

June 22, 2016

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Larsen & Toubro Ltd (L&T) is one of the India's largest engineering and construction (E&C) company. In FY16, international operations contributed 32% to the total revenues of the company. L&T has manufacturing facilities in India, China, Oman and Saudi Arabia. Further, it has presence in IT & financial services sectors. The company operates in over 30 countries around the world.

Key Developments

Major segments of the company:

L&T operates in a wide range of verticals, namely – infrastructure, power, hydrocarbon, heavy engineering, electrical & automation (E&A), metallurgical & material handling, information technology and technology services (IT&TS), financial services, etc. Majority of the revenues (~47%) come from the infrastructure segment.

Order book position of L&T:

The company had a consolidated order book of Rs. 2,500 bn at the end of FY16, higher by 7% on a YoY basis. International order book constituted 28% of the total order book. The order inflows for the year were down ~12% YoY.

Balance sheet stabilizing:

Higher net working capital requirements in FY15 became a key concern. Owing to difficult environment, working capital rose to 25% of sales in FY15. However, in FY16 it has become stable and stood at 24%. Further, on a consolidated basis, Net D/E ratio has remained flat.

Infrastructure segment: the key vertical for L&T

L&T's infrastructure vertical is the major revenue driver for the company. The segment (contributed 47% to the total revenues in FY16) operates in the key areas of (a) Buildings & Factories, (b) Transport Infra (Road, Rail), (c) Heavy Civil Infra (Metro, DFCC, Nuclear), (d) T&D and (e) Water/Renewables.

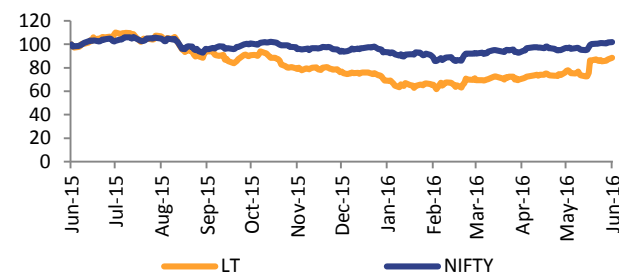
Market Data

CMP (Rs.)	1,495
Face Value	2.0
52 week H/L (Rs.)	1,888/1,016
Adj. all time High (Rs.)	1,894
Decline from 52WH (%)	20.8
Rise from 52WL (%)	47.1
Beta	1.8
Mkt. Cap (Rs.Cr)	139,241
Enterprise Value(Rs. Cr)	236,858

Fiscal Year Ended

	FY14	FY15	FY16
Total revenue (Rs.cr)	85,128	92,005	102,632
Adj. Profit (Rs.cr)	4,547	4,417	4,732
Share Capital (Rs.Cr)	185	186	186
EPS (Rs.)	49.1	47.5	50.8
P/E (x)	30.8	31.8	29.7
P/BV (x)	3.7	3.4	3.2
ROE (%)	12.7	11.2	11.1

One year Price Chart



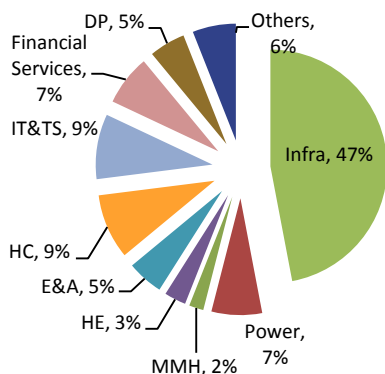
Shareholding	Mar16	Dec15	Diff.
Promoters (%)	-	-	-
Public (%)	55.6	56.0	(0.4)
Others (%)	44.4	44.0	0.4

L&T is India's largest E&C company with more than seven decades of history.

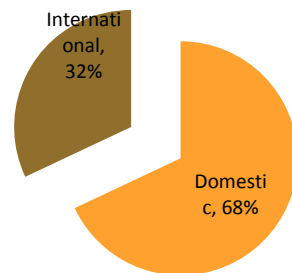
Larsen and Toubro Ltd: Business overview

Larsen & Toubro Ltd. (L&T) is India's largest engineering and construction (E&C) company. Further, it has presence in IT & financial services sectors. L&T has established its presence in all the growing segments of the Indian Infrastructure space. It has presence in the EPC space via the parent company (which has a massive order book of Rs. 2,500 bn as on 31st March, 2016) and as a developer via IDPL (Infrastructure Development Projects Limited), which has a portfolio of assets spread across roads, ports, metros and airports).

