



BUY

Current Price: Rs.1,850
Target Price: Rs. 2,104
Expected Return: +14%

1Q FY 2011 results

Performance of Larsen & Toubro for the quarter ended June 2010 was inline with our expectations. The company has clocked 6% growth in revenue to Rs. 78,853.1 mn but its net profit has declined by 58% to Rs. 6,661.7 mn on an inflated base. However excluding the EO on account of profit on sale of its stake in Ultratech Cement amounting Rs.10,200 mn in the corresponding previous quarter, the net profit grew by impressive 15% to Rs. 6,661.7 mn.

The higher Operating Margin of 12.9% recorded by the Company in the current quarter, contributed to this growth.

Stock Details

Reuters	LART.BO
Bloomberg	LT IN
CMP	1,850
Market Cap (Mn)	1,098,848
52 Wk High/Low (Rs)	1,951 / 1,390

Valuation

L&T remains one of the fundamentally best proxies to India's infrastructure build-out in our view. L&T's order backlog of Rs. 1,078 Bn plus comprising a book to bill ratio of 2.5 along with stable margins provide good earnings visibility.

Its major subsidiaries are also entering the value creation zone and are expected to significantly aid Larsen & Toubro as a major infrastructure conglomerate. Our sum-of-the-parts-based **target price for the stock is Rs.2,104** — Standalone business contributes Rs.1,921/share (FY12 EPS-91.48*21), LT Infotech contribute Rs.79/share, LT Finance contributes Rs.54/share and LT IDPL contributing Rs.50/share. We flip our recommendation from "HOLD" to "BUY" the stock as it is generating an **upside of 14%** from the current levels.

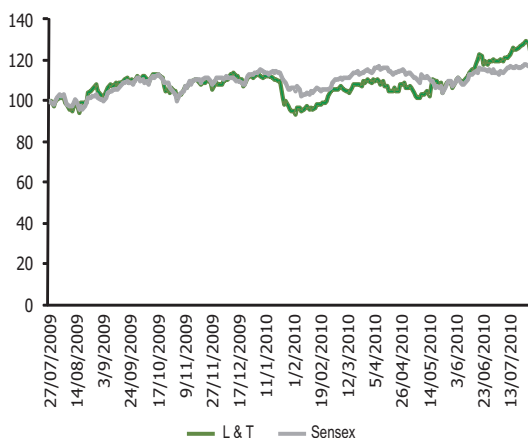
Shareholding Pattern (%)

Financial Institutions / Banks	19.23
Foreign Institutional Investors	14.99
Insurance Companies	5.22
Mutual Funds / UTI	13.96
Non Promoters	43.5

Outlook

The Indian economy continues to grapple with the challenges of inflationary pressure, rising interest and commodity prices, and fallout of the global economic concerns. Nevertheless, the economy is witnessing a number of positive signs such as near normal monsoon, stable fiscal health and an improved index of industrial production during the first two months of the current fiscal. This augurs well for the Government and the Industry to step up the investment in infrastructure development, which is essential to sustain a GDP growth in excess of 8.5%. The Company is fully geared to participate in the nation building program, through its presence in diverse sectors of the economy spanning Thermal, Hydel & Nuclear power, Roads, Ports, Railways, Urban Infrastructure, Defence & Heavy Industries and Hydrocarbon. The Company expects to maintain its growth momentum in the medium term.

Stock Chart



Summary financials

Particulars	Q1 2011	Q1 2010	Var (%)
Gross Sales	79129.50	74308.50	6.5
Excise Duty	778.50	681.40	14.3
Net Sales	78351.00	73627.10	6.4
Other Operating Income	502.10	455.80	10.2
Other Income	2267.60	12446.40	-81.8
Total Income	81120.70	86529.30	-6.3
Total Expenditure	68782.60	65783.80	4.6
PBIDT	12338.10	20745.50	-40.5
Interest	1423.40	1095.90	29.9
PBDT	10914.70	19649.60	-44.5
Depreciation	1141.50	937.30	21.8
Tax	3110.50	2649.10	17.4
Deferred Tax	1.00	81.20	-98.8
Reported Profit After Tax	6661.70	15982.00	-58.3
Extra-ordinary Items	0.00	8710.70	-100.0
Adjusted Profit After Extra-ordinary item	6661.70	7271.30	-8.4
EPS (Unit Curr.)	11.05	27.28	-59.5

Performance

Return (%)	1 Month	6 Months	1Year
Absolute	6	28	24
Relative	3	17	6

Analysts

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Segment analysis

Engineering & Construction (E&C)

The E&C Segment witnessed good Order Inflow during the quarter ended June 30, 2010. Fresh orders worth Rs.138,450 mn were booked registering a y-o-y growth of 65%. Many projects received during the second half of last year are at the initial stage of design/engineering and mobilization of resources.

