

India

ADD (no change)

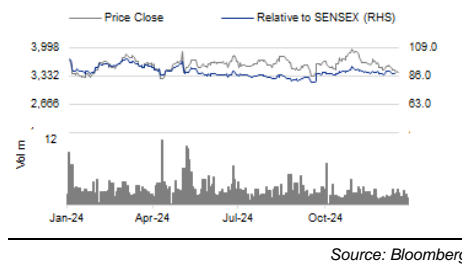
Consensus ratings*: Buy 31 Hold 2 Sell 2

Current price:	Rs3,421
Target price: ▲	Rs4,200
Previous target:	Rs3,980
Up/downside:	22.8%
InCred Research / Consensus:	2.7%
Reuters:	LART.NS
Bloomberg:	LT IN
Market cap:	US\$54,306m
	Rs4,704,253m
Average daily turnover:	US\$89.9m
	Rs7784.6m
Current shares o/s:	1,374.7m
Free float:	38.0%

*Source: Bloomberg

Key changes in this note


- For FY25F, we increase our revenue estimate by 1% and cut PAT estimate by 6% factoring in 3QFY25 numbers, while maintaining them for FY26F/27.




Price performance	1M	3M	12M
Absolute (%)	(4.4)	0.4	(5.8)
Relative (%)	(2.7)	3.8	(12.0)

Major shareholders	% held
LT Employee Trust	14.4
LIC	12.6
SBI MF	4.4

Research Analyst(s)



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Larsen & Toubro Ltd

Highest-ever inflow and record order book

- 3Q EBITDA came in at Rs62.5bn, up 8.6% YoY, 9% below our estimate & 8% below BB consensus estimate. The EBITDA margin fell by 77bp YoY to 9.7%.
- Slowdown in Indian economy largely bottomed out & is likely to improve with govt spending. GCC continues to invest in infrastructure & energy transition.
- For FY25F, we raise revenue estimate by 1% & cut PAT estimate by 6%. Retain ADD rating with a higher SOTP-based TP of Rs4,200 (Rs3,980 earlier).

Healthy order execution continues

Larsen & Toubro (L&T) reported a healthy 3QFY25 revenue of Rs647bn, up 17% YoY (+5% QoQ), in line with our/Bloomberg or BB consensus estimates. Revenue growth was led by infrastructure projects, up 15% YoY, at Rs324bn while energy projects grew by 41% YoY to Rs111bn. EBITDA came in at Rs62.5bn, up 8.6% YoY, 9% below our estimate and 8% below BB consensus estimate. The EBITDA margin declined by 77bp YoY to 9.7%. PAT grew by 14% YoY to Rs33.6bn, 8% below our estimate and 11% below BB consensus estimate.

Maintains guidance

Amid this economic landscape, L&T remains focused on volume-led, profitable growth. With strong order prospects and emerging opportunities, it aims to sustain the momentum. Management maintained its order inflow guidance of 10% and revenue growth guidance of 15% for FY25F. For projects and manufacturing business, the margin is expected to remain at the level like in FY24, at ~8-8.25%. Tendering activity is expected to remain muted, with the total order prospects pipeline set to decline by 12% YoY to Rs5.5tr in the remaining three months of FY25F, largely attributed to a lower hydrocarbon pipeline.

Investments to continue in India and the Middle East

Slowdown in India's economy has largely bottomed out & it is likely to improve led by government spending. Globally, economic uncertainty persists, with the potential US tariff war, sluggish European growth, and concerns over China's economy. However, the GCC region, led by Saudi Arabia, continues to invest in infrastructure & energy transition projects.

