



Larsen & Toubro

BSE SENSEX	S&P CNX	CMP: INR1,278	TP: INR1,380	Buy
16,786	5,050			
Bloomberg	LT IN			
Equity Shares (m)	608.9			
52-Week Range (INR)	1,933/971			
1,6,12 Rel. Perf. (%)	20/-19/-11			
M.Cap. (INR b)	778.1			
M.Cap. (USD b)	15.5			

* Consolidated; EPS is fully diluted

- 3QFY12 results better than expectations; forex loss of INR4b impacts margins:** L&T reported revenue of INR140b (up 23% YoY) for 3QFY12, higher than our estimate of INR136b. EBITDA margin was 9.6%, down 125bp YoY, in line with our estimate of 9.8%. However, margins were impacted to extent of 280bp by forex loss of INR4b. Adjusting for this, EBITDA margin was 12.5%, up 170bp YoY. Net profit was INR9.9b (up 23% YoY), significantly above our estimate of INR8b, partly boosted by higher than expected other income. Adjusted for MTM forex loss of INR2b on overseas loans (total: INR4b), PAT growth was an impressive 40% YoY. Among the segments, E&C revenue grew 25% YoY while EBIT margin declined 36bp YoY (down 36bp QoQ as well). Margins were partly impacted by forex loss of INR4b.
- Order intake up 28% YoY on low base; 5% growth guidance maintained:** Order inflow grew 28% YoY to INR171b during quarter due to strong growth in the infrastructure sector. Order intake in the power sector declined 40% YoY, while infrastructure sector orders grew 39% YoY. The oil & gas segment witnessed healthy traction too. Order book stands at INR1,457b, up 27% YoY and 3% QoQ. BTB stands at 3x TTM revenue. Slow moving orders increased to 10-12% of the order book v/s 5-6% at the beginning of the year and 8-10% in 2QFY12. During the quarter, L&T included a gas-based power EPC (3x360MW order from PPN Power of Apollo Group), valued at INR14b, in the list of slow moving orders.
- Valuation and view:** L&T has maintained a healthy pace of growth despite a challenging environment and will be one of the best placed companies to capitalize on any pick-up in infrastructure investments. The stock trades at 15x FY13E earnings, at a significant discount to LPA. Current valuations factor in possibilities of margin downgrades and negative financial leverage. We maintain **Buy** with an SOTP-based target price of INR1,380.

Quarterly Performance (Standalone)									(INR Million)	
Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	78,312	93,308	114,131	153,842	94,826	112,452	139,986	188,857	439,049	536,121
Change (%)	6.4	18.6	41.4	15.0	21.1	20.5	22.7	22.8	19.7	22.1
EBITDA	10,050	10,057	12,379	23,409	11,265	11,741	15,431	23,249	55,985	61,686
Change (%)	20.8	20.1	22.9	14.1	12.1	16.7	24.7	-0.7	21.9	10.2
Margin (%)	12.8	10.8	10.8	15.2	11.9	10.4	11.0	12.3	12.8	11.5
Adjusted EBITDA	10,050	10,657	12,379	23,409	11,265	11,741	15,431	23,249	55,985	61,686
Adjusted Margin (%)	12.8	11.4	10.8	15.2	11.9	10.4	11.0	12.3	12.8	11.5
Depreciation	1,142	1,212	1,281	2,358	1,679	1,709	1,803	1,734	6,003	6,925
Interest	1,292	1,932	1,757	1,362	1,613	1,970	1,907	2,203	6,474	7,693
Other Income	2,156	3,822	2,472	3,698	2,962	3,632	4,487	3,614	9,259	14,695
Extraordinary Inc/(Exp)	0	708	353	2,268	0	0	-2,000	2,000	2,820	0
Reported PBT	9,773	11,444	12,166	25,656	10,935	11,693	14,208	24,926	55,588	61,762
Tax	3,112	3,794	3,760	8,793	3,474	3,709	4,292	8,910	19,459	20,385
Effective Tax Rate (%)	31.8	33.2	30.9	34.3	31.8	31.7	30.2	35.7	35.0	33.0
Reported PAT	6,662	7,650	8,405	16,863	7,461	7,984	9,916	16,016	36,129	41,377
Adjusted PAT	6,662	6,941	8,052	15,275	7,461	7,984	11,276	14,656	36,761	41,377
Change (%)	15.2	25.5	31.9	14.2	12.0	15.0	40.0	-4.1	16.1	12.6

