

Margin growth commendable

■ Numbers ahead of expectations

In 2Q FY08, sales grew 47% YoY to Rs55bn, EBITDA grew 141% to Rs5.9bn, EBITDA margin rose 415bps YoY, to 10.7% and recurring PAT grew 122%, to Rs4.1bn. Adjusting for Rs594mn of currency related losses, reported PAT grew 73%. At end 1HFY08, revenues grew 36% YoY, profits 48% YoY and EBITDA margins improved 334bps. The order book is Rs440bn (up 6% QoQ).

■ Engineering growth

The margins for E&C and the MIP divisions grew while that of the other divisions declined. L&T's expansion of manufacturing facilities for high-value-add and new products (heavy shell forgings, power balance of plant and floating platforms), and product mix changes in construction, ensures volume growth and margins.

■ Retain estimates

The management retained its guidance of 30-35% sales growth, and stable margin outlook despite indications of outperformance. Over FY07-10E, we estimate EPS CAGR of 33% and margins to increase 150bps. L&T is investing in growth areas (power equipment, ports, shipbuilding facility) over the next 3-4 years and we believe it is too early to capture them in our estimates.

■ Valuation – Under review

Our price target of Rs3,405 is derived using a sum-of-the-parts valuation based on the core business (E&C and EBG) at 79%, LT Infotech at 5%, L&T IDPL at 5%, others at 12%, and net debt at -1% of value. We think the value of the new businesses is captured in the E&C business value. Our Buy rating and price target are under review.

Highlights (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Revenues	165,603.60	205,152.70	272,676.78	351,046.15	447,849.25
EBIT (UBS)	16,034.20	26,593.70	37,211.63	49,570.19	63,748.84
Net Income (UBS)	9,939.80	18,406.50	24,934.65	33,595.93	43,580.08
EPS (UBS, Rs)	36.18	65.60	86.94	117.14	151.95
Net DPS (UBS, Rs)	22.00	13.00	15.00	17.00	20.00

Profitability & Valuation	5-yr hist av.	03/07	03/08E	03/09E	03/10E
EBIT margin %	9.6	13.0	13.6	14.1	14.2
ROIC (EBIT) %	20.9	34.5	35.2	39.0	43.2
EV/EBITDA (core) x	8.8	12.6	27.0	20.8	16.1
PE (UBS) x	15.5	20.2	44.6	33.1	25.5
Net dividend yield %	5.6	1.0	0.4	0.4	0.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs3,876.80 on 26 Oct 2007 23:39 EST

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12-month rating (UR) **Buy ***
Unchanged

12m price target (UR) **Rs3,405.00/-**
Unchanged

Price **Rs3,876.80/US\$197.04 (GDR)**

RIC: LART.BO BBG: LT IN

29 October 2007

Trading data (local/US\$)

52-wk range **Rs3,876.80-1,270.20/US\$197.04-56.35**

Market cap. **Rs1,087bn/US\$27.6bn**

Shares o/s **280m (ORD)/1.00m (GDR)**

GDR ratio **1 GDR:2 ORD**

Free float **86%**

Avg. daily volume ('000) **316/-**

Avg. daily value (Rsm) **890.7/-**

Balance sheet data 03/08E

Shareholders' equity **Rs86.8bn**

P/BV (UBS) **12.8x**

Net Cash (debt) **(Rs31.7bn)**

Forecast returns

Forecast price appreciation **-12.2%**

Forecast dividend yield **0.5%**

Forecast stock return **-11.7%**

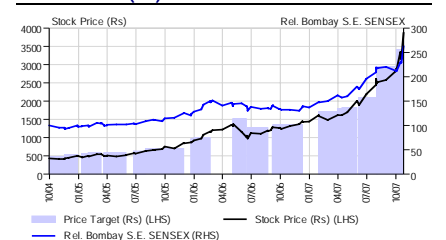
Market return assumption **11.9%**

Forecast excess return **-23.6%**

EPS (UBS, Rs)

