## Financial Review 2017-18

### I. L&T CONSOLIDATED

### A. PERFORMANCE REVIEW

The Company performed well on all the parameters during the financial year 2017-18, with pick-up in domestic investment climate. The slew of measures implemented over the last year or so - including demonetisation, Real Estate Regulatory Act, Goods & Services Tax, Insolvency & Bankruptcy Code have resulted in some short-term disruptions. In the long term, however, these are expected to give rise to a new economic order. This will have potential to significantly enhance revenues and channelize the funds for inclusive economic development. The Government's thrust on strengthening infrastructure and the 'Make for India' concept for key strategic areas, will provide opportunities to the Company's various business segments. Also, the rise in commodity prices is likely to result in capacity additions by the industry. During the year, the Company was beneficiary of the initial impact of such measures, which is expected to gather momentum as we go forward.

On the global front, uncertainties continue, as developed economies have started backing protectionist policies and the geo-political climate is giving rise to new trade partners, impacting the way of doing business. However, with hardening of oil prices, the investment momentum in Middle East, a major market for the Company outside India, is expected to improve. The Company continues to be selective in addressing the international market. The business environment remained competitive, with both domestic and international players fighting for the opportunities available.

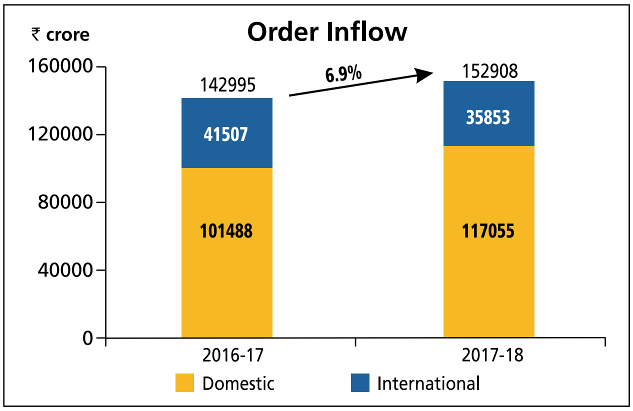
Against the backdrop of such an environment, the Group recorded satisfactory growth during the year with steady performance of its businesses in diverse sectors. The Company continued to focus on its goal of maximizing shareholder value creation by exiting non-core businesses, implementing operational excellence initiatives to have profitable growth and containing working capital along with better fund management. During the year the Company sold two of its subsidiaries EWAC Alloys Limited and L&T Cutting Tools Limited. The Company is awaiting regulatory approval for conclusion of its stake sale in a container port in Tamil Nadu. In November 2017, L&T Metro Rail (Hyderabad) Limited, a subsidiary company, commissioned a 30 km stretch of metro rail network in the city of Hyderabad. Another subsidiary company viz. Nabha Power Limited, which houses two thermal power plants at Rajpura, received a favourable Supreme Court judgement on matters affecting the viability of the Company. The year also saw growth consolidation in some businesses, while the listed entities within the group - L&T Infotech Limited, L&T Technology Services and L&T Financial Services - recorded notable growth, with expansion of business and new acquisitions.

As at March 31, 2018, L&T Group comprises 93 subsidiaries, 8 associates, 34 joint venture companies and 33 joint operations. Most of the group companies are strategic extensions of the project and product businesses of L&T. Project business catering to the hydrocarbon sector is housed in a separate set of group companies to provide the business with focus and independent functioning. The 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, Developmental Projects and Financial Services - are housed in separate subsidiary and joint venture companies of L&T.

#### Order Inflow & Order Book

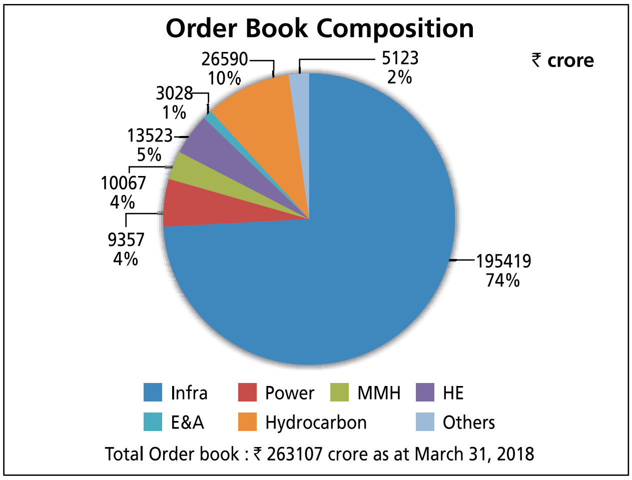
L&T Group achieved an order inflow of ₹ 152908 crore during the year 2017-18, achieving a growth of 6.9% over the previous year. The revival of the domestic market compensated for the slight lull on the back of depressed oil prices in Middle East, the major market for the Company. The domestic market evidenced a pick-up in capex finalization by public sector and Government undertakings. Also, the year saw movement in the award of orders from the private sector, resulting from strengthening of commodity prices and improvement in investment climate. Domestic order inflow increased by 15.3% to 76.6% of total order inflow, despite ordering momentum yet to gather pace in sectors like Defence, the preference there being on public sector enterprises. International order inflow declined by 13.6% to 23.4% of total order inflow. Further, geographical spread of order inflow changed during the year, with the Middle East contributing a lower share of 44.8%, which was earlier 64.9%.

Order Inflow growth was mainly driven by the Infrastructure segment, contributing 57.1% of the total order inflow for the year. Infrastructure growth was led by some large value, prestigious orders received in Heavy Civil Infrastructure, Building & Factories and Water & Effluent Treatment. The respective businesses of the Company have been beneficiaries of the improved investment environment in India – accruing from the National Highway Authority of India, Dedicated Freight Corridor, Saubhagya Scheme, Mass Transit Systems, Airport expansion programmes, Andhra Pradesh Infrastructure Development, Refinery Expansions, Water Management programmes, in addition to some private sector expansion capex.




A robust order book of ₹ 263107 crore as at March 31, 2018 gives multi-year revenue and margin visibility to the Company. With current year order inflow being domestic centric, the composition of international order book declined to 23.8% as at March 31, 2018, as compared to 26.7% in the previous year. As a result of introduction of Goods & Services Tax, the order book has been adjusted, since revenue excludes GST.

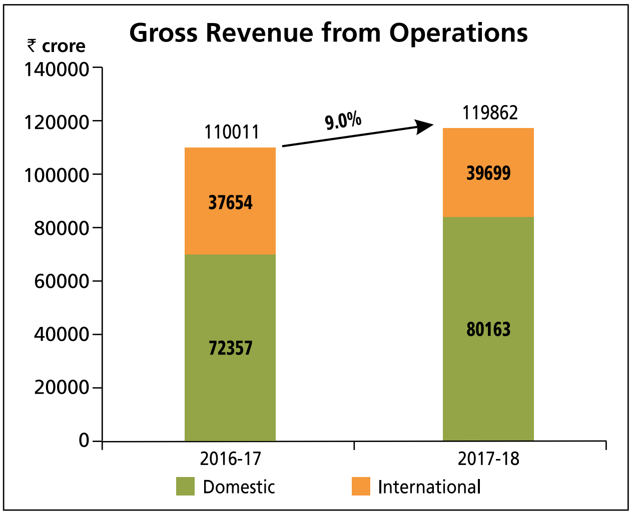
Infrastructure segment continues to contribute 74% of the consolidated order book, comprising mainly Heavy Civil Infrastructure 18%, Building & Factories 17%, Transportation Infrastructure 14%, Power Transmission & Distribution 14% and Water & Effluent Treatment 11%. With reduced opportunities in the Power sector, the share in order book has declined from 5% to 4%.




## Revenue from Operations

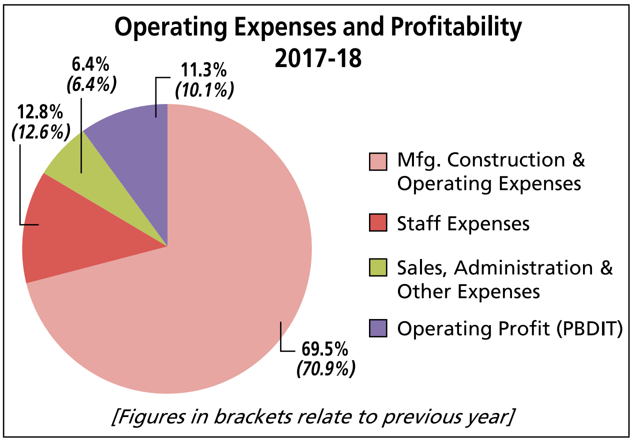
L&T Group recorded revenue of ₹ 119862 crore during the year, registering a growth of 9%. Adjusted for Excise Duty in the previous year, the growth on a like-to-like basis was 9.5%. Revenue earned from international operations comprised 33% as compared to 34% in the previous year.

