Larsen and Toubro (LARTOU)

ICICI Direct

CMP: ₹3930 | Target ₹ 5000 (27%) | Target Period: 12 months | **BUY**

July 29, 2026

Execution headwinds temporary; growth drivers intact...

About the stock: Larsen & Toubro (L&T) is India's largest engineering & construction (E&C) company, with interest in EPC projects, hi-tech manufacturing and services. The company primarily operates in infrastructure, heavy engineering, defence engineering, power, hydrocarbon, services business segments.

- Infrastructure segment contributes ~47% of consolidated revenue followed by services (~27%), energy projects (19%) and international markets (52% of backlog from international markets)

Q1FY27 performance: L&T reported a steady Q1FY27 performance, with consolidated revenue increasing 7% YoY to ₹67,942 crore. EBITDA declined 3% YoY to ₹6,116 crore, while EBITDA margin contracted 90 bps YoY to 9.0%, impacted by execution challenges in the Water & Effluent Treatment business, supply-chain disruptions in the Solar business due to the West Asia conflict, an adverse revenue mix, higher credit provisions and forex-related headwinds in the Technology business. PAT increased 14% YoY to ₹4,123 crore, supported by lower finance costs & higher other income.

Investment Rationale:

- **Record order book and diversified order pipeline provide strong multi-year revenue visibility:** L&T reported Q1FY27 order inflow of ₹1.08 lakh crore (+14% YoY), driven by strong international intake, while the order book expanded 27% YoY to a record ₹7.79 lakh crore, equivalent to over 2.8x FY26 revenue, ensuring robust revenue visibility. International orders contributed 55% of Q1FY27 inflows, while 52% of the total order book is international, with the Middle East (37% of total OB), USA & Europe (8% of total OB), reflecting geographical diversification. Management reiterated its FY27 order inflow guidance of 10–12%, supported by a ₹15 lakh crore opportunity pipeline, despite temporary deferment of Middle East awards, with no project cancellations and award activity expected to improve from Q2FY27.
- **Margin resilience backed by strong cash generation, working capital discipline and high-margin growth businesses:** Despite geopolitical disruptions affecting execution, L&T generated 7% revenue growth and 14% PAT growth, while maintaining its FY27 PPM EBITDA margin guidance of ~7.8%. Net working capital improved sharply to 4.9% of sales (vs 10.1% last year) and collections increased to ₹65,800 crore, resulting in higher treasury income. Importantly, the company has secured ~8 GW of offshore wind HVDC projects with 4–5 year execution and margins expected to be higher than traditional Middle East EPC projects, providing a structural improvement in profitability. Furthermore, management expects cost escalations arising from Middle East logistics disruptions to be largely compensated through customer negotiations, limiting margin downside while preserving long-term profitability.
- **Rating and Target Price:** Overall, we expect revenues and PAT to grow at CAGR of 13.4% and 15.6% over FY26-FY28E. We maintain **BUY** rating with target of **₹5000 (SoTP based).**

Result Update

ICICI Securities – Retail Equity Research

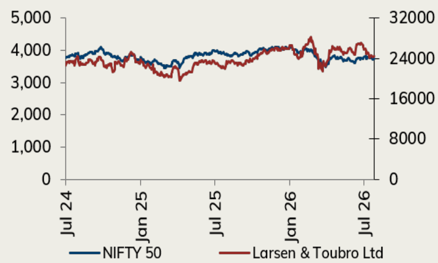
Particulars

Particulars	Rs. (in crore)
Market Capitalisation	5,27,283
Total Debt (FY26)	18,809.0
Cash and Inv. (FY26)	6,429
Enterprise Value	5,39,662.6
52-week H/L (Rs.)	4440/3288
Equity capital	275.0
Face value (Rs.)	2.0

Shareholding pattern

%	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	-	-	-	-
FII	19.5	20.1	18.8	19.1
DII	43.3	43.0	43.3	43.0
Public	37.2	36.9	37.9	37.9

Price Chart



Key risks

(i) Delay in order execution

(ii) lesser than expected improvement in return ratios.

