

Pick of the week



L&T

Recommendation

BUY

Time Period

12 Months

Current Price

₹1514

Target Price

₹1720

Potential Upside

13.6%

Investment Argument

- Government's impetus on infrastructure spending bodes well for L&T. This should lead to quick order finalization and eventual scale-up in execution.
- L&T has diversified into several countries in Africa and Asia since FY18, using Power T&D (and in some cases Hydrocarbon) segments to enter.
- The competitive intensity remains benign as peers are consolidating operations and have healthy starting order backlog. Volume boost coupled with benign competition may yield sustainable pricing gains.
- We envisage an uptick in ordering from FY23. We assume a 40% EPS growth over FY20-23 adjusted for effects of Covid-19 and sale of E&A (Electrical & Automation) business.
- We value core E&C (Engineering & Construction) business at earnings multiple of 17x (on March 23E). We arrive at the sum of the parts (SoTP) based fair value of Rs1,720.