Risk Management Framework

L&T is a diversified conglomerate with operations spanning multiple geographies and industry sectors, including engineering, construction, manufacturing, technology, financial services and real estate. Consequently, the Company deals with a wide range of risks. Taking informed, well-considered risks is an inherent and necessary part of its business. The Company's Enterprise Risk Management (ERM) framework identifies, assesses and mitigates existing and potential risks.

The Chief Risk Officer, Risk teams both at the Group level and at individual businesses, implement the ERM processes and apprise the Board Risk Management Committee and the Apex Risk Management Committee of identified risks and the corresponding mitigation measures.

The ERM framework focuses on **Operational Risks**, **Tactical Risks** and **Strategic Risks**.

Operational Risks

L&T executes a large number of infrastructure and manufacturing projects across geographies, many of which extend over long execution periods. The selection of projects is done after a detailed assessment of risks relating to country exposure, client profile, contract structures, design, execution methodology, and commercial, financial and legal terms through established internal approval mechanisms. Leveraging its experience across engineering and construction, and adopting a methodical approach to risk management, forms the core of the Company's execution philosophy.

In FY 2025-26, the risk environment witnessed greater unpredictability due to geopolitical tensions in key markets such as West Asia and India. Consequently, the ability to anticipate, respond to and recover from such situations has become a central element of risk management at the Company. L&T follows a structured approach to risk governance, anchored in a robust framework that enables a connection between corporate and project teams, enabling swift decision-making, coordinated responses and continuity under adverse conditions.

The Company's key operational risks include the following:

Project Execution

L&T's projects are often large-scale, complex and technologically challenging, involving multiple stakeholders and location-related constraints. To enable project execution within timelines, cost budgets, high safety standards and in a sustainable manner, a thorough risk assessment is conducted at the pre-bid stage and risk is monitored during the execution and completion stages. Some of the risks that commonly arise include access and right of way (RoW)-related issues, geological challenges, delays in regulatory approvals, design changes, interface risks and workforce shortages.

The Company mitigates these risks through careful selection of clients and geographies, leveraging advanced project management techniques, innovative construction methodologies, digitalisation and partnership with competent suppliers and subcontractors.

Quality and Safety

L&T's projects demonstrate attention to quality, safety and technical standards by enforcing strict quality control protocols, third-party audits and compliance with global engineering standards. The Company adheres to guidelines such as ISO 9001:2015.

L&T is committed to continuously enhancing health and safety standards across the organisation for workers and subcontractors at project sites and premises. This includes empowerment of safety personnel, continuous training and sensitisation, toolbox talks, provision of protective gear, and specialised training in the safe handling of equipment and materials for workmen. The Company adheres to international standards and guidelines such as ISO 45001:2018.

Supply Chain

Supply chain reliability is a critical determinant of project execution, especially for projects involving global sourcing of materials. Disruptions arising from tariff uncertainty, geopolitical issues, port congestion, airspace restrictions and changes to global shipping routes have increased the risk of delays in material deliveries, escalation in logistics costs and the possibility of extended project timelines.

L&T has adopted a multi-pronged approach focused on diversification, resilience and end-to-end visibility across the supply chain. This includes broad-basing the vendor ecosystem across geographies, increasing localisation of procurement in key markets and developing strategic partnerships with critical suppliers. Emphasis on timely procurement of long-lead items, the use of digital tracking tools and incorporation of flexible logistics strategies, including alternate shipping routes and multimodal transport, helps achieve timely project completion. These measures ensure execution continuity and largely mitigate the impact of external disruptions.

Commodity Price

For infrastructure projects, steel, cement, aluminium, copper constitute a significant proportion of total input costs. Accordingly, appropriately calibrated assumptions related to commodity-linked costs are factored in at the bidding stage, with suitable benchmarks selected wherever project terms permit. For contracts with price variation clauses, suitable indices are adopted to mitigate price risks. In FY 2025-26, base and ferrous metal prices were volatile, driven by supply constraints, higher energy costs and trade policy-driven tariff changes. The risk of margin compression arising from input cost escalation in fixed-price contracts is mitigated in part by locking in prices with suppliers wherever possible and adopting an active commodity hedging strategy using derivatives and forward contracts, where available.

