

On an Expansion Spree, L&T Plans to Raise \$500m via QIP

Indulal PM & Rajesh Mascarenhas

Mumbai

Board of engineering & construction co likely to approve proposed fund-raising plan this week

Engineering and construction conglomerate Larsen and Toubro (L&T) plans to raise as much as \$500 million (by selling shares to institutional investors, joining the league of a group of large companies taking advantage of a liquidity-driven market rally to fund their capital requirements.

The issue, expected to be launched in a few weeks after getting the board and shareholder approvals, will be a real test of the institutional appetite for companies catering to India's infrastructure sector.

L&T's board is expected to approve the proposed fund-raising plan as early as this week, multiple sources close to the issue process told ET. An email query sent to L&T did not elicit any response.

L&T is India's biggest engineering and construction firm with a market capitalisation of ₹1,40,829 crore. The stock has gained 20% in six months, significantly outperforming the benchmark index, which has gained 8.66% during this period.

Analysts said investor interest in L&T's upcoming share sale could be strong as the stock, even after its recent rally, is trading at 15 times its September 2018 estimated core earnings, which is lower than its average valuations.

"We prefer L&T in the capital goods sector and recommend it as a top pick in the large-cap space, given that it offers the strongest growth profile with visibility and improvements in the offering," said Vivek Sharma, analyst, ICICI Securities. "We believe improvement in the core business would not only drive earnings but also the earnings multiple."

Nearly half-a-dozen companies have raised about ₹3,700 crore in September by selling shares to institutional investors, three times what was generated in the first eight months of the year.

Indian companies are expected to raise ₹10,000-12,000 crore by selling shares to qualified institutional investors in the next few weeks, ET reported last month.

L&T will use the share sale proceeds to fund expansion. The domestic engineering giant plans to double its revenues in the next five years as it focuses on sunrise sectors such as defence and explores new markets such as Africa. The company aims to achieve a 15% compounded annual growth rate to reach that target as it believes a revival in sentiment and an expected further cash flow into the core infrastructure space will help it to keep the order inflow momentum.

L&T's consolidated debt stood at ₹1,01,517 crore as of March. It has won key projects in the western-dedicated freight corridor laying of tracks from Iqbalgarh to Vadodara, a total of 725 km; electrification, and signaling and telecommunications works on a stretch of 897 km from Vadodara to JNPT, Mumbai.

Bankers expect many more companies in the engineering and construction sectors to tap the market to raise money with investment activity set to pick up.

Between January and September, 13 companies raised ₹4,468 crore compared with 32 companies that raised ₹19,064.9 crore through the QIP route in all of 2015. Earlier last month, Motherson Sumi raised about ₹2,000 crore, while Bharat Financials garnered ₹750 crore through QIP. In the year before that, 33 companies raised ₹31,684.2 crore, according to Prime Database.

Hitting the Market

L&T is India's biggest engineering and construction firm, with market capitalisation of **₹1,40,829 cr**

It plans to take advantage of the liquidity-driven market rally to fund capital requirements

Its **\$500m QIP** to be launched in a few weeks after board and shareholder approvals

The issue will be the real test of institutional appetite for cos in the infrastructure sector

Analysts expect investor interest in the share sale to be strong

Half-a-dozen companies raised ₹3,700 cr in Sept by selling shares to institutional investors