

# Can L&T grow 4Q sales 25%?

## Weak 3QFY10; Sales -6%YoY - 1st fall in 6 years

L&T 3Q10 Rec PAT at Rs6.1bn, +1%YoY (-17% v/s consensus) despite 133bps margin expansion on delay in new project starts (sales -6%YoY- 1st decline in 6 years). L&T cut its FY10 sales guidance to 10%YoY v/s 15%YoY, translating into 25%YoY growth in 4Q sales (ex-RMC). We cut our PO to Rs1700 (1745) on cut in EPS by 8-10% over FY10-12E led by delay in execution. An EPS CAGR of 24% (FY10-12E) & creation of future growth vehicles such as power equipment, Naval shipyard, railways, defense, Nuke & Aerospace domains and Infra concession wins support Buy. Capex in lower RoE projects is key risk, in our view.

## Can L&T grow 4Q sales 25%? Tough!

We think L&T may find it difficult to meet its 25%YoY implied sales growth in 4Q (10%YoY for FY10). However, improving funding of projects (esp. of L&T's own roads) and grounding of delayed projects should revive E&C sales growth in 4QFY10. Machinery & Industrial Products, which has come out of recession in 3Q led by increased mining and road equipment orders, should also help. We forecast 20%YoY sales growth in 4Q.

## Down but not out! Cut earnings

L&T's order inflow was robust, +22%YoY led by winning of big orders from Mahagenco, MPPGCL, NPCIL, GNFC, and Oberoi Realty in 3Q10. Though if L&T had a/c Mahagenco order in the same way as JP order in 2Q, we estimate inflow growth would have been -5%. We cut our EPS est by 8-10% over FY10-12E on delay in tendering/award of projects.

## Weak execution on funding crunch and Subs. done well

Backlog at Rs911bn, +32%YoY, didn't help sales (-6%YoY) E&C execution slip driven by site related issues, fund constraints at private projects & financial closure delay at its own road projects. EBITDA margin +133bps on 461bps fall in materials. Rep PAT -50% on Rs1.5bn of extraordinary income (Satyam) v/s Rs9.2bn gain on RMC divestment in 3Q09. Subs had a good 3Q – L&T IT PAT +36%YoY, L&T Fin. PAT +292%YoY, and L&T Infra Fin PAT +86%YoY.

## Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	22,911	30,004	34,211	41,646	55,035
EPS	39.18	51.23	56.99	69.38	91.68
EPS Change (YoY)	19.2%	30.7%	11.3%	21.7%	32.1%
Dividend / Share	8.47	10.50	12.50	12.50	12.50
Free Cash Flow / Share	(111.06)	(109.75)	68.31	25.53	44.70
ADR EPS (US\$)	0.973	1.11	1.24	1.51	1.99
ADR Dividend / Share (US\$)	0.210	0.228	0.272	0.272	0.272

## Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	38.90x	29.75x	26.74x	21.97x	16.62x
Dividend Yield	0.556%	0.689%	0.820%	0.820%	0.820%
EV / EBITDA*	26.72x	21.47x	18.83x	15.63x	12.11x
Free Cash Flow Yield*	-7.10%	-7.03%	4.48%	1.68%	2.93%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 10.

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## Stock Data

Price (Common / ADR)	Rs1,524 / US\$33.40
Price Objective	Rs1,700 / US\$37.00
Date Established	22-Jan-2010 / 22-Jan-2010
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs556.00-Rs1,800
Market Value (mn)	US\$19,871
Shares Outstanding (mn)	600.3 / 600.3
Average Daily Volume	1,510,187
BofAML Ticker / Exchange	LTOUF / BSE
BofAML Ticker / Exchange	LTORF / LIN
Bloomberg / Reuters	LT IN / LART.BO
ROE (2010E)	20.7%
Net Dbt to Eqty (Mar-2009A)	128.3%
Est. 5-Yr EPS / DPS Growth	22.0% / 22.0%
Free Float	100.0%

## Key Changes

(Rs)	Previous	Current
Price Obj.	1,745.00	1,700.00
2010E Rev (m)	461,800.7	427,829.8
2011E Rev (m)	556,154.5	515,382.7
2012E Rev (m)	709,892.0	664,987.8
2010E EPS	62.00	56.99
2011E EPS	75.54	69.38
2012E EPS	98.90	91.68

# iQprofile<sup>SM</sup> Larsen & Toubro Ltd.

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
<b>(Rs Millions)</b>					
Sales	291,985	401,870	427,830	515,383	664,988
Gross Profit	51,697	73,081	81,502	98,180	126,680
Sell General & Admin Expense	(17,341)	(26,423)	(27,809)	(33,500)	(43,224)
Operating Profit	29,239	39,375	44,865	53,864	70,282
Net Interest & Other Income	(896)	1,134	2,500	3,630	4,482
Associates	NA	NA	NA	NA	NA
Pretax Income	33,843	43,437	50,219	60,932	79,252
Tax (expense) / Benefit	(11,471)	(14,249)	(16,926)	(20,461)	(25,714)
Net Income (Adjusted)	22,911	30,004	34,211	41,646	55,035
Average Fully Diluted Shares Outstanding	585	586	600	600	600

