Financial Review 2018-19

I. L&T CONSOLIDATED

A. PERFORMANCE REVIEW

Indian economy is poised to gain out of structural reforms like GST, IBC etc. and initiatives such as Demonetisation. The year witnessed pick up in project awards and improved execution environment. Backed by incremental tax revenues and widening tax base, it is likely to give Central Government good financial wherewithal to fund infrastructure capex as well as uplift weaker sections of society through social spending. State governments have also steadily increased investment in public sector infrastructure projects such as state roads, transmission and distribution networks, metro rail networks and irrigation facilities. With Insolvency & Bankruptcy Code maturing, bank finances were channelled to growth prone areas, resulting in pick up in private sector investments, especially in health sector and in other services sector. This added with Governments thrust on infrastructure growth saw pick up in airports expansion although decision making in areas such as defence manufacturing towards Make in India programme is yet to gather the required momentum.

Public sector spends reflects strong investment momentum in areas of compliance requirements in refinery, reduction in import dependence in fertiliser, water supply & distribution, Metro Rail Networks, Road adjacencies (special bridges, expressways and city flyovers) and Transmission & Distribution. The strong underlying macro drivers of investments in these sectors are expected to continue well into FY 2019-20 and beyond, though the General Elections in first quarter of FY 2019-20 may have some impact on decision making process.

On the global front, the year gone by has seen significant volatility. Increase in protectionist barriers, sensitive geo-political developments, moderation of growth in China, oil price & commodity price fluctuations, are impacting the way of doing business. The business environment remained competitive, with surplus capacity causing pricing pressures.

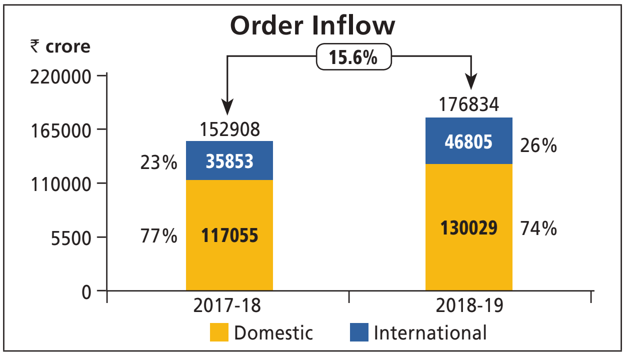
In this backdrop, the Group recorded stellar performance of its businesses in diverse sectors. The Company continued to focus on its goal of maximizing shareholder value by divesting assets identified for sale, achieving operational excellence through digital initiatives in furtherance to improve cost competitiveness, containing working capital along with better funds management and investing in value accretive acquisitions. During the year the Company concluded the stake sale in a container port in Tamil Nadu on receipt of regulatory approvals. The Company also monetized 5 road projects by transferring them to a listed Infrastructure Investment Trust (IndInfravit Trust). The Company has received an approval from Competition Commission of India (CCI) for divestment of its Electrical & Automation business, subject to compliance to certain conditions the details of which are awaited. L&T Metro Rail (Hyderabad) Limited, a subsidiary company, commissioned additional 26 km stretch of metro rail network in the city of Hyderabad during the year. The year also saw growth momentum in its listed subsidiaries namely L&T Infotech Limited, L&T Technology Services and L&T Financial Services with all three of them recording notable growth.

As at March 31, 2019, L&T Group comprises 110 subsidiaries, 8 associates, 27 joint venture companies and 31 joint operations. Most of the group companies are strategic extensions of the project and product businesses of L&T, while hydrocarbon business is housed in a separate set of group companies to provide the desired focus and independent functioning. Majority of the subsidiaries support L&T's core businesses and enable access to new geographies, products and business segments. Certain distinct service businesses such as Information Technology, Technology Services and Financial Services are housed in separate listed subsidiaries. The development projects business reside in separate subsidiaries and joint venture Companies.

Order Inflow and Order Book

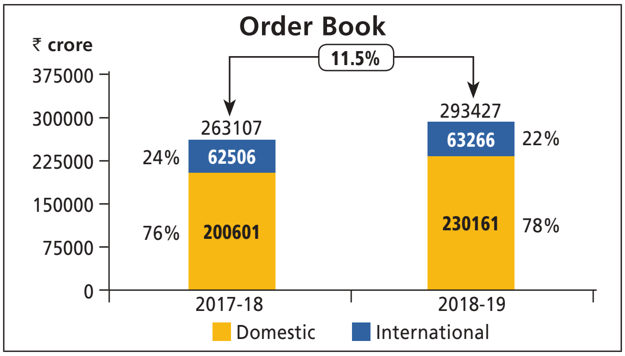
L&T Group achieved order inflow of ₹ 176834 crore during the year 2018-19, registering a growth of 15.6% over the previous year. Focus on infrastructure at both the Centre and States, coupled with pick up in select private sector investments, have resulted in order inflow growth. The year witnessed increased investment by State authorities, especially in water supply & distribution and irrigation sectors. Big ticket orders were received from public sector entities mainly in Infrastructure and Hydrocarbon. During the year, Hydrocarbon business achieved a breakthrough in Algeria on receipt of large value order which boosted International order inflow. This resulted in lowering the composition of business from Middle East.

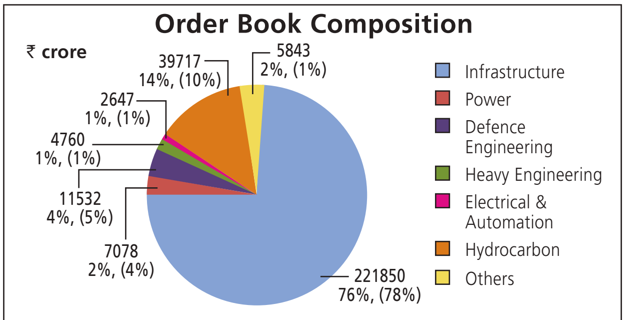
Order Inflow growth was mainly driven by Infrastructure segment, contributing 54% of the total order inflow for the year and Hydrocarbon contributing 16%. Growth was achieved with increased large value orders received from airport, metro, water supply & distribution, lift irrigation, health and refinery segment.



A robust order book of ₹ 293427 crore as at March 31, 2019 gives multi-year revenue and margin visibility to the Company. With current year order inflow being largely domestic centric, the composition of international order book declined to 22% as at March 31, 2019, as compared to 24% in the previous year.

Infrastructure segment continues to contribute 76% of the consolidated order book. With increased opportunities in Hydrocarbon sector, the share in order book has increased from 10% to 14%. As the year saw major order awards from State Government's, the share of order book from State Governments has increased, with reduced share of orders from Central Government.



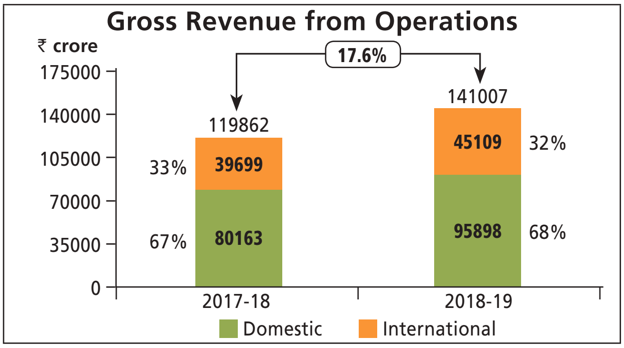


Total Order Book: ₹ 293427 crore as at 31st March 2019

[Figures in brackets relate to previous year]

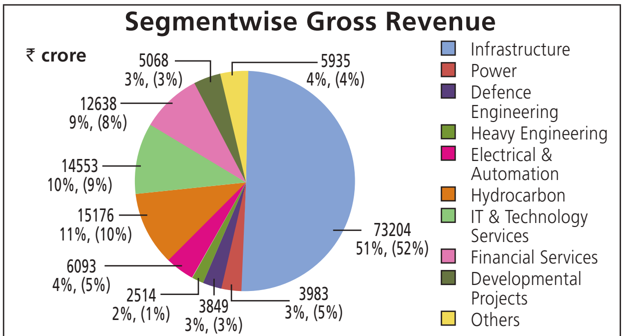
Consolidated Revenue from Operations

L&T Group recorded revenue of ₹ 141007 crore during the year, registering a growth of 17.6%. Revenue earned from international operations comprised 32% as compared to 33% in the previous year.



The growth in revenue was achieved with pick up of execution momentum in project businesses and substantial growth in services businesses. In product business, Electrical & Automation business achieved good growth on better offtake in Electrical Standard Products & higher demands in Metering Protection Systems, while Valves revenue was impacted due to delays in client clearances. Pick up in execution momentum in large value orders in order book in Transportation Infra, Heavy Civil Infra, Water Effluent and Treatment, Hydrocarbon and Defence, led the revenue growth in project business. Revenue in Realty business on application of Ind AS 115 from April 1, 2018, is now recognized based on 'Hand-over' of residential units, change from earlier cost based percentage completion method. This may lead to lumpiness in revenue and profit recognition for a given period.

