Sector	Infra
Recommendation	BUY
Upside	18%

L&T | CMP: ₹1870-1900 | Target: ₹2230

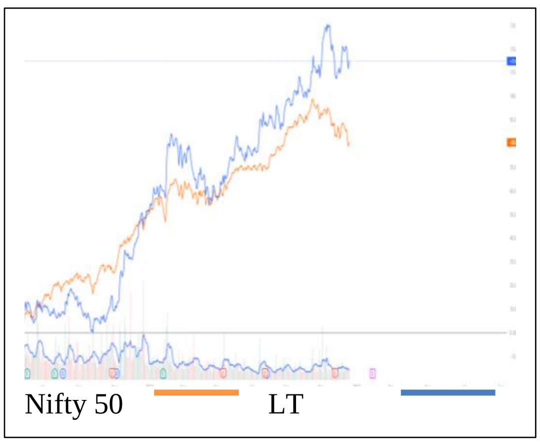
Stock Data	
Sensex	56319
52 Week h/l (₹)	1983/1153
Market cap (`Cr)	256,956
BSE code	500510
NSE code	LT
FV (₹)	2.0
Div. yield (%)	0.98%

Shareholding Pattern

	Mar-21	Jun-21	Sep-21
FII+DII	55.21	55.63	55.97
Government	0.50	0.23	0.23
Public	44.29	44.14	43.80

Source: www.bseindia.com

Share Price Data



Profile

L&T is India's largest engineering and construction company with no real peers when compared on the breadth and depth of offerings. The company's business mix spans a large spectrum—from complex engineering, procurement and construction (EPC) contracts in the hydrocarbon, process, metals and cement sectors to development of infrastructure projects in sectors like ports, roads, metro rail and airports. L&T has been a strong player in the manufacturing of power equipment other industrial goods and machinery. L&T traditionally has strong presence in the Middle East, with multiple JVs and a manufacturing facility as well. The company has scaled up in capabilities and scale, winning large complex turnkey projects across sectors, in the face of intense international competition in overseas geographies.

Investment Rationale

Core 2QFY22 performance Rise in Telecom revenue: Ex-services revenue growth of 12% YoY was soft at Rs227bn, marred by global supply-chain led execution headwinds in Intl projects (Rs50bn, -27% YoY), while domestic revenues bounced back, at 27% YoY growth (Rs178bn, 78% of mix), with a clear cashflow-focussed approach towards execution. Despite weak DE/HE/HC OPMs, the favourable mix, release of contingency claims, cost optimisation & productivity measures helped to offset inflationary headwinds and deliver Ebitda margins of 9.2% (+110/30 bps YoY/QoQ). Deleveraging further aided a 57% YoY increase in PAT (incl corporate) at Rs12.3bn, with 34% YoY/5% QoQ reduction in gross debt at Rs238bn (net debt: Rs48bn). TTM RoCE is 22.6% (+150bps QoQ) and NWC is 22%.

Inflows surprise positively: Inflows from Hydrocarbon topped Infra by 20%, at Rs145bn (with 25% strike rate), enabling a strong 73% YoY growth in core (P&M) orders at Rs301bn in 2QFY22, beating the Street (IIFLe: Rs202bn). With 46% growth in 1HFY22, at Rs452bn, L&T is confident of driving 11-15% growth in FY22 (implying flat 2HFY22), at Rs1.4-1.5trn. Order prospects are 10% higher YoY, at Rs6.8trn, of which infra is Rs5.3trn (+20% YoY) and HC is Rs1.2trn (including large orders).

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21st December, 2021

Steady progress on concessions portfolio: Hyderabad Metro with its improving ridership (0.19m/day from 0.05) will help cut losses, but awaits financial restructuring and external equity infusion. Nabha Power and IDPL residual stake sale is targeted in 6-9 months.

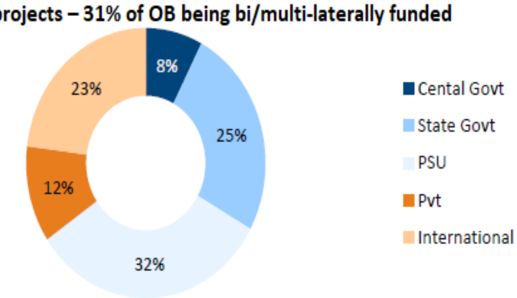
Tendering activity picks up pace, aids inflow in 2HFY22 : Core inflows for L&T (Rs301bn) were healthy, beating Street and IIFL estimates. L&T bagged orders from Oil & Gas, Metros, Rural Water Supply, Minerals and Metal, Public Space and Power T&D. YTDFY22 core inflows stood at Rs452bn, at 46% YoY growth. The company is also L1 in a large HC order. Ordering from the government is likely to pick up in 2HFY22, led by recent announcements of National monetisation and Gati Shakti Plan, while acceleration seen in PSU ordering activities will sustain. Private sector orders (20% of prospects & OB) are expected to improve FY23 onwards, driven by investment outlays announced by core industrials and emerging areas like Data Centres, PLI-led investments and new campuses for ITTS. Management expects robust order wins in 2HFY22, backed by healthy 12% YoY growth prospects of Rs6.83trn, of which Rs4.66trn is from the domestic and Rs2.16trn is from international markets.

