

**NOT  
RATED**
**LARSEN & TOUBRO**

| Capital Goods

| 15 July 2022

## Annual report analysis: In a good place

- **Strategic growth plan 'Lakshya' targets revenue of Rs 2.7tn and ROE of 18%+ by FY26**
- **Order book at 3.3x TTM core sales guided to support revenue growth of 12-15%, core margin of 9.5%, net working capital at 20% of sales for FY23**
- **LT (Not Rated) is the largest infrastructure and capex play with proven execution record**

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Key highlights from LT's FY22 annual report:

**Pursuing a differentiated growth path:** LT is aspiring for Rs 2.7tn in revenue and ROE of 18% or higher by FY26, implying a 15% CAGR. The company launched its strategic growth plan 'Lakshya 2026' in FY22 with a renewed focus on EPC projects, hi-tech manufacturing, and services. However, underlying trends suggest that LT is transitioning into a services company, with future initiatives centred on digitisation. Illustrative of this is the fact that IT revenue/EBIT contribution increased from 9%/ 16% to 21%/39% over FY16-FY22.

**Key growth themes:** The Lakshya strategy's major themes are centred on (i) incubation and scaling up of new-age businesses (green hydrogen, electrolyser, data centres, e-commerce), (ii) profitable expansion with sustainable growth in the current business portfolio, and (iii) divestment of non-core assets.

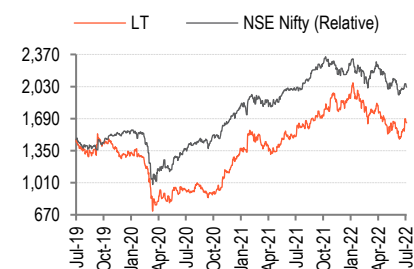
**Challenges moderating:** LT has been burdened by difficulties executing the Hyderabad Metro and Nabha power plant. That said, the Hyderabad Metro has seen positive developments in Q4FY22 (refinancing of term loan, assistance from Telangana government and ridership returning to normalcy). In the case of the Nabha power plant, management remains optimistic about medium-term divestment.

**Order book strong; optimising cash flow:** At Rs 3.6tn, the order book remains strong (3.3x FY22 core revenue). Despite a lower tender-to-award ratio of 51% in FY22 (vs. 70% in FY21), the company has managed a 10% increase in order inflow to Rs 1.9tn. LT has focused on cash flow optimisation in recent quarters, as evidenced by the decline in net working capital intensity to 19.9% in FY22 vs. 22.3% in FY21. ROE has thus risen by 115bps to 12% (vs. 11% in FY21). Cash & cash equivalent has risen to Rs 190bn (vs. Rs 162bn in FY21). The company is debt-free, excluding debt of Rs 841bn related to financial services. For FY23, it has guided for revenue and order inflow growth of 12-15%, core margin of 9.5% and net working capital at 20% of sales.

Ticker/Price	LT IN/Rs 1,685
Market cap	US\$ 2,9640mn
Free float	100%
52wk high/low	Rs 2,078/Rs 1,457
Promoter/FPI/DII	0%/22%/34%