	03/08E	03/07
	UBS	Cons. Actual
Q1E	-	-
Q2E	-	-
Q3E	-	-
Q4E	-	-
03/08E	86.94	86.94
03/09E	117.14	117.14

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities India Private Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9. * Under review; See page11

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2Q FY08 Recurring PAT up 122%

In 2Q FY08, sales grew 47% YoY to Rs55bn, EBITDA grew 141% to Rs5.9bn, and recurring PAT grew 122%, to Rs4.1bn. The difference in reported and recurring PAT is on account of Rs594mn exceptional loss made on currency losses. The EBITDA margin rose 415bps YoY, to 10.7%.

In 1H FY08, sales grew 36% YoY to Rs100bn, EBITDA grew 64% to Rs10.1bn, and recurring PAT grew 48%, to Rs7.0bn. The difference in reported and recurring PAT is on account of Rs284mn exceptional profit made on currency gains. The EBITDA margin rose 334bps YoY, to 10.1%. Order inflows grew 30% YoY in 1HFY08 and the order book stood at Rs440bn, a growth of 44% YoY, of which exports accounted for 18%. Overall, the numbers are ahead of expectations.

Table 1: 2Q FY08 Results

	2Q FY08	2Q FY07	1H FY08	1H FY07
Total sales (reported)	54,999	37,305	100,052	72,066
-operational income others	9	66	26	80
% chg YoY	47.2%		36.3%	
Total material cost	41,651	28,641	76,693	56,019
Material cost as a % of sales	75.7%	76.6%	76.6%	77.6%
Employee costs	4,432	3,910	7,563	6,368
Material cost as a % of sales	8.1%	10.5%	7.6%	8.8%
Sales, administration and other expenses	3,053	2,382	5,703	4,874
Material cost as a % of sales	5.6%	6.4%	5.7%	6.8%
Total Expenses (reported)	49,136	34,933	89,958	67,261
EBITDA (Declared)	5,873	2,438	10,120	4,885
% chg YoY	140.8%		64.0%	
EBITDA margin	10.7%	6.5%	10.1%	6.8%
Other income	224	1,194	2,322	1,839
Interest	132	239	290	573
Depreciation	483	336	907	645
PBT	5,481	3,057	11,245	5,505
Tax	2,006	1,046	4,020	1,930
PAT (before deferred tax provision)	3,475	2,011	7,224	3,575
Deferred tax provision	-5.7	-1.5	-24.3	-8.9
PAT after deferred tax	3,480	2,012	7,249	3,584
Exceptionals	-594	180	284	180
Recurring PAT	4,074	1,832	6,965	3,404
% chg YoY	122.4%		48.5%	
No. of shares	287	287	287	287
Recurring EPS	14.21	6.39	24.28	11.87

Source: Company, UBS estimates

Strong E&C margins led to EBITDA margin expansion

In 2Q FY08, margins for the E&C segment (constitutes 74% of group revenues) improved 308bps YoY, to 11.7%. Margins also improved for Machinery & Industrial Products group (10% of revenues) by 25bps, to 15.8%. As we highlighted in our earlier note on *L&T: Thriving in a tight market* dated 4 October, 2008, for the core businesses, the supply situation is tight enough and L&T's focus on the high end value-added business, entry into new markets and products, and expansion of existing facilities should ensure volume growth and protect margins.

Margins for the other two segments declined YoY primarily due to an increase in RMC costs for the "others" business. In 1Q FY08, the EBITDA margin expanded YoY, to 10.7% from 6.5%, on account of margin expansion in E&C. The 1HFY08 margins have gone up from 6.8% in 1H FY07 to 10.1%.