Research Analyst

Chirag J Shah
shah.chirag@icicisecurities.com

Dilip Pandey
dilip.pandey@icicisecurities.com

Gourav Aggarwal
gourav.aggarwal@icicisecurities.com

Key Financial Summary

Particulars (₹ Crore)	FY24	FY25	FY26	2-Year CAGR (FY24-FY26)	FY27E	FY28E	2-Year CAGR (FY26-FY28E)
Net Sales	1,26,235.9	1,42,510.4	1,53,680.2	10.3%	1,70,153.8	1,97,713.0	13.4%
EBITDA	9,684.5	11,591.5	12,565.3	13.9%	13,520.7	16,808.3	15.7%
EBITDA Margin (%)	7.7	8.1	8.2		7.9	8.5	
Adj. Net Profit	9,369.9	11,299.6	13,216.4	18.8%	15,079.2	17,660.3	15.6%
Adj. EPS (₹)	66.8	80.5	94.2		107.5	125.9	
P/ E (x)	62.7	48.8	41.7		36.6	31.2	
RoNW (%)	12.4	13.6	14.5		15.0	15.7	
RoCE (%)	14.0	15.3	16.5		17.2	18.1	

Source: Company, ICICI Direct Research

Q1FY27 Earnings call highlights

- **Financial Performance**:
    - L&T reported a steady Q1FY27 performance, with consolidated revenue increasing 7% YoY to ₹67,942 crore. EBITDA declined 3% YoY to ₹6,116 crore, while EBITDA margin contracted 90 bps YoY to 9.0%, impacted by execution challenges in the Water & Effluent Treatment business, supply-chain disruptions in the Solar business due to the West Asia conflict, an adverse revenue mix, higher ECL provisions and forex-related headwinds in the Technology business. PAT increased 14% YoY to ₹4,123 crore, supported by lower finance costs & higher other income.
- **Infrastructure & Utilities:**
    - **Order inflow:** ₹44,357 crore (+121% YoY), driven by strong wins in Residential & Commercial Buildings and Ferrous Metals.
    - **Order book:** ₹3.51 lakh crore, with international projects contributing 34%.
    - **Revenue:** ₹21,858 crore (-3% YoY) due to execution challenges in the Water & Effluent Treatment business.
    - **EBITDA margin**: 5.1% vs 5.5% YoY, impacted by an unfavourable revenue mix and higher provisions for delayed receivables.
    - International orders constituted 21% of quarterly inflows, while international revenue accounted for 26% of segment revenue.
- **Energy – Conventional:**
    - **Order inflow:** ₹3,053 crore (-90% YoY) owing to deferment of large orders and a high base from an ultra-mega CarbonLite Solutions order last year.
    - **Order book:** ₹2.22 lakh crore, with 63% international exposure.
    - **Revenue:** ₹14,239 crore (+14% YoY) supported by improved execution in Hydrocarbon and CarbonLite Solutions.
    - **EBITDA margin:** Improved to 7.6% from 7.5%.
    - International orders contributed 77% of inflows and international revenue formed 68% of segment revenue.
- **Energy – Green:**
    - **Order inflow:** ₹33,042 crore (+58% YoY) led by ultra-mega Offshore Wind orders.
    - **Order book:** ₹1.47 lakh crore, with 97% international exposure.
    - **Revenue:** ₹5,607 crore (-11% YoY) due to supply-chain disruptions in the Solar business arising from the West Asia conflict.
    - **EBITDA margin:** 6.0% vs 6.1% YoY.
    - International orders contributed 98% of inflows and international revenue represented 87% of segment revenue.
- **Manufacturing & Products:**
    - **Order inflow:** ₹5,535 crore (+74% YoY) driven by multiple Heavy Engineering refinery equipment orders.
    - **Order book:** ₹42,476 crore.
    - **Revenue:** ₹4,486 crore (+9% YoY) supported by Precision Engineering, Construction Equipment & Mining Machinery and Rubber Processing Machinery.
    - **EBITDA margin:** 15.2% vs 17.5%, impacted by an adverse sales mix.

