

March 06, 2013

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Rating	BUY
Price	Rs1,396
Target Price	Rs1,704
Implied Upside	22.1%
Sensex	19,143
Nifty	5,784

(Prices as on March 05, 2013)
Trading data

Market Cap. (Rs bn)	849.7
Shares o/s (m)	608.9
3M Avg. Daily value (Rs m)	2591.3

Major shareholders

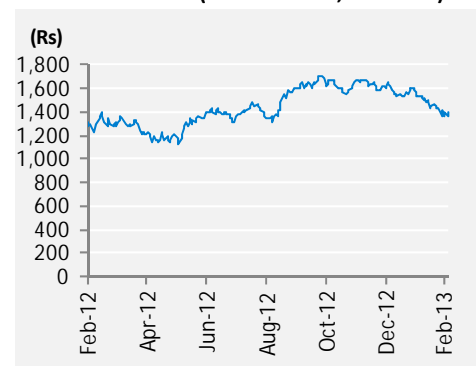
Promoters	0.00%
Foreign	16.73%
Domestic Inst.	36.76%
Public & Other	46.51%

Stock Performance

(%)	1M	6M	12M
Absolute	(9.0)	5.4	10.2
Relative	(6.4)	(5.2)	(0.1)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	87.3	86.0	1.5
2015	96.8	97.2	-0.4

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


Source: Bloomberg

L&T is certainly facing the turmoil of a slow economic growth environment. With a recent price fall (3M underperformance- 14.2% relative to Nifty and 16.7% on Absolute basis), despite a healthy set of announcements in the recently announced Budget, L&T is trading at P/E of 10.3x FY15E core earnings. However, with the recent news flow in terms of order intake being positive, L&T looks on a comfortable wicket and poised to end the year with a 15% order inflow growth. Hence, we believe that the sheer underperformance is unwarranted for an infrastructure giant like L&T and upgrade it to a 'BUY'.

■ **Order wins decent, comfortable footing:** Order wins in Jan-Feb 2013 were close to Rs39bn which were a mix of B&F (Government), Defence, Hydrocarbon and Power. Further, with the impetus given to DMIC, DFC and other BOT projects in transportation (Budget 2013-14), along with a strong financial backing, we expect L&T to be able to secure sizeable orders. With just a month away from end of FY13E, order inflow stands at Rs640bn, implying Rs171bn order inflow in March 2013. Historically, Q4 has been a strong period where the order inflows are sizeable (Q4FY12: Rs211bn). Being in a slower growth environment, even if we assume a 19% YoY de-growth in order intake for Q4FY13E, FY13E order inflow will be higher by 15% YoY. Further, we are assuming a 10% YoY order inflow growth for FY14-15E, which has least chances of a negative delta.

■ **Slower earnings are factored in:** L&T is expected to clock a 20% CAGR over FY12-15E in revenues keeping the Book-to-Bill ratio (2.1-1.8x) trend more or less the same. Though we have not factored in a major downfall in the EBITDA margins (11%) over FY14E-15E, we have also not kept it higher. However, any adverse mix in terms of order inflow may alter the margins. We are expecting a 10% CAGR in standalone earnings for the period of FY12-15E which is again not an out-of-reach assumption.

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Key financials (Y/e March)

	2012	2013E	2014E	2015E
Revenues (Rs m)	531,705	649,286	785,292	925,541
Growth (%)	22.2	22.1	20.9	17.9
EBITDA (Rs m)	62,826	73,295	88,543	102,083
PAT (Rs m)	44,196	47,750	53,443	59,256
EPS (Rs)	72.2	78.0	87.3	96.8
Growth (%)	19.7	8.0	11.9	10.9
Net DPS (Rs)	16.6	19.6	22.9	22.9

Profitability & Valuation

	2012	2013E	2014E	2015E
EBITDA margin (%)	11.8	11.3	11.3	11.0
RoE (%)	18.8	17.7	17.3	16.7
RoCE (%)	15.2	14.1	13.9	13.5
EV / sales (x)	1.8	1.5	1.2	1.1
EV / EBITDA (x)	14.9	13.1	11.1	9.7
PE (x)	19.3	17.9	16.0	14.4
P / BV (x)	3.4	3.0	2.6	2.2
Net dividend yield (%)	1.2	1.4	1.6	1.6

