,134.6
Dividend (%)	812.5	912.5	700.0	800.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	1,77,179.8	2,69,417.4	1,51,736.9	1,86,487.6
Cost Of Sales	1,60,437.9	2,34,822.0	1,39,354.2	1,69,897.6
Operating Profit	16,741.9	34,595.4	12,382.7	16,590.0
Other Income	5,031.1	5,734.2	5,495.4	12,205.8
Adjusted PBDIT	21,773.0	40,329.6	17,878.1	28,795.8
Financial Expenses	3,321.8	3,736.0	3,469.6	3,697.4
Depreciation	2,649.8	2,665.1	2,542.5	2,595.3
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	15,801.4	33,928.5	11,866.0	22,503.1
Tax Charges	3,581.9	9,476.3	2,748.0	4,966.0
Reported Profit	12,219.5	24,452.2	9,118.0	17,537.1
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	12,219.5	24,452.2	9,118.0	17,537.1

52 Week Index Relative Percentage Appreciation



Larsen & Toubro vs SENSEX

Risks Associated

- ➔ It partners with different contractors like; Joint Venture/consortium projects across businesses based on technical requirements/local market conditions. The partner's performance & financial strength are crucial for project success.
- ➔ Working Capital Challenges: Project delays and adverse contractual payment terms sometimes lead to increased working capital requirements. To improve the working capital levels, the company regularly follow-up the clients who were delay in payment.
- ➔ Company is facing some geopolitical tensions like; unexpected political changes in some of the developed countries and conflicts in the Middle East.

Scope of Growth

- ➔ Government has also been focusing on developing core infrastructure in rural areas; mainly focused on roads, power availability to rural households through intensive electrification, this will improve the growth of the sector as well as L&T.
- ➔ Company is planning to reducing its dependence on business from the Middle East and is focusing on expanding business in East & North Africa Region as well as East Asian countries.
- ➔ In the last 5 years, the average length of road projects awarded by NHAI to a company was 2,860 km compared to 7,400 km in FY18. The National Highway Network will be expanded from 96,000 km to 2,00,000 km over the next 5 years. There will be chances to get more orders to the company.
- ➔ L&T is a pioneer in the Indian Nuclear industry with current market share of over 51%. Its nuclear power expertise extends to both Pressurized Heavy water & Light Water Reactor technologies. Currently, the business is executing civil works for the Kudankulam Nuclear power project, which is the first LWR reactor in India and also one of the largest.

In a Nutshell

Larsen & Toubro is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. The company operates mainly in three segments; Engineering & Construction, Electrical & Electronic, Machinery & Industrial Products and others. Its revenues contributions by different segments were like; Infrastructure 49%, Power 5%, Heavy Engineering 3%, Electrical & Automation 4%, Hydrocarbon 10%, IT & Technology services 9%, financial services 9%, Developmental projects 4% and the others by 7% for FY18. Total revenue generated on a consolidated basis by all the segment was ₹1,19,862 crore for FY18, grew by 8.95% on previous year revenue. For FY18 orders were grew by 7% to ₹1,52,908 crore as compared to the previous year. The Government of India has sanctioned ₹ 5,97,000 crore for infrastuture development during the FY19 budget. Which is 21% more than the previous year. The growth of allocation is indicating the Government's view on infrastructure development. During the year some key projects were commissioned; like Metro Rail in Hyderabad, Convention centre in West Bengal, Medical colleges for Odisha Government, Kannur Airport and Asain paints premises in Mysore. Recently, L&T's buildings & factories business has bagged an order worth ₹3,036 crore from Bangalore International Airport Ltd to construct Terminal-2 of the Kempegowda International Airport, Bengaluru. The scope of work includes design, engineering, procurement, construction, testing and commissioning of T2, including integration of services and utilities, along with the airport's systems, support facilities and buildings. Company has lot of unexecuted orders during the year, these projects will generate revenue for FY19.

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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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