E: MOSL Estimates, MTM Forex loss in 3QFY12 of INR2b

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3QFY12 better than estimates; Other income boosts PAT

- **L&T reported 3QFY12 revenue of INR140b (up 23% YoY)** v/s our estimate of INR136b (up 20% YoY). The company has delivered growth of 20% + in revenues in all three quarters of FY12, despite execution challenges.
- **PAT grew 23% YoY to INR9.9b** (v/s est INR8b) due to higher than expected other income. Other income, at INR4.5b, up 82% YoY, was higher than our estimate of INR2.5b on account of higher dividend income from subsidiaries. Subsidiaries (mainly L&T Infotech and L&T Infocity) paid dividend of INR2.2b during the quarter, almost equal to whole of FY11 (INR2.3b).
- **EBITDA margin contracted 125bp YoY to 9.6% (impacted by 280bps due to forex losses)**, 20bp lower than our expectations. RM and construction cost was at 71.2% of sales - down 175bp YoY but up 427bp QoQ. This is because subcontracting charges declined 392bp YoY, but went up 530bp QoQ. Staff cost increased 35bp YoY while SG&A cost went up by 58bp YoY. SG&A included INR4b of forex loss. Adjusting for that, SG&A declined sharply during the quarter. Staff cost has increased in recent quarters due to increase in employee base by 6,000 (up 15% YoY) and revision of compensation structure towards the end of the last financial year.
- **E&C segment revenue grew 25% YoY while EBIT margin declined 36bp YoY** (down 36bp QoQ as well). Electrical business revenue grew moderately by 6% YoY in 3QFY12. EBIT margin for Electrical business remains under pressure, down 242bp YoY (flat QoQ). Machinery and Industrial Products (MIP) revenue grew 6% YoY due to slower mining activity and lower industrial off-take while EBIT margin contracted by 81bp YoY but expanded 240bp.

Order intake grew 28% YoY on low base; 5% growth guidance maintained

- **Order inflow increased 28% YoY** to INR171b during quarter due to strong growth in the infrastructure sector. In the domestic market, E&C orders rose 20% YoY, while orders in exports grew 4x on a smaller base. Order intake in power sector declined 40% YoY, while infrastructure sector orders grew 39% YoY. Oil & Gas segment witnessed healthy traction too.
- **Order book stands at INR1,457b, up 27% YoY** and 3% QoQ. BTB stands at 3x TTM revenue.
- **Quantum of slow moving orders increased to 10-12% of the order book** v/s 5-6% at the beginning of year and 8-10% in 2QFY12. During the quarter, the company included a gas based power EPC (3X360MW order from PPN Power of Apollo Group), valued at INR14b, in the list of slow moving orders.

Net working capital rises to 13% of sales against 8% of sales YoY

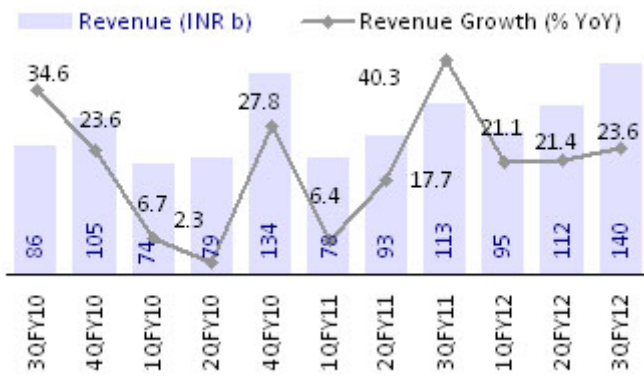
- **NWC increased to 13% of revenues** in 3QFY12 from 7.9% in 2Q. Expect NWC of 13-15% in long term. This led to negative operating cash flows during the quarter and increased borrowing. Gross debt on book rose to INR95b from INR86b as at 2QFY12.
- **Cash in hand stands at INR7.7b**, down from INR17b in March 2011.