The segment margin at 13.6% grew by 170 basis points, aided by favorable sales-mix during the quarter.

Electrical & Electronics (E&E)

The E&E segment recorded healthy rise in its Customer Sales at Rs.7,230 mn for the quarter ended June 30, 2010 on the back of a good recovery seen in agricultural and industrial demand. The segment registered a margin of 12%, even on a significantly larger volume of Sales, and despite a slew of input price increases seen during the quarter. This was possible through a healthy product-mix and improved capacity utilization.

Machinery & Industrial Products (MIP)

With the industrial and infrastructure sectors picking up momentum, the Segment registered a growth of 79% in Order Inflow over the corresponding quarter of the previous year. Customer Sales for the quarter at Rs.5,280 mn grew by 26% y-o-y, aided by an improvement of 44% in the revenues of Construction Machinery Business (CMB). The higher margin-yielding CMB sales also helped the segment record a margin of 23% for the quarter in spite of input cost increases.

Order book

Order inflow for the quarter ended June 2010 was Rs.156 bn up 63% on yoy basis but down significantly compared to Rs.238 bn in the sequential previous quarter ended March 2010. The order intake of E&C segment for the quarter was Rs.138 bn registering a growth of 65% yoy. On the back of healthy order bookings, the order backlog as end of Jun 2010 was at Rs.1,078 bn up from Rs.1,002 bn in the sequential previous quarter ended March 2010. The order book of E&C stood at Rs.1,055 bn as at June 30, 2010.

The project orders were bagged from diverse sectors of the economy, such as Power, Hydrocarbon, Buildings & Factories and Minerals & Metal Industries.



Appendix: Financial Statements

Profit and Loss

Year to March (Rs. mn)	FY'08	FY'09	FY'10	FY'11E	FY'12E
Sales & Service (Gross)	299,755.2	422,569.2	378,864.0	422,914.9	484,763.4
Engineering & Construction	210,032.7	315,130.7	323,157.7	361,936.6	416,227.1
Electrical&Electronics	20,564.0	33,806.8	29,865.4	32,553.3	36,459.7
Machinery&IndustrialProducts	26,803.6	27,051.6	22,195.3	24,414.8	27,344.6
Financial Services	7,551.1	11,260.1			
Developmental Projects	3,037.8	5,453.8			
Others	31,766.0	29,866.2	3,645.6	4,010.2	4,732.0
Less: Excise duty	3,626.1	4,208.7	3,207.8	4,229.1	4,847.6
Net Sales	296,129.1	418,360.5	375,656.2	418,685.8	479,915.8
Less: Intersegment revenue		13,561.8	5,308.2		
Other income	5,708.6	8,682.4	12,699.0	13,714.9	14,812.1
Total Revenue	301,837.7	413,481.1	393,663.4	432,400.7	494,727.9
Cost of Goods Sold	219,793.5	302,128.4	284,535.5	313,490.5	356,204.1
Gross profit	82,044.2	111,352.7	109,127.9	118,910.2	138,523.8
Administration expenses	37,835.0	53,328.6	37,657.0	41,868.6	47,991.6
EBITDA	44,209.2	58,024.1	71,470.9	77,041.6	90,532.2
Total Depreciation	5,003.5	5,375.4	4,146.0	4,140.7	4,842.0
Amortization & Impairment of Intangible assets		1,920.9			
Earnings/(loss) before Interest & Taxes	39,205.7	50,727.8	67,324.9	72,900.9	85,690.2
Net Interest expense	2,031.1	4,619.6	5,053.1	5,381.6	5,731.4
Earnings (loss) before taxes (PBT)	37,174.6	46,108.2	62,271.8	67,519.4	79,958.8
Gain on sale of subsidiary stake		165.9			
PBT after extraordinary items	37,174.6	46,274.1	62,271.8	67,519.4	79,958.8
Provision for Income Tax	11,471.2	14,248.7	16,408.7	20,931.0	24,787.2
PAT from ordinary activities	25,703.4	31,859.5	45,863.1	46,588.4	55,171.6
Extraordinary items		7,724.6	10,747.8		
PAT With extraordinary items	25,703.4	39,584.1	56,610.9	46,588.4	55,171.6