Share of revenue of Services business increased from 18% to 19%, with similar share being reduced of Infrastructure segment.



* includes inter segment revenue ₹ 2006 crore for FY 19 and ₹ 2046 crore for FY 18

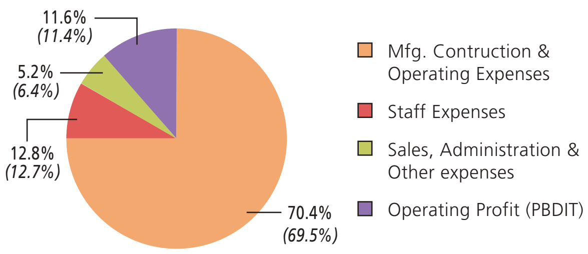
[Figures in brackets relate to previous year]

Operating Cost and PBDIT

Manufacturing, Construction and Operating (MCO) expenses at ₹ 99281 increased by 19.2% over FY 2017-18. These expenses mainly comprise cost of construction material, raw materials and components, subcontracting expenses and interest costs in Financial Services business. This represent 70.4% of revenue, an increase by 90 bps, mainly due to cost overruns encountered in some roads, elevated corridor projects in the Transportation Infrastructure vertical.

Operating expenses & Profitability 2018-19

[% to revenue]



[Figures in brackets relate to previous year]

Staff expenses for the year 2018-19 at ₹ 18101 crore increased by 18.5% over the previous year. Staff Cost as a percentage of revenue marginally increased to 12.8% from 12.7%, representing normal increments and increase in manpower in the services business. The Group is sustaining its focus on improved productivity, digitalisation and manpower rationalisation.

Sales and administration expenses decreased by 4.3% y-o-y to ₹ 7301 crore, mainly on lower provisions towards customer receivables and credit losses.

The Group operating profit at ₹ 16325 crore for the year 2018-19 registered a healthy growth of 19.7% y-o-y. The EBITDA margins for the year also improved by 20 basis points to 11.6%. Favourable job mix, coupled with execution efficiencies in Defence, Heavy Engineering and Hydrocarbon, cost optimization measures in product businesses, monetization of a Realty asset and container port at Kattupalli and strong growth in IT & TS businesses, contributed in offsetting the impact of cost overruns encountered in some projects in the Infrastructure segment.

Depreciation and Amortization charge

Depreciation and amortization charge for the year 2018-19 increased by 8.1% to ₹ 2084 crore, compared to ₹ 1929 crore in previous year. The increase was largely due to impairment of assets in hydel projects.

Other Income

Other income at ₹ 1852 crore, increased by 38% over ₹ 1342 crore, consists of profit on sale of liquid investments, interest and dividend income from treasury investments. The growth was on account of higher interest income, lower charge towards mark-to-market (MTM) of derivatives and higher cross-sell income in Financial Services.

Finance cost

The interest expenses for the year 2018-19 at ₹ 1806 crore was higher by 17.4% in comparison to ₹ 1539 crore for the previous year. The increase was attributable to the higher interest cost in L&T Hyderabad Metro Rail upon partial commencement of operations. Further, higher proportion of interest bearing advances in Infrastructure businesses resulted in increase in average borrowing cost for the year to 7.9%, as compared to 7.3% in the previous year.

Exceptional Items

Exceptional items of ₹ 295 crore during the year represents recognition of certain customer dues (covered in insolvency proceedings), now considered as recoverable based on favourable NCLAT order received during this year.

Tax Expense

Income Tax charge for FY 2018-19 increased to ₹ 4343 crore compared to ₹ 3199 crore in FY 2017-18 on increased profits and higher effective tax rate.

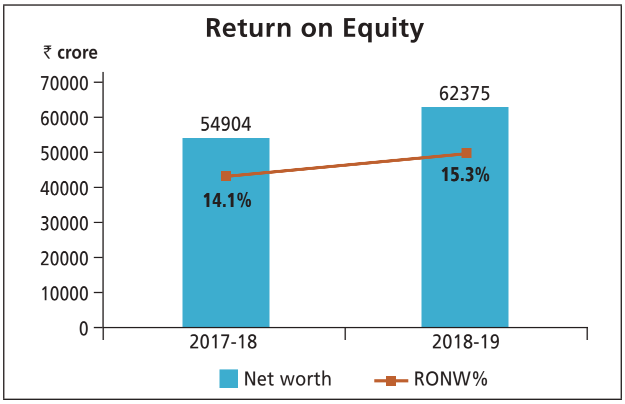
Consolidated Profit after Tax and EPS

Consolidated Profit after Tax (PAT) at ₹ 8905 crore for the year 2018-19 rose by 20.8% over the previous year at ₹ 7370 crore.

Consolidated Basic Earnings per Share (EPS) for the year 2018-19 at ₹ 63.51 registered a substantial growth over previous year at ₹ 52.62.

Return on Consolidated Net Worth

The Net Worth, as on March 31, 2019, at ₹ 62375 crore, reflects net increase of ₹ 7471 crore, as compared to the position as on March 31, 2018. Return on Net worth (RONW) for the year 2018-19 was higher at 15.3%, compared to 14.1% in the previous year, driven by increase in net earnings.



Liquidity & Gearing

Cash flow from operations (excluding change in loans and advances towards financing activities) increased to ₹ 9139 crore as compared to ₹ 6428 crore in the previous year due to better operational efficiencies and thrust on customer collections. Borrowings increased by ₹ 4319 crore to sustain higher level of operations. During the year, additional funds were generated from divestment of stake in subsidiary companies and treasury income.

Funds were used for strategic investments and investments in S&A companies. Further, the group incurred capital expenditure of ₹ 3475 crore, payment of dividend ₹ 2647 crore and net interest expense of ₹ 2982 crore during the year. There was a net decrease of ₹ 275 crore in the cash balances as at March 31, 2019 as compared to the beginning of the year.

Consolidated Fund Flow Statement	**₹ crore**	
Particulars	**FY 18-19**	*FY 17-18*
Operating activities	9139	*6428*
Borrowings/(Repayment) of Borrowings	4319	*(3691)*
Receipt from/(Payment to) minority interest (net)	2885	*1413*
Treasury and dividend income	987	*3278*
ESOP Proceeds (net)	11	*50*
Decrease/(Increase) in cash balance	275	*(3254)*
Sources of Funds	**17616**	*4224*
Capital expenditure (net)	3475	*2015*
Purchase/(Sale) of other investments	8252	*(2175)*
Net investment/(divestment)	260	*(477)*
Dividend paid	2647	*2390*
Interest paid	2982	*2471*
Utilisation of Funds	**17616**	*4224*

The total borrowings as at March 31, 2019 stood at ₹ 125555 crore as compared to ₹ 107524 crore as at March 2019. The gross debt equity ratio increased to 1.81:1 as at March 31, 2019 from 1.79:1 as at March 31, 2018. The net debt equity ratio stood at 1.52:1, same as at March 31, 2018.

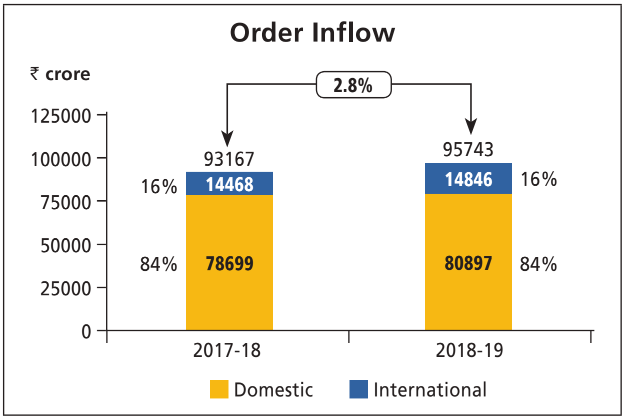
B. SEGMENT WISE PERFORMANCE (GROUP)

1. Infrastructure Segment

Infrastructure segment now includes Metallurgical and Material Handling (MMH) business, which was reported under "Other" segment last year. Accordingly, previous year figures have been regrouped wherever necessary.

Infrastructure segment won orders worth ₹ 95743 crore, higher by 2.8% over the previous year, mainly from domestic state government and private customers. Large value orders were bagged by Building & Factories, Heavy Civil Infrastructure, Transportation Infrastructure and Water Effluent Treatment businesses. Strong investment by private sector in the airport segment and health segment boosted the order inflow momentum of Building and Factories. The demand from Housing segment however grew meagerly on account of unsold inventory. Water Effluent & Treatment business registered a significant growth with order wins from Madhya Pradesh for Water Supply & distribution and irrigation projects. Smart World & Communication registered growth benefitting from social sectors like E-shiksha and growth in communication network. The order inflow momentum was maintained in Power Transmission and Distribution business on orders received from Power Utilities and Middle East. The Order Inflow growth was impacted in the Heavy Civil Infrastructure, Transportation Infrastructure and Metallurgical and Material Handling business by deferral of some large value orders.