Table 2: Engineering & Construction (E&C) Business Group (74% of revenues)

Rs Bn	2Q FY08	2Q FY07	% change	1H FY08	1H FY07	% change
Order inflows:						
Domestic	44.0	37.5	17.3	109.4	90.2	21.3
Exports	15.1	9.1	66.0	31.8	19.3	64.5
Total	59.1	46.6	26.8	141.2	109.6	28.9
Net Sales						
Domestic	34.0	21.4	58.9	62.1	42.3	46.7
Exports	7.1	5.5	28.9	12.2	10.4	17.5
Total net revenues	41.1	26.9	52.7	74.3	52.7	41.0
EBITDA	4.81	2.32	107.3	8.0	4.5	78.0
EBITDA margins (%)	11.7	8.6		10.8	8.5	
Net segment assets				34.3	26.0	32.1
Order backlog				420.3	292.7	43.6

Source: Company

Table 3: Electrical Business Group (11% of revenues)

Rs Bn	2Q FY08	2Q FY07	% change	1H FY08	1H FY07	% change
Net Sales						
Domestic	5.5	4.1	35.5	10.2	7.6	34.1
Exports	0.7	0.3	155.2	1.1	0.6	88.3
Total net revenues	6.2	4.4	43.4	11.3	8.2	38.1
EBITDA	1.1	0.8	40.8	1.9	1.5	31.7
EBITDA margins (%)	17.1	17.5		16.9	17.7	
Net segment assets				8.0	4.6	73.9

Source: Company

Table 4: Machinery and Industrial Products' Group (10% of revenues)

Rs Bn	2Q FY08	2Q FY07	% change	1H FY08	1H FY07	% change
Net Sales						
Domestic	4.5	3.0	48.7	7.8	5.7	35.6
Exports	1.2	1.2	(6.5)	2.0	1.8	12.8
Total net revenues	5.6	4.3	32.7	9.8	7.5	30.1
EBITDA	0.9	0.7	34.8	1.8	1.3	43.7
EBITDA margins (%)	15.8	15.5		18.5	16.7	
Net segment assets				3.6	2.4	47.1

Source: Company

Table 5: Others Business Group (5% of revenues)

Rs Bn	2Q FY08	2Q FY07	% change	1H FY08	1H FY07	% change
Net Sales						
Domestic	1.6	1.5	4.6	3.9	3.1	27.5
Exports	0.5	0.4	27.8	0.8	0.7	19.4
Total net revenues	2.0	1.9	9.1	4.7	3.7	26.1
EBITDA	0.2	0.2	(12.5)	0.4	0.5	(21.7)
EBITDA margins (%)	10.3	12.8		7.7	12.4	

Source: Company

Order backlog grew 6% QoQ during 2QFY08

L&T received orders worth Rs75.47bn during 2Q, up 26% YoY. The company's order book is Rs440bn, up 6% QoQ.

Table 6: Major order wins

Order	Received from	Value (Rs bn)
Blast Furnace Order	Bushan Steel	7.6
Sinter plant expansion at Burnpur, WB	SAIL	5.7
Residential project at Sriperumpthur		5.0
Primary Sub Station at Saadiyat Island	ADWEA, UAE	3.7
RO/RO LO-LO Semi submersible heavy lift vessels	Rolldock, Netherlands	2.9
Equipment for Chemical Plant	Methanol Chemical, Saudi Arabia	2.5
Link Tunnel & Underground Station	Delhi MRTS	2.0
Combined water supply scheme	Tamilnadu Water Board	2.0
Coke Drums for Gujarat Refinery	IOCL	1.9
Piping, Equipment Installation & Steel structure work	Pearl GTL Project, Qatar	1.5

Source: Company

Significant others

In FY07, L&T Infotech and L&T Finance accounted for nearly 50% of the difference between the consolidated and standalone profits. At end of 1HFY08, the profits of these businesses have also grown 44% YoY.

