

July 12, 2019

Annual Report Analysis

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	1,744		1,744	
Sales (Rs. m)	1,588,298	1,812,877	1,588,298	1,812,877
% Chng.	-	-	-	-
EBITDA (Rs. m)	183,830	210,122	183,830	210,122
% Chng.	-	-	-	-
EPS (Rs.)	73.6	86.0	73.7	86.0
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	1,197	1,410	1,588	1,813
EBITDA (Rs. bn)	136	163	184	210
Margin (%)	11.4	11.6	11.6	11.6
PAT (Rs. bn)	72	86	103	120
EPS (Rs.)	51.7	61.4	73.6	86.0
Gr. (%)	20.0	18.8	19.8	16.7
DPS (Rs.)	14.0	18.0	23.6	27.5
Yield (%)	1.0	1.2	1.6	1.9
RoE (%)	13.8	15.3	15.7	16.5
RoCE (%)	8.3	9.1	9.0	9.4
EV/Sales (x)	2.3	2.0	1.9	1.7
EV/EBITDA (x)	20.5	17.3	16.4	14.4
PE (x)	28.4	23.9	19.9	17.1
P/BV (x)	3.7	3.3	3.0	2.7

Key Data

LART.BO | LT IN

52-W High / Low	Rs.1,607 / Rs.1,183
Sensex / Nifty	38,736 / 11,553
Market Cap	Rs.2,057bn / \$ 29,975m
Shares Outstanding	1,403m
3M Avg. Daily Value	Rs.8855.58m

Shareholding Pattern (%)

Promoter's	-
Foreign	18.87
Domestic Institution	38.30
Public & Others	42.83
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.8)	7.1	12.9
Relative	(0.2)	(0.4)	6.5

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Increasing focus on digitization

L&T FY19 Annual report suggests investments in domestic market are set to revive from 2HFY20 onwards and all segments are expected to deliver a promising growth. Internationally, thrust is towards Middle East geography mainly in Renewable energies, Hydrocarbon expansion and Non-oil revenue whereas significant infrastructure investments drive the non-Middle East geographies.

The company is on track to achieve its 5-year plan (RoE improved from 12.5% in FY17 to 15.3% in FY19) and remains confident on achieving its goal (RoE 18%) by FY21. Further, L&T is developing its next strategic idea (to launch by FY22) and has already announced aggressive plans on digitalization (L&T-NxT) across products and project business. The company has guided a revenue growth of 12-15%, EBITDA margin (ex-services) of 10.5% and expects similar numbers in FY21E. We maintain BUY with revised SOTP based TP of Rs1744 per share.

Positive commentary for FY20: Over the last couple of years, several large projects in the areas of Roads, Urban Transportation (Airports and Metro), Water supply, Irrigation, Hydrocarbon etc were announced. However, many projects are struck due to rising debt levels, liquidity crunch, policy uncertainties, resulting muted incremental capex. The general elections at the end of FY19 also led to slowdown in awarding of new contract. L&T management expect investment climate to revive from 2HFY20 onwards as the new government settles down.

Increasing focus on digitalization to improve productivity: As part of Lakshya plan, L&T has identified 'Digitalization' as a key initiative. The Company has levered on ongoing digitalization efforts, operational efficiencies, reducing working capital levels, unlocking business values, forays into new geographies, innovating business, inorganic growth and continuing ROE enhancement.

Other key points:

- L&T has entered into a share purchase agreement (18th March 2019) with Coffee Day Trading Limited and Coffee Day Enterprises Limited ('Sellers') for acquisition of 3,33,60,229 equity shares of Mindtree Limited aggregating to 20.32% of the paid-up equity share capital of Mindtree Ltd.
- CCI approved divestment in Electrical & Automation business (subject to certain conditions),
- Investments in subsidiaries/JVs declined 12% YoY at Rs201bn, Hyderabad metro final CoD expected by July 2020,
- L&T Shipbuilding continued to bleed (with a loss of Rs4.4bn in FY19),
- L&T Realty had written down value of investment and created provision of Rs8.4bn, etc.

