

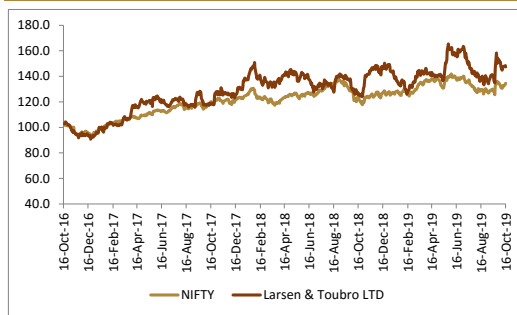
**Market statistics as on October 16, 2019**

Stock price (Rs.)	1424.2
Shares O/S (Bn)	1.40
Market Cap (Rs. Bn)	1998.2
P/E (x)	22.42
52 Week High(Rs.)	1607.0
52 Week Low (Rs.)	1182.5
Price/Book	3.2

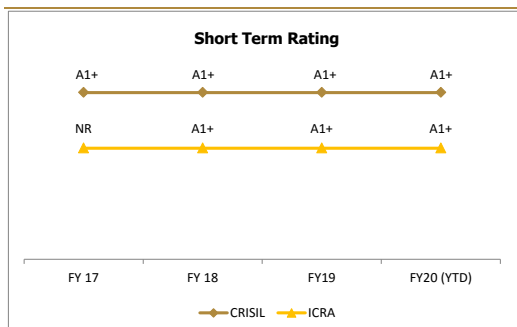
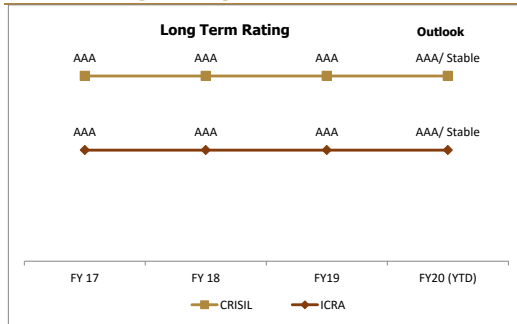
**Shareholding pattern as on June 30, 2019**

Domestic Institutions	37.6%
Foreign Institutions	20.0%
Others	42.4%

**Larsen & Toubro Limited vs. NIFTY**



**Credit Rating History**



**Financial Performance**

Particulars	FY19	FY18	Rs. Bn % chg
Revenue	1410.1	1196.8	18
EBITDA	219.6	165.6	32
PAT	102.4	84.4	21
EBITDA Margins (%)	15.7	13.8	-
PAT Margins (%)	7.3	7.1	-

Source: Company Reports;  
As per INDAS wherever applicable

**Credit Drivers:**

• **Strong Revenue Visibility led by Government capex:** L&T's Infrastructure segment has witnessed a strong order inflow in recent quarters, driven mainly by Government Capex. On the back of its design engineering and fabrication capabilities it has been able to garner a strong order book of Rs.2940 bn as of 30th June, 2019. Over last 4 years consolidated revenue grew at a CAGR of 11.3% to Rs.1,410 bn.

• **Stable margins:** Core Engineering & Construction EBITDA margin were muted at 9% in FY19 due to cost provision in the transportation segment, job mix and execution stage. However consolidated EBITDA margin has improved in FY19 by 173bps YoY to 15.6% due to high margin businesses such as Heavy engineering, defence engineering, IT and financial services. PAT margin has improved from 5.5% in FY16 to 7.3% in FY19.

• **Strong financial flexibility and comfortable capital structure:** Strong financial flexibility is driven by L&T's demonstrated ability to raise funds at competitive rates, and significant cash balance. L&T's net worth has improved significantly over the years on account of the strong cash accruals. Consolidated gearing ratio although higher at 1.65x due to financial services portfolio is improving over the last few years.

• **Robust order book and diversified across markets:** Core E&C order inflows stood at Rs. 387 bn, up 11% YoY as of 30th June 2019. Order backlog of Rs. 2.94 tn provides ~2.5 years of visibility for the core E&C business and is diversified across transportation, power, hydrocarbon, heavy engineering, defense, water, etc.

