

Larsen & Toubro

Estimate changes



TP change



Rating change



Bloomberg	LT IN
Equity Shares (m)	1375
M.Cap.(INRb)/(USDb)	4838.7 / 57.8
52-Week Range (INR)	3949 / 2547
1, 6, 12 Rel. Per (%)	-4/-16/11
12M Avg Val (INR M)	8514

Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Net Sales	2,497.2	2,857.2	3,215.4
EBITDA	270.0	323.3	363.5
PAT	145.5	187.0	230.5
EPS (INR)	105.8	136.0	167.6
GR. (%)	13.3	27.6	23.5
BV/Sh (INR)	710.4	815.2	944.5

Ratios

ROE (%)	16.0	17.9	19.1
RoCE (%)	9.2	10.2	11.3

Valuations

P/E (X)	33.3	25.9	21.0
P/BV (X)	5.0	4.3	3.7
EV/EBITDA (X)	17.9	15.0	13.3
Div Yield (%)	0.7	0.9	1.1

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	0.0	0.0	0.0
DII	38.7	37.9	37.9
FII	23.9	25.4	26.2
Others	37.4	36.7	35.9

FII Includes depository receipts

CMP: INR3,519

TP: INR4,150 (+18%)

Buy

Good start to the year

Strong growth in international markets drives revenue/PAT beat

LT's 1QFY25 results were 3% ahead of our estimates on both revenue and PAT. The company reported 15%/15%/12% YoY growth in revenue/EBITDA/PAT on a consolidated basis. In a seasonally weak quarter, core E&C revenues and EBITDA also grew by 18%/21% YoY, with Core E&C margins improving by 10bp to 7.6%. Both Core E&C revenue and margin beat our estimates. Core E&C revenue growth was largely driven by sharp improvement in overseas revenue, while domestic revenue was flat YoY due to elections, labor shortage and heat waves. Order inflows/order book were up by 8%/19% YoY, mainly driven by international geographies. The order prospect pipeline was down by 10% YoY at INR9.1t due to a drop in hydrocarbon prospects. NWC remained low at 13.9% of sales. We maintain our estimates and TP of INR4,150 based on SOTP, valuing core business at 30x P/E on Jun'26E EPS and 25% holding company discount for subsidiaries.

Results better than our estimates

LT reported a better-than-expected core E&C performance with revenue of INR386.2b (est. INR372.5b), up 18% YoY. This was primarily led by a robust performance of the Infrastructure segment, which grew by a healthy 22% YoY to INR269b. Similarly, Energy Projects revenue grew 27% YoY to INR84.9b, led by strong execution of the order book. Core E&C EBITDA margin came in at 7.6%, largely in line with our estimate and up 10bp YoY. For the infrastructure segment, margin improved by ~70bp YoY to 5.8%. Energy Projects margin contracted ~40bp YoY to 8.7%. Thus, core E&C EBITDA grew by 21% YoY. NWC to sales improved YoY to 13.9% of sales and RoE improved to 14.7% of sales. Order inflow grew 8% YoY to INR544.4b, driven by international geographies (+25% YoY). Domestic orders declined 1% YoY, due to general elections during the quarter. The order book remains robust at INR4.9t (+19% YoY). On a consolidated basis, revenue grew 15% YoY to INR551.2b, while EBITDA rose 15% YoY to INR56.2b. Margin was flat YoY at 10.2%, while PAT increased by 12% YoY to INR27.9b (3% beat). For FY25, the management maintained the guidance of order inflow growth of 10%, revenue growth of 15%, NWC to sales of 15%, and a margin of 8.25%.

We see possibility of revenue outperformance vs. guidance in FY25

LT's 1Q revenue growth of 18% in a seasonally weak quarter was driven by a strong order book and sharp growth in international revenue. Domestic revenue growth was affected by elections and labor issues, and we expect it to revive sharply only during 2HFY25. With strong international order inflows in FY24, we expect execution to remain strong. Hence, we see a possibility of LT's revenue growth outperforming its guidance of 15% for FY25 despite a guidance of flat margins on a YoY basis.

Prospect pipeline down 10% YoY due to moderation in GCC prospects

LT's order book grew 19% YoY to INR4.9t (3x TTM revenue). The international segment now forms 38% of the overall order book. Within international, 92% comes from the Middle East. LT's prospect pipeline for the remaining nine months is down 10% YoY at INR9.1t, owing to a marginal increase in infrastructure prospects (at INR6.02t, up 3% YoY) and a decline in hydrocarbon prospects (at INR2.2t, down 37% YoY). Within the domestic infrastructure pipeline, the company is eyeing large-sized projects in water, urban transportation, bridges, B&F, T&D and renewables. LT expects a hit rate of 20-25% in the domestic prospect pipeline, which will drive growth in domestic order inflows.

