Update

SECTOR: ENGINEERING

Larsen & Toubro

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,809	LT IN
	REUTERS CODE
S&P CNX: 3,210	LART.BO

Equity Shares (m)	143.4
52-Week Range	2,915/1,034
1,6,12 Rel. Perf. (%)	-2/18/52
M.Cap. (Rs b)	338.7
M.Cap. (US$ b)	7.4

26 May 2006

Buy

Previous Recommendation: Buy

Rs2,363

YEAR END	NET SALES (RS M)	PAT * (RS M)	EPS*# (RS)	EPS#* GROWTH (%)	P/E#* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/06A	149,607	10,512	74.2	50.5	31.8	7.5	22.3	24.4	2.2	26.9
3/07E	190,383	15,498	109.5	47.4	21.6	5.9	25.2	27.6	1.7	19.1
3/08E	239,295	20,120	140.3	29.8	16.8	5.0	26.1	29.7	1.4	14.9

** Consolidated; # EPS is fully diluted*

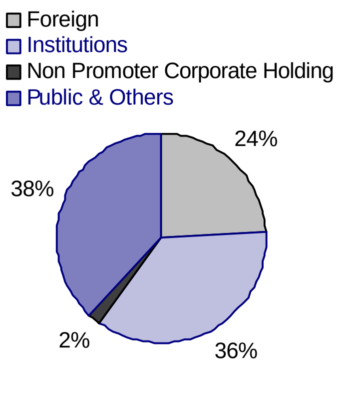
Strong business momentum: L&T is the largest E&C company in India, with a market share of 10-25% in most of the segments it operates in. The company is currently witnessing a significant ramp up in order inflows, led by higher infrastructure spending and pick up in industrial capex. For FY07, the management has guided for 30% increase in order intake (on back of 50% increase in FY06), and 25% increase in revenues.

Structural change in business mix towards high margin segments: L&T is working towards structural change in revenue composition from contracting and turnkey projects, towards manufacturing and services, where the margin profile is significantly better. To increase share of manufacturing, the company is expanding existing facilities at Hazira and is setting up new facilities in Coimbatore, Middle East and China. These high margin segments currently account for 25-30% of consolidated revenues and the company targets to increase this composition to 40% by FY10.

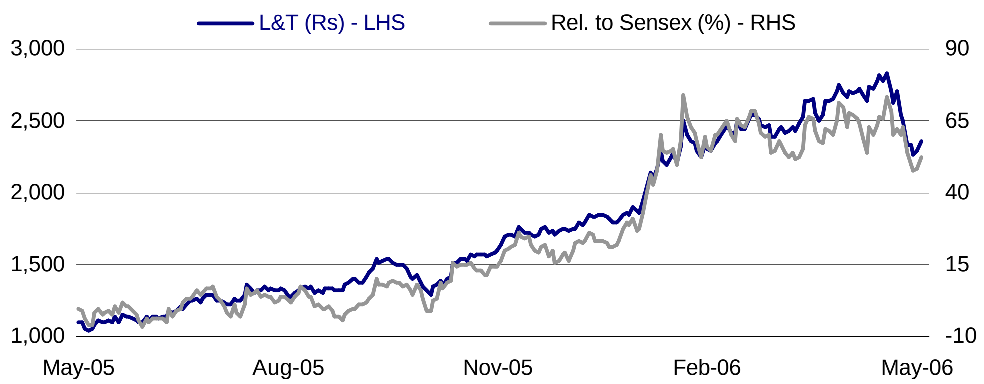
Key future growth initiatives: The management has outlined series of growth initiatives in (a) Defense, Nuclear and Aerospace, (b) Shipbuilding, (c) Coal gasification equipment, and (d) Hydropower. Most of these business segments are now in nascent stages, with a sizeable growth potential and have better margin profiles.

Price target Rs2,865, maintain Buy: We value L&T based on sum of the parts (SOTP) methodology. We arrive at a price target of Rs2,865 based on: core business Rs2,170/share (18x FY08E PER), L&T Infotech at Rs169/share (12x FY08E PER), L&T Infrastructure Development Projects at Rs188/share, Ultratech Cemco stake at Rs58/share, L&T Finance at Rs48/share (10x FY08E PER), International Ventures at Rs45/share and Manufacturing Ventures at Rs74/share. At the CMP of Rs2,363, L&T quotes at a PER of 21.6x FY07E and 16.8x FY08E. We maintain **Buy**.