Positive commentary for FY20: In FY19, while the private capex remained muted in areas of PPP, industrial capex and certain urban infrastructure segments), the public capex led to major growth and inflow. As the new Government settles down and with its focus on the infrastructure development, L&T's management expects revival of investments from 2HFY20 onwards. L&T's FY19 order inflow (ex-services) grew 14% YoY at Rs1451bn, mainly led by 76% YoY growth in Hydrocarbon (~11% contribution in FY19 Consol revenue). For FY20, L&T has guided for a 10-12% order inflow growth. **Management has indicated a total opportunity of Rs9-10trn for FY20 divided in sectors: Infrastructure - Rs4trn, Power generation & Distribution Rs1.5trn, Hydrocarbon Rs2.5trn. 75% domestic and 25% international.**

Increasing focus on digitalization to improve productivity: As part of Lakshya plan, L&T has identified 'Digitalization' as a key initiative that will focus on operational effectiveness, facilitate timely completion and help in cost savings. Digital solutions initially concentrated in the Construction business. ***It aims to improve equipment utilization, increase productivity, save fuel, reduce material wastage and get real-time visibility of all operational aspects. This will enable better monitoring and promote effective decision making to remove bottlenecks and initiate timely completion.***

Divestment of Electrical and Automation could be delayed: As part of exiting non-core assets initiatives, L&T had signed definitive agreements with Schneider Electric for divestment of its E&A business for an all-cash consideration of Rs140 bn. CCI has approved the proposed combination subject to the amendment filed by Schneider Electric. ***L&T is awaiting the detailed order of the CCI and timelines for divestment. We think that the deal would face delay as the CCI's recommendations looks unfavorable to Schneider's long term growth strategy.***

Exhibit 1: L&T's exit from various non-core assets:

	Assets Class	Timeline of deal terms	Deal Value (Equity) (Rs Bn)
Dhamra Port	Port	May-14	28
Kattupalli Port	Port	Nov-16	20
L&T Seawoods	Retail Mall	May-17	11
E&A*	Industrial Switchgears	Apr-18	140
Roads Invit	Road portfolio	May-18	10
Total			209

Source: Company, PL, *E&A transaction is still in the process

Future thrust areas: L&T has identified certain thrust areas and strategies for the future viz. leveraging ongoing digitalization efforts, operational efficiencies, reducing working capital levels, unlocking business values, foray into new geographies, innovating business, inorganic growth and continuing ROE enhancement.

Performance of select subsidiaries/JVs:

We studied FY19 financials of select subsidiaries of L&T. Overall revenue was subdued (+1.4% YoY) with growth reported by L&T Seawoods, L&T Realty, Hyderabad Metro, Nabha Power and L&T Special Steels and Heavy Forgings Pvt Ltd. L&T Shipbuilding, L&T-MHPS Boilers Pvt Ltd and L&T-MHPS Turbine Generators Pvt Ltd reported negative revenue growth.

- **L&T Shipbuilding Ltd (now part of Defense Engineering):** Losses in continue as large defense order wins remain elusive (Rs4.2bn loss in FY19)
- **L&T Realty** (part of others) reported a loss of Rs8.4bn in FY19 against PAT of Rs0.2bn as L&T Asian Realty Project LLP has written down and provided for a diminution in the value of investment in Andheri Project.
- **Hyderabad Metro** losses more than doubled to Rs1.5bn in FY19 over FY18 (Rs0.6bn loss) due to 325% YoY increase in interest cost upon partial commencement of operations (55 Km is commissioned);
- **L&T Special Steels and Heaving Forgings Pvt. Ltd.** (74:26 JV with NPCIL) continues to report losses above of Rs2bn level.; (v) Nabha Power's PAT declined by 61% YoY in FY19 due to muted revenue growth (+5%YoY, 74% PLF), rise in fuel cost and decline in other income.