Eyeing growth from new areas

The company is eyeing opportunities in new areas such as offshore wind projects, where it has already made its foray with an order win of USD100m. It is also looking for opportunities in green hydrogen and nuclear projects construction. On domestic private capex, LT expects capex from traditional industries, state road projects, water projects and new-age projects from data centers, electronics manufacturing and semiconductor manufacturing. Though Saudi Aramco's oil-related capex may see a decline in coming years, LT is in active discussions with the client to target gas-based opportunities in overall capex. The Middle East region is already spending on renewable and hydrocarbon and the next leg of spending can come in railways and metro related orders where LT would keep targeting projects.

Maintains its long-term target of 18% RoE

LT's RoE stands at 14.7% and it has maintained its long-term target of 18% RoE. This RoE target can be achieved via 1) a reduction in losses from Hyderabad metro, which can add 1% to RoE; 2) improvement in margins, which can add 1%; and 3) capital restructuring in terms of rewarding shareholders, which can add 1% to RoE.

Valuation and view

We maintain our estimates and TP of INR4,150 based on SOTP, valuing core business at 30x P/E on Jun'26E EPS and 25% holding company discount for subsidiaries. We reiterate our BUY rating on LT. Our multiple takes into account a strong prospect pipeline and improvements in NWC and RoE, despite margins being still far off from earlier highs.

Key risks and concerns

A slowdown in order inflows, delays in the completion of mega and ultra-mega projects, a sharp rise in commodity prices, increase in working capital, and increased competition are a few downside risks to our estimates.

Consolidated earning model

(INR b)

Y/E March - INR b	FY24				FY25E				FY24	FY25E	FY25E	Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	Var (%)	
Net Sales	479	510	551	671	551	566	622	758	2,211	2,497	535	3
YoY Change (%)	33.6	19.3	18.8	15.0	15.1	10.9	12.9	13.0	20.6	36.2	11.7	
Total Expenditure	430	454	494	598	495	505	554	674	1,976	2,227	481	
EBITDA	49	56	58	72	56	60	68	84	235	270	54	4
Margins (%)	10.2	11.0	10.4	10.8	10.2	10.6	10.9	11.1	10.6	10.8	10.1	
Depreciation	8	9	9	10	10	10	10	10	37	39	10	1
Interest	9	9	9	9	9	8	8	8	35	33	8	7
Other Income	11	11	8	10	9	8	9	9	42	34	8	9
PBT before EO expense	43	50	48	63	47	50	58	75	204	232	44	5
Extra-Ord expense	0	0	0	-1	0	0	0	0	-1	0	0	
PBT	43	50	48	64	47	50	58	75	205	232	44	5
Tax	12	11	12	14	12	13	15	20	49	60	11	
Rate (%)	28.1	22.8	24.7	22.1	26.4	25.8	25.8	27.2	24.1	25.8	25.8	
Minority Interest	6	6	6	6	7	6	6	7	25	25	6	
Reported PAT	25	32	29	44	28	31	37	48	131	147	27	3
Adj PAT	25	32	29	43	28	31	37	48	130	147	27	3
YoY Change (%)	46.5	44.6	20.0	8.4	11.7	-2.8	25.5	10.1	49.8	13.0	8.4	
Margins (%)	5.2	6.3	5.3	6.4	5.1	5.5	5.9	6.3	5.9	5.9	5.1	

