

April 02, 2012

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Rating	Accumulate
Price	Rs1,309
Target Price	Rs1,437
Implied Upside	9.8%
Sensex	17,404
Nifty	5,296

(Prices as on March 30, 2012)
Trading data

Market Cap. (Rs bn)	797.0
Shares o/s (m)	608.9
3M Avg. Daily value (Rs m)	4337.7

Major shareholders

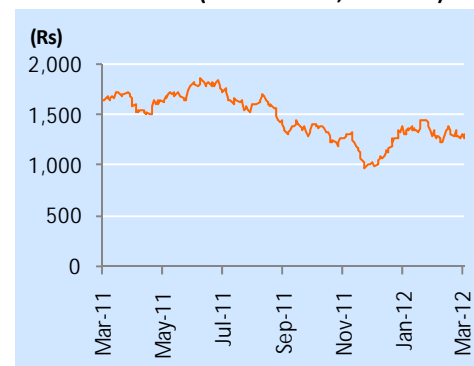
Promoters	0.00%
Foreign	13.84%
Domestic Inst.	37.81%
Public & Other	48.35%

Stock Performance

(%)	1M	6M	12M
Absolute	0.1	(3.6)	(21.0)
Relative	2.0	(9.4)	(11.2)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	76.4	78.3	-2.4
2014	85.3	86.5	-1.4

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


Source: Bloomberg

It's finally curtains for this financial year for Larsen and Toubro (LT). The much discussed order inflow trend looks different and to a certain extent disappointing. The purpose of this note is to highlight the emerging trends of order inflows through some data points. However, it would not have any implications on our estimates as of now.

■ **Picture not perfect:** LT's order inflow stood at Rs495bn at the end of 9MFY12 and in Q4FY12E, the order intake reported in public domain stood at Rs161.8bn as against Rs300bn in Q4FY11 (actual). With this, the tally for FY12E order inflow stands at Rs655bn (reported) as against Rs797bn (actual) in FY11. However, as in Q3FY12, where the unreported order stood at Rs83bn (Rs10.5bn internal BOT order booking), we hope a similar number would come up this quarter too. The order inflow number then would stand at Rs735bn for FY12E which is just 8% de-growth YoY (above our expectation of 10% YoY de-growth).

■ **Nature experiences 'winds of change':** A sneak peek into the pattern of the inflows reveals a host of Buildings & Factories (Rs135bn) and Infrastructure (transportation and urban Infra, Rs187bn) orders. Together, Buildings and Infrastructure have become almost half of LT's order inflows (Rs321bn); hence, moving away from high technology sectors like Hydrocarbon & Power. *(Data points showing changes in inflows are given on the next page).*

■ **Our take:** This year has not been a complete washout year and the performance on a high base remains satisfactory. What needs to be seen now is how the gradual increase in the planned expenditure of the Government pans out. We are expecting Rs717bn (Flat YoY) worth order inflow in FY13. However, de-growth on a YoY basis cannot be ruled out. We maintain '**Accumulate**'.

Key financials (Y/e March)

	2011	2012E	2013E	2014E
Revenues (Rs m)	434,959	532,912	639,286	739,978
Growth (%)	18.6	22.5	20.0	15.8
EBITDA (Rs m)	52,136	59,733	71,095	79,729
PAT (Rs m)	36,720	41,595	46,525	51,911
EPS (Rs)	60.3	68.3	76.4	85.3
Growth (%)	14.7	13.3	11.9	11.6
Net DPS (Rs)	11.5	13.1	13.1	13.1

Profitability & Valuation

	2011	2012E	2013E	2014E
EBITDA margin (%)	12.0	11.2	11.1	10.8
RoE (%)	18.3	17.5	17.5	18.2
RoCE (%)	15.2	14.9	15.2	15.7
EV / sales (x)	2.0	1.6	1.3	1.2
EV / EBITDA (x)	16.3	14.3	12.1	10.8
PE (x)	21.7	19.2	17.1	15.4
P / BV (x)	3.6	3.1	2.9	2.7
Net dividend yield (%)	0.9	1.0	1.0	1.0