Segmental orders inflows (INR b)

	9MFY12	9MFY11	YoY (%)	3QFY12	3QFY11	YoY (%)
Infra	222	168	32	93	67	39
Power	104	213	-51	26	43	-39
Hydro carbon	69	30	133	11	1	1281
Process	54	40	37	22	7	212
Others	44	45	0	19	16	19
Total	494	495	0	171	134	28

Source: Company/MOSL

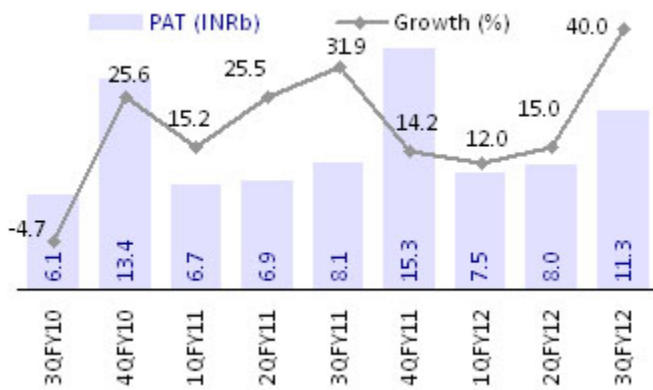
Healthy execution drives 23% revenue Growth



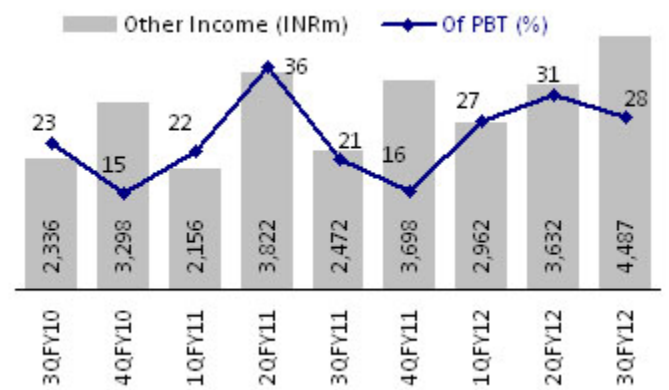
EBITDA margin impacted by INR4b forex loss



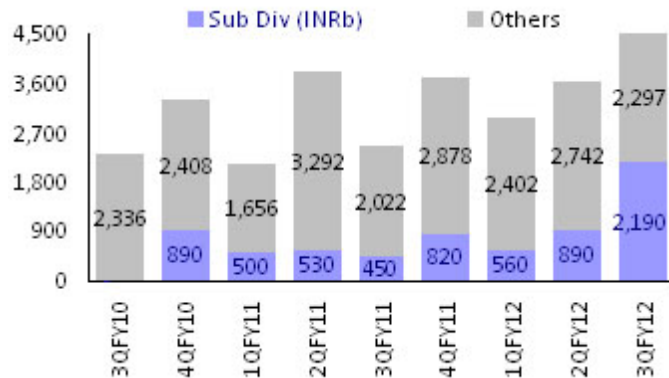
PAT growth at 23% in 3QFY12



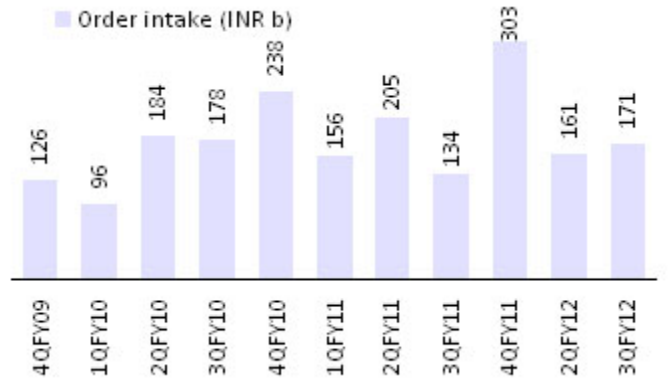
Other income a major contributor to PAT growth