Table 7: Other businesses

Rs bn	Sales		PAT	
	1HFY08	% change YoY	1HFY08	% change YoY
L&T Infotech	7.5	21%	1.0	25%
L&T Finance	2.41	141%	0.44	120%

Source: Company

Business Update

- **Shipbuilding** – According to management, the site for the new shipbuilding yard is almost finalised and within a few weeks there should be an announcement in this regard. The target is to make this yard fully functional by FY10 and start booking orders by the end of 2008.
- **Power equipment manufacturing** – The JV partner for turbines has not been finalised. For boiler manufacturing, the company plans to invest Rs7bn (total capex) and plans to have capacity of 3000MW.
- **Guidance** – The Company has not revised its guidance. The targets are: FY08 Sales growth of 30-35% over FY07, Order Book growth of 25-30% over FY07 and Margins to be maintained at FY07 levels.
- **Initiatives** – The company is taking new initiatives to tackle the competition and to increase profitability and they include: 1) Reducing the number of job sites, 2) Judicious selection of projects, more complex and bigger jobs means better pricing power, 3) Institutionalising risk management, and 4) lean manufacturing to improve operating efficiency.
- **Acquisition of Tamco, Malaysia** – Strategic move to reap synergy benefits, 1) Achieve market penetration in Malaysia, Indonesia, Middle-East, Australia and China. 2) Acquiring Medium voltage technology to complement L&T's Low Voltage Product portfolio.

Key Growth areas of future

Management believes that opportunity in existing areas of operations remains exciting such as in roads, where in next one or two months the bidding process could pick up and orders may follow. As per the company, some of the new growth areas may be as follows;

- **Railways** – The management expects construction and development activity to pick up during next 3-4 years and this would provide good business opportunity for the company.
- **Transmission lines** – The Company expects intense transmission line erection activity in next few years and this will include private sector initiative in the sector.
- **Hydel** – The Company has formed an internal team to identify suitable hydro power generation opportunities and the company believes the states with abundant potential in hydro power would try to exploit it.

- Infrastructure development – The Company has focused on development of ports and urban infrastructure and views the public-private participation in infrastructure development as the way forward.

Valuation summary

We recently increased our PT from Rs2,950 to Rs3,405. E&C and electrical business group put together contribute 79% of value towards our target price. We have put our Buy rating and price target under review.

Table 8: SOTP valuation

Business	Benchmark	Enterprise Value (Rs mn)	Value per share (Rs)
E&C and EBG	DCF (1-year forward)	776,567	2,685
Others	EV/E of 15x FY08E (other subsidiaries including L&T Finance)	83,768	290
Power	Based on value of the power business	20,367	70
Total		880,702	3,045
Less - Net Debt		9,348	32
LTIDPL	P/B analysis of individual projects, 15% premium to asset value	47,796	165
Add - Market value of shareholding in Ultratech cements	EV/te of US\$175/te	13,372	46
Software	15xFY09 PE	51,841	179
Fair equity value of L&T		984,364	3,404

Source: UBS estimates

Our assumptions for DCF: Our key assumptions are similar to what we use for BHEL – a) intermediate growth of 20%, b) terminal growth of 6%, c) cost of equity of 13%, d) D/E of 35:65.