SHAREHOLDING PATTERN (%)



STOCK PERFORMANCE (1 YEAR)



Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 39825410/Anjali Shah Vora (Anjali@MotilalOswal.com); Tel: +91 22 39825415

Strongly positioned for the impending investment boom

L&T is the largest construction and engineering company in India, with a market share of 10-25% in most of the segments it operates in. The company is currently witnessing a significant ramp up in order inflows, led by higher infrastructure spending and pick up in industrial capex. The sharp increase in order book is driven by capex surge in key segments like Hydrocarbon (India and Middle East), minerals and metals, water and effluent treatment, infrastructure (roads, ports, airports, mass rapid transit systems, railways, water systems, etc), power (hydro and nuclear) and coal gassifiers (China, US and India).

EXPECTED PIPELINE OF MEGA PROJECTS (RS B)

NAME OF THE PROJECT	PROJECT SIZE (RS B)	POTENTIAL FOR L&T (RS B)	EXPECTED TIMING FOR ORDERING
Dhamra Port	20	10	1Q/2Q FY07
Reliance, Jamnagar Refinery	270	40	FY07
TISCO, Greenfield projects	300	60	FY07/FY08
Posco, Greenfield projects	150	25	FY07/FY08
BPCL, Bina Refinery	70	15	FY07/FY08
IOC, Paradeep Refinery	90	20	FY08
Dubal, Aluminium Plant	150	30	FY08
ONGC, Barmer Refinery	85	22	FY08
GAIL, Assam Gas Cracker	25	5	FY08
HPCL, Bhatinda Refinery	120	30	FY08

Source: Motilal Oswal Securities

L&T'S POSITIONING IN KEY SEGMENTS

Fertilizers: L&T is now amongst the Top 4 equipment manufacturers in the world today
Cement: Set up 55% of cement capacity in India
Hydrocarbons: Set up most of the hydrocarbon projects in India
Road: 10% market share in NHAI road projects
Upstream: 40% market share in ONGC's business
Steel: 75-80% market share (excl imported equipments)
Infrastructure: L&T's revenues from construction segment stood at ~Rs75-80b in FY06, translating into an industry market share of nearly 9-10%

Increased traction in order inflows

L&T is currently witnessing a significant ramp up in order inflows. On the back of a 50% increase in order intake during FY06 (to Rs223b), the management has guided for a 30% increase in order intake during FY07. Order backlog at end of FY06 stood at Rs247b (equivalent to 1.7x FY06 revenues), up 38% YoY.

During April and May 2006, the company made media announcements for new order intake of Rs36b. Given the past experience that orders announced are typically ~40-50% of the total intake (as L&T does not announce every order it receives), the trend till date has been quite encouraging. This compares with order intake of Rs223b in FY06, Rs61b in 4QFY06 and Rs39b in 1QFY06.

ANNOUNCED ORDER INTAKE (APRIL - MAY 06) (RS M)

NHAI Annuity project	5,500
Datang International Power Generation for 3 sets of gassification equipments	3,680
Fuel depot for Kuwait Aviation Fuelling Company	5,810
Construction services and supply of electrical systems for Reliance Jamnagar Refinery	8,000
Shipbuilding order from Zadeko, Netherlands	4,400
Water Supply Systems, from Kerala Water Authority	3,470
Hydro Power Project, Uttaranchal	5,000
Total	**35,860**

Source: Company

During FY07-08E, we expect L&T to record an average annual order inflow of Rs334b, as compared to average of Rs152b during FY03-06. Our model assumes order inflows of Rs297b in FY07E (up 33% YoY) and Rs372.2b in FY08E (up 26% YoY).

