

May 30, 2008

Rating	Outperformer
Price	Rs2,889
Target Price	Rs3,586
Implied Upside	24.1%
Sensex	16,316

(Prices as on May 29, 2008)

Trading Data

Market Cap. (Rs bn)	844.6
Shares o/s (m)	292.4
Free Float	100.0%
3M Avg. Daily Vol ('000)	1,435.6
3M Avg. Daily Value (Rs m)	4,142.1

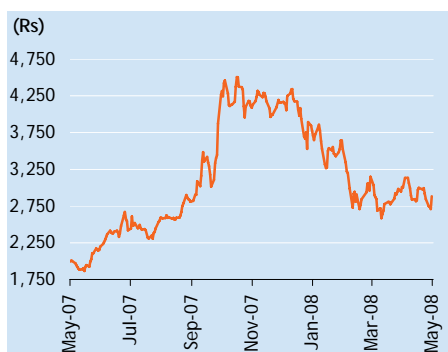
Major Shareholders

Promoters	NA
Foreign	16.6%
Domestic Inst.	41.8%
Public & Others	41.6%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.2)	(28.1)	48.7
Relative	4.2	(12.6)	35.3

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



Source: Bloomberg

Larsen & Toubro

Strong revenue growth to continue

- **Results:** L&T reported strong Q4FY08 numbers with topline increasing 35% to Rs84.7bn and PAT increasing 38% YoY to Rs9.7bn. Adjusting for extraordinary income of Rs872m on account of sale of stake in subsidiary, recurring PAT increased 25% to Rs8.8bn. EBIDTA margin was strong at 13.2% in Q4FY08. Full year standalone revenue grew by 41% YoY to Rs248.8bn and recurring net profit grew 49% to Rs21bn.
- **Strong order intake:** Overall order intake remained strong, with total order inflows in Q4FY08 touching Rs119bn, 56% YoY growth. E&C segment reported healthy growth in its order inflow to Rs102bn, a YoY increase of 67%. For the full year, order intake increased 37% to Rs420bn and order book grew 43% to Rs526.8bn.
- **Management guidance:** The management has guided for 30-35% growth in revenue for the current year and has indicated that margins would remain stable. In order to mitigate the exposure to fluctuation in commodity prices, the company has started taking on more escalation-based and cost-plus contracts.
- **Outlook & valuation:** Given the strong growth in revenue, we have increased our revenue estimates for FY09 and FY10 by 4.5% and 2.3% to Rs349.5bn and Rs472.8bn respectively, and FY09 and FY10 PAT to Rs29.7bn and Rs39.8bn. We are projecting a standalone EPS of Rs101.9 and Rs136.3 and consolidated EPS of Rs128 and Rs171 in FY09 and FY10 respectively. At the current price, L&T is trading at 23x FY09 and 17x FY10 consolidated earnings. We maintain Outperformer rating on the stock with a price target of Rs3,586.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	176,142	248,779	349,501	472,884
Growth (%)	19.3	41.2	40.5	35.3
EBITDA (Rs m)	17,819	28,378	43,699	59,436
PAT (Rs m)	14,030	21,004	29,797	39,850
EPS (Rs)	49.5	71.4	100.7	137.5
Growth (%)	34.5	44.1	41.0	36.6
Net DPS (Rs)	13.0	17.8	25.2	34.4

Source: Company Data; PL Research

Note: Standalone Nos.

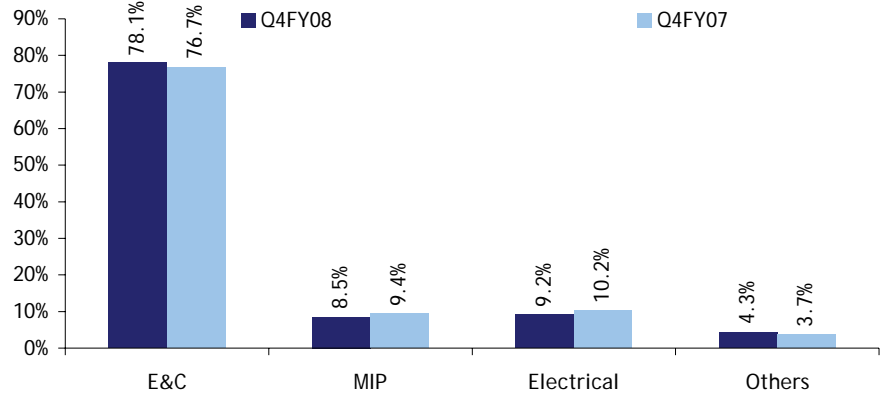
Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	10.1	11.4	12.5	12.6
RoE (%)	24.4	22.8	29.3	30.8
RoCE (%)	20.3	23.0	25.2	27.3
EV / sales (x)	4.7	3.5	2.5	1.8
EV / EBITDA (x)	46.5	30.4	19.7	14.5
PE (x)	58.3	38.9	28.3	21.2
P / BV (x)	15.7	11.0	8.6	7.3
Net dividend yield (%)	0.4	0.6	0.9	1.2

Source: Company Data; PL Research

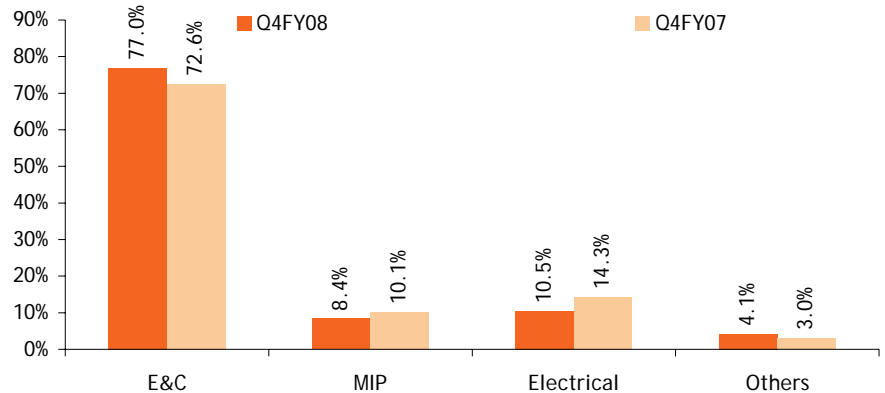
Note: Standalone Nos.