Segment wise Revenue Breakup

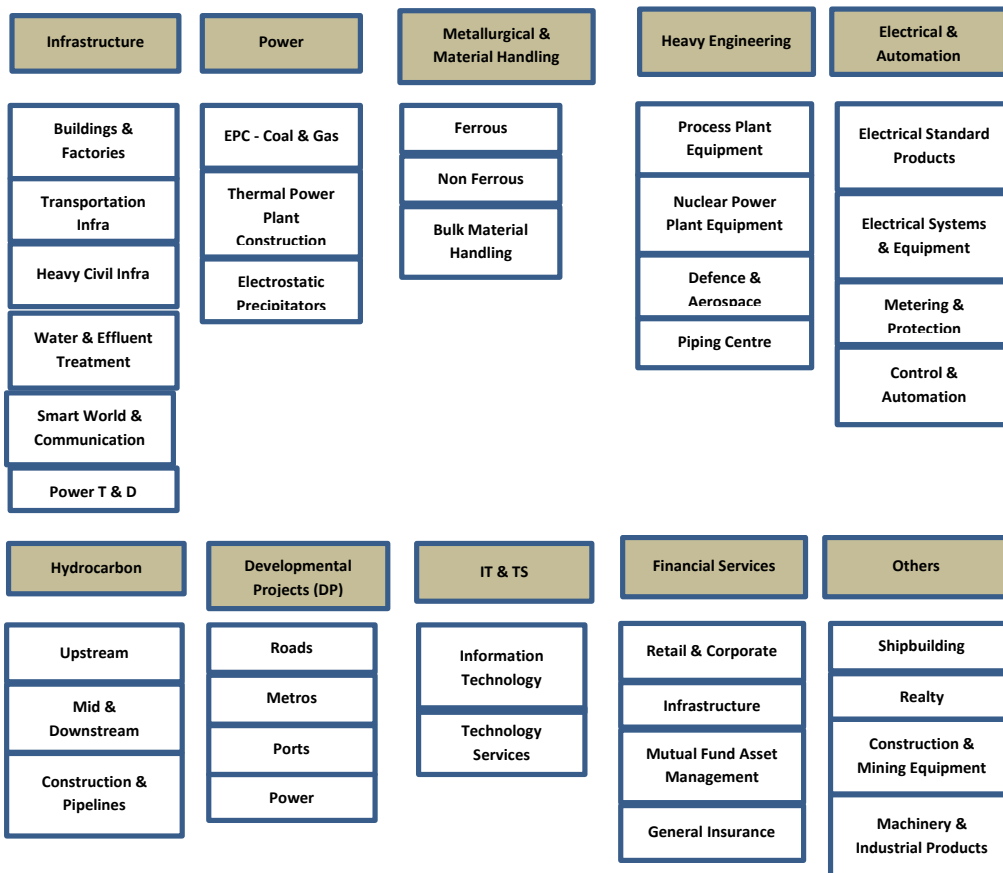


Geography wise Revenue Breakup



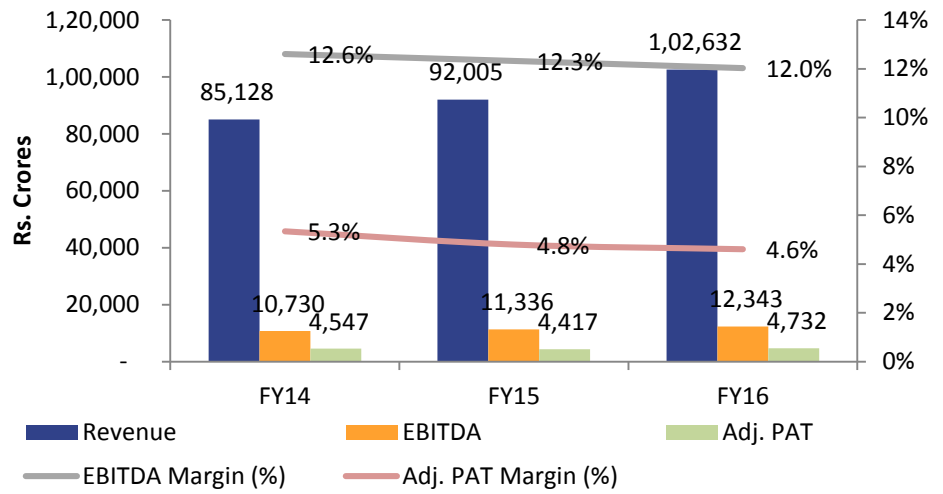
Infrastructure segment contributes 47% to the total revenues of L&T.