Segmental performance

INR b	FY24				FY25E				FY24	FY25E	YoY (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Segmental revenue											
Consolidated (ex-services)	327	349	393	510	386	397	450	581	1,579	1,814	14.9
YoY Change (%)											
Infrastructure Projects	221	246	278	380	269	259	294	356	1,126	1,178	4.6
Energy Projects	67	68	79	82	85	93	112	154	295	445	50.5
Hi-Tech Manufacturing	18	19	21	25	18	26	27	39	82	110	34.2
Others	22	16	15	23	14	19	18	31	76	82	7.5
IT & Technology Services	109	112	119	112	115	119	121	127	445	482	8.4
Financial Services	30	31	32	36	37	32	36	33	131	138	5.0
Development Projects	13	18	18	13	13	18	15	17	56	63	12.0
Total Revenues	479	510	562	671	551	566	622	758	2,211	2,497	12.9
Adjustments & eliminations											
Net reported revenue	479	510	562	671	551	566	622	758	2,221	2,497	12.4
Segmental EBITDA											
Consolidated (ex-services)	24	26	30	49	29	32	38	53	129	152	17.8
Infrastructure Projects	11	13	15	30	16	15	19	23	70	73	4.6
Energy Projects	6	6	8	9	7	9	11	16	30	42	44.0
Hi-Tech Manufacturing	3	3	3	4	3	4	5	8	13	20	48.1
Others	4	3	4	5	3	4	4	6	16	16	1.7
IT & Technology Services	22	23	24	23	23	24	26	29	92	101	10.6
Financial Services	7	8	8	7	9	8	9	7	31	33	7.6
Development Projects	2	7	4	2	2	4	3	5	15	14	-7.0
Total EBITDA	56	64	65	81	64	67	75	94	266	300	12.7
Net reported EBITDA	56	64	65	81	64	67	75	94	266	300	12.7
EBITDA margin (%)											
Consolidated (ex-services)	7.5	7.4	7.7	9.5	7.6	8.0	8.4	9.1	8.2	8.4	
Infrastructure Projects	5.1	5.4	5.5	7.9	5.8	5.8	6.5	6.6	6.2	6.2	
Energy Projects	9.1	9.5	9.7	11.4	8.7	9.3	9.5	10.2	10.0	9.6	
Hi-Tech Manufacturing	16.8	14.9	16.7	16.7	17.4	17.0	17.5	19.3	16.3	18.0	
Others	18.6	20.0	24.4	22.6	23.4	20.0	20.0	18.8	21.3	20.1	
IT & Technology Services	20.6	20.2	20.0	20.4	20.0	20.0	21.0	22.8	20.6	21.0	
Financial Services	24.6	26.7	24.0	20.1	25.9	24.0	24.0	21.7	23.4	24.0	
Development Projects	15.8	38.7	20.0	17.3	17.0	20.0	22.0	27.8	26.5	22.0	
Total EBITDA margin (%)	11.7	12.5	11.6	12.1	11.6	11.8	12.1	12.4	12.0	12.0	
Net reported EBITDA margin (%)	11.7	12.5	11.6	12.1	11.6	11.8	12.1	12.4	12.0	12.0	
Order inflow (INR b)	504	730	602	561	544	562	680	839	2,396	2,626	
Order book (INR b)	4,155	4,541	4,732	4,793	4,944	5,125	5,355	5,613	4,793	5,613	

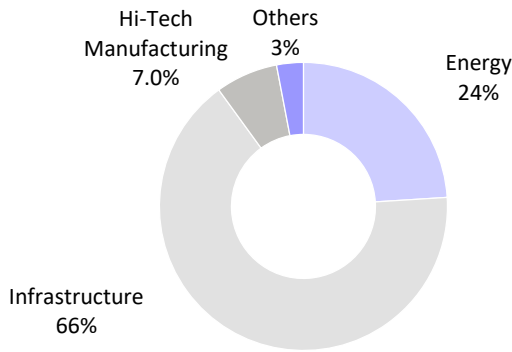


Conference call highlights

- **Core order book up 19% YoY** – The order book at the end of 1QFY25 stood at INR4.9t. Inflows during the quarter grew by 8%, largely led by international geographies (+25% YoY), while domestic inflows declined 1% owing to the election cycle. About 62% of the order book is domestic and 38% international. The domestic order book comprises state PSUs (37%) and states (28%), center (14%) and private sector (21%). About 18% of total order book is funded by multilateral agencies.
- **Order prospects at INR9.07t** – The prospect pipeline for the remainder of FY25 stood at INR9.07t vs. INR10.07t for the corresponding period of FY24. This reduction was due to reduced prospects in the hydrocarbon space as LT failed to secure certain tenders, while some orders got deferred or shelved altogether. Infrastructure segment prospects stand at INR6.02t spread across water (20%), power T&D (22%), transportation infrastructure (23%), buildings and factories (12%), heavy civil (18%), metallurgical and material handling (5%). Energy segment prospect pipeline of INR2.62t is spread across hydrocarbon (INR2.17t and power INR0.45t. Hi-tech manufacturing order prospects stand at INR310b, while green energy prospects are INR0.1t.
- **Working capital at comfortable levels** – Even though working capital as % of sales saw a sequential increase from 12% to 13.9%, it remains within comfortable levels and improved from 17% in 1QFY24. The sequential increase was driven by gross working capital buildup. Customer collections continued to improve YoY (INR459b vs. INR439b).
- **GCC capex is diversified** – While the prospects for hydrocarbons have seen a setback, other areas such as oil-to-chemicals, gas-based projects, renewable energy and transportation infrastructure are seeing strong traction in the Middle East region and the company is well-placed to benefit from the same. The management is confident of achieving revenue and margin guidance if execution happens as per the schedule and commodity prices remain stable, as most contracts are fixed price in nature.
- **Emerging opportunities shaping up** – With the measures announced in the budget and activity taking place in emerging segments, the company is looking to capitalize on upcoming opportunities in nuclear energy, green hydrogen, solar projects, pumped storage, offshore wind, etc. Large-scale solar projects are more prevalent in international geographies, which is reflected in the current solar order book of INR550-600b.
- **Hyderabad metro performance** – Average ridership slightly improved to 432k pax/day from 442k pax/day in 1QFY24. However there was a sequential decrease (442 pax/day). The company is in talks with the Telangana government to secure additional funding in the form of soft loans.
- **RoE improvement levers** – Despite cutting its FY25 margin guidance to 8-8.25%, the management is confident of a healthy improvement in RoE on the back of a) Hyderabad Metro achieving breakeven, b) capital restructuring in terms of rewarding shareholders, and c) core E& margin improvement.
- **Labor availability** – The company highlighted that domestic execution was impacted by shortage of skilled labor, owing to the general elections, heat waves and higher demand in foreign countries. While some of these factors are expected to see a reversal, a prolonged continuation of the situation could have implications on the execution front.

