

Larsen & Toubro

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,071	LT IN
	REUTERS CODE
S&P CNX: 3,493	LART.BO

Equity Shares (m)	143.4
52-Week Range	2,915/1,287
1,6,12 Rel. Perf. (%)	9/-2/52
M.Cap. (Rs b)	386.3
M.Cap. (US\$ b)	8.4

18 September 2006

Neutral

Previous Recommendation: Buy

Rs2,694

YEAR	NET SALES	PAT*	EPS*	EPS	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)*	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	148,239	10,302	72.8	47.5	37.0	8.0	19.6	21.2	2.6	34.4
3/07E	183,341	15,296	106.7	46.6	25.3	6.7	23.0	26.7	2.1	22.5
3/08E	232,200	19,405	135.3	26.9	19.9	5.8	23.7	28.7	1.7	17.5

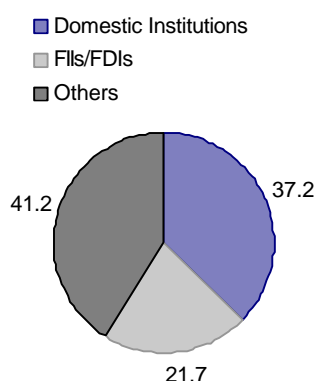
Consolidated; EPS is fully diluted

No more upside from current price, downgrade to Neutral: While L&T continues to witness strong business momentum, current valuations factor in most of the positives. We downgrade the stock to **Neutral**.

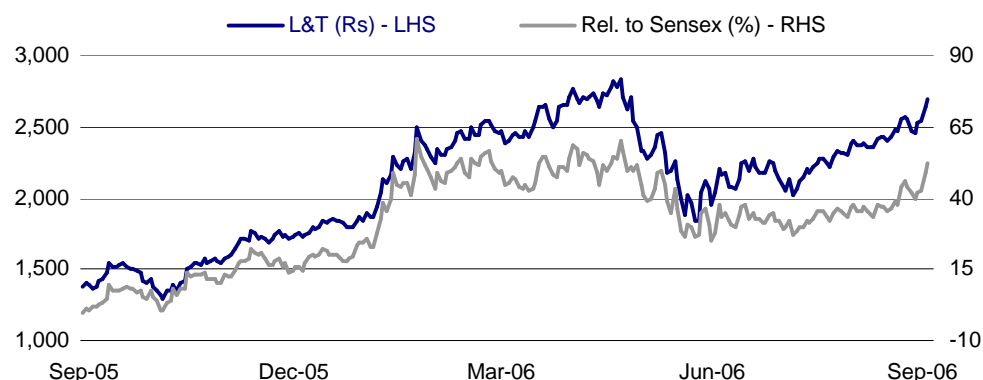
- Current price of Rs2,694 leaves just 2% appreciation for our 12 month price target of Rs2,754. Adjusting for the value of L&T IDPL (Rs147/sh) and Ultratech Cemco (Rs57/sh), L&T quotes at PER of 23.2x FY07E and 18.3x FY08E.
- Our SOTP price target of Rs2,754 (based on 20x FY08 core earnings) factors in a 37% Net Profit CAGR during FY06-08. This leaves little room for disappointments - be it in terms of delays in project awards, execution, etc.
- Order Book to Bill ratio of <2x constrains us to assign a PER of more than 20x on FY08 earnings (18 months forward), while EBITDA margins of 10% constrains us to assign EV/Sales of beyond 2x (FY07).
- L&T derives ~40% of revenues from infrastructure segment. We believe that while L&T demands premium over other stocks in infrastructure (current premium is 80-100%), we do not expect any further expansion in this premium.
- To increase the share of manufacturing business, L&T has announced major capex programme which could impact return ratios, till new businesses mature.
- Recent inclusion in F&O segment has led to near 10% stock price appreciation, providing opportunity to book profits. We believe that ahead of ex-bonus (September 28), any further appreciation in the stock can be used to book profits.

Fundamentals continue to be intact: In our recent interactions, L&T's management outlined strong underlying business momentum, ongoing efforts towards structural change in business mix towards manufacturing and services, and initiatives for longer term growth like Defense, Nuclear, Aerospace, etc. Also, the recent Chairman's Letter to shareholders states that the company is confident of achieving 20-25% growth in the medium term. We will review our recommendation in case valuations become more reasonable or we need to upgrade our earnings estimates.