ORDER BOOKING, ORDER BACKLOG AND REVENUES (RS B)

	FY03	FY04	FY05	FY06	FY07E	FY08E
Order Booking	107.8	130.8	149.3	223.2	296.5	372.2
Change (%)	*27.7*	*21.3*	*14.1*	*49.5*	*32.8*	*25.5*
Order Backlog	136.9	169.7	179.1	246.6	347.0	478.5
Change (%)	*62.1*	*24.0*	*5.5*	*37.7*	*40.7*	*37.9*
Revenues	73.6	98.9	130.5	146.5	191.2	240.6
Change (%)	*27.0*	*34.4*	*32.0*	*12.3*	*30.5*	*25.8*

Source: Company/Motilal Oswal Securities

Exports witnessing traction

On the exports front too, L&T has witnessed sizeable traction in its order book (up 123% YoY in FY06 to Rs38b), driven by orders from the hydrocarbon segment and foray into coal gassifiers (China and Middle East). Higher crude oil prices is leading to higher capital outlays in Middle East countries, largely in the areas of upstream exploration, refinery expansion, fertilizers, petrochemicals, liquefaction plants, public infrastructure, water supply, etc. L&T is ideally positioned to capitalize on this opportunities as it has a presence in all major centres in the Middle East. In China, the company has offices in Beijing and Shanghai, and has already booked orders in excess of US$150m.

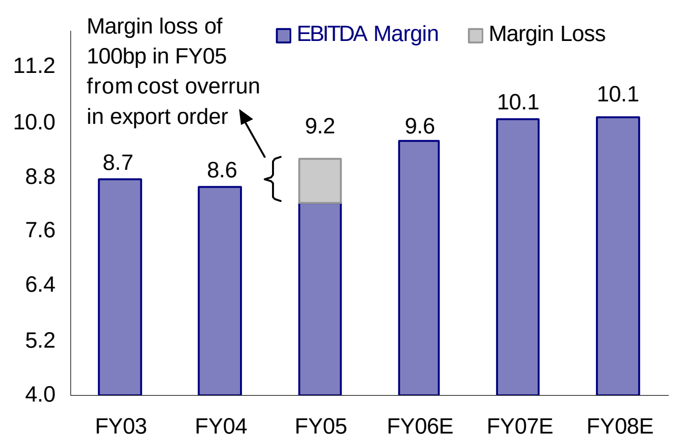
As part of Project Lakshya, L&T has drawn up plans to increase exports from 18% of revenues (Mar 06) to 25% (by FY2010). The company is in the process of setting up manufacturing facilities in China (for switchgears and circuit breakers), fabrication facilities in Oman and for manufacturing joint venture in Saudi Arabia.

L&T is also seeking alliances with domestic oil and gas majors like ONGC, IOC and GAIL India to bid for international projects. In the past, the company had MoU with IOC and Engineers India to work together on overseas projects. Now, with new projects gaining momentum, the company intends to revive the understanding.

Strong case for EBITDA margin expansion

During FY06, L&T reported EBITDA margins of 9.6% (up from 8.2% in FY05). The key reason for lower margins during FY05 had been cost overrun on one export order, which impacted overall margins by 100bp. During FY07, we factor in 50bp YoY improvement in EBITDA margins at 10.1%, and a similar margins (10.1%) in FY08.

TREND IN EBITDA MARGINS (%)



Source: Company/Motilal Oswal Securities

We believe that margin expansion is being driven by the following:

- Operating leverage, driven by 28% revenue CAGR during FY07 and FY08
- Change in order mix towards process industries and hydrocarbons
- Margin improvement at bidding stage on infrastructure projects
- Increasing average order size
- Moving up the value curve and increasing project complexity
- Margins on exports now being at par with domestic margins
- Increasing proportion of high margin segments like Electrical Business (10% of revenues) and Heavy Engineering (~10%) in total revenues

Also, as per the accounting policy, the company accounts for margins on projects with execution period of less than 24 months, post 50% completion. Thus, given the surge in order booking from 4QFY05, and average execution period of 18 months, we believe that margin booking in FY06 was constrained, to a certain extent. We expect this to correct in FY07.

Structural change in business mix towards high margin segments

The management is working towards a structural change in the revenue composition of L&T from contracting and turnkey projects, towards manufacturing and services, where the margin profile is significantly better. This will also insulate the company, to a certain extent, from the cyclical turns of the process industry and infrastructure investments.

CHANGE IN BUSINESS MIX (%)

	CURRENT	TARGET (FY10)	MARGINS
Construction	50	35	5-9
Turnkey Projects	35	25	3-8
Manufacturing	15	25	12-20
Engineering / Services	0	15	15-25

Source: Company/Motilal Oswal Securities

To increase the share of manufacturing business, the management has announced capacity expansion at Hazira, and also setting up new manufacturing facilities in Coimbatore, Middle East and China. Further, the management has also outlined a capex of Rs10b towards the new ship building facility.