Exhibit 2: FY19 Financials of select L&T Subsidiaries/JVs:

(Rs bn)	Revenue				PAT				Total Assets				L&T Shareholding (%)			
	FY19	FY18	FY17	FY16	FY19	FY18	FY17	FY16	FY19	FY18	FY17	FY16	FY19	FY18	FY17	FY16
L&T Shipbuilding Ltd.	6.0	7.3	6.2	5.5	-4.2	-4.4	-3.5	-6.9	25.8	33.1	32.5	49.7	97.0	97.0	97.0	97.0
L&T Seawoods Limited	2.8	1.3	11.7	2.3	0.5	0.3	0.3	0.1	27.7	31.9	34.2	35.6	100.0	100.0	100.0	100.0
L&T Realty Limited	0.5	0.4	3.1	2.9	-8.4	0.2	3.2	2.8	3.4	11.8	11.0	10.5	100.0	100.0	100.0	100.0
L&T Metro Rail (Hyderabad) Limited	16.3	14.1	15.6	0.0	-1.5	-0.6	0.0	-0.1	159.6	136.4	118.5	101.1	100.0	100.0	100.0	100.0
Nabha Power Limited	39.7	37.8	35.2	33.0	1.0	2.5	-0.3	2.0	112.7	111.0	109.4	113.7	100.0	100.0	100.0	100.0
Kudgi Transmission Limited	2.0	1.9	2.7	0.0	0.4	0.4	0.2	0.0	19.5	19.4	29.7	13.5	97.5	97.5	97.5	97.5
L&T-MHPS Boilers Pvt Ltd	27.4	29.7	24.9	17.1	2.8	2.4	2.2	2.6	39.3	42.8	38.2	34.2	51.0	51.0	51.0	51.0
L&T-MHPS Turbine Generators Pvt Ltd	8.1	9.6	9.1	26.4	0.5	0.6	-0.1	7.2	22.2	24.8	25.9	-0.9	51.0	51.0	51.0	51.0
L&T Special Steels and Heavy Forgings Pvt Ltd	2.1	1.3	1.3	0.9	-2.1	-2.7	-2.5	-2.8	15.3	15.0	15.5	16.1	74.0	74.0	74.0	74.0

Source: Company, PL

Exhibit 3: Investments in subsidiaries/JVs were down by 12% YoY at Rs201 bn in FY19, mainly due to reduction in investments in L&T Seawoods, L&T shipbuilding (merger with L&T), L&T Technology and L&T Infotech Ltd.

Investments in fully paid equity instruments (Rs mn)	FY15	FY16	FY17	FY18	FY19
L&T Valves Limited	2,015	2,015	1,612	1,612	1,612
Bhilai Power Supply Company Limited	1	1	1	1	1
EWAC Alloys Limited	1,502	1,502	1,502	-	-
Hi-Tech Rock Products & Aggregates Limited	1	1	1	1	1
Kesun Iron and Steel Company Private Limited	0	0	0	0	0
Larsen & Toubro Consultoria E Projeto Ltda	3	-	-	-	-
L&T Aviation Services Private Limited	456	456	456	456	456
L&T Capital Company Limited	220	1	1	1	1
L&T Cassidian Limited	0	0	0	-	-
L&T Finance Holdings Limited	15,752	14,682	14,682	34,682	34,682
L&T Construction Equipment Limited	843	843	843	828	828
L&T General Insurance Company Limited	6,200	5,700	-	-	-
L&T Infocity Limited	160	-	-	-	-
L&T Metro Rail (Hyderabad) Limited	198	203	20,622	22,070	24,272
L&T Natural Resources Limited	1	-	-	-	-
L&T Power Development Limited	27,293	31,127	31,127	31,127	31,127
L&T Power Limited	1	1	1	1	1
L&T Powergen Limited	1	-	-	-	-
L&T Realty Limited	472	472	472	472	472
L&T Seawoods Limited	19,996	19,996	19,996	19,996	16,546
L&T Shipbuilding Limited	8,187	8,187	4,307	4,307	-
L&T Solar Limited	1	-	-	-	-
L&T Electricals and Automation Limited*	1	1	404	404	404
L&T Hydrocarbon Engineering Limited	10,001	10,001	10,001	10,001	10,001
L&T Technology Services Limited	3,000	3,000	9,426	9,378	8,055
L&T-Valdel Engineering Limited	239	-	-	-	-
Larsen & Toubro Infotech Limited (quoted)	1,343	1,343	1,197	1,188	1,081
Larsen & Toubro International FZE	11,474	-	-	-	-
Larsen & Toubro Arabia LLC	111	111	-	-	-
Larsen & Toubro Hydrocarbon International Limited LLC	7	7	7	7	7
Larsen & Toubro LLC	2	2	2	2	2
Larsen & Toubro (Saudi Arabia) LLC	-	11	11	11	11
Spectrum Infotech Private Limited	68	68	68	-	-
L&T Infrastructure Engineering Limited	219	219	219	219	219
L&T Cutting Tools Limited	3	3	3	-	-
L&T Global Holdings Limited	-	7	532	532	532