Key Cash Flow Statement Data	2008A	2009A	2010E	2011E	2012E
Net Income	22,911	30,004	34,211	41,646	55,035
Depreciation & Amortization	5,118	7,283	8,828	10,817	13,174
Change in Working Capital	(52,916)	(31,669)	1,248	(18,957)	(23,198)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	273	7,982	11,868	20	20
Cash Flow from Operations	(24,615)	13,600	56,155	33,526	45,031
Capital Expenditure	(40,323)	(77,878)	(15,150)	(18,200)	(18,200)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(38,513)	(12,531)	1,232	(199)	(199)
Cash Flow from Investing	(78,836)	(90,410)	(13,918)	(18,399)	(18,399)
Shares Issue / (Repurchase)	20,633	1,087	20,358	0	0
Cost of Dividends Paid	(5,716)	(7,195)	(8,779)	(8,779)	(8,779)
Cash Flow from Financing	92,497	75,792	19,979	(9,779)	(9,779)
Free Cash Flow	(64,938)	(64,278)	41,005	15,326	26,831
Net Debt	107,552	189,110	135,295	128,947	111,094
Change in Net Debt	80,373	81,558	(53,815)	(6,348)	(17,853)

Key Balance Sheet Data	2008A	2009A	2010E	2011E	2012E
Property, Plant & Equipment	62,654	94,517	105,610	114,715	121,462
Other Non-Current Assets	77,845	129,108	123,106	121,585	120,064
Trade Receivables	82,344	116,435	112,519	135,546	174,892
Cash & Equivalents	15,608	14,590	76,806	82,154	99,006
Other Current Assets	158,932	209,053	213,401	241,127	279,308
Total Assets	397,382	563,703	631,442	695,126	794,732
Long-Term Debt	123,160	203,700	212,100	211,100	210,100
Other Non-Current Liabilities	2,660	4,033	4,029	4,049	4,069
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	156,012	208,556	210,236	242,031	296,360
Total Liabilities	281,832	416,289	426,366	457,180	510,530
Total Equity	115,550	147,414	205,076	237,943	284,199
Total Equity & Liabilities	397,382	563,703	631,441	695,124	794,729

iQmethod <sup>SM</sup> - Bus Performance*	2008A	2009A	2010E	2011E	2012E
Return On Capital Employed	14.0%	12.3%	11.2%	11.6%	13.6%
Return On Equity	26.1%	24.7%	20.7%	19.7%	22.0%
Operating Margin	10.0%	9.8%	10.5%	10.5%	10.6%
EBITDA Margin	13.7%	12.3%	13.2%	13.2%	13.2%

iQmethod <sup>SM</sup> - Quality of Earnings*	2008A	2009A	2010E	2011E	2012E
Cash Realization Ratio	-1.1x	0.5x	1.6x	0.8x	0.8x
Asset Replacement Ratio	9.9x	14.5x	2.2x	2.0x	1.6x
Tax Rate (Reported)	33.9%	32.8%	33.7%	33.6%	32.4%
Net Debt-to-Equity Ratio	93.1%	128.3%	66.0%	54.2%	39.1%
Interest Cover	17.1x	9.2x	5.9x	6.4x	7.9x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 10.

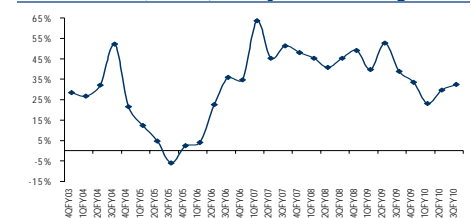
## Company Description

Set up in 1938, L&T is India's largest E&C co. offering exposure to an entire capex cycle. It has 23 subsidiaries & 27 associates focusing on a diverse range of products & services & several BOOT projects to get contracts for EPC business & potential value creation via divestments. Its Infra development and software subsidiary has begun to grow rapidly as well.

## Investment Thesis

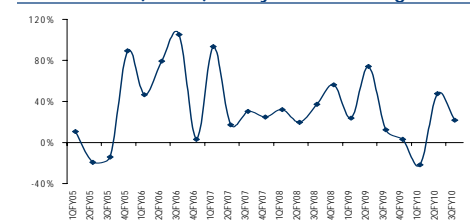
L&T offers the best proxy play on the entire capex cycle in India, in our view. We see improved visibility of the new order pipeline & a shift in sales in favor of higher margin Oil & Gas and manufacturing sales. Key drivers of order inflows are rebound in Oil & Gas capex in India/Middle East, pick-up in industrial/urban infrastructure capex, EPC contracts from its own BOOT projects. Potential growth drivers beyond FY10E are Infra development, Power equipment, Shipyard, Defense, Nuke, Aerospace.

Chart 1: L&T (Parent) - Qtrly Order book growth



Source: Company

Chart 2: L&T (Parent) - Qtrly Order Inflow growth



Source: Company

## Stock Data

Shares / ADR	1.00
Price to Book Value	4.7x

## Key Changes (ADR)

(US\$)	Previous	Current
Price Obj.	37.50	37.00
2010E EPS	1.35	1.24
2011E EPS	1.64	1.51
2012E EPS	2.15	1.99