Balance Sheet

Year to March (Rs. mn)	FY'08	FY'09	FY'10E	FY'11E	FY'12E
Inventories	50,190.0	71,057.8	85,360.7	90,912.2	103,299.2
Debtors	82,343.6	116,435.3	114,162.4	121,072.2	138,523.8
Cash and cash equivalents	15,607.8	14,590.4	16,213.2	18,724.0	22,891.3
Other current assets	386.2	682.2	784.5	902.2	1,037.5
Total current assets	148,527.6	202,765.7	216,520.7	231,610.7	265,751.8
Loans & Advances	108,355.8	137,312.5	157,909.4	175,279.4	194,560.1
Gross Block	70,900.4	91,250.0	104,250.0	124,250.0	144,250.0
Less: Depreciation	18,708.8	23,386.5	27,532.5	31,673.21	36,515.23
Less: Lease adjustment	2,393.6	2,393.6	2,393.6	2,393.6	2,394.6
Net Block	49,798.0	65,469.9	74,323.9	90,183.2	105,340.2
Capital work-in-progress	13,114.7	29,368.3	33,773.5	37,150.9	40,866.0
Gross block	7,836.8	33,368.8	33,368.8	33,368.8	33,368.8
Less: Amortisation and Impairment	2,931.6	4,716.7	4,716.7	4,716.7	4,716.7
Net block	4,905.2	28,652.1	28,652.1	28,652.1	28,652.1
Capital work-in-progress	17,416.0	32,400.9	32,400.9	32,400.9	32,400.9
Fixed Assets held for sale	0.8	0.8	0.8	0.8	0.8
Investments	55,522.8	68,054.0	76,129.1	87,548.5	98,054.3
Miscellaneous expenditure	285.4	2.8	2.8	2.8	2.8
Total Assets	397,926.3	564,027.0	619,713.3	682,829.2	765,629.0
Current Liabilities	133,551.9	175,381.3	173,566.7	188,094.3	213,722.4
Provisions	22,460.2	33,174.2	32,064.2	32,064.2	32,064.2
Deferred Tax Liabilities (Net)	1,217.2	1,308.3	1,308.3	1,308.3	1,308.3
Deferred Payment Liabilities		19,700.9	19,700.9	19,700.9	19,701.9
Total Current liabilities	157,229.3	229,564.7	226,640.1	241,167.7	266,796.8
Unsecured Loans	57,558.3	79,050.1	79,050.1	79,050.1	79,050.1
Secured loans	65,601.4	104,949.4	106,949.4	108,949.4	110,949.4
Total Long term liabilities	123,159.7	183,999.5	185,999.5	187,999.5	189,999.5
Equity Share Capital	584.7	1,171.4	1,171.4	1,171.4	1,172.4
Reserve & Surplus	106,283.3	135,980.9	192,591.8	239,180.2	294,351.8
Employee stock option outstanding	3,179.7	5,114.7	-	-	-
Less: Deferred emp. compensation exp.	1,736.6	2,390.0	-	-	-
Employee stock option outstanding	1,443.1	2,724.7	2,724.7	2,724.7	2,724.7
Total Shareholder funds	108,311.1	139,877.0	196,487.9	243,076.3	298,248.9
Minority interest	9,226.2	10,585.8	10,585.8	10,585.8	10,585.8
Total Liabilities & Shareholder funds	397,926.3	564,027.0	619,713.3	682,829.2	765,629.0

Summary Financial

Year to March (Rs. mn)	FY'08	FY'09	FY'10E	FY'11E	FY'12E
Total Revenue	301,837.7	413,481.1	393,663.4	432,400.7	494,727.9
Gross profit	82,044.2	111,352.7	109,127.9	118,910.2	138,523.8
EBITDA	44,209.2	58,024.1	71,470.9	77,041.6	90,532.2
PAT	25,703.4	31,859.5	45,863.1	46,588.4	55,171.6
Total Cash	15,607.8	14,590.4	16,213.2	18,724.0	22,891.3
Total Debt	123,159.7	183,999.5	185,999.5	187,999.5	189,999.5
Valuation					
Shares out	583.6	583.6	603.1	603.1	603.1
Price (in Rs.)	1512.0	672.0	1626.0	1822.0	1822.0
Equity Market Cap	882,403.2	392,179.2	980,640.6	1,098,848.2	1,098,848.2
EV	989,955.1	561,588.3	1,150,426.9	1,268,123.7	1,265,956.4
EV/Sales	3.3	1.4	2.9	2.9	2.6
EV/EBITDA	22.4	9.7	16.1	16.5	14.0
EPS	44.0	54.6	76.0	77.2	91.5
P/E	34.3	12.3	21.4	23.6	19.9
RoE	24%	23%	23%	19%	18%
Growth (%)					
Total Revenue	36	37	-5	10	14
Gross profit	16	36	-2	9	16
EBITDA	3	31	23	8	18
PAT	-15.4	24.0	43.0	-17.7	18.4
EPS	-58	24	39	2	18
Profitability (%)					
Gross Margin	27	27	28	28	28
EBITDA Margin	15	14	18	18	18
Operating Margin	13	12	17	17	17
PAT Margin	9	8	12	11	11
Stability (X)					
Debt / Equity Ratio	1.14	1.32	0.95	0.77	0.64
Interest Coverage Ratio	19.3	11.0	13.3	13.5	15.0