Source: Company, PL

Hyderabad Metro witnessed cost overrun in FY19: The project witnessed a cost overrun of Rs37.56bn during FY19, taking total cost to Rs208bn from Rs170bn envisaged earlier. Cumulative capex in FY19 stood at Rs170bn and overall physical progress of the project is now 77% (COD of 55KM out of 71 KM planned). The company has received an extension from Government for achieving final COD by December 31, 2019. Accordingly, the lenders have also accorded for COD extension up to two years i.e., up to July 2019, with corresponding increase in loan period. Construction work in remaining part of 'Stage 4 (Hi-Tec City to Raidurg) in Corridor 3' and 'stage 6 (JBS to MGBS) in Corridor 2' are proceeding at a brisk pace and are expected to commence commercial operations during first half of FY20. The TOD Project at Errum Manzil Mall (0.35mn sq.ft.) commenced commercial operations from August 2018. Musarambagh mall (0.24mn sq.ft.) is expected to commence commercial operations in April 2019. Construction work (0.5mn sq. ft. of office space) at Raidurg Site is underway.

Other key snippets from the annual report:

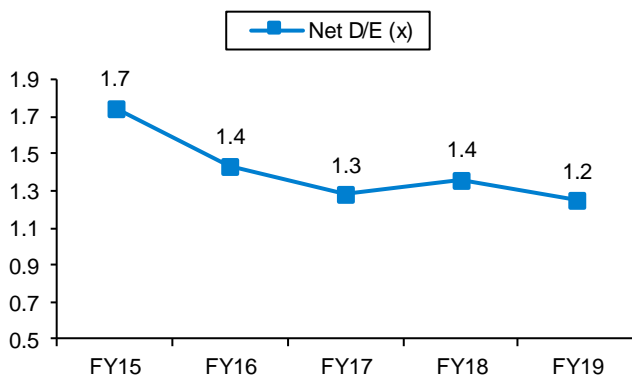
- **Metro Rail-** Total spends on Metro Rail networks in the country over the next few years are expected to be in the region of Rs4 trn.
- **Roads NHAI** – Main focus on EPC and HAM, expressways, special bridges and city flyover. The Government aims to reach its ambitious target of building 45 km of roads per day in FY 2020.
- **Railways-** key focus on Mumbai-Ahmedabad high speed rail project, rapid electrification of railway lines and track upgradation/augmentation.
- **Power T&D-** Building presence in parts of East Africa, Algeria, Egypt and some countries of East Asia to enhance growth apart from Central and State utilities in the domestic market.
- **Hydrocarbon-** Prevailing oil prices should spur further investment in oil producing countries.
- **Heavy Engineering-** Sophisticated equipment for oil & gas, fertilizers and power sectors. Considering significant all-round growth in FY19, the business is expected to leverage strong domestic and global business opportunities by FY20.
- **Defense Engineering-** Marine infrastructure projects involving dry-docks, marine intake structures and defense naval base projects are expected to kick start in FY2019-20.
- **Thermal Power Gen-** By next year, the business expects around 40 GW of orders in FGD systems and significant opportunities in replacement market. The Government plans to increase nuclear power production to 23 GW by 2031 from the current 7GW. It is gearing up in terms of manufacturing capability and procuring requisite technology to produce turbines of 700 MW capacity relating to PHWR nuclear power plants.
- **Realty-** The real estate sector is slowly picking up as demonstrated via increase in sales. A gradual reduction of unsold inventory and improvement in absorption rates are expected to provide steady revenue and profits, over the next few years. Also, launch of new projects in Mumbai and Chennai should provide growth momentum to this business.
- **Water Infrastructure-** From FY20 onwards, Inland waterways infrastructure may receive focused government attention.
- **Development Projects-** Certain stretches of the Hyderabad Metro Rail were completed in FY19 and a fully commissioned network is expected by FY20. The focus is on monetizing value created in the businesses.