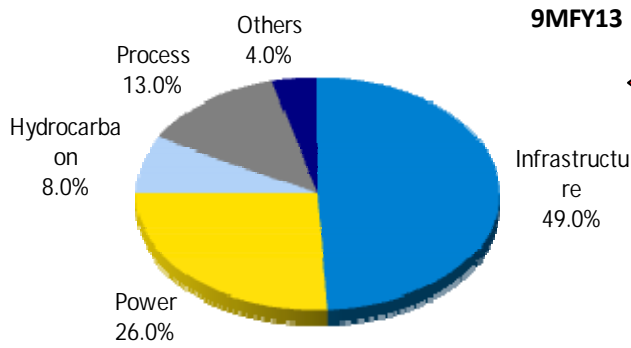
Source: Company Data; PL Research

- **What can still go wrong from here?** 1) A drastic (80-100bps) fall in EBITDA margins as a result of order intake on account of an aggressive bidding. 2) Though the effect on EBITDA margins is neutral, the share of order inflow from the B&F segment could be higher and from Power and Hydrocarbon sectors could be lower. 3) The biggest worry of the overall slowdown in the capex cycle leading to a 0-5% order intake in FY14E could have some long-term negative impact on BTB ratio 4) There could be a stress on working capital which is currently at 17% to sales. 5) Further support/infusion of equity to subsidiaries from the standalone cashflows.

- **Unarguably still the defensive bet:** Though the price points have corrected sharply in the recent times, we see these levels as an entry point/increasing exposure to a stock in volatile times. At CMP, the stock is trading at a core P/E of 11.7x FY14E and 10.3x FY15E. We have also rolled over our valuations to FY15E. With no near-term risks attached and sheer under performance of the stock, we upgrade the stock from an '**Accumulate**' to a '**BUY**'.

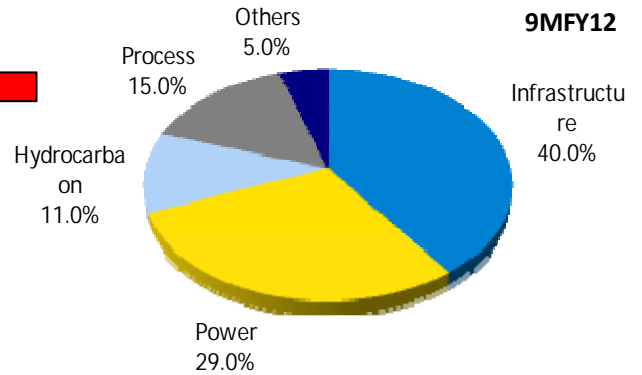
Changes in operating metrics over last 1 year