SHAREHOLDING PATTERN JUN-06 (%)



STOCK PERFORMANCE (1 YEAR)

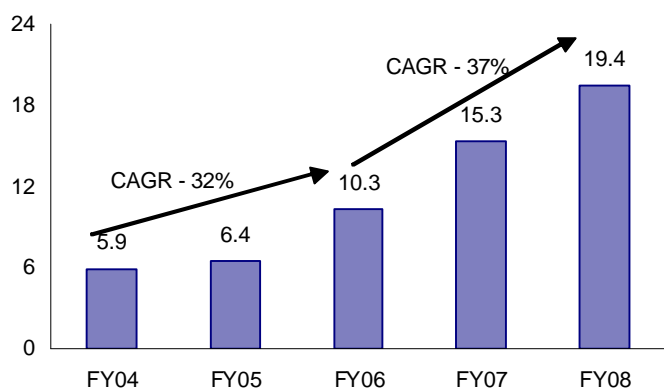


No more upside from current price, downgrade to Neutral

While L&T continues to witness strong business momentum, we believe that current valuations factor in most of the positives. We downgrade the stock to **Neutral** for the following reasons:

- Current price of Rs2,694 leaves just 2% appreciation for our 12 month price target of Rs2,754. Adjusting for the value of L&T IDPL (Rs147/sh) and Ultratech Cemco (Rs57/sh), L&T quotes at PER of 23.2x FY07E and 18.3x FY08E.
- Our SOTP price target of Rs2,754 (based on 20x FY08 core earnings) factors in a 37% Net Profit CAGR during FY06-08. This leaves little room for disappointments - be it in terms of delays in project awards, execution, etc. During FY07, we estimate order intake of Rs292b (vs. Rs223b in FY06 and Rs149b in FY05), and thus sustaining reasonable growth rate on higher base could pose a challenge.

TREND IN CONSOLIDATED NET PROFIT* (RS B) (FY04-FY08E)



* Adjusted Source: Company/ Motilal Oswal Securities

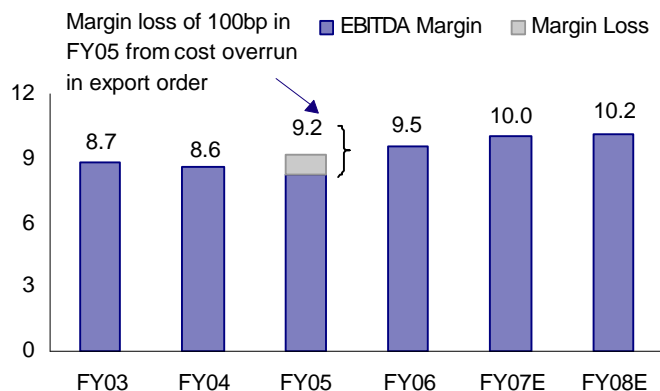
- Order Book to Bill ratio of <2x constrains us to assign a PER of more than 20x on FY08 earnings (18 months forward), while EBITDA margins of 10% constrains us to assign EV/Sales of beyond 2x (FY07).

TREND IN ORDER BOOK TO BILL RATIO (RS B)

	FY03	FY04	FY05	FY06	FY07E	FY08E
Order Booking	107.8	130.8	149.3	223.2	292.4	355.5
Change (%)	27.7	21.3	14.1	49.5	31.0	21.6
Order Backlog	136.9	169.7	179.1	246.6	361.0	497.4
Change (%)	62.1	24.0	5.5	37.7	46.4	37.8
Revenues (Net)	73.6	98.9	130.5	147.3	184.3	233.7
Change (%)	27.0	34.4	32.0	12.9	25.1	26.8
Order Book to Bill (x)	1.9	1.7	1.4	1.7	2.0	2.1

Source: Company/ Motilal Oswal Securities

TREND IN EBITDA MARGIN (%)



Source: Company/ Motilal Oswal Securities

- Construction companies quote at PER of 10-16x FY07 and 8-10x FY08 (adjusted for value of BOT, real estate, etc). L&T derives ~40% of revenues from infrastructure segment. We believe that while L&T demands premium over other stocks in infrastructure (current premium is 80-100%), we do not expect any further expansion in this premium.

COMPARATIVE VALUATIONS

	CMP (RS/SH)	REPOR.PER (X)		ADJ. PER (X)*	
		FY07E	FY08E	FY07E	FY08E
Larsen & Toubro	2,694	25.3	19.9	23.3	18.4
Gammon	374	27.4	18.2	15.5	10.3
Hindustan Const.	107	18.7	13.6	10.3	7.5
IVRCL	254	20.3	14.0	14.6	10.0
Nagar. Const.	304	17.0	10.8	13.0	8.2