Table 1: L&T - 3QFY10 Results Review

For the Period (Rs mn)	3QFY09R	3QFY10	%YoY
<b>Order Booking</b>			
- E&C	133,790	164,650	23.1%
- Total	146,200	177,930	21.7%
<b>Order Backlog</b>			
- E&C	670,290	893,750	33.3%
- Total	688,010	911,040	32.4%
<b>Gross Sales</b>	<b>86,995</b>	<b>81,393</b>	-6.4%
Excise	(1,056)	(679)	-35.6%
<i>% of Gross sales</i>	1.2%	0.8%	
<b>Net Sales</b>	<b>85,940</b>	<b>80,714</b>	-6.1%
Other operational income	623	508	-18.4%
<b>Net Revenue</b>	<b>86,562</b>	<b>81,222</b>	-6.2%
Raw Materials	(20,659)	(15,517)	-24.9%
<i>% of sales</i>	23.9%	19.1%	
Subcontracting	(20,167)	(20,190)	0.1%
<i>% of sales</i>	23.3%	24.9%	
Construction Materials	(17,853)	(15,608)	-12.6%
<i>% of sales</i>	20.6%	19.2%	
Trading Goods	(4,025)	(4,046)	0.5%
<i>% of sales</i>	4.7%	5.0%	
Other Costs	(5,614)	(6,144)	9.4%
<i>% of sales</i>	6.5%	7.6%	
Staff Costs	(4,767)	(5,443)	14.2%
<i>% of sales</i>	5.5%	6.7%	
Sales and Admin	(3,895)	(4,206)	8.0%
<i>% of sales</i>	4.5%	5.2%	
<b>Total Expenditure</b>	<b>(76,980)</b>	<b>(71,153)</b>	-7.6%
<i>% of sales</i>	88.9%	87.6%	
Add: Exchange Loss/(gain)	0	0	N.A.
<b>EBITDA</b>	<b>9,583</b>	<b>10,069</b>	5.1%
<i>EBITDA Margin</i>	11.1%	12.4%	
- Share of profits from JVs	0	0	N.A.
- Other Income	2,681	1,476	-44.9%
- Dividend from Subs/Associates	0	0	N.A.
<b>EBITDA with Other Income</b>	<b>12,264</b>	<b>11,545</b>	-5.9%
<i>EBITDA Margin</i>	14.2%	14.2%	
D&A	(781)	(1,045)	33.8%
<b>EBIT</b>	<b>11,482</b>	<b>10,499</b>	-8.6%
<i>EBIT Margin</i>	13.3%	12.9%	
Interest	(2,369)	(1,339)	-43.5%
<b>PBT</b>	<b>9,114</b>	<b>9,160</b>	0.5%
<i>PBT Margin</i>	10.5%	11.3%	
Current Tax	(3,067)	(3,022)	-1.5%
Deferred Tax	(5)	(36)	577.4%
FBT	0	0	N.A.
<b>Total Tax</b>	<b>(3,073)</b>	<b>(3,058)</b>	-0.5%
<i>Tax Rate</i>	33.7%	33.4%	
<b>Recurring PAT</b>	<b>6,041</b>	<b>6,103</b>	1.0%
<i>Recurring PAT Margin</i>	7.0%	7.5%	
Extraordinary income/ (expenses)	11,790	1,486	-87.4%
Tax Adjustment	(2,627)	0	-100.0%
<b>Reported PAT</b>	<b>15,204</b>	<b>7,588</b>	-50.1%

Source: Company, BofA Merrill Lynch Global Research

Table 2: L&T - Segmental Information

(Rs mn)	3QFY09R	3QFY10	%YoY
<b>Revenues</b>			
E&C	76,698	69,980	-8.8%
E&E	6,477	7,214	11.4%
Machinery & Industrial Products	5,318	5,911	11.1%
Others	1,758	954	-45.7%
<b>Total</b>	<b>90,250</b>	<b>84,058</b>	<b>-6.9%</b>
Less Intersegment revenue	2,632	2,157	-18.1%
<b>Net segment revenues</b>	<b>87,618</b>	<b>81,901</b>	<b>-6.5%</b>
<b>PBIT</b>			
E&C	8,604	8,554	-0.6%
- PBIT Margins	11.2%	12.2%	
E&E	796	873	9.7%
- PBIT Margins	12.3%	12.1%	
Machinery & Industrial Products	762	1,206	58.4%
- PBIT Margins	14.3%	20.4%	
Others	138	205	49.0%
- PBIT Margins	7.8%	21.5%	
<b>Total PBIT</b>	<b>10,300</b>	<b>10,838</b>	<b>5.2%</b>
- PBIT Margins	11.4%	12.9%	

Source: Company, BofA Merrill Lynch Global Research

Table 3: L&T - Major Order Inflows in 3QFY10

Description	Rs bn
<b>Infrastructure</b>	
Construction of Residential Apartments for Oberoi Exquisite, Maharashtra	8.0
Construction of Residential Apartment for DB Realty Limited at Maharashtra	5.8
Construction of Employee's State Insurance Corporation Hospital at Kolkatta, West Bengal	4.1
Construction of Elevated Structures and Metro Station for Bangalore Metro Rail Project	3.0
<b>Total Infrastructure</b>	<b>20.9</b>
<b>Power</b>	
Supercritical 3 x 660 MW expansion project at Koradi, Maharashtra for MAHAGENCO	69.6
Malwa TPP 2 X 600 MW balance of plant package at Khandwa in Madhya Pradesh	15.9
Main Plant Civil Works for NPCIL at Kakrapar Atomic Power Project, Gujarat	8.4
Coal Handling Package for 5 X 660 MW Super Critical Power Project at Tiroda, Maharashtra	3.1
<b>Total Power</b>	<b>97.0</b>
<b>Process</b>	
Feedstock Conversion Project at Bharuch for GNFC	9.9
Coke Oven Battery Including By Product Plant for Tata Steel Limited at Jamshedpur	6.3
<b>Total - International</b>	<b>16.1</b>
<b>Total Major order Inflows</b>	<b>134.0</b>

Source: Company

**Subsidiaries also had good 3Q results -**

L&T IT 3Q PAT +36%YoY, L&T Finance PAT grew +292% and L&T Infra Fin. PAT +86%YoY.