The growth in revenue was achieved despite transitory disruptions due to GST implementation during the year. Growth was largely contributed by Heavy Civil Infrastructure, Water & Effluent Treatment, Transportation Infrastructure, Hydrocarbon, Heavy Engineering and Services business. Delayed order awards impacted Metallurgical & Material Handling, while limited opportunities and intense price competition impacted revenue accruals in Power and Valves businesses respectively. Growth in L&T's Electrical & Automation business was supported by improved demand for standard products, particularly the metering systems.




## Operating Cost and PBDIT

Manufacturing, Construction and Operating (MCO) expenses at ₹ 83305 crore increased by 6.7% over FY 2016-17, registering improved operational efficiency. These expenses mainly comprise cost of construction material, raw materials and components, subcontracting expenses and interest costs of Financial Services business.



Staff expenses for the year 2017-18 at ₹ 15292 crore increased by 10.4% over the previous year. Staff Cost as a percentage of revenue marginally increased to 12.8% from 12.6%, mainly due to addition of resources for growth of the IT & TS businesses. The Company continues to focus on improved productivity, digitalization and manpower rationalization.

Sales and administration expenses increased by 10.1% y-o-y to ₹ 7693 crore, mainly due to higher provisioning by Financial Services, Development Projects, Infrastructure and Hydrocarbon business, partly compensated by exchange gains.

The Group operating profit at ₹ 13571 crore for the year 2017-18 registered a healthy growth of 22% y-o-y. The EBITDA margins for the year also improved by 120 basis points to 11.3%. The closure of legacy projects in the Hydrocarbon business, cost optimization measures in product businesses, monetization of a Realty asset, the favourable Supreme Court judgement in the Nabha Power case and the strong growth of IT&TS businesses - contributed to the improvement in 2017-18, as compared to the previous year.

### Depreciation & Amortization Charge

Depreciation and amortization charge for the year 2017-18 decreased by 19% to ₹ 1929 crore, compared to ₹ 2370 crore in previous year. The decrease was largely due to impairment in the asset values in some of the businesses, in the previous year.

### Other Income

Other income at ₹ 1412 crore, which increased by 5% over ₹ 1344 crore, consists of profit on sale of liquid investments, interest and dividend income from treasury investments. The growth was on account of higher gains from deployment of surplus funds generated through operations, and through divestment of stake in subsidiaries.

### Finance Cost

The interest expenses for the year 2017-18 at ₹ 1539 crore was higher by 15% in comparison to ₹ 1339 crore for the previous year. The increase was attributable to the impact of interest cost in L&T Hyderabad Metro Rail upon partial commencement of operations in November 2017, and cessation of capitalization of interest on Seawoods assets, on it getting ready for sale. Further, higher proportion of interest bearing advances in Infrastructure businesses and increase in LIBOR rates resulted in increasing the average borrowing cost for the year to 7.3%, as compared to 6.9% in the previous year.

### Exceptional Items

Exceptional items of ₹ 123 crore during the year represent gain on divestment of stake in two wholly owned subsidiaries, EWAC Alloys Limited and L&T Cutting Tools Limited, net of provisions made towards uncertain recovery of outstanding from a customer referred under Insolvency & Bankruptcy Code.

### Tax Expense

Income Tax charge for FY 2017-18 increased to ₹ 3199 crore compared to ₹ 2007 crore in FY 2016-17 mainly due to increased profits and higher Effective Tax Rate, on account of increased disallowances in respect of earlier years.

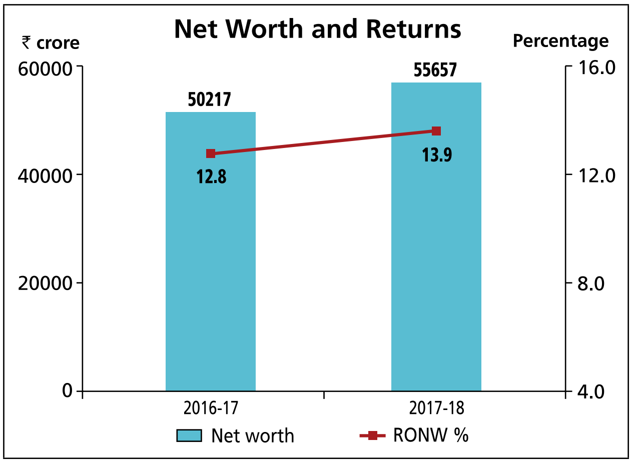
### Profit after Tax & EPS

Consolidated Profit after Tax (PAT) at ₹ 7370 crore for the year 2017-18 rose by 22% over the previous year at ₹ 6041 crore.

Consolidated Earnings per Share (EPS) including exceptional items for the year 2017-18 at ₹ 52.62 were higher by 22% over the previous year.

### Return on Net Worth

The Net Worth of the shareholders, as on March 31, 2018, at ₹ 55657 crore, reflects an increase of ₹ 5440 crore, as compared to the position as on March 31, 2017. Return on Net Worth (RONW) for the year 2017-18 was higher at 13.9%, driven by increase in net earnings, as compared to 12.8% in the previous year.




### Liquidity & Gearing

Cash flow from operations decreased to ₹ 6428 crore as compared to ₹ 12399 crore in the previous year mainly due to higher levels of working capital, which partially negated increase in operating profits. The group earned a significantly higher income from investing activities - namely dividends, proceeds from sale of treasury investments and divestment activities - which was used to repay certain high cost borrowings and meet interest and dividend.

The Group incurred capital expenditure of ₹ 2015 crore during the year, mainly on construction activity of L&T Metro Rail Hyderabad project. There was a net increase of ₹ 3254 crore in the cash balances as at March 31, 2018 as compared to the beginning of the year.

| **Consolidated Fund Flow Statement** | **₹ crore** | |
|---|---|---|
| **Particulars** | **FY 17-18** | *FY 16-17* |
| Operating activities | 6428 | *12399* |
| (Purchase)/Sale of other investments | 2169 | *(8136)* |
| Net (investment)/ divestment | 477 | *3* |
| Payment (to)/from minority interest (net) | 1413 | *2059* |
| Treasury and dividend income | 3283 | *1158* |
| ESOP proceeds | 50 | *53* |
| **Sources of Funds** | **13820** | *7536* |
| Capital expenditure (net) | 2015 | *2821* |
| (Borrowings)/Repayment of Borrowings | 3691 | *693* |
| Dividend paid | 2390 | *2093* |
| Interest paid | 2471 | *2174* |
| Increase/(Decrease) in cash balance | 3254 | *(245)* |
| **Utilisation of Funds** | **13820** | *7536* |

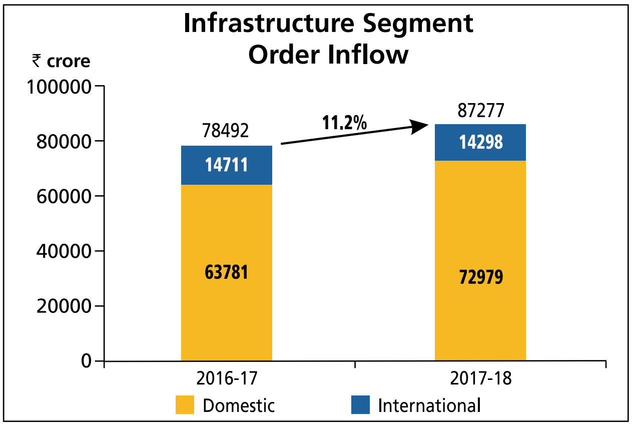
The total borrowings as at March 31, 2018 stood at ₹ 107524 crore as compared to ₹ 93954 crore as at March 2017. The gross Debt Equity ratio as of end March 31, 2018 stood at 1.75:1, same as at March 31, 2017. Net Debt Equity ratio, however, as on March 31, 2018 is 1.47:1 as compared to 1.39:1 as on March 31, 2017.

## B. SEGMENT WISE PERFORMANCE (GROUP)

### 1. Infrastructure Segment

The Infrastructure segment won orders worth ₹ 87277 crore, higher by 11% over the previous year, mainly from domestic public sector and government customers. Large orders were won by Heavy Civil Infrastructure, Transportation Infrastructure and Water & Effluent Treatment. Although, liquidity constraints of customers, aggravated by demonetization continue to impact growth momentum in Buildings & Factories, during the year, the business was successful in winning a few large-value orders. The relatively new business of Smart World & Communication registered growth on receipt of smart city and telecom orders.

