

LARSEN & TOUBRO LTD.

ACCUMULATE

CMP: 638

BSE Code	500510
NSE Code	LT

Key Data

Sensex	9090
52 week H/L (Rs.)	1937/611
Jan H/L (Rs.)	867/611
Market Cap (Rs cr)	38277.7
Avg. daily volume (6m)	900847
Face Value	2

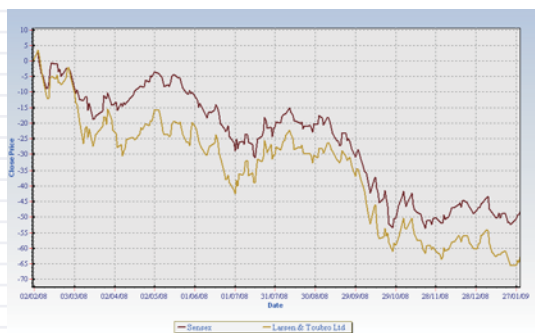
Source: Capitaline

Shareholding Pattern (%)

Promoters	0.00
Institution	37.37
Foreign holding	18.06
Non-promoter corporate holding	5.23
Public & Others	39.34

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

Result Highlights

- Net sales grew by 34.7% (YoY) basis, to Rs. 8594 crore, and Net Profit increased by 25.1% to Rs. 604 Crore (excluding extra ordinary gain of Rs. 916 Crore)
- Core EBIDTA margins (standalone) stood at 9% V/s 11 % (YoY) & Net margin (Excluding extra ordinary income) at 7% V/s 8%. Margins were down due to higher borrowing, higher staffing cost, and reduction in Margin of product business.
- L&T has maintained robust order backlog of Rs.68800 crore to be executed in next 25 months with a price variation clause. Order inflow is at Rs. 14620 crore, growth of 12% YoY basis.
- Management guidance:- Expects growth of 30-35% in sales & Order backlog to scale high to Rs. 75000 Crore.

Financial (Quarterly) Standalone

Rs. Crore	Q3FY09	Q3FY08	YOY	Q1FY09	QOQ
Net Sales	8,594	6,382	34.7%	7,686	11.8%
Total Expenditure	7,834	5,692	37.6%	7,010	11.8%
Core EBIDTA	760	690	10.1%	676	12.4%
Core EBIDTA Margin (%)	9	11		9	
Other Income	329	100	229.0%	156	110.9%
Depreciation	79	53	48.1%	73	7.5%
EBIT	1,011	737	37.1%	759	33.1%
Interest	98	44	122.7%	69	42.0%
Profit Before Tax	913	693	31.7%	690	32.2%
Tax	312	213	46.6%	230	35.7%
Net Profits	601	480	25.1%	460	30.5%
Extraordinary Items	916	0	0.0%	0	
Adjusted Net Profit	1,517	480	215.9%	460	229.7%
ANPM (%)	18	8		6	

Strong infrastructure & Industry Growth & efficient execution of orders led to growth in sales

E&C division contributed 80% to Total revenue

Order inflow mainly contributed By Infrastructure & Process sector

Total Order backlog stood at Rs. 67029 crore

Efficient Execution of orders led The growth in sales

Higher Material Cost, lower Volumes, competitive pressure Adversely impacted the margin

Revenue rise led by efficient execution of large projects.

During the Q3FY09, company reported the revenue of Rs. 8594 crore as against Rs.6382 Crore, and Net Profit increase by 25.1% to Rs. 604 crore (Excluding extra ordinary income), on account of higher borrowing & staff cost. EBIDTA margin took a dip of 200bps. Company gained Rs. 916 Crore from sale of RMC business to Lafarge.

Segmental performances: - Showing signs of strains

➤ **Engineering & Construction (E&C) Segment: Bucking the current Industry down turn:-** The core infrastructure and industrial sectors have attracted sizeable investment in the recent times, driven by sound fiscal and economic policies of the government. The E&C segment reported a significant growth in its Order Inflows during Q3FY09 at Rs. 13843 crore, a growth of 18% on YoY basis. Share of International business stood at Rs. 464 Crore.