Legal and Contractual

Due to complex long duration projects which have interface risks, delays due to regulatory or RoW approvals or ambiguous contractual terms, disagreements may occur. The Company proactively negotiates the contractual terms and engages experts for risk assessment to minimise legal and contractual risks. For global businesses, appropriate legal jurisdictions are reviewed to deal with legal risks. Further, L&T endeavours to limit its total contractual liability on any project to an acceptable level. Lastly, the Company also endeavours to ensure that projects have defined force majeure conditions which address tail risks in exceptional situations.

Cybersecurity

Cybersecurity is a critical risk for the Company, given the scale of the Group's operations in terms of projects, offices, companies, people, customer interfaces involving multiple stakeholders, geographies and systems. L&T focuses on protecting its operations against threats such as ransomware attacks, phishing, data breaches and potential disruption of project-critical IT systems. The frequency and sophistication of attempted intrusions globally have increased, necessitating heightened vigilance. The measures adopted in detail have been explained under 'Digital Transformation, Artificial Intelligence and Information Technology' section of the Integrated Annual Report.

Manufacturing Operations

L&T's manufacturing and fabrication facilities are critical to delivering high-quality engineered products and ensuring timely project execution. These facilities are subject to risks related to industrial relations, supply chain, natural disasters, regulatory compliance and energy costs. The Company implements robust safety and sustainability protocols and maintains contingency plans to mitigate the impact of natural disasters, environmental events, or localised socio-political disruptions. Technology upgrades and digitalisation initiatives are being leveraged to optimise throughput and efficiency across all manufacturing locations.

Industrial Relations

L&T has established structured mechanisms to monitor and manage industrial relations risks to ensure minimal disruption to operations. Harmonious labour relations are an important factor at L&T's manufacturing locations and project sites. Timely payment of wages, ensuring safe working conditions, suitable camp facilities and incentives for long service minimise incidences of worksite disruptions, productivity losses and schedule slippages. In certain international locations, cultural sensitivities, local labour regulations and regional undercurrents may amplify this risk. Such disruptions not only impact project timelines and costs but may also lead to reputational and contractual implications if not managed proactively.

Uniform implementation of the New Labour Codes by the industry is important given the worker-intensive EPC operations spanning large, multi-state project sites. Changes relating to wages, social security, working hours and contractor compliance may lead to higher labour costs, increased compliance and ambiguities during the initial phase of implementation. Recognising this, L&T has proactively initiated measures to adopt these practices.

Climate Change

Climate change has increased the frequency and intensity of physical risks, resulting in unforeseen execution challenges. These risks manifest as acute events such as floods, cyclone, heatwaves, air pollution related restrictions (like graded response action plan or GRAP), landslides and glacial lake outburst floods (GLOF), which can create safety concerns and impact project timelines.

To mitigate the impact of such events, L&T implements a range of preventive and responsive measures, including optimisation of the work-rest cycle, deployment of early warning systems, provision of shelters for the workforce and conducting awareness sessions and advisories. These measures sensitise the workforce to potential risks, strengthening issue reporting, and ensure the timely adoption of safety and preventive measures.

Extraordinary Disruption Events

L&T has a crisis management framework to respond to challenging situations including natural calamities, geopolitical upheaval, local unrest, war, terrorist attacks and other emergency situations, with a focus on ensuring the safety and security of its employees, workforce, assets and operations globally.

Under the extant framework, the oversight committee includes senior leadership of the Company which ensures the objectives of safety of workforce and families, safety of its assets and continuity of business. This forward-looking approach enables swift activation of response protocols, ensuring continuity of operations and swift information flow.

Strategic and Tactical Risks

Economic

L&T's core EPC business is closely linked to infrastructure investments by governments and capital expenditure by private and public sector entities. Economic slowdowns, budget constraints, financial crises, balance sheet pressures or shifts in priorities can lead to delays or cancellations of major projects. Additionally, periods of high inflation and rising interest rates can constrain capital expenditure, affecting the Company's order inflows.

Region and Country

L&T has significant presence in West Asia through its Hydrocarbon, Power Transmission & Distribution (T&D), Renewables and core urban infrastructure businesses. Furthermore, recent ventures into new regions like Europe present opportunities and risks which are assessed and managed. L&T mitigates such geographical risks through comprehensive country risk assessments during the bidding stage, diversification of business lines across geographies, and working with government, public sector and private clients with proven creditworthiness and good standing.

