



**Sector** Construction & Engineering

Recommendation: BUY  
Target- Rs 2150  
CMP - Rs 1875.95  
Tenure- 12 Months

**Snapshot:**

Market Cap(RsCr)- 6040.95  
Beta vs SENSEX - 1.154  
52 Week H/L - 1950.70/1371.00  
Face value - 2

BSE Sensex- 18604.90  
Nifty- 5592.15

Reuters Code LART.BO  
Bloomberg Code LT@IN



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**Larsen & Toubro**

**Recurring PAT up 26% YOY**-Profit grow up 26% from Rs 4,376cr in 2009-10 as against Rs 3,482cr in 2008-09.

**Slower execution but no point of worrying**-Gross sales increased from Rs 36,996cr in 2009-10 as against Rs 34,045cr. in 2008-09, 9% up over the year. But we are expecting robust growth in sales in FY11 from past performance of the company.

**Margin growth:** Margins expanded 155bps and made up for slower sales growth. Despite slow sales growth L&T expanded margins significantly. Margin expansion was led by the E&C business and we expect E&E and MIP businesses to bounce back in FY1 2011.

**Robust Order Book:** Order inflow increased from Rs 51,621cr to 69,572 growth 35% YOY (31st march 2008-09 to 2009-2010). Engineering & construction company order book position stood at a record Rs 100,239cr as on end FY10. It will give the clear revenue visibility over the next couple of years.

Q1FY11 performance propelled by other income, net profit up 34% yoy. Led by measly 1.1% yoy growth in E&C segment Rs66.4 bn, L&T reported subdued revenue growth at 6.4% yoy to Rs78.9 bn. Both E&E and MIP segment reported strong growth – up 29.4% yoy to Rs7.5 bn and 25.5% yoy to Rs4.4 bn respectively. However, net profit growth at 34.3% yoy to Rs6.7 bn remained ahead of estimates led by 160 bps yoy improvement in EBITDA margins to 12.9% (above estimates) – linked margin expansion in E&C segment and other income at Rs2.3 bn, up 63% yoy.

**Subsidiaries performance - L&T InfoTech (LTI)** - LTI reported improvement in traction - revenues grew 19% yoy (23% qoq) to Rs5.65 bn and net profits grew 27% yoy (down 4% qoq) to Rs0.79 bn.

**L&T Finance (LTF)** - LTF reported 48% yoy growth in business assets to Rs 80bn revenues grew by 45% yoy to Rs2.87 bn and net profit growth of 142% yoy to Rs0.58 bn.

**L&T Infrastructure Finance (LTIF)** - LTIF reported revenue growth of 72% yoy to Rs1.48 bn net profit doubled to Rs0.48 bn and business assets increased 50% yoy to Rs45 bn.

### L&T has secured 40% of our FY 2011 order inflows

Led by strong order inflow from power vertical, L&T secured orders worth Rs156bn during the quarter – equivalent to 22% of FY11E inflow estimates. Since then, L&T has secured order inflows of approximately Rs130 bn – totaling 40% of FY11E target order inflows. This puts L&T in comfortable position to achieve the targeted 25% growth in order inflows for current year. L&T's order book has increased to Rs1078 bn equivalent to 2.9X FY10 standalone revenues.

