



Company Name	: Larsen & Toubro
BSE Code	: 500510
Time Duration	: 1 year
CMP	: ₹1511 (as on 9 June, 2016)
Target Price	: ₹1850

Value pick for the month is Larsen & Toubro a company with tested waters, strong brand name and expectation of strong order book on infrastructure play in the coming year. Company has seen a CAGR 15% growth in order book over 2012-16 and has been able to grow EBITDA by CAGR of 9% over the same period.

Infrastructure a main lever: With public sector investment outlay for power, new and renewable energy and transport sector collectively increasing by 50 per cent to Rs 3,7958 crore for 2016-17 from the revised spending of Rs 22,4813 crore in FY15-16, we see company in a sweet spot. Company has right mix of products to tap this opportunity in infrastructure space. No wonder, we see the order book mix tilting towards infrastructure with it contributing 75% vs 71% in FY15 and also we are seeing order inflow in infrastructure improved to 62% vs 55% of last year. In 4QFY16, the revenue realisation led the topline to grow by 18%.

Even in international markets in particularly middle east company is witnessing strong demand.

With government impetus in defence sector and more particularly, fibre optic connectivity projects, potential is high. Another major driver will be Metro rail projects, Border roads, International port, lift irrigation, water desalination and conservation.

Power and Hydrocarbon showed double digit growth: In the chart below, we see that apart from infrastructure; Power, Hydrocarbon and IT & Tech services witnessed growth in double digits which on combined basis contribute 25% to the revenue in FY16. In power sector, with company portfolio reaching the matured stages in Coal and Gas projects, realisations have kicked in, though there was pressure on margins. Hydrocarbon segment turned around and performed better in margins due to closure of legacy projects in Middle East.

With company focusing on the core activities and monetising the

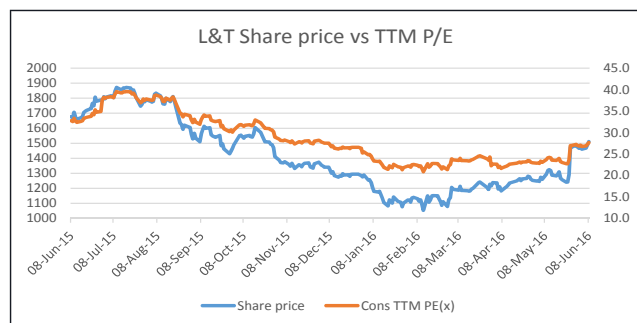
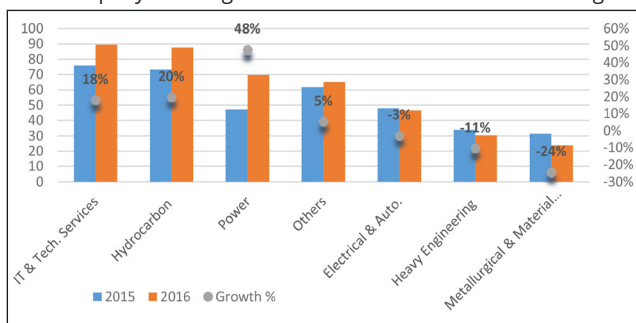
assets we see in future the margins will improve. Also, with capex spend climbing as factory utilizations gains pace, we believe Electrical & auto along with heavy engineering will see single digit growth.

New orders in Q1FY17: Company continued to win orders, the revenue for which will flow in the statement over next couple of years. It recent wins include contract to build stadium in Qatar for 2022 FIFA World Cup, worth USD 360 million (approx 2,412 crore) combined for JV partners which is expected to be completed by 2019. It also won orders of Rs 2,161 crores for a major Railway Electrification. It also bagged order of Rs 1798 crore across its offerings - Waste & Effluent treatment (Rs 565 crore) , Transportation infrastructure (Rs 497 crore), Power T&D (Rs 407 crore) and midrise residential project (Rs 329 crore).

This also indicates that with oil prices firming, economic activity increasing, and positive government initiatives, it is boding well for the order book for L&T.

Financial Performance: The Company has reported a buoyant Q4FY16 with revenues up by 18% and EBITDA jumping by 35% to Rs 4859 crore, cascading to profit after tax improvement of 19%. On the margins side, we see that company in Q4FY16 has been able to improve EBITDA margin by 180 bps due to lower commodity prices and better job mix. Order book of 2.4x the FY16 sales of Rs 102,226 crore looks attractive. The current debt to equity ratio stands at 2.30x which should come neater due to planned asset monetisation of L&T Infotech and sale of development assets.

Valuation: We see that L&T is a cyclical company dependent on economic activity in the country and global markets. At P/E of 27.7x, it is trading below its high of P/E 32.8x in June 2015. We believe company with its proven abilities in execution of projects, strong order book across segments and lower valuation will see upside of 22.5% from current levels.



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