

July 16, 2009

Rating	Accumulate
Price	Rs1,378
Target Price	Rs1,546
Implied Upside	12.2%
Sensex	14,250

(Prices as on July 16, 2009)

Trading Data

Market Cap. (Rs bn)	805.7
Shares o/s (m)	584.7
Free Float	100%
3M Avg. Daily Vol ('000)	832.4
3M Avg. Daily Value (Rs m)	1,047.4

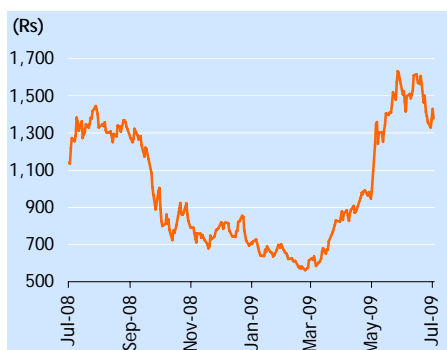
Major Shareholders

Promoters	NA
Foreign	15.7%
Domestic Inst.	38.2%
Public & Others	46.1%

Stock Performance

(%)	1M	6M	12M
Absolute	(9.7)	92.0	21.4
Relative	(5.0)	39.2	8.1

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



Source: Bloomberg

Larsen & Toubro

Sales below expectations

- Revenues below estimates:** In Q1FY10, Larsen and Toubro (L&T) reported a 6.7% YoY growth in the net sales from its core business at Rs73.6bn. This was against our estimates of Rs82.3bn. EBITDA margins, without other operating income (OOI), stood at 10.7% (an improvement by 120bps YoY). This was, however, well above our estimates of 9.3% on account of 89% revenue coming from E&C business which enjoy higher margins. Helped by a growth in other income and gain on UltraTech stake sale, PAT for Q1FY10 stood at Rs16bn. However, the adjusted PAT stood at Rs5.8bn against our estimates of Rs5.7bn (an increase by 15.1% YoY).
- Sectoral performance:** For Q1FY10, the E&E division registered flattish YoY growth with 14.1% EBITDA margins. E&C business had margins of 11.9% (140bps improvement YoY), while the MIP business registered a de-growth in sales by 31% YoY and EBITDA margin of 23.7% (90bps de-growth YoY).
- Order inflow:** L&T in Q1FY10 has bagged orders worth Rs95.7bn; a 22% YoY decline. The current order book stands at Rs716bn, having an average execution cycle of 22-25 months.
- Valuations:** The business of L&T continues to be affected by the economic downturn, particularly in the private sector capex, which has been factored in the CMP. The company is guiding for a robust but back-ended order inflow which will cushion the FY10E and FY11E earnings. On SOTP, we value L&T's core business at Rs1,394 (22x FY11E EPS), L&T Infotech at Rs39, L&T Finance at Rs19, L&T IDPL at Rs51, L&T manufacturing at Rs30, and other businesses at Rs12. We maintain our 'Accumulate' rating on the stock, with a target price of Rs1,546.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	248,547	336,466	411,655	513,420
Growth (%)	41.4	35.4	22.3	24.7
EBITDA (Rs m)	28,146	35,770	44,843	58,405
PAT (Rs m)	21,734	34,817	32,108	37,476
EPS (Rs)	37.2	59.5	54.9	64.1
Growth (%)	55.2	24.7	18.5	16.7
Net DPS (Rs)	16.9	10.0	13.4	17.0

Source: Company Data; PL Research

*FY10E EPS is adjusted for Extraordinary Items

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	11.3	10.6	10.9	11.4
RoE (%)	28.4	24.6	23.8	23.6
RoCE (%)	26.5	22.0	21.1	22.4
EV / sales (x)	1.7	2.6	2.2	1.8
EV / EBITDA (x)	15.2	24.2	19.8	15.7
PE (x)	18.5	23.1	25.1	21.5
P / BV (x)	4.2	6.5	5.5	4.7
Net dividend yield (%)	1.2	1.5	2.0	2.5

Source: Company Data; PL Research

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Q1FY10 Result Overview

(Rs m)

Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	FY10E	FY09	YoY gr. (%)
Net Sales	73,627	69,014	6.7	104,690	411,655	336,466	22.3
Expenditure							
Consumption of RM	19,935	18,197	9.5	21,027	95,962	74,520	28.8
<i>% of Net Sales</i>	<i>27.1</i>	<i>26.4</i>			<i>23.3</i>	<i>22.1</i>	
Purchase of traded goods	2,750	4,104	(33.0)	3,843	24,712	16,789	47.2
<i>% of Net Sales</i>	<i>3.7</i>	<i>5.9</i>			<i>6.0</i>	<i>5.0</i>	
Sales and Admin	3,431	3,205	7.0	7,891	15,341	18,395	(16.6)
<i>% of Net Sales</i>	<i>4.7</i>	<i>4.6</i>			<i>3.7</i>	<i>5.5</i>	
Construction, Mfg. & Others	13,724	15,395	(10.9)	23,780	94,300	77,725	21.3
<i>% of Net Sales</i>	<i>18.6</i>	<i>22.3</i>		<i>22.7</i>	<i>22.9</i>	<i>23.1</i>	
Sub Contracting	19,283	14,573	32.3	23,621	86,063	72,236	19.1
<i>% of Net Sales</i>	<i>26.2</i>	<i>21.1</i>		<i>22.6</i>	<i>20.9</i>	<i>21.5</i>	
Other Expenses	4,754	4,971	(4.4)	5,568	26,384	22,103	19.4
<i>% of Net Sales</i>	<i>6.5</i>	<i>7.2</i>		<i>5.3</i>	<i>6.4</i>	<i>6.6</i>	
Personnel Cost	5,115	4,097	24.8	3,765	26,048	19,960	30.5
<i>% of Net Sales</i>	<i>6.9</i>	<i>5.9</i>		<i>3.6</i>	<i>6.3</i>	<i>5.9</i>	
Increase decrease in stock in trade	(2,774)	(2,101)		686	(2,000)	(1,051)	
Total Expenditure	65,764	62,440	5.3	90,181	366,811	300,695	22.0
EBIDTA	7,863	6,574	19.6	14,509	44,844	35,770	25.4
<i>Margin (%)</i>	<i>10.7</i>	<i>9.5</i>		<i>13.9</i>	<i>10.9</i>	<i>10.6</i>	
Depreciation	937	659	42.3	889	4,100	3,060	34.0
EBIT	6,926	5,915	17.1	13,619	40,744	32,711	24.6
Interest	1,096	382	186.6	1,455	4,200	3,502	19.9
Other Income	2,683	2,018	33.0	3,668	10,795	10,196	5.9
PBT	8,514	7,551	12.7	15,833	47,218	39,404	19.8
Tax	2,730	2,526	8.1	4,409	15,110	12,312	22.7
<i>Tax Rate (%)</i>	<i>32.1</i>	<i>33.5</i>		<i>27.8</i>	<i>32.0</i>	<i>31.2</i>	
Recurring Pat	5,783	5,025	15.1	11,424	32,108	27,092	18.5
Extraordinary Items- prov on Satyam	-	-		(1,439)	-	-	
Extraordinary Items- profit on sale	10,199	-			10,199	7,725	
PAT	15,982	5,025	218.1	9,985	42,307	34,817	21.5

Highlights

Business Snapshot

(Rs bn)

Y/e March	Q1FY10	Q4FY09	Q3FY09	Q2FY09	Q1FY09
Sales					
Engineering & Construction	65.7	94.4	73.4	59.9	55.8
Electrical & Electronics	5.8	7.9	5.9	7.0	5.8
MIP	4.4	6.2	5.1	6.6	6.4
Others	0.8	1.3	1.7	3.3	3.8
EBIT					
Engineering & Construction	7.0	14.6	8.4	6.8	5.9
Electrical & Electronics	0.7	1.0	0.7	0.9	0.8
MIP	1.0	1.2	0.7	1.4	1.5
Others	0.0	(0.1)	0.2	0.1	0.3
EBIT Margin (%)					
Engineering & Construction	10.6	15.5	11.4	11.5	10.5
Electrical & Electronics	11.8	12.4	12.3	12.8	13.7
MIP	21.6	19.3	13.5	21.2	24.6
Others	5.5	NA	21.7	3.0	8.3