Retain ADD rating with a higher target price of Rs4,200

The Indian economy is expected to grow amid strong rural consumption, a robust services sector, and increased government spending on infrastructure post-elections. The upcoming Union Budget is likely to focus on balancing policy continuity with fiscal discipline. However, challenges such as global market volatility, trade wars, and inflation could impact growth sustainability. For FY25F, we have increased our revenue estimate by 1% and cut the PAT estimate by 6%, factoring in 3Q numbers while maintaining the estimates for FY26F/27F. We retain ADD rating on L&T with a higher SOTP-based target price of Rs4,200 (Rs4,020 earlier) valuing the core business at 28x FY27 (from Sep 2026F) and the listed arm at its current price. Downside risks: Slower-than-expected order inflow and margin pressure coupled with execution miss.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	1,833,407	2,211,129	2,554,572	2,834,014	3,148,515
Operating EBITDA (Rsm)	207,621	234,936	251,194	319,645	357,735
Net Profit (Rsm)	103,347	129,655	140,256	187,302	212,644
Core EPS (Rs)	73.6	92.3	99.8	133.3	151.3
Core EPS Growth	20.1%	25.5%	8.2%	33.5%	13.5%
FD Core P/E (x)	46.51	37.07	34.27	25.66	22.60
DPS (Rs)	21.0	21.0	22.0	22.0	22.0
Dividend Yield	0.61%	0.61%	0.64%	0.64%	0.64%
EV/EBITDA (x)	28.46	25.35	24.14	18.93	16.96
P/FCFE (x)	35.58	46.19	39.79	35.11	43.30
Net Gearing	92.7%	96.2%	96.5%	83.8%	74.6%
P/BV (x)	5.38	5.57	4.94	4.26	3.67
ROE	12.0%	14.8%	15.3%	17.8%	17.4%
% Change In Core EPS Estimates			11.28%		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY25 conference-call highlights

- **Overview:** For 3QFY25, L&T reported a healthy 17% YoY growth in revenue at Rs647bn driven by a strong order book and improved execution momentum in its project & manufacturing businesses. International revenue stood at Rs328bn, contributing 51% to total revenue, reflecting better execution in the international P&M portfolio. It reported PAT of Rs33.6bn, up 14% YoY.
- **Highest-ever quarterly inflow:** L&T posted its highest-ever quarterly order inflow and also a record order book, attributing it to operational excellence and a customer-centric approach. The project business continues to benefit from improved productivity, driven by sustained digital adoption. The international orders contributed 54% to total inflow. The order book stood at a record Rs5,642bn at the end of 3QFY25, up 19% YoY, in which international orders accounted for ~42%. For 3Q, it reported the highest-ever quarterly orders at Rs1,160bn, a substantial growth of 53% YoY. It received orders across multiple geographies and sectors, including thermal power, renewable energy, power transmission, water and hydrocarbon onshore.
- **Guidance:** Despite a healthy order inflow of Rs,2,670bn (16% YoY) in 9MFY25, the company maintained its 10% order inflow guidance for FY25F and revenue growth guidance of 15% for FY25F. For the project and manufacturing business, the margin is expected to remain at a level like in FY24, at ~8-8.25%.
- **Order prospects:** Total prospective order pipeline to decline by 12% YoY to Rs5.51tr for the remaining three months of FY25F, largely attributed to a lower hydrocarbon and carbon light order pipeline. The pipeline of infrastructure projects stood at Rs4.0tr vs. Rs4.01tr YoY, hydrocarbon at Rs1.44tr vs. Rs1.71tr YoY, and heavy engineering at Rs0.06tr vs. 0.16tr YoY.
- **Working capital & profitability:** The net working capital or NWC-to-sales ratio stood at 12.7% as of Dec 2024-end, up 390bp YoY, led by strong customer collections during the quarter. RoE, on a TTM basis, stood at 16.1%, up 90bp YoY
- **Infrastructure:** The infrastructure project segment reported an order inflow of Rs491bn, up 14% YoY, led by international orders accounting for 74% of the total inflow, driven by significant orders in renewable energy and power T&D. The order book stood at 3,613bn, with international orders contributing 37% to the total. Revenue for the quarter touched Rs321bn, up 15% YoY. International revenue constituted 42% of it. The EBITDA margin remained flat at 5.5%.
- **Energy segment:** The energy project segment's order inflow doubled in 3QFY25 to Rs389bn, driven by mega orders in CarbonLite Solutions and hydrocarbon businesses. International orders contributed 33% to total order inflow. The order book stood at 1,459bn, with international orders accounting for 66% of the total. Revenue grew by 41% YoY to Rs110bn led by execution ramp-up of international projects, which contributed 66% to revenue. The EBITDA margin for the quarter stood at 8.3%, lower than 9.7% YoY, due to the stage of execution of ongoing projects.
- **Hi-tech manufacturing:** The hi-tech manufacturing segment secured orders worth Rs84bn, up 100% YoY, led by a major order in the precision engineering & systems business. Export orders contributed 15% to the total inflow. The order book stood at Rs418bn, with exports making up 11% of the total. The revenue for the quarter rose by 18% YoY to Rs24bn, supported by improved progress in precision engineering & systems projects, with international revenue constituting 23% of the total. The segment's EBITDA margin improved to 18.2% from 16.7% YoY.

