

Higher execution of existing orders improved the revenue performance; order inflows to pick up in Q4FY22
Key result highlights

At the consolidated level, Larsen & Toubro Ltd (L&T) reported a QoQ/YoY revenue growth of 13.8%/11.1%, respectively, to INR 39,563 cr in Q3FY22. The infrastructure segment of L&T (revenue contribution of 45-50%) reported QoQ/YoY growth of 31.5%/16.6% to INR 18,619 cr due to a higher execution rate in existing orders. Similar to the infrastructure segment, the hydrocarbon segment reported a QoQ/YoY revenue growth of 0.3%/10.7%, respectively, to INR 4,897 cr during the quarter due to recovery in global energy prices, which led to higher order flows from oil & gas companies. IT & Tech too reported QoQ/YoY revenue growth of 7.6%/30.3%, respectively, to INR 8,507 cr.

The Power business and developmental projects reported YoY revenue growth of 18.5% (INR 1,071 cr, due to healthy execution of orders) and 19.9% (INR 976 cr, due to high PLF at the Nabha Power Plant and improved ridership on the Hyderabad Metro), respectively, while heavy engineering and defence segments witnessed a YoY revenue decline of 6.0% (to INR 755 cr) and 22.5% (to INR 793 cr), respectively, due to customer delays and supply chain disruptions. The financial services business reported a QoQ/YoY decline of 0.2%/12.6%, respectively, to INR 2,971 cr.

Order inflow remained subdued; management is expecting a recovery in Q4FY22

Total order inflow came in at INR 504 bn, a QoQ/YoY change of 19.7%/-31.1%, respectively, which took the overall order book to Rs.3,404 bn (a QoQ/YoY growth of 3.0%/2.8%). The current order book is 2.4x of the trailing 12 months revenue (excluding financial services). Segment-wise, the infrastructure segment secured orders of INR 25,330 cr in Q3FY22, compared to INR 45,574 cr in Q3FY21. Heavy engineering & defence secured orders at INR 3,034 cr during the quarter (INR 1,089 cr in Q2FY22 and INR 1,603 cr in Q3FY21). The power segment secured only INR 99 cr during the quarter (INR 66 cr in Q2FY22 and INR 143 cr in Q3FY21). The rise in global energy prices aided the hydrocarbon segment, which reported strong order inflow of INR 8,005 cr in Q3FY22 compared to INR 12,820 cr in Q3FY21 and INR 1,4503 cr in Q2FY22.

Despite the government's spending on infrastructure, the domestic order flow declined by 52.3% to INR 299 bn due to a delay in awards finalization despite robust tendering activities, while the international order flow stood at INR 205 bn, a YoY growth of 95.2%. The international order flows were primarily driven by infrastructure and hydrocarbon orders from the Middle East and Africa. As a result, the domestic order book declined at a YoY rate of 2.0% to INR 2,584 bn, while the international order book recorded a YoY growth of 21.8% to INR 820 bn during the quarter.

Bloomberg Code	LT.IN
No of share O/S (Cr)	140.3
Market Cap (Rs Cr)	2,66,758
Face Value(Rs)	2.0
Dividend Yield (%)	0.95
52 Wk High/Low (Rs)	2079/1306

Shareholding (%)	
Promoters	0.00
Institutional	55.95
Public	44.05
Total	100

Working capital remained flat during the quarter, while revenue growth accelerated. This improved the working capital to sales ratio from 26.2% in 9MFY21 to 23.1% in 9MFY22. The management aims to maintain a 22-23% ratio of working capital to sales in FY23.