Source: NSE | Price as of 15 Jul 2022

## Stock performance

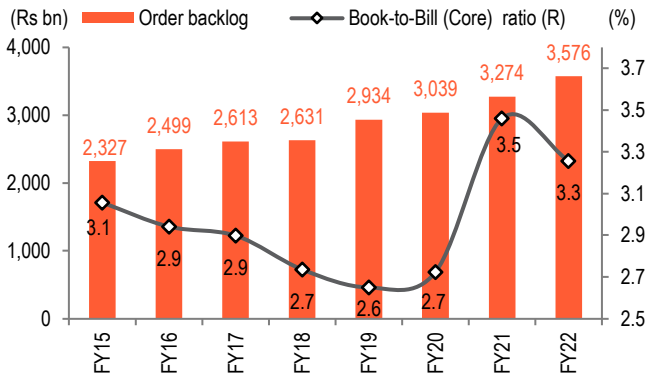


Source: NSE



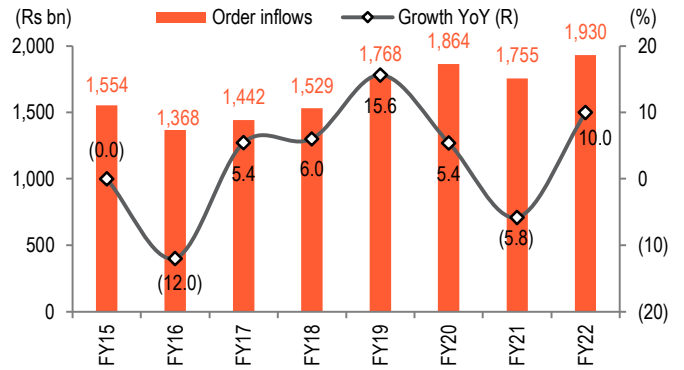
## FY22 performance

**Fig 1 – Order backlog at record high**



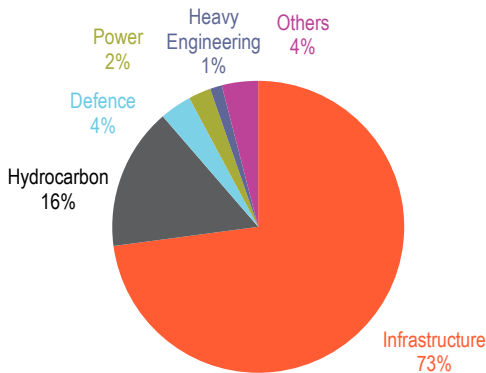
Source: Company, BOBCAPS Research

**Fig 2 – Order inflows buoyed by large international orders**



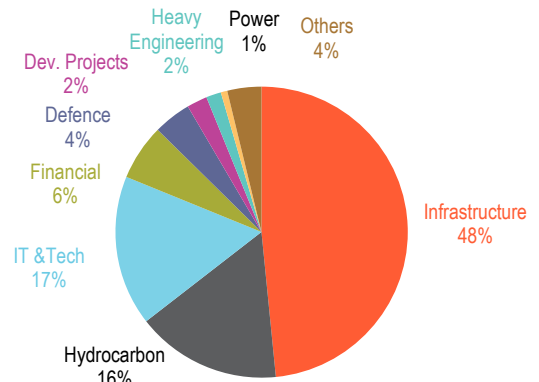
Source: Company, BOBCAPS Research

**Fig 3 – Infrastructure still dominates order backlog...**



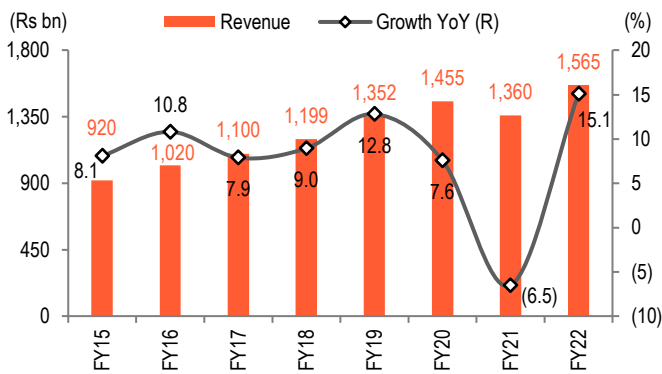
Source: Company, BOBCAPS Research

**Fig 4 – ...and order inflows as well**



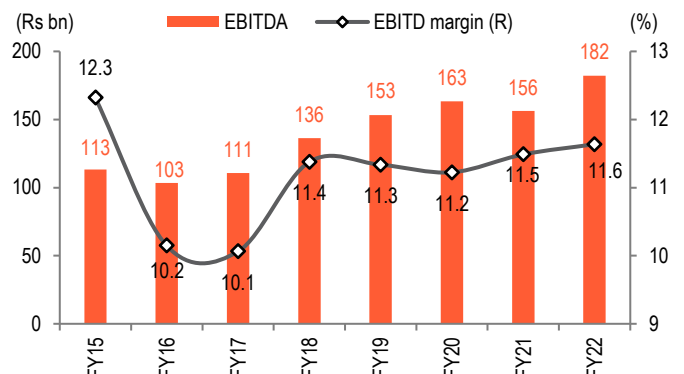
Source: Company, BOBCAPS Research

**Fig 5 – Growth momentum continued**



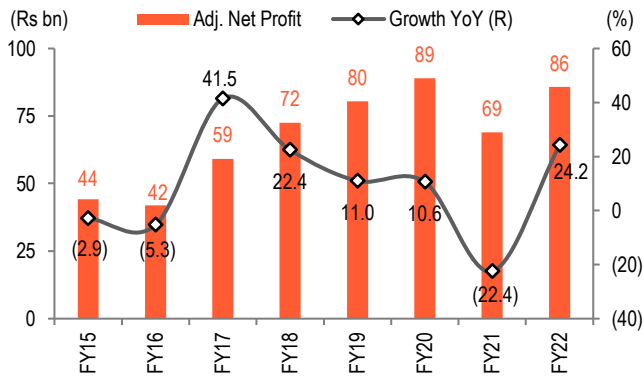
Source: Company, BOBCAPS Research

**Fig 6 – Margin levers in palace**



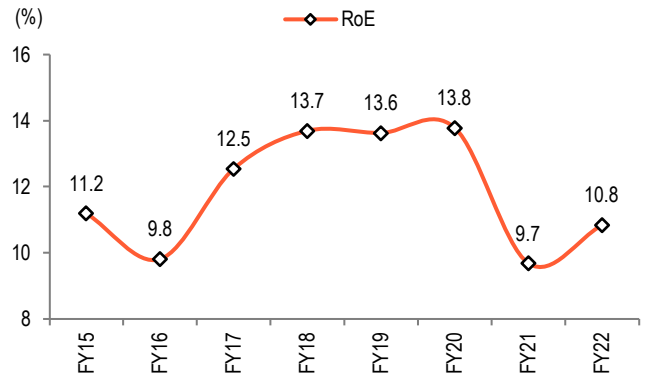
Source: Company, BOBCAPS Research

**Fig 7 – Strong margins resulted in healthy PAT growth**



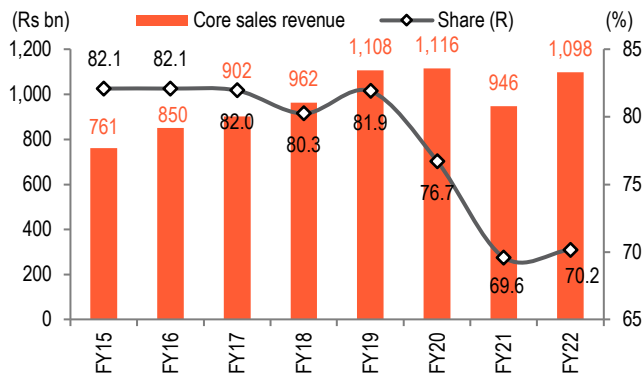
Source: Company, BOBCAPS Research

**Fig 8 – Efficient capital allocation aided ROE**



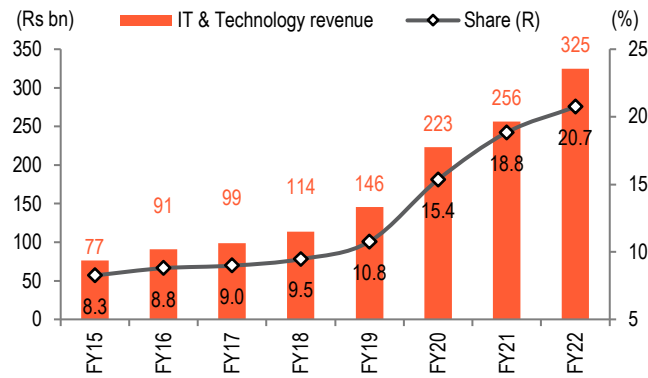
Source: Company, BOBCAPS Research

**Fig 9 – Declining share of core revenue...**



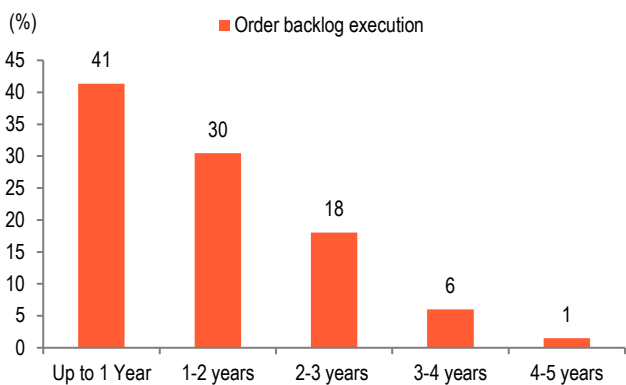
Source: Company, BOBCAPS Research

**Fig 10 – ...offset by IT revenue**



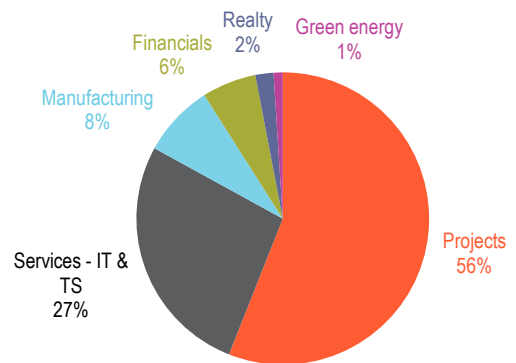
Source: Company, BOBCAPS Research

**Fig 11 – Order backlog execution timeline**



Source: Company, BOBCAPS Research

**Fig 12 – Targeted revenue mix (FY26E – Rs 2.7tn)**



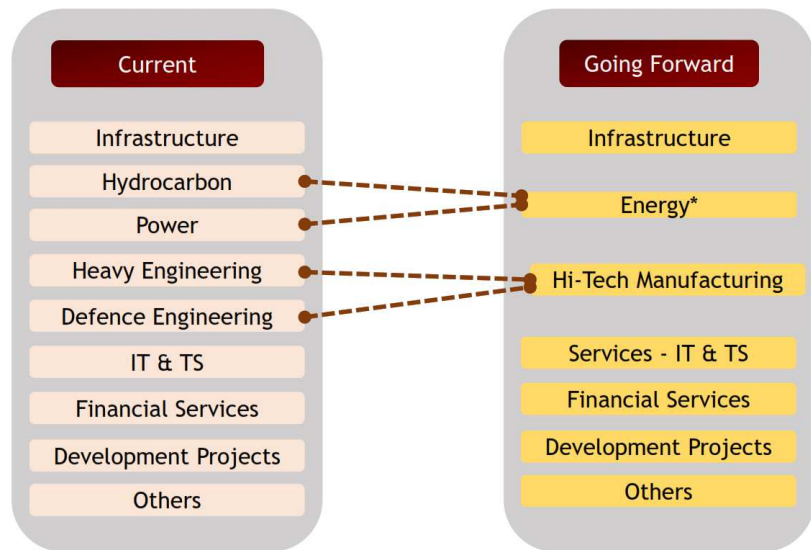
Source: Company, BOBCAPS Research

## Annual report takeaways

### Five-year strategic initiative: Lakshya 2026

LT launched its 'Lakshya 2026' strategic growth plan in FY22, with a renewed emphasis on EPC projects, hi-tech manufacturing and services. Lakshya is focused on the following themes: (i) driving value-added growth in the existing business portfolio, (ii) exiting non-core businesses, (iii) developing innovative business offerings to ride the energy transition wave, and (iv) scaling up digital and e-commerce businesses.

**Fig 13 – Revamped business focus**



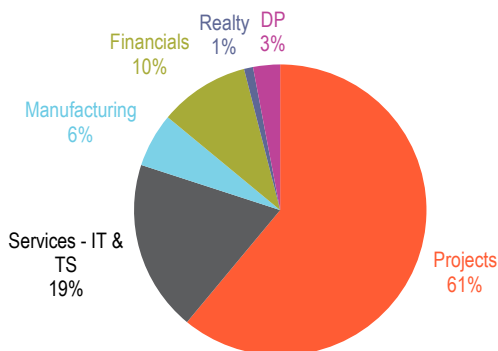
Source: Company, BOBCAPS Research

**Fig 14 – FY26 growth target**

Particulars (Rs tn)	FY21	FY22	FY26	CAGR (FY21-26) (%)
Order inflows	1.7	1.9	3.4	14
Revenue	1.4	1.6	2.7	15
ROE (%)	10	11	18+	-

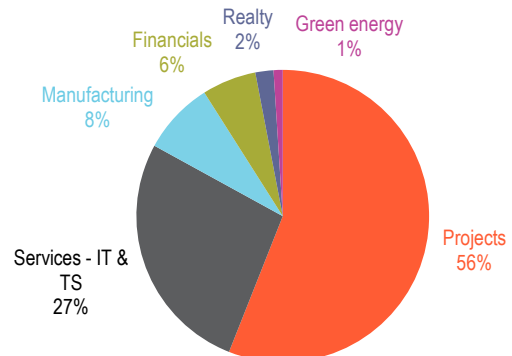
Source: Company, BOBCAPS Research

**Fig 15 – Revenue composition: FY21 – Rs 1.3tn**



Source: Company, BOBCAPS Research

**Fig 16 – Revenue composition: FY26E – Rs 2.7tn**



Source: Company, BOBCAPS Research

### **EPC projects**

LT's major focus would be on the infrastructure and energy (hydrocarbon, power, green hydrogen EPC) sectors. Management has guided for order inflow and revenue growth in the range of 11-13% in this business for FY23.

