

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	LART.BO
Bloomberg code	LT IN
Market cap. (US\$ mn)	22,390
6M avg. daily turnover (US\$ mn)	70.3
Issued shares (mn)	610
Target price (Rs)	1,921

Performance (%)	1M	3M	12M
Absolute	(3)	1	1
Relative	3	0	(9)

#### Valuation ratios (Standalone)

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	70.0	82.4
+/- (%)	15.9	17.8
PER (x)	23.6	20.0
PBV (x)	4.0	3.5
Dividend/Yield (%)	0.8	1.0
EV/Sales (x)	1.9	1.6
EV/EBITDA (x)	16.0	13.5

#### Major shareholders (%)

FII's	15
MF's	13
BFSI's	25
Public & Others	47

#### Financial highlights (Standalone)

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)	FY12E	YoY (%)	FY13E	YoY (%)
Net revenue	133,749	150,784	12.7	366,752	434,959	18.6	540,567	24.3	646,965	19.7
Other oper. income	2,102	3,058	45.5	3,597	4,090	13.7	4,826	18.0	5,550	15.0
EBITDA	20,508	23,409	14.1	47,756	56,226	17.7	65,712	16.9	78,068	18.8
EBITDA margin (%)	15.1	15.2	–	12.9	12.8	–	12.0	–	12.0	–
Other income	3,298	3,698	12.1	9,103	11,949	31.3	13,157	10.1	14,508	10.3
Depreciation	1,162	2,358	102.9	4,146	5,992	44.5	7,064	17.9	8,250	16.8
EBIT	22,644	24,749	9.3	52,713	62,182	18.0	71,805	15.5	84,327	17.4
Interest	1,356	1,362	0.4	5,053	6,474	28.1	8,924	37.8	10,225	14.6
PBT & EoI	21,288	23,387	9.9	47,660	55,708	16.9	62,881	12.9	74,102	17.8
EoI	960	2,268	–	11,910	3,329	–	–	–	–	–
Tax	7,867	8,793	11.8	16,409	19,459	18.6	20,291	4.3	23,913	17.9
Reported PAT	14,381	16,862	17.3	43,755	39,579	(9.5)	42,591	7.6	50,189	17.8
Adjusted PAT	13,421	15,050	12.1	31,845	36,757	15.4	42,591	15.9	50,189	17.8
Adjusted EPS (Rs)	22.2	24.7	11.3	52.9	60.4	–	70.0	–	82.4	–

## Larsen & Toubro

Upgrade to BUY

Price: Rs 1,652

BSE Index: 18,326

20 May 2011

### 4QFY11 Result – Strong order inflows lend good growth visibility

**Earnings in line with moderate execution:** L&T delivered 12% earnings growth, despite slower execution against strong base last year. Amidst inflationary environment, higher warranty provisioning and MTM losses on currency swaps, EBITDA margins were maintained at 15% (10 bps+ YoY), better than expected. FY11 earnings grew by 15% with 12.8% EBITDA margins and 19% sales growth.

**FY11 inflows up 15% despite adverse environment and delays:** More importantly, 4QFY11 order intake was strong, up 27% YoY led by orders from infrastructure and process segment. Order book visibility has significantly improved at Rs 1.3 trn, at 3x TTM sales.

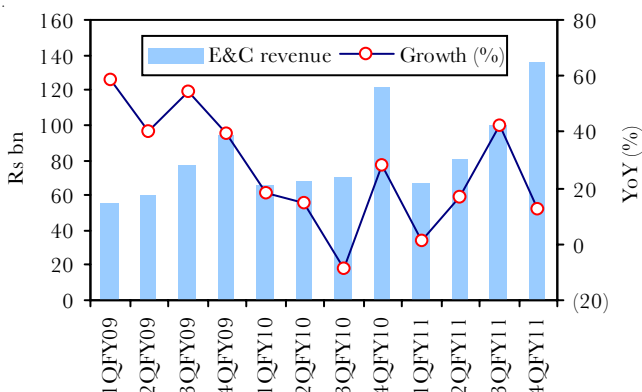
**We believe the concerns relating to order flow delays and poor visibility were more than factored in, as the stock has corrected by 19% in the last six months, underperforming the market by 14%. Given diversified business streams, healthy balance sheet and strong order book to drive growth and weather any adversity in business environment, we believe L&T will pan out as the best play on the infrastructure segment and continue to trade at premium valuations. At 23.7x FY11 and 20x FY12E consolidated earnings, we believe the valuations are attractive with 17% earnings CAGR for FY11-13E, discounting all concerns; we upgrade L&T to Buy (from Outperformer earlier), with SOTP based target price of Rs 1,921.**

- With a cautiously optimistic outlook, the management has addressed key concerns and expects 15-20% intake growth with 25% sales growth in FY12 while cost and competitive pressures are likely to keep margins lower by 50-75 bps. This has been in line with our FY12 expectations; hence our earnings estimates remain unchanged. Given current business environment, we expect inflow growth of 16% over FY11-13E.