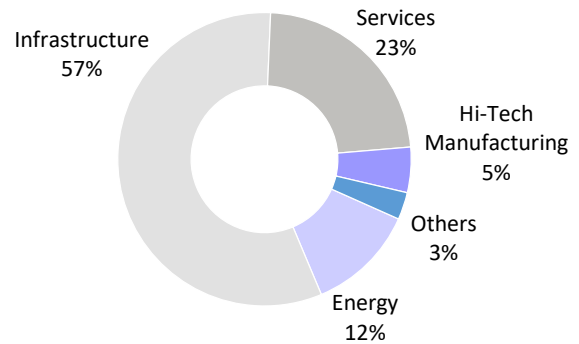
Key Exhibits

Exhibit 1: Segmental breakup of INR4.9t order book



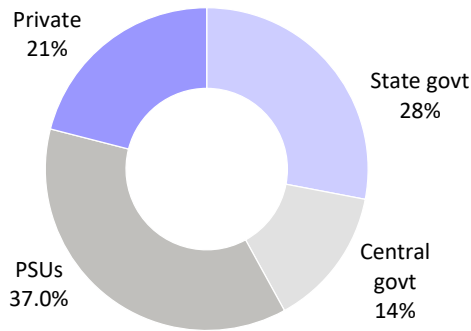
Source: MOFSL, Company

Exhibit 2: Segmental breakup of INR709b order inflows



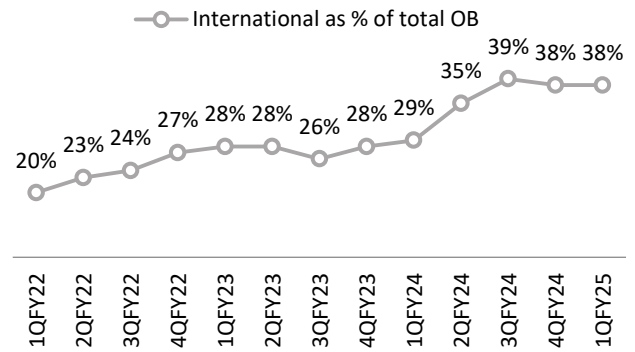
Source: MOFSL, Company

Exhibit 3: Order book largely comprises public sector orders (79%); private sector forms 21%



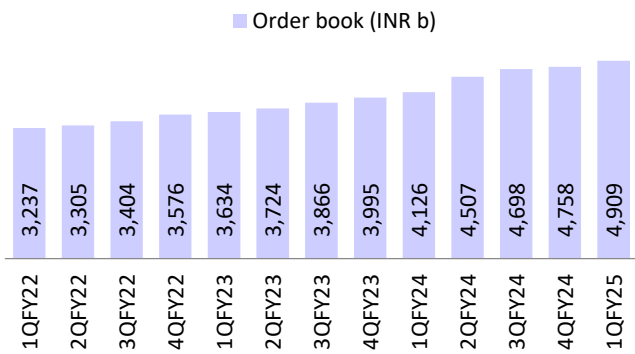
Source: MOFSL, Company

Exhibit 4: Share of international projects in overall OB remains high



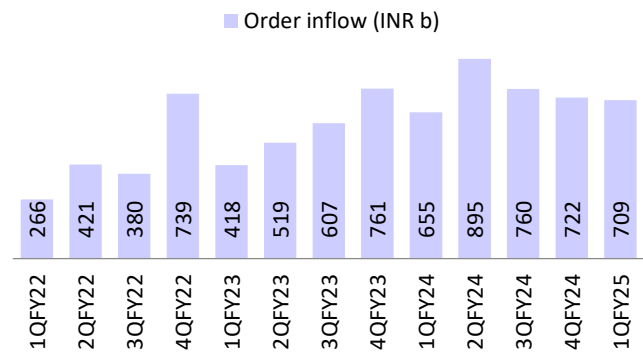
Source: MOFSL, Company

Exhibit 5: Order book has been robust in recent quarters boosted by inflows from Middle East