### **Hi-tech manufacturing**

The hi-tech manufacturing portfolio consists of the company's heavy engineering & defence engineering businesses, and will now include the manufacturing of electrolysers and battery energy storage systems. Management has guided for segmental order inflow and revenue growth in the range of 18%+ in FY23.

LT intends to build an electrolyser with a 500MW capacity by FY26, eventually ramping up to 1GW by FY28. The technology collaboration will take place in two stages: Phase 1 – Alkaline and Phase 2 – PEM. The estimated cost of this project is Rs 11bn-12bn/GW. Furthermore, management intends to establish advanced chemistry cell manufacturing with a technology partner, with an initial capacity of 5GW of cell manufacturing and 3GW of battery module capacity by FY27. This project is expected to cost Rs 31bn.

### **Services**

The services portfolio will comprise two segments: (i) IT&TS (IT & technology services) businesses, and (ii) financial services.

- IT&TS businesses include L&T Infotech-Mindtree and L&T Technology Services. The momentum from existing and emerging technology trends such as cloud, digital, AI and Industry 4.0 is expected to propel growth in the near term, and management has guided for revenue growth in the high teens. The IT&TS portfolio will also have the in-house incubated e-commerce and digital platforms that were launched in FY21-FY22, SuFin and Edutech, as well as the data centre business. The company intends to set up a 2.5MW data centre pilot project in the near future, with capacity rising to 90MW by the end of FY26.
- Financial services will focus on reorganising the existing lending portfolio and migrating towards retail lending over time.

### **Others**

The 'Others' segment will include the company's realty, smart world & communication and industrial machinery & products businesses.

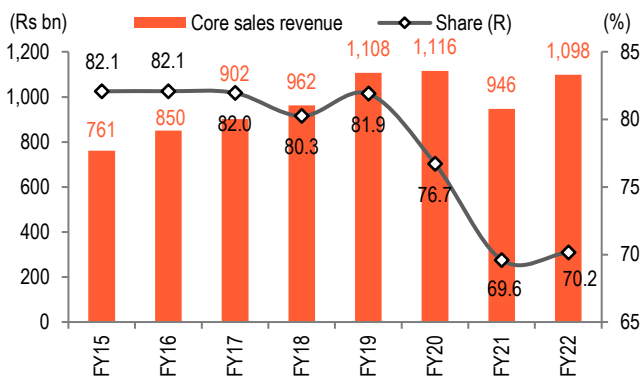
### Transitioning toward service-oriented business

LT's revenue from its traditional 'core' business has remained largely muted, increasing at a CAGR of just 4.4% over FY16-FY22, compared to a 7.1% CAGR in overall revenue. In fact, the services business has steadied the ship, increasing at a CAGR of 14% – this was driven by the IT business which grew at 23.6%.

The difference is more pronounced at the EBIT level, with IT contributing 39% of profits in FY22 vs. 16% in FY16. The overall services business (IT & financial) contributed 48% (vs. 26% in FY16), while core business EBIT share has decreased from 67% to 53% (adjusted for Electric & Automation).

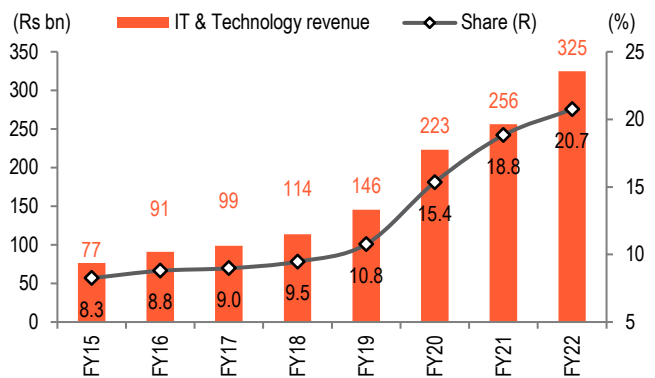
Overall, LT's emphasis on increasing ROE (18%+ by FY26) and maintaining an asset-light business model suggests that the company will explore incremental opportunities in the services business. Its long-term strategic plan also anticipates a higher 27% revenue contribution from the IT business (vs. 21% in FY22). The launch of incubated e-commerce and digital platforms – SuFin and Edutech – in FY21-FY22 and consolidation of Mindtree and LTI are steps in this direction.

