Financial Review 2020-21

I. L&T CONSOLIDATED

A. PERFORMANCE REVIEW

FY 2020-21 was a year that changed everything. The sheer scale of suffering that Covid-19 created for humanity, the adverse impact that it had on economies and the positive fallout of the scale of innovation that it helped create are telling evidence of the scale of change. It started with nation-wide lockdowns implemented to control the 'once-in-a-century' pandemic which put severe pressure on people, employment, health-care systems, organisations and governments. Bereft of a cure or a vaccine, public health policy became central to tackling this all-pervasive crisis. Governments and central banks across the world deployed a range of policy tools to support their economies, such as lowering key policy rates, quantitative easing measures, loan guarantees, cash transfers and fiscal stimulus measures.

Post the phased lifting of the lockdowns, the Indian economy started witnessing growth across most sectors, as evidenced by way of significant increases in high-frequency indicators, such as power demand, E-way bills, GST collections, cement / steel consumption, etc. These not only touched the pre-pandemic levels, but, in some cases, also surpassed the previous year's levels as well. Despite the buoyancy in agriculture, construction, high commodity prices and improved consumption expenditure, India's GDP contracted by 7.3% in FY 2020-21 mainly due to the lockdown-led sharp decline in the first half of the year.

In India, the government, while pursuing all efforts to control the Covid-19 pandemic, has emphasised on the need to kick-start economic growth. The Union Budget 2021 has detailed out a plan for large outlays of spend on infrastructure, and with other initiatives like Atmanirbhar Bharat / Production Linked Incentives, etc., expects growth rebound coming through higher private sector investment as well. The outlook for FY 2021-22 is one of cautious optimism, with the country's GDP attaining positive territory and maintaining inflation within the target. The current resurgence of a more serious second wave of Covid-19 may adversely impact the first half of FY 2021-22, but post the vaccination efforts and improved adherence to Covid-19 protocols, the second half should witness a strong revival of the economy.

The global economy, which was already on a weak growth momentum owing to various factors such as trade tensions, political instability, Brexit, low crude prices, etc., got further accentuated with the Covid-19 pandemic's affecting many countries. With most developed nations implementing large-scale vaccination and enforcing strict protocols, economic activity has revived, with high consumption-led demand. Recent forecasts point out a global GDP growth of ~6% in 2021. However, this rebound in global activity has been uneven mainly due to the Covid-19 second-wave infections across some geographies.

Global financial conditions have remained accommodative as governments and central banks have adopted monetary easing and expansionist fiscal policies to counter the pandemic. However, the sharp economic recovery expected could trigger inflation, resulting in higher interest rates' adversely impacting the capital flows to the emerging markets. Higher commodity prices are expected to have a positive outcome in terms of greenfield / brownfield expansions foreseen in certain industries.

A silver lining of the Covid-19 situation has been the fast adoption of digital technologies which ensured that economies did not get completely stalled due to lockdowns and other strictures. Another positive fall-out of the pandemic has been an increased awareness of sustainability and a more stringent emphasis on environment protection, social responsibility and governance frameworks. With countries signing up for a time-bound zero-carbon-emission targets, newer business opportunities are expected in areas such as green hydrogen, renewables, water management, etc.

Against the backdrop of such an evolving environment, the Group, with an avowed dictum of health and safety first, registered a reasonable financial performance during FY 2020-21. Lockdown-related disruptions, social distancing norms and quarantine requirements to counter the pandemic, impacted the growth plans of the company for FY 2020-21. The Group recovered much of the lost ground in the second half of the year and, particularly during the last quarter of FY 2020-21, managed to even surpass the pre-Covid-19 volumes of the quarter of the previous year across many of its businesses.

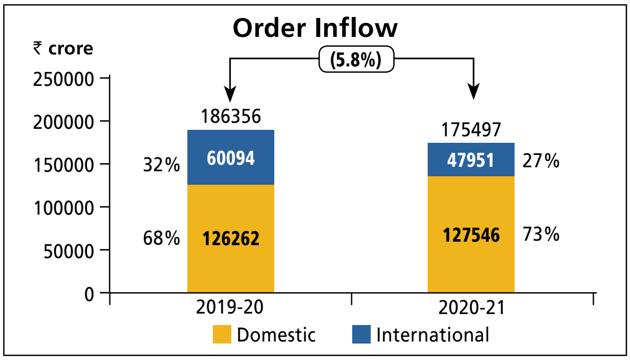
During the year, the Company concluded the divestment of its Electrical & Automation (E&A) business, including the sale of the integrated marine automation solutions company, Servowatch Systems Limited. L&T Uttaranchal Hydropower Limited, a subsidiary, successfully commissioned the 99 MW Singoli-Bhatwari Hydel Power Plant in the state of Uttarakhand.

