INVasset Corporate Insights

LARSEN & TOUBRO

27th February, 2024

INVASSET

India's Best Performing and Most Customer Centric PMS

Larsen & Toubro Ltd. is a distinguished Indian conglomerate renowned for its expertise in construction and engineering services. With over seven decades of industry experience, L&T offers comprehensive EPC/turnkey solutions across diverse sectors, meeting the intricate needs of clients worldwide. Specialized divisions cater to critical sectors including defence, heavy engineering, EPC power plant solutions, and hydrocarbon engineering, ensuring top-notch quality and innovation. In recent years, L&T has diversified its portfolio to include emerging business verticals like Financial Services and IT Services, leveraging its strong foundation to drive growth and expansion into new markets. Committed to excellence and innovation, L&T continues to lead the industry, delivering value-driven solutions and setting benchmarks for quality and reliability.

Construction: Larsen and Toubro Ltd. (L&T) is a leading player in the construction industry, with a global presence and decades of experience. Its construction division, L&T Construction, operates in various verticals including Transportation Infrastructure, Buildings & Factories, Heavy Civil Infrastructure, Power Transmission & Distribution, Renewable Energy, Water & Effluent Treatment, and Smart Communication. Additionally, L&T Infrastructure Development Projects Limited (L&T IDPL) focuses on public-private partnership projects in areas like Roads, Bridges, Ports, Airports, Water Supply, Hydel Energy, and Urban Infrastructure.

Engineering: L&T's engineering business comprises four divisions: L&T Heavy Engineering, Power, Defence, and L&T Hydrocarbon Engineering Ltd. L&T Heavy Engineering specializes in custom-designed equipment for various industries, while the Power division offers turnkey solutions for thermal power plants. The Defence segment provides equipment and systems for defense and aerospace sectors, while L&T Hydrocarbon Engineering offers integrated solutions for the hydrocarbon industry.

IT Services: L&T has a presence in the IT industry through its subsidiaries Mindtree, L&T Infotech (LTI), and L&T Technology Services (LTTS). Each company offers IT and engineering services to clients globally, catering to different sectors and niches within the industry.

Finance: L&T's finance segment includes various services such as rural finance, housing finance, wholesale finance, mutual funds, and wealth management, operated through its subsidiary L&T Finance Holdings Ltd. Additionally, L&T is involved in infrastructure development projects, toll and fare collection, power development, and port facilities.

Financial Highlights: Record-high order book of ~Rs 4 trillion as of FY23. Strong growth in manufacturing, construction, and operating expenses in Fy23. Order inflow increased by 19% in FY23 compared to Fy22. Sale of Electric & Automation Business resulted in a net gain of ~8,100 crores.

Other Business Verticals: L&T Realty develops residential and commercial properties in several cities across India. L&T Valves Ltd. manufactures industrial valves globally, and the Construction Equipment & Others business segment deals with construction and mining equipment, rubber processing machinery, and more.

Stock Data	
CMP (27-02-2024)	3506.45
52 Week High/Low	3737.90 / 2082.10
Face Value	2
Market Cap (In Crs)	4,81,395
Enterprise Value (In Crs)	5,86,068
NSE	LT
BSE	500510
Bloomberg	LT:IN
Sector	Engineering & Construction

Shareholding Pattern (in %)		
	DEC 23	SEPT 23
FII	25.50%	25.72%
DII	37.34%	37.16%
Government	0.23%	0.23%
Public	36.93%	36.89%

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	2.80	13.94	26.21
LT	-3.43	31.53	64.18

Key Ratios	
P/E	38
P/S	2.27
P/B	6.08
Debt To Equity	1.56
ROE	11.7%
ROCE	11.6%
Dividend Yield	0.69%