  - Export orders accounted for 59% of inflows, while international revenue contributed 16%.

- **Realty:**
  - **Order inflow:** ₹1,299 crore (+32% YoY) on strong bookings from new launches.
  - **Order book:** ₹17,330 crore.
  - **Revenue:** ₹1,009 crore (>100% YoY) driven by higher residential handovers.
  - **EBITDA margin:** 36.9% vs 48.8%, reflecting a change in project mix.

- **Development Projects:**
  - Segment includes Nabha Power (till divestment), Hyderabad Metro (till 30 April 2026) and Green Energy assets.
  - **Revenue:** ₹1,074 crore.
  - **EBIT:** ₹124 crore vs ₹132 crore YoY.
  - During the quarter, the company completed the divestment of Nabha Power and signed an agreement to divest Hyderabad Metro, in line with its strategy to exit the concessions portfolio.

- **Guidance & Outlook:**
  - Management reiterated FY27 **order inflow** and **revenue** growth guidance of 10–12%, supported by a healthy ~₹15 trillion opportunity pipeline for the remaining nine months of FY27 and a record ₹7.79 lakh crore order book. Despite temporary project deferments during Q1FY27, the company expects order awards to improve from Q2FY27, particularly in the Middle East, with no project cancellations across its active bidding pipeline.
  - **PPM EBITDA margin** guidance has been maintained at ~7.8% for FY27.
  - **Working capital** guidance remains unchanged at ~10% of revenue, with strong collection momentum across domestic and international markets, including the Middle East.

Exhibit 1: SOTP Valuation

Company (₹per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	5663.6	82.3	4027.4	80.6	2517.1	78.4
L&T Finance Holdings	332	4.8	284	5.7	166	5.2
L&T IT Subsidiaries	827	12.0	662	13.2	496.3	15.5
L&T Power Development	13	0.2	8.6	0.2	7.7	0.2
L&T MHI JV	12	0.2	5.0	0.1	2.6	0.1
Other E&C, MIP & E&E Sub	29	0.4	10.0	0.2	12.3	0.4
Total	6879	100.0	5000	100.0	3209	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Total operating Income	**1,42,510**	**1,53,680**	**1,70,154**	**1,97,713**
Growth (%)	12.9	7.8	10.7	16.2
Raw Material Expenses	19,370	22,525	22,625	23,685
Employee Expenses	10,243	11,603	12,467	13,480
Other Operating Expenses	82,599	86,887	97,869	1,17,174
Sales, admin & Other Exp	3,894	3,502	6,303	7,080
Other Mfg. Expenses	14,813	16,598	17,368	19,486
Total Operating Expenditure	1,30,919	1,41,115	1,56,633	1,80,905
EBITDA	**11,591**	**12,565**	**13,521**	**16,808**
Growth (%)	20	8	8	24
Depreciation	1,612	1,731	1,850	1,968
Interest	1,686	1,601	1,599	1,552
Other Income	5,676	7,358	8,845	8,904
PBT	13,969	16,592	18,917	22,193
Others	0.0	0.0	0.0	0.0
Total Tax	2,670	3,376	3,838	4,532
Adj. PAT (Ex-E&A)	**11,300**	**13,216**	**15,079**	**17,660**
Growth (%)	20.6	17.0	14.1	17.1
Adj. EPS (Rs.)	**80.5**	**94.2**	**107.5**	**125.9**