**Fig 17 – Declining share of core revenue...**



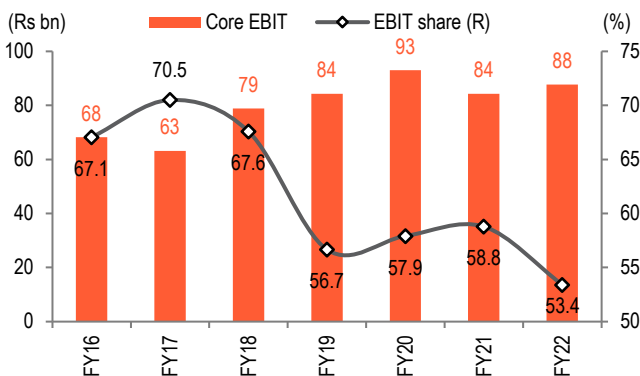
Source: Company, BOBCAPS Research

**Fig 18 – ...offset by IT revenues**



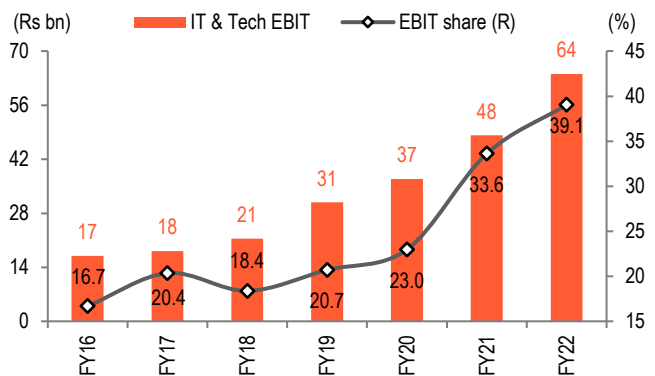
Source: Company, BOBCAPS Research

**Fig 19 – Core EBIT contribution has plummeted...**



Source: Company, BOBCAPS Research

**Fig 20 – ...while IT EBIT share has risen**



Source: Company, BOBCAPS Research

## Major concerns receding

LT has been able to sell assets such as (i) the Seawoods Grand Central Mall in Navi Mumbai to Blackstone Group, (ii) the E&A division to Schneider Electric, and (iii) a hydroelectric power plant in Uttarakhand to ReNew Power. Furthermore, IDPL, which houses BOT assets and public-private partnership projects, hopes to divest by 2023.

However, the two projects that the company has had difficulty divesting are the L&T Hyderabad Metro (Rs 180bn investment) and the Nabha power project (Rs 90bn investment), which have proven to be cash guzzlers. L&T Hyderabad Metro had low ridership because it began operations during the pandemic. The Nabha power plant is one of the most efficient thermal power plants in the country, but renewed ESG interest and carbon neutrality goals have kept investors away from the project.

That said, we do note a few positive developments at L&T Hyderabad Metro – (i) ridership is limping back to normal (199k per day in Q4FY22 vs. 55k/146k/218k in Q1/Q2/Q3), (ii) the company has refinanced its term loan in Q3FY22, resulting in interest savings of Rs 0.9bn for the quarter (expected to be recurring savings), (iii) the Telangana government has provided assistance of Rs 30bn (to be paid in three instalments beginning FY23), for which repayment is expected to begin from the 16<sup>th</sup> year with the concession period extending until 2072, and (iv) discussions with private players are underway for fund infusion. For the Nabha power plant, management has stated that talks are on and could lead to divestment in the near future.

## L&T Metro Rail Hyderabad Financial Statement overview

**Fig 21 – Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Total operating revenues	15,730	14,091	16,290	13,597	3,477	4,569
Growth (%)	(37.7)	(10.4)	15.6	(16.5)	(74.4)	31.4
EBITDA	9	25	1,246	2,952	(855)	185
EBITDA margin (%)	0.1	0.2	7.6	21.7	(24.6)	4.0
Depreciation & amortization	16	167	620	1,456	2,985	3,066
EBIT	(7)	(142)	626	1,497	(3,840)	(2,882)
EBIT margin (%)	(0.0)	(1.0)	3.8	11.0	(110.4)	(63.1)
Interest	49	506	2,154	5,428	14,211	14,766
Other income	91	64	54	109	383	185
Profit before tax	35	(584)	(1,473)	(3,822)	(17,668)	(17,462)
Tax	7	0	8	0	0	(4)
PAT before MI & Associate income	28	(584)	(1,481)	(3,822)	(17,668)	(17,459)
Associate income	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0
Reported net profit	28	(584)	(1,481)	(3,822)	(17,668)	(17,459)
Extraordinary items	0	0	0	0	0	0
Adjusted net profit	28	(584)	(1,481)	(3,822)	(17,668)	(17,459)

Source: Company, BOBCAPS Research

**Fig 22 – L&T Metro: Balance Sheet**

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
<b>SOURCE OF FUNDS</b>						
Share capital	20,622	22,070	24,272	24,390	24,390	24,390
Reserve & Surplus	(309)	(701)	(2,189)	(5,963)	(23,630)	(41,084)
<b>Total shareholder's funds</b>	<b>20,313</b>	<b>21,369</b>	<b>22,083</b>	<b>18,427</b>	<b>760</b>	<b>(16,694)</b>
Minority Interest						
Debt	88,893	1,05,663	1,23,177	1,45,883	1,55,783	1,76,408
Other LT liabilities	756	985	704	922	903	2,031
<b>TOTAL</b>	<b>1,09,962</b>	<b>1,28,017</b>	<b>1,45,963</b>	<b>1,65,232</b>	<b>1,57,446</b>	<b>1,61,745</b>
<b>APPLICATION OF FUNDS</b>						
Fixed assets	373	20,786	44,441	1,68,712	1,64,592	1,66,257
Less: Depn. and amort.	99	291	938	3,357	6,342	9,408
Net block	273	20,495	43,503	1,65,355	1,58,250	1,56,849
Capital WIP	1,13,438	1,14,470	1,13,684	6,682	13,551	13,592
Long-term investments						
Other long-term assets	4,045	846	1,310	587	518	1,242
Inventories	0	26	43	85	145	122
Debtors	19	63	243	293	309	1,113
Cash & cash equivalents	545	354	701	7,539	6,572	219
Other current assets	229	152	88	90	124	446
Total current liabilities	8,586	8,390	13,610	15,399	22,022	11,836
Net current assets	(7,794)	(7,794)	(12,534)	(7,392)	(14,873)	(9,938)
<b>TOTAL</b>	<b>1,09,962</b>	<b>1,28,017</b>	<b>1,45,963</b>	<b>1,65,232</b>	<b>1,57,446</b>	<b>1,61,745</b>