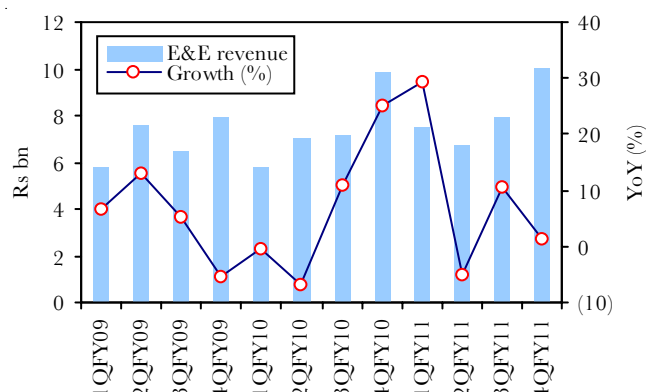
Segmental highlights (Standalone)

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)
<b>Revenue</b>						
Engineering & Construction	121,076	136,643	12.9	323,158	382,187	18.3
Electrical & Electronics	9,883	10,014	1.3	29,865	32,139	7.6
Machinery & Industrial products	6,819	8,661	27.0	22,195	27,931	25.8
Others	1,005	2,105	109.5	3,646	6,804	86.6
<b>Total</b>	<b>138,783</b>	<b>157,423</b>	<b>13.4</b>	<b>378,864</b>	<b>449,062</b>	<b>18.5</b>
Inter-segmental revenues	1,804	2,237	24.0	5,308	5,910	11.3
Income from operations	136,979	155,186	13.3	373,556	443,152	18.6
<b>PBIT margin (%)</b>						
Engineering & Construction	15.3	14.6	-	12.7	12.5	-
Electrical & Electronics	13.4	15.2	-	13.2	12.4	-
Machinery & Industrial products	21.0	20.0	-	20.4	19.0	-
Others	2.0	21.8	-	12.2	17.3	-
<b>Total</b>	<b>15.3</b>	<b>15.0</b>	<b>-</b>	<b>13.2</b>	<b>13.0</b>	<b>-</b>