L&T closely monitors geopolitical developments and incorporates risk mitigation strategies such as contract structuring, hedging mechanisms and contingency planning to safeguard profitability and financial exposure.

Workforce and Talent Management

L&T develops workforce and talent through a blend of internal capability building, local talent integration, robust HR processes and a culture of continuous learning. L&T invests in upskilling programmes and leadership development to retain talent and bridge skill gaps. The Company also has a succession planning framework for ensuring smooth leadership transitions.

The Company provides training to thousands of young people each year at its 11 Construction Skill Training Institutes (CSTIs) and its 5 sub-centres. Further, L&T has developed a Central Workmen Mobilisation Cell to centrally collate workmen requirements and coordinate with sourcing centres to deploy workmen where needed.

Climate and Energy Transition

The ongoing structural shift from hydrocarbons to RE represents a significant opportunity but is a material transition risk for L&T's hydrocarbon business.

This shift impacts businesses at the operational level by increasing the demand for green specifications in tenders, building codes and other regulatory frameworks. It also presents EPC opportunities across solar and wind power, offshore wind, pumped hydro storage, battery storage, hydroelectric and nuclear power projects, as well as manufacturing of equipment and systems in sectors such as green hydrogen and electrolysers. Additionally, there is the possibility of increased opportunities in T&D due to the need for grid reconfiguration and evacuation requirements for RE sources.

Bank Credit Facilities

Construction projects require issuance of bank guarantees to clients during the project tenure, and in certain instances beyond project completion. L&T ensures the adequacy of non-funded credit lines – including facilities for bank guarantees, letters of credit, foreign exchange and commodity hedging, as well as funded facilities from financial institutions to meet its financial obligations.

Sanctions and Regulatory Compliance

L&T ensures adherence to sanctions compliance and monitors sanctions related developments of United States of America, European Union, United Kingdom, United Nations and other sanctioning or regulatory bodies. Laws and regulations governing sanctions, trade restrictions are complex and are subject to change. It has a robust internal control framework and robust processes to carry out due diligence of counterparties including clients, vendors, subcontractors, logistic firms, countries and individuals. L&T complies with regulatory requirements in all countries where it operates.

Artificial Intelligence

The rapid proliferation of Generative AI and Agentic AI platforms presents a risk and opportunity to L&T's

businesses and to group companies like LTM and LTTS. As clients increasingly automate application development, software testing and engineering R&D workflows, the businesses need to evolve to the new requirements.

For L&T's financial services business, the proliferation of AI-powered credit underwriting, risk scoring and collections platforms is increasing across the industry. These developments will enable competitive differentiation, and the business is pursuing initiatives to develop proprietary capabilities in loan book portfolio management and credit underwriting.

Investment Risk

L&T has invested and continues to invest in emerging sectors. Investments are continually evaluated and in line with Company's Lakshya plan, businesses are seeded, sustained / divested. New investments are directed towards growth opportunities, some of which involve longer gestation periods. The pursuit of adequate returns on existing and new investments is a guiding principle of the Lakshya plan.

Subsidiaries' Performance

L&T's operations span multiple domestic and international subsidiaries. The Company manages operating risks of unlisted subsidiaries through central oversight, periodic performance evaluations and ensuring strategic alignment with Group-wide objectives and the Lakshya plan. L&T's senior management is present on the Boards and Committees of the listed and unlisted subsidiaries, which have adopted suitable policies to mitigate their operational, tactical and strategic risks.

Competition and Pricing Pressure

L&T faces competition from domestic players in India and international firms abroad. Competitive bidding, particularly in government tenders, exerts pressure on margins, and aggressive pricing strategies by competitors can impact L&T's ability to secure projects. L&T has robust processes to evaluate and take on new business after considering these factors.

Financial Risks

The process of managing the Company's financial exposures is governed by the Risk Management Framework and Policy approved by the Company's Audit Committee under the guidance of the Board. Financial risks in each business portfolio are collated, measured and managed by the Corporate Finance department.

In CY 2026, the global economy is navigating the aftermath of trade disruptions. The moot point is whether the structural shifts in global trade architecture, particularly the reconfiguration of US-China trade flows and the re-shoring of supply chains, will stabilise or deepen. Global real GDP growth in 2026 is expected to remain subdued, likely around 3.0%, as the lagged effects of tighter financial conditions, reduced trade intensity and compressed corporate margins continue to manifest.