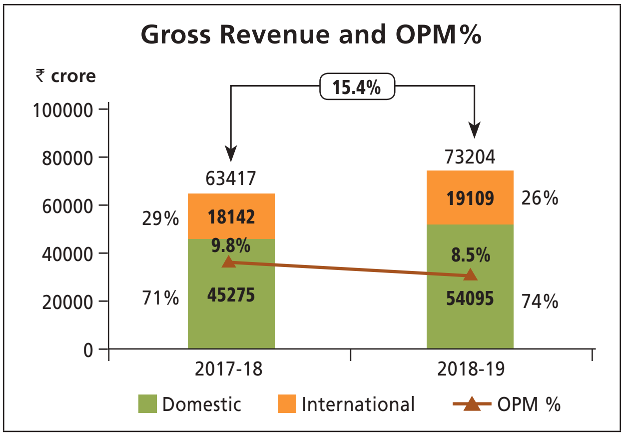
The share of international order inflow remained at 16%, same as previous year, with reduced contribution from Middle East compensated by higher proportion of orders from South East Asian and African countries. International order wins were predominantly in Power Transmission & Distribution, with Buildings & Factories and Transportation Infrastructure each receiving one large value order from international market.



Infrastructure segment clocked gross revenue of ₹ 73204 crore for the year 2018-19 registering 15.4% growth over the previous year. With strong executable opening order book, supported by necessary operational actions and statutory clearances, the execution progress picked up, resulting in revenue growth. All businesses of the segment registered a strong growth, except Smart World & Communications due to delay in receipt of clearances and new awards and in Metallurgical & Material Handling business on two large value projects in the portfolio encountering challenges for execution clearances.

Revenue from international operations constituted 26% of the total revenues of the segment during the year as compared to 29% in the previous year, with reduced mix of international orders in opening order book.

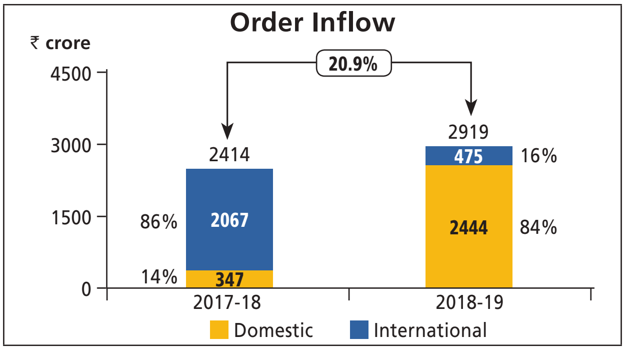
Infrastructure Segment earned operating profit of ₹ 6154 crore. There was a decline in margins from 9.8% to 8.5% due to cost and time overruns in certain projects in roads and elevated corridors in Transportation Infrastructure, lower capacity utilization in Smart World & Communications and Metallurgical & Material Handling business.



The Funds employed by the segment at ₹ 23940 crore as at March 31, 2019 increased by 7.6% vis-à-vis March 31, 2018, reflecting larger scale of operations. Increase in Gross Working Capital due to buildup of project work-in-progress and increase in receivables was partially compensated by better vendor credit management and increase in customer advances on new order wins.

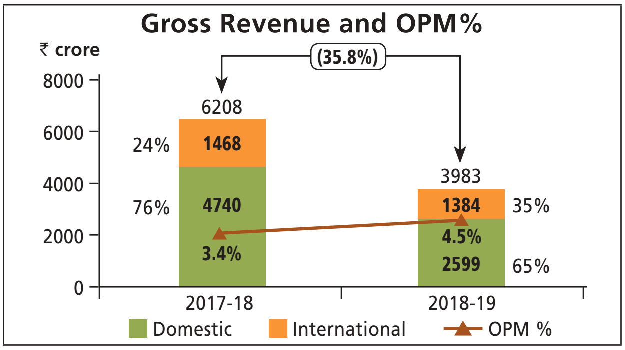
2. Power Segment

Power segment bagged orders worth ₹ 2919 crore as compared to ₹ 2414 crore in the previous year. The current year order inflow was mainly on back of domestic orders won for Flue Gas Desulphurisation projects as a result of the mandate from Ministry of Environment, Forest and Climate Change. However, in the main stream of EPC jobs in coal based projects, the tender pipeline during FY 2018-19 was quite thin.



Power segment revenue declined y-o-y by 35.8% to ₹ 3983 crore, on the back of declining order book and delay in receipt of new awards. With pick up in execution momentum for order received from Bangladesh in previous year, composition of revenue from international projects increased to 35% of total revenue for the segment, from 24% in previous year.

Segment operating profit though reduced to ₹ 177 crore from ₹ 208 crore from previous year, the margins improved from 3.4% in FY 2017-18 to 4.5% in FY 2018-19 on higher proportion of international orders.



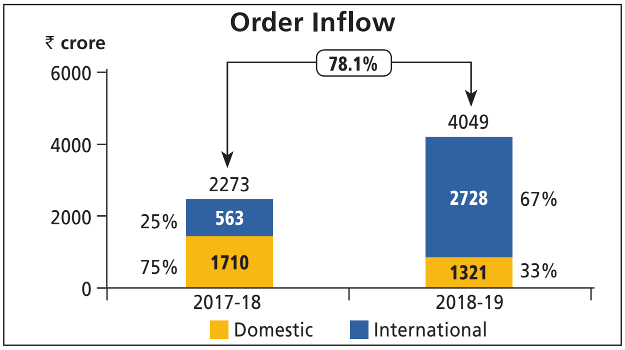
The Funds employed by the segment stood at ₹ 1192 crore as at March 31, 2019 higher than ₹ 844 crore as on March 31, 2018 due to delay in collection of retention amount in jobs nearing completion and higher carrying value of Investment in Joint Ventures under Power Group, consolidated through equity method under Ind AS.

3. Heavy Engineering Segment

Defence and Aerospace business which was part of Heavy Engineering segment last year is reported as a separate segment from the current financial year. Accordingly, previous year figures have been regrouped wherever necessary.

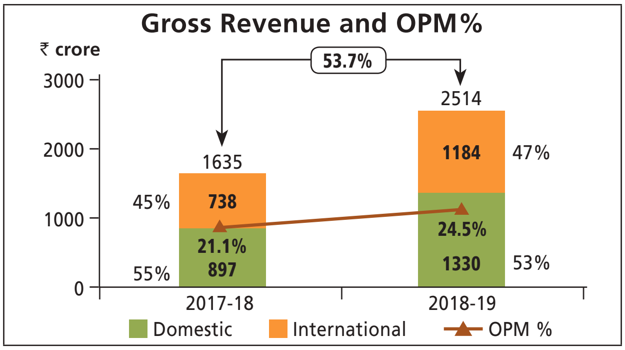
Heavy Engineering segment comprises of engineered-to-order critical equipment, piping and systems for core sector industries like fertiliser, petrochemical, refinery, oil & gas, gasification, thermal and nuclear power.

Heavy Engineering segment recorded order inflow of ₹ 4049 crore for the year ending March 31, 2019, higher by 78.1% as compared to the previous year. Growth during the year was mainly driven by increased demand for clean fuel projects complying with EUR6/BS-VI norms and change in MARPOL regulation norms by 2020. With significant orders received from EPC customers from Europe & USA in oil & gas segment, share of orders from international increased from 25% in previous year to 67% in current year.



Segment gross revenue of ₹ 2514 crore registered a growth of 53.7% compared to the previous year on the back of improved order book coupled with good execution progress in refinery, oil and gas equipment business. Revenue from international operations constituted 47% of the total revenue for the segment.

The segment recorded a significant increase in the operating profit for the year at ₹ 532 crore, registering margin growth from 21.1% to 24.5% on accrual of other income and write back of provisions that were no longer required.

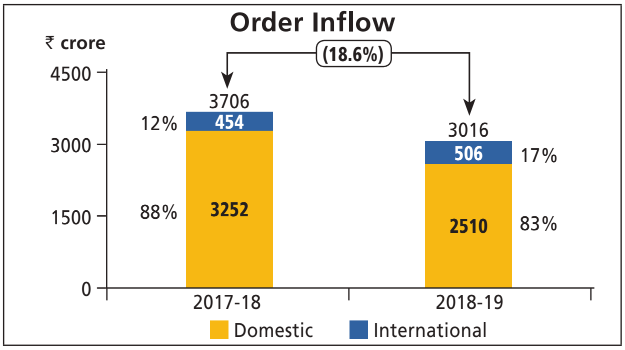


Funds employed by the segment as on March 31, 2019 at ₹ 2503 crore, registered an increase of 3% over the previous year on additional capex and increase in working capital to support increased business volume.