Concall Highlights

- L&T has an addressable new order pipeline of INR 3.92 lakh cr in Q4FY22 (compared to INR 2.65 lakh cr in Q4FY21). Given the company's historic contract winning rate of 15-20%, if all these contracts are awarded in Q4FY22, the company could report an order inflow of INR 60,000-80,000 cr in Q4FY22.
- The management said that the tendering activity was quite robust in Q3FY22 but the same did not get converted into order finalizations and award. This was quite visible from the award to tendering ratio, which was at 48% in Q3FY22 compared to 61% in Q3FY21. Most of the orders will get finalized in Jan-Mar 2022, which is expected to significantly increase the order inflow in Q4FY22.
- L&T has maintained its guidance of low to mid teen growth in order inflows and revenue for FY22E, and a risk of spill over in FY23E if big tenders face finalization delays. The company also retained its revenue and margin guidance for FY22.
- In terms of client exposure, the central government forms 10% of the domestic backlog of INR 2.58 lakh cr while the share of state governments, PSUs and private sector is at 29%, 44% and 16%, respectively. Out of the total backlog of INR 3.40 lakh cr, 67% of the same is funded by multilateral agencies. The share of fixed price contracts in the current backlog is at 33%, while those with a price variation clause share is at 67%.
- The refinancing of the L&T Hyderabad metro happened in Dec 2021 wherein the bank debt of INR 13,600 cr has been completely refinanced with NCD/commercial paper. The reduction in interest costs was to the tune of 260bps, which will lead to interest cost savings of INR 400 cr per annum from Q4FY22 onwards. The company is also in talks with the Telangana government for financial assistance, which is expected to come in by Q4FY22, the proceeds of which will be used to reduce debt and save interest cost.
- L&T has identified its non-core assets for divestment, which includes asset in Nabha Power, a 2x700 MW supercritical thermal power plant at Rajpura, Punjab, L&T Infrastructure Development Projects, its subsidiary engaged in road projects and power transmission lines and Hyderabad Metro. The company is likely to make divestment of one of the three in Q4FY22. In December, L&T entered into a definitive agreement with HSBC Asset Management, India, to sell its wholly-owned subsidiary L&T Investment Management, which is the investment manager for L&T Mutual Fund.

Valuations

At the current market price, L&T is trading at FY24 forward P/E of 18.1x

Financial Summary

Better than expected order execution rate improved revenue growth in Q3FY22.

Management is expecting the financials to improve significantly in Q4FY22 and in FY23.

Improved order execution reduced the working capital burden on balance sheet.

Figures are in Rs Cr	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY19	FY20	YoY (%)	FY21	YoY (%)
Net Sales	39,562.9	35,596.4	11.1	34,772.9	13.8	1,35,220.3	1,45,452.4	7.6	1,35,979.0	-6.5
RM Cost & Sub-cont charges	25,289.5	22,867.1	10.6	21,234.5	19.1	48,971.1	49,538.0	1.2	51,401.2	3.8
RM Cost to Sales (%)	63.9	64.2		61.1		36.2	34.1		37.8	
Employee Cost	7,631.5	6,167.6	23.7	7,252.0	5.2	17,466.4	23,114.0	32.3	24,762.0	7.1
Employee Cost to Sales (%)	19.3	17.3		20.9		12.9	15.9		18.2	
Other Expenses	2,111.6	2,281.9	-7.5	2,291.6	-7.9	46,067.6	48,429.5	5.1	44,191.7	-8.8
Other Exp to Sales (%)	5.3	6.4		6.6		34.1	33.3		32.5	
EBITDA	4,530.4	4,279.9	5.9	3,994.9	13.4	22,715.3	24,370.9	7.3	15,624.1	-35.9
EBITDA Margin (%)	11.5	12.0		11.5		16.8	16.8		11.5	
Depreciation	732.5	702.1	4.3	728.8	0.5	1,923.0	2,462.3	28.0	2,904.2	17.9
Interest	813.8	962.0	-15.4	779.3	4.4	9,188.2	10,838.5	18.0	3,913.4	-63.9
Interest Coverage	4.7	3.7		4.2		2.3	2.0		3.3	
Other Income (incl Excep)	571.4	1,064.7	-46.3	532.1	7.4	2,131.3	2,360.9	10.8	3,429.4	45.3
Other Income to Sales (%)	1.4	3.0		1.5		1.6	1.6		2.5	
Profit Before Tax	3,555.5	3,680.5	-3.4	3,018.9	17.8	13,735.3	13,431.0	-2.2	12,235.8	-8.9
Tax Rate (%)	29.8	28.3		29.3		29.6	24.3		32.8	
Profit After Tax	2,496.9	2,639.8	-5.4	2,134.4	17.0	9,668.3	10,167.8	5.2	8,225.0	-19.1
PAT Margin (%)	6.3	7.4	-1.1	6.1		7.1	7.0		6.0	
Share of Assoc / Minority Int	20.3	8.6		0.6		-21.0	72.0		14.4	
Net Profit	2,517.1	2,648.3	-5.0	2,135.0	17.9	9,647.3	10,239.7	6.1	8,239.4	-19.5
Net Margin (%)	6.4	7.4	-1.1	6.1		7.1	7.0		6.1	
Adjusted EPS	17.9	18.9	-5.0	15.2	17.9	68.7	72.9	6.1	58.7	-19.5
Shareholder's Funds						62,374.8	66,723.2	7.0	75,868.5	13.7
BV per share			#DIV/0!			444.1	475.0	7.0	540.1	13.7
Net Debt						99,882.8	1,13,189.6	13.3	1,34,629.1	18.9
Net Debt to Equity						1.6	1.7		1.8	
Net Debt to EBITDA						4.4	4.6		8.6	
RoE						15.5	15.3		10.9	
RoIC						9.0	9.2		4.1	
P/E						27.6	26.0		32.4	
EV/EBITDA						16.1	15.6		25.7	