Source: Company, BOBCAPS Research

**Fig 23 – L&T Metro: Cash Flow Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
PBT	35	(584)	(1,473)	(3,822)	(17,667)	(17,462)
Depreciation	16	167	620	1,456	2,985	3,066
Others	(332)	633	2,092	5,428	14,228	14,584
Tax Paid	0	0	0	146	208	78
Changes in Working Capital	700	2,816	3,150	(1,982)	8,447	6,615
<b>Net Cash from Operations</b>	<b>420</b>	<b>3,032</b>	<b>4,389</b>	<b>933</b>	<b>7,786</b>	<b>6,726</b>
Capex	(22,415)	(21,420)	(22,842)	(16,305)	(3,245)	(1,987)
Change in Investment	(2,097)	2,447	43	29	0	21
Others	87	5	12	20	372	160
<b>Net Cash from Investing</b>	<b>(24,425)</b>	<b>(18,967)</b>	<b>(22,788)</b>	<b>(16,256)</b>	<b>(2,873)</b>	<b>(1,806)</b>
Change in debt	18,931	14,800	18,376	22,857	12,280	4,304
Change in Equity	379	1,384	2,202	118	0	0
Others	(15)	(506)	(2,154)	(5,428)	(18,140)	(9,701)
<b>Net Cash from Financing</b>	<b>19,295</b>	<b>15,679</b>	<b>18,424</b>	<b>17,547</b>	<b>(5,860)</b>	<b>(5,397)</b>
<b>Net Change in Cash</b>	<b>(4,711)</b>	<b>(256)</b>	<b>25</b>	<b>2,224</b>	<b>(948)</b>	<b>(477)</b>
<b>Free cash flow (FCF)</b>	<b>(21,996)</b>	<b>(18,388)</b>	<b>(18,453)</b>	<b>(15,372)</b>	<b>4,541</b>	<b>4,738</b>

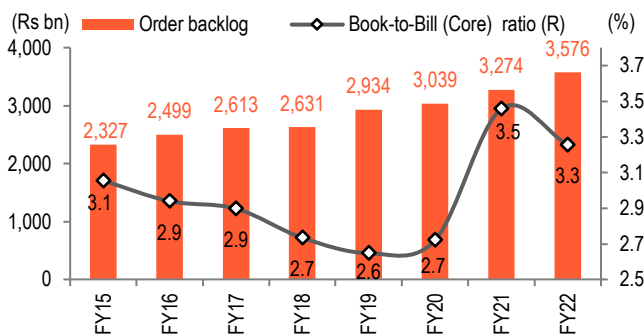
Source: Company, BOBCAPS Research



### Robust order book

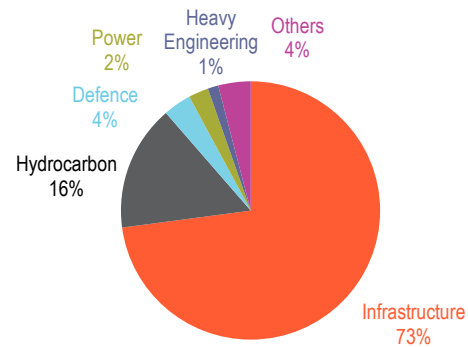
LT has an order backlog of Rs 3.6tn, translating into 3.3x FY22 core sales, an increase of 9.2% YoY following the receipt of some high-value contracts. The infrastructure segment continues to dominate with 73% share of the consolidated order book. Around 21% comprises orders received from various state governments, including local authorities. Private sector contribution rose to 20% as against 17% as of Mar'21. About 38% of the domestic order book is funded by multilateral agencies. The share of the international order book increased from 21% to 27% with the contribution from Saudi Arabia nearly doubling to 63% from 32%.

**Fig 24 – Infrastructure still dominates order backlog...**



Source: Company, BOBCAPS Research

**Fig 25 – ...forming 73% share**



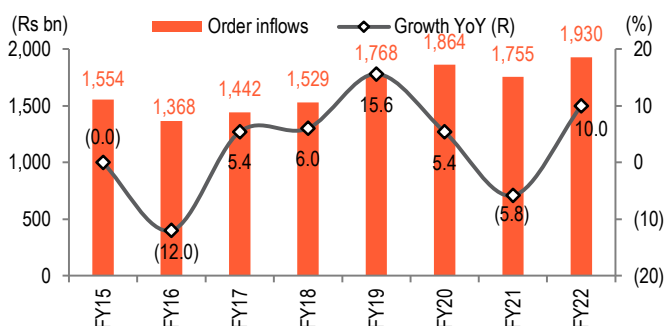
Source: Company, BOBCAPS Research

### Order inflows

LT received order inflows worth Rs 1.9tn (+10% YoY) in FY22, largely driven by mega international orders in the power transmission & distribution and hydrocarbon businesses. This share of international order inflows rose to 44% from 27% in the previous year.

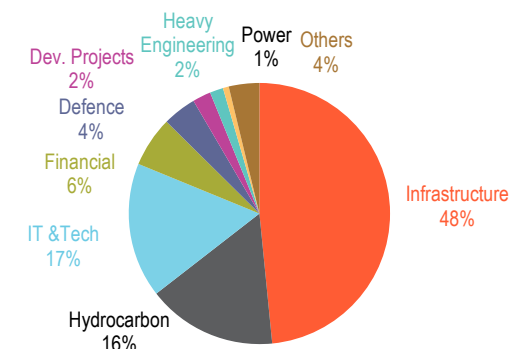
The year witnessed some noteworthy orders in the rural water supply segment, a few metro projects, a project in the health and public space business, a large order from the Indian Navy in defence engineering, a mega power transmission & distribution order from the Middle East, and big-ticket projects in the offshore and onshore verticals of hydrocarbon. Given improved order traction in hydrocarbon and defence engineering, contribution of the infrastructure segment in overall order inflow decreased to 48% from 59% the previous year.

**Fig 26 – Order inflows buoyed by large international orders**



Source: Company, BOBCAPS Research

**Fig 27 – Infrastructure has the largest share**



Source: Company, BOBCAPS Research

## Segmental analysis

**Fig 28 – Segment overview**

Particulars (Rs bn)	FY18	FY19	FY20	FY21	FY22
Infrastructure (revenue)	634	732	727	620	736
EBIT Margin (%)	8.6	7.4	7.1	7.3	7.0
Power	62	40	23	32	44
EBIT Margin (%)	2.6	3.3	10.2	3.5	3.1
Heavy Engineering	16	25	32	30	30
EBIT Margin (%)	12.5	19.4	17.7	16.2	15.5
Defence Engineering	32	38	37	34	32
EBIT Margin (%)	3.7	12.3	14.7	18.1	16.5
Hydrocarbon	118	152	174	170	193
EBIT Margin (%)	6.6	7.8	10.0	9.2	7.8
IT & Technology Services	114	146	223	256	325
EBIT Margin (%)	18.9	21.2	16.5	18.8	19.7
Financial Services	101	126	138	134	120
EBIT Margin (%)	14.3	24.2	19.4	9.6	12.3
Development Projects	43	51	49	36	44
EBIT Margin (%)	4.6	6.2	8.0	(5.4)	(5.3)

Source: Company, BOBCAPS Research

### Infrastructure

- The infrastructure segment secured order inflows of Rs 935bn in FY22, a decline of 9% as the previous year included receipt of the high-value Mumbai-Ahmedabad high-speed rail orders. International orders at Rs 272bn constituted 29% of the total inflows. The segment order book stood at Rs 2,606bn as on 31 Mar 2022, with a 22% international share.
- Segment revenue grew 18% YoY to Rs 736bn in FY22 led by good pick-up in the execution momentum of high-value orders. International revenue constituted 23%. EBITDA margin of the segment stood at 8.2% vs. 8.5% in FY21, lower due to the elevated commodity prices.