Cash Flow

Year to March (Rs. mn)	FY'08	FY'09	FY'10E	FY'11E	FY'12E
Net Profit / (Loss) Before Tax	37,174.6	46,108.2	62,271.8	67,519.4	79,958.8
Depreciation	5,003.5	5,375.4	4,146.0	4,140.7	4,842.0
Impairment of intangible asset		1,920.9	-	-	-
Dividend Received	(1,521.0)	(2,890.9)	-	-	-
exceptional item		7,724.6	-	-	-
Lease Equalisation	217.0	-	-	-	-
Unrealised foreign exchange (gain)/loss	2,221.8	3,743.5	-	-	-
Interest	895.5	4,619.6	5,053.1	5,381.6	5,731.4
(Profit)/Loss on sale of FA & investments	(1,375.6)	(1,124.3)	-	-	-
ESOP discount forming part of Staff Exp.	1,011.2	1,747.9	-	-	-
Prov. for diminution in value of investments	225.6	96.2	-	-	-
Operating profit before WC changes	43,852.6	67,321.1	71,470.9	77,041.6	90,532.2
(Inc./)Dec. in inventories & misc. exp.	(13,587.7)	(21,150.4)	(14,302.9)	(5,551.6)	(12,386.9)
(Inc./)Dec. in Debtor		(34,091.7)	2,272.9	(6,909.8)	(17,451.6)
(Inc./)Dec. in Other Current Asset		(296.0)	(102.3)	(117.7)	(135.3)
(Inc./)Dec. in trade payables / receivables	(28,083.1)				
(Inc./)Dec. in Loan & Advances			(20,596.9)	(17,370.0)	(19,280.7)
Inc./Dec. in current liability		41,829.4	(1,814.6)	14,527.6	25,628.2
Inc./Dec. in Provision		10,714.0	(1,110.0)	-	-
Cash generated from operations	2,181.8	64,326.4	35,817.1	61,620.1	66,905.8
Less Taxes paid	11,679.5	11,503.2	16,408.7	20,931.0	24,787.2
Cash Flow from Operating Activities	(9,497.7)	52,823.2	19,408.4	40,689.1	42,118.5
Purchase of F.A. (inc. Capital WIP)	(36,222.1)	(53,804.9)	(17,405.2)	(23,377.4)	(23,715.1)
Purchase of investments	(31,988.8)	(11,641.8)	(8,075.1)	(11,419.4)	(10,505.8)
Loans/Deposits made with asso.&3rd parties	335.9	1,062.7	-	-	-
Advance towards equity commitment	(106.8)	(6.9)	-	-	-
Interest received	1,092.3	1,064.1	-	-	-
Dividend received from Asso. & invest.	1,650.8	3,470.4	-	-	-
Cash Equiv. acquired / (discharged)	(66.2)	(338.8)	-	-	-
Disposal of subsidiaries		1,666.6	-	-	-
Acquisition of subsidiaries	(848.5)	(4,129.3)	-	-	-
Cash received on sale/transfer of RMC	11,213.7				
Cash Flow from Investing Activities	(66,153.4)	(51,444.2)	(25,480.3)	(34,796.7)	(34,220.9)
Proceeds from issue of share capital	17,015.8	230.4	-	-	1.0
Proceeds from long term borrowings	61,300.2	52,017.4	2,000.0	2,000.0	2,000.0
(Repayments)/proceeds from other borrowings			6,750.5	-	-
Payment (to)/from Minority Interest	1,771.5	1,461.5	-	-	-
Proceeds from sale of L.T Investments			10,747.8	-	-
Dividends paid	(1,141.4)	(4,387.7)	-	-	-
Additional tax on dividend	(355.1)	(705.6)	-	-	-
Interest paid	(1,617.8)	(4,619.6)	(5,053.1)	(5,381.6)	(5,731.4)
unsecured loans paid					
secured loans paid		(5,235.4)			
Cash Flow from Financing Activities	76,973.2	45,511.5	7,694.7	(3,381.6)	(3,730.4)
Net Change in Cash	1,322.1	46,890.5	1,622.8	2,510.9	4,167.3

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