**Table 4: L&T - Major Subsidiaries' Performance**

Rsmn	3QFY09	3QFY10	YoY%	9MFY09	9MFY10	YoY%
<b>L&amp;T Infotech Ltd (Cons)</b>						
Revenue	5240	5120	-2%	15430	14540	-6%
PAT	590	800	36%	2010	1980	-1%
PAT Margin	11%	16%		13%	14%	
<b>L&amp;T Finance Ltd</b>						
Revenue	2170	2590	19%	5760	6860	19%
PAT	120	470	292%	550	1040	89%
PAT Margin	6%	18%		10%	15%	
<b>L&amp;T Infrastructure Finance Ltd</b>						
Revenue	740	1190	61%	2260	3180	41%
PAT	140	260	86%	570	760	33%
PAT Margin	19%	22%		25%		

Source: Company

**Table 5: L&T's Sum-of-the-parts Valuation**

Parts	L&T's Stake	Rationale	Value (Rs mn)	(Rs/ share)
Parent	N.A.	Core businesses - 18x PER of 1 year forward EPS	845,808	1,409
L&T IDPL (Infra SPVs)	79.6%	1.7x the Private equity deal valuation	34,477	57
L&T Infotech	100.0%	10x PER of 1-year forward EPS- in-line to niche 2nd tier stocks	39,441	66
L&T Finance	100.0%	At 1.2x 1-year forward P/BV	16,384	27
L&T Infrastructure Finance	100.0%	At 1.2x 1-year forward P/BV	11,963	20
L&T MHI Boilers	51.0%	At 15x PER of FY12E EPS	23,723	40
L&T MHI Turbine Generators	51.0%	At 15x PER of FY12E EPS	6,973	12
L&T Urban Infra	59.7%	At 40% discount to DCF	5,077	8
Dhamra Port	39.8%	At 10% discount to DCF	8,532	14
Other Subs.	N.A.	At 2.5x book value	27,995	47
<b>Total</b>			<b>1,020,374</b>	<b>1,700</b>

Source: BofA Merrill Lynch Global Research

**Table 6: L&T - Parent Estimate Change Snapshot**

(Rs mn)	Old	New	% Change
<b>Sales</b>			
FY10E	387,387	359,254	-7.3%
FY11E	466,537	432,773	-7.2%
FY12E	602,591	565,045	-6.2%
<b>EBITDA</b>			
FY10E	51,606	47,237	-8.5%
FY11E	62,258	56,291	-9.6%
FY12E	80,037	72,800	-9.0%
<b>Recurring PAT</b>			
FY10E	34,387	31,642	-8.0%
FY11E	41,879	37,718	-9.9%
FY12E	54,465	48,844	-10.3%
<b>EPS (Rs)</b>			
FY10E	57.3	52.7	-8.0%
FY11E	69.8	62.8	-9.9%
FY12E	90.7	81.4	-10.3%

Source: BofA Merrill Lynch Global Research

Table 7: L&T - Profit & Loss Statement (Parent)

Year End Mar31 (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
<b>GROSS TURNOVER</b>	251875	340450	363141	437455	571159
% YoY Change	41%	35%	7%	20%	31%
Total Excise Duty	3328	3985	3887	4683	6114
<b>NET TURNOVER</b>	248547	336465	359254	432773	565045
Growth	41.4%	35.4%	6.8%	20.5%	30.6%
<b>Total Operating Cost</b>	220401	300695	315541	380850	497932
Operating Costs as % of Net Sales	88.7%	89.4%	87.8%	88.0%	88.1%
<b>Other Operational Income</b>	1534	2673	2854	3438	4488
As a % of Gross Turnover	0.6%	0.8%	0.8%	0.8%	0.8%
Dividend from Subs/Associates	584	720	396	455	524
Co's share of integrated joint ventures	13	125	275	475	675
<b>EBITDA</b>	30278	39288	47237	56291	72800
<b>EBITDA margin</b>	12.2%	11.7%	13.1%	13.0%	12.9%
Depreciation	1959	2848	3868	4768	5535
Amortization	157	212	223	234	246
<b>EBIT</b>	28162	36228	43146	51288	67020
Interest Income	3747	6678	8133	10731	10970
Interest Expense	1227	3502	5288	7196	6996
<b>PBT</b>	30,682	39,404	45,991	54,823	70,993
<b>Total Taxes</b>	9,683	12,312	14,349	17,105	22,150
Total Tax Rate	31.6%	31.2%	31.2%	31.2%	31.2%
<b>Recurring Profit</b>	20998	27092	31642	37718	48844
Extraordinary Items	0	7,725	11,958	0	0
Tax Adjustment for extraordinary items	(137)	0	(90)	0	0
<b>Net Profit</b>	20,861	34,816	43,510	37,718	48,844
<i>Growth</i>	49%	67%	25%	-13%	29%
Exceptionals	872	0	0	0	0
<b>Reported Net Profit</b>	21,734	34,816	43,510	37,718	48,844
<i>Reported Profit Growth</i>	55%	60%	25%	-13%	29%

Source: Company, BofA Merrill Lynch Global Research

Table 8: L&T - Balance Sheet Statement (Parent)