Continues improvement in balance sheet: L&T's continues to see improvement with net D/E falling from 1.7x in FY15 to 1.2x in FY19. Total debt rose from Rs1075.2 bn to Rs1255 bn, mainly led by increase of Rs163bn in Financial Services segment. Company has paid long term borrowings of Rs16bn during the year.

Return ratios on the improving trajectory: RoE has improved for the company from 9.9% in FY17 to 15.3% in FY19. Whereas RoCE has also improved from 8.3% to 9.1% in FY19. The company has targets to achieve RoE of 18% by FY21.

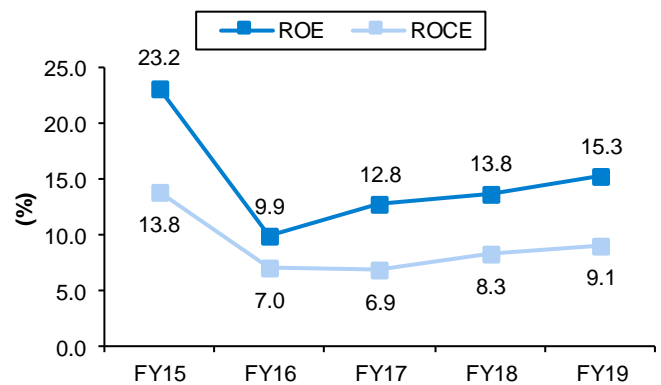
Net Working capital to sales improved to 18% of sales: L&T's consistent effort on managing working capital (one of the key focus areas and also part of 5 years' plan) has really paid off well. Net The net working capital to sales in FY19 improved to 18% from 25% in FY15. During our last interaction, management had indicated 18% as comfortable level of ratio going ahead.

Exhibit 4: Balance sheet leverage reduced significantly



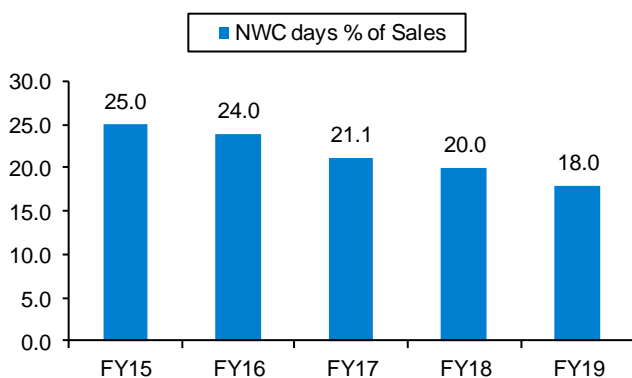
Source: Company, PL

Exhibit 5: Return ratios have improved post FY16



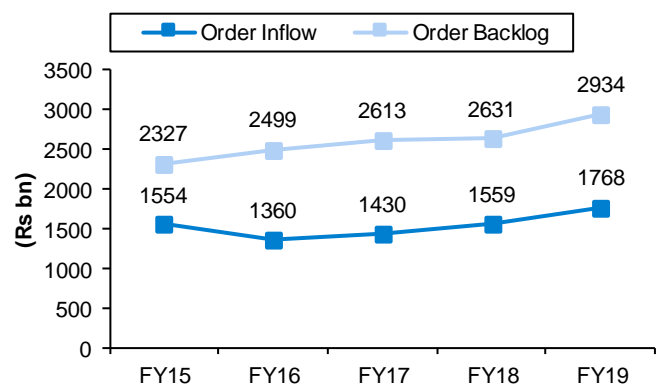
Source: Company, PL

Exhibit 6: NWC improved from 25% in FY15 to 18% in FY19



Source: Company, PL

Exhibit 7: OI and OB has increased from FY15-FY19



Source: Company, PL

Over the last 3 years (FY16-FY19, the revenue share of Services business (IT & Financial) increased from 16.3% to 19%. However, contribution in EBIT has increased from 30% to 39%.

Hydrocarbon business has grown at a CAGR of 16% over the last three years. EBIT margin improved from -1% in FY16 to 7.5% in FY19.