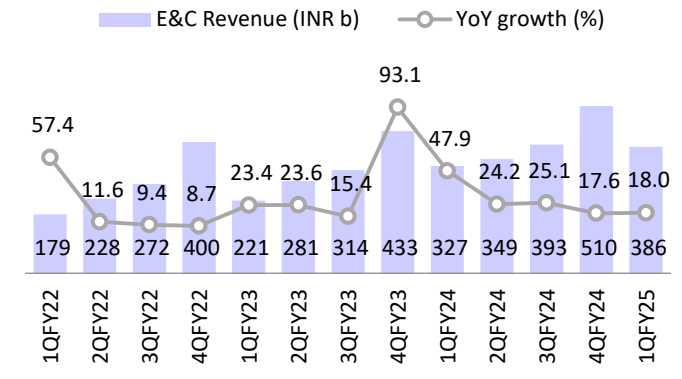
Source: MOFSL, Company

Exhibit 6: Overall order inflows saw a moderation due to elections



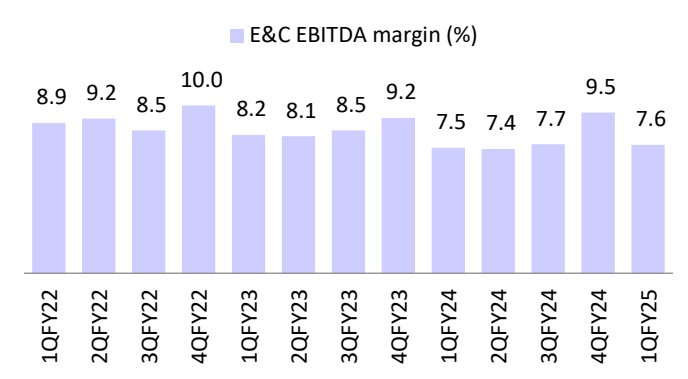
Source: MOFSL, Company

Exhibit 7: E&C revenue witnessing robust growth



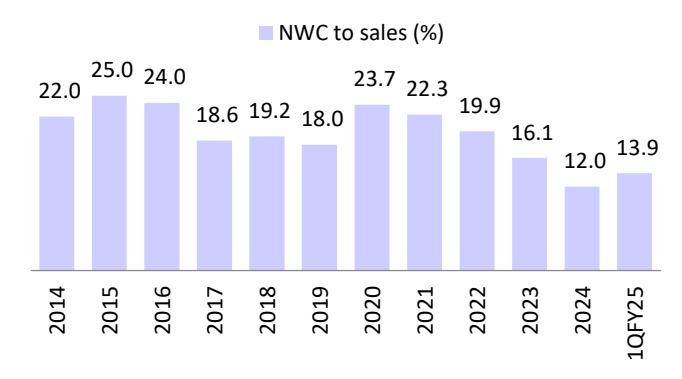
Source: MOFSL, Company

Exhibit 8: E&C EBITDA flat on a YoY basis



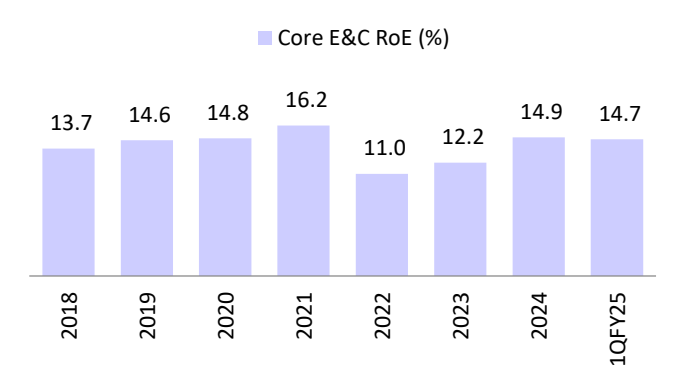
Source: MOFSL, Company

Exhibit 9: NWC-to-sales ratio has seen a steady decline



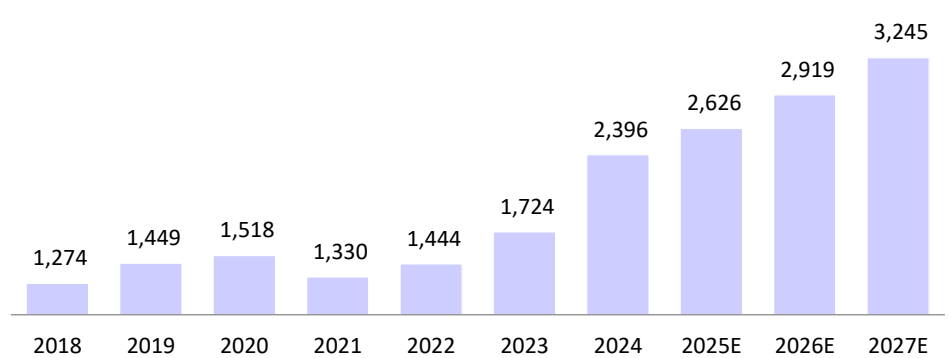
Source: MOFSL, Company