### Hydrocarbons

- The hydrocarbon segment secured orders valued at Rs 309bn in FY22, up 74% YoY, with the receipt of mega contracts from the Middle East, both in the offshore and onshore verticals. International order inflow constituted 79% of the total. The segment order book stood at Rs 564bn as on 31 Mar 2022, with the international share at 60%.
- Segment revenue stood at Rs 193bn, up 13% YoY in FY22, with the onshore portfolio gaining execution momentum. International revenue constituted 36%. EBITDA margin stood at 8.7% vs. 9.2% in FY21, reflecting input cost inflation and a change in composition of jobs amongst subsegments.
- In Q4FY22, L&T Hydrocarbon Engineering was merged with the parent entity with an appointed date of 1 Apr 2021.

### Power

- The power segment secured orders of Rs 14bn, up 39% YoY, in FY22. Business opportunities in the segment were subdued considering ESG concerns on fossil fuel-fired power generation, thereby resulting in a drop in investment/tendering activity. International orders constituted 9% of the segment's total inflows. The order book totalled Rs 89bn as on 31 Mar 2022, with the international share at 6%.
- FY22 revenue stood at Rs 44bn, up 39% YoY, with execution impetus in major projects in the opening order book. International revenues constituted 6%. The segment EBITDA margin stood at 3.9% vs. 4.6% in the previous year due to a weaker mix of jobs under execution.

### Heavy Engineering

- The heavy engineering segment secured orders worth Rs 32bn in FY22, down 10% YoY due to the deferral of targeted prospects. Export orders constituted 51% of the total inflow. The segment's order book stood at Rs 47bn as on 31 Mar 2022, with the share of export orders at 39%.
- FY22 revenue was flat YoY at Rs 30bn as new orders in the portfolio are still in the early stage of execution. Export sales constituted 40% share. EBITDA margin stood at 19% in FY22, down from 19.7% in FY21 primarily on account of lower export incentives.

### Defence Engineering

- LT won orders valued at Rs 81bn in defence engineering in FY22, representing substantial growth over the previous year with the receipt of a few large domestic orders. No major export order was received during the year. The order book totalled Rs 125bn as at 31 Mar 2022, with a 4% export share.
- Segment revenue dipped 5% to Rs 32bn owing to a tapering off of large orders under execution coupled with delayed receipt of new awards. Export revenue constituted 13%. Segment EBITDA margin stood at 20.2% vs. 22.2% in FY21 when the benefit of cost savings kicked in on some key projects.

### IT & Technology Services (IT&TS)

- The IT&TS segment comprises three listed subsidiaries – (i) Larsen & Toubro Infotech (LTI), (ii) L&T Technology Services (LTTS), and (c) Mindtree (MTCL). The segment recorded revenue of Rs 325bn in FY22, an increase of 27% YoY that reflects continuing growth momentum in the sector with a surge in demand for technology-focused offerings. Export sales constituted 93% of revenue.
- Segmental EBITDA margin at 23.6% in FY22 was in line with the previous year as gains from better resource utilisation were offset by higher employee cost.

### Financial Services

- The segment reflects the performance of L&T Finance Holdings, a listed subsidiary, which recorded a decline of 11% YoY in income from operations to Rs 120bn in FY22, mainly attributed to the targeted reduction in overall loan book.
- Loan book decreased to Rs 883bn in FY22 vs. Rs 940bn in FY21, reflecting a cautious lending approach, focus on collections, portfolio sell-down and phased liquidation of the de-focused business book.
- Segment EBIT increased to Rs 14.7bn as compared to Rs 12.9bn in the previous year due to lower credit costs.

### Developmental Projects

- Revenue grew 21% YoY to Rs 44bn driven by a higher PLF in the Nabha power plant and a gradual increase in metro ridership in Hyderabad.
- Segment EBIT registered a loss of Rs 2.3bn in FY22, as compared to a loss of Rs 1.9bn in FY21. The decline was mainly on account of non-consolidation of Nabha power profits given the company's decision to carry the investment at estimated realisable value.

### Others

- The others segment comprises (i) realty, (ii) construction & mining machinery, (iii) rubber processing machinery, (iv) industrial valves, (v) Smart World and communication, and (vi) the newly launched digital platforms SuFin and EduTech.
- Revenue stood at Rs 60bn, up 2% YoY. Export sales constituted 8% and largely pertain to export of industrial valves and rubber processing machinery. EBITDA margin stood at 17.4%, down from 21% the previous year when the company had gains on commercial property sale in the realty business.

## Other key takeaways

### New initiatives

LT initiated feasibility studies and pilot investments into the new strategic businesses of data centres and green hydrogen. It also launched two new technology-driven businesses:

- L&T EduTech – offers EdTech products and solutions to educational institutions, skilling bodies, working professionals, students, and learners across segments using a technology-intensive user-friendly platform.
- L&T SuFin – a B2B e-commerce online platform launched to enable SME/MSME buyers and sellers (mainly focused on construction and industrial products & services) to connect in an efficient manner. This helps sellers to expand their sales reach and buyers to find their required products and services seamlessly. The platform also enables logistics services and credit facilities to support the e-commerce transactions.

## Key financial metrics

**Fig 29 – Anticipated order book execution**

	Order Backlog (Rs bn)	Execution (%)					
		Up to 1Y	1-2Y	2-3Y	3-4Y	4-5Y	5Y+
As on 31-Mar-22							
Expected conversion into revenue	3,156	41	30	18	6	1	3
As on 31-Mar-21							
Expected conversion into revenue	3,082	37	33	20	6	2	2

Source: Company, BOBCAPS Research

**Fig 30 – Trend in key expenses**

Particulars (Rs bn)	FY21	FY22
Rent and hire charges	2.1	2.4
% of sales	0.2	0.2
Rates and taxes	2.9	2.6
% of sales	0.2	0.2
Travelling and conveyance	3.2	4.5
% of sales	0.2	0.3
Professional fees	9.1	12.1
% of sales	0.7	0.8
Bank charges	1.5	1.6
% of sales	0.1	0.1
Impairment on lease receivables	0.0	3.0
% of sales	0.0	0.2
Collection cost (Financial Services business)	3.0	4.4
% of sales	0.2	0.3
Miscellaneous expenses	21.8	23.4
% of sales	1.6	1.5
Bad debts and advances written off	30.4	40.9
Less: Allowances for expected credit loss written back	24.8	37.3
% of sales	5.6	3.6
% of sales	0.4	0.2
Allowances for expected credit loss	34.0	32.0
% of sales	2.5	2.0
Loss on fair valuation of loans towards financing activities (net)	1.6	3.5
% of sales	0.1	0.2
Exchange (gain)/loss [net]	(0.4)	(6.7)
% of sales	(0.0)	(0.4)
Other provisions	3.7	0.8
% of sales	0.3	0.1
<b>Total</b>	<b>89.0</b>	<b>88.3</b>