BOT projects: early mover advantage

L&T has created two wholly owned subsidiaries for investments through the Public Private Partnership route - (a) L&T Infrastructure Development Projects (L&T IDPL), for investments in non-power infrastructure and (b) L&T Power Investments, for investments in power sector.

L&T IDPL has one of the largest and most diversified BOT portfolios in the country (in segments like roads, airports, ports, water supply, commercial property development, etc) with more than 15 projects under operation, construction and development. The management stated that as at March 2006, the capital commitment towards these projects stand at Rs40-50b, and equity contribution at Rs12b.

L&T IDPL: BOT PROJECTS PORTFOLIO (RS M)

	L&T STAKE (%)	L&T'S CAPITAL COMMITMENT
Bangalore Intl Airport	17.0	1,795
Ahmedabad Mehsana Toll Road	50.0	1,615
GVK Jaipur Kishengarh Expressway	38.1	2,775
Second Vivekanand Bridge Tollway	33.3	2,166
Visakhapatnam Indl Water Supply	45.8	1,604
Narmada Infrastructure Constr	80.0	1,120
L&T Transportation Infrastructure	100.0	1,000
L&T Western India Tollbridge	100.0	500
Dhamra Port Company	33.3	6,666
International Seaports (Haldia)	22.3	446
Kakinada Seaports	29.1	509
Road project, Harayana	100.0	4,180
Road project, Tamil Nadu	100.0	5,250
Road project, Andhra Pradesh	100.0	3,700
L&T Interstate Road Corridor	100.0	5,500

Source: Company/Motilal Oswal Securities

Recently, L&T IDPL raised Rs5.5b by offloading 21.6% stake to private equity investors - Silver Peak Investments (Mauritius) and a consortium led by India Development Fund. This puts the post-issue equity valuation of L&T IDPL at Rs 24.5b. The funds raised would enable the company to aggressively tap new opportunities in the segment, and also finance the existing capital commitment. Going forward, the company can also raise additional funds through securitization of operational projects.

In the **power sector**, the company has a portfolio of three power projects – HPL Cogeneration (51% stake), India Infrastructure Developers (100%) and Koyaseema (5.97%). Recently, the company bagged the development rights for 60MW Singoli Bhatwari hydro power project from Government of Uttaranchal on a BOOT basis (concession period 45 years, estimated cost Rs5b).

Subsidiaries drive consolidated performance

We expect L&T's subsidiaries, associate companies and joint ventures to contribute in a meaningful manner to the overall performance. During FY05, the net profit addition to the standalone numbers of L&T (post netting off dividends received) was Rs597m (pre-exceptionals), which increased to Rs1.8b in FY06. Driven by the strong growth witnessed by L&T Infotech, L&T Finance and L&T Infrastructure Development, we expect this contribution to increase to Rs2.6b in FY07 and Rs3.7b in FY08. Thus, EPS addition from subsidiaries is expected to increase from Rs4.6/sh in FY05, to Rs12.7/sh in FY06, Rs18.3/sh in FY07 and Rs26.1/sh in FY08. Thus, subsidiaries, associate companies and joint ventures will account for 19% of the consolidated net profit of L&T in FY08 as compared to 17% in FY06 and 9% in FY05 currently.

- **L&T Infotech:** We expect L&T Infotech (100% subsidiary of L&T) to report a scorching pace of 45% CAGR in revenues and 81% in net profit during FY06-08. During FY06, net profit of the company stood at Rs700m, and we expect this to increase to Rs1.3b in FY07 and Rs2.3b in FY08. Thus, EPS contribution of L&T Infotech to L&T's EPS (fully diluted) would increase from Rs5.4/share in FY06 to Rs16/share in FY08. The management stated that EBITDA margins would improve by 200bp YoY in FY07, driven by improved utilization rates and better cost apportionment.

During FY06, the company added new centres at Bangalore, Chennai and Mumbai and also increased the employee strength to 6,371 from 3,728 in March 2005. Value unlocking through IPO is a possibility in FY08.