Year End Mar31 (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
<b>Share Capital</b>	585	1171	1201	1201	1201
Total Reserves & Surplus	93533	120820	175884	204824	244889
<b>Total Networth</b>	94117	121992	177085	206024	246089
Secured Loans	3085	11024	11024	11024	11024
Unsecured Loans	32755	54537	61937	59937	57937
<b>Total Loan Funds</b>	35840	65560	72960	70960	68960
Deferred Tax Liability	614	485	490	495	500
ESOP	1144	2357	2353	2353	2353
<b>TOTAL NET WORTH &amp; LIABILITIES</b>	131715	190393	252888	279833	317903
<b>Net Fixed Assets</b>	35275	50292	64424	74656	81121
Net Intangible Assets	920	1408	1185	951	704
Fixed Assets for Sale	0	0	0	0	0
<b>Investments</b>	69223	82637	86207	91207	96207
Inventories	43059	58051	60968	73738	96594
Debtors	73650	100555	102184	117120	148235
Cash Balance	9645	7753	55338	62362	73465
Other CA	143	216	216	216	216
Loans and Advances	36638	67906	65365	69993	85674
<b>Total CA</b>	163135	234480	284071	323428	404184
Current Liabilities	116484	147759	152106	175413	218621
Provisions	20354	30665	30893	34996	45693
<b>Total CL</b>	136838	178424	182999	210409	264314
<b>NCA</b>	26297	56056	101072	113019	139870
<b>TOTAL ASSETS</b>	131715	190393	252888	279833	317903

Source: Company, BofA Merrill Lynch Global Research

**Table 9: L&T - Cash Flow Statement (Parent)**

Year End Mar31 (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
PBT	30682	39404	45991	54823	70993
Tax Paid	(9683)	(12312)	(14349)	(17105)	(22150)
Change in DTL	(68)	(129)	5	5	5
Add: D&A	2116	3060	4091	5003	5781
Change in Working Capital	(2123)	(31651)	2569	(4923)	(15748)
<b>Cash Flow from Operations</b>	<b>20924</b>	<b>(1628)</b>	<b>38307</b>	<b>37803</b>	<b>38881</b>
Extraordinary Items + Tax Adjustments	735	7,725	11,868	0	0
Capex	(16065)	(18565)	(18000)	(15000)	(12000)
Change in Investments/Assets	(38178)	(13415)	(3570)	(5000)	(5000)
Others	0	0	0	0	0
<b>Cash Flow from Investing Activities</b>	<b>(53508)</b>	<b>(24255)</b>	<b>(9702)</b>	<b>(20000)</b>	<b>(17000)</b>
	(32583)	(25883)	28605	17803	21881
Change in Debt	15062	29720	7400	(2000)	(2000)
Change in Equity	647	1799	26	0	0
Change in Reserves	21290	(361)	20332	0	0
Dividend and Dividend Tax	(5716)	(7168)	(8779)	(8779)	(8779)
<b>Cash Flow from Financing Activities</b>	<b>31284</b>	<b>23991</b>	<b>18980</b>	<b>(10779)</b>	<b>(10779)</b>
<b>Increase/(Decrease) in Cash</b>	<b>-1300</b>	<b>-1892</b>	<b>47585</b>	<b>7025</b>	<b>11103</b>
<b>Opening Cash and Bank Balance</b>	<b>10944</b>	<b>9645</b>	<b>7753</b>	<b>55338</b>	<b>62362</b>
<b>Closing Cash and Bank Balance</b>	<b>9645</b>	<b>7753</b>	<b>55338</b>	<b>62362</b>	<b>73465</b>

Source: Company, BofA Merrill Lynch Global Research

**Table 10: L&T - Key Ratios & Valuations (Parent)**

Year End Mar31	FY08	FY09	FY10E	FY11E	FY12E
<b>Rec. PAT</b>	<b>20,998</b>	<b>27,092</b>	<b>31,642</b>	<b>37,718</b>	<b>48,844</b>
Basic Shares O/s (mn)	584.7	585.7	600.3	600.3	600.3
Share Price (Rs)	<b>1,524</b>	<b>1,524</b>	<b>1,524</b>	<b>1,524</b>	<b>1,524</b>
Market Cap (Rs mn)	891141	892665	914864	914864	914864
Rec. EPS (Rs)	35.9	46.3	52.7	62.8	81.4
- EPS Growth	47.8%	28.8%	14.0%	19.2%	29.5%
CEPS (Rs)	39.53	51.48	59.53	71.17	91.00
DPS (Rs)	8.47	10.50	12.50	12.50	12.50
P/E (x)	42.4	32.9	28.9	24.3	18.7
P/CEPS (x)	38.6	29.6	25.6	21.4	16.7
Yield	0.6%	0.7%	0.8%	0.8%	0.8%
EV/EBITDA (x)	30.3	24.2	19.7	16.4	12.5
P/OB (x)	1.69	1.27	0.93	0.71	0.58
EV/OB (x)	1.66	1.28	0.90	0.68	0.55
BV (Rs)	160.0	206.3	293.0	341.2	408.0
P/BV (x)	9.5	7.4	5.2	4.5	3.7
<b>Duopont Analysis</b>					
- Rec PAT/EBIT	74.6%	74.8%	73.3%	73.5%	72.9%
- EBIT/Sales	11.3%	10.8%	12.0%	11.9%	11.9%
- Sales / Avg Total Assets	236.2%	208.9%	162.1%	162.5%	189.1%
- Avg. Total Assets / Avg Networth	139.5%	149.0%	148.2%	139.1%	132.2%
RoE	27.8%	25.1%	21.2%	19.7%	21.6%
RoCE	10.4%	9.2%	8.0%	8.0%	9.0%
Net Debt (Rs mn)	26195	57807	17623	8598	(4505)

