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May 8, 2024

BSE Limited Phiroze Jejeebhoy Towers, Dalal Street, MUMBAI - 400 001 **STOCK CODE: 500510**	National Stock Exchange Of India Limited Exchange Plaza, 5th Floor Plot No.C/1, G Block Bandra-Kurla Complex Bandra (E), Mumbai - 400 051 **STOCK CODE: LT**

Dear Sirs,

Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR) – Credit Rating.

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that S&P Global Ratings vide its letter dated May 8, 2024 has assigned "BBB+ with stable outlook" long-term issuer credit rating to the Company.

Communication received from S&P Global Ratings is enclosed.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Larsen & Toubro Limited
SIVARAM AZHAKANKUMARATH NAIR
Digitally signed by SIVARAM AZHAKANKUMARATH NAIR
Date: 2024.05.08 19:39:33 +05'30'
Sivaram Nair A
Company Secretary &
Compliance Officer
(M. No. - F3939)

S&P Global Ratings

RatingsDirect®

Research Update:

Larsen & Toubro Ltd. Assigned 'BBB+' Rating; Outlook Stable

May 8, 2024

Rating Action Overview

- Larsen & Toubro Ltd. (L&T) is likely to maintain resilient operating performance and generate stable cash flow over the next 24 months, given its leadership in the Indian engineering and construction (E&C) sector, growing presence in the Middle East, and stable earnings from its IT business.
- We expect L&T to maintain a disciplined financial policy of keeping its leverage below 1x despite potentially high shareholder distributions. The company's improving earnings should aid that process.
- On May 8, 2024, S&P Global Ratings assigned its 'BBB+' long-term issuer credit rating to the India-based diversified E&C company.
- The stable rating outlook reflects our expectation that L&T's stable EBITDA margin and strong order backlog will improve its earnings and cash flow over the next two years. This would support deleveraging and strengthen the company's rating headroom.

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Rating Action Rationale

L&T's dominant market position in the Indian E&C sector underpins its business strength. The company has a near monopoly in large and complex E&C projects in India. The company's record of completing various landmark projects on time reflects its strong brand recognition and reputation. This translates into a healthy win rate of 20%-25%, significantly higher than that of its domestic peers.

L&T caters to a wide array of sectors in E&C, including civil infrastructure, hydrocarbon, power transmission and distribution, and heavy engineering. The company has inhouse fabrication capabilities for critical equipment and systems. It can therefore handle projects of all forms. In our view, this diversified and integrated business model enhances L&T's competitive position and supports strong profit margins across its E&C business.

L&T's strong order book will further bolster its market share. The company had a sizable E&C order book of Indian rupee (INR) 4.7 trillion as of Dec. 31, 2023. Its order book-to-revenue ratio is higher than that of most of its peers. This provides revenue visibility over the next 12-24 months. We forecast a strong 10%-13% growth in revenue during this period.

L&T's order book has grown at 10%-20% over the past three years, fueled by healthy inflows from the Middle East. The company's ability to execute these projects on time and within budget will be crucial for further growth in the region.

L&T's growing presence in the Middle East will improve its revenue diversity. The company derived 75% of its E&C revenue domestically in fiscal year 2023 (ended March 31, 2023). The local concentration is higher than peers' and exposes the company to geographical concentration risks. We expect an increase in the share of revenue from the Middle East to mitigate these risks to some extent.

The Middle East accounts for 36% of L&T's outstanding E&C order book. These projects are ramping up, and will increase the region's revenue share to 30%-35% from about 25% in fiscal year 2024.

That said, many of these projects are concentrated in Saudi Arabia. As a result, any shift in the country's strategic priorities could hit project execution. Moreover, we view L&T's Middle East exposure to be inherently more sensitive to the cyclical oil and gas sector, where capital investment may be influenced by underlying commodity prices.

An increase in the share of fixed-price contracts could result in volatile E&C earnings. Currently, fixed-price contracts account for 42%-43% of L&T's order book. That share increased in the past two to three years (from 35%-40%) because most of the Middle East contracts awarded in recent times are fixed-price in nature.

As a result, the company is exposed to price risk during the period between bidding and award of a project. Once a project is awarded, L&T gets into back-to-back arrangements with its suppliers for procurement of raw materials, thereby limiting the price exposure to some extent.

In our view, project execution on such fixed-price contracts becomes even more critical amid the company's presence in the Middle East, given the limitations around cost recovery.

L&T's IT business will reduce overall earnings volatility. The company has a controlling stake in LTIMindtree Ltd., the fifth-largest IT company in India, and L&T Technology Services, which operates in the niche segment of engineering research and development (R&D) services. These two companies account for 40% of L&T's consolidated EBITDA.