Figure 1: Results summary

Rs m	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Net Revenue	6,46,678	5,51,278	17.3%	6,15,546	5.1%	18,13,422	15,40,342	17.7%
Domestic	3,16,872	3,08,278	2.8%	2,95,462	7.2%	9,42,979	8,00,978	17.7%
International	3,29,806	2,43,000	35.7%	3,20,084	3.0%	8,70,442	7,39,364	17.7%
Expenditure								
RM costs	4,19,719	3,52,294	19.1%	3,94,575	6.4%	11,56,055	9,56,094	20.9%
Employee expenses	1,19,122	1,02,533	16.2%	1,14,557	4.0%	3,44,114	3,04,415	13.0%
Admin expenses	28,855	24,465	17.9%	27,244	5.9%	84,643	74,278	14.0%
Finance cost of financial activity	16,433	14,397	14.1%	15,550	5.7%	46,288	42,959	7.8%
Total expenses	5,84,129	4,93,688	18.3%	5,51,925	5.8%	16,31,100	13,77,746	18.4%
EBITDA	62,549	57,590	8.6%	63,620	-1.7%	1,82,322	1,62,596	12.1%
Depreciation	10,470	9,208	13.7%	10,238	2.3%	30,688	26,611	15.3%
EBIT	52,079	48,382	7.6%	53,382	-2.4%	1,51,634	1,35,985	11.5%
Interest	8,427	9,042	-6.8%	8,844	-4.7%	25,885	26,195	-1.2%
Other income	9,679	8,378	15.5%	11,013	-12.1%	29,898	31,163	-4.1%
PBT	53,330	47,718	11.8%	55,551	-4.0%	1,55,648	1,40,953	10.4%
Total tax	13,320	11,773	13.1%	14,423	-7.6%	40,108	35,291	13.7%
Adjusted PAT	40,010	35,945	11.3%	41,128	-2.7%	1,15,540	1,05,662	9.3%
Reported PAT	40,010	35,945	11.3%	41,128	-2.7%	1,15,540	1,05,662	9.3%
Profit of associates (net)	(271)	(17)	1519.8%	(140)	93.6%	(365)	(323)	13.0%
Adj. for MI in subsidiaries	(6,152)	(6,455)	-4.7%	(7,036)	-12.6%	(19,777)	(18,709)	5.7%
Reported PAT after MI	33,588	29,474	14.0%	33,953	-1.1%	95,398	86,630	10.1%
Adjusted PAT after MI	33,588	29,474	14.0%	33,953	-1.1%	95,398	86,630	10.1%
Adj. EPS (Rs)	24.4	21.4	14.0%	24.7	-1.1%	69.4	63.0	10.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and orders

Key ratios	3QFY25	3QFY24	YoY (bp)	2QFY25	QoQ (bp)	9MFY25	9MFY24	YoY (bp)
MCO exp to Sales (%)	64.9%	63.9%	100	64.1%	80	63.7%	62.1%	168
Staff cost to sales (%)	18.4%	18.6%	-18	18.6%	-19	19.0%	19.8%	79s
SGA exp to sales (%)	4.5%	4.4%	2	4.4%	4	4.7%	4.8%	-15
EBITDA margin (%)	9.7%	10.4%	-77	10.3%	-66	10.1%	10.6%	-50
EBIT margin (%)	8.1%	8.8%	-72	8.7%	-62	8.4%	8.8%	-47
Net margin (%)	5.1%	5.3%	-15	5.4%	-30	5.2%	5.5%	-34
Effective tax rate (%)	25.0%	24.7%	30	26.0%	-99	25.8%	25.0%	73
Gross Margin (%)	35.1%	36.1%	-100	35.9%	-80	36.3%	37.9%	-168
Orders	3Q FY25	3Q FY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Order inflow	11,60,360	7,59,900	52.7%	8,91,500	30.2%	26,70,180	23,06,630	15.8%
Order backlog	56,42,230	46,98,070	20.1%	45,07,000	25.2%	56,42,230	46,98,070	20.1%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 3: Segmental analysis