Order book performance



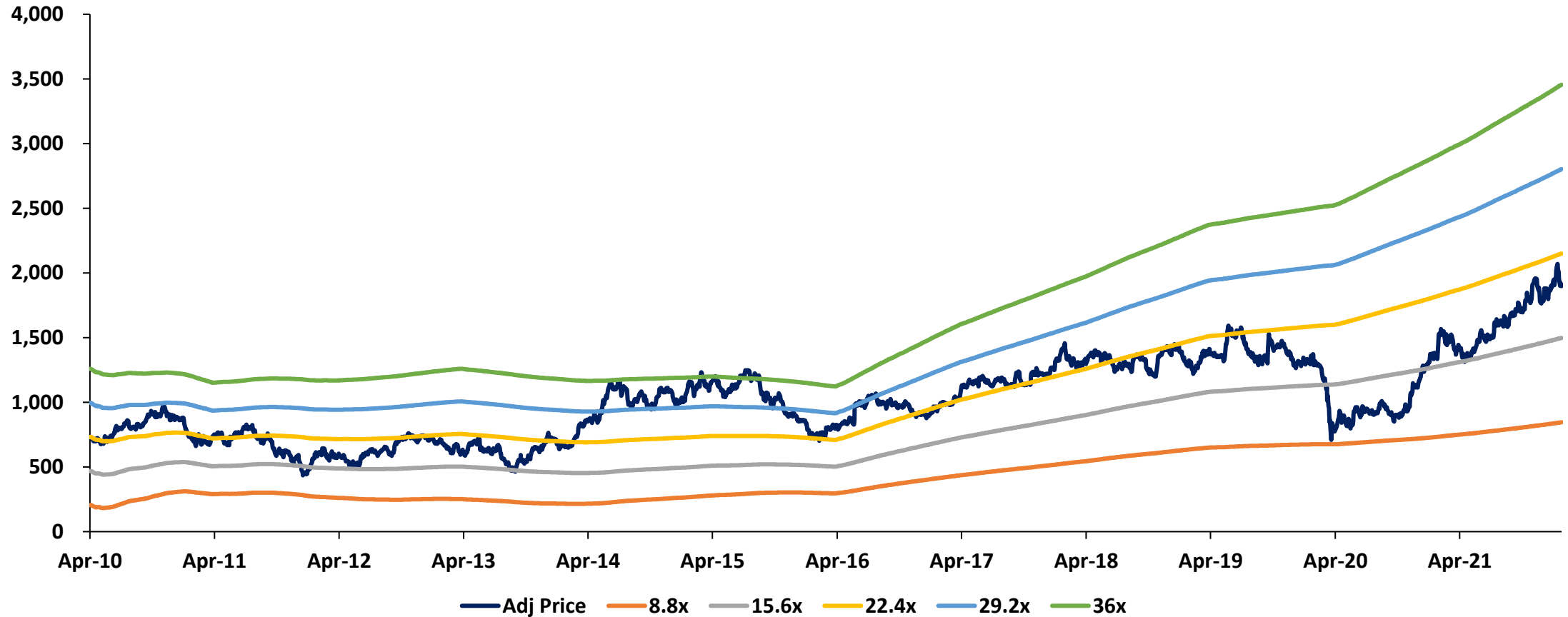
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Kyon ki bhaiya, sabse bada rupaiya.