### Exhibit: 1 Peer Group Comparison

Construction & Engineering	Face value	M Cap	Debt	Cash & Bank Balances	EV	Revenue	PAT/Revenue (%)	Price (Rs)	BV	P/BV (x)	EV/Net Sales	EBITDA	EV/EBITDA	Net Income	No. of shares	EPS (%)	P/E(x)
<b>Larsen &amp; Toubro</b>	<b>2</b>	<b>6040.948</b>	<b>6800.83</b>	<b>1431.87</b>	<b>11,409.91</b>	<b>37064.2</b>	<b>11.81</b>	<b>1,862.10</b>	<b>301.91</b>	<b>6.17</b>	<b>0.31</b>	<b>6936.3</b>	<b>1.64</b>	<b>4375.52</b>	<b>6040.9</b>	<b>72</b>	<b>25.71</b>
IVRCL Infrastructures & Projects Ltd.	2	4277.34	1398.02	100.87	5,574.49	5,492.28	4.11	161.2	69.3	2.33	1.01	519.12	10.7	225.97	1,335.05	17	9.524
Lanco Infratech Ltd.	1	17275.96	2733.74	367.48	19,642.22	5,937.17	8.19	71.2	12.83	5.55	3.31	977.81	20.1	486.38	23,854.70	2	34.92
Punj Lloyd Ltd.	2	3779.298	3503	181.24	7,101.06	7,203.06	5.10	111.3	107.57	1.03	0.99	809.17	8.78	367.4	3,320.87	11	10.06
GMR Infrastructure Ltd.	1	23549	2575	68.53	26,055.47	169.36	7.94	59.9	18.6	3.22	154	83.69	311	13.45	3,320.87	0.4	147.9
Ansal Properties & Infrastructure Ltd.	5	1230.54	246.58	9.59	1,467.53	751.75	8.96	89.7	97.99	0.92	1.95	177.64	8.26	67.32	1,135.01	5.9	15.12
Era Infra Engineering Ltd.	2	4010.58	2482.03	466.14	6,026.47	3,415.47	8.18	221	82.47	2.68	1.76	762.78	7.9	279.41	1,791.66	16	14.17
Gammon Infrastructure Projects Ltd.	2	1826.65	2575	68.53	4,333.12	117.62	11.90	24.5	7.38	3.32	36.8	83.69	51.8	14	1,445.50	1	25.3
Hindustan Construction Co. Ltd.	1	3845.21	2514.7	188.32	6,171.59	3,629.21	2.24	61.9	25.02	2.47	1.7	475.89	13	81.44	735.84	11	5.593
Nagarjuna Construction Co. Ltd.	2	4130.55	1530.18	199.68	5,461.05	4,777.82	4.87	152.8	87.53	1.75	1.14	620.26	8.8	232.62	1,735.67	13	11.4
Patel Engineering Ltd.	1	2730.22	1900.19	84.6	4,545.81	2,352.58	5.62	374.7	184.23	2.03	1.93	428.64	10.6	132.18	2,792.01	4.7	79.15
Simplex Infrastructures Ltd.	2	2403.27	1302.39	87.27	3,618.39	4,453.78	2.75	471	196.08	2.4	0.81	400.76	9.03	122.6	490.472	25	18.84
Unity Infraprojects Ltd.	2	837.7005	686.34	161.02	1,363.02	1,478.97	5.76	111.7	76.27	1.46	0.92	205.71	6.63	85.13	148.17	57	1.944
JINDAL SAW LTD	2	2760.28	701.86	165.61	3,296.53	6777.46	10.67	202.55	129.31	1.57	0.49	1523.19	2.16	723.17	2760.228	26	7.731
C&C Const	10	230.4	608.94	84.74	754.60	750.13	5.48	248	246.08	1.01	1.01	163.42	4.62	41.1	230.389	18	13.9
Electrosteel Cast	1	1787.34	1241.93	280.92	2,748.35	1428.77	14.44	49	48.86	1	1.92	444.49	6.18	206.29	3120.753	6.6	7.413
PSL	10	691.8	632.38	120.62	1,203.56	3161.78	2.72	129.45	166.83	0.78	0.38	669.14	1.8	85.93	530.461	16	7.991
Voltas	1	6917.464	19.08	402.86	6,533.68	4541.8	7.58	206	19.82	10.4	1.44	531.93	12.3	344.22	3300.885	10	19.75
Simplex Proj	10	401.75	167.5	133.63	435.62	606.05	5.95	321.3	141.25	2.27	0.72	74.38	5.86	36.06	120.6	30	10.75
Maharashtra Seam	5	2678.756	82.36	110.63	2,650.49	2047.29	12.6	385.3	219.06	1.76	1.29	550.74	4.81	257.84	700.533	37	10.47
Madhucon Proj	1	1091.133	319.87	84.78	1,326.22	1025.43	4.57	149.8	78.09	1.92	1.29	143.05	9.27	46.91	730.794	6.4	23.34
Gayatri Proj	10	449.1077	360.76	58.77	751.10	1004.59	4.11	411.05	197.55	2.08	0.75	119.69	6.28	41.32	110.391	37	10.98

Source: Research-cell. Flourish Fin cap Pvt.Ltd

Price is taken on 26/08/2010

## Valuation Outlook: -

- At present stock is trading at Rs 1833.60 of P/E 25.71(x) and EPS (TTM) is 72%.
- Book Value (BV) of the stock is Rs301.91 and trading at 6.17(x).