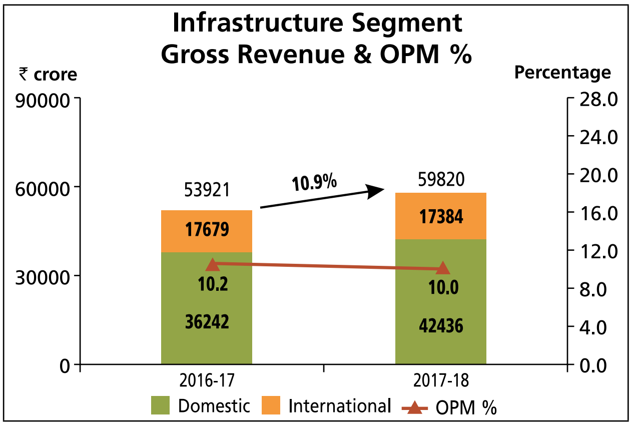
Overall Infrastructure business saw reduced opportunities in the Middle East arising out of fiscal policy measures in those countries. International order wins of the Infrastructure segment, mainly in Power Transmission & Distribution and Transportation Infrastructure businesses, constituted 16% of the total order inflows for the segment.




The Infrastructure segment clocked a gross revenue of ₹ 59819 crore for the year 2017-18 registering 10.9% growth over the previous year. Execution of orders in hand progressed well majorly in Heavy Civil Infrastructure, Water & Effluent Treatment and Transportation Infrastructure. Building & Factories and Smart World & Communication faced some execution impediments by way of fund allotment / liquidity crunch, customer clearances and work-front availability. Right-of-way and environment clearances continue to hamper execution in some of the projects.

Revenue from international operations constituted 29% of the total revenues of the segment during the year as compared to 33% in the previous year, with a reduced international order book.

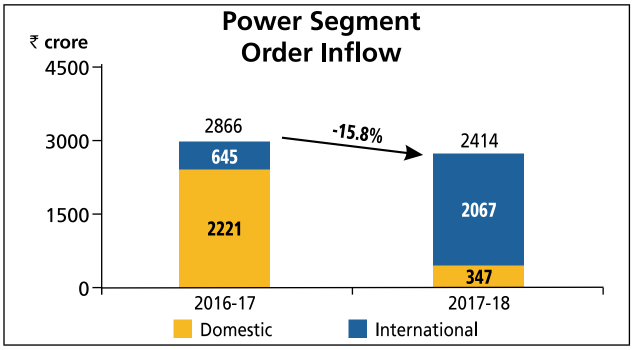
The Infrastructure Segment's operating profit was higher by 10% on y-o-y basis at ₹ 5902 crore for 2017-18, though operating margins dropped marginally from 10.2% to 10% due to certain stressed international projects in Transportation Infrastructure and Buildings & Factories businesses.



The Funds employed by the segment at ₹ 17511 crore as at March 31, 2018 increased by 8.7% vis-à-vis March 31, 2017, with increased volumes. Increase in Gross Working Capital levels due to build-up of project work-in-progress, not due for invoicing and collection, was partially compensated by better vendor credit management and increase in customer advances on new order wins.

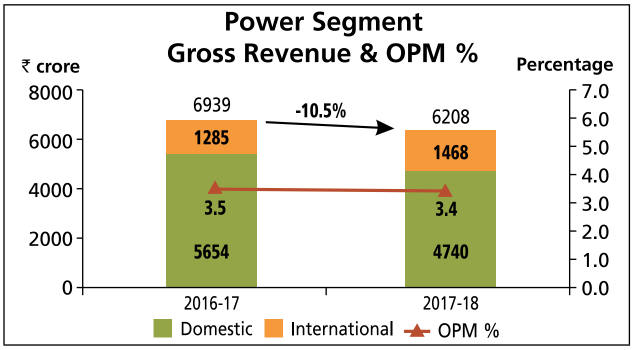
## 2. Power Segment

The Power segment bagged orders worth ₹ 2414 crore as compared to ₹ 2866 crore in the previous year. The orders won during the year were majorly export orders. The domestic sector continues to be plagued with lower levels of coal-based power plant ordering in the face of over-capacity in boiler and turbine production as well as aggressive pricing by competitors. The order inflow was low, also due to the segment losing one large-value domestic order and non-participation in another large-value order due to unfavourable terms.




Power segment revenue declined y-o-y by 10.5% to ₹ 6208 crore, as jobs under execution moved closer to completion and new awards were delayed. Revenue from international projects at ₹ 1468 crore represented 24% of the total revenue for the segment, largely contributed by gas-based power plant jobs under execution in Bangladesh.

Operating margin decreased by 10 basis points to 3.4% during FY 2017-18, as compared to 3.5% in 2016-17 on account of change in job mix.

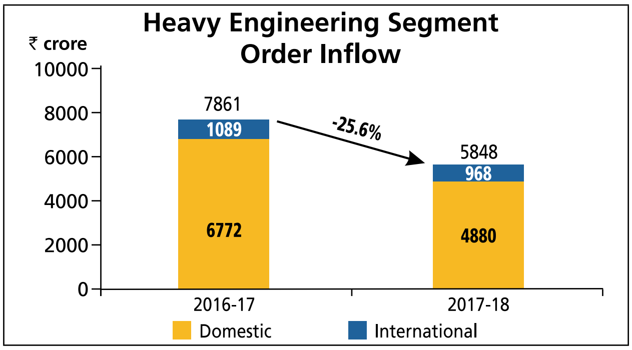



As stated in the previous year, with implementation of IND AS, the Joint Venture operations are consolidated only at PAT level. This impacts the operating margin for the Power business, since the EPC margins reported as segment margins do not include the performance of joint ventures, which have a better margin profile.

The funds employed by the segment stood at ₹ 790 crore as at March 31, 2018 - higher than ₹ 485 crore as on March 31, 2017 - with release of payments to vendors and higher carrying value of Investment in Joint Ventures under the Power Group, consolidated through equity method under IND AS.

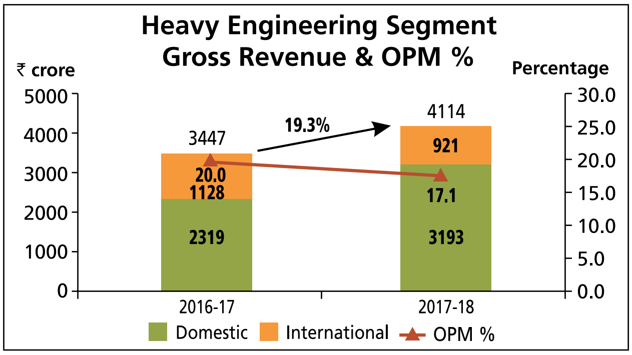
## 3. Heavy Engineering Segment

The Heavy Engineering segment recorded order inflow of ₹ 5848 crore for the year ending March 31, 2018 - lower by 25.6% as compared to the previous year, which had a large-value Defence order. The current year had a mix of orders from the Nuclear Power Corporation of India and some defence sector orders. International orders constituted a nominal 2.7% of the total international order inflows.




Segment gross revenue of ₹ 4114 crore improved by 19% compared to the previous year on the back of execution progress on defence jobs received in the previous year. Revenue from international operations constituted 22% of the total revenue for the segment.

The segment recorded a 6.4% increase in the operating profit for the year at ₹ 655 crore against an operating profit of ₹ 615 crore in the previous year. The operating margin declined from 20% in previous year to 17.1% in current year upon change in job mix.

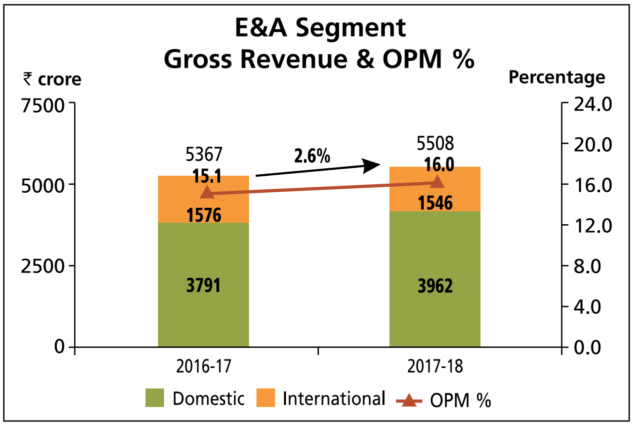


Funds employed by the segment as on March 31, 2018 at ₹ 1379 crore increased 6% y-o-y, on account of increase in construction work-in-progress awaiting invoicing milestones, which was partially offset by receipt of customer advances and higher vendor credit.

### 4. Electrical & Automation Segment (E&A)

The E&A segment performed well, despite the transitionary challenges of GST. The Standard Products business contributed higher sales of final distributed products, agricultural starters and energy meters. The business recorded a gross revenue of ₹ 5508 crore for the year, an increase of 2.6% over the previous year and adjusted for excise duty in previous year, the growth is 11%. With lower than expected volumes in international group companies, revenue from international operations declined to 28.1% of the total revenues of the segment.

