



Introduction

Larsen & Toubro Ltd (L&T) is a prominent engineering and construction company. It is among the largest integrated engineering, procurement, and construction (EPC) conglomerates in Asia, with a presence in more than 30 countries. The company's operations are divided into several segments including infrastructure, heavy engineering, defense engineering, power, hydrocarbon, and service businesses.

India's Capital spending for FY25 increased by 11.1% yoy to INR 11.11 trillion which is ~3.4% of the GDP, bolstered by the same – even private capex in India has started witnessing green shoots. The capex story in India is just at the tip of the iceberg & as India continues to invest in modernizing its infrastructure and fostering economic growth, L&T is likely to remain a significant beneficiary of both private and public capital expenditure.

Valuation and Outlook

We arrive at a target price using SOTP based valuation of Rs. 4,350/- (+14% Upside from CMP Rs 3,807) at 29x FY26E EPS of Rs 150. Our assessment aligns with management's growth outlook, supported by a robust order backlog of Rs. 6.26 Trn as of FY2024e. L&T targets a Revenue CAGR of 16% from FY2023 to FY2026e, alongside a revised order inflow target of over 20% for FY 2024e, up from the previous target of 15%.

Key Financial Summary

	FY23	FY24E	FY25E	FY26E	CAGR (FY2023- FY2026E)
Net Sales	1,83,341	2,05,379	2,52,200	2,88,700	16%
EBITDA	26,780	27,407	29,641	34,856	9%
EBITDA Margins (%)	15	13	12	12	
Net Profit	12,531	14,045	16,824	19,998	17%
EPS	75	93	127	150	
P/E	51	41	30	25	
ROE (%)	12.2	14.6	17.3	18.7	

Source: Bloomberg Consensus Estimates

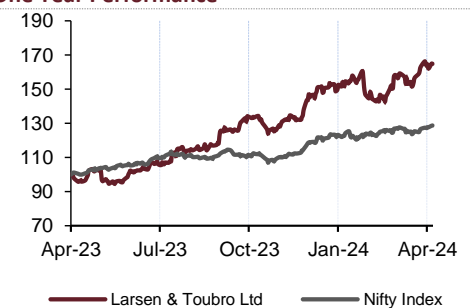
Rating	TP (Rs)	Up/Dn (%)
BUY	4,350	14

Market data

Current price	Rs	3,807
Market Cap (Rs.Bn)	(Rs Bn)	5,233
Market Cap (US\$ Mn)	(US\$ Mn)	62,823
Face Value	Rs	2
52 Weeks High/Low	Rs	3860 / 2163.58
Average Daily Volume	('000)	1,127
BSE Code		500510
Bloomberg		LT.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Sep-23
Promoters	-	-
Public	100	100
Total	100	100

Source: Bloomberg

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Investment Summary

- **Energy Projects** - The Energy Projects division encompasses the Hydrocarbon and Power segments. In the Hydrocarbon segment, L&T undertakes projects related to oil and gas extraction, refining, petrochemicals, fertilizers, cross-country pipelines, and terminals. Notably, L&T has secured significant Onshore and Offshore orders from Middle Eastern clients, leading to a substantial expansion of the business's order book to Rs. 1.07 trillion, marking a 75% YoY increase. This growth contributes significantly to the total order book, which has risen by 22% YoY to Rs. 6.26 trillion as of FY24 bringing in the Group Revenue of Rs. 2053 Bn, primarily driven by the Hydrocarbon project pipeline. Meanwhile, in the Power sector, L&T is a prominent EPC player, providing solutions for both Coal and Gas-based power plants, with an order book of Rs. 54 billion secured in the current quarter.
- **Infrastructure Projects** - The company stands poised to reap substantial advantages from the expansion of the National Highway network by around 60,000 km across crucial economic corridors, strategic zones, and major urban centers as part of the PM Gati Shakti National Master Plan within the National Infrastructure Pipeline (NIP). L&T has been instrumental in constructing the longest sea bridge linking Navi Mumbai to Mumbai. Moreover, the Hyderabad Metro received financial backing of ₹1.5 Bn from the State government, augmenting the total funding in this sector to ₹9 Bn.
- **Defense Segment** - In the Defense Segment, India's pursuit of self-reliance, or 'Atmanirbharta,' is underscored by the government's commitment to decreasing import reliance and integrating India into the global supply chain. L&T prioritizes end-to-end solutions across various defense sectors, emphasizing indigenous design and fostering Indian intellectual property. With order prospects totaling Rs. 163 Bn, the company maintains a comparable outlook to the previous year.

- Green Energy Initiatives: L&T's Green Energy division, centered on Green Hydrogen and its derivatives, is pivotal to the company's Clean Fuel Adoption Policy, focusing on three key segments: EPC business, electrolyser manufacturing, and stationary Battery Manufacturing. Noteworthy achievements include the commissioning of the inaugural 1 MW Electrolyzer at the Hazira facility and securing successful bids for 63 MW capacity under the PLI scheme in tranche I. Additionally, the company is expanding its scope to include Data Centers, with projects such as a 12 MW facility in Chennai slated for completion by Q4 FY'24.
- During 9M FY 2024, there has been a significant improvement in working capital intensity, leading to consistent return ratios for the company over time. With confidence the management has shown on reducing its NWC band from 18% to 16%, this can lead to improved Cash flow from Operations.

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