Exhibit 8: Segmental revenue breakup

Segment Revenue	FY16	FY17	FY18	FY19
Infrastructure	5,39,208	5,39,208	6,34,169	7,32,038
Power	69,388	69,388	62,082	39,831
Heavy Engineering	34,469	34,469	16,351	25,137
Defense Engineering			32,201	38,492
Electrical & Electronics	53,673	53,673	55,083	60,936
Hydrocarbon	96,283	96,283	1,17,596	1,51,762
IT & Technology Services	98,875	98,875	1,13,574	1,45,531
Financial Services	85,453	85,453	1,00,638	1,26,377
Developments Projects	43,673	43,673	42,941	50,680
Others	1,08,624	1,08,624	44,442	59,350
Total	11,29,647	11,29,647	12,19,076	14,30,134
Segment EBIT				
Infrastructure	49,905	47,225	54,401	53,888
EBIT margins (%)	9.3%	8.8%	8.6%	7.4%
Power	1,128	2,012	1,640	1,299
EBIT margins (%)	1.6%	2.9%	2.6%	3.3%
Heavy Engineering	(975)	4,986	2,052	4,870
EBIT margins (%)	-2.8%	14.5%	12.6%	19.4%
Defense Engineering	-	-	1,204	4,722
EBIT margins (%)			3.7%	12.3%
Electrical & Electronics	4,331	5,499	6,688	8,501
EBIT margins (%)	8.1%	10.2%	12.1%	14.0%
Hydrocarbon	(953)	5,084	7,718	11,781
EBIT margins (%)	-1.0%	5.3%	6.6%	7.8%
IT & Technology Services	15,843	18,255	21,465	30,842
EBIT margins (%)	16.0%	18.5%	18.9%	21.2%
Financial Services	13,043	7,864	14,406	30,526
EBIT margins (%)	15.3%	9.2%	14.3%	24.2%
Developments Projects	2,386	320	1,964	3,144
EBIT margins (%)	5.5%	0.7%	4.6%	6.2%
Others	9,895	4,147	11,826	7,762
EBIT margins (%)	9.1%	3.8%	26.6%	13.1%
Total	94603	95393	123364	157335

Source: Company, PL

In-line with improvement in revenue/EBIT performance, ROCE of the Hydrocarbon segment has improved significantly from 32% in FY16 to 55% in FY19. Power segment continue to remain in under pressure due to lack of any large order.

Exhibit 9: Segmental ROCE (%)