E&C execution growth moderate at 13% against a strong base

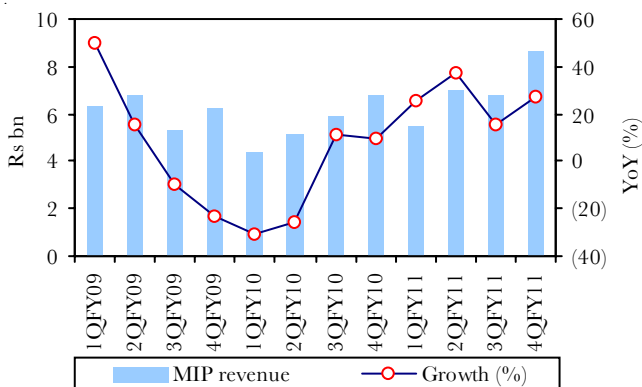


E&E – flat performance with subdued orders

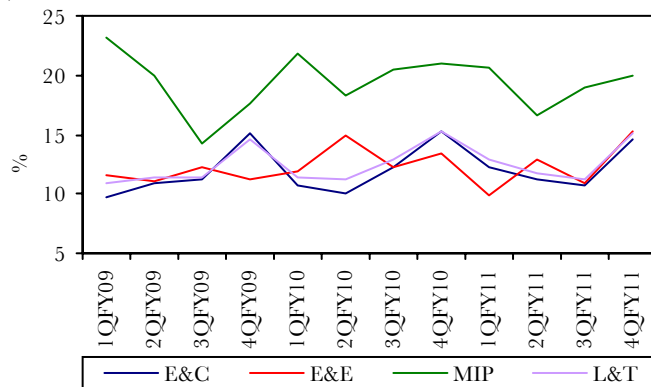


Source: Company, B&K Research

MIP – strong sales in construction & mining equip + values



Despite cost & competitive pressures margins broadly maintained

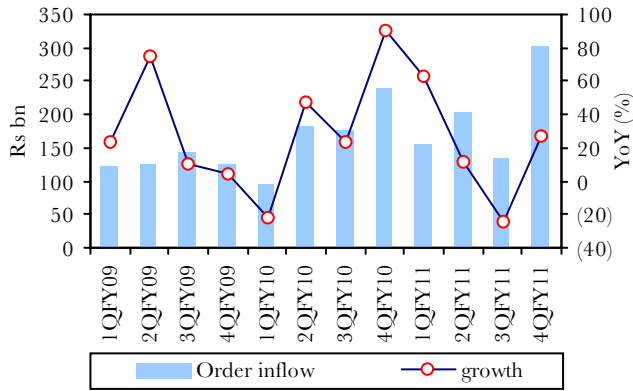


Source: Company, B&K Research

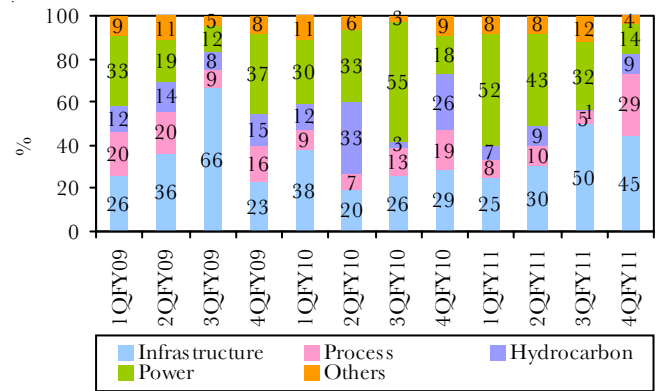
**FY11 inflows at 15% despite adverse ordering environment and project delays**

While power segment was flat with 1% growth and hydrocarbon was lower by 57% YoY, infrastructure (96% YoY+) and process (97% YoY+) led growth.