Q3 FY 24 Result Update

Q3 FY24 Result Comparison (In Rs Cr)					
	Q3 FY24	Q2 FY24	Q3 FY23	QOQ	YOY
Sales	55,128	51,024	46,390	8.04%	18.84%
Operating Profit	7,199	7,040	6,653	2.26%	8.21%
Profit Before Tax	4,772	4,991	4,336	-4.39%	10.06%
Net Profit	3,593	3,846	3,058	-6.58%	17.50%
EPS	21.44	23.45	18.17	-8.57%	18.00%

Result Highlights

In the third quarter of fiscal year 2024, LT displayed substantial growth in its financial performance compared to the same quarter of the previous year. The sales figures were particularly strong, with revenues climbing to ₹55,128 Crore, which marks an impressive increase of 18.84% over the Q3 FY23 figure of ₹46,390 Crore. This indicates a solid expansion in the company's business operations and sales efficiency over the year. The operating profit, which reflects the company's earnings before interest and taxes, also experienced a notable rise, improving by 8.21% to ₹7,199 Crore in Q3 FY24 from ₹6,653 Crore in Q3 FY23. This suggests effective cost management and operational performance that enhanced the company's profitability.

Despite the positive annual growth trends, the quarter-on-quarter performance exhibited some volatility. Between Q2 FY24 and Q3 FY24, although there was a commendable increase in sales and operating profit of 8.04% and 2.26% respectively, this growth did not extend to all financial metrics. Profit before tax, which serves as an indicator of the company's profitability before accounting for its tax obligation, fell by 4.39% from ₹4,991 Crore in Q2 FY24 to ₹4,772 Crore in Q3 FY24. Net profit, which is the actual profit after taxes and other deductions, also saw a decrease of 6.58% from Q2 FY24, dropping to ₹3,593 Crore. This suggests that there may have been increased tax expenses or other exceptional costs during the quarter. Lastly, the earnings per share (EPS) — a key indicator of the company's profitability on a per-share basis — experienced a decline of 8.57% from the previous quarter. However, when compared annually, EPS showed a robust increment of 18% from ₹18.17 in Q3 FY23 to ₹21.44 in Q3 FY24, illustrating a strong overall improvement in the company's earning power over the past year.

Sustained Growth Amidst Economic Fluctuations: L&T's financial achievements in Q3 FY24 were remarkable, with the company experiencing a surge in sales to ₹55,128 Crore, a significant leap of 18.84% compared to the previous year's same quarter, reflecting a consistent expansion across the company's various sectors. Operating profit followed suit, registering a solid 8.21% year-over-year increase to ₹7,199 Crore. The data suggests that L&T has successfully navigated through economic fluctuations to maintain a trajectory of growth. Despite the broader market's volatility, the company's strategic initiatives and operational efficiencies have evidently borne fruit, as seen in the gradual quarter-on-quarter growth.

Strategic Capital Expenditure and Revenue Enhancement: The quarter's performance was notably driven by strategic capital expenditure, with a 25% boost in order inflow attributed to vigorous ordering in the Middle East region. Revenue witnessed a substantial 19% increment, underpinned by a significant order book, signifying L&T's ability to secure and execute large-scale projects. The strategic capital investments have led to enhanced activity levels, translating into a 20% increase in recurring PAT. This underscores the company's capacity to leverage its capex effectively to bolster its bottom line, demonstrating a robust link between investment in assets and profitability.

Financial Prudence and Enhanced Profitability: The company displayed commendable financial prudence in Q3 FY24, as evidenced by the reduction in the NWC to sales ratio from 19.0% to 16.6%, indicating a more efficient use of working capital in generating sales. The improvement in ROE to 15.2% from the previous year is a testament to the company's ability to generate profits from shareholders' equity. This impressive 280-basis point increase over December 2022 is indicative of L&T's focus on enhancing shareholder value and operational effectiveness, reinforcing the company's reputation for strong financial management and profitability.

