

24th June 2024

Larsen & Toubro – BUY

CMP : Rs. 3,554.0
Target Price : Rs. 4,186.0
Upside : 17.80%+
Stop Loss : Rs. 3,180.0 (Closing basis)

Investment Thesis

- Larsen & Toubro Ltd. (L&T) boasts a healthy order book of Rs 4,760 billion as of March 31, 2024, bolstered by a strong Rs 3,000 billion inflow in FY24. This momentum is expected to continue with a robust pipeline of Rs12,100 billion, translating to a potential order win rate of 20-25%. This impressive figure is largely driven by a strengthened infrastructure and hydrocarbon project pipeline (Rs 7,250 billion and Rs 3,870 billion, respectively). While power contributes Rs 500 billion, L&T's green energy business is also gaining traction with a Rs 100 billion pipeline, highlighting their diversification efforts. Furthermore, management anticipates a 10% order book growth, fueling business margins in the coming period.
- While the Hyderabad Metro has achieved initial ridership milestones, current ridership figures indicate room for significant growth. The management estimates a potential ridership increase of 1,00,000 daily passengers, suggesting untapped potential in the system's capacity to serve the city's commuting needs. This highlights the importance of initiatives to boost ridership and maximize the positive impact of the metro on Hyderabad's transportation landscape.
- L&T's RoE is on a healthy upswing, with expectations of reaching 18% by FY26, a significant jump from the current range of 15%. This positive trajectory aligns perfectly with the strong brand recognition L&T enjoys and the GoI focus on infrastructure development. Timely completion of pending orders can further accelerate this growth, making the 18% target achievable within the timeframe.
- L&T's management is prioritizing improvement with increasing capital employed. This focus is likely to increase the margins. To achieve this, it has aiming for a significant expansion of its international business, targeting 40% growth compared to the current 25% contribution.

Financials

- L&T delivered a strong performance on the profitability front, with a PAT of Rs 15,547 crore for FY24, reflecting a healthy YoY increase of 24.08%. This momentum continued into Q4 FY24, where PAT reached Rs 4,396 crore, marking a significant QoQ rise of 49.15%. Rising order values and swift executions of orders has driven the PAT margins for the business.

Particulars	FY21A	FY22A	FY23A	FY24A	FY25E
Revenue	1,35,979	1,56,521	1,83,340	2,21,112	2,54,279
EBITDA	21,071	19,258	24,403	28,023	31,784
EBITDA(%)	15.50%	12.73%	13.31%	12.67%	12.50%
PAT	8,224	10,194	12,530	15,547	19,108
EPS (Rs)	82.47	61.7	74.51	94.99	118.74
PE (x)	17.20	28.65	29.06	39.73	35.25
ROE (%)	6.58%	13.07%	14.78%	17.83%	18.05%

Stock Data

Market Cap (Rs. Crs)	4,95,862.00
Market Cap (\$ Crs)	5,935.48
Shares O/S (in Crs)	137.46
Avg. Volume (1 month)	44,51,441
52-Week Range (Rs.)	3,949 / 2,368

Shareholding Pattern

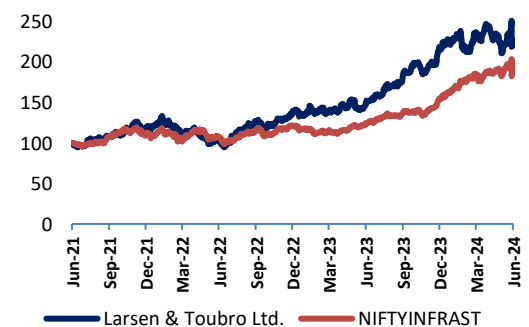
Promoters	Nil
FII's	24.36%
Institutions	38.08%
Others (incl. body corporate)	37.33%

Key Ratios

Div Yield	0.80%
TTM PE	37.6x
ROE	14.7%
TTM EPS (Rs.)	95.0/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	3.1%	5.3%	52.6%
NIFTY INFRA	5.2%	25.7%	56.8%



- Revenue for the full year FY24 reached Rs2,21,112 crore, reflecting an impressive YoY growth of 20.60%. Q4FY24 further strengthened this performance, contributing a significant Rs67,079 crore, which translates to a healthy sequential rise. This growth has been achieved by strong execution in Infra, PES & Realty in the Project & Manufacturing Portfolio.
- EBITDA remained healthy throughout FY24, reaching Rs28,023 crore (12.67%) for the entire year. This was achieved with Infrastructure Projects and IT & Technology Services segments as it delivered the highest EBITDA contributions, at Rs6984 crore and Rs9062 crore, respectively, which is nearly 57% of the total EBITDA. This suggests strong operational performance and efficient project execution in these areas. This profitability trend continued into Q4FY24, with EBITDA at Rs8,058 crore.

