

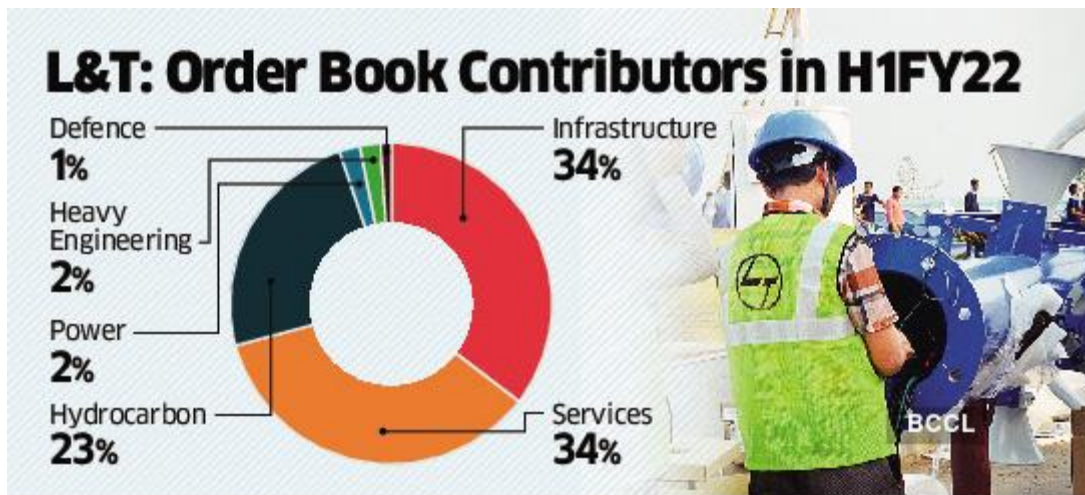
Strong order book, improving execution bodes well for L&T



The revenue visibility of Larsen & Toubro's core engineering and construction (E&C) business has increased amid rising order book and improving labour availability. In addition, the country's largest engineering company has demonstrated better margin control notwithstanding the rising input costs. As a result, the stock has outperformed the benchmark **Nifty 50** by nearly 5% over the past month. It gained nearly 6% in the five trading sessions after its second quarter result last Wednesday even as the benchmark indices shed over 2%.

The company's order backlog increased by 11% year-on-year to Rs 3.3 lakh crore at the end of September 2021, the highest growth in two years. The backlog is equivalent to 3.2 times FY21 revenue. The number of workers at its sites rose to 2,51,000 in October 2021 compared with 1,70,000 in May 2021. As a result, the execution rate of the E&C segment rose by 27% sequentially in the second quarter of FY22. Analysts expect the E&C revenue to grow by 18% and 20% for the current and the next fiscal years respectively.

To counter the effect of higher commodity costs, L&T has been focusing on swift execution to bring more projects to a profitable level and on design changes to rationalise steel usage in the infrastructure segment. Also, nearly two-third of the projects have price fluctuation clauses, which provides a cushion against raw material inflation. As a result, margin of the **infra** segment, which accounts for nearly a quarter of the total operating profit, expanded by 180 basis points year-on-year to 8.2% in the September quarter.



The amount of prospective orders for the second half of FY22 rose by 12% year-on-year to Rs 6.8 lakh crore; over one-third of this is from the overseas market and includes a large hydrocarbon project bagged during the September quarter.

With a spate of positive factors such as strong tendering activity, large order pipeline and operating leverage for margin upside, the valuation of the core E&C business is expected to improve. It accounts for nearly half of the sum of the parts valuation of L&T while the balance is contributed by the listed subsidiaries and infrastructure development projects. The core business continues to trade at 16.5 times one-year forward earnings, which is at par with the long-term average.