Innovation and Expansion in New Ventures: L&T's commitment to innovation and expansion was apparent in their strategic business initiatives unveiled in Q3 FY24. The successful launch of a pilot data center project signals the company's foray into the digital infrastructure space, while the production of its first 1MW electrolyser marks a milestone in its renewable energy endeavors. Moreover, the incorporation of L&T Semiconductor Technologies Limited (LTST) showcases a strategic move into the semiconductor industry, which is in line with global technological advancements and market demand. These initiatives reflect L&T's strategic foresight in diversifying its portfolio and investing in future-driven business segments.

Concall Highlights

Surge in Order Inflow and Expansion of Order Book: The company's Q3 and 9M FY24 performance demonstrates a substantial increase in order inflow, with Q3 seeing a 25% rise and the 9M period a significant 49% leap over the previous year, indicating a strong demand for the company's offerings. The order book also reflected growth, with a 22% year-over-year increase as of December 31, 2023. This growth is attributed to a strong capital expenditure momentum, particularly in the Middle East, which has bolstered the order inflow. International orders now make up 39% of the total order book, showcasing the company's expanding global footprint. With a robust pipeline of prospects valued at ₹ 6.3 trillion, the company's near-term outlook appears promising, underlining its potential for continued growth in both domestic and international markets.

Advancing Revenue and Operational Efficiency: The Group's financial performance from Q3 FY23 to Q3 FY24 demonstrates a marked advancement, with a 19% increase in revenue, indicating solid growth. This uptick is even more pronounced in the international revenue segment, which jumped from 37% to 44%, showcasing the Group's expanding global footprint. Operational expenses have also seen a significant rise by 27%, potentially due to increased activity levels and cost pressures. Despite this, the Group has effectively managed its finance costs, reducing them by 9%. Staff costs have risen by 8%, likely due to increased hiring and salary increments. There's a modest increase in sales and administrative expenses, but overall operating expenses climbed by 19%. The EBITDA has responded well to these changes, showing a 14% increase, although the EBITDA margin has slightly contracted. The Group's remarks attribute these results to strong execution in their projects and manufacturing, varied manufacturing and construction expenses, and consistent SG&A expenses, with previous impacts from merger integrations being absorbed.

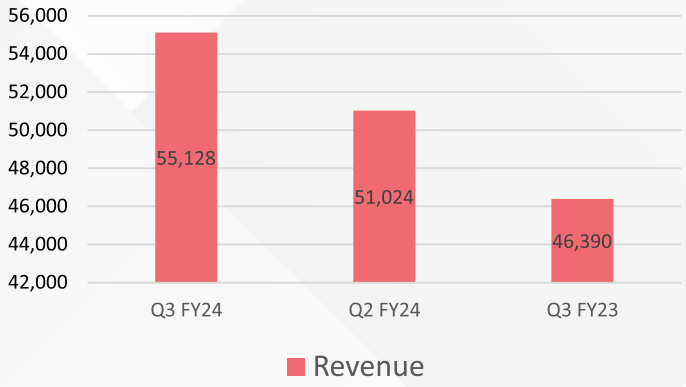
Sustained Earnings Growth and Financial Stewardship: The Group's financial performance from Q3 FY23 to Q3 FY24 has shown healthy growth, with EBITDA increasing by 14% to 57.6 billion, despite a 13% rise in finance costs and a 12% increase in depreciation. Other income grew by 11% which, along with a 7% decrease in tax expense, contributed to a robust 20% growth in Recurring Profit After Tax (PAT), culminating in a 15% rise in Reported PAT for the quarter. Over a nine-month period, EBITDA improved by 17%, other income saw a significant jump of 42%, and despite a 9% increase in finance costs and a 17% rise in tax expense, Recurring PAT surged by 36%, indicating strong execution momentum and effective tax management. The Group notes that finance costs are aligned with borrowing levels, other income gains are due to better treasury yields, and the growth in Recurring PAT is reflective of solid operational performance and strategic tax efficiency.