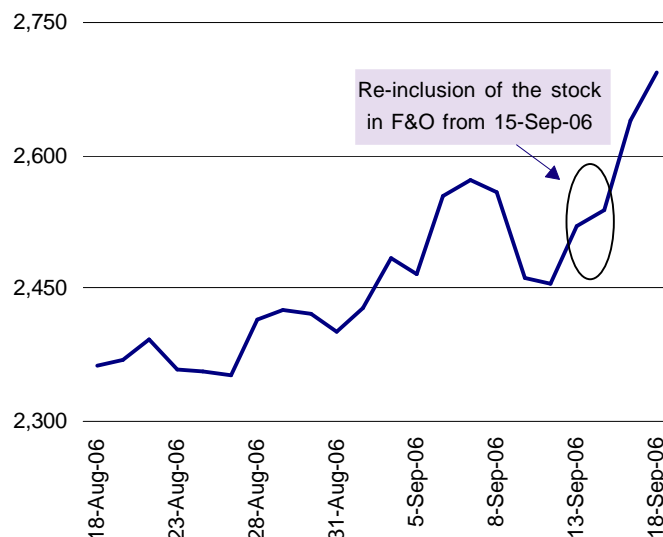
* Adjusted for BOT real estate etc. Source: Motilal Oswal Securities

- ✎ **Entering a phase of significant capex:** To increase the share of manufacturing business, L&T has announced major capex programme aimed at expanding capacity at Hazira, and also setting up new manufacturing facilities in Coimbatore, Middle East and China.
- ✎ On the back of Rs6.7b capex during FY06, the management has guided for capex of Rs7.5b during FY07 and similar amount in FY08 also.
- ✎ Management also indicated capex of Rs10b towards new ship building facility.
- ✎ Media reports suggest possibility of Rs10b capex towards manufacturing super-critical equipments for thermal power projects.
- ✎ L&T IDPL would also require a capital infusion of Rs7b (through a rights issue).

Thus, we expect L&T's net block to increase from Rs13.2b in FY06 to Rs26b in FY08, and we expect capex phase to continue till FY09. As many of the new projects entail long gestation, they could impact return ratios over the medium term, till new businesses mature. We do not expect any meaningful contribution from these businesses till FY09.

- ✎ Recent inclusion in F&O segment has led to near 10% stock price appreciation, providing opportunity to book profits. We believe that ahead of ex-bonus (September 28), any further appreciation in the stock can be used to book profits.

STOCK PERFORMANCE (RS/SH) (ONE MONTH)



Source: Company/ Motilal Oswal Securities

Possible upward surprises: Our SOTP based target price of Rs2,754 faces upside possibility from: (1) higher than expected momentum in order intake, (2) structural improvement in EBITDA margins, (3) higher value creation possible through subsidiaries, and (4) notable success in strategic initiatives like Defense, Nuclear, Aerospace, ship building, hydro power, etc which improves longer term growth visibility. We will review our recommendation in case valuations become more reasonable or we need to upgrade our earnings estimates.

L&T: SUM OF PARTS VALUE

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
L&T Standalone	Engineering, Construction, & Electricals	FY08E PER (x)	20	293,462	2,160	Premium to industry average
Ultratech Cemco (11.5% Stake)	Cement	Discount to Current Price	540	7,718	57	25% discount to current price
L&T Infotech (100% Stake)	Infotech	FY08E PER (x)	10	23,884	176	Discount with niche second tier IT companies
L&T Infrastructure Development Projects Limited						
L&T Infrastructure Development Projects				19,976	147	Based on benchmark price of recent stake sale to strategic investors
L&T Power Investments Pvt Ltd						
HPL Co Generation	Captive Power Projects	FY08E PER (x)	10	6,105	45	Discount to sector average PER
India Infrastructure Developers	Captive Power Projects	FY08E PER (x)	10	608	4	Discount to sector average PER
L&T Finance (100% stake)	Hire Purchase, Leasing, Bill Discounting	FY08E PER (x)	10	6,046	44	In line with SREI Finance L&T has advantage of catering to in house requirement of L&T's dealers / vendors / customers, etc
International Ventures						
L&T (Oman) Llc	EPC Projects in Oman	FY08E PER (x)	10	1,859	17	Discount to L&T's valuations
L&T Saudi Arabia Llc	EPC Projects in Saudi Arabia	FY08E PER (x)	10	980	9	Discount to L&T's valuations
Zubair Kilpatrick Llc	Electrical and Instrumentation for Oil / Gas	FY08E PER (x)	10	423	4	Discount to L&T's valuations
L&T International FZE	Commodity Hedging	FY08E PER (x)	8	4,274	31	Lower PER, given risks in commodity hedging
Manufacturing Ventures						
L&T Komatsu	Excavators and Hydraulic System	FY08E PER (x)	10	3,550	26	In line with industry average
Audco India	Industrial Valves	FY08E PER (x)	10	3,531	26	Revenue growth and margins have shown strong consistency
EWAC Alloys	Welding	FY08E PER (x)	10	938	7	
Total					2,754	

Management meeting indicates continued business momentum

In our recent interactions, L&T's management outlined strong underlying business momentum, ongoing efforts towards structural change in business mix towards manufacturing and services, and initiatives for longer term growth like Defense, Nuclear, Aerospace, etc. Also, the recent Chairman's Letter to shareholders states that the company is confident of achieving 20-25% growth in the medium term.