Segment operating profit for the year improved to ₹ 822 crore, a 17% increase over previous year. Operating margins improved during the year by 90 basis points to 16%, owing to favourable product mix and improved operational efficiencies.

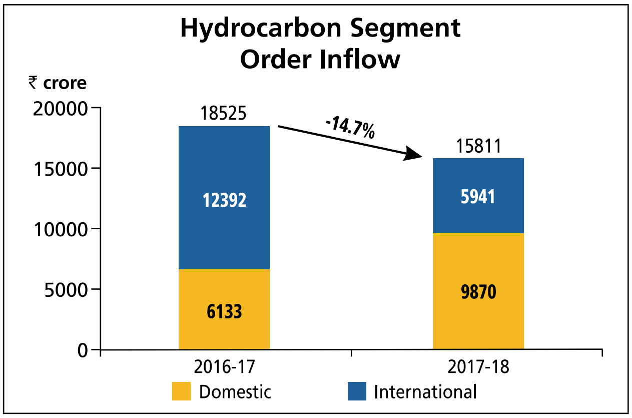



Funds employed at ₹ 2271 crore decreased by 6.5% y-o-y aided by higher credit from vendors.

The Company has signed definitive agreements 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, subject to regulatory approvals. The transaction will cover all operations, except Marine Switchgear business and Servowatch Systems business.

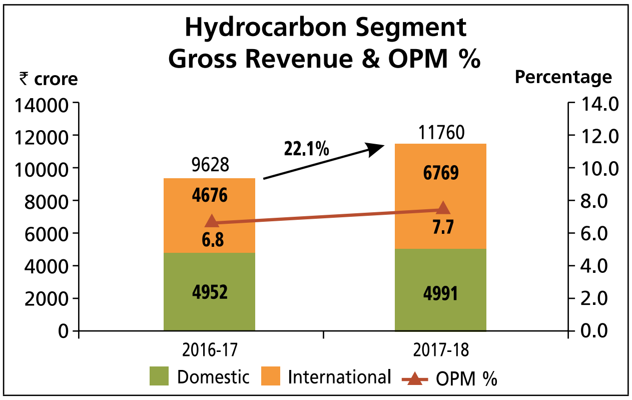
### 5. Hydrocarbon Segment

Hydrocarbon segment sustained its strong performance momentum from the previous year. The segment secured fresh orders aggregating to ₹ 15811 crore during the year, driven by a number of onshore and offshore orders in domestic sectors and from the Middle East region. International orders accounted for 37.6% of total order inflow for 2017-18 as compared to 66.9% in the previous year, which included a large-size order in the offshore area of work.




Segment revenue grew by a healthy 22% y-o-y at ₹ 11760 crore for the year, through strong execution progress, particularly, with respect to fast-track projects received during the year. International revenue contributed 57.6% of the total revenue of the segment as compared to 48.6% in the previous year, due to higher proportion of international orders in the opening order book.

Favourable claim settlements and close-out of stressed jobs resulted in a higher operating profit of ₹ 904 crore as compared to ₹ 657 crore in the previous year and the consequent margin improvement from 6.8% to 7.7%.

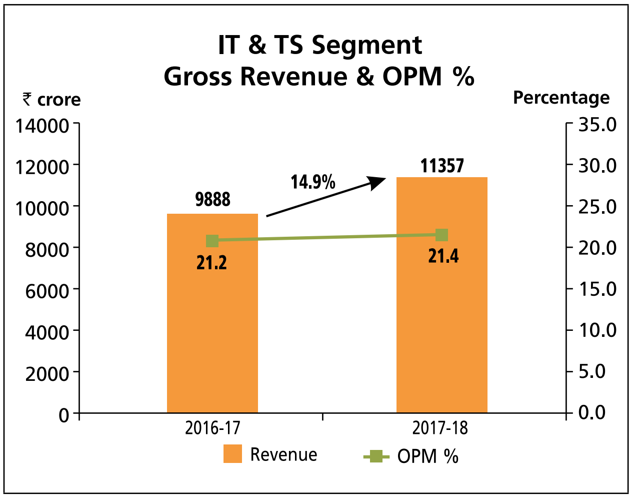



Funds employed by the segment at ₹ 1385 crore increased by 21.6% as compared to March 31, 2017 with deployment of surplus funds in treasury investments and higher carrying value of investments in the Joint Ventures under IND AS.

### 6. IT & Technology Services (IT & TS)

The IT & TS segment comprises the L&T Infotech group of companies and the L&T Technology Services group of companies, which were listed in FY 2016-17. The segment recorded gross revenue of ₹ 11357 crore for the year ended March 31, 2018 recording a growth of 14.9% over the previous year. International revenue constitutes 91% of the total revenue of the segment.

The Segment Operating profit stood at ₹ 2391 crore for the year 2017-18 as compared to ₹ 2063 crore in the previous year. Operating margin improvement of 20 basis points, is on account of improved operational efficiencies.

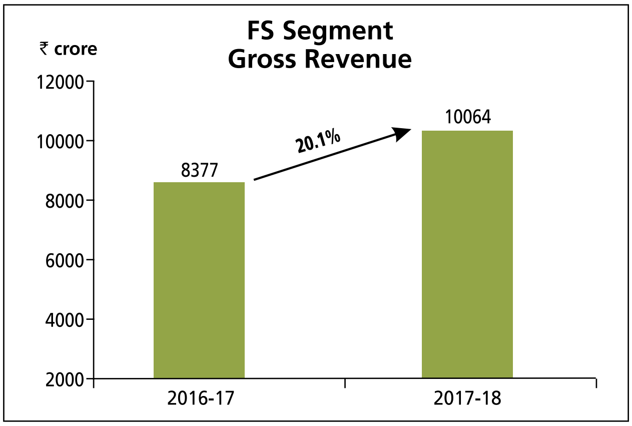



The Funds employed by the segment at ₹ 5373 crore as at March 31, 2018 are higher by 26% as compared to March 31, 2017 due to increase in unbilled revenue, investments and goodwill on acquisition of new subsidiaries.

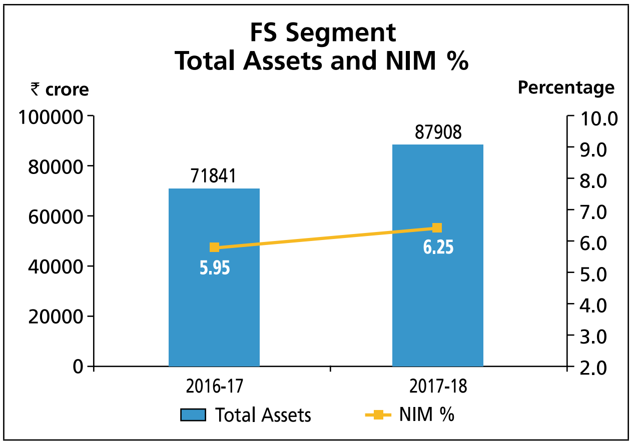
During the year, the Company further divested 1.32% stake in L&T Infotech and 1.13% stake in L&T Technology Services, towards meeting the regulatory requirement of minimum public shareholding of 25% within three years from listing of its shares.

### 7. Financial Services (FS)

The 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. The general insurance business was divested during FY 2016-17. Excluding the general insurance business, Segment revenue grew 20% y-o-y at ₹ 10064 crore during the year ended March 31, 2018 on a comparable basis aided by growth in the loan assets and disbursements in all its focused businesses.




Disbursal of fresh Loans and Advances in Wholesale, Real Estate, Micro Loans and Farm portfolio amounted to ₹ 78590 crore during the year ended March 31, 2018 - a significant growth of 68% y-o-y. In line with the disbursements, the Asset Book in focused lending businesses stood at ₹ 82692 crore as at March 31, 2018 recording a growth of 28% y-o-y. Net interest margins at 6.25% improved over 5.95% in the previous year.




The Gross Non-Performing Assets (GNPA) ratio decreased from 7.11% (restated) as at March 31, 2017 to 4.80% as at March 31, 2018. LTFH, however, has been strengthening its balance sheet throughout the year by making accelerated provisions in addition to those required under regulations. Consequently, the coverage on GNPA increased from 31% (restated as per new RBI norms) in the year ended March 31, 2017 to 53% in the year ended March 31, 2018 indicating a much stronger balance sheet. As a result of this, the Net NPA ratio has reduced from 5.02% (restated) to 2.34% over the same period.