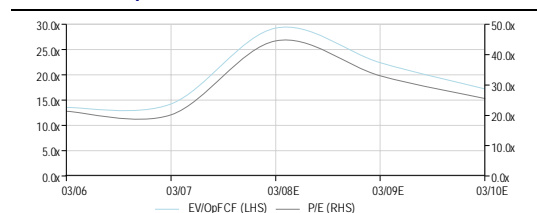
Income statement (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Revenues	103,269.00	109,737.80	144,968.90	165,603.60	205,152.70	272,676.78	32.9	351,046.15	28.7	447,849.25	27.6
Operating expenses (ex depre)	(93,688.20)	(100,768.50)	(133,605.50)	(150,202.60)	(179,962.30)	(237,123.63)	31.8	(302,763.96)	27.7	(385,200.62)	27.2
EBITDA (UBS)	11,990.30	12,561.70	13,486.50	18,484.30	30,056.70	40,367.45	34.3	53,501.01	32.5	68,299.66	27.7
Depreciation	(4,479.30)	(2,081.00)	(2,137.40)	(2,450.10)	(3,463.00)	(3,155.82)	-8.9	(3,930.82)	24.6	(4,550.82)	15.8
Operating income (EBIT, UBS)	7,511.00	10,480.70	11,349.10	16,034.20	26,593.70	37,211.63	39.9	49,570.19	33.2	63,748.84	28.6
Other income & associates	0.00	73.90	(38.00)	715.20	950.80	1,140.96	20.0	1,255.06	10.0	1,380.56	10.0
Net interest	(3,225.80)	(1,433.80)	(1,399.60)	(1,886.50)	(538.30)	(3,568.28)	562.9	(3,648.67)	2.3	(3,529.67)	-3.3
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	4,285.20	9,120.80	9,911.50	14,862.90	27,006.20	34,784.31	28.8	47,176.57	35.6	61,599.73	30.6
Tax	(953.10)	(3,006.20)	(2,880.70)	(4,473.20)	(7,438.20)	(8,600.85)	15.6	(11,729.77)	36.4	(15,378.65)	31.1
Profit after tax	3,332.10	6,114.60	7,030.80	10,389.70	19,568.00	26,183.47	33.8	35,446.80	35.4	46,221.09	30.4
Abnormal items (post-tax)	408.20	1,739.20	4,102.80	3,232.30	4,784.70	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	(200.70)	(280.30)	(638.50)	(449.90)	(1,161.50)	(1,248.82)	7.5	(1,850.87)	48.2	(2,641.01)	42.7
Net income (local GAAP)	3,539.60	7,573.50	10,495.10	13,172.10	23,191.20	24,934.65	7.5	33,595.93	34.7	43,580.08	29.7
Net Income (UBS)	3,133.76	5,834.30	6,392.30	9,939.80	18,406.50	24,934.65	35.5	33,595.93	34.7	43,580.08	29.7
Tax rate (%)	22.24	32.96	29.06	30.10	27.54	24.73	-10.2	24.86	0.6	24.97	0.4
Pre-abnormal tax rate (%)	22.19	33.23	28.95	31.62	28.55	25.56	-10.4	25.54	-0.1	25.54	0.0
Per share (Rs)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
EPS (local GAAP)	14.24	30.46	42.21	47.94	82.66	86.94	5.2	117.14	34.7	151.95	29.7
EPS (UBS)	12.61	23.46	25.71	36.18	65.60	86.94	32.5	117.14	34.7	151.95	29.7
Net DPS	15.02	16.00	27.50	22.00	13.00	15.00	15.4	17.00	13.3	20.00	17.6
Cash EPS	30.63	31.83	34.31	45.09	77.95	97.94	25.7	130.85	33.6	167.82	28.3
BVPS	83.75	101.73	127.62	177.10	234.05	302.72	29.3	407.37	34.6	546.25	34.1
Balance sheet (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Net tangible fixed assets	23,332.10	20,705.00	21,437.50	28,988.60	51,439.60	61,020.08	18.6	67,089.26	9.9	72,538.44	8.1
Net intangible fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net working capital (incl. other assets)	21,634.70	24,750.20	32,774.30	33,406.30	46,058.80	57,517.85	24.9	71,089.13	23.6	83,696.14	17.7
Other liabilities	(3,830.80)	(3,534.70)	(2,928.10)	(2,599.50)	(3,026.30)	(1,816.71)	-40.0	(577.45)	-68.2	1,016.27	-
Operating invested capital	41,136.00	41,920.50	51,283.70	59,795.40	94,472.10	116,721.22	23.6	137,600.94	17.9	157,250.86	14.3