	FY16	FY17	FY18	FY19
Infrastructure	28.7	29.3	24.5	22.5
Power	34.5	41.5	19.4	10.9
Heavy Engineering	30.0	38.4	8.5	19.5
Defense Engineering			3.9	16.5
Electrical & Electronics	20.4	22.6	29.0	37.3
Hydrocarbon	32.3	44.6	55.7	55.4
IT & Technology Services	67.6	42.7	39.9	43.6
Financial Services	10.8	10.5	14.9	25.7
Developments Projects	0.2	0.2	1.0	1.5
Others	3.3	3.6	15.6	13.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	1,196,832	1,410,071	1,588,298	1,812,877
YoY gr. (%)	9.5	17.8	12.6	14.1
Cost of Goods Sold	395,610	489,948	531,465	606,612
Gross Profit	801,222	920,123	1,056,833	1,206,265
Margin (%)	66.9	65.3	66.5	66.5
Employee Cost	152,708	181,006	203,884	232,713
Other Expenses	105,406	136,954	174,725	199,132
EBITDA	136,415	163,247	183,830	210,122
YoY gr. (%)	22.6	19.7	12.6	14.3
Margin (%)	11.4	11.6	11.6	11.6
Depreciation and Amortization	19,287	20,840	21,294	23,050
EBIT	117,128	142,407	162,536	187,071
Margin (%)	9.8	10.1	10.2	10.3
Net Interest	15,385	18,060	18,057	17,092
Other Income	13,419	18,515	19,021	20,543
Profit Before Tax	115,162	142,862	163,500	190,522
Margin (%)	9.6	10.1	10.3	10.5
Total Tax	31,989	43,433	46,160	54,601
Effective tax rate (%)	27.8	30.4	28.2	28.7
Profit after tax	83,173	99,428	117,340	135,921
Minority interest	(10,704)	(13,325)	(14,146)	(15,455)
Share Profit from Associate	-	-	-	-
Adjusted PAT	72,469	86,104	103,194	120,466
YoY gr. (%)	20.0	18.8	19.8	16.7
Margin (%)	6.1	6.1	6.5	6.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	72,469	86,104	103,194	120,466
YoY gr. (%)	20.0	18.8	19.8	16.7
Margin (%)	6.1	6.1	6.5	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	72,469	86,104	103,194	120,466
Equity Shares O/s (m)	1,401	1,401	1,401	1,401
EPS (Rs)	51.7	61.4	73.6	86.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	172,809	210,612	233,442	258,427
Tangibles	152,503	168,383	189,101	211,869
Intangibles	20,305	42,229	44,341	46,558
Acc: Dep / Amortization	46,083	59,487	73,725	91,967
Tangibles	46,083	59,487	73,725	91,967
Intangibles	-	-	-	-
Net fixed assets	126,726	151,125	159,717	166,460
Tangibles	106,420	108,896	115,376	119,902
Intangibles	20,305	42,229	44,341	46,558
Capital Work In Progress	134,434	139,195	147,396	153,947
Goodwill	15,618	18,269	18,269	18,269
Non-Current Investments	664,462	710,799	764,234	815,773
Net Deferred tax assets	21,170	31,078	32,787	34,582
Other Non-Current Assets	53,681	67,927	71,323	74,889
Current Assets				
Investments	94,642	139,462	139,462	139,462
Inventories	48,478	64,139	73,976	84,435
Trade receivables	331,170	370,382	426,447	486,745
Cash & Bank Balance	80,327	117,262	150,496	158,667
Other Current Assets	520,914	546,940	616,071	703,181
Total Assets	2,438,774	2,791,338	3,095,086	3,400,846
Equity				
Equity Share Capital	2,803	2,803	2,803	2,803
Other Equity	546,232	620,943	688,054	766,399
Total Networkth	549,035	623,745	690,857	769,201
Non-Current Liabilities				
Long Term borrowings	729,148	741,208	941,575	946,847
Provisions	5,235	5,568	5,847	5,964
Other non current liabilities	4,219	3,554	3,731	3,806
Current Liabilities				
ST Debt / Current of LT Debt	193,319	292,238	306,850	322,193
Trade payables	377,974	429,948	413,393	496,679
Other current liabilities	521,452	623,704	661,460	784,784
Total Equity & Liabilities	2,438,775	2,791,338	3,095,086	3,400,846

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	115,162	142,862	163,500	190,522
Add. Depreciation	19,287	20,840	21,294	23,050
Add. Interest	15,385	18,060	18,057	17,092
Less Financial Other Income	13,419	18,515	19,021	20,543
Add. Other	(17,353)	(20,642)	(19,021)	(20,543)
Op. profit before WC changes	132,481	161,120	183,830	210,122
Net Changes-WC	(198,757)	(162,473)	(173,976)	(20,785)
Direct tax	(34,034)	(45,816)	(47,869)	(56,396)
Net cash from Op. activities	(100,310)	(47,169)	(38,016)	132,940
Capital expenditures	(20,150)	(34,746)	(38,087)	(36,344)
Interest / Dividend Income	32,833	9,870	19,021	20,543
Others	26,463	(85,117)	(56,832)	(55,105)
Net Cash from Inv. activities	39,145	(109,994)	(75,898)	(70,906)
Issue of share cap. / premium	495	113	-	-
Debt changes	140,321	207,502	201,289	5,351
Dividend paid	(23,898)	(26,471)	(36,082)	(42,122)
Interest paid	(24,707)	(29,824)	(18,057)	(17,092)
Others	1,493	3,090	(142)	-
Net cash from Fin. activities	93,705	154,410	147,008	(53,862)
Net change in cash	32,539	(2,753)	33,094	8,172
Free Cash Flow	(100,310)	(47,169)	(38,016)	132,940

Source: Company Data, PL Research

Quarterly Financials (Rs m)