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

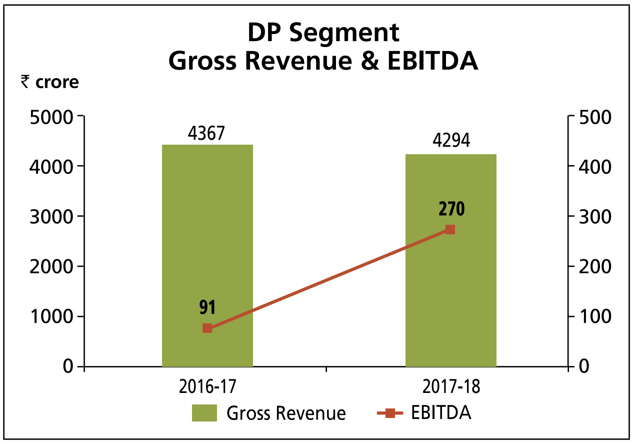
Management (AAUM) in the Investment Management business increased to ₹ 65932 crore during the year ended March 31, 2018 - a growth of 68%. Average Assets Under Service (AAUS) in the Wealth Management business increased to ₹ 18347 crore during the year ended March 31, 2018, registering growth of 35%.

**8. Developmental Projects (DP)**

The Group has acquired concessions through the competitive bidding process for the development of Power projects, Roads, Bridges, Hyderabad Metro Rail and power transmission line. The total portfolio of the group consists of 5 power projects, 15 road & bridge projects, 1 transmission line project, 2 ports and 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 projects, reassessed not considering the 3 hydel power projects under hold, is pegged at ₹ 47807 crore, of which equity commitment is ₹ 10395 crore with ₹ 9293 crore having been infused as at March 2018.

The segment recorded revenue of ₹ 4294 crore for the year ended March 31, 2018, which is lower as compared to ₹ 4367 crore in the previous year, as construction activity in the Hyderabad Metro project nears completion, and is partly compensated by higher revenue from the Rajpura power plant.

The segment clocked an operating profit of ₹ 270 crore for the year 2017-18, improving over the ₹ 91 crore earned in FY 2016-17, as Nabha Power accrued revenues on receiving a favourable judgement in the matter of disputed receivables. The revenue also includes operational revenue on partial commissioning of the L&T Metro Rail Hyderabad project in November 2017.



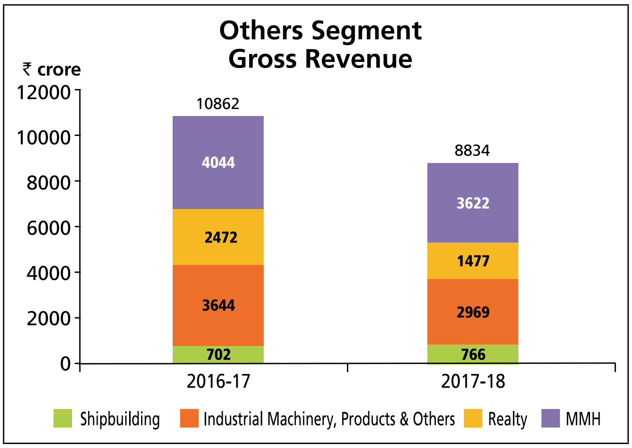

The funds employed in the segment at ₹ 19860 crore as at March 31, 2018 mainly comprises L&T Metro Rail Hyderabad project cost.

The Company is awaiting regulatory clearances to conclude the divestment in a container port in Kattupalli, Tamil Nadu to a strategic investor and is in advanced stage of selling 5 road concessions to an Investment Trust.

**9. 'Others' Segment**

The 'Others' Segment covers Metallurgical and Material Handling (MMH), Realty, Shipbuilding, Construction and Mining Machinery, Industrial Machinery & Products and Valves businesses.

Revenue for the segment declined during the year as demand for Real Estate in the metro cities of Mumbai and Bengaluru witnessed a slowdown post-demonetization, and the Valves business faced de-growth due to lower order intake on account of severe competition. With the segment registering one large-value transaction in Realty, the operating margin improved significantly compared to previous year.




## II. L&T STANDALONE

**PERFORMANCE REVIEW**

L&T's standalone financials capture the performance of the Infrastructure segment, Power, Heavy Engineering, Electrical & Automation and the 'Others' segment comprising Metallurgical and Material Handling business, a part of Realty business, a part of Hydrocarbon business, part of Shipbuilding business and Construction & Mining Machinery business.

L&T delivered good performance on all operational parameters, despite a volatile environment. The domestic market is set on a growth path with a slew of reforms, as against the international arena caught in geo-political turmoil. The Infrastructure business segment surpassed the previous year's performance, while the Power and Industrial businesses continued to experience headwinds to growth.

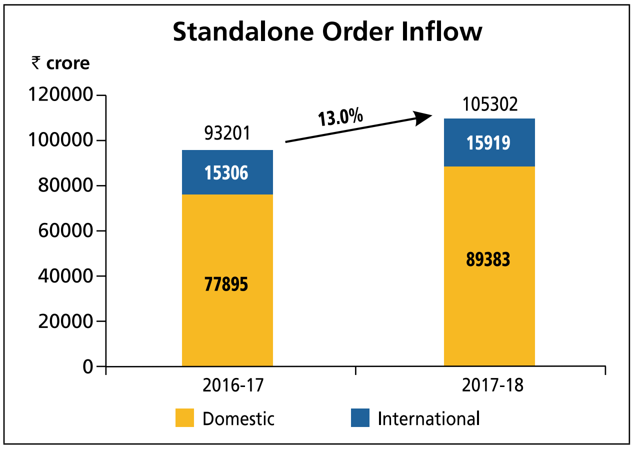
Considering the returns potential and business opportunities, the Company has infused additional capital of ₹ 2000 crore in L&T Finance Holdings Limited. As a part of business portfolio restructuring, the Company divested its complete stake in two subsidiaries viz. EWAC Alloys Limited and L&T Cutting Tools Limited. In a major development, the company took concrete steps towards its stated intent to divest the Electrical & Automation business by signing, subject to regulatory approvals, a definitive agreement with Schneider Electric.

The key focus area continues to be enhancement of shareholder value through operating margin improvement and higher cash flow generation through working capital reduction and unlocking of capital earnings sub-par returns.

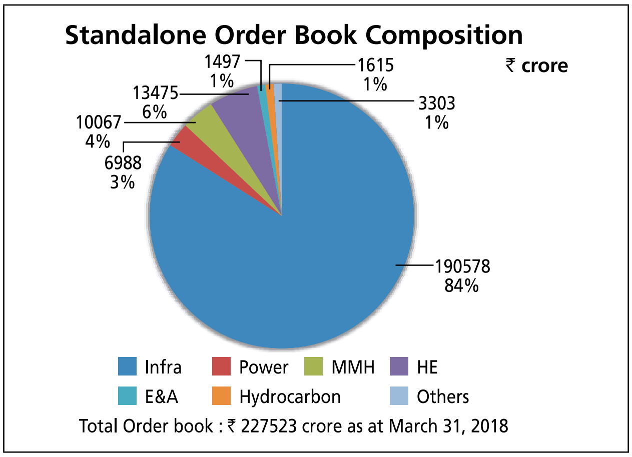
### Order Inflow & Order Book

Order inflow during 2017-18 grew by 13% at ₹ 105302 crore as compared to ₹ 93201 crore in the previous year. The Infrastructure segment contributed 79.1% of the total order inflow during the year as compared to 82.1% in the previous year. The Power business has been sluggish due to the sectoral challenges.

Heavy Engineering order inflow pre-dominantly consisting of defence orders, reported a decline due to deferment of select prospects. Industrial demand has been low, reflecting modest order inflow growth in E&A business. The 'Others' segment saw pick-up in order inflow in the Minerals & Metals business, with higher commodity prices driving fresh investment. International order inflow dropped to 15.1% of the total order inflow for 2017-18 as compared to 16.4% in the previous year.



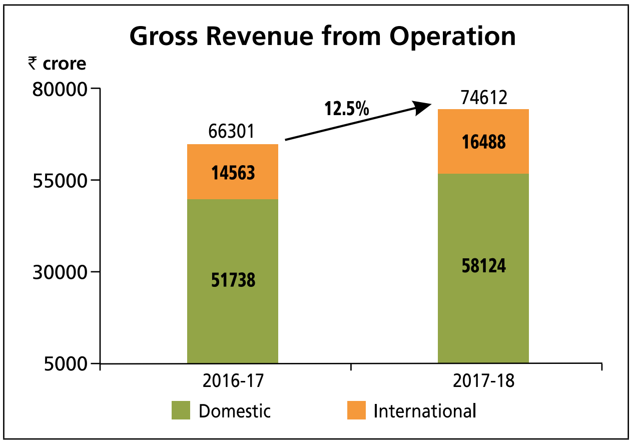

Order Book as at March 31, 2018 stood at ₹ 227523 crore, 83.8% of which is contributed by the Infrastructure segment. International orders constituted 17.9% of the current order book. L&T continues to carry a healthy order-book-to-revenue ratio at 3.05 providing better visibility of revenue growth over the medium term.