Exhibit 10: RoE witnessing gradual improvement



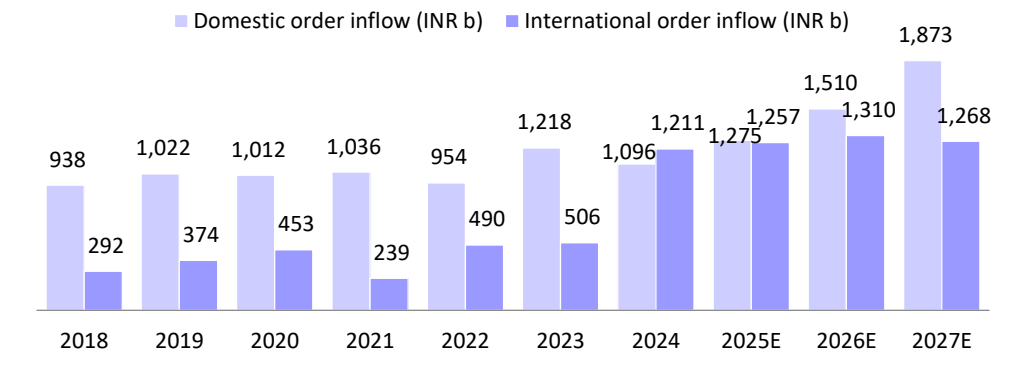
Source: MOFSL, Company

Exhibit 11: Overall order inflow trend (INR b)



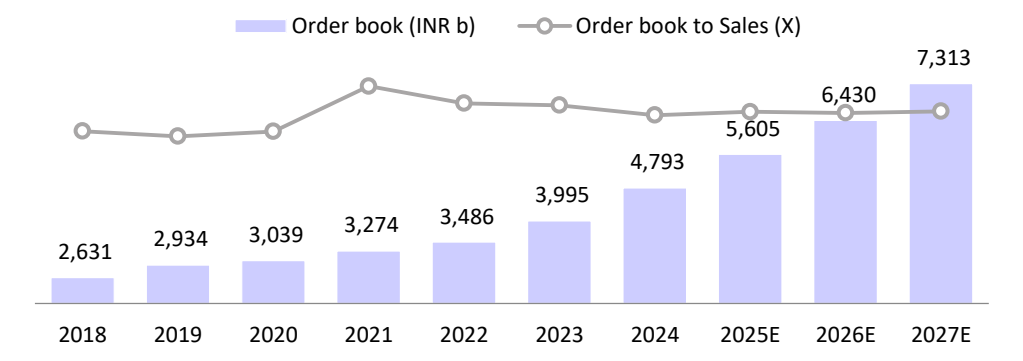
Source: Company, MOFSL

Exhibit 12: Geography-wise order inflow trend



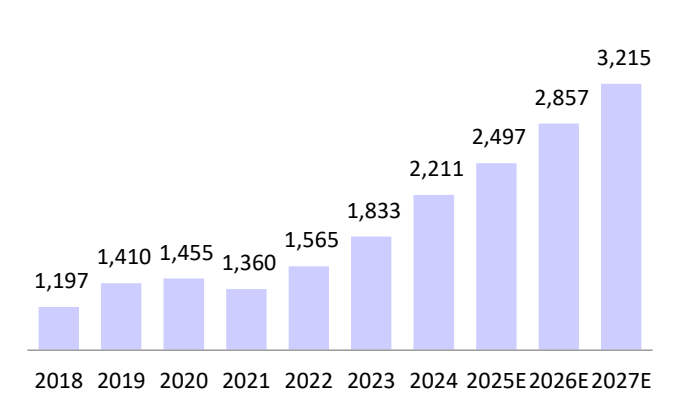
Source: Company, MOFSL

Exhibit 13: Robust tendering pipeline to support order book growth



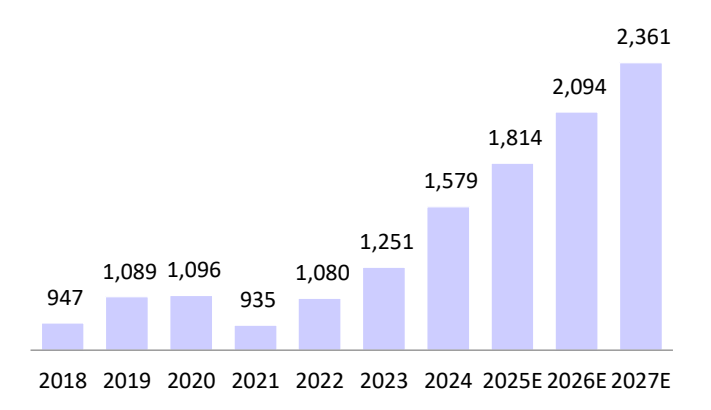
Source: Company, MOFSL

Exhibit 14: Consolidated revenue trend (INR b)