Source: Company, BofA Merrill Lynch Global Research

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Table 11: Global Engineering Valuation Comps

Company Name	BofAML Ticker	BofAML Rating	Local Price	Currency	Market Cap (US\$ mn)	EBITDA Margin (%)			P/E (x)			EV/E (x)			P/BV (x)			RoE (%)		
						FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
<b>Indian Engg Companies</b>																				
Bharat Heavy Electricals Limited	BHHEF	C-1-7	2292	INR	24,369	19.0%	21.3%	21.9%	25.0	20.1	16.1	17.5	13.2	10.6	6.9	5.4	4.2	30.6	30.1	29.5
ABB India	ABVFF	C-3-7	838	INR	3,857	11.0%	11.2%	11.6%	39.7	33.1	25.7	23.4	19.7	15.4	7.1	6.0	5.0	19.5	19.7	21.2
Cummins India Ltd	CUIDF	C-1-7	440	INR	1,893	16.6%	17.3%	17.3%	21.4	15.6	12.9	18.1	14.3	11.8	5.2	4.4	3.7	25.9	30.6	30.8
Larsen & Toubro Limited	LTOUF	C-1-7	1524	INR	19,869	13.2%	13.2%	13.2%	26.7	22.0	16.6	18.8	15.5	11.8	4.7	4.0	3.3	20.7	19.7	22.0
Suzlon Energy Limited	SZEYF	C-3-7	83	INR	2,799	9.8%	9.7%	10.0%	48.7	21.8	12.9	9.9	10.4	8.2	1.6	1.5	1.4	3.2	7.2	11.4
Voltas Limited	VTSJF	C-1-7	178	INR	1,279	9.3%	8.9%	8.8%	17.1	14.4	12.5	12.5	10.8	9.2	5.6	4.3	3.5	37.3	33.9	30.8
<b>Indian Engg Average</b>									<b>29.8</b>	<b>21.2</b>	<b>16.1</b>	<b>16.7</b>	<b>14.0</b>	<b>11.2</b>	<b>5.2</b>	<b>4.3</b>	<b>3.5</b>	<b>22.8</b>	<b>23.5</b>	<b>24.3</b>
<b>Regional Engg Companies</b>																				
<b>Chinese Engg Companies</b>																				
Dongfang Electrical Machin-H	DNGFF	XRWW	40.5	HKD	886	7.6%	9.1%	9.9%	20.4	16.3	13.6	14.0	10.7	8.9	5.8	4.6	3.9	44.8	37.5	34.6
Harbin Power Equipment Co-H	HBPWF	XRWW	6.7	HKD	580	5.5%	6.8%	7.0%	12.1	10.3	9.3	1.4	1.2	1.2	0.9	0.9	0.8	8.2	8.5	8.7
Shanghai Electric Group Co Ltd-H	SIELF	XRWW	3.5	HKD	1,347	8.2%	8.5%	8.9%	15.9	14.5	12.6	20.6	18.3	16.7	1.6	1.5	1.4	10.5	10.4	11.2
<b>Chinese Engg Average -H</b>									<b>16.1</b>	<b>13.7</b>	<b>11.8</b>	<b>12.0</b>	<b>10.1</b>	<b>8.9</b>	<b>2.8</b>	<b>2.3</b>	<b>2.0</b>	<b>21.2</b>	<b>18.8</b>	<b>18.2</b>
Dongfang Electrical Machin-A	DNGFF	XRWW	46.9	CNY	5,714	8.8%	10.2%	10.9%	26.2	21.0	16.9	11.8	9.1	7.3	10.9	7.4	5.2	42.5	35.9	32.0
Harbin Power Equipment Co-A	HBPWF	XRWW	6.7	HKD	685	5.5%	6.8%	7.0%	12.1	10.3	9.3	1.4	1.2	1.2	0.9	0.9	0.8	8.2	8.5	8.7
Shanghai Electric Group Co Ltd-A	SIELF	XRWW	10.0	CNY	14,022	9.1%	10.0%	10.6%	45.0	38.6	32.4	17.6	14.9	12.9	5.3	4.8	4.3	11.0	11.8	16.6
<b>Chinese Engg Average -A</b>									<b>27.8</b>	<b>23.3</b>	<b>19.5</b>	<b>10.3</b>	<b>8.4</b>	<b>7.1</b>	<b>5.7</b>	<b>4.3</b>	<b>3.4</b>	<b>20.6</b>	<b>18.7</b>	<b>19.1</b>
<b>Korean Engg Companies</b>																				
Doosan Heavy Industries	DOHIF	REVIEW	93000	KRW	8,586	8.0%	9.2%	10.3%	(43.1)	26.6	17.9	23.1	17.2	14.2	3.1	2.8	2.4	(6.2)	11.0	14.5
Daelim Industrial Co Ltd	DERXF	C-3-8	90800	KRW	2,759	7.2%	6.0%	5.2%	9.5	9.9	9.9	10.0	10.8	11.0	0.9	0.8	0.8	9.9	8.8	8.2
GS Engineering & Construction	GSNGF	C-2-7	102000	KRW	4,542	8.5%	7.5%	6.4%	13.2	12.1	11.0	8.8	8.4	7.6	1.5	1.3	1.2	12.2	11.7	11.5
Hyundai Engineering & Construction	HYEHF	C-1-7	73900	KRW	7,185	6.4%	6.9%	7.3%	17.8	14.2	11.2	15.4	12.3	9.4	2.5	2.1	1.8	14.8	16.0	17.4