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Profit after Tax	11,299.6	13,216.4	15,079.2	17,660.3
Add: Depreciation	1,611.9	1,730.7	1,849.5	1,968.4
(Inc)/dec in Current Assets	-18,876	-2,271	-44	-31,850
Inc/(dec) in CL and Provisions	13,143.4	4,353.9	5,567.9	25,504.3
CF from operating activities	**7,179.0**	**17,029.7**	**22,453.1**	**13,282.6**
(Inc)/dec in Investments	-3,000.0	-5,000.0	-9,000.0	-12,000.0
(Inc)/dec in Fixed Assets	-1,200.0	-1,200.0	-1,201.0	-1,202.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	**-5,806.0**	**-5,904**	**-9,721**	**-16,518.2**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-4,210	-4,911	-5,893	-6,314
Inc/(dec) in Sec. premium	50.0	50.0	50.0	50.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	**-5,038**	**-5,739**	**-5,721**	**-6,142**
Net Cash flow	-3,664.6	5,386.1	7,010.7	-9,378.0
Opening Cash	4,707.9	1,043.3	6,429.4	13,440.1
Closing Cash	**1,043.3**	**6,429.4**	**13,440.1**	**4,062.1**

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Liabilities				
Equity Capital	281	281	281	281
Reserve and Surplus	82,446	90,923	1,00,281	1,11,799
Total Shareholders funds	82,727	91,204	1,00,562	1,12,080
Total Debt	19,809	18,809	18,809	18,809
Total Liabilities	**1,03,613**	**1,11,155**	**1,20,578**	**1,32,161**
Assets				
Gross Block	19,269	20,469	21,669	22,870
Less: Acc Depreciation	10,310	11,948	13,705	15,580
Net Block	8,959	8,521	7,964	7,290
Capital WIP	1,100	1,100	1,101	1,102
Total Fixed Assets	10,059	9,621	9,065	8,392
Investments	53,174	58,174	67,174	79,174
Inventory	5,931	5,859	5,796	7,205
Debtors	50,757	54,735	58,272	70,418
Loans and Advances	1,047	797	1,245	1,523
Other Current Assets	71,386	70,000	66,123	84,139
Cash	1,043	6,429	13,440	4,062
Total Current Assets	1,30,163	1,37,821	1,44,875	1,67,347
Creditors	58,566	63,156	69,926	81,252
Provisions	2,753	2,968	3,287	3,819
Total Current Liabilities	99,965	1,04,319	1,09,886	1,35,391
Net Current Assets	30,199	33,502	34,989	31,957
Others Assets	0	0	0	0
Application of Funds	**1,03,613**	**1,11,155**	**1,20,578**	**1,32,161**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Per share data (Rs.)				
EPS	80.5	94.2	107.5	125.9
Cash EPS	93.1	107.7	122.0	141.5
BV	596.9	658.0	725.5	808.5
DPS	30.0	35.0	0.0	0.0
Cash Per Share	7.5	46.3	96.9	29.3
Operating Ratios (%)				
EBITDA Margin	8.1	8.2	7.9	8.5
PBT / Total Operating income	9.8	10.8	11.1	11.2
PAT Margin	7.9	8.6	8.9	8.9
Inventory days	13.5	14.0	12.5	12.0
Debtor days	130.0	130.0	125.0	130.0
Creditor days	150.0	150.0	150.0	150.0
Return Ratios (%)				
RoE	10.7	10.4	14.5	15.0
RoCE	14.0	15.3	16.5	17.2
RoIC	9.9	10.9	11.6	12.1
Valuation Ratios (x)				
P/E	48.8	41.7	36.6	31.2
EV / EBITDA	48.7	44.4	40.7	33.3
EV / Net Sales	4.0	3.6	3.2	2.8
Market Cap / Sales	3.8	3.5	3.2	2.8
Price to Book Value	6.6	6.0	5.4	4.9
Solvency Ratios				
Debt/EBITDA	1.7	1.5	1.4	1.1
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.3	1.3	1.3	1.2
Quick Ratio	**1.3**	**1.3**	**1.2**	**1.2**

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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