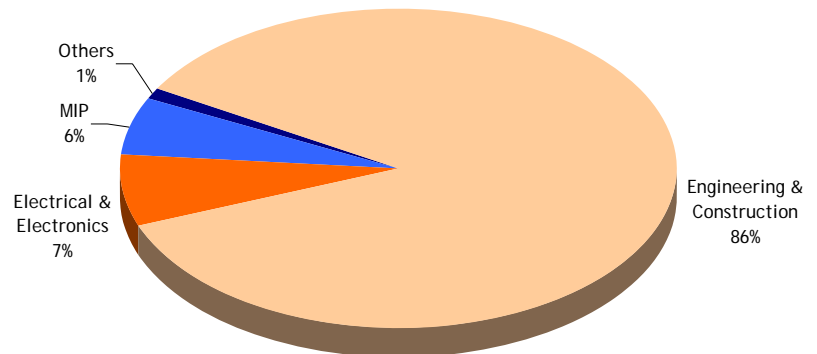
Source: Company Data, PL Research

Sales break-up

(Rs bn)

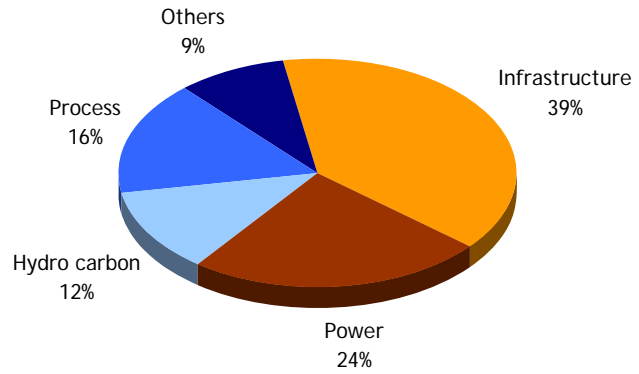
Segments	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	QoQ gr. (%)
Engineering & Construction	65.7	55.8	17.9	94.4	(30.4)
Electrical & Electronics	5.8	5.8	(0.2)	7.9	(27.1)
MIP	4.4	6.4	(30.8)	6.2	(29.1)
Others	0.8	3.8	(79.5)	1.3	(41.9)

Revenue break-up



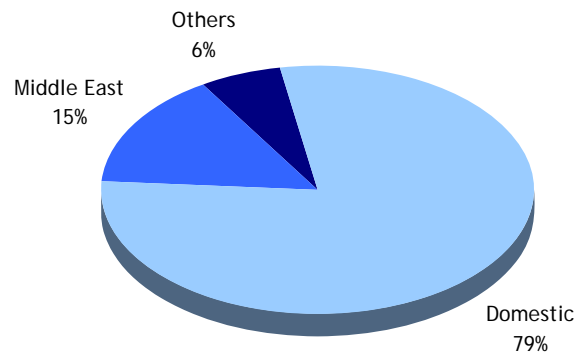
Source: Company Data, PL Research

Order book break-up



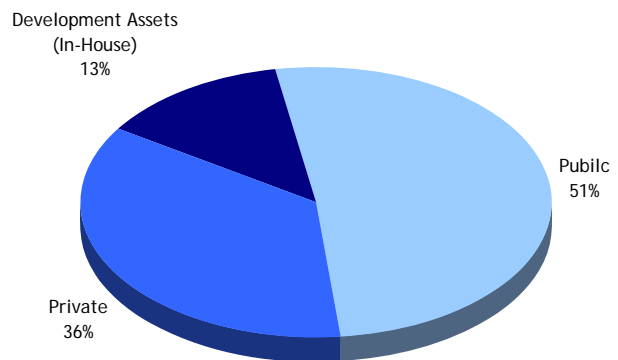
Source: Company Data, PL Research

Revenue break-up geography



Source: Company Data, PL Research

Order book break-up - client wise



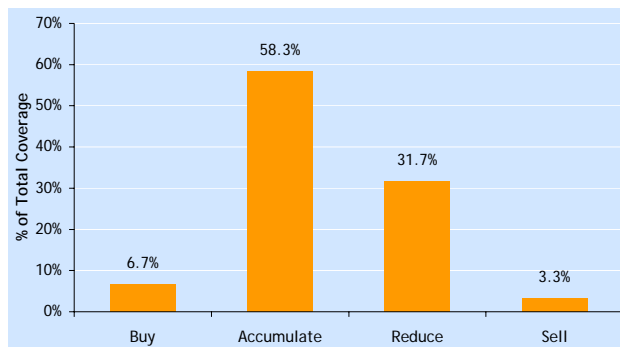
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

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