Diversified Order Inflow and Robust Order Book Composition: The company's order inflow and order book composition for Q3 and 9M FY24 demonstrate a diversified and solid business portfolio. In Q3 FY24, the order inflow amounted to Rs. 760 billion, predominantly from the infrastructure sector, which contributed 57%, and a significant portion of 52% came from the Middle East, reflecting the company's strong international presence. Over the nine months, the order inflow reached Rs. 2307 billion, with infrastructure still the largest sector at 48% and the energy sector showing a substantial share. Geographically, domestic projects increased to 40%, indicating a balanced mix between international and local projects. By the end of December 2023, the order book stood strong at Rs. 4698 billion, with infrastructure commanding a 68% share, underscoring the company's expertise and focus in this area. The geographical spread showed a heavy domestic inclination at 61%, showcasing the company's robust position in the local market while maintaining a significant presence in the Middle East. The data illustrates the company's strategic market positioning and potential for sustained growth across various sectors and regions.

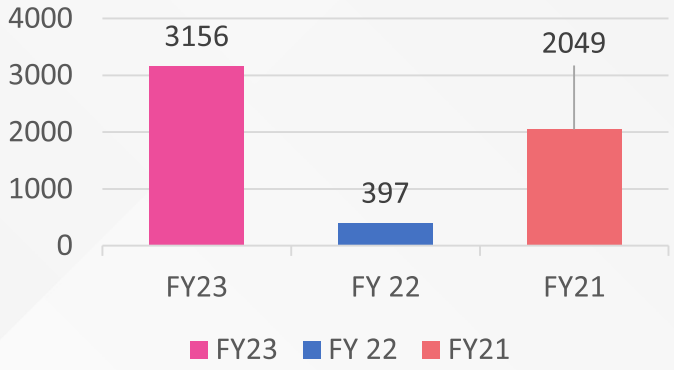
Consolidated Revenue Stream Analysis: The company's revenue composition for Q3 and the first nine months (9M) of FY24 highlights a strong sectoral and geographic diversification. In Q3 FY24, the company earned Rs. 551 billion, with infrastructure projects accounting for half of the revenue, affirming the company's core strength in this area. Services also contributed a significant 29%, with the energy sector following at 14%. Geographically, domestic sales were predominant at 56%, while the Middle East and USA & Europe regions also contributed a notable 23% and 18%, respectively. Over the 9M period, the company's revenues increased to Rs. 1540 billion, maintaining a similar distribution across sectors with services gaining slightly to 31%, and infrastructure slightly lower at 48%. The geographical revenue pattern remained consistent, with a marginal increase in domestic revenue to 58% and a slight decrease in the Middle East to 19%, illustrating the company's strong local presence and its strategic penetration in international markets.

Segment-Wise Performance Overview: Across different business segments, the company showcased significant revenue growth and operational highlights. The Infrastructure Projects Segment reported a 27% increase in net revenue for Q3 FY24, although EBITDA margin contracted slightly. This segment's performance was propelled by strong order inflow, particularly from the Middle East. The Energy Projects Segment saw a 24% jump in net revenue for Q3 and a remarkable EBITDA margin increase, fueled by substantial orders in the Middle East and effective execution of international projects. Hi-Tech Manufacturing reported a 23% rise in revenue with a slight decrease in EBITDA margin, indicating robust order inflow in defense despite certain deferrals. IT & Technology Services achieved a moderate revenue increase with an impressive EBITDA margin, driven by improved utilization levels. The Financial Services Segment displayed stability in operations income with significant growth in PAT, achieving key strategic goals ahead of time. Lastly, the Development Projects Segment experienced revenue growth due to improved ridership in urban mobility projects and high plant load factors in power development, with a substantial rise in EBITDA margin. These insights reflect the company's strategic growth and diversification, with an emphasis on profitability and market expansion.