Segment Revenue (Rs m)	3Q FY25	3Q FY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Infrastructure	3,24,080	2,82,664	14.7%	3,23,523	0.2%	9,19,397	7,56,388	21.6%
Energy	1,10,554	78,703	40.5%	88,798	24.5%	2,84,356	2,13,550	33.2%
Hi-Tech Manufacturing	25,891	21,847	18.5%	21,759	19.0%	66,847	61,941	7.9%
IT & Technology Services	1,22,189	1,13,260	7.9%	1,19,606	2.2%	3,57,362	3,35,336	6.6%
Financial Services	38,813	34,067	13.9%	38,366	1.2%	1,13,819	95,104	19.7%
Developmental Projects	14,346	12,199	17.6%	13,829	3.7%	41,448	43,694	-5.1%
Others	18,874	17,418	8.4%	17,925	5.3%	51,774	59,770	-13.4%
Total Revenue	6,54,746	5,60,157	16.9%	6,23,807	5.0%	18,35,003	15,65,783	17.2%
Less: Inter-Segment revenue	8,068	8,879	-9.1%	8,261	-2.3%	21,582	25,441	-15.2%
Net Revenue	6,46,678	5,51,278	17.3%	6,15,546	5.1%	18,13,422	15,40,342	17.7%
Revenue (Ex-Service)	4,79,398	4,00,632	19.7%	4,52,006	6.1%	13,22,374	10,91,649	21.1%

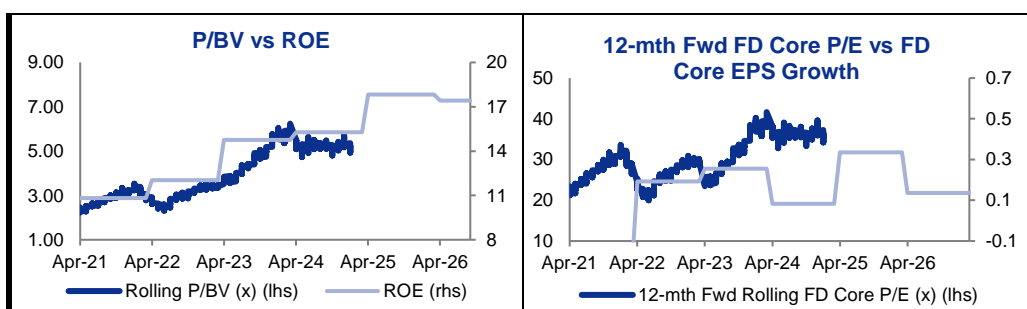
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 4: Earnings revision summary

(Rs m)	New estimates			Old Estimates			Change		
	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Revenue	25,54,572	28,34,014	31,48,515	25,29,344	28,34,192	31,49,058	1.0%	0.0%	0.0%
EBITDA	2,51,194	3,19,645	3,57,735	2,63,714	3,19,696	3,57,657	-4.7%	0.0%	0.0%
PAT	1,40,256	1,87,302	2,12,644	1,49,646	1,87,341	2,12,586	-6.3%	0.0%	0.0%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	1,833,407	2,211,129	2,554,572	2,834,014	3,148,515
Gross Profit	667,472	751,623	901,764	991,905	1,095,683
Operating EBITDA	207,621	234,936	251,194	319,645	357,735
Depreciation And Amortisation	(35,023)	(36,823)	(38,498)	(42,244)	(44,516)
Operating EBIT	172,598	198,113	212,696	277,401	313,218
Financial Income/(Expense)	(32,072)	(35,458)	(34,229)	(35,006)	(35,834)
Pretax Income/(Loss) from Assoc.	(943)	(226)	(249)	(299)	(358)
Non-Operating Income/(Expense)	29,292	41,580	40,749	39,934	39,135
Profit Before Tax (pre-EI)	168,876	204,009	218,967	282,031	316,161
Exceptional Items					
Pre-tax Profit	168,876	204,009	218,967	282,031	316,161
Taxation	(44,930)	(49,474)	(54,804)	(70,582)	(79,130)
Exceptional Income - post-tax					
Profit After Tax	123,946	154,535	164,163	211,448	237,031
Minority Interests	(20,599)	(24,880)	(23,907)	(24,146)	(24,387)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	103,347	129,655	140,256	187,302	212,644
Recurring Net Profit	103,347	129,655	140,256	187,302	212,644
Fully Diluted Recurring Net Profit	103,347	129,655	140,256	187,302	212,644