### Revenue From Operations

L&T achieved a revenue growth of 12.5% at ₹ 74612 crore as compared to ₹ 66301 crore in the previous year. Revenue growth over the previous year is mainly driven by execution pick-up in infrastructure projects in Transportation Infra, Heavy Civil Infra and Water & Effluent Treatment and progress in defence projects under Heavy Engineering.

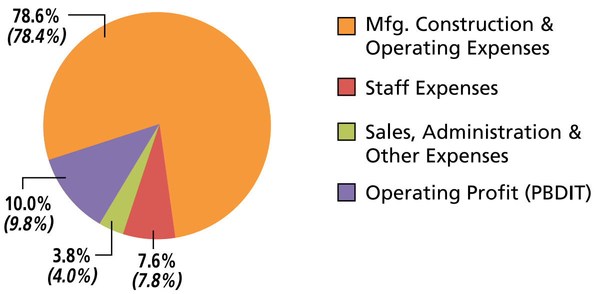
The Power segment revenue declined over the previous year by 10.6% as a result of a declining order book. Electrical & Automation segment grew by 4%.




### Operating Cost and PBDIT

Manufacturing, Construction and Operating (MCO) expenses, comprising cost of construction material, raw materials, components and subcontracting expenses, amounted to ₹ 58638 crore registering an increase of 12.8%. These costs represent 78.6% of Revenue, an increase of 20 basis points over the previous year. Increase in MCO cost percentage to revenue is mainly driven by change in the stage and mix of projects under execution.

**Operating Expenses and Profitability 2017-18**




*[Figures in brackets relate to previous year]*

Staff expenses for the year at ₹ 5714 crore increased by 11% y-o-y in line with revenue growth. The Company's manpower strength stood at 42924 as on March 31, 2018 compared to 41466 as at March 31, 2017.

Sales and administration expenses for the year at ₹ 2831 crore increased by 6.1% y-o-y, mainly due to higher provisions for doubtful debts.

The operating margins for the year stood at 10%, registering an improvement of 20 bps over the previous year. Profit before depreciation, interest and tax excluding other income (PBDIT) was ₹ 7429 crore for the year, higher by 14.6% over the previous year.

### Depreciation & Amortization Charge

Depreciation and amortization charge for the year 2017-18 reduced by 13.6% and was at ₹ 1049 crore, as compared to ₹ 1215 crore in the previous year. The reduction was due to impairment of asset values in the previous year.

### Other Income

Other income mainly comprises of income from the Company's treasury operations, dividends and income from group companies. Other income for the year 2017-18 at ₹ 1885 crore, decreased as compared to ₹ 1915 crore for the previous year, mainly due to lower yield on treasury investments.

### Finance Cost

The interest expense for the year at ₹ 1432 crore was higher by 8.7% vis-à-vis ₹ 1317 crore for the previous year. The increase is attributable to a higher quantum of interest bearing customer advances. The average borrowing cost for the year 2017-18 was lower by 50 basis points at 7.5% p.a. with repayment of some high-cost borrowings during the year.

### Exceptional Items

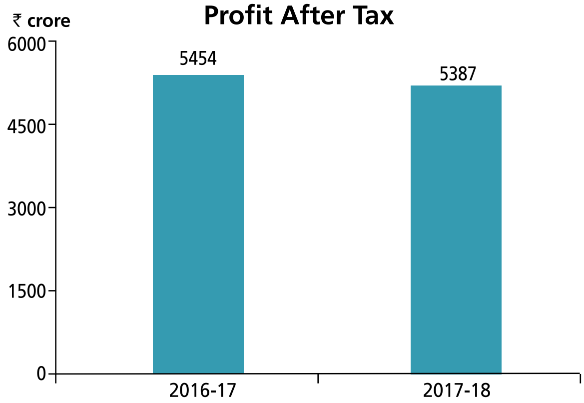
Exceptional items of ₹ 431 crore for the year 2017-18 include gain on stake divestment in EWAC Alloys Limited and L&T Cutting Tools Limited, gain on dilution of stake in listed companies L&T Infotech and L&T Technology Services, and provision made towards uncertain recovery of outstanding from a customer referred under Insolvency & Bankruptcy Code.

### Profit after Tax & EPS

Profit after Tax (PAT), including exceptional items, for the year 2017-18 dropped by 1.2% to ₹ 5387 crore as compared to ₹ 5454 crore in the previous year. While the operating profits were higher for the year, the increase in tax expense and lower exceptional income as compared to the previous year, resulted in overall reduction in PAT.

The Earnings per Share (EPS) for the year 2017-18 at ₹ 38.46 compared to ₹ 39 in the previous year.

**Profit After Tax**




### Other Comprehensive Income (OCI)

Other comprehensive income during year, reflected a loss of ₹ 51 crore, compared to a gain of ₹ 157 crore in the previous year, mainly representing change in balances pertaining to cash flow hedge reserve on account of gain/loss during the period and profit/loss reclassification adjustments.

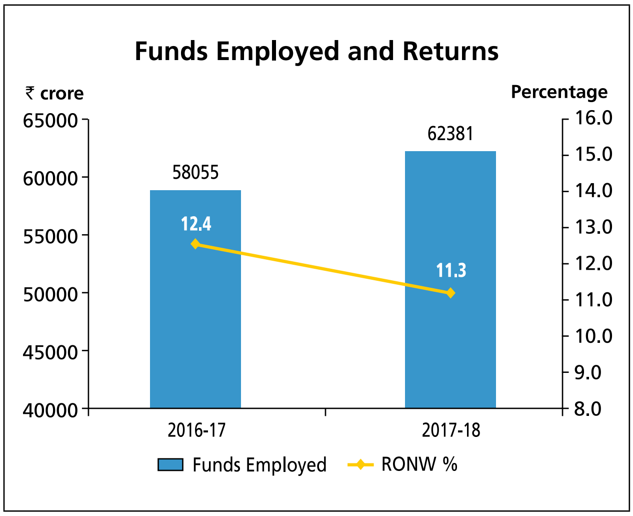
## Funds Employed and Returns

Funds Employed by the Company at ₹ 62381 crore as at March 31, 2018 increased by ₹ 4326 crore during the year.

Strategic investments in S&A companies and working capital funding requirements were met out of redemption of liquid investments and internal accruals.

As on March 31, 2018, the segment aggregate level net working capital at ₹ 15393 crore decreased to 20.6% of revenue as compared to ₹ 13933 crore at 21% of revenue as on March 31, 2017. Release in working capital is attributable to improved collections and better credit terms negotiated with vendors.

During the year, investments in and loans to subsidiary and associate companies increased by ₹ 1433 crore (net of proceeds from divestment). Major funding was provided to Financial Services, Shipbuilding and the Forge shop.




Return on Net Worth (RONW) including exceptional items for the year 2017-18 at 11.3% is lower as compared to 12.4% in the previous year.

## Liquidity & Gearing

Business operations generated cash flows of ₹ 2952 crore during the year as compared to ₹ 5980 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, treasury income and liquidation of current investments was mainly used for investments of ₹ 1456 crore in S&A companies and capex of ₹ 1013 crore, in addition to payment of dividend and interest of ₹ 2279 crore and ₹ 1322 crore respectively.

| **Standalone Fund Flow Statement** | **₹ crore** | |
|---|---|---|
| **Particulars** | **FY 17-18** | *FY 16-17* |
| Operating activities | 2952 | *5980* |
| Borrowings (net of repayments) | 62 | *(3132)* |
| (Purchase)/Sale of Other investments | 621 | *(2592)* |
| Treasury and dividend income | 3635 | *1875* |
| ESOP proceeds | 50 | *53* |
| **Sources of Funds** | **7320** | *2183* |
| Capital expenditure (net) | 1013 | *635* |
| Net investment/(divestment) | 1456 | *(1306)* |
| Dividend Paid | 2279 | *1843* |
| Interest paid | 1322 | *1151* |
| Increase / (decrease) in cash balance | 1250 | *(140)* |
| **Utilisation of Funds** | **7320** | *2183* |

Total borrowings as at March 31, 2018 stood at ₹ 10561 crore as compared to ₹ 10558 crore in the previous year. Proportion of short-term borrowings increased to 39% as compared to 22% as at March 2017. The loan portfolio of the Company comprises a mix of domestic and suitably hedged foreign currency loans. The gross debt equity ratio decreased to 0.21:1 as at March 31, 2018 from 0.23:1 as at March 31, 2017. The net debt equity ratio was nominal at 0.04:1 as at March 31, 2018.