Well positioned for impending investment boom

L&T is the largest construction and engineering company in India, with a market share of ~10-25% in most of the segments it operates in. The company is currently witnessing a significant ramp up in order inflows, led by higher infrastructure spending and pick up in industrial capex. The sharp increase in order book is driven by capex surge in key segments like Hydrocarbon (India and Middle East), minerals and metals, water and effluent treatment, infrastructure (roads, ports, airports, mass rapid transit systems, railways, water systems, etc), power (hydro and nuclear) and coal gassifiers (China, US and India).

L&T'S POSITIONING IN KEY SEGMENTS

Fertilizers:	Amongst the Top 4 equipment manufacturers in the world today
Hydrocarbons:	Set up most of the hydrocarbon projects in India
Road:	10% market share in NHAI road projects
Upstream:	35-40% market share in ONGC's business
Steel:	75-80% market share (excl imported equipments)
Infrastructure:	L&T's revenues from construction segment stood at ~Rs75-80b in FY06, translating into an industry market share of nearly 9-10%

Source: Company/ Motilal Oswal Securities

Increased traction in order in-flows

L&T is currently witnessing significant ramp up in order inflows. On the back of a 50% increase in order intake during FY06 (to Rs223b), the management has guided for a 30% increase in order intake during FY07. Order backlog as of June-06 stood at Rs283b (equivalent to 1.9x FY06 revenues), up 55% YoY.

KEY ORDER INTAKE (FY07 YTD)	(RS M)
Palanpur - Swaroopgunj NHAI project (Annuity)	5,500
Datang Intl. Power Gener. (Gasification equipments)	3,680
Fuel depot for Kuwait Aviation Fuelling Company	5,810
Construction / electrical systems, Jamnagar Refinery	8,000
Shipbuilding, Zadeco (Netherlands)	4,400
Water Supply Systems, Kerala Water Authority	3,470
Singoli Bhatwari 60MW Hydro Project, Uttaranchal (BOOT)	5,000
IOC, Panipat Petrochem Complex	9,000
Water supply project, Bilaspur	4,816
Vadodara - Bharuch NHAI Project (Toll)	7,500
Coal handling plant, Barh Power project, NTPC	3,800
Methanol and carbon monoxide plants, Saudi Arabia	6,900
Captive Co-Gen 227MW Power Plant, IOC Panipat Petrochem	11,500

Source: Company/ Motilal Oswal Securities

On the exports front too, L&T has witnessed sizeable traction in order book, driven by orders from the hydrocarbon segment and foray into coal gassifiers (China and Middle East). Higher crude oil prices is leading to higher capital outlays in Middle East countries, largely in the areas of upstream exploration, refinery expansion, fertilizers, petrochemicals, liquefaction plants, public infrastructure, water supply, etc. L&T has a presence in all major centres in the Middle East, either as subsidiary companies or JVs with local partners. In China, the company has offices in Beijing and Shanghai.

As part of Project Lakshya, the company has drawn up plans to increase exports from 17% of revenues (March 2006) to 25% (by FY10). The company is in the process of setting up manufacturing facilities in China (for circuit breakers), fabrication facilities in Oman and manufacturing joint venture in Saudi Arabia (switch gears).

Takeaways from Chairman's Letter suggest continued business momentum

Chairman's letter to shareholders (part of FY06 Annual Report) outlined a definite positive trend, both in terms of the overall buoyancy in the Indian economy, backed by the surge in the output of the manufacturing sector and L&T's ability to capitalize on the same.

Some of the key takeaways from the Chairman’s Letter are:

- ☞ Current activity level and favorable economic environment reinforce our confidence in **foreseeing growth rate of 20-25% in the medium term**. Hydro carbon, infrastructure, power and minerals and metals sectors continue to be on the growth path with large projected investments.
- ☞ Five-year strategic plan (known as ‘Lakshya’) entered the implementation phase during FY06. The plan aims at achieving global competitiveness, advancing the company in the journey towards profitable growth and transforming it into an Indian multinational.
- ☞ L&T has identified the Middle East and China as prime centers for international expansion for manufacturing and project businesses.
- ☞ L&T has announced its formal entry into shipbuilding - a business that will add a new dimension to our manufacturing capability. While operations have been initiated at our Hazira works, we are actively seeking other options in the east as well as the west coast of the country. Excellent prospects are envisaged in defence, nuclear and aerospace.

