

October 18, 2010

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Rating	Accumulate
Price	Rs2,015
Target Price	Rs2,100
Implied Upside	4.2%
Sensex	20,169

(Prices as on February 2, 2010)

#### Trading data

Market Cap. (Rs bn)	1,213.6
Shares o/s (m)	602.1
3M Avg. Daily value (Rs m)	2702.5

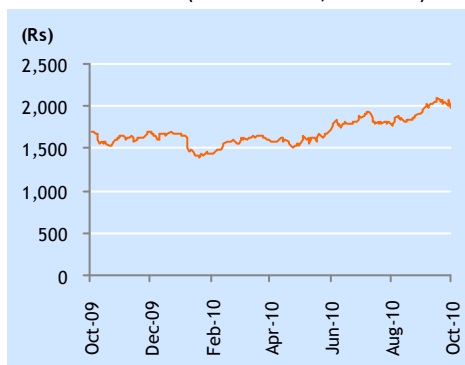
#### Major shareholders

Promoters	NA
Foreign	16.65%
Domestic Inst.	37.28%
Public & Other	46.07%

#### Stock Performance

(%)	1M	6M	12M
Absolute	2.7	28.0	19.2
Relative	(0.3)	(6.9)	11.6

Price Performance (RIC: LART.BO, BB: LT IN)



Source: Bloomberg

## Larsen & Toubro

### Back in business

- Revenues surprises, EBITDA margins hold on:** Larsen and Toubro (L&T) reported a healthy 17.7% YoY and 18.2% QoQ growth in net sales from its core business at Rs92.6bn in Q2FY11, which was above our estimates of Rs86.5bn. Sales growth was strong on account of a 17% YoY growth in E&C business which contributes 84% to the total sales. EBITDA margins, without other operating income (OOI), stood at 10.1% (12.9bps improvement YoY). Other income increased by 67% YoY on account of proceeds from stake sale in Satyam (Rs 700m), proceeds from sale of property, dividend for subsidiaries apart from increase interest income. **Adjusted PAT for Q2FY11 stood close to Rs6.2bn (12.9% YoY growth).**
- Sectoral performance:** For Q2FY11, E&C division registered a revenue growth of 17%, with 11.2% EBIT margins (110bps improvement YoY). Also, the MIP business was good and posted 37% YoY growth, with 17% EBIT margins (down 90bps YoY). On the other hand, E&E business registered a sales growth of 4.3% and EBIT margin stood at 12.8% (220bps decrease YoY).
- Order inflow:** L&T, in Q2FY11, has bagged orders worth Rs204bn, an 11% YoY growth. The current order book stands at Rs1.2trn (41% YoY growth).
- Updates:** L&T Infra Finance has launched bond issue to raise Rs7bn. Current debt of L&T stands at Rs77bn and support to subsidiaries in H1FY11 stood at Rs11.5bn.
- Valuations:** We value L&T's core business at Rs1,825, L&T Infotech at Rs63, L&T Finance at Rs40, L&T Infra Finance at Rs37, L&T IDPL at Rs72, L&T power equipment at Rs17, L&T manufacturing at Rs29 and other businesses at Rs18. We maintain our '**Accumulate**' rating on the stock.

Key financials (Y/e March)	2009	2010	2011E	2012E
Revenues (Rs m)	336,466	366,752	443,420	539,612
Growth (%)	35.4	9.0	20.9	21.7
EBITDA (Rs m)	35,770	44,558	52,705	62,715
PAT (Rs m)	27,091	31,649	35,855	41,468
EPS (Rs)	46.3	52.6	59.5	68.9
Growth (%)	(37.7)	13.4	13.3	15.7
Net DPS (Rs)	—	—	—	—

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
EBITDA margin (%)	10.6	12.1	11.9	11.6
RoE (%)	24.6	20.6	18.3	18.5
RoCE (%)	18.3	15.9	15.1	15.6
EV / sales (x)	3.7	3.5	2.9	2.4
EV / EBITDA (x)	34.6	28.4	24.0	20.2
PE (x)	43.5	38.3	33.8	29.3
P / BV (x)	9.5	6.6	5.8	5.0
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

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**Q2FY11 Result Overview (Rs m)**