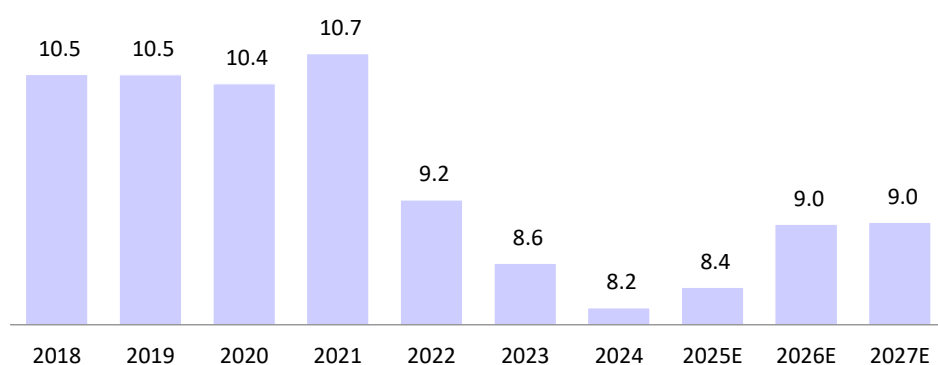


Source: Company, MOFSL

Exhibit 15: Core E&C revenue trend (INR b)



Source: Company, MOFSL

Exhibit 16: E&C EBITDA margin to improve as legacy projects are completed (%)

Source: Company, MOFSL

Exhibit 17: LT- SOTP-based target price (INR/share)

	Earnings/ Book (FY24) (INR m)	Target multiple (X)	Value (INR b)	Valuation basis	Stake (%)	Value (INR b)	June-26 Per share (INR)
Core E&C business (consolidated)	1,34,089	30	4,023	P/E	100.0	4,023	2,843
L&T Finance Holdings			572	(at MOFSL TP)	66.0	377	275
LTI-Mindtree			2,071	(at MOFSL TP)	68.7	1,423	1,035
L&T Technology Services			631	(at MOFSL TP)	73.8	465	338
Hyderabad Metro	24,390	1.0	24	P/B	100.0	24	23
Power development	26,000	1.2	31	P/B	100.0	31	29
Total subsidiaries				25% holding co. disc.		1,741	1,275
Grand total							4,150

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	1,360	1,565	1,833	2,211	2,497	2,857	3,215
Change (%)	-6.5	15.1	17.1	20.6	12.9	14.4	12.5
Raw Materials	867	997	1,166	1,460	1,648	1,886	2,122
Gross Profit	493	568	667	752	849	971	1,093
Employees Cost	248	297	372	412	465	532	599
Other Expenses	89	88	87	105	114	116	131
Total Expenditure	1,204	1,383	1,626	1,976	2,227	2,534	2,852
% of Sales	88.5	88.4	88.7	89.4	89.2	88.7	88.7
EBITDA	156	182	208	235	270	323	364
Margin (%)	11.5	11.6	11.3	10.6	10.8	11.3	11.3
Depreciation	29	29	35	37	39	42	46
EBIT	127	153	173	198	231	281	318
Int. and Finance Charges	39	31	32	35	33	33	31
Other Income	34	23	29	42	34	41	34
PBT bef. EO Exp.	122	144	170	204	232	290	321
PBT after EO Exp.	122	144	170	204	232	290	321
Total Tax	41	42	45	49	60	75	61
Tax Rate (%)	33.2	29.3	26.5	24.2	25.8	25.9	19.1
Minority Interest	14	17	21	25	27	28	29
AI	0	1	-1	0	1	0	1
Reported PAT	68	86	103	130	147	187	231
Adjusted PAT	68.1	84.4	104.3	129.9	145.5	187.0	230.5
Change (%)	-22.8	23.9	23.5	24.5	12.0	28.5	23.2
Margin (%)	5.0	5.4	5.7	5.9	5.8	6.5	7.2