L&T's diversified presence in the IT sector strengthens its profitability and provides the company with a material earnings stream derived from North America and Europe. Earnings from this business are more stable and predictable than the cyclical E&C business, which has witnessed some volatility in recent times.

While we expect volatility in the E&C business to persist, given the increasing share of fixed-price contracts in the order book, the IT business will likely support a stable consolidated EBITDA margin of 11%-12% over the next two to three years.

Sharp deleveraging has strengthened L&T's financial risk profile. The company has deleveraged significantly over the past three years, thanks to a solid operational performance. Its debt-to-EBITDA ratio declined to 0.6x as of March 2023, from 2.9x as of March 2020. Although the ratio increased marginally as of March 2024 due to higher shareholder returns in the form of share buyback, we expect the deleveraging to resume in fiscal year 2025, supported by strong earnings.

That said, L&T has a large order book, which will require an increasing investment in working capital. Any delay in project execution could result in a significant build-up in working capital and weaken the credit metrics. This remains a key risk, in our view.

L&T's stated intent to exit noncore businesses could accelerate deleveraging beyond our base case. The company plans to sell its entire stake in Nabha Power Ltd. and Hyderabad Metro Railway Ltd., companies identified as noncore to L&T's business. While these entities currently account for 45% of L&T's debt, their contribution to its earnings is limited. A stake-sale would turn L&T into a net cash company.

We deconsolidate L&T Finance Holdings (LTFH) in our assessment of L&T's financial risk. This is because we view LTFH as a well-capitalized non-banking financial institution, with adequate credit fundamentals to be a self-sustaining business. We do not anticipate any capital infusion from L&T into LTFH.

Although LTFH adds some diversity to L&T's portfolio, we expect earnings contribution from the subsidiary to remain modest at about 10% of group EBITDA. As such, we view LTFH to be neutral to L&T's overall credit profile.

Our rating on L&T is currently not constrained by our long-term foreign currency sovereign rating on India. This is despite a large part of the company's earnings and operating assets being in the country. We believe L&T would be able to maintain adequate liquidity during a period of sovereign stress given its large export revenues (45% of total revenues) and limited foreign currency debt exposure (7% of total debt) as of March 31, 2024. L&T's large export revenues are primarily derived from its IT business and Middle East E&C business, which we expect will continue to expand over the coming years.

However, the rating could be capped at two notches above the sovereign rating (BBB-/Stable/A-3) because we believe L&T has a high exposure to country risk due to its significant presence in the E&C segment.

Outlook

The stable rating outlook reflects our expectation that L&T's stable EBITDA margin and continued execution of its strong order book will improve its earnings and cash flow over the next two years. This would support deleveraging and enhance the company's rating headroom.

Downside scenario

We may lower the rating on L&T if adverse operating conditions significantly weaken its profitability or the company sees a sharp increase in working capital requirement.

An indication of this would be L&T's debt-to-EBITDA ratio rising above 1.5x and FFO-to-debt ratio declining to less than 60% on a sustained basis. Sizable acquisitions or aggressive shareholder returns resulting in sustained negative discretionary cash flow (DCF) could lead to such a deterioration in credit metrics.

Upside scenario

We consider an upgrade to be less likely over the next few years because it would require the company's business scale and diversity to strengthen materially. It could also require an upgrade in the sovereign credit rating on India.

An upgrade would also be contingent upon L&T demonstrating a track record and commitment to a more conservative financial policy.

Company Description

L&T is one of Asia's largest E&C companies, with diversified presence in infrastructure, energy, hi-tech manufacturing, IT, financial services, power generation, realty, etc. The company is headquartered in Mumbai. L&T was incorporated in 1938 and was reconstituted as a public limited company in 1950.

L&T Finance Holdings is a 65.9% listed subsidiary of L&T. It houses L&T's financial services business and accounts for about 10% of the group's consolidated EBITDA.

L&T holds a 68.6% stake in LTIMindtree and 73.8% in L&T Technology Services, which are also listed companies. These two companies have presence in the IT and engineering R&D segments, respectively.

Our Base-Case Scenario

Assumptions

- India's real GDP to grow 6.8% in fiscal year 2025, 6.9% in fiscal year 2026, and 7.0% in fiscal year 2027.
- U.S. real GDP will grow by 2.5% in 2024 and 1.5% in 2025, compared with 2.5% growth in 2023. Eurozone real GDP will grow 0.7% in 2024 and 1.3% in 2025, as against 0.5% growth in 2023.
- L&T's revenue growth is likely to moderate to about 10% in fiscal year 2025 because we expect a slowdown in infrastructure- and oil-related capital expenditure (capex) in India and the Middle East, respectively. We expect the revenue to grow at about 13% annually thereafter.
- EBITDA margin to remain solid at 11%-12% in fiscal years 2025 and 2026 as the company starts executing high-margin projects in the Middle East and completes its legacy projects.
- Annual capex to be INR80 billion in fiscal years 2025 and 2026 toward maintenance and building various fabrication capabilities.
- The company to have no outsized shareholder distributions or acquisitions over the next 12-24 months.