4. Defence Engineering Segment

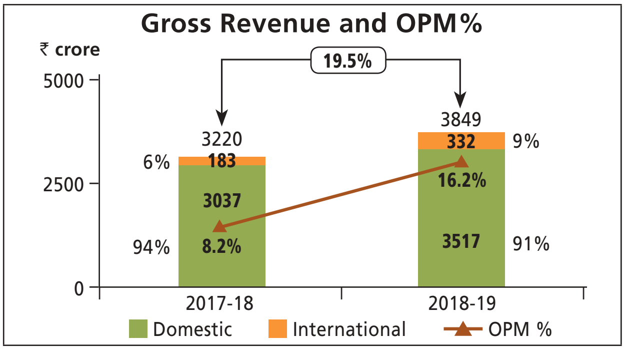
Defence Engineering comprising Defence and Aerospace business (part of Heavy Engineering Segment till end FY 2017-18) & Shipbuilding business (part of "Others" segment till end FY 2017-18) is being reported as a separate segment since April 2018. Marine switchgear business which was earlier part of Electrical & Automation Segment is a part of the segment from October 2018 onwards.

Defence engineering segment recorded order inflow of ₹ 3016 crore for the year ending March 31, 2019, lower by 18.6% as compared to the previous year due to deferral of a major order in Shipbuilding business. International orders constitutes 17% of the total order inflows compared to 12% in the previous year.



Segment gross revenue of ₹ 3849 crore improved by 19.5% compared to the previous year. Growth was mainly contributed by better execution of certain defence order partially offset by de-growth in Shipbuilding business. Revenue from international operations constituted 9% of the total revenue for the segment.

The operating margin improved from 8.2% in previous year to 16.2% in current year upon accelerated progress on a defence order and cost savings in a project in the shipbuilding business.

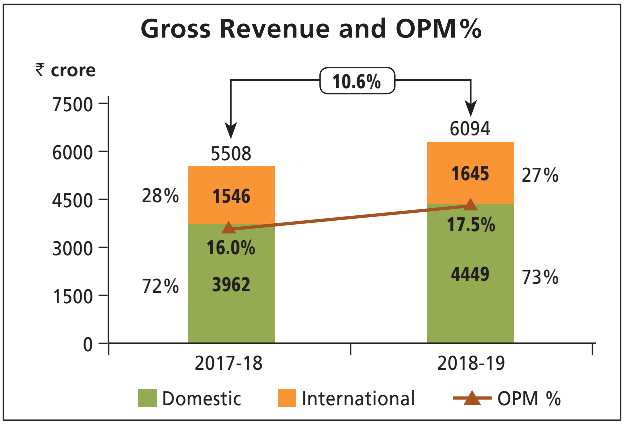


Funds employed by the segment as on March 31, 2019 at ₹ 2862 crore decreased 8.1% y-o-y, on account of better collections.

5. Electrical & Automation Segment (E&A)

E&A business recorded gross revenue of ₹ 6094 crore for the year, an increase of 10.6% over the previous year. Revenue from international operations marginally declined to 27% of the total revenues of the segment.

Segment operating profit for the year improved to ₹ 1012 crore, a 23.1% increase over previous year. Operating margins improved during the year by 150 basis points to 17.5%, owing to better operational efficiencies and favourable product mix.



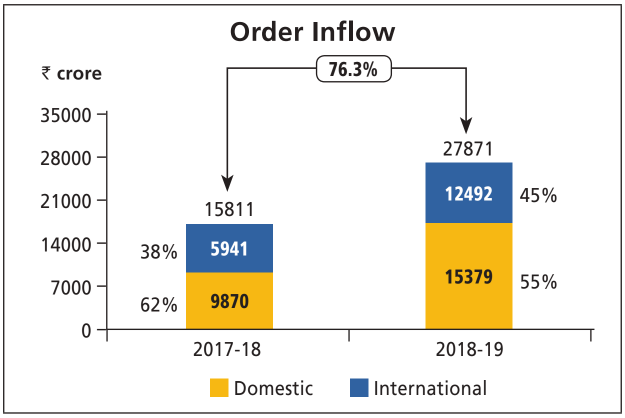
Funds employed at ₹ 2280 crore marginally decreased by 1.3% y-o-y aided by better collections from customer

Segment performance is after adjusting performance of marine switchgear business which was part of the segment till September 2018, thereafter transferred to Defence Engineering segment as a part of business portfolio restructuring.

The Company entered into a definitive agreement with Schneider Electric, a global player in energy management and automation for strategic divestment of the Electrical & Automation business for an all cash consideration of ₹ 14000 crore. CCI approval, subject to certain amendments details of which is awaited, is received. The business transfer will be effected on acceptance of the amendments and consequent completion of all formalities and approvals.

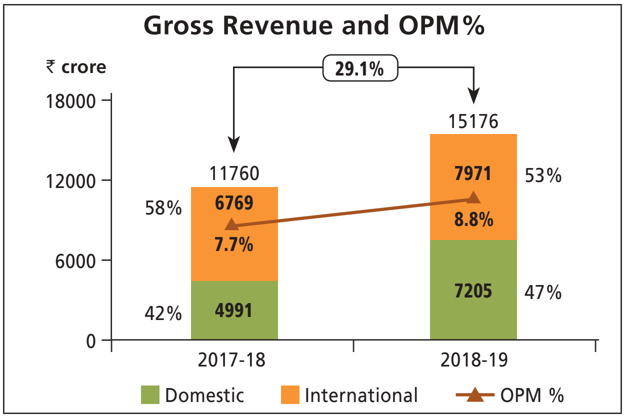
6. Hydrocarbon Segment

Hydrocarbon segment registered a strong performance with large growth in order inflow and profitable revenue growth. The segment secured fresh orders aggregating to ₹ 27871 crore during the year, driven by a number of large value onshore orders, recording a growth of 76.3%. The business achieved break through success in new region – Algeria during the year, resulting in composition of international orders increasing to 45% from 38% in the previous year.



Segment revenue at ₹ 15176 crore for the year grew by 29.1% y-o-y, enabled by on time execution of large orders in onshore and fast track projects in offshore business. International revenue declined to 53% of the total revenue of the segment as compared to 58% in the previous year, due to reduced share of international orders in opening order book and orders received during the year are yet to pick up execution momentum.

Segment operating profit for the year improved to ₹ 1330 crore, with margins improving by 110 basis points from 7.7% to 8.8% reflecting operational / execution efficiencies.

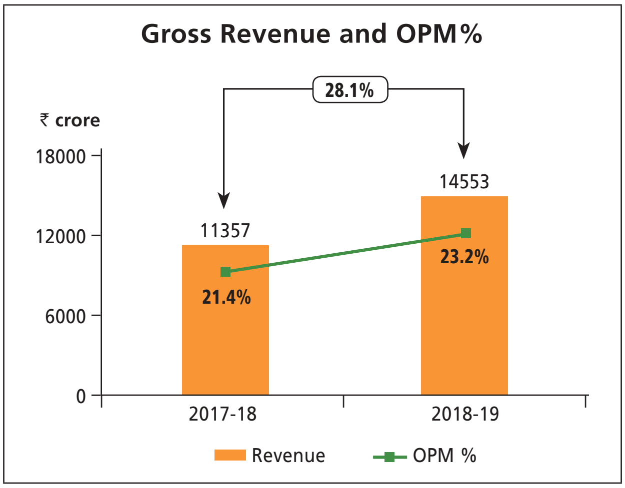


Funds employed by the segment at ₹ 2128 crore increased by 53.6% as compared to March 31, 2018 reflecting higher investible surplus.

7. IT & Technology Services (IT & TS)

IT & TS segment comprises Larsen & Toubro Infotech group of companies and Larsen & Toubro Technology Services group of companies, which were listed in FY 2016-17. Segment recorded gross revenue of ₹ 14553 crore for the year ended March 31, 2019 registering a growth of 28.1% over the previous year. International revenue constitutes a steady 90% the total revenue of the segment.

The Segment Operating profit was at ₹ 3336 crore for the year 2018-19 as compared to ₹ 2391 crore in the previous year. Operating margin improved by 180 basis points mainly on account of depreciation of rupee and better operational efficiencies.

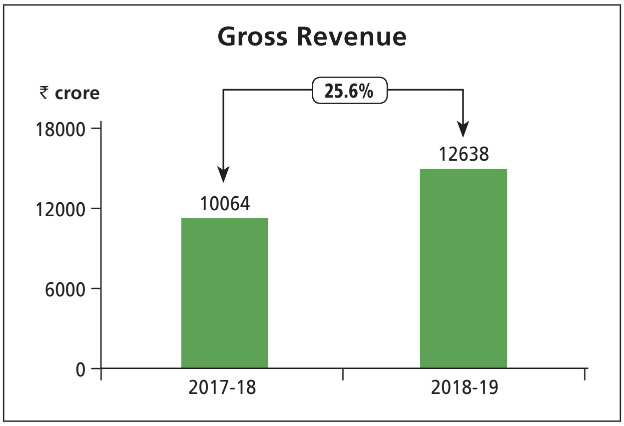


The Funds employed by the segment at ₹ 7071 crore as at March 31, 2019 is higher by 31.4% as compared to March 31, 2018 due to investment on acquisition of new subsidiaries.