Balance Sheet							(INR b)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	2.8	2.8	2.8	2.7	2.7	2.7	2.7
Total Reserves	756	821	890	861	974	1,118	1,295
Net Worth	759	824	893	864	976	1,120	1,298
Minority Interest	121	130	142	162	188	217	249
Total Loans	1,346	1,255	1,207	1,163	1,272	1,305	1,315
Deferred Tax Liabilities	-15	-18	-34	-33	-33	-33	-33
Other liabilities	0	0	3	1	1	1	1
Capital Employed	2,210	2,191	2,211	2,156	2,404	2,610	2,830
Gross Block	570	531	594	634	709	772	837
Less: Accum. Deprn.	127	133	168	204	245	287	333
Net Fixed Assets	443	427	426	430	464	486	505
Capital WIP	5	20	41	41	22	22	22
Total Investments	396	396	448	456	448	448	448
Curr. Assets, Loans & Adv.	2,241	2,328	2,349	2,431	2,911	3,294	3,702
Inventory	58	59	68	66	93	106	120
Account Receivables	422	461	447	488	575	658	740
Cash and Bank Balance	162	190	225	154	279	371	485
Loans and Advances	991	955	889	951	985	1,038	1,095
Others	607	662	719	773	979	1,121	1,261
Curr. Liability & Prov.	875	980	1,052	1,201	1,442	1,640	1,846
Other Current Liabilities	838	939	1,009	1,157	1,382	1,572	1,769
Provisions	38	42	44	44	60	68	77
Net Current Assets	1,366	1,347	1,296	1,230	1,470	1,654	1,856
Appl. of Funds	2,210	2,191	2,211	2,156	2,404	2,610	2,830

Financials and valuations

Ratios							
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	49.6	61.4	75.9	94.5	105.8	136.0	167.6
Cash EPS	70.7	82.9	101.3	121.3	134.5	166.6	201.0
BV/Share	551.9	599.5	649.8	628.2	710.3	815.0	944.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	86.3	35.3	29.3	23.3	23.2	23.2	23.2
Valuation (x)							
P/E	71.0	57.3	46.4	37.2	33.3	25.9	21.0
Cash P/E	49.8	42.5	34.7	29.0	26.2	21.1	17.5
P/BV	6.4	5.9	5.4	5.6	5.0	4.3	3.7
EV/Sales	3.6	3.1	2.6	2.2	1.9	1.7	1.5
EV/EBITDA	31.0	26.6	23.3	20.6	17.9	15.0	13.3
Dividend Yield (%)	1.0	0.6	0.6	0.6	0.7	0.9	1.1
FCF per share	159.5	117.3	138.1	102.3	35.7	77.3	114.0
Return Ratios (%)							
RoE	9.6	10.7	12.1	14.8	15.8	17.8	19.1
RoCE	5.2	5.9	7.1	8.8	9.2	10.2	11.3
RoIC	5.1	6.7	8.2	10.0	10.8	12.2	14.1
Working Capital Ratios							
Fixed Asset Turnover (x)	2.4	2.9	3.1	3.5	3.5	3.7	3.8
Asset Turnover (x)	0.6	0.7	0.8	1.0	1.0	1.1	1.1
Inventory (Days)	16	14	14	11	14	14	14
Debtor (Days)	113	108	89	81	84	84	84
Creditor (Days)	0	0	0	0	0	0	0
Leverage Ratio (x)							
Current Ratio	2.6	2.4	2.2	2.0	2.0	2.0	2.0
Interest Cover Ratio	3.3	4.9	5.4	5.6	7.0	8.6	10.1
Net Debt/Equity	1.0	0.8	0.6	0.6	0.6	0.4	0.3
Cash Flow Statement							
							(INR b)
Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
OP/(Loss) before Tax	230	144	170	204	207	262	293
Depreciation	29	29	35	37	39	42	46
Interest & Finance Charges	25	21	14	11	33	33	31
Direct Taxes Paid	-35	-46	-51	-53	-60	-75	-61
(Inc)/Dec in WC	100	48	54	-14	-115	-92	-87
CF from Operations	350	196	221	185	105	170	221
Others	-121	-5	7	-3	0	0	0
CF from Operating incl EO	228	192	228	183	105	170	221
(Inc)/Dec in FA	-9	-30	-38	-42	-55	-63	-65
Free Cash Flow	219	161	190	141	49	106	157
(Pur)/Sale of Investments	-176	-24	-90	27	8	0	0
Others	131	18	44	36	0	0	0
CF from Investments	-54	-37	-83	22	-47	-63	-65
Issue of Shares	0	0	0	-123	0	0	0
Inc/(Dec) in Debt	-87	-84	-45	-41	108	33	10
Interest Paid	-33	-34	-35	-41	-33	-33	-31
Dividend Paid	-40	-25	-31	-42	-34	-43	-54
Others	8	-9	-5	-8	26	28	32
CF from Fin. Activity	-153	-152	-116	-254	68	-14	-42
Inc/Dec of Cash	21	3	29	-50	125	92	115
Opening Balance	151	162	190	225	154	279	371
Closing Balance	162	190	225	154	279	371	485

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NOTES

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BUY	>=15%
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