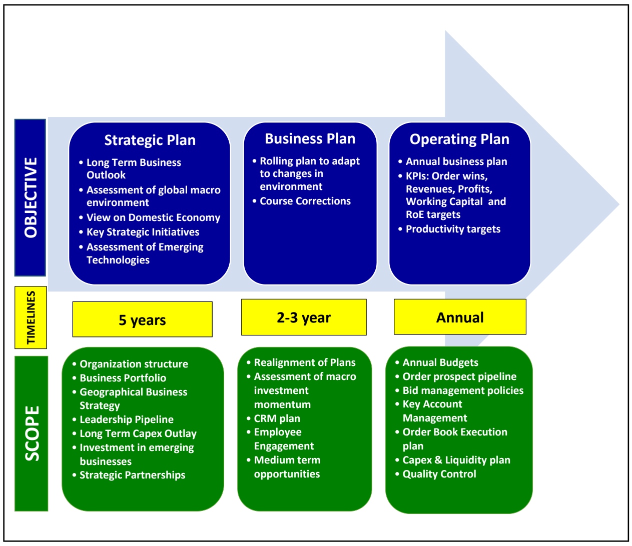
# III. STRATEGY, BUSINESS MODEL AND RESOURCE ALLOCATION

## Strategy Formulation:

The company has embedded business strategy formulation as part of its long term sustainability plans. Business strategy is evolved every 5 years through a collaborative and consultative process that also includes financial parameters as guideposts for different elements of strategic plans.

While 5 year business outlook and broad financial goals are embedded as an overarching strategic plan, shorter term annual targets are framed before the commencement of every financial year which, in turn, get folded into a rolling medium term plan.

The current 5 year strategic plan commenced in 2016-17 and is slated to end on 2020-21 during which time the group level shareholder value creation measured by Return on Equity (RoE) is targeted to grow significantly.



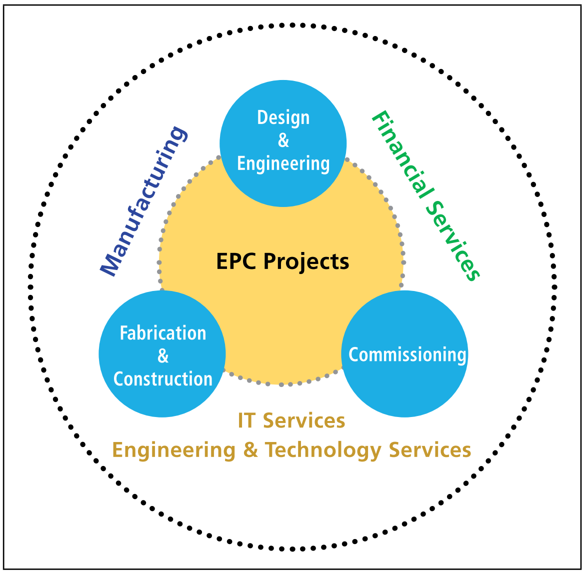

**Business Portfolio Strategy:**

- The Company focuses on its proven and core competencies of conceptualising, executing and commissioning large complex infrastructure projects in the areas of Roads & Bridges, Power Transmission & Distribution, Thermal / Hydel / Solar / Nuclear Power Plants, Water & Irrigation Infrastructure, Residential / Commercial / Institutional / Factory Buildings, Real Estate Development, Airports, Metro & Conventional Railways, Onshore & Offshore Hydrocarbon facilities and Metallurgical installations. An integrated EPC (Engineering, Procurement & Construction) business strategy forms the core backbone of the Company's business portfolio.

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

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

- Schematics of the business portfolio strategy:




**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, tactical and operational elements such as:

- Focusing on timely and cost-effective execution of the Company's unexecuted Order Book (Backlog) while ensuring adequate backfill through order wins
- Ensuring translation of healthy margin profile in the Order Book into financial statements through execution, operational excellence and digitalisation initiatives
- Incubating new businesses to tap future growth opportunities
- Maintaining an optimum mix between domestic and international business
- Ensuring efficient and optimal utilisation of assets and facilities
- Optimising capex and working capital levels
- Value monetisation for unlocking capital
- Maintaining and enhancing shareholder payouts
- Optimising financial leverage

In the first 2 years of the plan, RoE has improved from 9.9% in 2016-17 (base year) to 13.9% in 2017-18 and is in line with the plan.

**Resource Allocation:**

The Company has a well laid-out plan of resource allocation to meet its strategic objectives. These 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
- Attracting and retaining a robust and thriving talent pool through employee engagement programs, monetary and non-monetary incentives, leadership development initiatives, offering professional development opportunities and fostering a conducive organisation climate. The company has evolved a series of structured HR policies to enable this resource allocation.
- Sustainable and long term engagements with labour sub-contractors to ensure steady augmentation of resources at project sites
- 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

L&T has a four-tiered structure for Risk Management. The top-tier comprises the Audit Committee and a Board-appointed Apex Risk Management Committee (ARMC) comprising of Executive Directors. The Audit Committee of the Board oversees the efficacy of the risk management processes. Strategic risks and top operational risks and new initiatives (new geography, new investment etc.) for respective businesses are discussed in detail in the ARMC meetings.

The second tier is the Corporate Risk Management department and the Chief Risk Officer (CRO), who oversee and facilitate the Risk Management processes enterprise-wide and lead organization-wide initiatives in the Risk Management domain.

The third tier comprises dedicated Risk Officers at each of the business verticals who oversee and co-ordinate the risk management processes at the respective businesses.

In the fourth tier, the Project Heads act as risk owners and manage operational risks.

The Audit Committee, ARMC and the Risk Management Committees at various levels are informed on the critical risks affecting the Company for their review and guidance. Mitigation plans are drawn up and implemented as appropriate within the overall ERM framework of the Company.

The Company works predominantly in the project business and has developed robust project risk management processes. The key processes of risk reviews include Pre-bid risk reviews, Execution risk reviews, Project Close-out risk reviews and Country Clearance, in case of venturing into a new country and revisit clearances based on the geopolitical and economic developments in each of the cleared countries. Pre-bid reviews are carried out as a pre-requisite for bidding for any new project based on a bid authorization matrix. Execution risk reviews of the projects are held at regular intervals to track project performance, movement of risks in the project and effectiveness of mitigation measures. Close-out risk reviews are held to capture key learnings from the projects and what went right/wrong analysis, which help in factoring learnings for future bids and creating a knowledge repository.

The Company also has a robust Financial Risk Management set-up which focuses on exposures and risks emanating from currency and commodity price volatility in the course of business. The structural stability and strength of the Company is ensured by careful Assets / Liabilities planning.

L&T has been conferred the prestigious 'Best Risk Management Framework And Systems - Capital Projects & Infrastructure Award' at the India Risk Management Awards event organized by CNBC TV18.

The Company emphasizes on continuous learning and has initiated several knowledge-based initiatives to improve risk awareness across the organization. One such initiative was launching of an e-learning training program for employees on Enterprise Risk Management (ERM) to disseminate knowledge and enhance capabilities on risk management, which will lead to better business performance. The course is continuously updated with new case studies relevant to the various business verticals.

Periodic training workshops on risk management are held across the Company.

The Company organises seminars and conclaves on Risk Management, where eminent speakers on the subject are invited to share perspectives and to elevate the level of discussions on the topic within the Company.

The Company has a Knowledge Centre established to provide inputs to the businesses comprising the latest economic developments and covering analysis on competitors, clients, sectoral studies, countries and geo-political developments. The efforts are on to help businesses anticipate potential risks in their respective areas and work out suitable steps to deal with them. This also highlights opportunities in the sectors / geographies of interest.

The Company recognizes exceptional contribution in managing risks by awarding selected project teams in the annual L&T Risk Management Awards.

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

**Geopolitical Risks:** Unexpected political changes in some of the developed countries, trade barriers and increasing conflict in the Middle East (The Saudi – Qatar standoff) are some of the risks that the Company faces. The Company monitors such geopolitical risks, and develops appropriate mitigation strategies addressing geographical concentration, strategic sourcing options, regular monitoring of international sanctions and other economic measures.

**Slow Recovery of Key Sectors:** Growth in sectors such as Power, Nuclear, and Metals & Minerals continued to be hampered by a number of constraints such as the lack of investment, the reduction in power tariffs, the slow pace of decision-making, the financial distress of players, the delay in environmental clearances, the lingering effects of the mining ban, etc. Being a diversified conglomerate helps mitigate the risk of such slowdown in some sectors, as we see compensating growth in certain other sectors. Renewed impetus to Infrastructure sector by the Government - namely roads, railways, airports & waterways - provides growth opportunities in the near future.