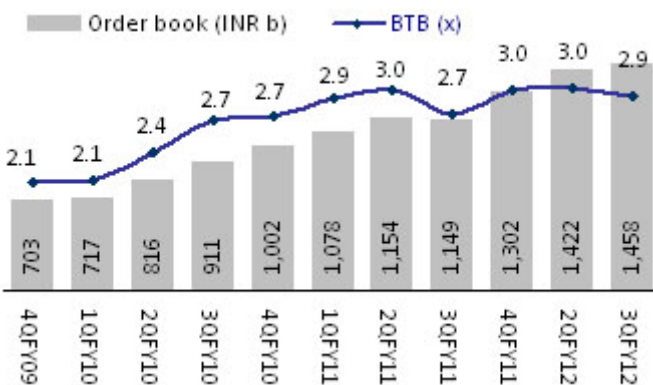
Dividend income from subs boost other income



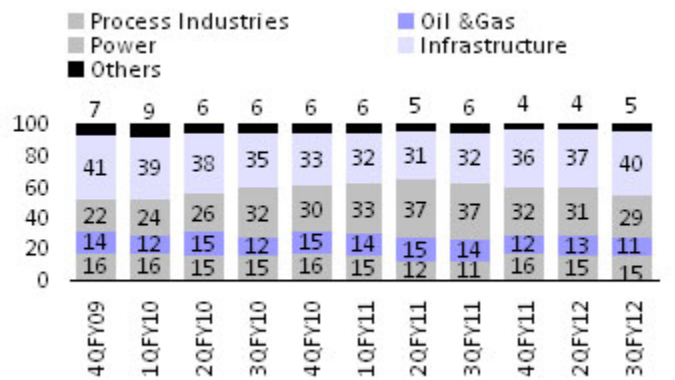
Healthy 28% YoY growth in order intake in 3QFY12



Order book to bill (BTB x) at 3x TTM



Segmental order-book mix



Source: Company/MOSL

Segmental Details (INR m)

	FY11				FY12			FY11	% YoY *
	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Revenues									
Engineering & Construcion	65,961	80,150	100,041	136,643	80,994	97,213	124,654	382,187	25
Electrical & Electronics	7,421	6,724	7,950	10,014	7,462	8,474	8,426	32,139	6
Machinery & Industrial	5,467	6,981	6,807	8,661	6,904	6,780	7,198	27,931	6
Others	1,201	1,597	1,681	2,105	1,989	2,221	2,670	6,604	59
EBIT									
Engineering & Construcion	8,167	9,002	10,647	19,906	8,104	10,350	12,821	47,722	20
Electrical & Electronics	738	868	868	1,521	623	710	716	3,994	-18
Machinery & Industrial	1,130	1,156	1,286	1,733	1,220	1,063	1,301	5,305	1
Others	335	172	214	459	422	477	679	1,180	217
EBIT margin (%)									
Engineering & Construcion	12.4	11.2	10.6	14.6	10.0	10.6	10.3	12.5	(36)
Electrical & Electronics	9.9	12.9	10.9	15.2	8.3	8.4	8.5	12.4	(242)
Machinery & Industrial	20.7	16.6	18.9	20.0	17.7	15.7	18.1	19.0	(81)
Others	27.9	10.8	12.7	21.8	21.2	21.5	25.4	17.9	1,270
EBIDTA (Including other income)									
Engineering & Construcion	8,940	9,920	11,480	21,460	9,470	11,510	14,120	51,800	23
Electrical & Electronics	820	930	940	2,060	710	790	800	4,750	-15
Machinery & Industrial	1,200	1,230	1,370	1,840	1,310	1,150	1,390	5,640	1
Others	350	200	240	5,810	460	530	740	6,600	208
EBIDTA margin (%)									
Engineering & Construcion	13.6	12.4	11.5	15.7	11.7	11.8	11.3	13.6	(15)
Electrical & Electronics	11.0	13.8	11.8	20.6	9.5	9.3	9.5	14.8	(233)
Machinery & Industrial	21.9	17.6	20.1	21.2	19.0	17.0	19.3	20.2	(82)

* for margins bp

Source: Company/MOSL

L&T Infotech: Robust performance - revenue up 35% YoY; PAT up 14% YoY

- L&T Infotech reported 35% YoY growth in revenue while PAT grew 14% YoY. Growth in revenue came primarily from North American markets.
- Profit margins were adversely impacted by the expiry of STPI tax benefits.