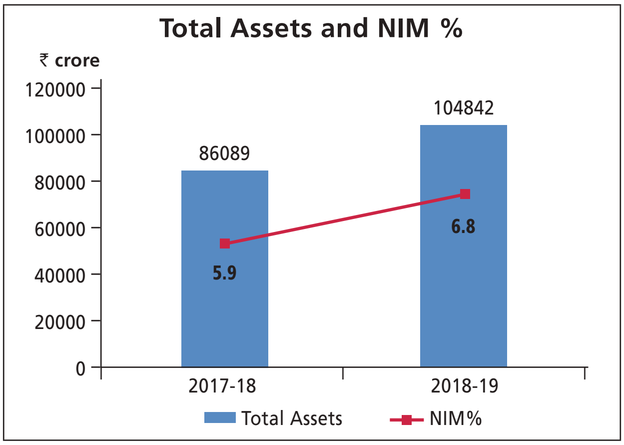
During the year, the company divested 7.5% stake in L&T Infotech and 8.5% stake in L&T Technology Services, towards meeting the regulatory requirement of minimum public shareholding of 25% within three years from listing of its shares. L&T's shareholding in LTI and LTTS as on March 31, 2019 is 74.80% and 78.88% respectively.

8. Financial Services (FS)

Financial Services segment comprises Rural, Wholesale and Housing Finance as well as Investment and Wealth Management businesses housed within L&T Finance Holdings Limited (LTFH) and its subsidiaries. Segment revenue grew 25.6% y-o-y at ₹ 12638 crore during the year ended March 31, 2019 aided by growth in the loan assets.



Disbursal of fresh Loans and Advances in Wholesale, Real Estate, Micro Loans and Farm portfolio amounted to ₹ 58224 crore during the year ended March 31, 2019, a decline of 13% y-o-y. The Asset Book stood at ₹ 99121 crore as at March 31, 2019 recording a growth of 16% y-o-y. The Net interest margins at 6.8% improved over 5.9% in the previous year.



The Gross Non-Performing Assets (GNPA) ratio decreased from 8.7% (restated) as at March 31, 2018 to 5.9% as at March 31, 2019. LTFH has been strengthening its balance sheet throughout the year by building macro prudential provisions for unanticipated future event risk, over and above the expected credit losses on GS3 and standard asset provisions. The coverage on GNPA is maintained at 61% (restated as per new RBI norms) for the year ended March 31, 2019. Net NPA ratio has reduced to 2.40% (restated) as at 31st March 2019 against 3.34% as on 31st March 2018.

LTFH also witnessed growth in its Investment & Wealth Management businesses. Average Assets under

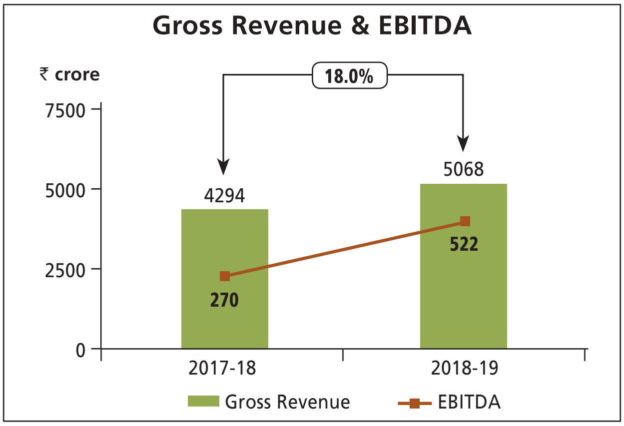
Management (AAUM) in Investment Management business increased to ₹ 70944 crore during the year ended March 31, 2019, a growth of 8%. Average Assets under Service (AAUS) in Wealth Management business increased to ₹ 28164 crore during the year ended March 31, 2018, registering a growth of 53% over the previous year.

9. Developmental Projects (DP)

Development projects comprises concessions acquired through competitive bidding process for the development of Power projects, Roads, Bridges, Hyderabad Metro Rail and a Power Transmission Line project. Total portfolio of the group consists of 2 power projects, 10 roads & bridges projects, 1 transmission line project & 1 metro rail project. The metro rail project is housed under L&T Metro Rail (Hyderabad) Limited (L&T MRHL) which is a 100% subsidiary of L&T. Power projects are developed by L&T Power Development Limited & other projects are developed by L&T Infrastructure Development Projects Limited. The total estimated cost of developmental projects, not considering the 3 hydel power projects under hold, is pegged at ₹ 42809 crore, for which equity commitment is ₹ 9256 crore with ₹ 8411 crore having been infused as at March 2019.

The segment recorded revenue of ₹ 5068 crore for the year ended March 31, 2019, higher as compared to ₹ 4294 crore in the previous year with pick up in operational revenue on progressive commissioning of Hyderabad Metro, sale of container port at Kattupalli and higher revenue from Rajpura power plant.

The segment clocked operating profit of ₹ 522 crore for the year 2018-19, improving over ₹ 270 crore earned in FY 2017-18, on higher operational revenue from Hyderabad Metro coupled with divestment gain on sale of Kattupalli port which were partly offset by impairment in hydel projects.

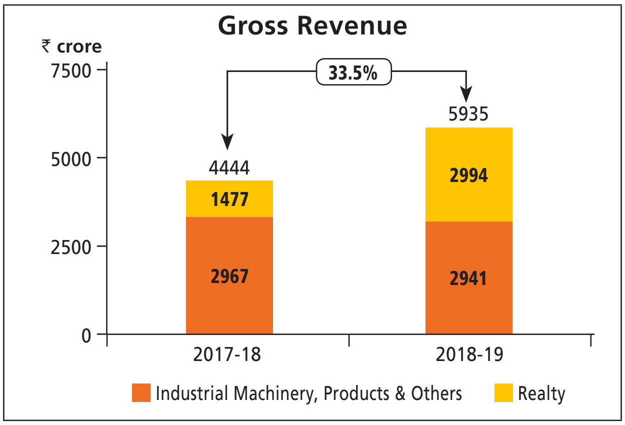


The Company received regulatory clearances and divested its investment in a container port in Kattupalli, Tamil Nadu. The company also transferred during the year 5 road projects to IndInfravit, an investment trust, sponsored by L&T IDPL limited.

10. "Others" Segment

Others Segment covers Realty, Construction and Mining Machinery, Industrial machinery and Products and Valves businesses. Metallurgical and Material Handling (MMH) and Shipbuilding businesses, which were reported under "Other" segment last year, now reported under Infrastructure segment and Defence Engineering Segment from April 1st, 2018 respectively. Accordingly, previous year figures have been regrouped wherever necessary.

Revenue for the segment registered a growth of 33.5% from ₹ 4444 crore in 2017-18 to ₹ 5935 crore in 2018-19 mainly from Realty business on recognition of revenue on completed performances under the newly introduced accounting standard for revenue recognition (Ind AS 115). Construction Equipment and others has recorded growth with higher demand for wheel loaders and compactors and receipt of a major order in RPM business. Valves business, despite growth in order intake, faced revenue slowdown due to delay in customer clearances and supply chain challenges. Operating margin declined as compared to previous year mainly due to provisioning for inventory, an unrecoverable advance in a project in Realty and write off of sticky receivables and non-moving inventory in valves business.



II. L&T STANDALONE

PERFORMANCE REVIEW

L&T's standalone financials captures the performance of Infrastructure segment, Power, Heavy Engineering, Defence Engineering, Electrical & Automation, Realty and Others segment comprising, a part of Hydrocarbon business and Construction & Mining Machinery business. Realty business is a separate reportable segment for FY 2018-19, as it crossed the profit threshold.

L&T standalone continues to be major contributor to topline as well as bottom-line of the group performance. In line with group performance, the standalone performance has equally delivered good performance on all operational parameters.

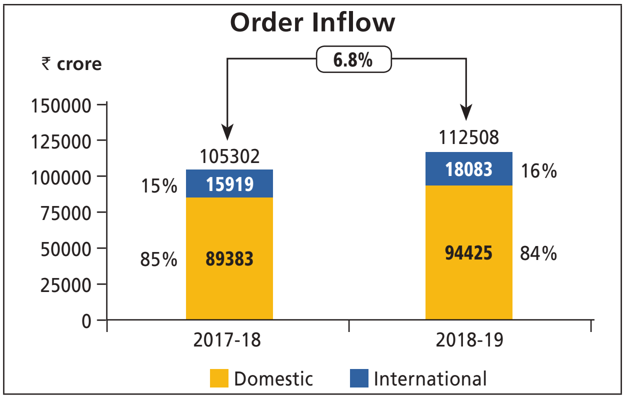
The Company continued to focus on shareholder value enhancement driven by operating margin improvement, working capital reduction and unlocking of capital earning sub-par returns.