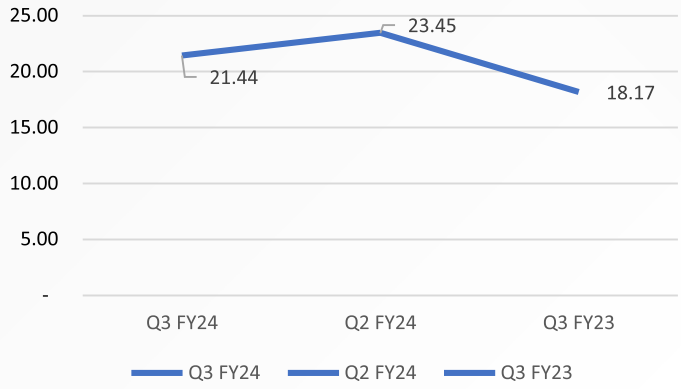
Revenue (In Cr)



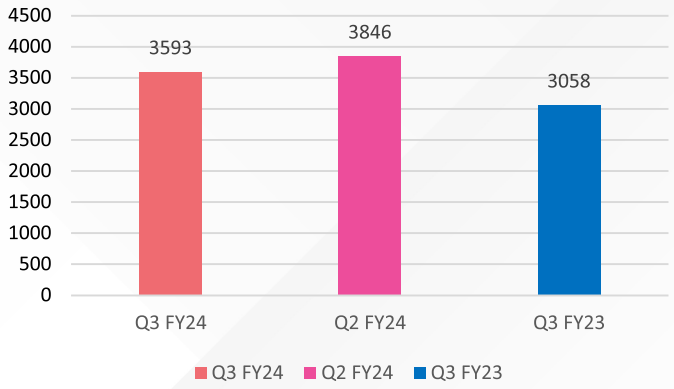
Cashflow(In Cr)



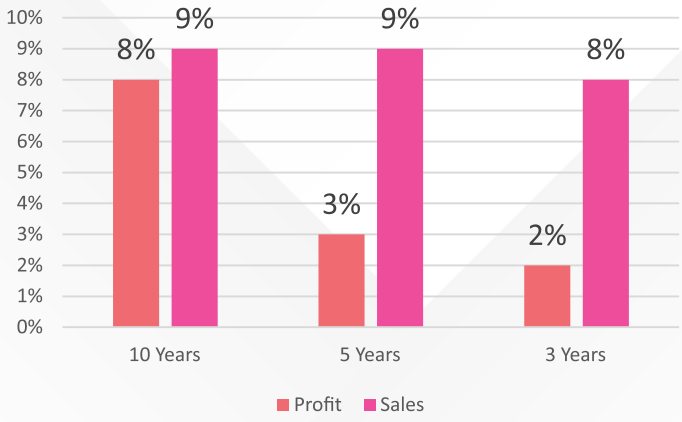
EPS



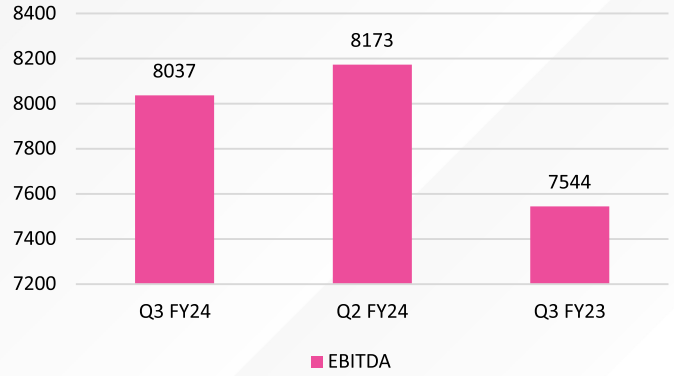
PAT (In Cr)