**Order intake growth at 27% YoY, at Rs 303 bn, beats expectations**

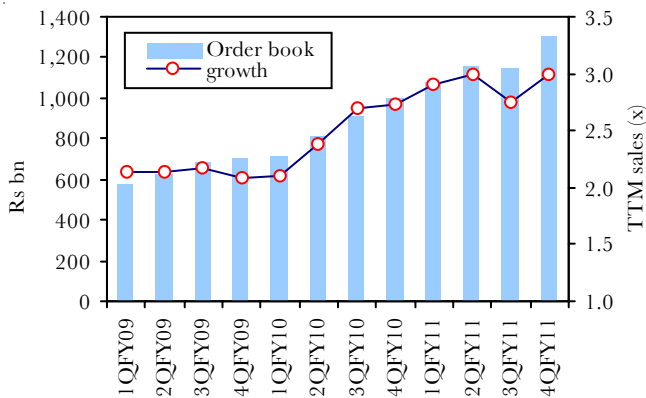


**Infra and process lead 4Q inflows, albeit power lags**

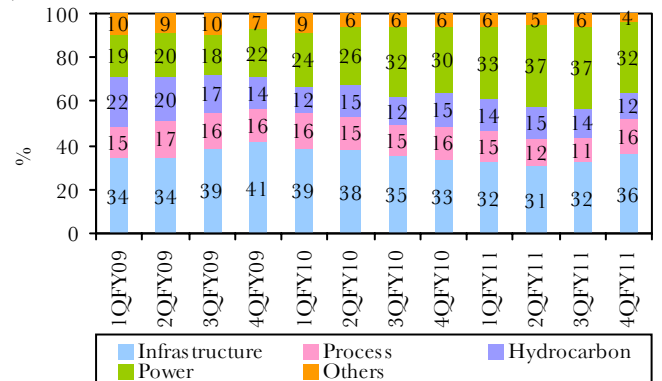


Source: Company, B&K Research

**Order book of Rs 1.3 trn, 3x TTM sales provides strong growth visibility**



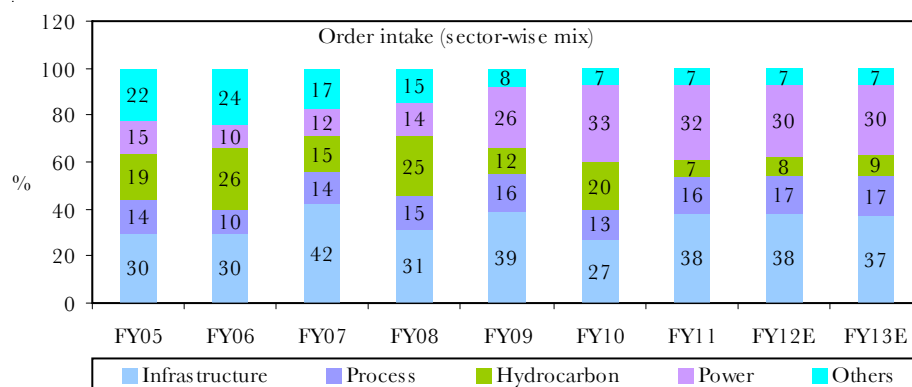
**Order book mix – rebalancing sectoral skewness**



Source: Company, B&K Research

Infra segment reported strong 61% growth in FY11 intake, at Rs 303 bn, Rs 135 bn being in the 4QFY11 alone, followed by process growing by 41% while power growth was moderately up by 11%. Hydrocarbon segment witnessed decline of 60% in orders last year as large projects were delayed and some were lost to competition against aggressive prices.

### FY11 inflows – Infra segment picks pace, followed by process, while O&G shrinks



Source: Company, B&K Research

### Key orders booked in 4QFY11

Details	Rs bn
L&T Metro Rail (Hyderabad) – Corridor, station building, electricals & signaling & railway construction works (of Rs 90 bn EPC value)	59.00
Design, Engg, Manufacture, Supply & Construction of 3.1 MTPA Blast Furnace (Steel sector)	58.05
Process cum Living Quarter Platform (PLQP) for Deendayal field Development Project for GSPC	14.16
Gas based Combined cycle power plant – Dhuvaran-III, Gujarat	11.25
Construction of Seawoods – Phase I for L&T Seawoods at Navi Mumbai	9.81
Bhushan Steel Limited at Orissa – Civil & Structural work for 6 MTPA Pellet Plant	7.49
Construction of Kandla Mundra Road, Gujarat (NH8A) for Reliance Infrastructure	6.75
Kalinga Nagar, Orissa for Tata Steel	6.25
Sea Water Injection Project – Kuwait Oil Company for Petrofac International	2.61
SGD – Package 5, Pipeline Project, Abu Dhabi for SAIPEM S.p.A.	3.02

- After factoring in the likely impact of likely interest rate scenario and uncertainty in the business segments, management is fairly confident to clocking 15-20% growth in order inflows in FY12E.
- With likely improvement in pace of order finalisations in infrastructure, hydrocarbon and process (especially steel) sectors, we expect intake of 16% in FY12E, at Rs 925 bn and 15% in FY13E at Rs 1,064 bn, translating in closing order book of Rs 1.67 trn in FY12 and Rs 2 trn at FY13E.

## Performance of key subsidiaries

## L&amp;T Infotech (Consolidated)

(Rs bn)	Sales			PAT		
	FY10	FY11	YoY (%)	FY10	FY11	YoY (%)
1Q	4.73	5.65	19.5	0.61	0.81	32.8
2Q	4.69	5.86	24.9	0.57	0.78	36.8
3Q	5.12	6.04	18.0	0.73	0.71	(2.7)
4Q	4.57	7.02	53.6	0.89	0.91	2.2
<b>Total</b>	<b>19.11</b>	<b>24.58</b>	<b>28.6</b>	<b>2.80</b>	<b>3.21</b>	<b>14.6</b>

## Financial services

(Rs bn)	L&T Finance			L&T Infrastructure Finance			Total		
	FY10	FY11	YoY (%)	FY10	FY11	YoY (%)	FY10	FY11	YoY (%)
Total income	9.66	13.98	44.7	4.5	7.04	56.4	14.16	21.02	48.4
PAT	1.56	2.3	47.4	1.11	2.01	81.1	2.67	4.31	61.4
Networth	11.27	17.32	53.7	10.13	12.88	27.1	21.4	30.2	41.1
Net margins (%)	16.1	16.5	–	24.7	28.5	–	18.9	20.5	–
Net NPA (%)	1.68	0.78	–	1.66	0.53	–	1.67	0.68	–
CAR (%)	15.43	16.34	–	23.27	16.5	–	–	–	–
RoA (%)	2.46	2.54	–	3.34	3.44	–	–	–	–