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	207,621	234,936	251,194	319,645	357,735
Cash Flow from Invt. & Assoc.	(37,802)	(30,701)	(31,978)	(37,316)	(41,215)
Change In Working Capital	14,097	104,377	(228,002)	(178,805)	(231,975)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	111,268	(107,354)	86,397	87,748	87,746
Net Interest (Paid)/Received	2,780	(6,122)	(6,519)	(4,928)	(3,301)
Tax Paid	(44,930)	(49,474)	(54,804)	(70,582)	(79,130)
Cashflow From Operations	253,033	145,662	16,288	115,763	89,859
Capex	(45,733)	(8,044)	(69,748)	(45,465)	(47,611)
Disposals Of FAs/subsidiaries	(51,949)	(30,409)	(10,000)	(10,000)	(10,000)
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	29,292	41,580	40,749	39,934	39,135
Cash Flow From Investing	(68,391)	3,128	(38,999)	(15,531)	(18,476)
Debt Raised/(repaid)	(49,549)	(44,736)	143,501	36,658	39,633
Proceeds From Issue Of Shares	1	(62)			
Shares Repurchased		(100,300)			
Dividends Paid	(29,506)	(29,506)	(30,911)	(30,911)	(30,911)
Preferred Dividends					
Other Financing Cashflow	(49,327)	(56,995)	(54,793)	(55,809)	(56,878)
Cash Flow From Financing	(128,381)	(231,599)	57,796	(50,062)	(48,156)
Total Cash Generated	56,262	(82,810)	35,085	50,170	23,226
Free Cashflow To Equity	135,094	104,053	120,789	136,889	111,016
Free Cashflow To Firm	152,571	113,331	(56,941)	65,226	35,549

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	225,196	153,584	188,898	238,922	261,654
Total Debtors	447,315	487,710	629,894	698,798	776,346
Inventories	68,288	66,202	97,984	93,173	103,513
Total Other Current Assets	774,494	775,581	1,049,824	1,242,307	1,509,562
Total Current Assets	1,515,293	1,483,077	1,966,599	2,273,201	2,651,075
Fixed Assets	466,954	438,175	469,425	472,646	475,741
Total Investments	1,261,798	1,436,384	1,398,485	1,362,980	1,329,751
Intangible Assets					
Total Other Non-Current Assets	33,544	33,301	29,971	26,974	24,276
Total Non-current Assets	1,762,295	1,907,860	1,897,880	1,862,600	1,829,768
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,013,138	1,156,104	1,364,771	1,436,418	1,552,693
Other Current Liabilities	43,644	44,450	55,991	62,115	69,009
Total Current Liabilities	1,056,782	1,200,554	1,420,762	1,498,533	1,621,701
Total Long-term Debt	1,185,134	1,140,398	1,283,898	1,320,556	1,360,189
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,185,134	1,140,398	1,283,898	1,320,556	1,360,189
Total Provisions					
Total Liabilities	2,241,916	2,340,952	2,704,660	2,819,090	2,981,891
Shareholders Equity	893,260	863,592	972,937	1,129,328	1,311,061
Minority Interests	142,413	161,904	161,904	161,904	161,904
Total Equity	1,035,672	1,025,497	1,134,841	1,291,233	1,472,965

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	17.1%	20.6%	15.5%	10.9%	11.1%
Operating EBITDA Growth	14.0%	13.2%	6.9%	27.3%	11.9%
Operating EBITDA Margin	11.3%	10.6%	9.8%	11.3%	11.4%
Net Cash Per Share (Rs)	(683.21)	(702.33)	(779.33)	(769.82)	(781.85)
BVPS (Rs)	635.75	614.63	692.46	803.76	933.11
Gross Interest Cover	5.38	5.59	6.21	7.92	8.74
Effective Tax Rate	26.6%	24.3%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	28.6%	22.8%	22.0%	16.5%	14.5%
Accounts Receivables Days	90.45	77.17	79.84	85.56	85.51
Inventory Days	19.99	16.82	18.13	18.94	17.49
Accounts Payables Days	308.71	271.25	278.35	277.52	265.74
ROIC (%)	15.8%	22.1%	16.6%	18.0%	(8.2%)
ROCE (%)	7.8%	9.0%	9.3%	11.0%	11.5%
Return On Average Assets	4.5%	5.3%	5.2%	5.9%	5.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.