Hyundai Development Company	HYHVF	C-1-7	35800	KRW	2,356	6.3%	11.0%	14.9%	100.5	11.7	6.3	30.4	11.2	4.9	1.1	1.0	0.9	1.1	9.1	15.0
Daewoo Engineering & Construction Co. Ltd	DWOFF	C-3-7	12850	KRW	3,654	5.9%	5.6%	6.0%	16.4	16.8	14.6	15.6	15.5	13.1	1.4	1.3	1.2	8.0	7.8	8.4
Samsung C&T	SSGFF	C-1-7	64800	KRW	8,839	3.1%	3.5%	4.2%	35.1	27.8	20.7	33.7	28.6	20.1	2.0	1.9	1.8	5.9	7.1	8.9
Samsung Engineering Co Ltd	SGRGF	C-1-7	115000	KRW	4,016	8.3%	7.7%	8.0%	18.5	15.5	10.5	14.5	11.9	7.1	6.4	5.0	3.9	38.9	36.4	42.0
<b>Korean Engg Average</b>									<b>18.4</b>	<b>16.9</b>	<b>12.8</b>	<b>18.9</b>	<b>14.5</b>	<b>10.9</b>	<b>2.4</b>	<b>2.0</b>	<b>1.7</b>	<b>10.6</b>	<b>13.5</b>	<b>15.7</b>
<b>Other Regional Engg Cos.</b>																				
IGB Corporation	IGBBF	C-3-7	1.9	MYR	852	52.1%	49.5%	50.1%	19.8	17.6	16.1	9.8	9.4	8.9	1.0	1.0	0.9	5.3	5.7	6.0
Muhibbah Engineering (M) Bhd	MUHF		1.1	MYR	128	4.6%	6.7%	7.9%	11.8	6.0	5.8	11.7	8.7	8.1	0.9	0.8	0.7	6.6	14.7	13.5
Leighton Holdings Limited	LGTHF	B-1-7	39.2	AUD	10,618	8.2%	7.8%	7.5%	19.1	16.3	13.7	7.4	6.7	5.9	4.6	4.1	3.6	25.2	26.8	28.0
<b>Other Regional Engg Average</b>									<b>16.9</b>	<b>13.3</b>	<b>11.9</b>	<b>9.7</b>	<b>8.3</b>	<b>7.6</b>	<b>2.2</b>	<b>2.0</b>	<b>1.7</b>	<b>12.3</b>	<b>15.7</b>	<b>15.8</b>
<b>Japanese Engg Companies</b>																				
Mitsubishi Electric	MIELF	B-1-8	729	JPY	17,287	6.7%	8.8%	9.3%	147.3	15.5	13.1	11.1	7.8	6.9	1.7	1.5	1.3	1.2	10.4	11.0
Toshiba Corp	TOSBF	C-1-9	530	JPY	24,803	7.1%	8.2%	8.1%	(225.5)	22.2	17.3	9.5	7.9	7.9	2.9	2.5	2.1	(1.6)	12.0	13.3
<b>Japanese Engg Average</b>									<b>147.3</b>	<b>18.9</b>	<b>15.2</b>	<b>10.3</b>	<b>7.9</b>	<b>7.4</b>	<b>2.3</b>	<b>2.0</b>	<b>1.7</b>	<b>1.2</b>	<b>11.2</b>	<b>12.1</b>
<b>U.S. Engg Companies</b>																				
Jacobs Engineering Group Inc	JEC	B-2-9	39	USD	4,912	6.2%	5.4%	5.8%	12.3	16.3	13.9	6.2	6.7	5.0	1.9	1.7	1.5	16.4	10.9	11.6
<b>U.S. Engg Average</b>																	<b>16.4</b>	<b>10.9</b>	<b>11.6</b>	
<b>European Engg Companies</b>																				
ABB Ltd.	ABLZF	B-1-8	19	USD	42,579	14.9%	14.7%	16.1%	15.4	15.3	12.3	7.7	7.6	6.1	3.3	2.9	2.5	23.3	23.1	23.3
Alstom	AOMFF	B-1-7	49	EUR	20,127	9.9%	9.2%	9.7%	11.5	11.7	12.7	6.1	7.5	6.9	3.8	3.1	2.6	37.3	28.8	22.3
Areva SA	NA		344	EUR	17,206	7.7%	11.7%	14.6%	27.2	19.7	18.7	17.5	11.2	10.0	1.8	1.6	1.5	8.0	8.0	8.9
Invensys	IVNSF	C-1-7	3.0	GBP	3,967	13.6%	14.3%	14.5%	21.1	13.6	12.0	6.9	5.7	5.0	3.4	2.7	2.2	18.1	22.1	20.0
Schneider	SBGSF	B-3-8	77	EUR	28,474	12.9%	13.6%	17.7%	25.2	22.4	13.1	12.1	11.5	7.9	1.8	1.7	1.6	9.0	9.4	14.1
Siemens AG	SMAWF	B-1-8	65	EUR	83,231	9.6%	11.0%	13.4%	24.9	15.8	10.6	9.4	8.3	6.2	2.1	2.0	1.8	8.6	12.9	17.7
Spectris	SEPJF	B-1-7	7.7	GBP	1,450	12.0%	15.0%	16.3%	18.3	12.0	9.8	10.9	7.7	6.3	1.9	1.7	1.6	10.7	15.2	16.8
<b>European Engg Average</b>									<b>20.5</b>	<b>15.8</b>	<b>12.7</b>	<b>10.1</b>	<b>8.5</b>	<b>6.9</b>	<b>2.6</b>	<b>2.2</b>	<b>2.0</b>	<b>16.4</b>	<b>17.1</b>	<b>17.6</b>
<b>Sensex</b>			<b>17051</b>						<b>19.7</b>	<b>15.7</b>	<b>NA</b>	<b>11.7</b>	<b>9.7</b>	<b>NA</b>	<b>3.1</b>	<b>2.7</b>	<b>NA</b>	<b>17.2</b>	<b>18.6</b>	<b>NA</b>