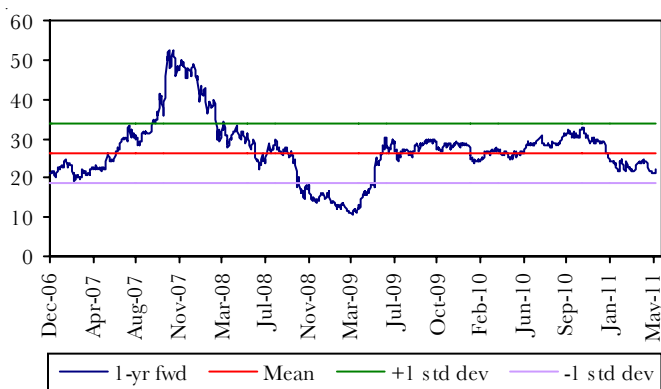
## Consolidated performance

(Rs mn)	FY09	FY10	YoY (%)	FY11	YoY (%)
Net sales	401,870	435,136	8.3	515,520	18.5
Other operating income	3,241	4,562	40.8	5,371	17.7
EBITDA	50,245	64,387	28.1	77,575	20.5
EBITDA margin (%)	12.4	14.6	–	14.9	–
Adjusted PAT	30,070	37,963	26.2	42,379	11.6
Adjusted EPS (Rs)	51.3	63.0	22.8	69.6	–
PER (at CMP)	31.1	25.3	–	22.9	–

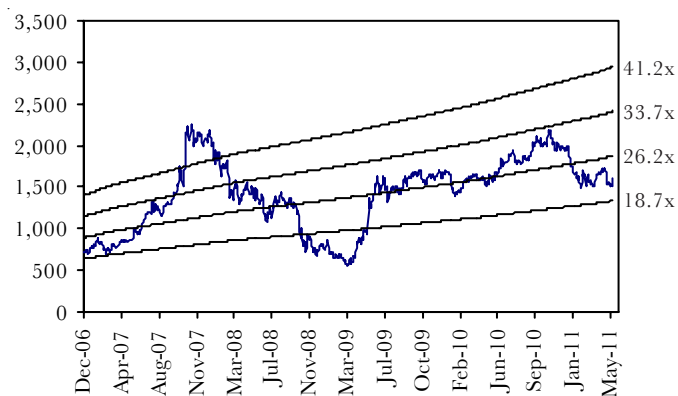
SOTP based target price at Rs 1,921 (Rs 1,917 earlier)

	Stake (%)	FY12E	Basis	Value (Rs mn)	Target (Rs)
L&T Standalone	-	21	PE	894,408	1469
L&T Infotech	100	12	PE	44,857	74
L&T Finance	100	2.0	PBV	41,568	68
L&T Infra Finance	100	2.0	PBV	32,200	53
L&T IDPL	97.5	2.0	PBV	47,034	77
L&T UIL	63.2	2.0	PBV	27,129	45
L&T Oman	65	15	PE	16,875	28
L&T International FZE	100	15	PE	45,000	74
Key subsidiary and associate companies	-	-	-	16,779	33
<b>Total value</b>	-	-	-	<b>1,165,850</b>	<b>1,921</b>

One-year forward PER (Standalone)

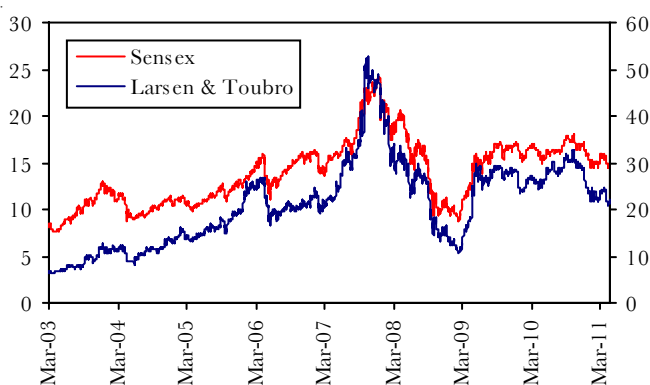


PER Band (Standalone)