Exhibit 1: Order Book Mix



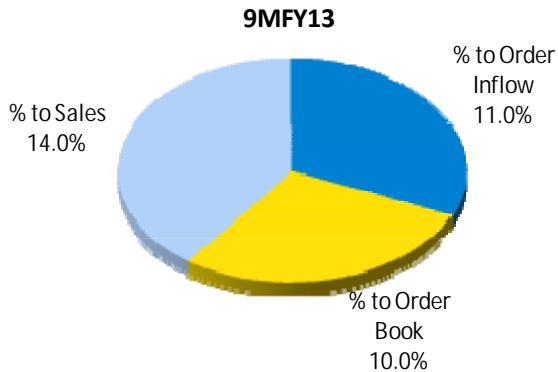
Source: Company Data, PL Research

Exhibit 2: Order Book Mix



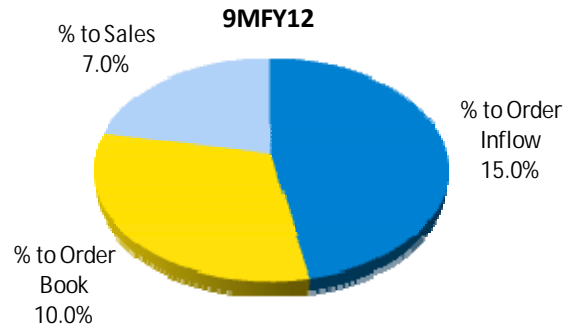
Source: Company Data, PL Research

Exhibit 3: Middle East Orders



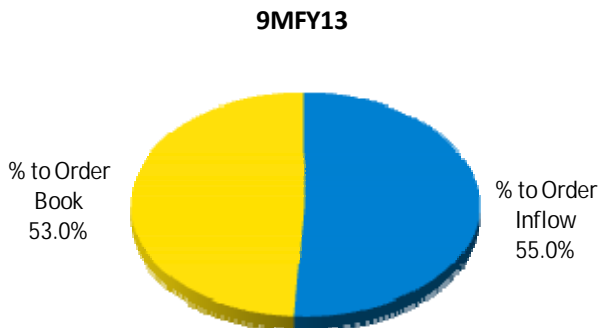
Source: Company Data, PL Research

Exhibit 4: Middle East Orders



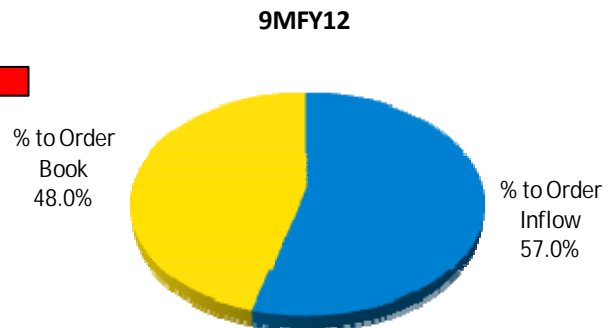
Source: Company Data, PL Research

Exhibit 5: Share of Private clients in OB

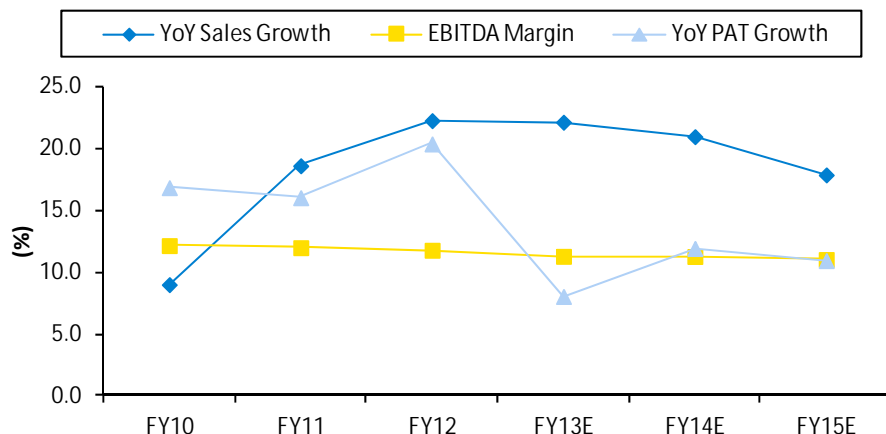


Source: Company Data, PL Research

Exhibit 6: Share of Private clients in OB



Source: Company Data, PL Research

Exhibit 7: Earnings has been volatile


Source: Company Data, PL Research

Exhibit 8: SOTP Valuation

Sectors	Valuation Parameter	Rs / Share Absolute Value (Rs m)	
L&T Standalone	12.5x FY15 EPS of Rs96	1,210	741,147
L&T Infotech	10x FY14E PAT of Rs5.9bn @25% HOLDCO	73	44,451
L&T Finance Holdings	30% HOLDCO Discount to Mkt Cap of LT Finance -LT share 82%	131	80,360
L & T IDPL & development projects	1.25x Equity in FY13E of Rs55bn @ HOLDCO of 25%	82	50,016
LT Power Equipment	P/E 6.9x FY14E PAT of Rs2.9bn on US\$ 1bn sales @ HOLDCO of 25%	24	14,707
L & T Manufacturing	5x FY14E Rs3bn PAT of various facilities	25	15,485
L & T Urban Infrastructure	1x BV of Real Estate Cost @ 20% HOLDCO	26	15,680
Others	3x FY14E Rs6bn PAT of various businesses	30	18,415
Total Value		1,704	1037,332

Source: PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	531,705	649,286	785,292	925,541
Raw Material Expenses	117,646	198,085	256,924	294,623
Gross Profit	414,059	451,201	528,368	630,918
Employee Cost	9,754	39,887	45,828	53,658
Other Expenses	341,479	338,019	393,997	475,176
EBITDA	62,826	73,295	88,543	102,083
Depr. & Amortization	6,995	7,952	9,000	11,412
Net Interest	6,661	9,050	11,701	13,693
Other Income	13,383	15,265	13,424	14,566
Profit before Tax	62,553	71,558	81,266	91,544
Total Tax	18,357	23,518	27,531	31,926
Profit after Tax	44,196	48,040	53,735	59,618
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	44,196	47,750	53,443	59,256
Avg. Shares O/S (m)	612.4	612.4	612.4	612.4
EPS (Rs.)	72.2	78.0	87.3	96.8

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	5,705	6,791	122	1,661
C/F from Investing	(27,669)	(27,929)	(19,946)	(30,228)
C/F from Financing	23,713	19,823	20,772	7,218
Inc. / Dec. in Cash	1,749	(1,314)	947	(21,349)
Opening Cash	17,304	19,053	17,738	18,685
Closing Cash	19,053	17,738	18,685	24,956
FCFF	(1,683)	3,133	384	8,787
FCFE	25,676	25,917	21,377	30,005