• **Management expertise & focus on deleveraging:** L&T is expected to maintain leadership in the E&C segment in India, and is positioned to benefit from the large infrastructure spending in India, over the medium term. Management's focus on deleveraging and on improving the RoCE, is expected to lead to a better financial risk profile.

**About the Company:**

Larsen & Toubro (L&T) is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. L&T addresses critical needs in key sectors - Hydrocarbon, Infrastructure, Power, Process Industries and Defense for customers in over 30 countries around the world. Set up in 1938 by H. H. Larsen and S. K. Toubro, L&T was incorporated in 1946, and was reconstituted as a public limited company in 1950. Every aspect of L&T's businesses is characterized by professionalism and high standards of corporate governance. With over eight decades of customer focused approach and continuous quest for world-class quality, L&T's manufacturing footprint extends across eight countries in addition to India. L&T has several international offices and a supply chain that extends around the globe. L&T undertakes its infrastructure developmental projects (roads, metro rail, power and transmission lines) largely through SPVs L&T IDPL, L&T PDL and LTMRHL.

**Industry Outlook:**

Infrastructure sector is a key driver for the Indian economy and crucial for propelling India's overall development. Infrastructure investment mainly in roads, railways, urban infrastructure and airports is likely to see strong push over next 3-4 years. Due to ongoing strong focus of Government of India on both urban and rural infrastructure, railway electrification and metro projects are expected to show strong execution. Consequently, tendering and ordering are likely to revive from 2HFY20 with renewed thrust on railway electrification and road construction. Capacity utilization in oil & gas is also at optimal levels and with the improved medium-term global outlook for the oil & gas sector, capex investment to gather momentum in the next three years. Three public sector oil marketing companies IOCL, HPCL and BPCL have planned for capex in excess of Rs.1,800 bn over the next 3-5 years. For Oil & Gas capex, over 40% of the capex goes to EPC players thus fructification of this planned capex would be big boost to established players in Oil & Gas EPC space.

### Key Credit Drivers:

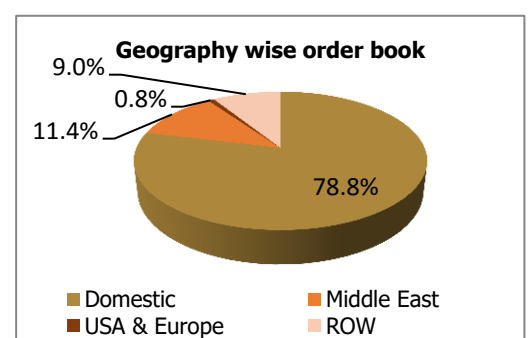
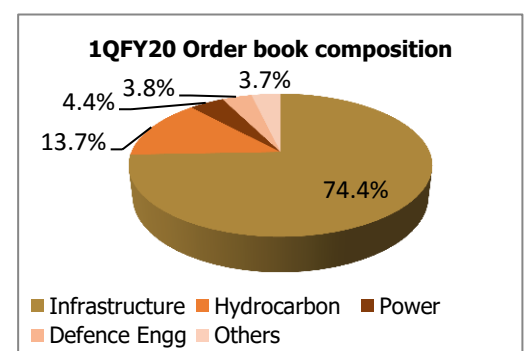
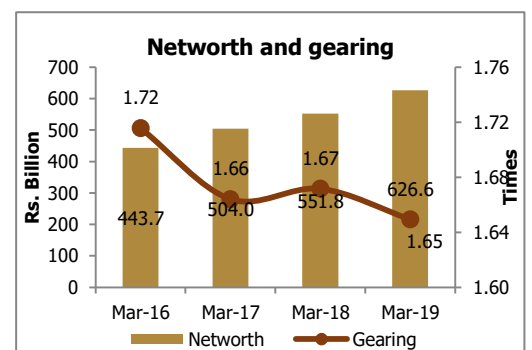
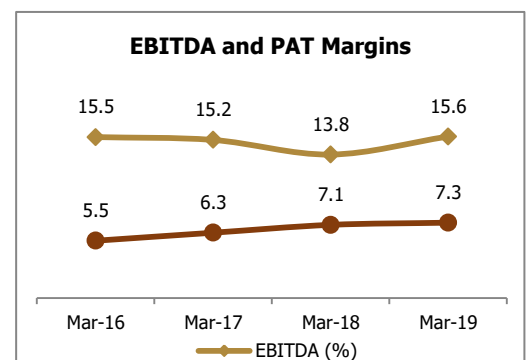
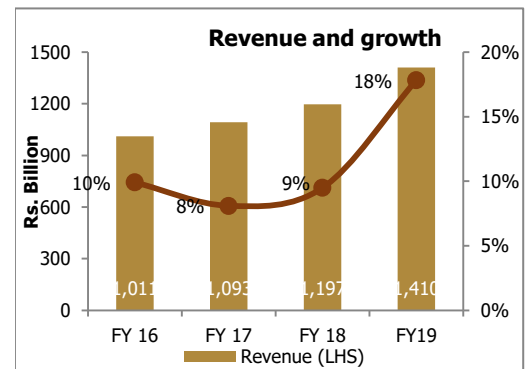
**Strong Revenue Visibility led by Government capex:** The Infrastructure segment especially the EPC sector has witnessed a strong order inflow in the last few quarters, driven mainly by Government Capex. The implementation rate of infra projects had improved considerably in FY19, also driven by general elections in 1QFY20. Urban Infrastructure played a key role over the years and is expected to continue in future with implementation of Smart Cities, Water Infrastructure, railway projects, Housing for All under Pradhan Mantri Awas Yojana. L&T's in-house design, engineering, and fabrication capabilities for critical equipment and systems give it a strong competitive advantage and it has been able to garner a strong order book of Rs.2940 bn as of 30th June, 2019. The strong order pipeline of Rs. 8.4tn, in terms of prospective orders continues and a major portion of these are from public capex. In addition to Central Government, State and PSU-related capex are also substantial portion which are likely to support the overall order intake for L&T. Water, hydrocarbon, heavy civil, buildings and factories & transportations are some of the key segments in which the demand outlook is healthy. L&T has diversified geographically, with international orders comprising 21% of the total order book as on June 30, 2019. Over last 4 years, consolidated revenue grew at a CAGR of 11.3% to Rs.1,410 bn.