The US economy faces the dual challenge of managing residual inflationary pressures from tariff pass-throughs while supporting a labour market showing signs of softening. At the same time, elevated AI-led capital expenditure and rapid adoption across industries are beginning to support productivity gains, offering a partial offset to cyclical growth headwinds. The Federal Reserve's path remains data-dependent, with the possibility of further rate adjustments depending on inflation and employment trajectories. Fiscal sustainability concerns have also come into sharper focus, with elevated deficit levels and debt servicing costs constraining the government's capacity for counter-cyclical support.

The US-China trade relationship remains a critical fault line. While bilateral negotiations are ongoing, significant tariffs remain in place and technology sector decoupling continues to accelerate. For other trading partners, export-dependent economies — particularly in Southeast Asia and emerging markets — face ongoing uncertainty around market access and supply chain realignment.

In Europe, the structural shift towards defence autonomy has gathered momentum, with NATO member states accelerating military expenditure commitments. While this provides a fiscal stimulus effect in select economies, traditional industrial sectors — including automotive, chemicals and heavy manufacturing — continue to face structural headwinds from elevated energy costs and competitive pressure from lower-cost producers. The European Central Bank is expected to maintain an accommodative stance, though the pace of easing will be calibrated against persistent core inflation in services.

The Chinese economy has entered 2026 with the continuation of a supportive policy framework, including targeted fiscal stimulus, monetary easing and measures to stabilise the property sector and boost domestic consumption. Notwithstanding these efforts, real GDP growth is projected to remain below 4.5%, constrained by weak external demand, demographic pressures and ongoing credit risks in the financial system. The property sector remains a significant source of systemic risk.

The conflict in West Asia has introduced significant supply-side risks to global energy markets, keeping prices elevated relative to prior years. The conflict introduces a complex risk calculus: it has heightened security risks, disrupted regional trade corridors and created uncertainty around the pace of FDI inflows — particularly into non-oil sectors such as tourism, logistics and financial services. Insurance and shipping costs for regional trade routes have risen from the baseline level, with knock-on effects on supply chain costs across the broader West and South Asia corridor. The region may bounce back quickly, through commitment to economic diversification, clean energy, industrialisation strategies and renewed capex.

In India, real GDP growth for FY 2026-27 is projected at approximately 6.9% based on robust domestic consumption and continued public capital expenditure, even as global headwinds moderate external demand. The Union Budget is expected to maintain fiscal discipline, targeting a deficit of around 4.3% of GDP, while sustaining infrastructure-led growth initiatives. The RBI is expected to manage monetary policy with a focus on anchoring inflation, which is projected to average 4.6% for FY 2026-27. Rupee volatility and capital flow dynamics remain key risks to monitor in periods of heightened global market uncertainty.

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. Net foreign exchange risk on revenues, costs, assets and liabilities is managed through forwards and options wherein the counterparties are regulated banking entities. The financial risks involving commodity prices are managed through a combination of price variation clauses embedded in customer contracts, hedges in financial markets and pass-through price arrangements. The price and commodity risk is minimised through modelling and simulation which is built in customer contract as escalations. In the case of contracts with price variation clauses, the Company may run a basis risk between the actual price of the commodity and the reference indices.

The disclosure of commodity exposures as required under Clause 9(n) of Part C, Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, in the format specified vide Chapter VI-E of SEBI Master Circular No. SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023 is given below:

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	Aluminium - Buy	4,652	1,60,702	-	-	92.51	-	92.51
2	Aluminium - Sell	(10)	(440)	-	-	100.00	-	100.00
3	Copper - Buy	6,538	60,740	-	-	90.09	-	90.09
4	Copper - Sell	(114)	(808)	-	-	100.00	-	100.00
5	Lead - Buy	57	3,049	-	-	92.46	-	92.46
6	Coking coal - Buy	73	35,418	-	-	-	-	-
7	Iron ore - Buy	67	66,900	-	-	100.00	-	100.00
8	Steel - Buy	17,822	28,82,107	-	-	-	-	-
9	Cement - Buy	3,466	59,24,102	-	-	-	-	-
10	Nickel - Buy	764	4,912	-	-	48.13	-	48.13
11	Thermal Coal - Buy	10	7,871	-	-	38.88	-	38.88
	Total exposure	**33,327**	**91,44,553**					

Liquidity and Interest Rate Risks

The Company constantly monitors the liquidity levels, economic and capital market conditions, and maintains access to sources of liquidity through a combination of approved banking lines, trade finance and capital markets. The Company deploys its surplus funds in investments, in line with the Board-approved Treasury Policy. The Company dynamically manages interest rate risks through a mix of fund-raising, investment products and derivatives across maturity profiles within the Risk Management Framework.