Successful portfolio rebalancing could improve EBITDA margins

The management is working towards a structural change in the revenue composition of L&T from contracting and turnkey projects, towards manufacturing and services, where the margin profile is significantly better. This could also insulate the company, to a certain extent, from the cyclical turns of the process industry and infrastructure investments.

PORTFOLIO REBALANCING - REVENUE COMPOSITION (%)

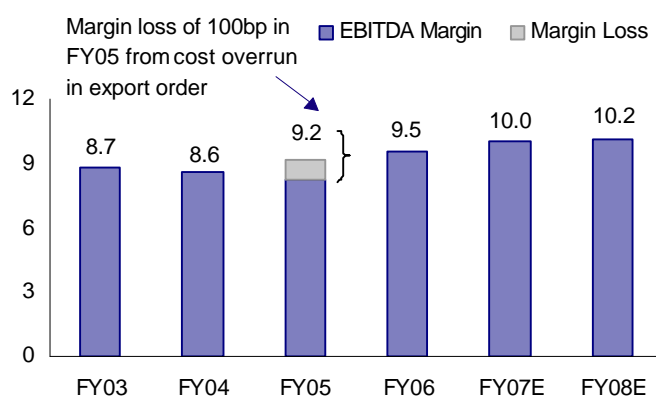
	FY06	TARGET (FY10)	MARGINS (%)
Construction	50	35	5-8
Turnkey Projects	29	25	5-9
Manufacturing	20	25-30	12-20
Engineering / Services	1	10-15	15-25

Source: Company/ Motilal Oswal Securities

To increase the share of manufacturing business, the management has announced a major capex programme aimed at expanding capacity at Hazira, and also setting up new manufacturing facilities in Coimbatore, Middle East and China. Further, the management has also indicated a capex of Rs10b towards the new ship building facility. Media reports also suggest possibility of a capex of Rs10b towards setting up equipments for manufacture super-critical thermal power projects.

During FY06, L&T reported an EBITDA margin of 9.5% (up from 8.2% in FY05). The key reason for lower margins during FY05 had been cost overrun on one export order, which impacted overall margins by 100bp.

TREND IN EBITDA MARGINS (%)



Source: Company/ Motilal Oswal Securities

During FY07, we factor in 45bp YoY improvement in EBITDA margins at 10%, and a further 20bp YoY improvement in FY08. Margin improvement is being driven by (1) improved margins in E&C business to 8.25% in FY07 and FY08 vs 8% in FY06 (2) increasing share of high margin segments like Electricals and Electronics, Machinery and Industrial Products, Manufacturing, etc to revenues.

Subsidiaries could unlock value

During FY06, the net profit addition to the standalone numbers of L&T (post netting off dividends received) was Rs2.5b (pre-exceptional) v/s Rs597m in FY05. Driven by the strong growth witnessed by L&T Infotech, L&T

Finance and L&T Infrastructure Development, we expect this contribution to increase to Rs3.4b in FY07 and Rs4.8b in FY08. Thus, the EPS accretion from subsidiaries is expected to increase from Rs16/sh in FY06, to Rs23.4/sh in FY07 and Rs33/sh in FY08.

L&T'S SHARE OF SUBSIDIARY PERFORMANCE (RS M)

	FY06	FY07	FY08
L&T Infotech	702	1,389	2,388
L&T Finance	351	465	605
Power Sector Subsidiaries	410	581	677
Infrastructure Dev Subs	145	180	217
L&T Infocity	100	100	100
Other Subsidiary / Associates	802	634	746
Total	2,500	3,348	4,732

Source: Company/ Motilal Oswal Securities

L&T Infotech is the key driver of subsidiary performance for L&T

L&T Infrastructure Development Project Limited:

L&T IDPL (78.4% subsidiary of L&T) has one of the largest and most diversified BOT portfolios in the country (in segments like roads, airports, ports, water supply, commercial property development, etc) with 32 projects (19 subsidiaries and 13 associates) worth Rs115b. The segment wise composition stands as: roads and bridges Rs39b (34%), ports Rs25b (22%), urban infra Rs32b (28%) and airports Rs19b (17%).

L&T IDPL PROJECT PORTFOLIO (AUGUST 2006)

SECTOR	EQUITY		EQUITY		PROJECT COST* (RS B)
	NO. OF SUBS.	INVEST. (RS B)	NO. OF ASSOC.	INVEST. (RS B)	
Roads & Bridges	8	2.2	2	0.8	39
Ports	-	-	4	0.9	25
Urban Infrastructure	11	0.9	4	0.2	32
Others (Airports, Water, Hydro, Railways, etc)	-	-	3	0.5	19
Total	19	3.0	13	2.3	115

*Under implementation

Source: Company

Apart from these, L&T IDPL is also tapping opportunities in hydro power, power transmission and railways, where the company is better positioned due to association with L&T. This is because L&T has expertise in setting up power transmission network and also manufactures transformers, switchgears, etc. Even in Railways, L&T has had 40% market share in railway electrification, and has expertise in

signaling, etc. In highway development programmes, L&T IDPL expects to maintain market share of 10-15%. L&T IDPL also intends to acquire concessions, as the management believes that some road projects which have been bid at aggressive rates will not be able to achieve financial closure. Also, Operation and Maintenance of road projects and also ports is a thrust area, given the expertise gained in Jaipur - Kishengarh Expressway.