Order Book Performance	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	FY17	FY18	FY19	FY20	FY21	FY22E
Order Inflow (INR Bn)	387	483	416	578	236	280	732	507	266	421	504	1,430	1,528	1,767	1,864	1,755	1,698
<i>YoY Change in Order Inflow</i>	<i>7.2%</i>	<i>15.3%</i>	<i>-1.5%</i>	<i>2.3%</i>	<i>-39.0%</i>	<i>-42.0%</i>	<i>76.0%</i>	<i>-12.3%</i>	<i>12.7%</i>	<i>50.4%</i>	<i>-31.1%</i>	<i>5.1%</i>	<i>6.9%</i>	<i>15.7%</i>	<i>5.5%</i>	<i>-5.8%</i>	<i>-3.2%</i>
Domestic Order Inflow (INR Bn)	297	316	237	413	147	178	627	323	176	200	299	1,015	1,170	1,299	1,263	1,275	998
<i>Share of Domestic in Order Inflow</i>	<i>76.7%</i>	<i>65.4%</i>	<i>57.0%</i>	<i>71.5%</i>	<i>62.3%</i>	<i>63.6%</i>	<i>85.7%</i>	<i>63.7%</i>	<i>66.2%</i>	<i>47.5%</i>	<i>59.3%</i>	<i>71.0%</i>	<i>76.6%</i>	<i>73.5%</i>	<i>67.8%</i>	<i>72.6%</i>	<i>58.8%</i>
<i>Domestic Order Inflow YoY Growth</i>	<i>11.2%</i>	<i>-6.0%</i>	<i>-23.0%</i>	<i>6.4%</i>	<i>-50.5%</i>	<i>-43.7%</i>	<i>164.6%</i>	<i>-21.8%</i>	<i>19.7%</i>	<i>12.4%</i>	<i>-52.3%</i>	<i>9.5%</i>	<i>15.3%</i>	<i>11.0%</i>	<i>-2.8%</i>	<i>1.0%</i>	<i>-21.7%</i>
International Order Inflow (INR Bn)	90	167	179	165	89	102	105	184	90	221	205	415	358	469	601	480	700
<i>Share of International in Order Inflow</i>	<i>23.3%</i>	<i>34.6%</i>	<i>43.0%</i>	<i>28.5%</i>	<i>37.7%</i>	<i>36.4%</i>	<i>14.3%</i>	<i>36.3%</i>	<i>33.8%</i>	<i>52.5%</i>	<i>40.7%</i>	<i>29.0%</i>	<i>23.4%</i>	<i>26.5%</i>	<i>32.2%</i>	<i>27.4%</i>	<i>41.2%</i>
<i>International Order Inflow YoY Growth</i>	<i>-4.3%</i>	<i>101.2%</i>	<i>56.3%</i>	<i>-6.8%</i>	<i>-1.1%</i>	<i>-38.9%</i>	<i>-41.3%</i>	<i>11.5%</i>	<i>1.1%</i>	<i>116.7%</i>	<i>95.2%</i>	<i>-4.2%</i>	<i>-13.7%</i>	<i>30.9%</i>	<i>28.3%</i>	<i>-20.1%</i>	<i>45.8%</i>
Order Book (INR Bn)	2,940	3,032	3,063	3,039	3,051	2,989	3,311	3,274	3,237	3,305	3,404	2,613	2,631	2,934	3,039	3,274	3,500
<i>YoY Change in Order Book</i>	<i>8.2%</i>	<i>7.8%</i>	<i>7.8%</i>	<i>3.6%</i>	<i>3.8%</i>	<i>-1.4%</i>	<i>8.1%</i>	<i>7.7%</i>	<i>6.1%</i>	<i>10.6%</i>	<i>2.8%</i>	<i>4.9%</i>	<i>0.7%</i>	<i>11.5%</i>	<i>3.6%</i>	<i>7.7%</i>	<i>6.9%</i>
Domestic Order Book (INR Bn)	2,072	2,361	2,337	2,291	2,306	2,273	2,638	2,586	2,574	2,547	2,584	1,916	1,915	2,301	2,291	2,586	2,600
<i>Share of Domestic in Order Book</i>	<i>70.5%</i>	<i>77.9%</i>	<i>76.3%</i>	<i>75.4%</i>	<i>75.6%</i>	<i>76.0%</i>	<i>79.7%</i>	<i>79.0%</i>	<i>79.5%</i>	<i>77.1%</i>	<i>75.9%</i>	<i>73.3%</i>	<i>72.8%</i>	<i>78.4%</i>	<i>75.4%</i>	<i>79.0%</i>	<i>74.3%</i>