Source: Company, BOBCAPS Research

**Fig 31 – Financials of key subsidiaries**

Subsidiary/JV	Shareholding (%)	Revenue (Rs bn)					PAT (Rs bn)				
		FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY22
L&T Seawoods	100.0	1.3	2.8	5.1	1.1	0.5	0.3	0.5	0.4	0.5	0.5
L&T Valves	100.0	9.3	7.4	10.3	12.2	9.7	(0.3)	(1.4)	0.4	0.5	0.1
L&T Infotech	74.1	69.1	89.1	101.8	115.6	144.1	11.6	14.8	15.5	17.9	22.6
L&T Finance	63.6	50.0	68.9	81.8	123.5	110.6	2.9	8.5	3.7	0.0	8.1
Nabha Power	100.0	37.8	39.7	37.7	33.9	41.3	2.5	1.0	2.4	1.6	3.0
L&T Metro Rail (Hyderabad)	100.0	14.1	16.3	13.6	3.5	4.6	(0.6)	(1.5)	(3.8)	(17.7)	(17.5)
L&T Technology Services	74.2	35.1	47.1	51.8	49.6	58.7	4.9	7.0	7.9	6.7	9.2
L&T - MHI Power Boiler	51.0	29.7	27.4	20.4	17.6	23.1	2.4	2.8	3.1	2.5	2.4
L&T - MHI Power Turbine Generators	51.0	9.6	8.1	8.0	7.2	6.1	0.6	0.5	0.5	0.4	0.1
L&T Special Steel and Heavy Forging	74.0	1.3	2.1	2.2	2.4	2.6	(2.7)	(2.1)	(2.2)	(12.0)	(1.8)
L&T Transportation Infrastructure	63.9	0.3	0.3	1.4	0.5	0.6	0.1	0.2	1.6	0.3	0.1
L&T Construction Equipment	100.0	11.5	4.9	7.3	3.0	4.0	5.1	0.6	2.4	(0.0)	0.1
Mindtree	61.0	-	-	77.6	79.7	105.3	-	-	6.3	11.1	5.6

Source: Company, BOBCAPS Research

**Fig 32 – Working capital management**

Particulars (Rs bn)	Standalone					Consolidated				
	FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY22
Accounts Receivables	229	282	279	299	363	331	370	407	422	461
Inventories	25	32	28	29	31	48	64	58	57	59
Other current assets	365	402	450	417	551	428	470	518	476	601
Accounts Payable	311	363	366	375	454	376	427	436	455	511
Other current liabilities	194	213	201	204	289	242	283	308	313	346
<b>Working Capital as a % of sales</b>	<b>15.3%</b>	<b>16.2%</b>	<b>23.0%</b>	<b>22.6%</b>	<b>20.1%</b>	<b>15.8%</b>	<b>14.4%</b>	<b>16.5%</b>	<b>13.8%</b>	<b>16.9%</b>

Source: Company, BOBCAPS Research | Note: FY22 standalone includes L&amp;T Hydrocarbon numbers

**Fig 33 – Capital management**

Particulars (Rs bn)	Standalone					Consolidated				
	FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY22
Long term borrowings	55	24	72	159	130	729	741	823	821	616
Short term borrowings	41	37	150	69	21	193	292	350	278	305
Current maturities of long-term borrowings	9	41	36	10	52	153	222	237	227	314
Cash and cash equivalent	32	27	33	31	57	68	65	113	134	138
Other bank balances	11	49	7	7	8	12	52	38	29	52
Net Debt	62	26	218	200	138	995	1138	1259	1164	1045
Equity	492	526	522	604	668	624	549	667	759	824
<b>Net Debt/ Equity</b>	<b>0.1</b>	<b>0.0</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>	<b>1.6</b>	<b>2.1</b>	<b>1.9</b>	<b>1.5</b>	<b>1.3</b>

Source: Company, BOBCAPS Research | Note: FY22 standalone includes L&amp;T Hydrocarbon numbers

**Fig 34 – Contingent liabilities: Guarantees on the higher side**

Particulars (Rs bn)	Standalone					Consolidated				
	FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY21
Claims (not acknowledged as debt)	21	21	30	30	31	34	34	36	32	32
Sales tax/ Excise tax/ Income tax liabilities	8	11	13	8	32	13	16	23	19	42
Guarantees	<b>277</b>	<b>385</b>	<b>340</b>	<b>194</b>	<b>427</b>	33	31	28	7	8
CL pertaining to interest in Joint operations	140	149	130	125	113	148	152	132	126	115
Net worth	492	526	522	604	668	624	549	667	759	824
<b>CL (ex-guarantees) as % of Net worth</b>	<b>5.9</b>	<b>6.1</b>	<b>8.2</b>	<b>6.3</b>	<b>9.4</b>	<b>7.5</b>	<b>9.0</b>	<b>8.9</b>	<b>6.7</b>	<b>9.0</b>

Source: Company, BOBCAPS Research

**Fig 35 – Jump in guarantees attributed to L&T Metro and L&T Hydrocarbon Saudi company**

Guarantees (Rs bn)		FY21	FY22
L&T - MHI Power Turbine Generators Private Ltd		3	3
Nabha Power Limited	Corporate guarantee given for subsidiary's debt	45	40
L&T Metro Rail (Hyderabad) Limited		3	86
Larsen & Toubro Arabia LLC		41	87
L&T Technology Services Limited		6	6
Larsen & Toubro (Saudi Arabia) LLC	Corporate guarantee for subsidiary's project performance	13	3
Mindtree Limited		5	5
L&T Hydrocarbon Saudi Company LLC		71	196
L&T- MHI Power Boilers Private Limited	Guarantees issued by bank out of the company's sanctioned limits to customer of L&T-MHI Power Boilers Private Limited for project performance	0	0
L&T Metro Rail (Hyderabad) Ltd	Guarantees issued by bank out of the company's sanctioned limits to customer of L&T-MHI Power Boilers Private Limited for project performance	5	-
Nabha Power Limited	Guarantees issued by bank out of the company's sanctioned limits on behalf of Nabha for project performance to PSPCL	2	2
L&T Special Steel & Heavy Forgings Pvt Ltd	Guarantees issued by bank out of the company's sanctioned limits on behalf of L&T Special Steel for project performance to NPCIL	0	0
L&T Seawoods Ltd	Corporate guarantee given to Maharashtra Pollution Control Board for CTO/CTE compliances	0	0
<b>Total (Rs bn)</b>		<b>194</b>	<b>427</b>