Source: Company Data; PL Research

Picture not perfect

Order inflow of LT stood at Rs495bn at the end of 9MFY12 and in Q4FY12E, the order intake reported in public domain stood at Rs161.8bn (6% de-growth on a reported basis). With this, the tally for FY12E order inflow stands at Rs655bn (reported) as against Rs797bn (actual) in FY11. However, like in Q3FY12, where the unreported order stood at Rs83bn (Rs10.5bn internal BOT order booking), we hope a similar number could come up this quarter; this is on an optimistic note. The order inflow number then could stand at Rs735bn for FY12E which is just 8% de-growth YoY (above our expectation of 10% YoY de-growth). The CAGR of order inflow growth in the last three years FY08-FY11 was 24% which in FY09-FY12E is expected to be 11%.

Nature experiences 'winds of change'

A sneak peek into the pattern of the inflows reveals a host of Buildings & Factories and Infrastructure (transportation and urban Infra) orders. Buildings were mainly orders from real estate players and Infrastructure orders were mainly from roads segment, thanks to huge orders by GMR and GVK Power. Together, Buildings and Infrastructure have become almost half of the order inflows for LT; hence, moving away from high technology sectors like Hydrocarbon & Power. However, the Power sector order intake was muffled on account of a comprehensive failure at NTPC bulk tenders and a lull in IPP space. The Hydrocarbon show in India was stolen by the overseas players and to a certain extent by Punj Lloyd. However, there was some respite for the Process segment as repeat orders from Tata Steel and Gulf regions made up for some of the initial losses. Thus, the pattern of inflows has changed and could take some time to balance it out. Our data point suggests that the ticket size of orders have shrunk, lowest being in the Power segment due to smaller T&D orders and in the Infrastructure segment, due to smaller projects. Thus, the advantage of economies of scale may play out negatively, with increased number of sites and thus, higher working capital requirement.

What's in the bag?

Unreported orders have always been the show stopper for LT in all these years. In FY12E, there could be some orders relating to IPPs (Rs30bn) or hydrocarbon space which could bring sanity to Q4FY12E order inflows. On the flip side, if the orders are of less quantum or ticket size, there could be some disappointment.

Our take

This year has not been a complete washout year and the performance on a high base remains satisfactory. What needs to be seen now is how the gradual increase in the planned expenditure of Government (aiding core sectors can bring good inflows in FY13E) pans out. We are expecting Rs717bn (Flat YoY) order inflows in FY13. However, de-growth again on a YoY basis cannot be ruled out. As the current order book is 2.8x FY12E revenues, there are no concerns about at least 15% growth in FY13E revenues. However, with a change in mix of order intake, the margin profile can have a negative bias. Next year, we can expect some good orders from IPPs and Hydrocarbons (as the capex is relatively slower this year). Infrastructure, Exports and T&D orders will continue their progression. Apart from this, investment of nearly Rs50-60bn in subsidiaries in the last two years and increasing working capital demands have guzzled up free cash flows of the company. Any positive outcome on the same could bring in some relief. We maintain '**Accumulate**' on the stock.

Some surprises for LT in FY12:

- **Power** - Doosan winning the 800mw boiler and BGR winning the Turbine orders in NTPC bulk tenders. In addition to this, slower moving orders of Jaiprakash Power venture and PPN IPPs.
- **Airport**- No positive news on Abu Dhabi airport (US\$12bn).
- **Hydrocarbons**- It failed to win the recent ONGC pipeline tenders.
- **Port/shipbuilding** - Lost the Mazagon Docks JV for defense/naval ships. Dhamra Port expansion not materializing.
- **Hyderabad metro**- Moving slow owing to land acquisition issues.
- **International**- Order intake healthy from GCC region in electrical business (Rs47bn) and South East region into Hydrocarbon. Contribution of ME countries to order inflow increase from 8% in FY11 to 10% in FY12E.
- **Unlocking investments**: Listing of LT Finance Holdings and acquisition of Fidelity's Indian AMC business.