Y/e Mar	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	H1FY11	H1FY10	YoY gr. (%)
<b>Net Sales</b>	<b>92,608</b>	<b>78,662</b>	<b>17.7</b>	<b>78,351</b>	<b>170,959</b>	<b>152,289</b>	<b>12.3</b>
<b>Expenditure</b>							
Consumption of RM	20,847	18,662	11.7	16,804	37,651	33,644	11.9
<i>% of Net Sales</i>	<i>22.5</i>	<i>23.7</i>		<i>21.4</i>	<i>22.0</i>	<i>22.1</i>	
Purchase of traded goods	5,084	3,579	42.1	4,443	9,527	6,328	50.6
<i>% of Net Sales</i>	<i>5.5</i>	<i>4.5</i>		<i>5.7</i>	<i>5.6</i>	<i>4.2</i>	
Sales and Admin	5,105	3,433	48.7	3,710	8,815	6,864	28.4
<i>% of Net Sales</i>	<i>5.5</i>	<i>4.4</i>		<i>4.7</i>	<i>5.2</i>	<i>4.5</i>	
Construction, Mfg. & Others	19,203	13,114	46.4	17,934	37,137	25,955	43.1
<i>% of Net Sales</i>	<i>20.7</i>	<i>16.7</i>		<i>22.9</i>	<i>21.7</i>	<i>17.0</i>	
Sub Contracting	18,632	19,350	(3.7)	16,681	35,313	38,632	(8.6)
<i>% of Net Sales</i>	<i>20.1</i>	<i>24.6</i>		<i>21.3</i>	<i>20.7</i>	<i>25.4</i>	
Other Expenses	7,067	4,769	48.2	6,525	13,592	9,522	42.7
<i>% of Net Sales</i>	<i>7.6</i>	<i>6.1</i>		<i>8.3</i>	<i>8.0</i>	<i>6.3</i>	
Personnel Cost	8,288	7,087	17.0	5,633	13,921	12,201	14.1
<i>% of Net Sales</i>	<i>9.0</i>	<i>9.0</i>		<i>7.2</i>	<i>8.1</i>	<i>8.0</i>	
Increase decrease in stock in trade	(976)	826		(2,948)	(3,924)	3,437	
Total Expenditure	83,251	70,816	17.6	68,782	152,033	136,580	11.3
<b>EBIDTA</b>	<b>9,357</b>	<b>7,846</b>	<b>19.3</b>	<b>9,569</b>	<b>18,926</b>	<b>15,709</b>	<b>20.5</b>
<i>Margin (%)</i>	<i>10.1</i>	<i>10.0</i>		<i>12.2</i>	<i>11.1</i>	<i>10.3</i>	
Depreciation	1,212	1,001	21.1	1,142	2,354	1,939	21.4
<b>EBIT</b>	<b>8,145</b>	<b>6,845</b>	<b>19.0</b>	<b>8,427</b>	<b>16,572</b>	<b>13,770</b>	<b>20.3</b>
Interest	1,932	1,310	47.4	1,423	3,355	2,406	39.4
Other Income	4,522	2,702	67.4	2,770	7,292	5,386	35.4
<b>PBT</b>	<b>10,735</b>	<b>8,237</b>	<b>30.3</b>	<b>9,774</b>	<b>20,509</b>	<b>16,750</b>	<b>22.4</b>
Tax	3,793	2,707	40.1	3,112	6,905	5,437	27.0
<i>Tax Rate (%)</i>	<i>35.3</i>	<i>32.9</i>		<i>31.8</i>	<i>33.7</i>	<i>32.5</i>	
<b>Recurring Pat</b>	<b>6,942</b>	<b>5,530</b>	<b>25.5</b>	<b>6,662</b>	<b>13,604</b>	<b>11,313</b>	<b>20.3</b>
Extraordinary Items	708	274		-	708	10,473	
<b>PAT</b>	<b>7,650</b>	<b>5,804</b>	<b>31.8</b>	<b>6,662</b>	<b>14,313</b>	<b>21,786</b>	<b>(34.3)</b>

Source: Company Data, PL Research

**Business Snapshot (Rs bn)**

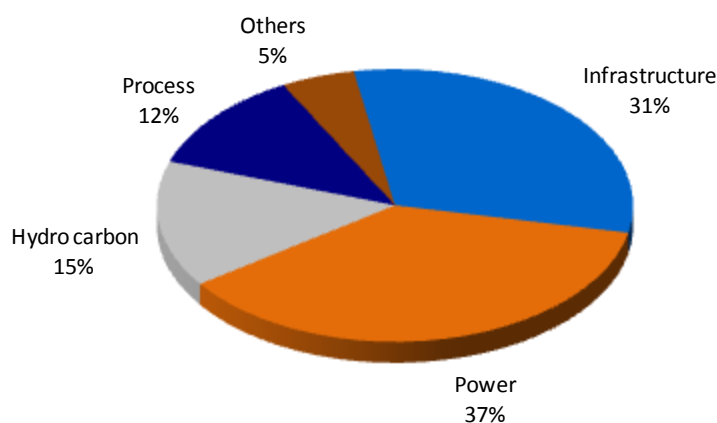
Y/e March	Q2FY11	Q1FY11	Q4FY10	Q3FY10	Q2FY10
<b>Sales</b>					
Engineering & Construction	80.2	66.4	121.1	69.9	68.5
Electrical & Electronics	6.7	7.4	9.8	7.2	7.0
MIP	7	5.4	6.8	5.9	5.1
Others	1.2	1.2	1.0	1.0	0.9
<b>EBIT</b>					
Engineering & Construction	9	8.1	18.4	8.5	6.9
Electrical & Electronics	0.86	0.7	1.3	0.9	1.1
MIP	1.2	1.1	1.4	1.2	0.9
Others	0.17	0.3	0.0	0.2	0.2
<b>EBIT (%)</b>					
Engineering & Construction	11.2	12.2	15.2	12.2	10.1
Electrical & Electronics	12.8	9.9	13.3	12.1	15.0
MIP	17.1	20.4	20.6	20.3	18.0
Others	14.2	27.5	2.0	21.6	18.9