L&T IDPL - REAL ESTATE PLANS (AUGUST 2006)

EXISTING PROJECTS	CITY	BUILT UP		PERIOD	PROJ. COST (RS M)
		M SQ FT	AREA		
Cyber Park Phase 2	Bangalore	0.20		FY07	390
Serene Country Phase 2	Hyderabad	0.98		FY08	1,670
L&T Phoenix Info Parks	Hyderabad	3.50		FY09	7,900
L&T Tech Park	Kochi	0.60		FY08	1,600
IT Park in Nagpur	Nagpur	2.50		FY11	5,600
(L&TIDPL)					
Siruseri Chennai - Residential	Chennai	5.00		FY12	7,500
Colombo Hi Rise	Colombo	1.00	2006-10		6,500
Total		13.8			31,160

Source: Company

Some of the key companies in portfolio have turned profitable and we believe that by FY10, several of the existing projects would be generating cash flows.

PROFITABILITY OF SOME OPERATIONAL PROJECTS (RS M)

	FY06	FY05	VAR (%)
NICE (Narmada)	50.0	22.0	127
GVK-Jaipur Kishangarh	245.0	0.0	-
L&T TIL (Coimbatore)	86.0	50.0	72
L&T WIT (Wartak)	9.0	14.0	-36
L&T Infocity Limited (Cons.)	149.0	98.0	52
ISP Haldia	80.0	57.0	40
Kakinada Seaports	277.0	54.0	413
Cyber Park	-59.0	-3.0	-

Source: Company

As at August 2006, L&T IDPL has invested equity of Rs5.4b in subsidiaries and associate companies. Total equity commitment (existing projects and also projects where witnessing firm visibility) stands at Rs17-18b over next 3-4 years. The differential could be financed as (1) Rs5.5b raised through private equity (2) Rs7b to be raised through rights issue. Further, L&T IDPL could in the next 2-3 years reach near self-financing mechanism, as the company can

securitize cash flows in operational projects. For instance, in the road vertical, the company recently raised Rs1.3b through securitization of two projects; while in FY2010, it would have portfolio of operational road projects worth Rs40b, which can be securitized at that point. Excepting a scenario of bagging some large projects, L&T does not expect to dilute further in the next 3 years.

The management stated that L&T IDPL bids for projects at project IRR of 18% (where the company carries the revenue risk) and for other projects at 16-18% IRR. Going forward, they would invest in projects only with a majority share holding, and would divest existing projects where the company has a minority stake. Till date, the equity investment in such projects stand at Rs1.2b, and the company intends to divest projects of Rs700m at reasonable premium. The reason for insisting on a majority stake is that with L&T's association, the project has the following advantages (1) mitigation of construction risk to a large extent (2) lower financing costs and (3) better leverage possibility.

L&T Infotech: We expect L&T Infotech (100% subsidiary of L&T) to report a scorching pace of 47% CAGR in revenues and 84% in net profit during FY06-08. During FY06, net profit of the company stood at Rs702m, increasing to Rs1.4b in FY07 and Rs2.4b in FY08. Thus, EPS contribution of L&T Infotech to L&T's EPS (fully diluted) would increase from Rs5.4/sh in FY06 to Rs16.7/sh in FY08. Margin improvement is being driven by improved utilization rates and better cost apportionment. During FY06, the company added new centres at Bangalore, Chennai and Mumbai and also increased the employee strength to 6371 from 3728. Value unlocking is a possibility through an IPO during FY08.

TREND IN L&T INFOTECH FINANCIALS (RS M)

	FY05	FY06	FY07E	FY08E
Revenues	5,810	7,981	11,971	17,358
% YoY	54	37	50	45
Operating Profit	830	1,126	2,035	3,298
Operating Margin (%)	14.3	14.1	17.0	19.0
Net Profit	460	702	1,389	2,388
% of Revenues	7.9	8.8	11.6	13.8
EPS Contribution to L&T (Rs/sh)	3.7	5.4	10.1	16.7

Source: Company/ Motilal Oswal Securities

L&T Power Investments, currently has a portfolio of four power projects – HPL Cogeneration (51% stake), India Infrastructure Developers (100%) and Koyaseema (5.97%). Recently, the company bagged the development rights for 60MW Singoli Bhatwari hydro power project from Government of Uttaranchal on a BOOT basis (concession period 45 years, estimated cost Rs5b).