Exhibit 1: Break-up of order inflows

Year	FY09		FY10		FY11		FY12E	
	No of projects	Size (Rs bn)	No of projects	Size (Rs bn)	No of projects	Size (Rs bn)	No of projects	Size (Rs bn)
Buildings & Factories	6	119	12	98	6	72	13	135
Power and allied	9	81	17	289	7	174	16	122
Hydrocarbons	4	35	7	127	3	26	4	40
Process	6	93	9	76	3	86	7	65
Infrastructure	11	93	10	64	12	168	20	187
Unreported		108		41		272		186
Total		516		695		798		735
<i>YoY gr. (%)</i>		<i>22.8</i>		<i>31.4</i>		<i>16.7</i>		<i>(7.9)</i>

Source: Company Data, PL Research (The numbers above are from our data point collection and may vary from actuals)

Exhibit 2: Trend in Order Inflows (Rs bn)

Sectors	FY13E	FY12E	FY11
IPPs	70		
T&D and BOP	70	122	174
Hydrocarbon	100	40	26
Process	20	65	86
Infrastructure	200	187	168
Buildings & Factories	150	135	72

Source: Company Data, PL Research

Exhibit 3: Major orders booked (Rs bn)

Sectors	FY12E	Sectors	FY11
Building & Factories	41	JPVL IPP, Karchana	65
PPN Power, IPP	35	Process	58
Electrical, Qatar	14	LT Metro	59
UAE Hydrocarbon	21	LT power, Rajpura	30
Thailand, Hydrocarbon	10	Oman, Airport	22
Process, GSPC	15	Building & Factories	16
GVK BOT	19		
GMR BOT	22		
IDPL BOT	26		
IDPL BOT	10		
LT Metro	12		

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	434,959	532,912	639,286	739,978
Raw Material Expenses	100,640	144,332	190,285	225,424
Gross Profit	334,319	388,580	449,001	514,554
Employee Cost	28,845	36,958	39,887	45,828
Other Expenses	253,338	291,889	338,019	388,997
EBITDA	52,136	59,733	71,095	79,729
Depr. & Amortization	5,992	7,090	7,852	8,700
Net Interest	6,474	7,200	7,950	8,500
Other Income	16,511	16,016	14,437	14,878
Profit before Tax	56,181	61,459	69,730	77,407
Total Tax	19,459	19,574	22,915	25,496
Profit after Tax	36,722	41,885	46,815	51,911
Ex-Od items / Min. Int.	(2)	—	—	—
Adj. PAT	36,720	41,595	46,525	51,911
Avg. Shares O/S (m)	608.9	608.9	608.9	608.9
EPS (Rs.)	60.3	68.3	76.4	85.3

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	27,753	18,005	53,664	29,320
C/F from Investing	(25,622)	(12,376)	25,340	5,810
C/F from Financing	854	(5,496)	(77,701)	(35,184)
Inc. / Dec. in Cash	2,985	132	1,303	(53)
Opening Cash	14,319	17,304	17,435	18,738
Closing Cash	17,304	17,435	18,738	18,685
FCFF	8,939	4,171	42,735	18,628
FCFE	12,542	7,033	47,051	24,702