Subsidiary performance (INR m)

L&T Infotech	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Sales	4,730	4,690	5,120	4,570	5,660	5,860	6,040	7,020	7,380	7,760	8,350
Net Profit	610.0	570.0	730.0	900.0	810	780	710	910	950	1,080	1,170
NPM (%)	12.9	12.2	14.3	19.7	14.3	13.3	11.8	13.0	12.9	13.9	14.0

Source: Company/MOSL

Valuation and view: Buy with a target price of INR1,380

- We expect order intake to decline by 5% in FY12 to INR757b. We estimate standalone revenue CAGR at 15%, standalone PAT CAGR at 6%, and consolidated PAT CAGR at 10% over FY11-13. We estimate EBITDA margin at 11.3% (down 150bp YoY) for FY12 and 11.5% (up 20bp YoY) for FY13.
- Our consolidated EPS estimate is INR76 for FY12 (9% growth) and INR84 for FY13 (11% growth).
- We maintain **Buy** with an SOTP-based target price of INR1,380. We have valued L&T standalone at 16x FY13E earnings and subsidiaries at INR369/share.

Valuation of Larsen and Toubro (FY13 Multiples)

	Method	Valuation multiple	Value (INR b)	Value (INR/sh)
L&T Standalone	FY13E PER (x)	16	616	1,011
L&T Infotech	FY13E PER (x)	10	43	70
L&T Infrastructure Dev.Projects			59	96
L&T Finance	FY13E PBV (x)	1.5	56	76
L&T Infrastructure Finance	FY13E PBV (x)	1.5	29	39
International Ventures (L&T FZE)	FY13E PER (x)	10.0	30	49
Manufacturing Ventures				
- Power Equipments	FY13E PER (x)	12	16	27
- L&T Komatsu	FY13E PER (x)	10	7	5
- Audco India	FY13E PER (x)	10	4	3
- EWAC Alloys	FY13E PER (x)	10	3	3
Total				1,380

Source: Company/MOSL

Larsen & Toubro: an investment profile

Company description

L&T is India's largest engineering and construction company. It undertakes projects on engineering, procurement and commissioning basis. Its business is categorized in three segments, viz. Engineering and construction (E&C), Electrical and Electronics (E&E) and other diversified businesses. It has many subsidiaries and associate companies which will gradually start adding robustly to its bottom-line.

Key investment arguments

- L&T is Well placed to capitalize on long-term infrastructure demand. L&T's order backlog is worth INR1458b implying BTB ratio of 3x TTM. The company's order intake grew by 15% in FY11 to INR 779b. The company has given FY12 order intake guidance of 5% and revenue guidance of 25%. Our FY12 intake assumption is INR757b (down 5% YoY). L&T is the best play on capex and will benefit from a likely pick up in demand.
- L&T has a presence in financial services (L&T Finance/ Infra Finance) and IT/ITES (L&T Infotech). In the past 2-3 years, these businesses have attained critical scale. With L&T's increasing focus to grow the its infrastructure finance businesses, we see organic and inorganic scaling up of the vertical in 2-3 years. L&T is exploring opportunities to grow inorganically in the IT services segment.

Comparative valuations

		L&T	BHEL	Thermax
P/E (x)	FY12E	16.9	11.8	17.5
	FY13E	15.3	10.3	14.6
P/BV (x)	FY12E	3.1	3.1	4.5
	FY13E	2.8	2.6	3.6
EV/Sales (x)	FY12E	1.5	1.3	1.2
	FY13E	1.5	1.1	1.0
EV/EBITDA (x)	FY12E	13.5	6.7	10.7
	FY13E	12.9	5.7	8.7

* Consolidated

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	0.0	0.0	0.0
Domestic Inst	37.8	36.2	37.2
Foreign	17.9	21.1	21.3
Others	44.3	42.7	41.5

Key investment concerns

- Order intake is driven by long gestation projects and is unlikely to favorably impact FY12 or FY13 revenues and margins.
- An unfavorable political climate, logjams relating to clearances for projects stifle fresh order intake growth, hampering earnings growth.