**Stable margins:** The key thrust of L&T management is on improving return on equity through operational excellence, working capital control, divestments and dividend payouts. Core E&C EBITDA margin were lower at 9% in FY19 due to cost provision in the transportation segment, job mix and execution stage. However consolidated margin has improved in FY19 by 173bps YoY to 15.6% due to high margin businesses such as Heavy engineering, defence engineering, IT and financial services. Defence segment margins witnessed an improvement led by favorable job mix and operational efficiency while hydrocarbon margins were maintained on efficient execution. PAT margin has improved from 5.5% in FY16 to 7.3% in FY19.

**Strong financial flexibility and comfortable capital structure:** Strong financial flexibility is driven by the company's demonstrated ability to raise funds at competitive rates, and significant cash balance (including standalone cash and equivalents of around Rs 12,294 crore as on March 31, 2019). Healthy cash accrual of around Rs 5,500-7,000 crore over past few years, and periodic divestments have significantly improved the networth and augmented liquidity. While L&T's net worth has improved significantly over the years, on account of the strong cash accruals, its impact on the capital structure has been partly offset by the additional investments in subsidiaries and the higher working capital requirements. Historically, the L&T group has displayed a conservative financial policy, as is evident in gearing of less than 0.5 times as on March 31, 2019. Consolidated gearing ratio although higher at 1.65x due to financial services portfolio it is improving over the last few years.