Segment Composition

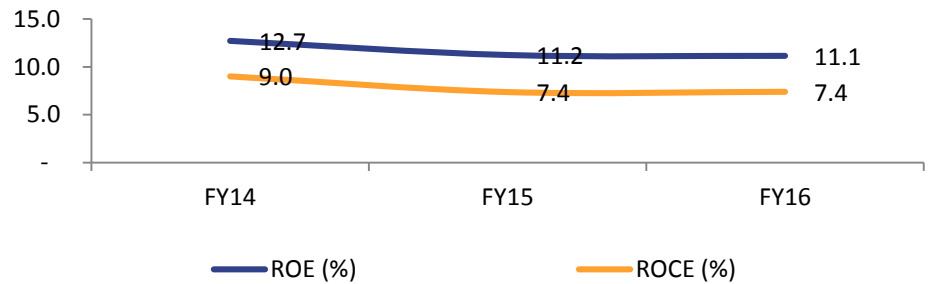


Source: Company, In-house research

Financial snapshot of L&T



Return Ratios Trend



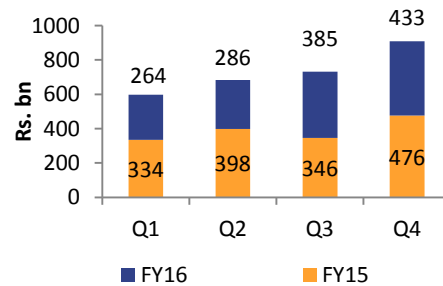
Source: Company, In-house research

L&T's order book position

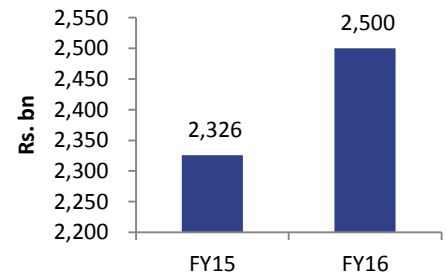
The company had a consolidated order book of Rs. 2,500 bn at the end of FY16, higher by 7% on a YoY basis. International order book constituted 28% of the total order book. The order inflows for the year were down ~12% YoY.

Order book of the company stood at Rs. 2,500 bn as at 31st March, 2016.

Order Inflows

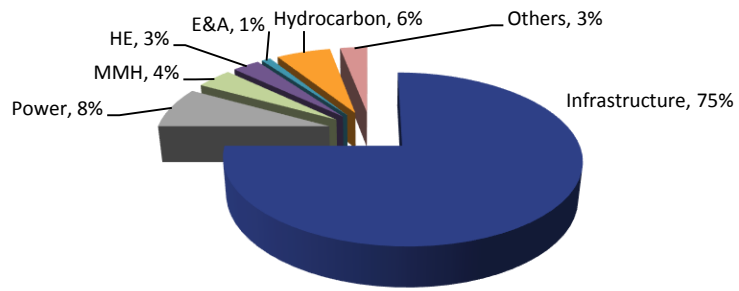


Order book position



Source: Company, In-house research

Segmental break-up of orders



Source: Company, In-house research

Infrastructure segment of the company

L&T's infrastructure vertical is the major revenue driver for the company. The segment (contributed 47% to the total revenues in FY16) operates in the key areas of (a) Buildings & Factories, (b) Transport Infra (Road, Rail), (c) Heavy Civil Infra (Metro, DFCC, Nuclear), (d) T&D and (e) Water/Renewables.

During Q4FY16, the infrastructure segment recorded order inflow of Rs. 29,103 crores registering a moderate growth of 3% over the corresponding quarter of the previous year.