E&C segment revenues grew to Rs.7342 crore registering an increase of 50% when compared to the previous year. The share of export revenues represented 33 % of the year's segment revenues. EBIDTA Margins were same at 11.4%.

➤ Electrical & Electronics Segment

Electrical & Electronics segment reported a muted growth in its sales. The segment reported revenues at Rs.588crore for the quarter, a growth of 2% when compared to the previous year. Revenue growth was impacted by slowdown & credit Crunch. EBIDTA Margin saw a deep cut & was down at 12.3%V/s 17.5%, lower by 520 bps. However International sales was up by 85% from Rs. 64 Crore to Rs. 118 Crore.

➤ Machinery & Industrial Products Segment

Overall slow down has adversely impacted both domestic as well as export business. The segment posted Net revenues of Rs.514crore, registering a de-growth of 9%. EBIDTA margin plunge to 13.5% V/s 20.8%, down by 730 bps. Besides decrease in volumes, lower commission income from rental business & under recovery of overhead due, led the breakdown of the segment. Share of export stood at 14%.

Subsidiaries: - Facing the Heat Too

For 9MFY09, **L&T InfoTech** revenue grew by 18% YoY at 1368 crore & PAT at Rs. 200 crore, an increase of 45%. PAT margin stood at 14.6 V/s 11.9 YoY basis.

Total Assets as on Q3FY09 is at Rs. 5600 Crore V/s 4200 crore

For 9MFY09, **L&T Finance** revenue grew by 47% to Rs.576 crore but PAT was down to Rs. 55 crore, a de-growth of 27% on back of higher interest cost.

Total Assets as on Q3FY09 is at Rs. 2100 Crore V/s 1300 Crore.

For 9MFY09, **L&T Infrastructure Finance** revenue grew by 246% to Rs. 226 crore & PAT grew to Rs. 57 crore, an increase of 81% YoY.

Purchased 12% stake in Satyam: - negative for L&T

L&T acquired total 12% stake with an investment of Rs. 650-660 crore. Management has indicated investment to be strategic in nature. We expect L&T to further hike the stake up to 15% to book a seat on the board. **We believe that the investment in Satyam is negative for L&T due to following reasons:-**

- IT is not the core business of L&T.
- Uncertainties and issues of corporate governance concerning Satyam. Given the lack of authenticity of Satyam's financials it would become extremely difficult to put a value on the company.
- Satyam is likely to face more litigation such as the US class action lawsuit and the acquirer might have to face additional liability of unpaid litigations in addition to the company being under the scanner of various government agencies.

Capex Lowered

Standalone capex for FY09 has been reduced to Rs. 1500 crore from earlier Rs. 2000 crore. We expect capex for FY10 to be around Rs. 700-1000 Crore.

Recent Developments

L&T has entered into a partnership with US Major Westinghouse. This partnership will give L&T access necessary to build these light water reactors.

L&T has Signed MOU with Canada's AECL for ACR 1000 reactors.

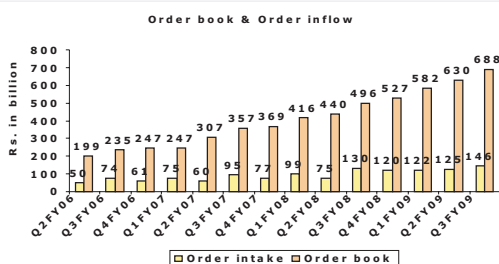
Healthy order book –provides strong visibility

Order backlog of Rs. 68800 Crore, which will be executed over the period of next two years. Order inflow at Rs.14620 Crore, an Increase of 12% YoY. According to the management, orders will continue to flow in at robust pace and don't see any impact of an economic slow down till FY 09-10. Management has reiterated its guidance for FY09 of 30% growth in Order inflow and Order backlog. Management expects order backlog to touch Rs. 75000 Crore by March FY09.

ONGC has 6-7 projects with a total value of 6-7 USD billion. Orders for ONGC are key for Meeting orders inflow target for FY09. L&T is also bidding three projects worth of USD 2bn in the Middle East, which is expected to be announced in March Quarter.