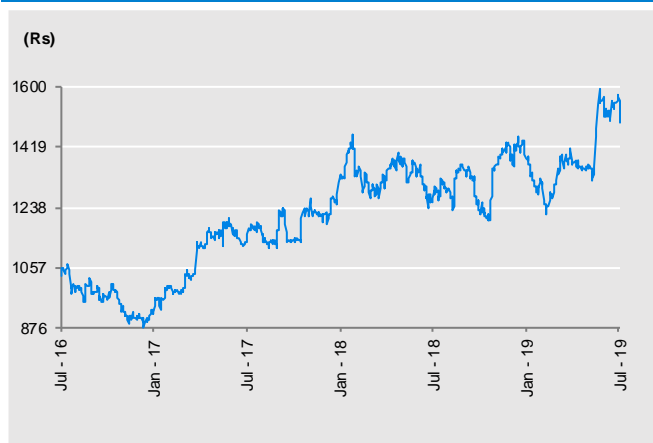
Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20E
Net Revenue	320,808	357,089	449,340	308,565
YoY gr. (%)	21.3	24.2	10.5	9.1
Raw Material Expenses	200,476	234,572	310,666	208,223
Gross Profit	120,332	122,517	138,674	100,342
Margin (%)	37.5	34.3	30.9	32.5
EBITDA	37,705	40,120	55,991	35,572
YoY gr. (%)	27.3	27.7	3.4	7.9
Margin (%)	11.8	11.2	12.5	11.5
Depreciation / Depletion	5,155	4,490	4,747	4,984
EBIT	32,550	35,630	51,245	30,588
Margin (%)	10.1	10.0	11.4	9.9
Net Interest	3,993	5,349	5,071	5,325
Other Income	4,253	5,907	6,213	2,440
Profit before Tax	35,758	36,189	52,387	27,704
Margin (%)	11.1	10.1	11.7	9.0
Total Tax	8,861	12,002	13,225	9,142
Effective tax rate (%)	24.8	33.2	25.2	33.0
Profit after Tax	26,896	24,188	39,162	18,561
Minority interest	4,591	(565)	(1,272)	(1,141)
Share Profit from Associates	-	-	-	-
Adjusted PAT	22,305	24,752	40,434	19,703
YoY gr. (%)	22.6	66.3	13.2	23.2
Margin (%)	7.0	6.9	9.0	6.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	22,305	24,752	40,434	19,703
YoY gr. (%)	22.6	66.3	13.2	23.2
Margin (%)	7.0	6.9	9.0	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,305	24,752	40,434	19,703
Avg. Shares O/s (m)	1,401	1,401	1,401	1,401
EPS (Rs)	15.9	17.7	28.9	14.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	51.7	61.4	73.6	86.0
CEPS	65.5	76.3	88.8	102.4
BVPS	391.8	445.1	493.0	548.9
FCF	(71.6)	(33.7)	(27.1)	94.9
DPS	14.0	18.0	23.6	27.5
Return Ratio(%)				
RoCE	8.3	9.1	9.0	9.4
ROIC	6.9	7.6	7.7	7.9
RoE	13.8	15.3	15.7	16.5
Balance Sheet				
Net Debt : Equity (x)	1.4	1.2	1.4	1.3
Net Working Capital (Days)	1	1	20	15
Valuation(x)				
PER	28.4	23.9	19.9	17.1
P/B	3.7	3.3	3.0	2.7
P/CEPS	64.1	74.7	95.6	110.3
EV/EBITDA	20.5	17.3	16.4	14.4
EV/Sales	2.3	2.0	1.9	1.7
Dividend Yield (%)	1.0	1.2	1.6	1.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	1,744	1,572
2	11-May-19	BUY	1,744	1,356
3	5-Apr-19	BUY	1,728	1,374
4	5-Oct-18	BUY	1,566	1,258
5	26-Jul-18	BUY	1,566	1,321

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,320	1,454
2	Apar Industries	Accumulate	795	670
3	Bharat Electronics	Accumulate	120	113
4	BHEL	Hold	77	73
5	Cummins India	Accumulate	841	757
6	Engineers India	BUY	139	108
7	GE T&D India	Reduce	257	263
8	Kalpataru Power Transmission	BUY	565	457
9	KEC International	BUY	352	295
10	Larsen & Toubro	BUY	1,744	1,356
11	Power Grid Corporation of India	BUY	224	190
12	Siemens	Accumulate	1,263	1,253
13	Thermax	Accumulate	1,147	988
14	Triveni Turbine	Accumulate	124	110
15	Voltamp Transformers	BUY	1,510	1,224

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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