Investments	2,065.00	3,358.10	5,599.00	9,046.40	9,548.40	9,548.40	0.0	9,548.40	0.0	9,548.40	0.0
Total capital employed	43,201.00	45,278.60	56,882.70	68,841.80	104,020.50	126,269.62	21.4	147,149.34	16.5	166,799.26	13.4
Shareholders' equity	20,817.00	25,297.90	31,730.70	48,658.70	65,666.40	86,820.69	32.2	116,834.04	34.6	156,663.84	34.1
Minority interests	501.50	540.80	1,047.70	1,066.30	6,457.00	7,705.82	19.3	9,556.69	24.0	12,197.69	27.6
Total equity	21,318.50	25,838.70	32,778.40	49,725.00	72,123.40	94,526.51	31.1	126,390.73	33.7	168,861.53	33.6
Net debt / (cash)	21,882.50	19,439.90	24,104.30	19,116.80	31,897.10	31,743.12	-0.5	20,758.60	-34.6	(2,062.28)	-
Debt deemed provisions	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	43,201.00	45,278.60	56,882.70	68,841.80	104,020.50	126,269.62	21.4	147,149.34	16.5	166,799.26	13.4
Cash flow (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Operating income (EBIT, UBS)	7,511.00	10,480.70	11,349.10	16,034.20	26,593.70	37,211.63	39.9	49,570.19	33.2	63,748.84	28.6
Depreciation	4,479.30	2,081.00	2,137.40	2,450.10	3,463.00	3,155.82	-8.9	3,930.82	24.6	4,550.82	15.8
Net change in working capital	5,064.90	(3,006.00)	(8,181.30)	(542.60)	(12,311.60)	(11,459.05)	-6.9	(13,571.27)	18.4	(12,606.02)	-7.1
Other (operating)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	17,055.20	9,555.70	5,305.20	17,941.70	17,745.10	28,908.40	62.9	39,929.73	38.1	55,693.64	39.5
Net interest received / (paid)	(3,225.80)	(1,433.80)	(1,399.60)	(1,886.50)	(538.30)	(3,568.28)	562.9	(3,648.67)	2.3	(3,529.67)	-3.3
Dividends paid	(2,107.30)	(2,245.80)	(4,110.40)	(3,446.40)	(4,215.90)	(4,794.22)	13.7	(5,433.44)	13.3	(6,392.29)	17.6
Tax paid	(953.10)	(2,970.10)	(2,775.40)	(4,313.40)	(7,327.20)	(8,489.85)	15.9	(11,618.77)	36.9	(15,267.65)	31.4
Capital expenditure	30,409.10	546.10	(2,869.90)	(10,001.20)	(25,914.00)	(12,736.30)	-50.9	(10,000.00)	-21.5	(10,000.00)	0.0
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	(7,401.20)	(3,042.90)	(5,927.46)	(9,942.48)	(11,335.83)	(13,798.01)	21.7	(21,092.80)	52.9	(28,895.75)	37.0
Share issues	(7,038.90)	4,374.90	6,393.20	16,402.50	18,834.80	21,389.25	13.6	30,013.36	40.3	39,828.80	32.7
Cash flow (inc)/dec in net debt	26,738.00	4,784.10	(5,384.36)	4,754.22	(12,751.33)	6,910.99	-	18,149.40	162.6	31,437.08	73.2
FX / non cash items	(2,334.50)	(2,341.50)	719.96	233.28	(28.97)	(6,757.01)	23224.2	(7,164.88)	6.0	(8,616.20)	20.3
Balance sheet (inc)/dec in net debt	24,403.50	2,442.60	(4,664.40)	4,987.50	(12,780.30)	153.98	-	10,984.51	7033.7	22,820.88	107.8
Core EBITDA	11,990.30	12,561.70	13,486.50	18,484.30	30,056.70	40,367.45	34.3	53,501.01	32.5	68,299.66	27.7
Maintenance capital expenditure	(4,496.00)	(2,081.00)	(2,137.40)	(2,450.10)	(3,463.00)	(3,155.82)	-8.9	(3,930.82)	24.6	(4,550.82)	15.8
Maintenance net working capital	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	7,494.30	10,480.70	11,349.10	16,034.20	26,593.70	37,211.63	39.9	49,570.19	33.2	63,748.84	28.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