Recent developments

- L&T has expressed interest in setting up a 1,600MW thermal power plant in Bengal and requested the government to arrange for 1,200 acres of land.
- L&T has been in news in recent times with respect to its business restructuring and selling of its Electrical business.

Valuation and view

- We expect order intake to decline by 5% in FY12 to INR757b. We estimate standalone revenue CAGR at 15%, standalone PAT CAGR at 6%, and consolidated PAT CAGR at 10% over FY11-13. We estimate EBITDA margin at 11.3% (down 150bp YoY) for FY12 and 11.5% (up 20bp YoY) for FY13.
- Our consolidated EPS estimate is INR76 for FY12 (9% growth) and INR84 for FY13 (11% growth).
- We maintain **Buy** with an SOTP-based target price of INR1,380. We have valued L&T standalone at 16x FY13E earnings and subsidiaries at INR369/share.

Sector view

- We maintain our **Neutral** view on the sector.

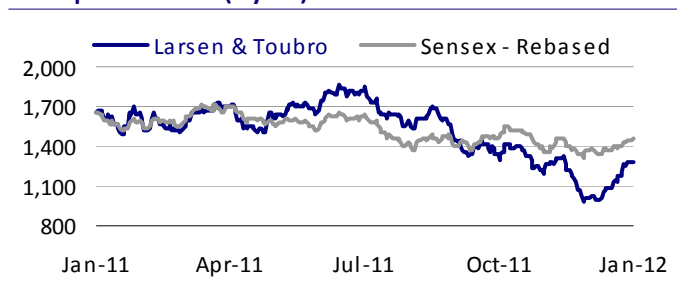
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	75.6	77.8	-2.8
FY13	83.5	87.7	-4.8