Despite delay in project finalisation, inflows (P&M) grew 73% YoY/ 2x QoQ

	Core inflows				
Rs bn	2QFY22	YoY	Mix	Order book	OB mix
Infrastructure	121	-17%	40%	2,427	73%
Power	1	83%	0%	117	4%
Heavy Eng.	6	101%	2%	44	1%
Defence Eng.	4	-67%	1%	73	2%
Hydrocarbon	145	NA	48%	504	15%
Others	23	122%	8%	142	4%
Total	301	73%	100%	3,305	100%

Source: Company, IIFL Research

Domestic order book (77% of mix), is well spread across government/ PSU and international projects – 31% of OB being bi/multi-laterally funded



Source: Company, IIFL Research

Entry into new area as part of the long-term strategic plan: The company has recently launched its online education platform 'L&T EduTech', utilising its technology capability through ITTS and domain expertise in engineering. It is also launching an Industrial E-com platform in a few months, while also planning to invest in other areas like electrolysers, batteries, Data Centres, etc. While initial investments are insignificant, the company intends to step these up over the next few years, and will provide more clarity in 4QFY22, while announcing strategic plan 'Lakshya-2026'.

Multiple levers at disposal to offset commodity headwinds: L&T remains confident of maintaining its OPM guidance of 10.3% for FY22, despite the inflationary environment, led by: 1) variable price contracts at ~60% of OB; 2) significant number of projects reaching margin threshold in FY22; 3) release in cost contingencies from projects nearing completion; 4) enhanced productivity through digitisation; 5) overhead cost optimisation initiatives, negotiation with suppliers & customers, etc. Contrary to the broad concern on profitability in the MAHSR project, L&T highlighted that there is no substantial change in cost parameters (incl. cost contingencies) wrt margins, despite steep commodity inflation witnessed in the last one year. The project is 3- 4% complete and expected to significantly ramp up in the next 12 months. L&T does not perceive any dent on projected margins in this project, over the course of execution. Large projects (DFCC), in the transportation segment, which witnessed cost overruns over FY19-20 due to significant delays in RoW, are now near completion and no further cost overruns are expected.

Risks

Delay in projects: Delay in projects can lead to significant increase in cost of the project.

Outlook & Valuation:

L&T expects acceleration in execution and project award activities, which would lead to growth and greater visibility for FY23-24. Further, L&T reiterated confidence on sustaining 10.3% margins in FY22 and does not expect any dent to OPMs on the MAHSR project (~10% of order book) on the back of solid cost contingencies built into the long lead cycle project. The strong order book of Rs3.3trn (+11% YoY, 3.2x TTM sales) should drive 18% Cagr in Core EPS in FY22-24ii. Valuations are attractive at 12.3x FY23ii Core EPS. Despite weak DE/HE/HC OPMs, the favourable mix, release of contingency claims, cost optimisation & productivity measures helped to offset inflationary headwinds and deliver Ebitda margins of 9.2% (+110/30 bps YoY/QoQ). Deleveraging further aided a 57% YoY increase in PAT (incl corporate) at Rs12.3bn, with 34% YoY/5% QoQ reduction in gross debt at Rs238bn (net debt: Rs48bn). Further, L&T asserted its target to maintain flat NWC YoY, at 22.3% levels. Thus, we recommend a ‘Buy’ on the stock with a long-term target of ₹2230.

Financial Summary

Consolidated (INR in mn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Total Income	1,454,524	1,359,790	1,581,297	1,865,734	2,140,714
YoY growth (%)	7.6	(6.5)	16.3	18.0	14.7
EBITDA margin (%)	11.2	11.5	12.1	12.3	12.5
PAT	88,944	115,829	96,899	120,824	143,734
ROE (%)	14.8	9.8	12.1	13.9	15.0
P/B (x)	3.8	3.3	3.0	2.8	2.5
EV/EBITDA (x)	22.3	21.6	18.0	15.4	13.4
Net Debt/Equity (x)	1.7	1.1	1.1	1.1	1.1

DISCLAIMER

Recommendation Parameters for Fundamental/Technical Reports:
Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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