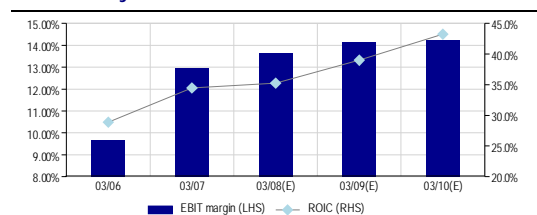
Company profile

Larsen and Toubro (L&T) is India's largest Engineering and Construction (E&C) company, and is virtually the only dedicated Engineering Procurement and Contracts (EPC) company in India. It also has interests in electrical goods such as switchgears, control panels, etc. L&T has several subsidiaries engaged in various business activities such as IT services, financing of industrial equipment, collection of toll from roads constructed under the BOT scheme, power generation, etc.

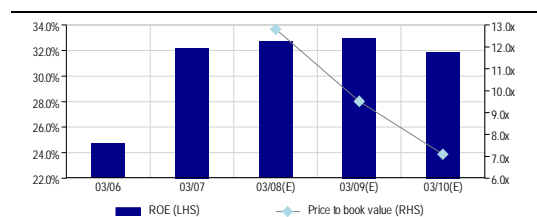
Value (EV/OpFCF & P/E)



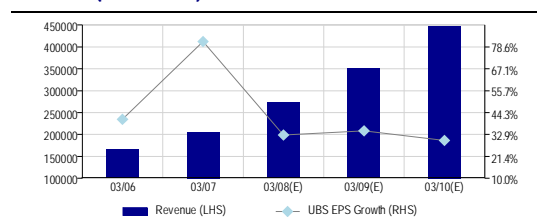
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
P/E (local GAAP)	11.9	16.1	16.0	44.6	33.1	25.5
P/E (UBS)	15.5	21.4	20.2	44.6	33.1	25.5
P/CEPS	10.6	17.1	17.0	39.6	29.6	23.1
Net dividend yield (%)	5.6	2.8	1.0	0.4	0.4	0.5
P/BV	3.1	4.4	5.7	12.8	9.5	7.1
EV/revenue (core)	1.1	1.3	1.9	4.0	3.2	2.5
EV/EBITDA (core)	8.8	11.7	12.6	27.0	20.8	16.1
EV/EBIT (core)	11.2	13.5	14.3	29.3	22.4	17.2
EV/OpFCF (core)	11.3	13.5	14.3	29.3	22.4	17.2
EV/op. invested capital	2.3	3.9	4.9	NM	8.7	7.4

Enterprise value (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Average market cap	200,961.0	369,233.0	1,086,798	1,086,798	1,086,798
+ minority interests	1,089.61	1,144.09	(1,201.29)	8,631.25	10,877.19
+ average net debt (cash)	21,143.01	15,562.38	10,445.81	26,250.86	9,348.16
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(6,238.40)	(6,238.40)	(6,238.40)	(9,548.40)	(9,548.40)
Core enterprise value	216,955.3	379,701.1	1,089,805	1,112,132	1,097,475

Growth (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue	17.4	14.2	23.9	32.9	28.7	27.6
EBITDA (UBS)	2.6	37.1	62.6	34.3	32.5	27.7
EBIT (UBS)	7.5	41.3	65.9	39.9	33.2	28.6
EPS (UBS)	8.9	40.7	81.3	32.5	34.7	29.7
Cash EPS	0.2	31.4	72.9	25.7	33.6	28.3
Net DPS	11.9	-20.0	-40.9	15.4	13.3	17.6
BVPS	7.0	38.8	32.2	29.3	34.6	34.1

Margins (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBITDA / revenue	12.5	11.2	14.7	14.8	15.2	15.3
EBIT / revenue	9.6	9.7	13.0	13.6	14.1	14.2
Net profit (UBS) / revenue	5.2	6.0	9.0	9.1	9.6	9.7

Return on capital (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT ROIC (UBS)	20.9	28.9	34.5	35.2	39.0	43.2
ROIC post tax	-	19.7	24.6	26.2	29.0	32.2
Net ROE	20.3	24.7	32.2	32.7	33.0	31.9