Key future growth initiatives

L&T has embarked on a series of strategic initiatives, aimed at driving the longer term growth and margin profile of the company. Several of these initiatives are in nascent stages now, and are expected to contribute in a meaningful manner beyond FY08.

✍ **Defense, nuclear & aerospace:** Defense, Nuclear and Aerospace comprise around 2.5-3% of L&T's standalone revenues. This segment enjoys significantly higher EBITDA margins and over the longer term, is expected to witness a scorching pace of growth as private sector participation and indigenization are being encouraged. High entry barriers in these segments will restrict threat of competition from new entrants over the medium term. This presents a sizeable opportunity for companies like L&T, which have already established themselves as credible vendors in these segments.

Very recently, company has received orders for manufacture of Pinaka, India's first indigenous rocket launcher. This is also the first contract handed out to a private company, for production of complete system by the Ministry of Defence. L&T is also in discussions with Boeing and Airbus to meet their offset obligations, against large orders placed by Air India and Indian Airlines. Also, in terms of nuclear power plants, the addressable market for L&T stands at 60% of the project cost.

LETTER OF INTENT'S ISSUED TO L&T BY DEFENSE MINISTRY

- ✍ Armoured and other Combat Vehicles
- ✍ Warships, submarines, weapon platforms (offshore, floating and submerged)
- ✍ Radar, Sonar, electronic warfare equipment and systems sensors
- ✍ Weapon launchers and launch systems both land and ship based
- ✍ Small arms, mortars, field guns, Air Defence Guns, anti-tank weapons systems
- ✍ Armaments including missiles, rockets, torpedo, land/Naval mines, depth charges
- ✍ Airborne assemblies, systems and equipment for Aircrafts, Helicopters and Uninhabited Aerial Vehicles & Equipment for the Aviation sector

Source: Ministry of Defense

- ✍ **Shipbuilding:** In May 2006, L&T received the first order for ship building for 4 container ships valued at Rs4.4b from Zadeko Ship Management CV, Netherlands. The company is now in the process of zeroing on an appropriate site to set up a shipyard that can build large vessels, including large crude carriers. The management has outlined capex of Rs10b on this

segment, going forward. In May 2006, the company acquired 61% stake in International Seaport Dredging Pvt Ltd, promoted by Dredging International NV, Belgium. The current capacity of the company is 15,000 dwt (dead weigh ton) which would be enhanced to 2,00,000 to 3,00,000 dwt. L&T is also targeting ship repair segment, as there are few facilities in India catering to this market.

- ✍ **Hydropower:** India plans to add 20,000MW of hydro power capacity till FY12. Given that the construction component in a hydro power project is 60-70% of the total project cost, the size of opportunity for construction companies is sizeable. L&T has formed a joint venture with Patel Engineering to bid for hydro power projects. The JV has already secured order of Rs4.4b for the Parbati Hydro Electric Project Stage III. Recently, the company also bagged development rights for 70MW Singoli Bhatwari hydro power project from Government of Uttaranchal on BOOT basis (concession period 45 years, estimated cost Rs5b).

INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
Total Revenues	99,235	134,363	150,546	186,195	235,815
Growth Rate (%)	-0.6	35.4	2.0	23.7	26.6
Excise Duty	2,454	1,768	2,308	2,854	3,615
Net Revenues	96,781	132,595	148,239	183,341	232,200
Growth Rate (%)	2.1	37.0	11.8	23.7	26.6
Manufacturing Expenses	74,916	105,161	115,903	139,815	176,496
Staff Cost	6,781	7,645	8,900	11,125	13,907
S G & A Expenses	9,477	10,961	12,170	15,268	19,337
EBITDA	5,607	8,828	11,266	17,133	22,461
Change (%)	-32.9	57.4	27.6	52.1	31.1
EBITDA Margin (%)	8.4	7.5	9.6	10.4	10.5
Depreciation	854	926	1,141	1,367	1,749
EBIT	4,754	7,902	10,125	15,767	20,712
Net Interest	366	536	751	747	1,193
Recurring Other Income	2,739	1,261	2,061	1,968	1,980
Non-recurring Other Income	145	4,028	1,622	0	0
Add: Trf to Revaluation Res	16	15	15	15	15
Share from Subsidiaries	400	191	64	65	65
Profit before Tax	7,688	12,861	13,137	17,068	21,578
Tax	2,361	3,023	3,713	5,120	6,905
Effective Tax Rate (%)	30.7	23.5	28.3	30.0	32.0
Reported Profit	5,328	9,838	9,424	11,947	14,673
Extra-ordinary Adjustments	145	4,028	1,622	0	0
Adjusted Profit	5,182	5,811	7,802	11,947	14,673
Growth (%)	27.9	2.1	34.3	53.1	22.8
Consolidated Profit	5,912	6,408	10,302	15,296	19,405
Growth (%)		8.4	60.8	48.5	26.9