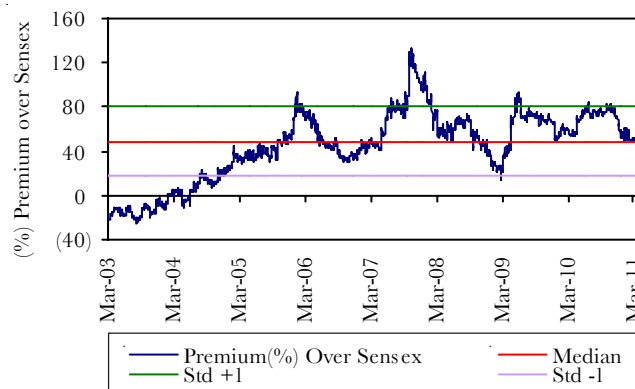


Source: B&K Research

Relative performance – One-year forward PER (Standalone)



Premium (over Sensex)



Source: B&K Research

**Income Statement (Standalone)**

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
<b>Net sales</b>	<b>366,752</b>	<b>434,959</b>	<b>540,567</b>	<b>646,965</b>
<i>Growth (%)</i>	9.0	18.6	24.3	19.7
Operating expenses	(322,592)	(382,823)	(479,681)	(574,447)
Operating profit	44,160	52,136	60,886	72,518
Other operating income	3,597	4,090	4,826	5,550
<b>EBITDA</b>	<b>47,756</b>	<b>56,226</b>	<b>65,712</b>	<b>78,068</b>
<i>Growth (%)</i>	21.8	17.7	16.9	18.8
Depreciation	(4,146)	(5,992)	(7,064)	(8,250)
Other income	9,103	11,948	13,157	14,508
<b>EBIT</b>	<b>52,713</b>	<b>62,182</b>	<b>71,805</b>	<b>84,327</b>
Interest paid	(5,053)	(6,474)	(8,924)	(10,225)
Pre-tax profit	47,660	55,708	62,881	74,102
(before non-recurring items)				
Non-recurring items	12,504	3,329	0	0
Tax on non-recurring items	(594)	(507)	0	0
Pre-tax profit	60,164	59,038	62,881	74,102
(after non-recurring items)				
Tax (current + deferred)	(16,409)	(19,459)	(20,291)	(23,913)
<b>Net profit</b>	<b>43,755</b>	<b>39,579</b>	<b>42,591</b>	<b>50,189</b>
<b>Adjusted net profit</b>	<b>31,845</b>	<b>36,757</b>	<b>42,591</b>	<b>50,189</b>
<i>Growth (%)</i>	17.5	15.4	15.9	17.8
Prior period adjustments	(24)	0	0	0
<b>Net income</b>	<b>43,731</b>	<b>39,579</b>	<b>42,591</b>	<b>50,189</b>

**Balance Sheet (Standalone)**

Yr end 31 Mar (Rs mn)	FY10	FY11P	FY12E	FY13E
Current assets	263,616	327,979	391,960	472,289
Investments	137,054	148,845	166,291	184,282
Net fixed assets	63,658	74,580	79,900	86,883
Other non-current assets	3,119	3,431	3,774	4,151
<b>Total assets</b>	<b>467,446</b>	<b>554,835</b>	<b>641,925</b>	<b>747,605</b>
Current liabilities	212,429	258,694	299,193	353,384
Total debt	68,008	71,610	84,986	97,380
Other non-current liab.	3,893	6,061	6,667	7,334
<b>Total liabilities</b>	<b>284,330</b>	<b>336,365</b>	<b>390,846</b>	<b>458,098</b>
Share capital	4,294	1,447	1,447	1,447
Reserves & surplus	178,822	217,024	249,632	288,060
<b>Shareholders' funds</b>	<b>183,116</b>	<b>218,470</b>	<b>251,079</b>	<b>289,507</b>
<b>Total equity &amp; liab.</b>	<b>467,446</b>	<b>554,835</b>	<b>641,925</b>	<b>747,605</b>
<b>Capital employed</b>	<b>255,017</b>	<b>296,141</b>	<b>342,732</b>	<b>394,221</b>