Coverage ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT / net interest	5.9	8.9	NM	10.7	13.9	18.5
Dividend cover (UBS EPS)	1.3	1.6	5.0	5.8	6.9	7.6
Div. payout ratio (% , UBS EPS)	81.9	60.8	19.8	17.3	14.5	13.2
Net debt / EBITDA	1.8	1.0	1.1	0.8	0.4	NM

Efficiency ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue / op. invested capital	2.2	3.0	2.7	2.6	2.8	3.0
Revenue / fixed assets	3.8	6.6	5.1	4.8	5.5	6.4
Revenue / net working capital	4.7	5.2	5.4	5.4	5.6	5.9

Investment ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	NM	6.0	12.6	4.7	2.8	2.2
Capex / depreciation	NM	4.1	7.5	4.0	2.5	2.2

Capital structure (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Net debt / total equity	81.7	39.3	48.6	36.6	17.8	(1.3)
Net debt / (net debt + equity)	45.0	28.2	32.7	26.8	15.1	(1.3)
Net debt (core) / EV	25.7	9.7	4.1	1.0	2.4	0.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs3,876.80 on 26 Oct 2007 23:39 EST Market cap(E) may include forecast share issues/buybacks.

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* Under review; See page11

■ L & T

Larsen and Toubro (L&T) is India's largest Engineering and Construction (E&C) company, and is virtually the only dedicated Engineering Procurement and Contracts (EPC) company in India. It also has interests in electrical goods such as switchgears, control panels, etc. L&T has several subsidiaries engaged in various business activities such as IT services, financing of industrial equipment, collection of toll from roads constructed under the BOT scheme, power generation, etc.

■ Statement of Risk

We believe the principal risks for L&T are a delay in execution and awards of orders. Fluctuations in raw material costs - particularly steel - are another source of margin fluctuation though the company's current order book includes cost. Forex risks are increasing given that 18% of its revenues are export related.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

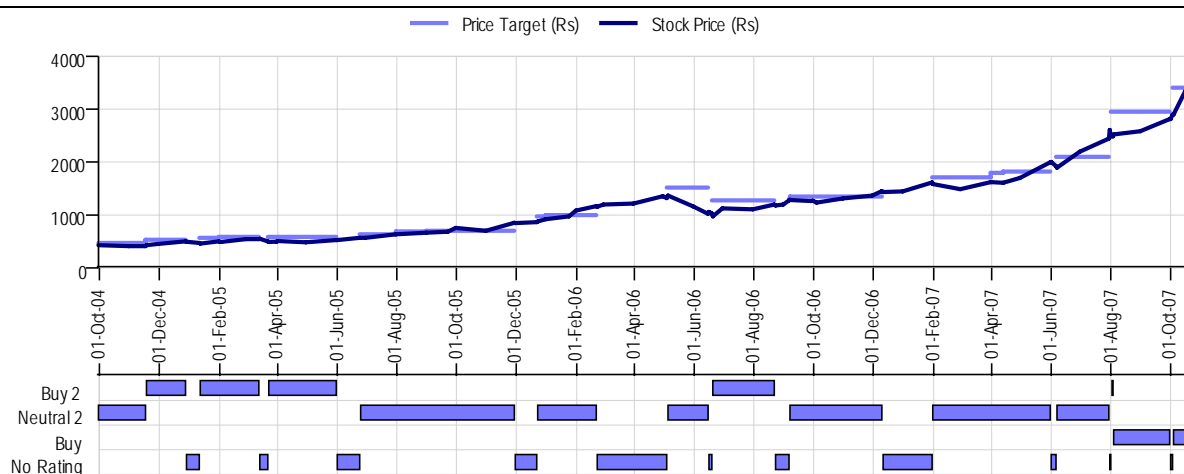
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
L & T	LART.BO	Buy (UR)	N/A	Rs3,876.80	26 Oct 2007

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

L & T (Rs)



Source: UBS; as of 26 Oct 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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