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Revenue break-up


Source: Company Data, PL Research

EBITDA break-up


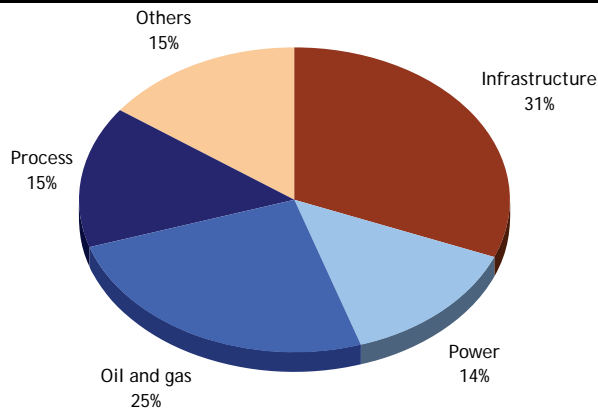
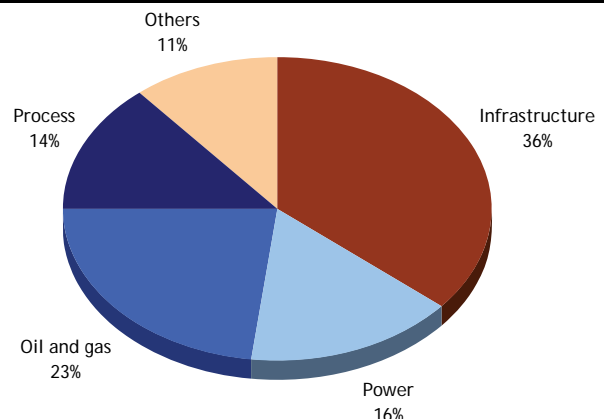
Source: Company Data, PL Research

Segmental break-up

(Rs m)

Y/e March	Q4FY08	Q3FY08	Q2FY08	Q1FY08	Q4FY07	Q3FY07	Q2FY07
Net sales							
Engineering & construction	66,230	48,940	41,080	33,220	48,150	30,360	26,970
Electrical & electronics	7,180	5,760	6,240	5,030	5,860	4,420	4,350
MIP	7,800	5,670	5,640	4,170	6,420	4,000	4,240
Others	3,610	3,480	2,040	2,650	2,310	2,430	1,860
EBIDTA							
Engineering & construction	10,380	5,900	4,810	3,190	7,090	3,460	2,320
Electrical & electronics	1,130	1,000	1,070	840	990	750	760
MIP	1,420	1,190	890	922	1,400	570	660
Others	550	220	210	159	290	120	270
EBIDTA (%)							
Engineering & construction	15.7	12.1	11.7	9.6	14.7	11.4	8.6
Electrical & electronics	15.7	17.4	17.1	16.7	14.3	15.5	17.5
MIP	18.2	21.0	15.8	22.1	21.1	14	15.6
Others	15.2	6.3	10.3	6.0	12.6	4.9	14.5

Source: Company Data, PL Research

Order inflow

Order book break-up


Source: Company Data, PL Research

Order book trends

(Rs bn)

Y/e March	Q4FY08	Q3FY08	Q2FY08	Q1FY08	Q4FY07	Q3FY07
Order inflows	120	130	76	99	77	95
Engineering & construction	102	115	59	82	61	82
Order book	527	496	440	416	369	357
Engineering & construction	509	476	420	397	353	341

Source: Company Data, PL Research

Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net Sales	84,669	62,730	35.0	63,849	176,142	248,779	41.2
Expenditure							
Construction, Mfg. & others	69,691	51,280	35.9	52,928	145,741	205,046	40.7
<i>% of Net Sales</i>	<i>82.3</i>	<i>81.7</i>		<i>82.9</i>	<i>82.7</i>	<i>82.4</i>	
Personnel Cost	3,796	3,104	22.3	3,996	12,582	15,354	22.0
<i>% of Net Sales</i>	<i>4.5</i>	<i>4.9</i>		<i>6.3</i>	<i>7.1</i>	<i>6.2</i>	
Total Expenditure	73,487	54,384	35.1	56,924	158,323	220,401	39.2
EBITDA	11,181	8,346	34.0	6,925	17,819	28,378	59.3
<i>Margin (%)</i>	<i>13.2</i>	<i>13.3</i>		<i>10.8</i>	<i>10.1</i>	<i>11.4</i>	
Other income	2,490	1,794	38.8	987	4,270	5,647	32.3
Depreciation	682	698	(2.3)	527	1,700	2,116	24.5
EBIT	12,990	9,442	37.6	7,385	20,388	31,909	56.5
Interest	499	63		438	339	1,227	261.5
PBT	12,491	9,378	33.2	6,946	20,049	30,682	53.0
Total Tax	3,554	2,371	49.9	2,128	6,019	9,678	60.8
<i>% PBT</i>	<i>28.5</i>	<i>25.3</i>		<i>30.6</i>	<i>30.0</i>	<i>31.5</i>	
Recurring PAT	8,937	7,008	27.5	4,818	14,030	21,004	49.7
Extraordinary item	730	-		-	-	730	
PAT	9,667	7,008	37.9	4,818	14,030	21,734	54.9



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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