**Cash Flow Statement (Standalone)**

Yr end 31 Mar (Rs mn)	FY10	FY11P	FY12E	FY13E
Pre-tax profit	60,164	59,038	62,881	74,102
Depreciation	3,224	5,923	7,080	8,267
Chg in working capital	20,327	(4,930)	(18,827)	(20,557)
Total tax paid	(26,474)	(13,919)	(18,770)	(21,993)
<b>Cash flow from oper. (a)</b>	<b>57,240</b>	<b>46,111</b>	<b>32,364</b>	<b>39,818</b>
Capital expenditure	(14,935)	(16,845)	(12,400)	(15,250)
Chg in investments	(54,416)	(11,792)	(17,446)	(17,991)
<b>Cash flow from inv. (b)</b>	<b>(69,351)</b>	<b>(28,637)</b>	<b>(29,846)</b>	<b>(33,241)</b>
<b>Free cash flow (a+b)</b>	<b>(12,111)</b>	<b>17,474</b>	<b>2,518</b>	<b>6,578</b>
Equity raised/(repaid)	22,802	6,119	0	0
Debt raised/(repaid)	2,448	3,602	13,376	12,394
Dividend (incl. tax)	(7,168)	(8,630)	(10,329)	(9,966)
Other financing activities	595	(15)	(16)	(17)
<b>Cash flow from fin. (c)</b>	<b>18,677</b>	<b>1,076</b>	<b>3,031</b>	<b>2,411</b>
<b>Net chg in cash (a+b+c)</b>	<b>6,566</b>	<b>18,550</b>	<b>5,549</b>	<b>8,988</b>

**Key Ratios (Standalone)**

Yr end 31 Mar (%)	FY10	FY11P	FY12E	FY13E
EPS (Rs)	52.9	60.4	70.0	82.6
EPS growth	14.3	14.2	15.9	17.9
EBITDA margin	12.9	12.8	12.0	12.0
EBIT margin	14.2	14.2	13.2	12.9
RoCE	23.5	22.6	22.5	22.9
Net debt/Equity	29.3	17.7	18.6	17.3

**Valuations (Standalone)**

Yr end 31 Mar (x)	FY10	FY11P	FY12E	FY13E
PER	31.2	27.4	23.6	20.0
PCE	27.6	23.5	20.3	17.2
Price/Book	5.4	4.6	4.0	3.5
Yield (%)	0.8	0.9	0.8	1.0
EV/Net sales	2.9	2.4	1.9	1.6
EV/EBITDA	22.3	18.7	16.0	13.5

**Du Pont Analysis – ROE (Standalone)**

Yr end 31 Mar (x)	FY10	FY11P	FY12E	FY13E
Net margin (%)	8.7	8.5	7.9	7.8
Asset turnover	0.9	0.9	0.9	0.9
Leverage factor	2.7	2.5	2.5	2.6
Return on equity (%)	20.7	18.3	18.1	18.6

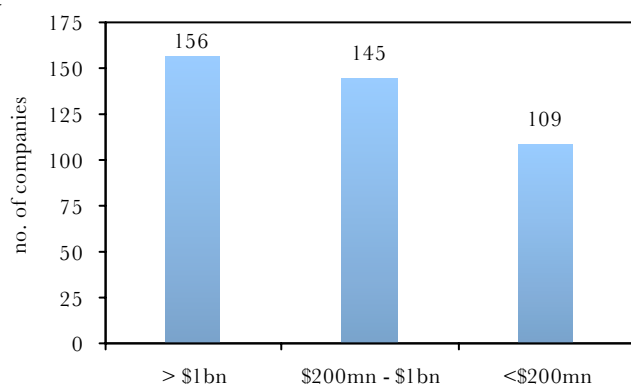
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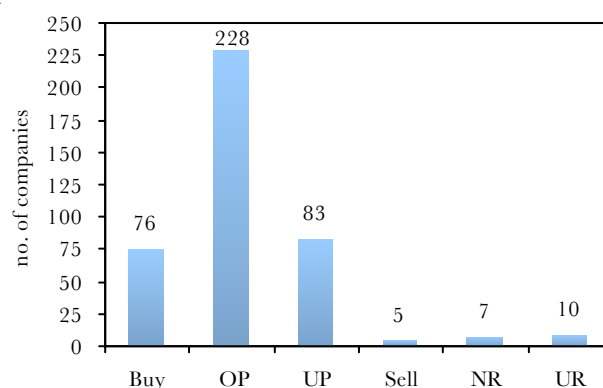


## B&amp;K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



**B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.**

**B&K Investment Ratings:**

- BUY:** Potential upside of > +25% (absolute returns)
- OUTPERFORMER:** 0 to +25%
- UNDERPERFORMER:** 0 to -25%
- SELL:** Potential downside of < -25% (absolute returns)

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