1H FY09 capex stood at Rs. 800 crore.

Order book to sales at 1.77x FY09E



37% of order book & 30% of Order Inflow are from Public Sector

Middle East constitute 9% of order Book & 7% of order inflow

Order inflow	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
Metals	80.0	3237.4	355.0	1107.0	2750	2646	1372
Power	329.0	658.5	430.9	1333.2	3171	1002	
Oil & Gas	877.0	1520.0	693.0	1324.7	726	1491	
Road			287.0		600		
Water	199.2	527.0			635	249	
Coal				170.0	330		
Petrochemicals			240.0	2271.0			
Construction	566.0		6007.8	5029.9		3513	3487
Shipping		280.0	978.0				
Rail		203.0	140.3				1476
Process	209.1						700
Chemicals		77.0					
Others							
(Not Announced)	7539.0	1044.0	3887.1	739.3	3988	1459	7585

(Sources:- Company data, Anagram Research)

Working Capital & Debt

- L&T at the end of Q3FY09 has cash around Rs. 4700 Crore. Gross debt for standalone entity stood at Rs. 6400 Crore. Effective cost of debt is around 7-8%
- L&T's working capital (including cash) moved up marginally to 13.8% from 13% of revenues at 2QFY09 end.

Risk Concern

- Increased possibilities of execution delays.
- Availability of working capital
- Global Slow down & liquidity crunch
- Cancellation of Orders

Valuation & Recommendation

New Business to drive growth Going forward.

Successive years of strong results, guidance from management, better than expected growth has validated our point of L&T: - **"default beneficiary in infrastructure play"** L&T is one of the few companies to have reported better than expected growth in this tough environment. In Our view, strong order backlog of Rs. 68800 crore, and recent correction in stock provides an excellent opportunities for long-term investors to add this stock to their portfolio.

Stock has corrected 20-25% after L&T acquired stake in Satyam. However we strongly believe in L&T's business prospects and canvas of opportunity that it has, far out weights negative's like –Investment in satyam, fear of execution etc. and hence should command a higher price. Our View is supported by:-

- Estimated 27.5% CAGR growth in FY09 & FY10
- Certainty in growth sustainability beyond FY10, given its new business like power, nuclear power, Railways etc.,
- Huge order book of Rs. 68800 Crore

At CMP stock is trading at 10.9x FY10E earnings of Rs.58.32 per Share. We recommended **ACCUMULATING** this stock.

Financial (Consolidated)

Rs. In Crore	FY05	FY06	FY07	FY08	FY09E	FY10E
Sales (net)	14,496.9	16,500.2	20,347.9	29,198.5	38,834.0	50,484.2
Total exp.	13,321.4	14,976.5	17,938.4	25,751.4	34,911.8	44,476.6
EBIDTA	1,175.5	1,523.7	2,409.4	3,447.1	3,922.2	6,007.6
EBIDTA Margin (%)	8.1	9.2	11.8	11.8	10.1	11.9
Other Income	540.7	659.6	1,089.0	820.0	935.0	1,050.3
Depreciation	212.2	243.5	344.9	509.7	776.7	1,009.7
EBIT	1,504.0	1,939.8	3,153.6	3,757.3	4,080.5	6,048.2
Interest	102.5	130.3	53.8	203.1	455.0	520.0
Profit before Tax	1,401.5	1,809.5	3,099.8	3,554.2	3,625.5	5,528.2
Tax	288.1	447.3	743.8	1,160.8	1,268.9	1,934.9
Net Profit	1,113.4	1,362.1	2,355.9	2,393.4	2,356.6	3,593.3
Minority Interest after PAT	63.9	45.0	116.2	68.3	104.9	179.7
Extraordinary Items	0.0	69.8	378.3	23.8	-916.0	0.0
Adjusted Net Profit	1,049.5	1,247.4	1,861.5	2,301.3	3,167.7	3,413.6
ANPM	7.24	7.56	9.15	7.88	8.16	6.76

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RATING INTERPRETATION

Outperformer Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Neutral Expected to remain in a narrow range

Underperform Expected to depreciate more than 10% over a 12-month period

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