TREND IN L&T INFOTECH FINANCIALS (RS M)

	FY04	FY05	FY06E	FY07E	FY08E
Revenues	3,780	5,810	8,030	11,644	16,883
% YoY		*54%*	*38.2*	*45.0*	*45.0*
PBDIT	430	830	1,223	1,979	3,208
Operating Margin (%)	*11.4*	*14.3*	*15.2*	*17.0*	*19.0*
Profit after Tax	120	460	700	1,328	2,301
(% of Revenues)	*3.2*	*7.9*	*8.7*	*11.4*	*13.6*
EPS Cont. to L&T (Rs/sh)	0.5	3.7	5.4	9.4	16.0

Source: Company/Motilal Oswal Securities

- **L&T IDPL:** Due to the very nature of infrastructure projects, financial performance of L&T IDPL in the initial years is impacted due to higher capital charges and slower build up in traffic in the various SPV companies. Due to the initial gestation period, these projects do not contribute in a meaningful manner to profitability. Further, several projects like Second Vivekananda Bridge Tollway, Bangalore International Airport and Dhamra Port, etc, are in various stages of development and have not yet commenced commercial operations. Thus, going forward, we expect a significant improvement in the financial performance.

Electrical business: high margins

The Electrical business comprises 9.7% of L&T's revenues and 17% of EBITDA (FY06). The company manufactures a range of electrical and electronic products, including low tension switchgears, power control centers, distribution boards, control panels, medical equipment, telecommunications equipment, process instruments and testing and measuring instruments. It also manufactures and markets petrol pumps. As we understand, L&T is the number one player in the Indian switchgear market with a market share of ~ 40%. Further switchgears comprise around 50-60% of the electrical division's revenue.

Growth in the electrical equipment business is being driven by increased investments in power segment. To improve the sourcing base, L&T is setting up Greenfield switchgear manufacturing facility in China.

During FY06, revenues of this division increased by 33% to Rs14.2b while the EBITDA margins expanded by 300bp to 16.8%, on the back of higher realizations and operational efficiencies. During the same period, asset turnover improved from 2.6x to 4x. We expect the revenues to grow at a CAGR of 32.5% over FY06-08E and margins to expand to 18% in FY07, on the back of improvement in process efficiencies, increased realizations and operational leverage.

ELECTRICAL & ELECTRONICS BUSINESS (RS B)

	FY03	FY04	FY05	FY06	FY07E	FY08E
Revenues	7.8	9.6	10.7	14.2	19.2	24.9
Domestic	7.5	9.0	9.7	12.5	16.7	21.8
Exports	0.4	0.6	1.0	1.7	2.4	3.1
EBITDA	1.04	1.21	1.5	2.4	3.4	4.5
EBITDA (%)	*13.3*	*12.6*	*13.8*	*16.8*	*18.0*	*18.0*

Source: Company/Motilal Oswal Securities

Key future growth initiatives

- **Defense, nuclear and aerospace:** Defense, Nuclear and Aerospace account for 2.5-3% of L&T's standalone revenues. This segment enjoys significantly higher EBITDA margins and is expected to witness a scorching pace of growth as private sector participation and indigenization are being encouraged. High entry barriers in these segments will restrict threat of competition from new entrants over the medium term. This presents a sizeable opportunity for companies like L&T, which have already established themselves as credible vendors in these segments.

  Very recently, the company has received orders for manufacture of Pinaka, India's first indigenous multi-barrel rocket launcher. L&T is also in discussions with Boeing and Airbus to meet their offset obligations, against large orders placed by Air India and Indian Airlines. In nuclear power plants, the addressable market for L&T stands at 60% of the project cost, which is sizeable.

LETTER OF INTENT'S ISSUED TO L&T BY DEFENSE MINISTRY

- Armoured and other Combat Vehicles
- Warships, submarines, weapon platforms (offshore, floating and submerged)
- Radar, Sonar, electronic warfare equipment and systems sensors
- Weapon launchers and launch systems both land and ship based
- Small arms, mortars, field guns, Air Defence Guns, anti-tank weapons systems
- Armaments including missiles, rockets, torpedo, land/Naval mines, depth charges
- Airborne assemblies, systems and equipment for Aircrafts, Helicopters and Uninhabited Aerial Vehicles & Equipment for the Aviation sector

Source: Ministry of Defense

- **Shipbuilding:** In May 2006, L&T received the first order for ship building for 4 container ships valued at Rs4.4b from Zadeko Ship Management CV, Netherlands. The company is now in the process of zeroing an appropriate site to set up a shipyard that can build large vessels, including large crude carriers. The management has outlined a capex of Rs10b on this segment, going forward. In May 2006, the company acquired 61% stake in International Seaport Dredging Pvt Ltd, promoted by Dredging International NV, Belgium, which is into dredging business.