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
Equity Capital	249	260	275	287	287
Reserves and Surplus	27,502	33,432	46,127	57,702	66,229
Net Worth	27,750	33,691	46,402	57,989	66,516
Debt	13,244	18,591	14,536	12,158	19,658
Deferred Tax Liability	1,134	945	773	773	773
Capital Employed	42,128	53,227	61,710	70,920	86,946
Gross Fixed Assets	20,382	21,066	23,007	30,367	38,867
Less : Depreciation	10,496	10,895	9,822	11,189	12,938
Add : Capital WIP	262	658	2,861	3,000	3,000
Net Fixed Assets	10,164	10,831	16,046	22,179	28,930
Investments	9,659	9,609	19,195	21,115	23,226
Inventory	18,123	23,108	22,103	29,077	36,826
Sundry Debtors	33,146	39,636	48,142	48,462	61,376
Cash & Bank	3,753	8,280	5,832	4,961	6,144
Loans & Advances	12,974	17,318	19,116	23,976	30,365
Other Current Assets	1	40	173	0	0
Current Assets	67,997	88,382	95,365	106,476	134,711
Current Liabilities	46,154	55,994	69,116	79,069	100,140
Net Current Assets	21,843	32,388	26,249	27,406	34,571
Miscellaneous Expenditure	462	399	220	220	220
Capital Deployed	42,128	53,227	61,710	70,920	86,946

E: Most Estimates

RATIO					
Y/E MARCH	2004	2005	2006	2007E	2008E
Basic (Rs)					
Adjusted EPS	41.7	44.7	56.8	83.3	102.3
Consolidated EPS	47.5	49.3	75.0	106.7	135.3
Consolidated EPS (Full)	47.5	49.3	72.8	106.7	135.3
Cash Earning per Share	42.2	47.2	62.5	92.9	114.5
Book Value	219.4	256.3	336.1	402.9	462.4
Dividend Per Share	16.0	27.5	22.0	30.0	38.0
Dividend Payout (Incl. Div T)	42.2	41.3	36.6	40.6	41.9
Valuation (x)					
P/E (Standalone)		60.2	47.4	32.3	26.3
P/E (Consolidated)		54.6	35.9	25.3	19.9
P/E (Consolidated) (Fully Diluted)		54.6	37.0	25.3	19.9
Price / CEPS		57.1	43.1	29.0	23.5
EV/EBITDA		44.6	34.4	22.5	17.5
EV/ Sales		2.9	2.6	2.1	1.7
Price / Book Value		10.5	8.0	6.7	5.8
Dividend Yield		10	0.8	1.1	1.4
Return Ratio (%)					
RoE	16.6	19.2	19.6	23.0	23.7
RoCE	12.7	19.2	21.2	26.7	28.7
Turnover Ratios					
Debtors (Days)	121.9	107.7	116.7	100.0	100.0
Inventory (Days)	66.7	62.8	53.6	60.0	60.0
Asset Turnover (x)	2.4	2.5	2.4	2.6	2.7
Leverage Ratio					
Current Ratio (x)	1.5	1.6	1.4	1.3	1.3
D/E (x)	0.5	0.6	0.3	0.2	0.3

CASHFLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
PBT before EO Items	7,688	12,861	13,137	17,068	21,578
Add : Depreciation	861	957	1,160	1,367	1,749
Interest	366	536	751	747	1,193
Less : Direct Taxes Paid	2,361	3,023	3,713	5,120	6,905
(Inc)/Dec in WC	1,709	-6,018	3,691	-2,028	-5,982
CF from Operations	8,263	5,313	15,026	12,032	11,634
(Inc)/Dec in FA	29,537	-1,624	-6,375	-7,499	-8,500
(Pur)/Sale of Investments	1,945	50	-9,586	-1,920	-2,111
CF from Investments	31,482	-1,574	-15,961	-9,419	-10,611
(Inc)/Dec in Networth	-18,069	38	6,740	4,492	0
(Inc)/Dec in Debt	-18,517	5,347	-4,055	-2,378	7,500
Less : Interest Paid	366	536	751	747	1,193
Dividend Paid	2,246	4,061	3,446	4,852	6,146
CF from Fin. Activity	-39,197	788	-1,512	-3,485	161
Inc/Dec of Cash	547	4,528	-2,448	-871	1,183
Add: Beginning Balance	3,205	3,753	8,280	5,832	4,961
Closing Balance	3,753	8,280	5,832	4,961	6,144

N O T E S



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