Order Inflow and Order Book

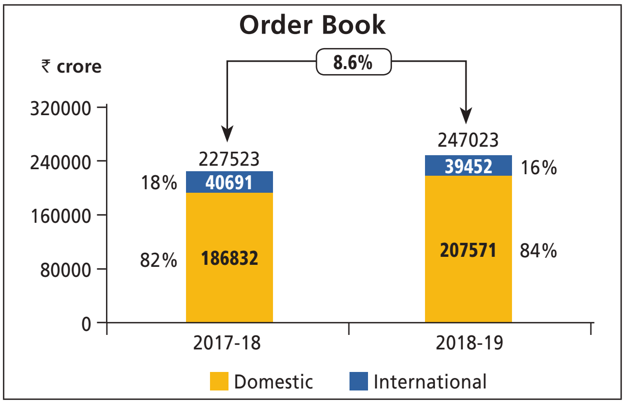
Order inflow during 2018-19 grew by 6.8% at ₹ 112508 crore as compared to ₹ 105302 crore in the previous year. Infrastructure segment contributed 82% of the total order inflow during the year as compared to 85% in the previous year. Power business registered growth with receipt of awards for Flue Gas De-sulpharisation projects.

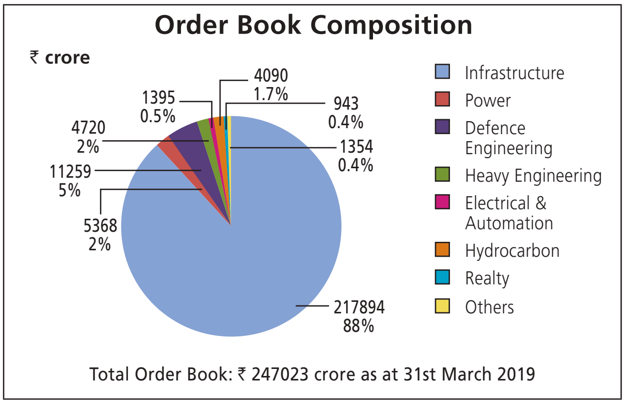
Heavy Engineering order inflow reported growth due to step up of capex in overseas market. E&A business is witnessing some pick up in industrial demand, mainly in Electrical Standard Products which is reflected through modest growth in order inflow.

International order inflow increased to 16% of the total order inflow for 2018-19 as compared to 15% in the previous year.



Order Book as at March 31, 2019 stood at ₹ 247023 crore, 88% of which is contributed by Infrastructure segment. International orders constituted 16% of the current order book. L&T continues to carry a healthy order book to revenue ratio at 2.84 providing better visibility of revenue over the medium term.

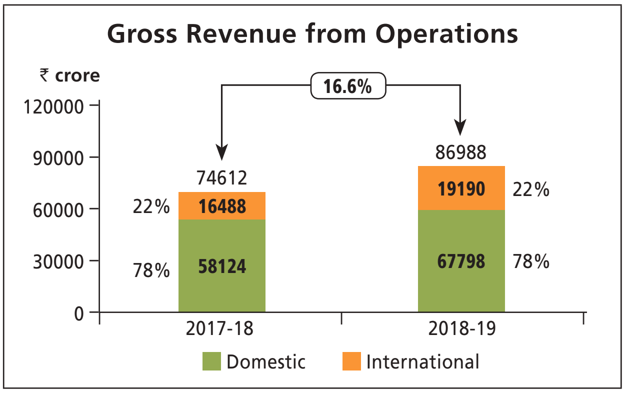




Revenue from Operations

L&T achieved revenue of ₹ 86988 crore reflecting growth of 16.6% over the previous year. The growth was mainly driven by infrastructure projects in Transportation Infra, Heavy Civil Infra, Power Transmission and Distribution Infra and Water Effluent Treatment business.

Power segment revenue declined over the previous year as a result of depleted order book. Defence engineering segment registered growth of 13.6%, Electrical & Automation grew by 11.6%.

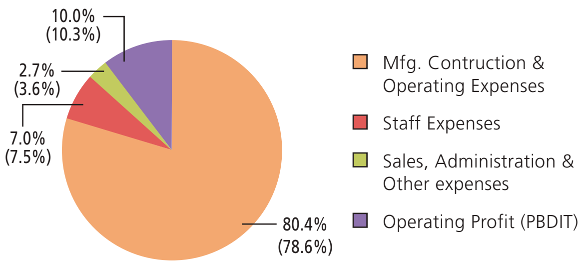


Operating Cost and PBDIT

Manufacturing, Construction and Operating (MCO) expenses, comprising cost of construction material, raw materials, components and subcontracting expenses, amounted to ₹ 69903 crore registering an increase of 19.2%. MCO expenses as percentage of revenue increased by 180 basis point over the previous year mainly due to cost overruns in some of the infrastructure projects and increase in commodity prices.

Operating expenses & Profitability 2018-19

[% to revenue]



[Figures in brackets relate to previous year]

Staff expenses for the year at ₹ 6082 crore increased by 8.3% y-o-y mainly due to increase in manpower strength to 44761 as on March 31, 2019 compared to 42924 as at March 31, 2018 and annual pay revisions.

Sales and administration expenses for the year at ₹ 2318 crore decreased by 13.4% y-o-y, mainly due to lower provision of doubtful debts.

Profit before depreciation, interest and tax excluding other income (PBDIT) was ₹ 8684 crore for the year, higher by 12.8% over the previous year.

Depreciation and Amortization charge

Depreciation and amortization charge for the year 2018-19 marginally increased by 1.8% and was at ₹ 1068 crore, as compared to ₹ 1049 crore in the previous year.

Other Income

Other income mainly comprises income from company's treasury operations, dividends and income from group companies. Other income for the year 2018-19 at ₹ 2769 crore, increased as compared to ₹ 1613 crore for the previous year mainly due to higher earnings on larger treasury investment and dividend from subsidiaries.

Finance cost

The interest expenses for the year at ₹ 1641 crore were higher by 14.6% vis-à-vis ₹ 1432 crore for the previous year. The increase is attributable to higher quantum of interest bearing customer advances, increased borrowings from group companies and higher interest on leave liability due to decrease in discount rate. The average borrowing cost for the year 2018-19 was majorly in line with previous year at 7.6%.

Exceptional Items

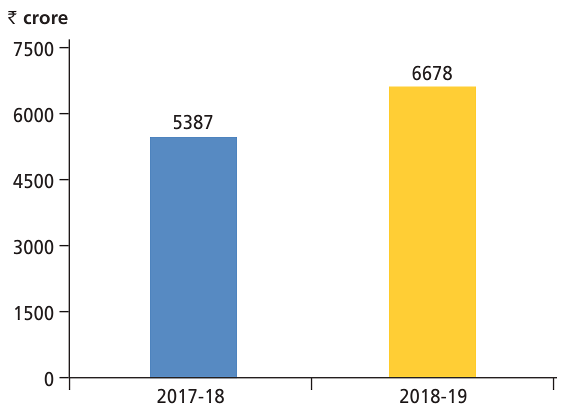
Exceptional items of ₹ 475 crore for the year 2018-19 include gain on dilution of stake in L&T Infotech and L&T Technology Services and recovery of an outstanding under Insolvency & Bankruptcy Code. The company provided for impairment of its investment in a subsidiary and a JV.

Profit after Tax and EPS

Profit after Tax (PAT), including exceptional items, for the year 2018-19 at ₹ 6678 crore, registered a growth of 24% as compared to ₹ 5387 crore in the previous year.

The Basic Earnings per Share (EPS) for the year 2018-19 at ₹ 47.63 showed significant growth compared to previous year at ₹ 38.46.

Profit After Tax

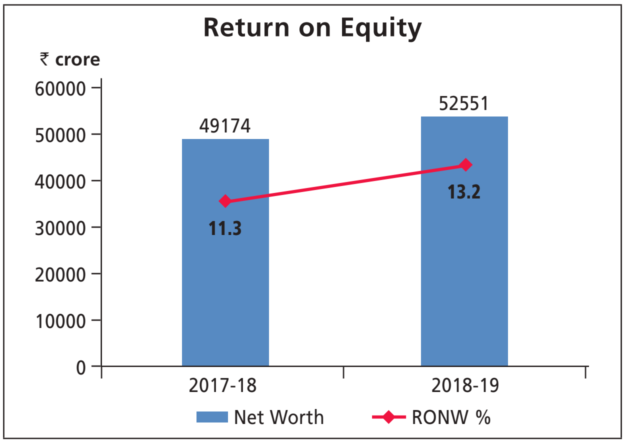


Other comprehensive income (OCI)

Other Comprehensive income during year reflected a loss of ₹ 119 crore, vis-à-vis loss of ₹ 51 crore in the previous year, mainly due to impact of fair valuation of Corporate Bonds.