- **Coal gassification:** L&T is one of the two partners selected by Shell Oil for supply of coal gassifiers to China. Of the expected 14-15 projects in China, the company has already received contracts for 7 projects, and is expected to bag another 3 projects. The management indicated that the annual revenue potential from China is US$100m. In terms of opportunity, USA is setting up several coal based power projects, and coal gasification will be important given the current high level of crude prices. Even India has great potential for coal gassification, going forward.

- **Hydropower:** India plans to add 20,000MW of hydro power capacity till FY12. Given that the construction component in a hydro power project is 60-70% of the total project cost, the size of opportunity for construction companies is sizeable. L&T has formed a joint venture with Patel Engineering to bid for hydro power projects. The JV has already secured order of Rs4.4b for the Parbati Hydro Electric Project Stage III. Recently, the company also bagged development rights for 60MW Singoli Bhatwari hydro power project from Government of Uttaranchal on BOOT basis (concession period 45 years, estimated cost Rs5b).

Robust financial performance and strong management guidance

During FY06, L&T reported revenues of Rs149.6b (up 12.5% YoY), EBITDA of Rs12.7b (up 46.4%) and net profit (adjusted for extra-ordinaries) of Rs8.7b (up 40% YoY). Extra ordinaries include Rs790m as gain on divestures of John Deere and Dairy business, and Rs700m as gain on sale of investments, etc. Consolidated net profit stood at Rs13.2b, and post adjustment for extra ordinaries at Rs10.5b (up 64% YoY). Extra ordinaries include Rs1.2b as write back of losses provided for John Deere. Management provided strong guidance for FY07: Order intake up by 30% YoY, Revenues up 25% YoY and stagnant / improvement in EBITDA margins.

Upgrade in earnings estimates

Given the continued momentum in infrastructure spending and industrial capex in the economy, recent big ticket order wins, possibility of margin expansion, improved performance from subsidiary companies and robust financial performance, we upgrade our earnings estimates. We now estimate FY07 net profit at Rs15.5b (vs Rs15.1b earlier) and FY08 at Rs20.1b (vs Rs18.7b). We factor in deployment of cash balance, post current equity offerings in our earnings estimates.

Price target Rs2,865/share, maintain Buy

We value L&T based on Sum of Parts methodology. We arrive at PT of Rs2,865/share based on: core business Rs2,170/share (18x FY08 PER), L&T Infotech at Rs169/ share (12x FY08PER), L&T Infrastructure Development Projects at Rs188/sh, Ultratech Cemco stake at Rs58/share (target price), L&T Finance at Rs48/share (10x FY08PER), International Ventures at Rs45/share and Manufacturing Ventures at Rs74/share.

At the CMP of Rs2,362, L&T quotes at a PER of 21.6x FY07E and 16.8x FY08E. We maintain **Buy**.