Key Business Highlights

- Larsen & Toubro Ltd. (L&T) is one of the most major player which is engaged in EPC projects. It operates in various segments like construction, hydrocarbon, power, minerals & metal, Heavy engineering, shipbuilding, etc. Currently, it is operating in ~50 countries all around the globe.
- The group order inflow for FY24 crossed Rs 3 Trillion for the first time. Along with that the company in this fiscal year has accomplished a number for remarkable projects like Atal Setu, Navi Mumbai first costal road with an Underground Tunnel in the City of Mumbai, Shri Ram Janmabhoomi Mandir in Ayodhya, Uttar Pradesh, Adi Shankaracharya Statue.
- L&T's green energy portfolio is gaining traction with the successful manufacturing of India's first 1 MW Alkaline Electrolyser. This signifies its commitment to clean energy solutions. Additionally, management's pursuit of land acquisition in Gujarat and Odisha for Green Hydrogen and derivative (potentially including ammonia) production suggests a strategic move to capitalize on the growing green hydrogen market. This could position L&T to become a key player in India's clean energy transition.
- L&T's foray into data centers is noteworthy, with operational facilities in Navi Mumbai 1.4MW and Kanchipuram 12MW and 18MW across two phases. Management's expectation of further data center projects in Mumbai, Chennai, and Bangalore highlights their confidence in this growing market segment. This expansion could position L&T to capture a significant share in the data center boom across these key Indian cities.

Valuation

- Currently L&T is trading at a PE of 37.6x against the industry PE of 37.7x which is almost in line with the Sector PE and is fairly valued. The company boasts a robust order book of Rs 4,760 billion for the current year and expects an even stronger pipeline of Rs 12,100 billion for FY25. Thus, we can expect a revenue growth of 15% and order growth of 10%, respectively, for FY25, alongside healthy EBITDA and PAT margins of 12.50% and 7.51%, respectively.
- We are ascribing a **BUY** rating for Larsen & Turbro (L&T) with a **Target Price of Rs.4,186.00/-, translating in an upside of 17.80%+.**

Risk & Concern

- EPC Business Risk:** L&T's business faces headwinds due to competitive bidding for infrastructure projects. This often leads to margin pressure as contracts are awarded based on the lowest price. Additionally, infrastructure projects are susceptible to delays due to lengthy clearance procedures.
- Middle East Conflict:** The ongoing conflict in Middle East casts a shadow over L&T's operations. Further escalation or spread of the conflict could disrupt Red Sea shipping routes, negatively impacting regional economies and potentially hindering L&T's project execution or order flow in the area. This situation warrants close monitoring as it could pose a risk to L&T's international growth ambitions.

Graphs & Charts

Figure 1: Net Sales Trend

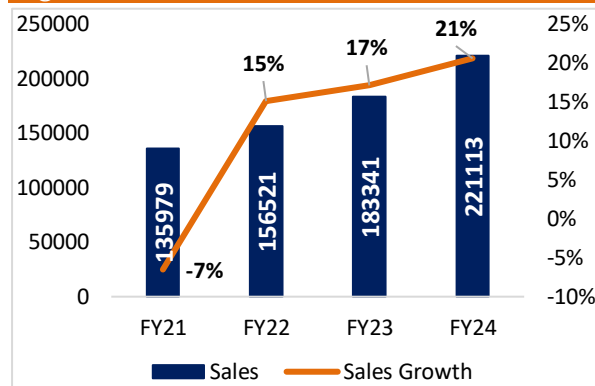


Figure 2: EBITDA & EBITDA Margin Trend

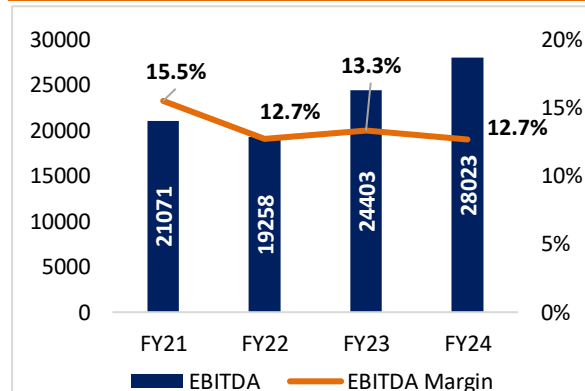


Figure 3: PAT Trend

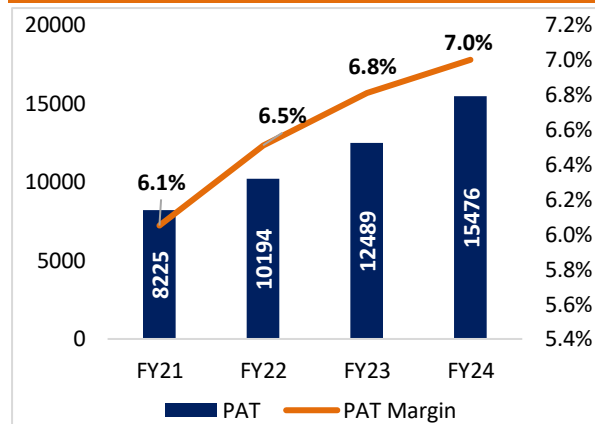
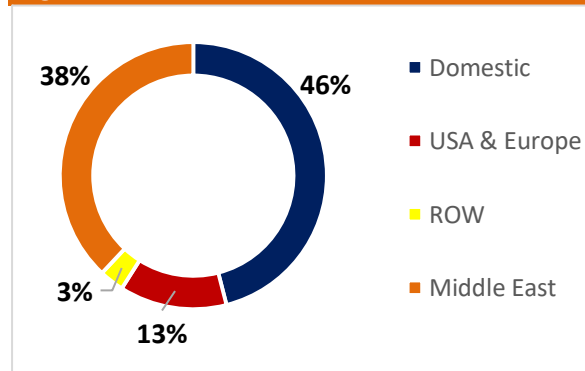


Figure 4: Order Book



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