<i>Domestic Order Book YoY Growth</i>	<i>-0.6%</i>	<i>7.4%</i>	<i>4.1%</i>	<i>-0.4%</i>	<i>11.3%</i>	<i>-3.7%</i>	<i>12.9%</i>	<i>12.9%</i>	<i>11.6%</i>	<i>12.1%</i>	<i>-2.0%</i>	<i>7.2%</i>	<i>-0.1%</i>	<i>20.2%</i>	<i>-0.4%</i>	<i>12.9%</i>	<i>0.5%</i>
International Order Book	868	671	726	748	745	716	673	688	663	758	820	697	716	633	748	688	900
<i>Share of International in Order Book</i>	<i>29.5%</i>	<i>22.1%</i>	<i>23.7%</i>	<i>24.6%</i>	<i>24.4%</i>	<i>24.0%</i>	<i>20.3%</i>	<i>21.0%</i>	<i>20.5%</i>	<i>22.9%</i>	<i>24.1%</i>	<i>26.7%</i>	<i>27.2%</i>	<i>21.6%</i>	<i>24.6%</i>	<i>21.0%</i>	<i>25.7%</i>
<i>International Order Book YoY Growth</i>	<i>37.1%</i>	<i>9.5%</i>	<i>21.7%</i>	<i>18.2%</i>	<i>-14.2%</i>	<i>6.7%</i>	<i>-7.3%</i>	<i>-8.0%</i>	<i>-11.0%</i>	<i>5.9%</i>	<i>21.8%</i>	<i>-0.9%</i>	<i>2.7%</i>	<i>-11.6%</i>	<i>18.2%</i>	<i>-8.0%</i>	<i>30.8%</i>
Order Execution (INR Bn)	381	391	385	602	224	342	410	544	303	353	405	1,307	1,510	1,464	1,759	1,520	1,472
Domestic Order Execution (INR Bn)	280	273	261	459	132	211	262	375	188	227	262	886	1,171	913	1,273	980	984
<i>Share of Domesitc in Order Execution</i>	<i>73.5%</i>	<i>69.8%</i>	<i>67.8%</i>	<i>76.2%</i>	<i>58.9%</i>	<i>61.7%</i>	<i>63.9%</i>	<i>68.9%</i>	<i>62.0%</i>	<i>64.3%</i>	<i>64.7%</i>	<i>67.8%</i>	<i>77.5%</i>	<i>62.3%</i>	<i>72.4%</i>	<i>64.5%</i>	<i>66.8%</i>
<i>Domestic Order Execution YoY Growth</i>	<i>185.7%</i>	<i>23.5%</i>	<i>-0.7%</i>	<i>38.7%</i>	<i>-52.9%</i>	<i>-22.7%</i>	<i>0.4%</i>	<i>-18.3%</i>	<i>42.4%</i>	<i>7.6%</i>	<i>0.0%</i>		<i>32.2%</i>	<i>-22.1%</i>	<i>39.5%</i>	<i>-23.0%</i>	<i>0.4%</i>
International Order Book	101	118	124	143	92	131	148	169	115	126	143	421	339	552	486	540	488
<i>Share of International in Order Execution</i>	<i>26.5%</i>	<i>30.2%</i>	<i>32.2%</i>	<i>23.8%</i>	<i>41.1%</i>	<i>38.3%</i>	<i>36.1%</i>	<i>31.1%</i>	<i>38.0%</i>	<i>35.7%</i>	<i>35.3%</i>	<i>32.2%</i>	<i>22.5%</i>	<i>37.7%</i>	<i>27.6%</i>	<i>35.5%</i>	<i>33.2%</i>
<i>International Order Execution YoY Growth</i>	<i>-42.9%</i>	<i>14.6%</i>	<i>-5.4%</i>	<i>1.8%</i>	<i>-8.9%</i>	<i>11.0%</i>	<i>19.4%</i>	<i>18.2%</i>	<i>25.0%</i>	<i>-3.8%</i>	<i>-3.4%</i>		<i>-19.5%</i>	<i>62.7%</i>	<i>-11.9%</i>	<i>11.1%</i>	<i>-9.6%</i>
Working Capital to TTM Sales	23.0%	23.0%	23.5%	23.1%	26.8%	26.7%	23.5%	22.3%	22.9%	22.0%	23.1%	21.5%	20.3%	19.8%	23.7%	22.3%	22.5%

1 year forward valuation band chart

1 year forward P/E band chart



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