We recommend buy of L & T for the target Rs 2250.

## Company Profile

L&T is a diversified conglomerate with market leadership in engineering and construction (E&C) and electrical-equipment businesses in India. L&T Information Technology is its 100% subsidiary in software services. L&T demerged its cement business into a separate company, selling it to Grasim.

### Segment-wise Business:

Infrastructure	Power	Hydrocarbons	Process	Others
Roads & Bridges	Generatio	Upstream	Minerals & metals	Shipbuilding Defence
Ports & Harbours	Equipments		Bulk Materials handling	Aerospace
	Electrification/Transmission & Distribution	Mid & Downstream	Fertilizer	Construction & Mining Eqpt.
Airports		Pipelines		Electrical & Electrical Products
Railways		valves		Technology services
Buildings & Factories				
Urban Infra				
Water				

Source: Company

## Investment strategy

With earnings CAGR of 25% over FY09-12 for the core business, and spawning new businesses such as railways and power equipment, L&T is fundamentally one of the best proxies for India's infrastructure build-out. L&T's Rs703bn order backlog and forecast stable margins provides good earnings visibility. Its thrust of process and hydrocarbons and India's infrastructure spending should augur well for the order pipeline. We are positive on management efforts to improve product mix by raising the share of high technology products for process industries, defense, nuclear, and aerospace applications and engineering and embedded services. These segments have better growth potential and margins than the projects business. However, given limited upside to our target price we rate L&T Hold/Low Risk (2L).

**Exhibit: 2**

<b>Income Statement</b>	<b>31-Mar-10</b>		<b>31-Mar-09</b>		<b>31-Mar-08</b>
Rs (Million)		% Chg.		% Chg.	
<b>Net Sales</b>	<b>368161.5</b>	<b>9</b>	<b>337723.3</b>	<b>36</b>	<b>249075.3</b>
Material Cost	153119.3	-1	153992.3	27	121549.5
Increase/Decrease Inventories	19972.7	27	15735.8	95	8079.3
Personnel Expenses	23791.4	20	19744.6	29	15354.5
Manufacturing Expenses	110276.7	19	92605.4	49	61987.4
<b>Gross Profit</b>	<b>61001.4</b>	<b>9.6</b>	<b>55645.2</b>	<b>32</b>	<b>42104.6</b>
Administration Selling and Distribution Expenses	15431.7	-15	18085.5	35	13430
<b>EBITDA</b>	<b>45569.7</b>	<b>21</b>	<b>37559.7</b>	<b>31</b>	<b>28674.6</b>
Depreciation Depletion and Amortization	4146	35	3059.9	43	2136.3
EBIT	41423.7	20	34499.8	30	26538.3
Interest Expense	5053.1	22	4155.6	239	1226.6
Other Income	22436.1	148	9059.9	46	6222.7
Pretax Income	58806.7	49	39404.1	25	31534.4
Provision for Tax	16408.7	33	12312.1	25	9820.5
Extra Ordinary and Prior Period Items Net	1357.2	-82	7724.6		0
<b>Net Profit</b>	<b>43772.1</b>	<b>26</b>	<b>34818.9</b>	<b>60</b>	<b>21713.9</b>
Adjusted Net Profit	42414.9	57	27094.3	25	21713.9
Dividend - Preference	0	0	0		0
Dividend - Equity	7527.5	22	6149.7	24	4953.2

