

News monitored for: JM Financial

# Margin is the villain in L&T story, for now

Harsha Jethmalani & Pallavi Pengonda  
harsha.j@htlive.com

Larsen & Toubro (L&T) investors could not be more pleased. The infrastructure behemoth fared well on most of the key parameters in the June quarter (Q1FY24). Further, the share buyback and special dividend announcement has also got them excited. On Wednesday, L&T's shares closed 3.3% higher, and hit a 52-week high during trading hours.

In Q1, revenues from L&T's core business—project and manufacturing—rose 49% year-on-year to ₹32,718 crore, aided by improved execution across segments. Further, order inflows from this segment jumped 80% y-o-y to almost ₹50,400 crore buoyed by the Mumbai Ahmedabad High Speed Rail project contract. This went a long way in driving consolidated order inflows, which also got a boost from large orders in the infrastructure and hydrocarbon segments.

The upshot is that L&T's consolidated order book hit an all-time high of ₹4.1 trillion at June-end. Here, domestic order book accounts for 71%, while international constitutes 29%. According to the management, the outlook for ordering in hydrocarbons and renewables remains strong in the Middle East and Saudi Arabia. Overall, the prospective order pipeline for the rest of this fiscal is robust at ₹10 trillion.

The management has maintained its core revenue guidance of 12-15% growth in FY24. This may seem conservative given the robust order pipeline, but the management is considering the possible softening in awarding activity in Q4 due to general elections.

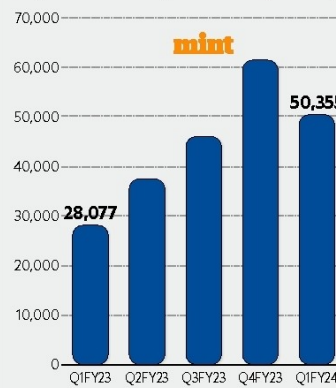
The management also retained its 10-12% order inflows growth target for FY24. After the strong performance seen in Q1, meeting the upper end of the order inflow guidance should not be tough.

Meanwhile, L&T's board has approved a buyback of 33.33 million shares at a maximum price of up to ₹3,000 apiece, a 17% premium to Tuesday's closing price. The

## In good stead

Larsen & Toubro's core business order inflows saw robust year-on-year growth in Q1FY24.

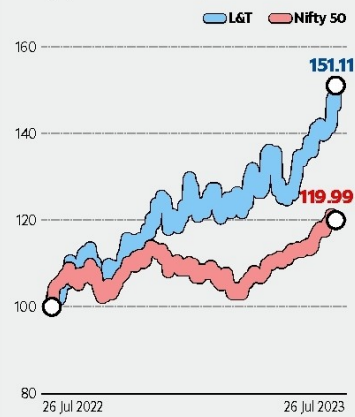
Project & Manufacturing order inflows (in ₹ crore)



Source: Company, JM Financial

## Marching ahead

The company's shares have outperformed the Nifty 50 index sharply in the last one year.



Values rebased to 100

Source: Capitaline

consideration for the buyback is up to ₹10,000 crore. L&T also approved a special dividend of ₹6 per share. The improved cash distribution should help the company inch closer to its targeted return on equity (RoE) of 18% by FY26. Aided by working capital improvement, L&T's trailing twelve months RoE stood at 12.8% in Q1.

Coming to the non-core assets, the Hyderabad Metro continues to operate at a loss due to elevated interest costs.

margin. The wait for improvement continues here as the execution of legacy projects, increased staff cost and commodity costs weighed on operating performance. Despite the strong revenue growth, the project and manufacturing Ebitda margin fell to 7.4% in Q1 from 8.3% in Q1FY23. Ebitda is short for earnings, before interest, tax, depreciation and amortization.

Since the legacy projects are nearing completion by Q2/Q3FY24, the management

expects margin to improve thereafter. Newer projects would also benefit from easing commodity costs. L&T has retained its core margin guidance of 9% for FY24. For now, the stock has rallied by 27% so far in 2023, handsomely beating

benchmark Nifty 50's single-digit returns. "The buyback announcement showcases the company's confidence in its cash flow outlook. Margins will also improve, but gradually," said Amit Anwani, analyst at Prabhudas Lilladher. With order inflows bright and RoE inching toward the company's planned target, margin improvement is a factor investors will watch closely ahead.

## EYE ON THE TARGET

**L&T'S** book hit a high of ₹4.1 trillion at June-end with local orders at 71% and international 29%

**MANAGEMENT** has maintained its core revenue guidance of 12-15% growth for FY24

**IMPROVED** cash distribution should help the firm inch closer to its targeted RoE of 18% by FY26

However, improving ridership and support from the state government does offer some comfort. This also improves the prospects of monetization of this asset. Additionally, the management expects to complete the divestment of Nabha Power project once some pending litigation is sorted.

So far, so good. But all stories have a villain. In this case, it is the core business