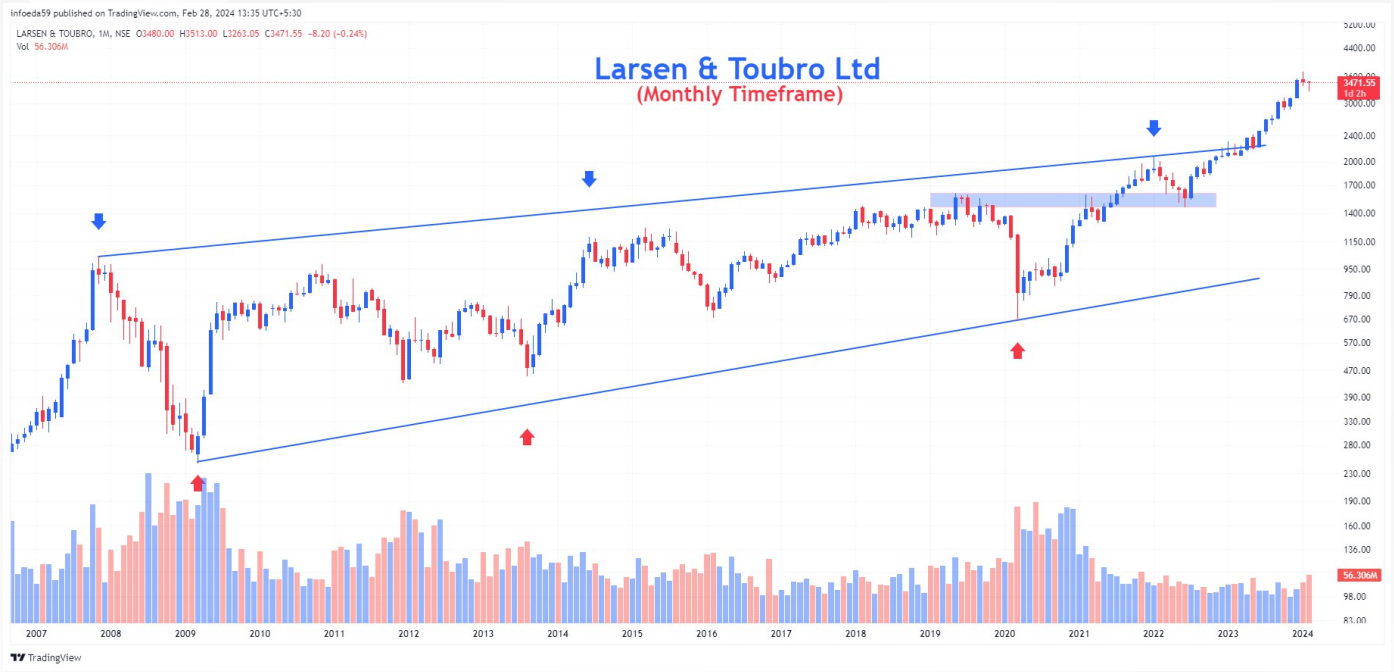
Compounded Growth (In %)



EBITDA (In Cr)



Technical Outlook



The monthly chart for Larsen & Toubro Ltd. showcases a long-term upward trend within a rising channel, indicating bullish sentiment over the years. The price action has seen several peaks and troughs, with notable resistance and support levels marked by blue and red arrows, respectively. The volume shows variability with certain periods of increased trading activity. Recently, the stock has hit a new high, continuing its trend within the upper boundary of the channel, suggesting sustained investor confidence and positive momentum.

The moving averages (MA) and Relative Strength Index (RSI) for Larsen & Toubro Ltd indicate a strong bullish trend. The Simple Moving Average (SMA) and Exponential Moving Average (EMA) across various days are ascending, with the shorter-term MAs above the longer-term MAs, suggesting recent price increases.

The RSI readings of 58.09 for daily and 66.30 for weekly also support the bullish momentum, with values above 50 indicating more gains than losses in the stock's recent price action.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	3375.0	3394.5
10	3353.2	3377.3
20	3377.0	3393.9
50	3469.7	3391.0
100	3280.3	3262.2
200	2914.2	2992.2

Pivot Levels : FIBONACCI		
R1 3510.20	Pivot 3451.60	S1 3411.55
R2 3550.25		S2 3352.95
R3 3608.85		S3 3312.90

	Daily	Weekly
Relative Strength Index (RSI)	58.09	66.30

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