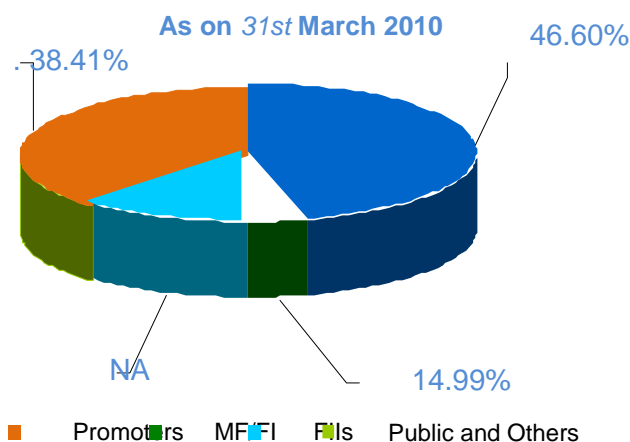
Source: Research-cell. Flourish Fin cap Pvt. Ltd

### Exhibit: 3 10-year financial performance of L&T

Description	2009-2010	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002	2000-2001
<i>Rs.crore</i>										
<b>Profit and Loss Account</b>										
Gross sales & service	36996	34045	25187	17901	14966	13255	9807	9870	8167	7825
Other income	2385	1032	676	522	519	732	461	302	277	310
Gross revenues	39381	35077	25863	18423	15485	13987	10268	10172	8444	8135
Net sales & service	36675	33647	24855	17567	14735	13050	9561	9360	7726	7390
PBDIT ^^	5726	4662	3403	2245	1480	1115	945	1047	1102	1116
Profit before tax (excluding extraordinary/exceptional items)	4806	3940	3068	1982	1235	933	769	510	401	339
Profit after tax (excluding extraordinary/exceptional items)	3185	2709	2099	1385	863	631	533	433	347	315
Extraordinary items (net of tax)	136	773	-	-	70	-	-	-	-	-
Exceptional items (net of tax)	1055	-	74	18	79	353	-	-	-	-
Profit after tax (PAT)	4376	3482	2173	1403	1012	984	533	433	347	315
Dividend including dividend distribution tax	880^	720^	572	428	349	407	225	211	174	178
<b>Balance Sheet</b>										
Share capital	120	117	58	57	27	26	25	249	249	249
Share application money	25	-	-	-	-	-	-	-	-	-
Reserves	18167	12343	9497	5711	4613	3343	2750	3314	3095	3751
Net worth	18312	12460	9555	5768	4640	3369	2775	3563	3344	4000
Deferred tax liability (net)	77	48	61	40	77	95	114	841	853	-
Loan funds	6801	6556	3584	2078	1454	1859	1324	3176	3463	4263
Capital employed	25190	19064	13200	7886	6171	5323	4213	7580	7660	8263
Net fixed assets	6366	5195	3645	2225	1605	1083	1015	4056	4264	4671
Investments	13705	8264	6922	3104	1920	961	966	1160	918	813
Net working capital (NWC)	5119	5605	2630	2547	2625	3238	2185	2300	2413	2735
Miscellaneous expenditure (to the extent not written-off)	-	-	3	10	21	41	47	64	65	44
<b>Ratios and statistics</b>										
PBDIT incl. other income as % of total income @	15.09	13.44	13.37	12.43	9.75	8.30	9.43	10.84	13.76	14.49
PAT excluding extraordinary/exceptional items as % of total income \$	8.39	7.81	8.25	7.67	5.71	4.70	5.32	4.48	4.34	4.09
ROCE % *	15.92	18.52	21.12	20.71	16.70	14.63	14.40	7.65	7.47	7.47
RONW % **	20.73	24.67	28.21	26.84	21.88	21.05	20.66	12.91	9.69	8.18
Gross Debt: Equity ratio	0.37:1	0.53:1	0.38:1	0.36:1	0.32:1	0.56:1	0.49:1	0.92:1	1.07:1	1.09:1
NWC as % of gross sales & service	13.84	16.47	10.44	14.23	17.54	24.43	22.28	23.30	30.42	34.95
Current ratio	1.24	1.34	1.19	1.27	1.38	1.58	1.47	1.58	1.81	2.11
Basic earnings per equity share (Rs.) #	73.77	59.50	37.80	25.11	19.02	19.41	10.71	8.71	6.98	6.34
Book value per equity share (Rs.) ##	303.69	212.31	162.95	101.14	83.50	63.48	54.18	69.57	65.13	78.66
No. of equity shareholders	8,14,678	9,31,362	5,78,177	4,28,504	3,27,778	3,23,908	3,65,824	4,90,628	5,09,922	5,13,562
No. of employees	38,785	37,357	31,941	27,191	23,148	19,848	18,996	21,873	22,922	23,988