Financial Resources and Capital Allocation

The capital allocation philosophy of the Company is geared to support business initiatives for the profitable growth of the Company, while retaining liquidity to support short-term requirements of the Group. As a policy, the Company has built appropriate cash buffers and maintains comfortable liquidity reserves to meet both opportunities and challenges.

In FY 2025-26, the Company supported the capital expenditure required to execute projects through various sources of funds. Going forward, the Company will continue to support requirements for new projects through appropriate financing structures.

The Company remains committed to funding capital needs for its real estate business, including land acquisition and development, and to advancing new business initiatives covering green energy projects – green hydrogen and green ammonia – and the development and expansion of its AI-driven data center footprint. The Company is also investing in semiconductors through a chip-design subsidiary focused on energy, mobility and industrial applications.

Low gearing levels (Gross Debt-to-Equity ratio at 0.16x) at the parent entity level and a healthy cash buffer equip the Company with enough flexibility to deal with normal business uncertainties.

The Company continues to see significant volumes of large-value contracts in West Asia, which necessitate corresponding local non-fund-based banking facilities. The Company is confident of tying up the required facilities during the year to address upcoming requirements.

Internal Controls and Safeguards

Corporate Governance and Framework for Internal Controls

Corporate governance is fundamental to the Company's ability to achieve sustainable growth and predictable outcomes, with a robust internal control framework forming a key pillar of this governance architecture. The Company has established an internal control framework that is commensurate with the nature, scale and complexity of its operations. The framework enables effective alignment of processes with strategic objectives, evolving business requirements, and changing internal and external risk environments. The Company has adopted the globally accepted internal control framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

The Board of Directors and Management set the appropriate tone at the top through their actions and directives, reinforcing the importance of integrity and ethical conduct. The Company's Code of Conduct reflects its culture and values and provides guidance to employees for conducting business in a responsible manner.

Suppliers and business partners are required to adhere to a separate Code of Conduct as part of the registration process, aligning them with the Company's commitment to the preservation of ethics and sustainable growth through the integration of Environmental, Social and Governance (ESG) principles. The Whistleblower / Vigil Mechanism enables employees and business partners to report ethical or legal concerns without fear of retaliation or unfair treatment.

Internal Financial Controls

Internal Financial Controls operate at both entity and process levels and are aligned with the requirements of the Companies Act, 2013. The controls are supported by well-defined policies, standard operating procedures, authorisation guidelines and a Corporate Manual on Accounting and Internal Controls, which together provide a consistent framework for governance, financial discipline and operational oversight across businesses.

The executive management is responsible for establishing, operating and continuously strengthening the internal control system, supported by internal control teams at the corporate and business levels. These teams assist in reviewing and upgrading processes, updating policies and procedures, sharing best practices across the organisation, and ensuring that controls remain effective in response to evolving risks and business dynamics.

Audit and Review Mechanisms

The effectiveness of internal controls is monitored through independent assurance mechanisms. The in-house Corporate Audit Services conduct risk-based internal audits covering core business operations, corporate functions and support departments. The annual internal audit plan is reviewed by the Audit Committee. Significant audit observations, if any, along with the status of remedial actions, are presented to the Audit Committee on a quarterly basis.

The assessment of the operating effectiveness of internal financial controls and internal controls over financial reporting is carried out by Corporate Audit Services and the Statutory Auditors, respectively, through appropriate testing procedures. During the year, no reportable material weaknesses in the design or operating effectiveness of internal controls were observed. In addition, the Company periodically engages external assurance firms to review specific businesses and support functions, and their recommendations are incorporated to further strengthen the internal control framework.

The Company's internal control framework is robust and responsive, providing reasonable assurance on the effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations, and safeguarding of assets.