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	22.2	22.1	20.9	17.9
EBITDA (%)	20.5	16.7	20.8	15.3
PAT (%)	20.4	8.0	11.9	10.9
EPS (%)	19.7	8.0	11.9	10.9
Profitability				
EBITDA Margin (%)	11.8	11.3	11.3	11.0
PAT Margin (%)	8.3	7.4	6.8	6.4
RoCE (%)	15.2	14.1	13.9	13.5
RoE (%)	18.8	17.7	17.3	16.7
Balance Sheet				
Net Debt : Equity	0.3	0.4	0.4	0.4
Net Wrkng Cap. (days)	(968)	(488)	(348)	(308)
Valuation				
PER (x)	19.3	17.9	16.0	14.4
P / B (x)	3.4	3.0	2.6	2.2
EV / EBITDA (x)	14.9	13.1	11.1	9.7
EV / Sales (x)	1.8	1.5	1.2	1.1
Earnings Quality				
Eff. Tax Rate	29.3	33.0	34.0	35.0
Other Inc / PBT	21.4	21.2	16.4	15.7
Eff. Depr. Rate (%)	6.6	6.8	7.0	8.0
FCFE / PAT	58.1	54.3	40.0	50.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	252,231	288,461	328,590	382,117
Total Debt	98,969	121,753	142,746	163,965
Other Liabilities	1,331	1,564	1,988	1,990
Total Liabilities	352,532	411,778	473,324	548,072
Net Fixed Assets	83,709	86,503	89,889	91,925
Goodwill	—	—	—	—
Investments	158,719	175,255	182,815	200,205
Net Current Assets	110,104	149,965	200,585	255,899
<i>Cash & Equivalents</i>	<i>19,053</i>	<i>17,738</i>	<i>18,685</i>	<i>24,956</i>
<i>Other Current Assets</i>	<i>486,193</i>	<i>513,966</i>	<i>577,262</i>	<i>648,016</i>
<i>Current Liabilities</i>	<i>395,142</i>	<i>381,739</i>	<i>395,362</i>	<i>417,073</i>
Other Assets	—	56	42	43
Total Assets	352,532	411,778	473,330	548,072

Quarterly Financials (Rs m)

Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Revenue	184,609	119,554	131,962	154,294
EBITDA	25,608	13,040	14,394	14,749
<i>% of revenue</i>	<i>13.9</i>	<i>10.9</i>	<i>10.9</i>	<i>9.6</i>
Depr. & Amortization	1,804	1,919	2,040	2,003
Net Interest	1,211	2,284	2,350	2,380
Other Income	3,142	3,858	3,294	5,302
Profit before Tax	26,285	12,695	13,298	15,668
Total Tax	7,081	4,189	3,815	4,450
Profit after Tax	19,204	8,506	11,626	11,218
Adj. PAT	18,836	8,637	9,483	9,818

Key Operating Metrics

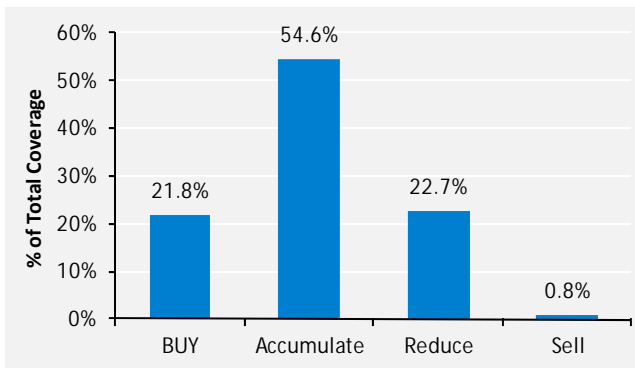
Y/e March	2012	2013E	2014E	2015E
E&C (Rs m)	469,788	584,452	629,019	741,358
E&E (Rs m)	35,794	25,306	28,973	28,973
MIP (Rs m)	28,538	25,306	25,306	25,306
Others (Rs m)	9,630	14,222	18,338	18,338
Blended EBITDA Marg. (%)	11.8	11.3	11.3	11.0
Interest as a % to sales	1.3	1.4	1.5	1.5
Order Book (Rs bn)	1,457	1,620	1,727	1,784
Other Inc. / PAT (%)	30.3	31.7	24.8	24.3
Order intake (Rs bn)	706	812	893	982
Int. Rate (%)	6.7	7.4	8.2	8.4
Capex (Rs bn)	16.8	11.7	12.7	12.7
NCA/Sales (%)	20.2	23.0	25.5	27.6
RM & Const Cost (%)	62.6	69.8	71.2	71.5

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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