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
1,278	1,380	8.0	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Sales and Services	340,450	369,959	438,862	536,405	579,270	
Operating other Inc	2,920	3,597	4,090	4,481	5,035	
Total Revenues	343,370	373,556	442,952	540,886	584,305	
Growth Rate (%)	35.9	8.8	18.6	22.1	8.0	
Excise Duty	3,985	3,208	3,902	4,765	5,148	
Net Revenues	339,385	370,348	439,049	536,121	579,157	
Growth Rate (%)	36.1	9.1	18.6	22.1	8.0	
Manufacturing Expe	262,716	285,374	334,316	415,481	444,971	
Staff Cost	19,745	23,791	28,845	34,614	41,537	
S G & A Expenses	17,948	13,789	19,903	24,340	26,294	
EBITDA	38,977	47,394	55,985	61,686	66,355	
Change (%)	35.0	21.6	18.1	10.2	7.6	
EBITDA Margin (%)	11.5	12.8	12.8	11.5	11.5	
Depreciation	2,828	3,797	5,624	6,925	8,077	
EBIT	36,149	43,597	50,361	54,760	58,278	
Net Interest	4,156	5,053	6,474	7,693	9,282	
Other Income	6,142	7,422	9,259	14,695	13,082	
Non-recurring Other	1,256	2,280	3,062	0	0	
Add: Trf to Rev. Res.	13	13	11	11	11	
Profit before Tax	39,404	48,259	56,219	61,773	62,089	
Tax	12,312	16,409	19,459	20,385	21,110	
Effective Tax Rate	31.2	34.0	34.6	33.0	34.0	
Reported Profit	34,817	43,760	39,581	41,388	40,979	
EO Adjustments	7,725	11,910	2,820	0	0	
Adjusted Profit	27,092	31,850	36,761	41,388	40,979	
Cons. Profit (Adj)	30,046	37,110	42,416	46,032	50,862	
Growth (%)	31.1	23.5	14.3	8.5	10.5	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Equity Capital	1,171	1,204	1,218	1,218	1,218	
Reserves and Surpl	123,426	181,912	217,245	246,687	275,838	
Net Worth	124,597	183,116	218,463	247,905	277,056	
Debt	65,560	68,008	71,611	95,630	110,630	
Deferred Tax Liabili	485	774	2,635	2,635	2,635	
Capital Employed	190,642	251,899	292,708	346,170	390,321	
Gross Fixed Assets	55,905	72,901	89,567	108,206	128,206	
Less : Depreciation	14,762	17,986	23,125	30,050	38,127	
Add : Capital WIP	10,803	8,742	8,139	4,500	4,500	
Net Fixed Assets	51,946	63,657	74,581	82,656	94,579	
Investments	82,637	137,054	146,848	133,672	148,414	
Inventory	14,705	14,154	15,772	22,228	27,214	
Sundry Debtors	99,031	111,584	124,276	155,597	168,088	
Cash & Bank	7,753	14,319	17,304	30,572	19,057	
Loans & Advances	58,194	60,365	81,887	96,552	108,020	
Other Current Asset:	43,561	63,532	110,273	148,188	168,088	
Current Assets	223,244	263,953	349,511	453,138	490,467	
Current Liabilities	167,188	212,765	278,233	323,295	343,139	
Net Current Assets	56,056	51,188	71,279	129,842	147,328	
Misc Expenditure	3	0	0	0	0	
Capital Deployed	190,642	251,898	292,708	346,170	390,321	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)						
Adjusted EPS	46.3	52.9	60.4	68.0	67.3	
Growth (%)	29.0	14.3	14.2	12.6	-1.0	
Consolidated EPS	51.3	61.6	69.7	75.6	83.5	
Growth (%)	31.1	20.1	13.0	8.5	10.5	
Con. EPS (Fully Dilute)	51.5	61.6	69.7	75.6	83.5	
Growth (%)	31.1	19.7	13.0	8.5	10.5	
Cash Earning per Sh	49.5	59.1	70.2	79.4	80.6	
Book Value	212.7	304.1	358.8	407.2	455.0	
Dividend Per Share	10.2	12.5	14.5	17.0	16.8	
Div. Payout (Incl. Div	26.5	27.6	28.0	28.9	28.9	
Valuation (x)						
P/E (Standalone)			21.2	18.8	19.0	
P/E (Consolidated)			18.3	16.9	15.3	
P/E (Consolidated) (18.3	16.9	15.3	
Price / CEPS			18.2	16.1	15.9	
EV/EBITDA			14.7	13.5	12.9	
EV/ Sales			1.9	1.5	1.5	
Price / Book Value			3.6	3.1	2.8	
Dividend Yield			1.1	1.3	1.3	
Return Ratio (%)						
RoE	24.6	20.7	18.3	17.7	15.6	
RoCE	26.2	23.1	21.9	21.7	19.4	
Turnover Ratios						
Debtors (Days)	105.3	109.0	102.4	105.0	105.0	
Inventory (Days)	15.6	13.8	13.0	15.0	17.0	
Asset Turnover (x)	1.8	1.5	1.5	1.6	1.5	
Leverage Ratio						
Current Ratio (x)	1.3	1.2	1.3	1.4	1.4	
D/E (x)	0.5	0.4	0.3	0.4	0.4	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
PBT before EO Items	39,404	48,259	56,219	61,773	62,089	
Add : Depreciation	3,073	4,159	6,003	6,925	8,077	
Interest	4,156	5,053	6,474	7,693	9,282	
Less : Direct Taxes P	12,312	16,409	19,459	20,385	21,110	
(Inc)/Dec in WC	-31,720	11,434	-17,107	-45,295	-29,001	
CF from Operations	2,601	52,497	32,130	10,711	29,337	
(Inc)/Dec in FA	-18,495	-15,870	-16,927	-15,000	-20,000	
(Pur)/Sale of Investr	-13,415	-54,416	-9,795	13,177	-14,743	
CF from Investments	-31,910	-70,287	-26,722	-1,823	-34,743	
(Inc)/Dec in Net Wo	9,021	35,761	10,747	0	0	
(Inc)/Dec in Debt	29,720	2,448	3,603	24,019	15,000	
Less : Interest Paid	4,156	5,053	6,474	7,693	9,282	
Dividend Paid	7,168	8,800	10,300	11,945	11,827	
CF from Fin. Activity	27,418	24,356	-2,424	4,381	-6,109	
Inc/Dec of Cash	-1,892	6,566	2,984	13,268	-11,515	
Add: Beginning Bal:	9,645	7,753	14,319	17,304	30,572	
Closing Balance	7,753	14,319	17,303	30,572	19,057	

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