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	18.6	22.5	20.0	15.8
EBITDA (%)	17.0	14.6	19.0	12.1
PAT (%)	16.0	13.3	11.9	11.6
EPS (%)	14.7	13.3	11.9	11.6
Profitability				
EBITDA Margin (%)	12.0	11.2	11.1	10.8
PAT Margin (%)	8.4	7.8	7.3	7.0
RoCE (%)	15.2	14.9	15.2	15.7
RoE (%)	18.3	17.5	17.5	18.2
Balance Sheet				
Net Debt : Equity	0.2	0.2	0.2	0.2
Net Wrkng Cap. (days)	(767)	(578)	(465)	(367)
Valuation				
PER (x)	21.7	19.2	17.1	15.4
P / B (x)	3.6	3.1	2.9	2.7
EV / EBITDA (x)	16.3	14.3	12.1	10.8
EV / Sales (x)	2.0	1.6	1.3	1.2
Earnings Quality				
Eff. Tax Rate	34.6	32.0	33.0	32.9
Other Inc / PBT	32.0	25.9	20.5	19.2
Eff. Depr. Rate (%)	6.7	6.9	6.9	7.0
FCFE / PAT	34.2	16.9	101.1	47.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	218,463	256,813	274,099	296,632
Total Debt	71,611	74,473	78,790	84,864
Other Liabilities	2,635	865	867	903
Total Liabilities	292,708	332,151	353,756	382,399
Net Fixed Assets	74,581	83,472	88,400	90,837
Goodwill	—	—	—	—
Investments	146,848	146,539	161,193	156,317
Net Current Assets	71,279	102,091	104,106	135,198
<i>Cash & Equivalents</i>	<i>17,304</i>	<i>17,435</i>	<i>18,738</i>	<i>18,685</i>
<i>Other Current Assets</i>	<i>332,208</i>	<i>408,013</i>	<i>450,334</i>	<i>488,196</i>
<i>Current Liabilities</i>	<i>278,233</i>	<i>323,357</i>	<i>364,966</i>	<i>371,683</i>
Other Assets	—	50	60	50
Total Assets	292,708	332,151	353,758	382,402

Quarterly Financials (Rs m)

Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12E
Net Revenue	94,826	112,452	139,986	185,648
EBITDA	11,265	11,741	13,431	23,337
<i>% of revenue</i>	<i>11.9</i>	<i>10.4</i>	<i>9.6</i>	<i>12.6</i>
Depr. & Amortization	1,679	1,709	1,803	1,899
Net Interest	1,613	1,970	1,907	1,750
Other Income	2,962	3,632	4,487	4,790
Profit before Tax	10,935	11,694	14,208	24,331
Total Tax	3,474	3,709	4,292	8,099
Profit after Tax	7,462	7,985	9,915	16,233
Adj. PAT	7,462	7,985	9,915	16,233

Key Operating Metrics

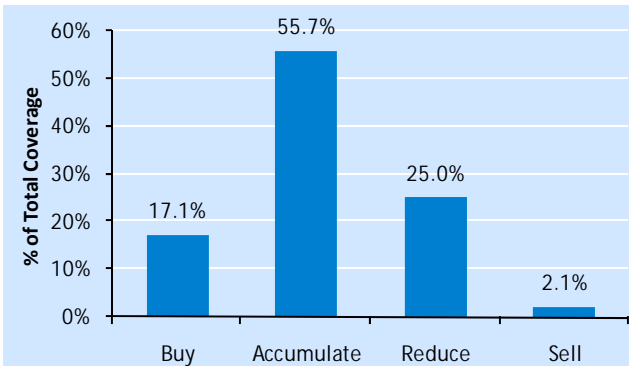
Y/e March	2011	2012E	2013E	2014E
E&C (Rs m)	377,400	417,270	512,068	592,722
E&E (Rs m)	28,380	29,340	28,973	28,973
MIP (Rs m)	26,660	29,340	25,306	25,306
Others (Rs m)	6,600	20,905	18,338	18,338
Blended EBITDA Marg. (%)	12.0	11.2	11.1	10.8
Interest as a % to sales	1.5	1.4	1.2	1.1
Order Book (Rs bn)	1,334	1,519	1,597	1,646
Other Inc. / PAT (%)	43.7	38.2	30.7	28.7
Order intake (Rs bn)	797	717	717	789
Int. Rate (%)	9.0	9.7	10.1	10.0
Capex (Rs bn)	15.8	12.7	10.7	10.7
NCA/Sales (%)	—	19.2	16.3	18.3
RM & Const Cost (%)	67.9	68.1	69.7	70.8

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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