Larsen & Toubro Ltd.--Forecast summary

	--Period ending March 31--				
(Bil. INR)	2022a	2023a	2024e	2025f	2026f
Revenue	1,445	1,704	2,028	2,241	2,532

Larsen & Toubro Ltd.--Forecast summary (cont.)

	--Period ending March 31--				
(Bil. INR)	2022a	2023a	2024e	2025f	2026f
EBITDA	180	198	218	249	283
Funds from operations (FFO)	108	127	150	174	202
Debt	170	118	181	177	130
Cash and short-term investments	338	373	327	327	327
Adjusted ratios					
Debt/EBITDA (x)	0.9	0.6	0.8	0.7	0.5
FFO/debt (%)	63.8	107.8	83.0	97.9	155.2
DCF/debt (%)	39.5	60.8	(40.8)	5.1	40.6
Annual revenue growth (%)	18.7	17.9	19.0	10.5	13.0
EBITDA margin (%)	12.5	11.6	10.7	11.1	11.2

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. INR—Indian rupee.

Liquidity

We assess L&T's liquidity as strong. We expect the company's liquidity sources to be about 1.7x uses over the 12 months ending March 31, 2025, and about 1.5x in the subsequent 12 months.

L&T has solid banking relationships with domestic and international banks that we understand have spanned over multiple decades. The company has large uncommitted lines including INR37 billion from domestic and US$759 million from international banks.

The company also has good access to the domestic capital markets, as seen in its frequent bond issuances at competitive rates.

L&T's substantial cash balance of about INR360 billion as of March 31, 2024, should help it to tolerate high-impact, low-probability events.

The company has comfortable headroom against its covenants. We also believe the company will cut shareholder returns and lower capital spending if it faces a liquidity squeeze.

Principal liquidity sources:

- Cash and cash equivalents of about INR360 billion as of March 31, 2024.
- Cash funds from operations of INR165 billion-INR170 billion over the 12 months ending March 31, 2024, and INR190 billion-INR200 billion over the subsequent 12 months.

Principal liquidity uses:

- Debt maturities of INR139 billion over the 12 months ending March 31, 2025, and INR105 billion over the subsequent 12 months.
- Working capital outflow of about INR65 billion over the 12 months ending March 31, 2025, and

INR40 billion over the subsequent 12 months.

- Capex of about INR80 billion annually over the next two years.
- Dividend that we estimate at INR40 billion-INR50 billion in the next two years.

Covenants

We expect L&T to have adequate headroom in its financial covenants even if EBITDA declines by 30% over the next 12 months. The company has the following financial covenants on its external commercial borrowings.

- EBIT-to-Interest Expense > 2.5
- Long-Term-Debt-to-Tangible Net Worth < 1.75
- Tangible Net Worth more than INR250 billion
- Secured-Debt-to-Tangible-Net-Worth < 40% (if breached, security creation of 1.25x cover is required)

Environmental, Social, And Governance

Environmental, social, and governance factors have no material influence on our credit rating analysis of L&T. Ten of the company's board of 18 members are independent directors. The board has good professional diversity.

L&T obtains all necessary environmental clearances in applicable jurisdictions before starting any project. From an environmental risk perspective, the company is exposed to the hydrocarbon and oil and gas end-markets, which account for about 25% of its pending order book. Increasingly, the group continues to be active in the development of renewable and sustainable development projects. L&T aims to achieve carbon neutrality by 2040 and water neutrality by 2035.

L&T has separate board level committees for audit, remuneration, shareholder relations, corporate social responsibility, and risk management. All these committees are chaired by independent members. In terms of governance, processes and oversight are adequate, in our opinion.

Although L&T has some litigation-related obligations, we believe its overall litigation risk is still manageable.

Ratings Score Snapshot

Issuer Credit Rating	**BBB+/Stable/--**
Business risk:	Satisfactory
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk:	Modest
Cash flow/leverage	Modest

Issuer Credit Rating	BBB+/Stable/--
Anchor	bbb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb+
Group credit profile	bbb+
Rating above the sovereign	BBB- (does not cap the issuer rating)

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

New Rating	
Larsen & Toubro Ltd.	
Issuer Credit Rating	BBB+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.