Source: Company Data, PL Research

**Sales Breakup (Rs bn)**

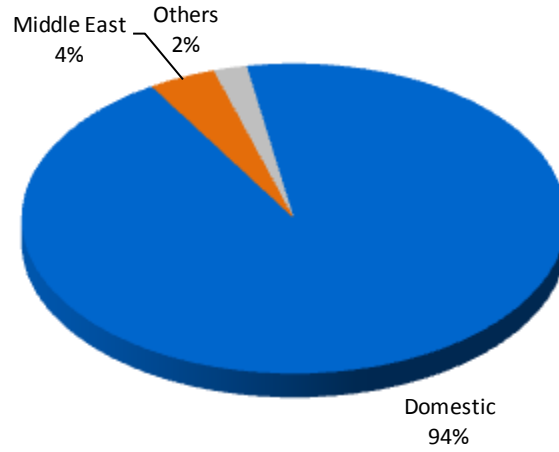
Y/e March	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	QoQ gr. (%)	H1FY11	H1FY10	YoY gr. (%)
Engineering & Construction	80.2	68.5	17.1	66.4	20.8	147	134	9.2
Electrical & Electronics	6.7	7.0	(4.3)	7.4	(9.5)	14	13	10.5
MIP	7.0	5.1	37.3	5.4	29.6	12	10	30.5
Others	1.2	0.9	33.3	1.2	-	2	2	43.7

Source: Company Data, PL Research

**Order Book Composition**


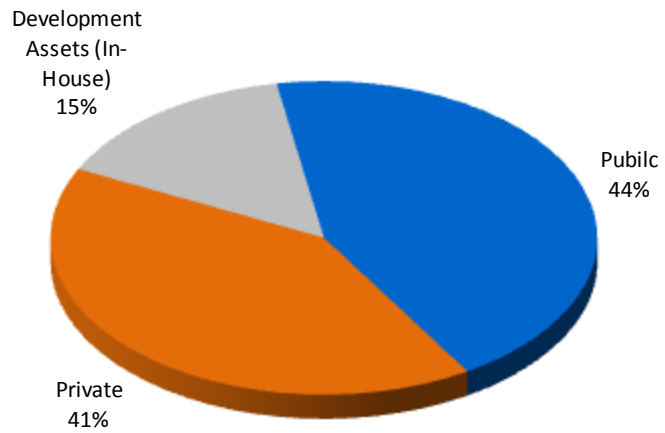
Source: Company Data, PL Research

**Order Book by Geography**



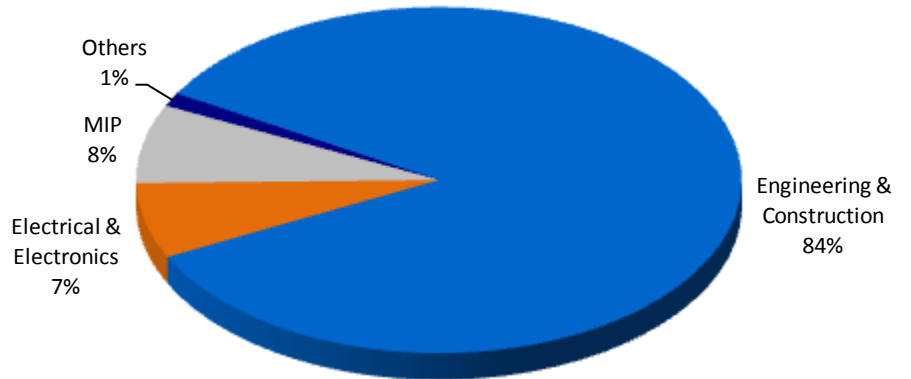
Source: Company Data, PL Research

**Client wise Order Book**



Source: Company Data, PL Research

**Q2FY11 Sales Break-up**



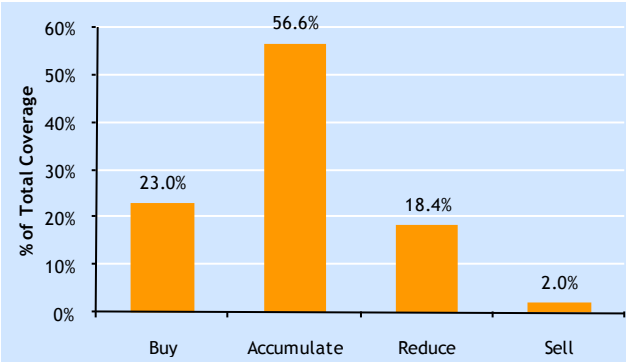
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#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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