Note: FY09E=CY08E and so on

Source: Bloomberg, BofA Merrill Lynch Global Research



## Price objective basis & risk

### Larsen & Toubro (LTOUF / LTORF)

Our PO of Rs1700 (Rs1745)/US\$37 (US\$37.5) for L&T is based on sum-of-the-parts valuation. We have valued the core business at Rs1409 (1476) per share at a PER of 18x estimated 1 year forward EPS, at 10% discount to BHEL. Its 79.6pct stake in L&T IDPL (Infrastructure SPVs) is valued at 1.7x the private equity deal valuation at Rs57 (Rs54) per share. Its 100pct stake in L&T Infotech is valued at 10x estimated 1-year forward EPS - in line with niche 2nd tier stocks, giving a per share value of Rs66 (Rs54) per share. The stakes of 100pct in L&T Finance & L&T Infrastructure Finance are valued at 1.2x 1-year forward P/BV, at Rs27 (Rs24) and Rs20 (Rs17) per share respectively. Its 51% stakes in L&T MHI Boilers and L&T MHI Turbine Generators are valued 15x PER of FY12E EPS at Rs40 and Rs12 per share respectively. The stakes in L&T Urban Infra (59.7pct) and Dhamra Port (39.8pct) are valued on a DCF basis at Rs8 and Rs14 per share respectively. Other subsidiaries are valued at 2.5x book value at Rs47 per share. Risks to Price Objective: Slowdown in EPS growth on a higher base, Raw materials, Competition, Project execution.

## Analyst Certification

I, Bharat Parekh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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22 January 2010

India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh
	Gujarat State	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Manish Sarawagi
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Power Ventures Ltd.	XJSHF	JPVL IN	Bharat Parekh
	Lanco Infratech Ltd.	LNIF	LANCI IN	Manish Sarawagi
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Mundra Port SEZ	XMANF	MSEZ IN	Bharat Parekh
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
<b>NEUTRAL</b>				
	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
<b>UNDERPERFORM</b>				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAID LI	Vidyadhar Ginde
	GMR Infrastructure Ltd.	GMRLF	GMRI IN	Manish Sarawagi
	NTPC Ltd	NTHPF	NATP IN	Bharat Parekh
	Suzlon Energy	SZEYF	SUEL IN	Bharat Parekh
<b>RVW</b>				
	Indraprastha Gas	IAGSF	IGL IN	Vidyadhar Ginde

*iQmethod*<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

*iQmethod*<sup>SM</sup> is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase*<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

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### LTOUF Price Chart

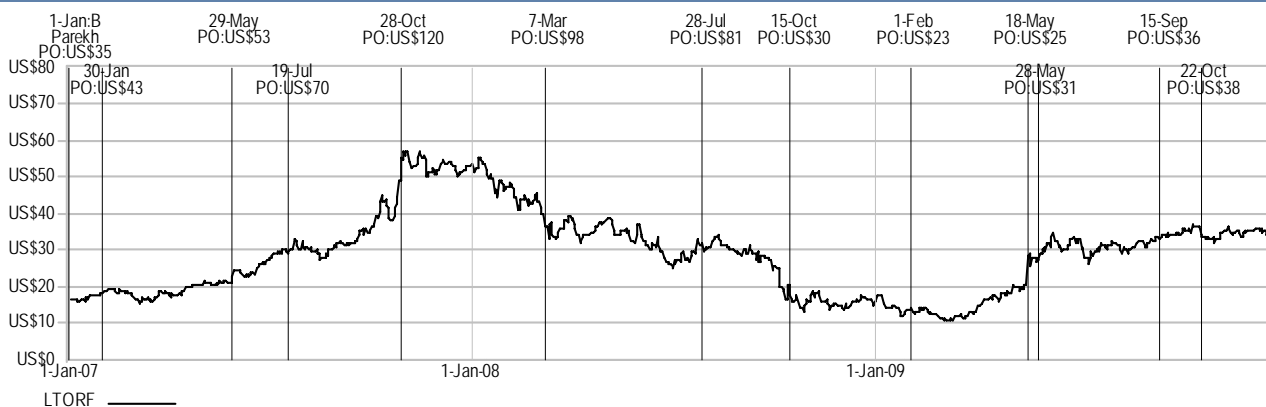


B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2009 or such later date as indicated.

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### LTORF Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	20	62.50%	Buy	8	47.06%
Neutral	5	15.63%	Neutral	1	20.00%
Sell	7	21.88%	Sell	6	85.71%

### Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

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Underperform	N/A	≥ 20%

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