L&T: SUM OF PARTS VALUE

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
L&T Standalone	Engineering, Construction, & Electricals	FY08E PER (x)	18	294,877	2,170	Premium to industry average at 18x FY08
Ultratech Cemco (11.5% Stake)	Cement	Discount to Current Price	552	7,894	58	20% discount to current price
L&T Infotech (100% Stake)	Infotech	FY08E PER (x)	12	25,785	190	12x PER at discount with niche second tier IT companies
L&T Infrastructure Development Projects Limited						
L&T Infrastructure Development Projects				25,480	188	Based on recent stake sale
L&T Power Investments Pvt Ltd						
HPL Co Generation	Captive Power Projects	FY08E PER (x)	10	6,242	46	Discount to sector average PER
India Infrastructure Developers	Captive Power Projects	FY08E PER (x)	10	3,500	26	Discount to sector average PER
Other Projects	Captive Power Projects	P/BV	10	315	2	Option Value as projects not yet commenced operations
L&T Finance (100% stake)	Hire Purchase, Leasing, Bill Discounting	FY08E PER (x)	10	6,547	48	In line with SREI Finance L&T has advantage of catering to in house requirement of L&T's dealers / vendors / customers, etc
International Ventures						
L&T (Oman) Llc	EPC Projects in Oman	FY08E PER (x)	12	3,199	24	Discount to L&T's valuations
L&T Qatar Llc	EPC Projects in Qatar	FY08E PER (x)	12	970	7	Discount to L&T's valuations
L&T Saudi Arabia Llc	EPC Projects in Saudi Arabia	FY08E PER (x)	12	1,470	11	Discount to L&T's valuations
Zubair Kilpatrick Llc	Electrical and Instrumentation for Oil / Gas	FY08E PER (x)	12	515	4	Discount to L&T's valuations
Manufacturing Ventures						
L&T Komatsu	Excavators and Hydraulic System	FY08E PER (x)	12	4,815	35	In line with BEML
Audco India	Industrial Valves	FY08E PER (x)	10	4,248	31	Revenue growth and margins have shown strong consistency
EWAC Alloys	Welding	FY08E PER (x)	10	1,011	7	
Other Investments		Book Value		5,187	38	At book value
Total					**2,865**	

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2004	2005	2006E	2007E	2008E
Total Revenues	**99,235**	**134,363**	**151,914**	**193,320**	**242,986**
Growth Rate (%)	*-0.6*	*35.4*	*13.1*	*27.3*	*25.7*
Excise Duty	2,454	1,768	2,308	2,937	3,691
Net Revenues	**96,781**	**132,595**	**149,607**	**190,383**	**239,295**
Growth Rate (%)	*2.1*	*37.0*	*12.8*	*27.3*	*25.7*
Manufacturing Expenses	74,916	105,161	115,903	147,071	184,462
Staff Cost	6,781	7,645	8,900	11,125	13,907
S G &A Expenses	9,477	10,961	12,151	14,499	18,224
EBITDA	**5,607**	**8,828**	**12,653**	**17,688**	**22,702**
Change (%)	*-32.9*	*57.4*	*43.3*	*39.8*	*28.3*
EBITDA Margin (%)	*8.4*	*7.4*	*9.8*	*10.1*	*10.2*
Depreciation	854	926	1,145	1,221	1,428
EBIT	**4,754**	**7,902**	**11,508**	**16,467**	**21,274**
Net Interest	366	536	751	555	678
Recurring Other Income	2,739	1,261	2,315	1,625	1,745
Non-recurring Other Income	145	4,028	698	0	0
Add: Trf to Revaluation Res.	16	15	0	0	0
Share from Subsidiaries	400	191	64	100	100
Profit before Tax	**7,688**	**12,861**	**13,834**	**17,637**	**22,441**
Tax	2,361	3,023	3,713	4,762	6,059
Effective Tax Rate (%)	*30.7*	*23.5*	*26.8*	*27.0*	*27.0*
Reported Profit	**5,328**	**9,838**	**10,122**	**12,875**	**16,382**
Extra-ordinary Adjustments	145	4,028	1,412	0	0
Adjusted Profit	**5,182**	**5,811**	**8,710**	**12,875**	**16,382**
Growth (%)	*27.9*	*12.1*	*49.9*	*47.8*	*27.2*
Consolidated Profit	**5,912**	**6,408**	**10,512**	**15,498**	**20,120**
Growth (%)		*8.4*	*64.1*	*47.4*	*29.8*

BALANCE SHEET (RS MILLION)

Y/E MARCH	2004	2005	2006E	2007E	2008E
Equity Capital	249	260	283	287	287
Reserves and Surplus	27,502	33,432	45,004	57,507	68,066
Net Worth	**27,750**	**33,691**	**45,287**	**57,793**	**68,353**
Debt	13,244	18,591	14,127	12,556	14,556
Deferred Tax Liability	1,134	945	780	780	780
Capital Employed	**42,128**	**53,227**	**60,195**	**71,129**	**83,689**
Gross Fixed Assets	20,382	21,066	26,554	31,054	36,304
Less : Depreciation	10,496	10,895	12,040	13,262	14,690
Add : Capital WIP	262	658	2,000	2,500	2,250
Net Fixed Assets	**10,164**	**10,831**	**16,513**	**20,292**	**23,863**
Investments	9,659	9,609	19,190	21,109	23,220
Inventory	18,123	23,108	22,974	30,190	37,946
Sundry Debtors	33,146	39,636	40,205	50,316	63,243
Cash & Bank	3,753	8,280	5,863	6,025	6,915
Loans & Advances	12,974	17,318	19,562	24,893	31,289
Other Current Assets	1	40	0	0	0
Current Assets	**67,997**	**88,382**	**88,604**	**111,424**	**139,393**
Current Liabilities	**46,154**	**55,994**	**64,512**	**82,095**	**103,186**
Net Current Assets	**21,843**	**32,388**	**24,093**	**29,330**	**36,207**
Miscellaneous Expenditure	462	399	399	399	399
Capital Deployed	**42,128**	**53,227**	**60,195**	**71,129**	**83,689**

