



<b>Report Date</b>	January 30, 2008
<b>Company Name</b>	Larsen & Toubro
<b>Recommendation</b>	BUY

<b>CMP – Rs. 3706.80</b>	<b>Target Price – Rs. 4,600/-</b>	<b>Mkt. Cap. Rs. 216.44 billion</b>
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### **Investment Rationale**

- L&T, engineering & construction behemoth, has reported impressive performance for Q3 FY 2008. Net Sales soared up by 55.1% to Rs. 6382.68 crore, buoyed by sizeable capital investment programs and encouraging success achieved in bagging new orders. Share of revenue from international operations constituted 18% of turnover. L&T aims to boost this share to 30% over next few years. However, OPM% @ 10.8% was slightly under pressure due to rising cost structure. 250% jump in interest cost of Rs. 43.84 crore and 47.7% higher depreciation of Rs. 52.7 crore restricted growth in PBT of Rs. 694.62 crore at 34.5%. Nevertheless, lower average tax rate of 30.6% (33.4) lifted PAT up by 40.1% to Rs. 481.79 crore.
- For 9 months ending December 2007, Sales soared by 44% to Rs. 16609.5 crore. OPM% enhanced to 10.4%. Thus, efficient execution of large size orders, and improved cost management led to healthy 71.8% spurt in PAT at Rs. 1206.66 crore. Order Inflow at Rs. 30,045 crore grew by > 31%.
- L&T is India's premier engineering and construction (E&C) conglomerate providing it exposure to entire capex cycle in infrastructure and industrial projects. Its dominance in domestic E&C emanates from its strong brand equity, established track record and ability to cater to widest range of segments incl. infrastructure, power, oil & gas, roads, ports and irrigation. It is the only Indian company to offer turnkey EPC services in civil, mechanical, electrical, and instrumentation. It has highly diversified revenue base across products and geographies. Company has entered into joint ventures with leading global players to offer EPC services in segments such as power plants (Sargent & Lundy), hydrocarbon (Chiyoda), and barges / sub-sea pipe laying (Sapura Crest Petroleum).
- L&T is a large cap play on Indian infrastructure and private capacity addition. With its strong balance sheet and pre-qualification for most infrastructure sectors, L&T is well entrenched to benefit from investment in building Indian infrastructure. Being preferred supplier for most large and reputed private groups helps L&T's core business to sustain growth momentum.
- This apart, company entering into newer verticals like ship building, aviation, nuclear, power generation, water treatment and defense, which have immense potential. Company will be investing > Rs. 2,000 crore to put up integrated ship building yard (where it intends to build large tonnage ships- of upto 3 lakh dwt) and port. Company aims to earn at least 15–20% (5% at present) of its revenues from the power sector within couple of years, through engineering, procurement and construction (EPC) of power plants in the country. Its units for the manufacture of power equipment with Mitsubishi and Toshiba Corporation of Japan are proposed to come up at Hazira in Gujarat by FY 2010. It has been reported that the government is considering entrusting L&T with supply of power equipment for some of its upcoming power projects on nomination basis.
- Order backlog at Rs 50,000 crore as on Dec. 30, 2007 (~ 2.8 times FY 2007 annual sales) continues to remain strong. Order book split indicates increasing shift to non-construction projects, which should yield better margins in future. Order backlog will only swell with L&T's entry into newer verticals. Besides, subsidiary portfolio (including in IT and several SPVs, which are implementing / managing BOOT type projects) will provide additional leg-up to L&T growth with consolidated earnings growing at faster pace.
- Given the strong fundamentals in the economy to support sound growth trajectory of capital goods sector, company's businesses are well positioned to reap benefits of this growth momentum. On back of strong oil prices, Middle East region is also expected to further ramp up investment in oil & gas production and distribution facilities. In backdrop of this favourable investment climate, L&T is expected to sustain the growth. With healthy Order Book, company is confident of keep growing @ CAGR of 25% in near to medium term.
- L&T's subsidiaries will provide unlocking of value thru public offering. It plans to list its Infotech subsidiary and has set target for listing of 8 subsidiaries (Including Infotech subsidiary) by 2015. 3 subsidiaries (L&T Infotech, L&T IDPL and L&T finance) will account for 15% of group's total business by FY 2010.

### **Valuation**

- The high revenue visibility, its ability to pick and choose its projects and its position at the cutting edge of the infrastructure boom have all helped L&T become a proxy for infrastructure growth in the country. Thus, company is all set for excellent growth in future. At CMP, stock is trading at 38.8 times FY 2008 expected EPS of Rs 95.55 and 29.8 times FY 2009 expected EPS of Rs 124.57. In view factors mentioned above, we recommend to "BUY" the share at CMP.

	FY 2008	FY 2007	%	FY 2008	FY 2007	%	2007 A
	Q3			9 months			12 mths
			Change			Change	
Net Sales	6,382.68	4,115.69	55.1%	16,387.83	11,322.28	44.7%	17,566.41
Total Expenses	5,692.39	3,659.72	55.5%	14,688.18	10,385.85	41.4%	15,819.87
EBITDA	690.29	455.97	51.4%	1,699.65	936.43	81.5%	1,746.54
<b>EBITDA (%)</b>	<b>10.8%</b>	<b>11.1%</b>		<b>10.4%</b>	<b>8.3%</b>		<b>9.9%</b>
Interest Expenses / (Income)	43.84	12.53	249.9%	72.80	69.85	4.2%	92.99
Depreciation	52.70	35.67	47.7%	143.43	100.20	43.1%	170.01
Other Income	100.87	108.80	-7.3%	335.67	300.67	11.6%	521.35
P.B.T. before Extra Ordinary Items	694.62	516.57	34.5%	1,819.09	1,067.05	70.5%	2,004.89
Net Profit	481.79	343.90	40.1%	1,206.66	702.25	71.8%	1,403.02
Equity Capital (Rs 10/-)	58.37	56.11		58.37	56.11		56.65
EPS for the period (Rs)	16.51	12.26	34.7%	41.35	25.03	65.2%	49.53

### Disclosures

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January 31, 2008