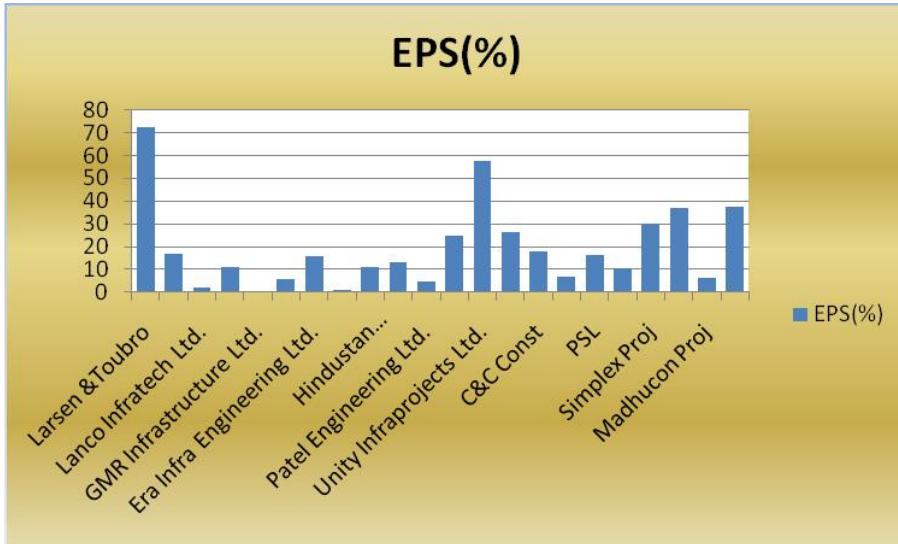
Source: Company

### Exhibit: -4 Shareholding Pattern:



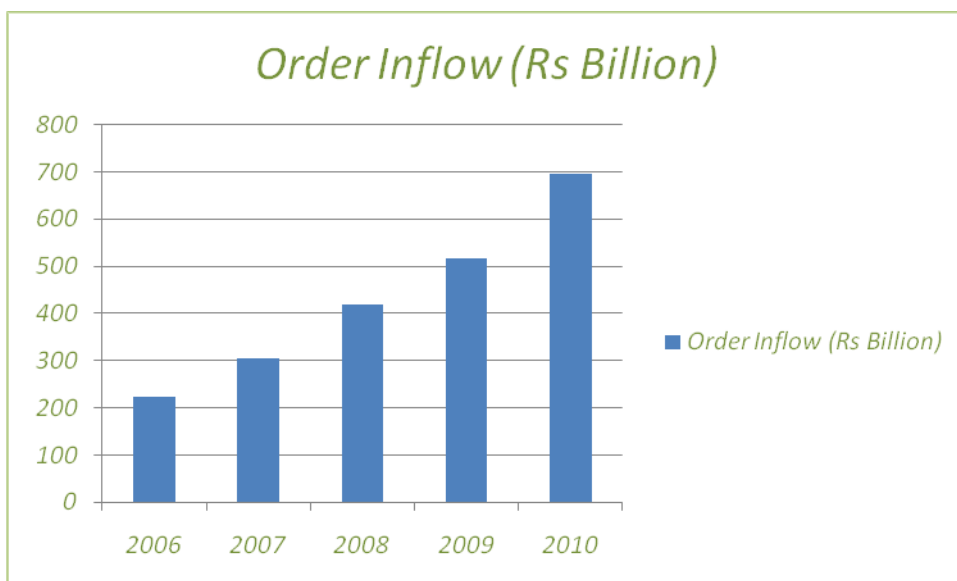
Source: Research-cell. Flourish Fin cap Pvt.Ltd