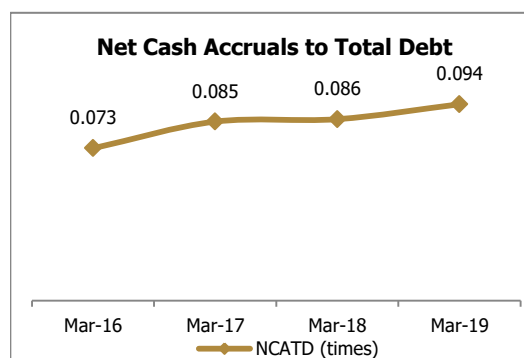
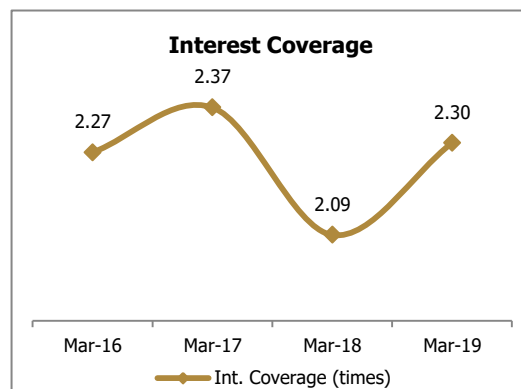
**Robust order book and diversified across markets:** Core E&C order inflows stood at Rs. 387 bn, up 11% YoY as of June 30, 2019. Order backlog of Rs. 2.94 tn provides ~2.5 years of visibility for the core E&C business. With healthy ordering prospects diversified across transportation, power, hydrocarbon, heavy engineering, defense, water, etc., L&T has retained its guidance of 10-12% order inflow growth for FY20. Domestic order book is ~79% of total while Middle East operations form 11% of total order book. Infrastructure segment leads with ~75% of the total order book while Hydrocarbon sector constitutes ~14% of total order book for L&T.

**Digitisation drive for efficiency improvement:** L&T is an early adopter of digital technologies among India's E&C companies, and is adept at IoT, Lidar, photogrammetry, BIM, AI and Machine Learning. Launched three years ago, the digital initiative yielded significant asset productivity gains and process efficiencies to operations ranging from pre-bid engineering and cost-estimation, project execution and monitoring and supply chain interactions. There is a huge opportunity ahead with an increasing number of companies moving towards adopting 'Smart' products, systems & processes to unlock incremental value. While it is too early to talk about financials, "L&T-Nxt" is well positioned to capture a significant market share and become one of the key drivers for L&T's growth in the long term.



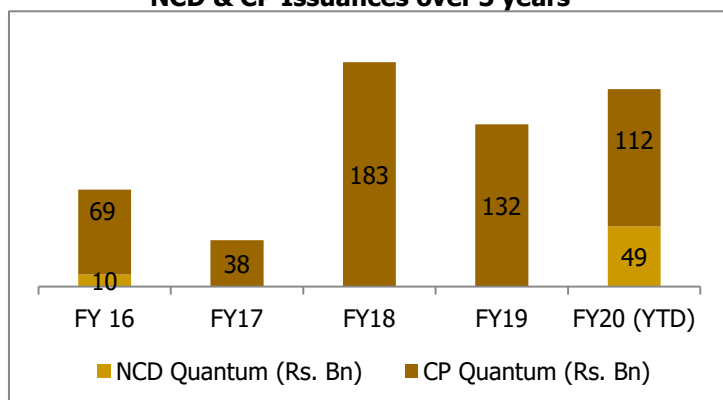
**Management expertise & focus on deleveraging:** L&T is expected to maintain leadership in the E&C segment in India, and is positioned to benefit from the large infrastructure spending in India, over the medium term. Moreover, L&T is likely to maintain its healthy cash accrual despite the challenging market conditions for the E&C segment. Besides, it is expected to continue with its divestment strategy and its capital investments are expected to remain restricted to those required for existing projects over this period. Management's focus on deleveraging and on improving the RoCE, is expected to lead to a better financial risk profile.

**Healthy liquidity:** L&T has healthy liquidity driven by expected cash accruals of more than Rs. 8,500 crore per annum in FY19 and FY20 as well as significant cash balance. L&T also has access to fund based limits of Rs. 10,000 crore which has moderate utilization levels (including commercial paper). L&T has sufficient accruals and cash and cash equivalents to meet its repayment obligations and partly finance its capex requirements and investment requirements in various subsidiaries and JVs. With a gearing of less than 0.5 times as on March 31, 2019, L&T has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.