For the year FY16, the segment secured fresh orders of Rs. 84,817 crores mainly contributed by Building & Factories, Power Transmission & Distribution and Transportation Infrastructure business. International orders at Rs. 24,199 crores constituted 29% of the total order inflow of the segment during the year.

Balance Sheet stabilizing

Higher working capital requirements in FY15 became a key concern. Owing to challenging business environment, working capital rose to 25% of sales in FY15. However, in FY16 it has become stable and stood at 24%. Management reiterated sustained focus on improving working capital (100 bps achieved in FY16). Further, on a consolidated basis, Net D/E ratio remained flat.

Few instances of monetisation done in last 2 years

Stake sold in	Consideration (Rs cr)
L&T Infocity	1,91
Casting Manufacturing Unit (Foundry Unit)	1,63
Kattupalli Port	2,000
Dhamra Port	1,450
L&T Finance OFS	3,88.5
L&T's Chandigarh realty project	1,785

Source: Company, In-house research

Working capital stabilized to 24% of sales in FY16 from 25% of sales during FY15.

Balance Sheet (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	185	186	186
Reserve and surplus	37,526	40,723	43,805
Net Worth	37,712	40,909	43,992
Minority Interest	3,179	4,999	6,769
Total Debt	83,812	93,604	101,307
Other non-current liabilities	1,398	1,847	13,244
Total Equity & Liabilities	126,101	141,358	165,311
Net Fixed Assets	40,275	42,626	52,100
Capital WIP	4,165	5,420	6,500
Goodwill	2,136	2,215	2,172
Investments	8,109	9,612	10,080
Net current assets	36,129	34,738	35,547
Deferred tax assets (net)	(337)	185	392
Other non-current assets	35,625	46,561	58,521
Total Assets	126,101	141,358	165,311

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14	FY15	FY16
Net profit/loss before tax& extraordinary items	7,128	6,870	8,084
Net cashflow from operating activities	(7,143)	(669)	8,717
Net cash used in investing activities	(5,510)	(5,463)	(12,594)
Net cash used from financing activities	13,136	7,891	4,022
Net inc/dec in cash and cash equivalents	483	1,759	145

Financial performance snapshot

Net sales of the company stood at Rs. 102,632 Crores in FY16, a growth of 11.6% as compared to Rs. 92,005 Crores in FY15. The operating expenses of the company increased by 11.9% YoY to Rs. 90,289 Crores from Rs. 80,669 Crores during the year. The company's EBITDA grew by 8.9% YoY to Rs. 12,343 Crores in FY16 from Rs. 11,336 Crores in FY15. EBITDA margins contracted by 29 bps to 12.0% in FY16 from 12.3% in FY15. Adjusted profit increased by 7.1% to Rs. 4,732 Crores in FY16 from Rs. 4,417 Crores in FY15. The Adj. NPM contracted by 19 bps to 4.6% from 4.8% during the above period.

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Net revenue	85,128	92,005	102,632
Expenses	74,399	80,669	90,289
EBITDA	10,730	11,336	12,343
Depreciation	1,446	2,623	2,756
EBIT	9,284	8,713	9,587
Interest cost	3,138	2,851	3,041
Other Income	982	1,007	1,183
Profit Before Tax	7,128	6,870	7,729
Tax	2,628	2,284	2,549
Profit After Tax	4,499	4,586	5,180
Minority Interest	(38)	171	445
P/L from Associates	9	2	(3)
Adjusted PAT	4,547	4,417	4,732
E/o expense / (income)	355	348	358
Reported Profit	4,902	4,765	5,091

Key Ratios (Consolidated)

	FY14	FY15	FY16
EBITDA Margin (%)	12.6	12.3	12.0
EBIT Margin (%)	10.9	9.5	9.3
NPM (%)	5.3	4.8	4.6
ROCE (%)	9.0	7.4	7.4
ROE (%)	12.7	11.2	11.1
EPS (Rs.)	49.1	47.5	50.8
P/E (x)	30.8	31.8	29.7
BVPS(Rs.)	406.9	440.1	472.3
P/BVPS (x)	3.7	3.4	3.2
EV/EBITDA (x)	20.8	20.6	19.7



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