E: MOSt Estimates

RATIO

Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
Adjusted EPS	**41.7**	**44.7**	**61.5**	**89.8**	**114.3**
Consolidated EPS	**47.5**	**49.3**	**74.2**	**108.1**	**140.3**
Cons. EPS (Fully Diluted)	**47.5**	**49.3**	**74.2**	**109.5**	**142.1**
Cash Earning per Share	42.7	47.8	69.6	99.6	125.8
Book Value	219.4	256.3	317.0	400.3	474.0
Dividend Per Share	16.0	27.5	32.0	30.0	36.0
Div. Payout (Incl. Div Tax) %	42.2	41.3	50.5	37.7	35.5
Valuation (x)					
P/E (Standalone)		52.8	38.4	26.3	20.7
P/E (Consolidated)		47.9	31.8	21.9	16.8
P/E (Consolidated) (Fully Diluted)		47.9	31.8	21.6	16.6
Price / CEPS		49.4	33.9	23.7	18.8
EV/EBITDA		38.7	26.9	19.1	14.9
EV/ Sales		2.5	2.2	1.7	1.4
Price / Book Value		9.2	7.5	5.9	5.0
Dividend Yield		1.2	1.4	1.3	1.5
Return Ratio (%)					
RoE	16.6	19.2	22.3	25.2	26.1
RoCE	12.7	19.2	24.4	27.6	29.7
Turnover Ratios					
Debtors (Days)	121.9	107.7	105.0	100.0	100.0
Inventory (Days)	66.7	62.8	60.0	60.0	60.0
Asset Turnover (x)	2.4	2.5	2.5	2.7	2.9
Leverage Ratio					
Current Ratio (x)	1.5	1.6	1.4	1.4	1.4
D/E (x)	0.5	0.6	0.3	0.2	0.2

CASHFLOW STATEMENT (RS MILLION)

Y/E MARCH	2004	2005	2006E	2007E	2008E
PBT before EO Items	7,688	12,861	13,834	17,637	22,441
Add: Depreciation	861	957	1,145	1,221	1,428
Interest	366	536	751	555	678
Less: Direct Taxes Paid	2,361	3,023	3,713	4,762	6,059
(Inc)/Dec in WC	1,709	-6,018	5,878	-5,075	-5,987
CF from Operations	**8,263**	**5,313**	**17,896**	**9,577**	**12,501**
(Inc)/Dec in FA	29,537	-1,624	-6,828	-5,000	-5,000
(Pur)/Sale of Investments	1,945	50	-9,581	-1,919	-2,111
CF from Investments	**31,482**	**-1,574**	**-16,408**	**-6,919**	**-7,111**
(Inc)/Dec in Networth	-18,069	38	6,420	4,484	0
(Inc)/Dec in Debt	-18,517	5,347	-4,463	-1,571	2,000
Less: Interest Paid	366	536	751	555	678
Dividend Paid	2,246	4,061	5,111	4,852	5,823
CF from Fin. Activity	**-39,197**	**788**	**-3,905**	**-2,495**	**-4,501**
Inc/Dec of Cash	**547**	**4,528**	**-2,417**	**162**	**890**
Add: Beginning Balance	3,205	3,753	8,280	5,863	6,025
Closing Balance	**3,753**	**8,280**	**5,863**	**6,025**	**6,915**

E: MOSt Estimates

NOTES

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited **(***hereinafter referred as MOSt***)** is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOSt or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOSt or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOSt and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOSt has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement	**Larsen & Toubro**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.

This information is subject to change without any prior notice. MOSt reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOSt is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.