**Competition:** It has been observed that competition from foreign and domestic players has considerably increased in the past few years. The Company's engineering, procurement, and construction business derives its competitive strength from its excellence in executing projects of varying sizes - its reputation for quality, technology, cost-effectiveness and its project management expertise. This helps in gaining an edge over the competition.

**Reputation and Brand:** The Corporate Governance and Compliance policy is in place mandating adherence to the Code of Conduct and Internal Controls. This is ensured by regular knowledge-sharing across the organization and appropriate controls.

**Other Operational Risks:**

**Execution Challenges:** The Company faces execution challenges, such as 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 effect timely mitigation.

**Partner Risks:** 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 are crucial for project success. Learnings from past projects are incorporated in the *inter-se* agreement with the partners and clauses on liability of each partner are carefully drafted after legal due diligence.

**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. The Company ensures regular follow-up for delay in payments by client, and has ensured improvement in 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. Legal teams are consulted periodically to ensure a robust process of claims management.

**Human Resource Challenges:**

The Company actively scans the environment for talent with skill-sets suited to the expanding and changing needs of the business, though availability of such resources is limited. The leadership pipeline has been strengthened and proper processes are implemented for hiring the best talent. Suitable retention policies are being constantly worked upon to minimize attrition of key resources.

The Company has institutionalized the risk management processes to map and monitor the risks across the businesses and respond effectively to achieve its strategic objectives. The Company has been successful in tapping the opportunities both in domestic and international markets. The Company sees risk management as a business enabler and believes that risk is an integral part of every business and promotes capability-building across the organization to anticipate and manage risks effectively.

**FINANCIAL RISKS**

**Capital Structure, Liquidity and Interest Rate Risks**

The Company continues its policy of maintaining a conservative capital structure which has ensured that it retains the highest credit rating in a tough economic environment. Low gearing levels also equip the Company with the ability to navigate business stresses on one hand and raise growth capital on the other. This policy also provides flexibility of fund-raising options for the future, which is especially important in times of global economic volatility. Withdrawal of monetary accommodation in certain countries on the back of strong growth and rising inflation and the current geo-political positioning have resulted in elevated financial market volatility during the last quarter of FY17-18. Despite the challenging domestic economic environment in FY 17-18, primarily due to the spill-over effects of demonetisation as well as GST implementation issues, the Company managed to restrain the working capital usage, especially at net level. The Company has been investing capital into subsidiaries as scheduled, and in some cases to provide for deterioration in performance caused by the sluggish economic/business downturn and JV partner challenges, and also to optimise overall Group interest rate costs. The Company plans to maintain adequate liquidity on the Balance Sheet to deal with slow recovery/downturn in economic conditions.

The Company judiciously deploys its periodical surplus funds in short-term investments in line with the defined 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 various 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 and residual commodity price risks are managed by an appropriate choice of treasury products for balancing risks and at the same time optimising the hedging costs.

The above risk management activity is carried out under the framework of Financial Risk Management Policy approved by Audit Committee and noted by the Board. Financial risks in each business portfolio are measured and managed centrally within the Company. These risks are reviewed periodically, quantified and managed within the acceptable thresholds as laid out in the Risk Management Policy of the Company.

The financial year 2017-18 was characterised by a relatively strong USD against developed market currencies on robust US growth and inflation pick-up. Despite US rate hike concerns, rising oil prices and GST implementation concerns, rupee depreciation was contained during the year. However, synchronized global economic growth along with demand/supply mismatches led to an increase in commodity prices. The combination of lower exchange rate volatility along with robust financial risk management processes resulted in lower financial cost and reduced the impact of higher input costs on the Company.

## V. INTERNAL CONTROLS

The growing business activities, restructuring of businesses and challenging external factors call for a constant review of the efficacy of the Company's internal control mechanism. Sound internal control procedures reduce process variation, leading to more predictable outcomes. The Company is committed to ensuring an effective Internal Control environment that will help in preventing and detecting errors, irregularities and frauds, thus ensuring security of Company's assets and efficiency of operations. The Company has an internal control mechanism which is commensurate with the size and complexity of business and aligned with evolving business needs.

Strong Corporate Governance and the right tone at the top serves as a strong pillar for excellence. This is demonstrated through various means including, but not limited to, the Corporate Policy on Internal Controls, which provides a structured framework for identification, rectification, monitoring and reporting of Internal Control weaknesses in the Company along with responsibilities and tasks enjoined upon employees in all positions; the Policy on Code of Conduct for employees and vendors together with the Whistle Blower Policy that extends to vendors and channel partners, the facility of expression of genuine concerns about unethical behaviour, improper practice, any misconduct, any violation of legal or regulatory requirements, actual or suspected fraud by any official of the Company without fear of punishment or unfair treatment; Internal Controls evaluation included as part of employee's appraisal; and appraising Senior Management and the Audit Committee of the Board periodically on the internal processes of the Company with respect to Internal Controls, Statutory Compliances and Assurance.

The Company has well-documented policies, procedures and authorization guidelines commensurate with the level of responsibility and standard operating procedures specific to the respective businesses. The Company has laid down Internal Financial Controls (IFC) as detailed in the Companies Act, 2013 and has covered all major processes commensurate with the size of business operations. Controls have been established at the entity level and process levels, and are designed to ensure compliance with internal control requirements, regulatory compliance and appropriate recording and reporting of financial and operational information. Processes and controls laid down as per IFC are regularly updated for all the changes occurring internally due to change in business process, restructuring, IT changes, etc. or any changes in external scenarios like introduction of new law, new risk, etc. There is appropriate framework in place to ensure that adequate internal controls are laid down and operate effectively.

**The Internal Control Organisation**

The Company has adopted the three-lines-of-defence model as prescribed by COSO (Committee of Sponsoring Organizations) to ensure an effective internal controls mechanism within the Company.

The first line of defence lies with the Business Heads, process owners and support functions. They own primary responsibility for design, establishment of internal controls and its operating effectiveness in their respective areas of operation. The Internal Controls framework is documented in the form of Internal Controls Manuals, Standard Operating Procedures, Accounting Guidelines including regular management reporting and monitoring thereof. Policies and procedures are reviewed periodically from time to time for any changes required, due to change in business needs as well as improvements in processes to strengthen the internal control systems. The Authorisation Matrix for financial transactions are derived based on Board resolutions which are delegated to individuals based on business needs within the overall limits of Corporate Authorisation Guidelines. Financial powers are vested based on business requirements and there is no automatic vesting of powers based on designation / grade of an individual.

The second line of defence lies with Corporate Internal Control (CIC) department. They facilitate and monitor the efficacy of the Internal Controls embedded in Operations so as to assist the management in establishing strong internal controls. The Internal Control Department at the Corporate level formulates procedures and guidelines for any areas of weaknesses that are identified during internal audit or as triggered by process owners or management based on internal or external risk factors. Apart from the internal mechanism to review and monitor internal controls; the Company also periodically engages independent professional firms to carry out review of the effectiveness of various Key Control processes in businesses and support functions. Their observations and suggestions on good practices are reviewed by the management for implementation and strengthening of the controls.

The third line of defence lies with Corporate Audit Services (CAS). They give assurance on Internal Controls effectiveness by carrying out independent internal audits. CAS is staffed adequately with qualified professionals in both technical and financial fields. The department conducts audit of all units of L&T and its major S&A companies at regular intervals. Based on observations of Internal Audit department, respective process owners carry out necessary process / system improvements, and thereby strengthen overall control mechanism. The process of Internal Audit is reviewed by the Management and Audit Committee of the Board.

## VI. INFORMATION TECHNOLOGY

L&T has pioneered the use of Information Technology for its business since the IT revolution started. As one of the early adopters, L&T implemented ERP systems for its businesses successfully in the late nineties, and since then, many other complementary systems around ERPs covering the entire set of business processes. For speed and agility, L&T has followed a federated approach to IT, wherein every business had its own IT setup consisting of core ERP, associated systems, IT Infrastructure and staff.

New Digital Technologies (AI, ML, RPA & Analytics etc.) have been making dramatic transformations to many businesses. They have also given rise to new business models. L&T has also embarked on a digital transformation journey and are being designed and implemented across various businesses.

The implementation of these digital solutions has the potential to transform the way we operate, resulting in significant benefits to increase our competitiveness and profitability. Implementation of these solutions requires us to have robust foundational core IT systems running the businesses. While our efforts to design and implement the digital solutions are under way, our core IT systems are also being upgraded, with the requisite set of functionalities and technologies on a continuous basis to support these digital initiatives.

To strengthen the Information Security status and to prevent any cyber threat to the Company's business or information repository, the Company has established a CISO office. This move is to give focused attention to the growing threats from the cyber world and to enhance the Company's cybersecurity protocols and secure the future of the organization.