Return on Net Worth

Net worth of the Company as on March 31, 2019 at ₹ 52551 crore increased by ₹ 3377 as compared to the position as on March 31, 2018 representing largely the net earnings accretion, including gains on divestment of stake in L&T Infotech, L&T Technology Services.



Return on Net worth (RONW) including exceptional items for the year 2018-19 at 13.2% is higher as compared to 11.3% in the previous year.

Liquidity & Gearing

Business operations generated cash flows of ₹ 2249 crore during the year as compared to ₹ 2952 crore in the previous year. The drop is mainly due to higher deployment of funds to support growing business volumes. The cash generated through internal accruals, divestment of stake in S&A companies, treasury income and liquidation of other investments was mainly used for investments in S&A Companies of ₹ 1012 crore and capex of ₹ 786 crore, in addition to payment of dividend and interest of ₹ 2597 crore and ₹ 1381 crore respectively, besides loan repayment of ₹ 483 crore.

Fund flow statement	**₹ crore**	
Particulars	**2018-19**	*2017-18*
Operating activities	2249	*2952*
Net divestment/ (investment)	3169	*(1456)*
Treasury and dividend income	1962	*3635*
(Increase)/decrease in cash balance	447	*(1250)*
ESOP Proceeds (net of buyback expenses)	11	*50*
Sources of Funds	**7838**	*3931*
Capital expenditure (net)	786	*1013*
Repayment of Borrowings (net of additional borrovvings)	483	*(62)*
Purchase/(Sale) of Other investments	2591	*(621)*
Dividend paid	2597	*2279*
Interest paid	1381	*1322*
Utilisation of Funds	**7838**	*3931*

Total borrowings as at March 31, 2019 stood at ₹ 10192 crore as compared to ₹ 10561 crore in the previous year. Proportion of short term borrowings decreased to 36% as compared to 39% as at March 2019. The loan portfolio of the Company comprises a mix of domestic and suitably hedged foreign currency loans. The gross debt equity ratio decreased to 0.19:1 as at March 31, 2019 from 0.21:1 as at March 31, 2018. The net debt equity ratio was nominal at 0.04:1 as at March 31, 2019 same as previous year.

III. STRATEGY, BUSINESS MODEL AND RESOURCE ALLOCATION

Strategy Formulation

Business strategy formulation underpins the Company's long-term growth plans. Strategic plan covers a period of 5 years through a collaborative and consultative process across the organisation. In addition, given the emerging trends in technology and digitalisation and emergence of new business models, the company has embarked on development of a Perspective Plan with a horizon of 7-10 years. The objective is to identify new businesses and offerings that have significant potential to scale up, given the underlying macro trends. The focus would be on identifying new areas for expansion that would need to be seeded now, so that they could evolve into large -scale businesses over the long term.

The inputs from the Perspective Plan, the 5-year strategic plan and broad financial goals are built into annual budgets every financial year.

The current 5-year strategic plan sharply focused on improvement in Return on Equity (RoE) ends in 2020-21.

Strategy Formulation Schematic

Business Model and Portfolio Strategy

The Company serves the Government and large corporate customers across multiple sectors, both in India as well as globally. The Realty and Financial Services businesses provide B2C offerings as well in addition to B2B products/services.

The Company focuses on its proven core competencies of conceptualising, executing and commissioning large, complex infrastructure projects in the areas of Roads and Bridges, Power Transmission & Distribution, Thermal, Hydel, Solar and Nuclear Power Plants, Water and Irrigation Infrastructure, Residential, Commercial, Institutional and Factory Buildings, Real Estate Development, Airports, Metro and Conventional Railways, Onshore and Offshore Hydrocarbon facilities and Metallurgical projects. An integrated EPC (Engineering, Procurement & Construction) business strategy forms the backbone of the Company's business portfolio. The Company has also undertaken development projects such as Hyderabad Metro, road operations and tolling (through IDPL) and Nabha Power among others.

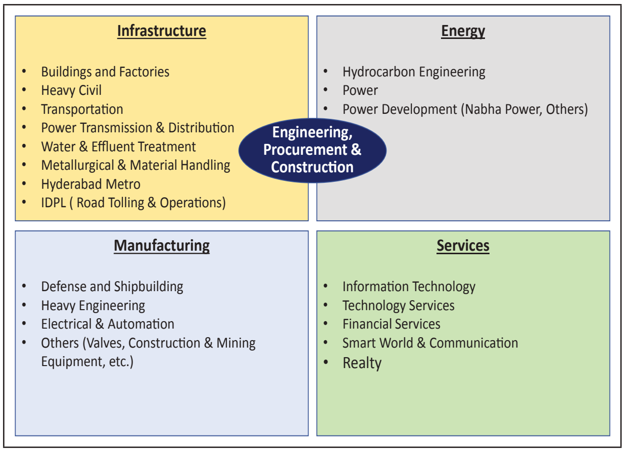
The diversified but cyclical nature of the EPC business is counterbalanced through a portfolio of manufacturing and services businesses. Manufacturing is mainly concentrated around defence and shipbuilding, heavy custom-built equipment catering to process industries, electrical products and systems (made-to-stock and made-to-order), material handling equipment and industrial products & machinery. The services businesses cater to sectors of Information Technology, Technology Services, Smart World & Communication, Realty and Financial Services.

The Company has extensive manufacturing facilities at Hazira, Vadodara, Ahmednagar, Talegaon, Chennai, Coimbatore, Kattupalli and Oman. Partnerships with several large global process and technology licensors have also been established. The construction projects follow the EPC model, executing large, complex turnkey projects. These are executed by deploying a combination of the Company's own employees and an extensive contract workforce. The IT and Technology Services companies also have extensive partnerships with established global software product and technology companies.

The Company is increasingly leveraging digital solutions and analytics across various parts of its businesses, spanning areas such as remote asset management, material tracking, employee productivity enhancement, safety and procurement, among others.

The business portfolio spans across domestic and international markets in line with the strategy of having a well-balanced, geographically diversified business.

Business Portfolio Schematic:



Strategic Thrust and Direction:

At the core of the Company's strategy is the overarching aim to create shareholder value through enhanced Return on Equity (RoE). The RoE improvement strategy encompasses strategic and tactical elements such as:

- Enabling growth of the profitable services segment
- Incubating new businesses to tap future growth opportunities – asset light, capex light, new-age businesses
- Maintaining an optimum mix between domestic and international business
- Ensuring realisation of margins embedded in the Order Book through execution, operational excellence and digitalisation initiatives
- Unlocking Capital from asset earning sub par returns

In the first 3 years of the plan, RoE has improved from 9.9% in 2016-17 (base year) to 15.3% in 2018-19 and is on course to achieve the target of 18% by 2021.

Resource Allocation

The Company has a well laid-out plan for resource allocation to meet its strategic objectives. Strategic initiatives include:

- Maintaining adequate liquidity on the Balance Sheet to exploit organic and inorganic growth opportunities and fund emerging businesses such as Smart City

Infrastructure, Nuclear Power and Defence equipment manufacturing

- Prudent allocation of resources (Capex and Working Capital) to fund growth in businesses
- Maintaining strong financial health to facilitate access to the capital markets, as and when required
- Ensuring judicious allocation of manpower and monetary resources to company-wide sustainability and growth initiatives such as CSR, Digitisation and operational excellence programs

IV. RISK MANAGEMENT

Over the past decade, the Company institutionalized an enterprise-wide Risk Management framework. The framework provides process of identifying, quantifying and mitigating risks which is well integrated with the business of the Company. Guided by the Corporate Risk Management framework, each business vertical has in place a Risk Management Policy, structure and procedures to cater to the unique nature of its business. The Company's risk management processes ensure that the Company accepts risks as per the boundary conditions based on the risk appetite of the organisation.

The Audit Committee of the Board and a board appointed Apex Risk Management Committee (ARMC) oversee the efficacy of the risk management processes. The risk level of each business is discussed in detail in the respective management / business Board meetings. The ARMC is regularly informed of the critical risks affecting the Company for their review and guidance. Mitigation plans are drawn up and implemented as deemed appropriate within the overall Enterprise Risk Management framework of the company.

The risk management processes are developed especially for project businesses, which constitute a larger portfolio in the group. The key stages specifically covered by risk reviews include country clearance in case of venturing into a new country, pre-bid proposal clearance, execution risk reviews and project close-out reviews. Based on an authorization matrix as determined by the Risk Management Committee, the proposals are reviewed and cleared for submitting the bid. Execution risk reviews of the projects are held at regular intervals to track the project performance with an emphasis on identification of risks and their mitigation. An evaluation of the effectiveness of mitigation measures is periodically carried out. Close-out risk reviews are held to capture key learnings from the projects and what went right/wrong analysis, which helps in factoring in the learnings while making future bids. The principles of risk management have been strongly embedded at various levels of the organisation, with business treating it as an enabler and not just a process to comply with.