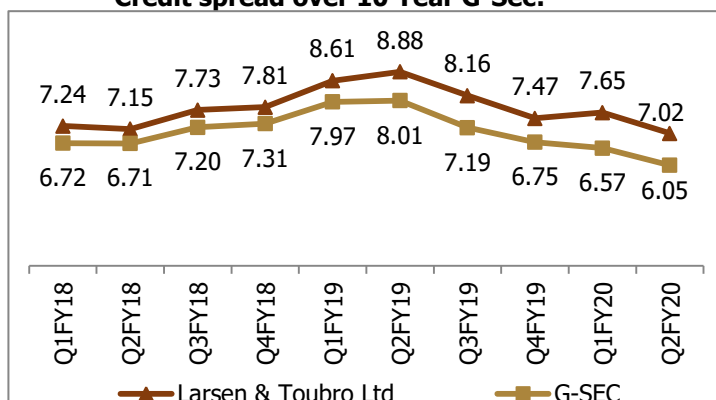
Company Management			
Name	Designation	Name	Designation
Mr. A M Naik	Group Chairman	Mr. S. N. Subrahmanyam	CEO & MD
Mr. R Shankar Raman	Director & CFO	Mr. Shailendra Roy	Director & Sr. Executive VP (Power)
Mr. D. K. Sen	Director & Sr. Executive VP (Infra)	Mr. M. V. Satish	Director & Sr. Executive VP (Bldg)
Mr. J.D. Patil	Director & Sr. Executive VP (Defense)	Mr. Subramanian Sarma	Non Executive Director

### NCD & CP Issuances over 5 years



Source: NSDL, Prime Database

### Credit spread over 10 Year G-Sec:



Source: Thomson Reuters

### Latest Issuance:

Name	Type	Date	Tenor	Coupon (%)	Quantum (Rs. Bn)
Larsen & Toubro Limited	Unsecured	August 19, 2019	1 Year 1 Day	6.77 p.a.	14

### Other Information:

**Auditors** M/s. Deloitte Haskins & Sells LLP

**Financials: (Consolidated)**
**Profit & Loss Statement**

Particulars (in Bn)	FY17	FY18	FY19
<b>INCOME :</b>			
Gross Sales	1100.11	1198.62	1410.07
Net Sales	1093.12	1196.83	1410.07
<b>EXPENDITURE :</b>			
Increase/Decrease in Stock	1.03	-13.64	-8.68
Raw Material Consumed	366.49	409.92	500.11
Power & Fuel Cost	14.23	14.00	22.40
Employee Cost	138.54	152.71	181.01
Other Manufacturing Expenses	299.06	293.88	324.12
General and Administration Expenses	62.83	68.18	85.36
Selling and Distribution Expenses	8.57	6.75	5.96
Miscellaneous Expenses	35.76	99.48	80.23
Less: Expenses Capitalized	0.00	0.00	0.00
Total Expenditure	926.51	1031.28	1190.52
Operating Profit (Excl OI)	166.61	165.55	219.55
Other Income	14.92	48.07	39.78
Operating Profit	181.53	213.62	259.33
Interest	70.17	79.17	95.63
PBDT	111.36	134.45	163.70
Depreciation	23.70	19.29	20.84
Profit Before Taxation & Exceptional Items	87.66	115.16	142.86
Profit Before Tax	88.87	116.39	145.81
Provision for Tax	20.07	31.99	43.43
Profit After Tax	68.81	84.40	102.38

**Key Ratios**

Particulars	FY17	FY18	FY19
<b>Operational &amp; Financial Ratios</b>			
Earnings Per Share (Rs)	64.75	52.59	63.48
DPS(Rs)	21.00	16.00	18.00
Book Value (Rs)	535.00	389.53	442.26
<b>Margin Ratios</b>			
PBIDTM (%)	16.50	17.82	18.39
PATM (%)	6.25	7.04	7.26
<b>Performance Ratios</b>			
ROA (%)	3.41	3.74	3.96
ROE (%)	14.67	16.15	17.56
ROCE (%)	11.50	12.76	13.78
<b>Efficiency Ratios</b>			
Receivable days	90.77	94.10	90.80
Inventory Days	14.92	13.68	14.58
Payable days	119.58	136.63	139.36
<b>Growth Ratio</b>			
Net Sales Growth(%)	8.10	9.49	17.82
Core EBITDA Growth(%)	9.28	17.68	21.40
PAT Growth(%)	23.25	22.66	21.29
<b>Financial Stability Ratios</b>			
Total Debt/Equity(x)	1.88	1.97	2.02
Current Ratio(x)	1.36	1.30	1.24
Quick Ratio(x)	1.31	1.25	1.19
Interest Coverage Ratio	2.27	2.47	2.52