**Exhibit: 5**



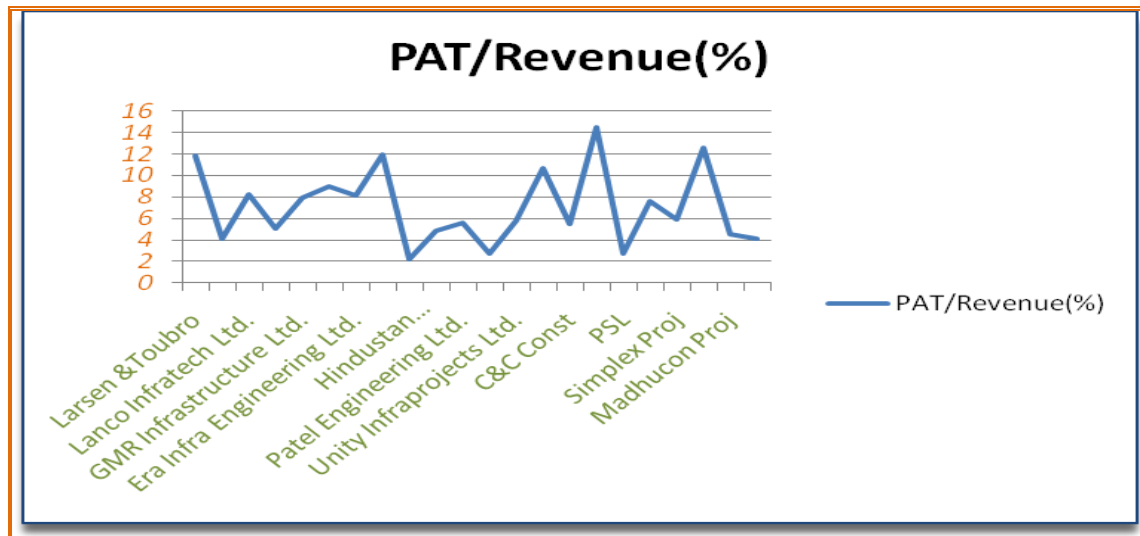
**Cell-cell, Flourish Fincap Pvt. Ltd.**

**Exhibit: 6**



**Source: Research-cell. Flourish Fincap Pvt. Ltd.**

Exhibit: 7



Source: Research-cell. Flourish Fincap Pvt. Ltd.

## New Projects:

- L&T has got Rs 12,132cr Hyderabad metro project, which will complete in 5 years.
- L & T bags massive ONGC project order worth Rs 1013cr.
- The parental company got Rs 1749cr. Orders from metallurgical sector through SAIL & BALCO.
- Company's buildings & Factories operating company (B &F-OC)-part of its construction Division –has secured orders aggregating to Rs.1025 cr for the construction of two hospital buildings, residential projects in Mumbai and a cement plant from a major cement manufacturer.

## Key Facts:

- ❖ L & T is trying to get the project in Nuclear power. A large ordering of nuclear power projects to the tune of approx. Rs.10,000cr is scheduled over the next 5 years in India. The govt. has announced to install 62,000 MW of nuclear power capacity by 2032, of which 25,000 MW is expected to be added by 2020. Apart from this, L & T has a Joint venture with Nuclear Power Corporation of India(NPCIL), to set up a Heavy forging manufacturing facility at Hazira,Gujarat.
- ❖ L & T and two joint venture companies Mitsubishi heavy Industries and Mitsubishi electric corporation started production of power in Hazira, Gujarat from 15th, July 2010.The total production is 4000 MW.
- ❖ Due to the increasing demand in the Hydrocarbon, company has established 3rd Modular Fabrication yard at Kattupalli, near Chennai, which will commence production soon.
- ❖ Acquisition of TAMCO (Malasiya based Company) is performing well.
- ❖ L&T General insurance co. Ltd., the general insurance arm of 9.8 billion Larsen and Toubro will commence operation soon. Company has got the necessary license from IRDA.

## Risks and concern:

We rate L&T shares Low Risk, in line with our quantitative risk-rating system and because L&T's order backlog is Rs1078bn represents two years' sale and provides earnings visibility. Downside risks that could prevent the shares from reaching our target price include: 1) attracting and retaining talent; 2) the E&C and electrical equipment businesses are sensitive to economy 3) competitive pressures; and 4) L&T needs to keep abreast with technology trends to sustain valuations and earnings.

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