The Company emphasises on continuous learning and has initiated several initiatives to improve risk awareness across the organization. These include workshops, knowledge sessions and training content deployed on online learning platforms.

The top enterprise-level risks for the Company and the mitigation measures being implemented are:

Geopolitical Risks: The Company monitors the risks such as sanctions, trade barriers, protectionist policies and geopolitical conflicts. Appropriate mitigation strategies are in place addressing geographical concentration, strategic sourcing options, regular monitoring of international sanctions and other economic measures.

Underperformance of key sectors: Growth in key sectors like power, nuclear, defence and metals & minerals, etc., could be impacted by a number of factors, such as budgetary allocation, slow pace of decision-making, lack of investment demand, green initiatives and delays in environmental clearances. Being a diversified conglomerate helps mitigate the risk of such a slowdown in some sectors as we see compensating growth in certain other sectors.

Competition: Competition from foreign and domestic players has considerably increased in the past few years. Customers have found it easier to impose less attractive commercial terms and also shrink project duration. The Company's competitive strength is derived from excellence in executing projects of varying sizes, reputation for quality, technology, cost-effectiveness and project management expertise.

Reputation and Brand: The Company addresses the potential risk of erosion of reputation and brand value through a strong corporate governance framework. It has a Compliance Policy in place, mandating adherence to a Code of Conduct and Internal Controls, complemented by regular knowledge-sharing across the organisation.

Cyber security: As IT systems get increasingly inter-connected, cyber security has become a key concern for Governments and businesses. The Company has taken several steps to mitigate the cyber risks. These include roll-out of an enterprise-wide cyber security framework that provides for technology solutions to enforce detective and preventive controls and employee education to create awareness of cyber risk.

Other Operational Risks:

Execution challenges: The Company faces execution challenges like geological surprises, availability of work front, land acquisition and Right-of-Way (ROW), pending approvals and clearances from Government agencies, working in difficult/harsh weather conditions, manpower issues, etc. The Company closely tracks the key risks for each project to ensure timely mitigation.

Counter Party Risks: The Company partners with different contractors (Joint Venture / consortium projects) across businesses based on technical requirements/ local market conditions. The partner's performance and financial strength is crucial for project success. Learnings from the past projects are incorporated in the inter-se agreements with the partners and clauses on liability of each partner is carefully drafted after legal due diligence is exercised.

Working capital challenges: Project delays and adverse contractual payment terms sometimes lead to increased working capital requirements. The Company has strengthened the process for close monitoring of cash flows at the project level. It ensures regular follow-up for delay in payments from clients, and has ensured improvement in the working capital levels.

Claims management: The Company maintains a strong documentation and follow up with clients / sub-contractors / vendors for any claim that is submitted.

FINANCIAL RISKS

Inflation remained broadly contained in India, however growth concerns remained. Indian currency depreciated in line with other emerging market currencies for the year.

Capital structure, liquidity and interest rate risks

The Company maintains a conservative capital structure. Low gearing levels equip the Company to balance business stresses on one hand and raise growth capital on the other. This policy also provides flexibility for fund-raising options in the future, which is especially important in times of global economic volatility.

The US Dollar remained strong in 2018-19, primarily on the back of strong growth divergence between the US and rest of the world including emerging market countries. While the Indian currency depreciated in line with other emerging market currencies. The last quarter of 2018-19 witnessed elevated financial market volatility primarily due to fading impact of stimulus in the US and emerging growth concerns in Europe and China. Inflation in India remained broadly contained, though growth concerns continued.

Despite the lower liquidity environment in FY 18-19 on the back of slower consumer demand and sluggishness around investments in the private sector, the Company managed to restrain the working capital usage, both at a gross and net level. The Company has been investing capital into subsidiaries as scheduled and also to optimise overall Group interest rate costs. The Company also decided to use the surplus cash available with it to acquire shares of Mindtree Limited from some existing shareholders of Mindtree and launched an open offer with an intent to acquire controlling stake in the Company. The acquisition is in line with the stated strategy of growing the Company's services business; however, the transaction is not expected to result in material impact on gearing.

The Company plans to maintain adequate liquidity on the Balance Sheet to deal with slow recovery / downturn in economic conditions. With the implementation of the Large Exposure Framework guidelines of RBI from April 1, 2019, the banking limits sanctioned by domestic banks to any of the Group companies will need to fit within 25% of Tier 1 capital of banks v/s 40% of Tier 1 and Tier 2 capital prevalent till now. This is likely to constrain the availability of bank limits (both fund-based and non-fund-based) and also impact the pricing of the same for the Group (unless some regulatory relaxation is granted) and may have some adverse impact on the growth plans of the Group.

The Company judiciously deploys its periodical surplus funds in short-term investments in line with the Corporate Treasury policy. The Company constantly monitors the liquidity levels, economic and capital market conditions and maintains access to the lowest cost means of sourcing liquidity through banking lines, trade finance and capital markets. The Company further optimized the cost of debt by using subsidized export financing scheme of RBI and Commercial Paper issuance as well as re-pricing of some of its existing long-term liabilities. The Company dynamically manages interest rate risks through a mix of fund-raising products, investment products and derivative products across maturity profiles and currencies within a robust risk management framework.

Foreign Exchange and Commodity Price Risks

The businesses of the Company are exposed to fluctuations in foreign exchange rates and commodity prices. Additionally, it has exposures to foreign currency denominated financial assets and liabilities. The business-related financial risks, especially involving commodity prices, by and large, are managed contractually through price variation clauses, while the foreign exchange rate risks and residual commodity price risks are managed by treasury products.

The disclosure of commodity exposures as required under clause 9(n) of Part C of Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in the format specified vide SEBI Circular dated 15th November 2018 is given on page 299 of this Annual Report.

Financial risk management is governed by the Risk Management framework and policy approved by the Audit Committee and authorised by the Board. Financial risks in each business portfolio are measured and managed by corporate treasury.

Despite currency weakness and elevated financial market volatility, the Company's robust financial risk management processes ensured financial costs remain under control.

V. INTERNAL CONTROLS

At L&T, Internal Controls are a key pillar of Corporate Governance. The Company has a robust Internal Control framework in place, developed on COSO-model. The framework provides for Internal Controls commensurate with the nature, size and complexity of business both at entity level and process level.

Internal Controls at L&T cover not only Disclosure and Reporting systems and activities ("Internal Controls on Financial Reporting") but also the entire gamut of business operations and processes ("Operational Controls") to meet the requirements of the Companies Act, 2013. They are seen as an aid to efficient business operations and not as a set of rules that circumscribe authority. A well-defined Authorisation / Authority matrix is at the heart of Internal Controls in the Organisation to ensure that all transactions are genuine and are authorised at appropriate level of management.

The responsibility for establishing, operating and upgrading the internal controls system is on the executive management assisted by Internal Control teams operating at Corporate level as well as in the businesses. The teams formulate and upgrade processes and standard operating procedures on an ongoing basis and share best practices across the organisation. The Corporate Audit department is tasked with testing of internal controls (design as well as operating effectiveness) and follow up for adequate remedial actions where controls gaps and weaknesses are observed. The Audit Committee guides and evaluates the efficacy of the Corporate Audit function and reviews the major observations each quarter.

Employees are guided by the 'Code of Conduct' that reflects and reinforces the unique corporate culture and values. A separate 'Code of Conduct' for Business Partners seeks to ensure they align to Company's values.

Whistleblower mechanism is an important element of the internal control system encouraging both employees and business partners to report genuine concerns, misconduct or fraud without any fear of punishment or unfair treatment. The operation of Whistleblower mechanism is overseen by the Audit Committee.

Disclosure of commodity exposures as required under clause 9(n) of Part C of Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Sr No	Commodity Name	Exposure in INR towards the particular commodity (₹ crore)	Exposure in Quantity terms towards the particular commodity (Tn)	% of such exposure hedged through commodity derivatives				
				Domestic market		International market		Total
				OTC	Exchange	OTC	Exchange	
1	Silver (Buy)	348.02	75.76	–	–	–	–	–
2	Copper (Buy)	898.91	19,492.24	–	–	51.18	–	51.18
3	Copper (Sell)	(550.25)	(12,224.00)	–	–	100.00	–	100.00
4	Steel (Buy)	8,882.57	18,79,071.36	–	–	–	–	–
5	Aluminium (Buy)	800.93	48,661.81	–	–	60.89	–	60.89
6	Aluminium (Sell)	(121.36)	(9,200.00)	–	–	20.27	–	20.27
7	Iron Ore (Buy)	60.30	1,26,582.00	–	–	55.35	–	55.35
8	Coking Coal (Buy)	59.26	52,122.00	–	–	55.27	–	55.27
9	Zinc (Buy)	52.82	2,740.00	–	–	81.75	–	81.75
10	Lead (Buy)	55.79	3,928.80	–	–	73.86	–	73.86
11	Cement (Buy)	2,297.62	41,80,105.46	–	–	–	–	–