Source: Company, BOBCAPS Research

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
<b>Total revenue</b>	<b>11,98,620</b>	<b>13,52,203</b>	<b>14,54,524</b>	<b>13,59,790</b>	<b>15,65,212</b>
COGS	8,33,176	9,56,331	9,73,627	8,67,009	9,97,385
Employee Expense	1,52,707	1,74,664	2,31,140	2,47,620	2,97,335
Other expense	76,319	67,912	86,467	88,920	88,319
<b>EBITDA</b>	<b>1,36,418</b>	<b>1,53,296</b>	<b>1,63,290</b>	<b>1,56,241</b>	<b>1,82,173</b>
<b>EBITDA margin (%)</b>	<b>11.4</b>	<b>11.3</b>	<b>11.2</b>	<b>11.5</b>	<b>11.6</b>
Depreciation	19,287	19,230	24,623	29,042	29,480
EBIT	1,17,131	1,34,065	1,38,667	1,27,199	1,52,694
Net interest inc./(exp.)	15,385	18,026	27,967	39,134	31,257
Other inc./(exp.)	13,419	18,365	23,609	34,294	22,671
Exceptional items					
EBT	1,15,165	1,34,405	1,34,310	1,22,358	1,44,107
Income taxes	31,988	40,671	32,632	40,108	42,166
Extraordinary items	(1,230)	(8,641)	(6,546)	(46,819)	(83,349)
Min. int./Inc. from assoc.	(10,703)	(13,325)	(12,733)	(13,240)	(16,217)
<b>Reported net profit</b>	<b>73,704</b>	<b>89,050</b>	<b>95,490</b>	<b>1,15,829</b>	<b>1,69,073</b>
Adjustments	(1,230)	(8,641)	(6,546)	(46,819)	(83,349)
<b>Adjusted net profit</b>	<b>72,474</b>	<b>80,410</b>	<b>88,945</b>	<b>69,010</b>	<b>85,724</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18	FY19A	FY20A	FY21A	FY22A
Accounts payables	3,77,950	4,29,948	4,36,439	4,55,046	5,11,442
Other current liabilities	3,68,689	4,01,598	4,24,095	4,14,182	7,77,326
Provisions	-	-	-	-	-
Debt funds	10,75,241	12,55,552	14,10,071	13,26,053	9,20,953
Other liabilities	15,834	12,234	48,355	38,256	36,234
Minority Interest	56,250	68,261	95,208	1,20,515	1,29,661
Equity capital	2,803	2,806	2,808	2,809	2,810
Reserves & Surplus	5,53,767	6,20,943	6,64,424	7,55,876	8,21,267
<b>Total liab. and equities</b>	<b>24,50,534</b>	<b>27,91,341</b>	<b>30,81,401</b>	<b>31,12,737</b>	<b>31,99,692</b>
Cash and cash eq.	1,74,968	2,56,724	2,78,175	4,72,527	4,87,457
Accounts receivables	3,46,541	3,70,382	4,07,315	4,22,298	4,61,389
Inventories	48,478	64,139	57,467	58,205	59,433
Other current assets	7,92,396	9,78,592	10,83,942	9,96,638	10,65,225
Investments	58,471	71,741	73,477	86,154	1,00,639
Net fixed assets	2,98,806	3,26,299	4,37,396	4,44,313	4,08,274
CWIP	21,431	24,836	32,249	3,884	11,703
Other assets	7,09,444	6,98,628	7,11,380	6,28,718	6,05,572
<b>Total assets</b>	<b>24,50,534</b>	<b>27,91,341</b>	<b>30,81,401</b>	<b>31,12,737</b>	<b>31,99,692</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
<b>Cash flow from</b>	<b>(1,00,310)</b>	<b>(47,558)</b>	<b>66,939</b>	<b>2,28,441</b>	<b>1,91,636</b>
Capital expenditures	(20,150)	(34,994)	(8,458)	(9,223)	(30,399)
Change in investments	18,151	(48,666)	(99,871)	(1,84,746)	(2,19,767)
Other investing cash flows	41,144	(26,568)	25,767	1,39,681	2,13,489
<b>Cash flow from investing</b>	<b>39,145.0</b>	<b>(1,10,228.0)</b>	<b>(82,562.7)</b>	<b>(54,288.4)</b>	<b>(36,676.8)</b>
Equities issued/Others	495	113	176	159	110
Debt raised/repaid	1,26,190	1,81,743	1,36,450	(87,325)	(84,132)
Other financing cash flows	(32,980)	(27,454)	(72,910)	(15,637)	(67,793)
<b>Cash flow from</b>	<b>93,705</b>	<b>1,54,402</b>	<b>63,716</b>	<b>(1,02,803)</b>	<b>(1,51,815)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>32,539</b>	<b>(3,385)</b>	<b>48,092</b>	<b>71,350</b>	<b>3,144</b>

### Per Share

Y/E 31 Mar (Rs)	FY18	FY19A	FY20A	FY21A	FY22A
Reported EPS	52.5	63.4	68.0	82.5	120.4
Adjusted EPS	51.6	57.3	63.3	49.1	61.0
Dividend per share	16.0	18.0	18.0	36.0	36.0
Book value per share	396.3	444.2	475.1	540.3	586.8

### Valuations Ratios

Y/E 31 Mar (x)	FY18	FY19A	FY20A	FY21A	FY22A
EV/Sales	2.3	2.1	1.9	2.1	1.8
EV/EBITDA	20.5	18.3	17.1	17.9	15.4
Adjusted P/E	32.6	29.4	26.6	34.3	27.6
P/BV	4.3	3.8	3.5	3.1	2.9

### DuPont Analysis

Y/E 31 Mar (%)	FY18	FY19A	FY20A	FY21A	FY22A
Tax burden (Net profit/PBT)	0.6	0.6	0.7	0.6	0.6
Interest burden (PBT/EBIT)	1.0	1.0	1.0	1.0	0.9
EBIT margin (EBIT/Revenue)	0.1	0.1	0.1	0.1	0.1
Asset turnover (Rev./Avg TA)	4.0	4.1	3.3	3.1	3.8
Leverage (Avg TA/Avg Equity)	0.6	0.6	0.7	0.6	0.5
Adjusted ROAE	13.7	13.6	13.8	9.7	10.8

### Ratio Analysis

Y/E 31 Mar	FY18	FY19A	FY20A	FY21A	FY22A
<b>YoY growth (%)</b>					
Revenue	9	13	8	(7)	15
EBITDA	23	12	7	(4)	17
Adjusted EPS	22	11	11	(22)	24
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.4	11.3	11.2	11.5	11.6
EBIT margin	9.8	9.9	9.5	9.4	9.8
Adjusted profit margin	6.0	5.9	6.1	5.1	5.5
Adjusted ROAE	13.7	13.6	13.8	9.7	10.8
ROCE	7.2	7.1	6.7	6.1	8.8
<b>Working capital days (days)</b>					
Receivables	106	100	102	113	108
Inventory	15	17	14	16	14
Payables	115	116	110	122	119
<b>Ratios (x)</b>					
Gross asset turnover	4.0	4.1	3.3	3.1	3.8
Current ratio	1.8	2.0	2.1	2.2	1.6
Net interest coverage ratio	7.6	7.4	5.0	3.3	4.9
Adjusted debt/equity	1.9	2.0	2.1	1.7	1.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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