**Peer Comparison as on March 31, 2019**

Particulars (in Bn)	L&T	Engineers India	Rites Ltd
Total Income	1410.07	26.99	22.40
PAT	102.38	3.73	4.82
Equity	2.81	3.16	2.00
Debt	1255.55	0.0	0.48
EBITDA margin (%)	18.39	24.20	37.55
ROE (%)	17.56	15.91	20.78
ROA (%)	3.96	7.53	9.19
Leverage (times)	2.0	0.0	0.01

**Balance Sheet**

Particulars (in Bn)	FY17	FY18	FY19
<b>EQUITY AND LIABILITIES</b>			
Share Capital	1.87	2.80	2.81
Shareholder's Funds	502.17	549.04	623.75
Long-Term Borrowings	673.41	729.15	741.21
Other Non-current liabilities	-2.00	-11.72	-21.96
Total Non-Current Liabilities	671.40	717.43	719.25
Current Liabilities	0.00	0.00	0.00
Trade Payables	302.95	377.97	429.95
Other Current Liabilities	397.88	488.67	581.95
Short Term Borrowings	165.34	193.32	292.24
Short Term Provisions	29.08	32.78	41.75
Total Current Liabilities	895.25	1092.74	1345.89
Total Liabilities	2104.45	2411.23	2757.15
<b>ASSETS</b>			
Non-Current Assets	0.00	0.00	0.00
Net Block	130.64	142.34	169.39
Capital Work in Progress	19.45	21.43	24.84
Other Fixed Assets	113.53	113.00	114.36
Non Current Investments	90.66	101.93	114.29
Long Term Loans & Advances	523.19	610.07	653.00
Other Non-Current Assets	8.58	6.14	11.44
Total Non-Current Assets	886.04	994.92	1087.31
Current Assets - Loans & Advances	0.00	0.00	0.00
Currents Investments	143.00	94.64	139.46
Inventories	41.40	48.48	64.14
Sundry Debtors	286.89	331.17	370.38
Cash and Bank	53.06	80.33	117.26
Other Current Assets	267.48	452.54	483.61
Short Term Loans and Advances	426.58	409.15	494.98
Total Current Assets	1218.41	1416.30	1669.84
Miscellaneous Expenses not written off	0.00	0.00	0.00
Total Assets	2104.45	2411.23	2757.15
Total Debt (Long Term Plus Short Term)	939.54	1075.24	1255.55

**Cash flow Statement**

Particulars (in Bn)	FY17	FY18	FY19
Profit Before Tax	87.66	116.39	145.81
Adjustment	24.89	16.09	15.31
Changes In working Capital	-13.98	-198.76	-162.47
Cash Flow after changes in Working Capital	98.57	-66.28	-1.35
Interest Paid	0.00	0.00	0.00
Tax Paid	-32.02	-34.03	-45.82
Other Direct Expenses paid	0.00	0.00	0.00
Extra & Other Item	0.00	0.00	0.00
Cash From Operating Activities	66.55	-100.31	-47.17
Cash Flow from Investing Activities	-97.96	39.15	-109.99
Cash from Financing Activities	28.96	93.70	154.41
Net Cash Inflow / Outflow	-2.45	32.54	-2.75
Opening Cash & Cash Equivalents	37.90	35.45	67.99
Cash & Cash Equivalent on Amalgamation / Take over / Merger	0.00	0.00	0.00
Cash & Cash Equivalent of Subsidiaries under liquidations	0.00	0.00	0.00
Translation adj. on reserves / op cash balances frgn subsidiaries	0.00	0.00	0.00
Effect of Foreign Exchange Fluctuations	0.00	0.00	0.00
Closing Cash & Cash Equivalent	35.45	67.99	65.23

Information Source: Ace Equity, Company Reports, IBEF, NSDL, Prime Database, Bloomberg, Thomson Reuters, Rating Agencies, CRISIL

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