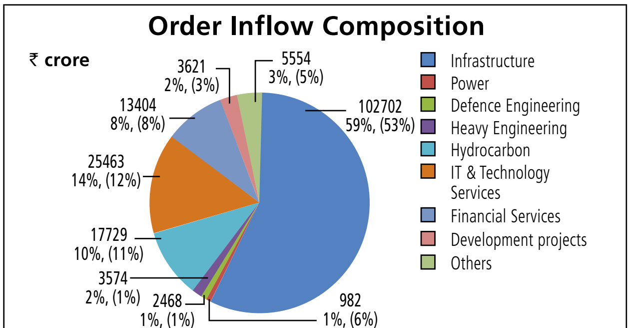
As at March 31, 2021, the L&T Group comprises 102 subsidiaries, 6 associate companies, 25 joint ventures and 35 jointly held operations. Most of the group companies are strategic extensions of the core business of L&T. The majority of the subsidiaries support L&T's core businesses of EPC Contracts and Hi-Tech Manufacturing by enabling access to new geographies and business segments. Certain distinct service businesses, such as Information Technology, Technology Services, and Financial Services, are housed in separate listed subsidiaries. The

Development Projects / Concessions business are run in separate subsidiaries and joint venture companies.

The Company continues to focus on shareholder value creation by divesting non-core assets capturing cost efficiencies and leveraging technology for productivity gains. The Company's efficient execution of its large Order Book, strong Balance Sheet, and committed work force is helping it to successfully transition into a more digitally evolved work environment that will enable the business to thrive and grow, once the current pandemic challenge eases.

Order Inflow and Order Book



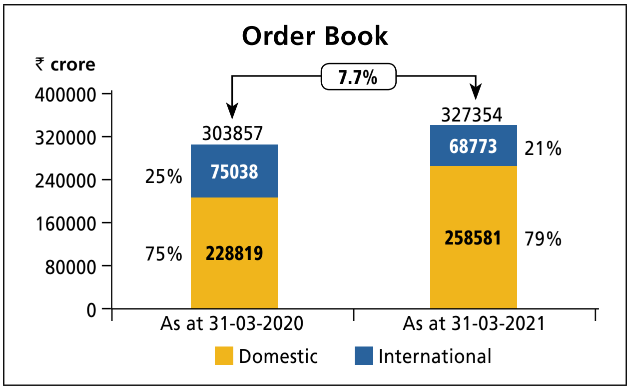


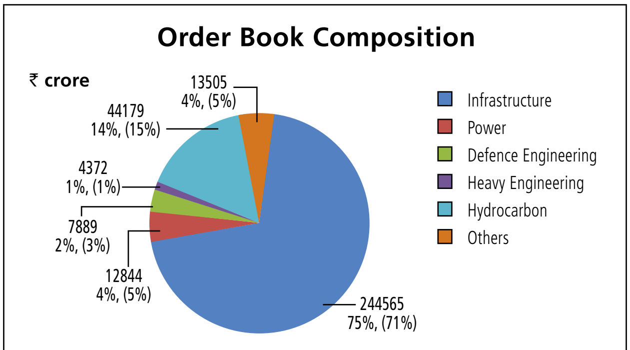
Total Order Inflow: ₹ 175497 crore during the year 2020-21

[Figures in brackets relate to previous year]

The L&T Group achieved order inflows of ₹ 175497 crore during FY 2020-21, registering a decline of 5.8% over the previous year. Despite the Covid-19 led disruption, the order inflow was facilitated by the thrust being given by the Government to the infrastructure sector to expedite the normalisation of economy impacted by the pandemic. With the increased share in infrastructure capex, coupled with lower opportunities in the Hydrocarbon and Thermal Power sectors, the contribution of the Infrastructure segment in overall order inflow increased to 59%, from 53% in previous year. Also, with the current year order inflow being mainly domestic, the share of international in order inflow dropped to 27% from 32% in previous year.

The year witnessed the receipt of India's largest ever infrastructure order, the C4/C6 packages of the Mumbai – Ahmedabad high-speed rail, coupled with some noteworthy order wins in rural water supply projects, a special bridge project across the river Brahmaputra, a transmission line project in Bangladesh and a solar project in Saudi, the setting up of a dual feed cracker unit in Rajasthan in the Onshore business of Hydrocarbon and the largest order for supply of equipment and spares in the Construction Equipment business.





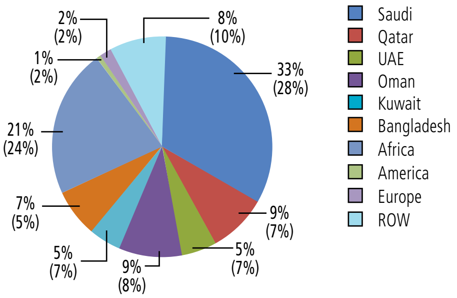
Total Order Book: ₹ 327354 crore as at March 31, 2021

[Figures in brackets relate to previous year]

As on March 31, 2021, the order book is at ₹ 327354 crore providing a multi-year revenue visibility to the Company. The Infrastructure segment has a 75% share of the consolidated order book.

The order book registered a growth of 7.7%, mainly due to receipt of some mega orders during the year. Around 25% of the order book comprises orders received from various State Governments, including local authorities. With some of the large orders received during FY 2020-21 coming from Public Sector Undertakings, the share of this segment rose to 51% as against 44% for the previous year. The proportion of orders funded by multi-lateral agencies increased to 35% of the domestic order book, attributed to the high-speed rail orders.

International Order Book Composition



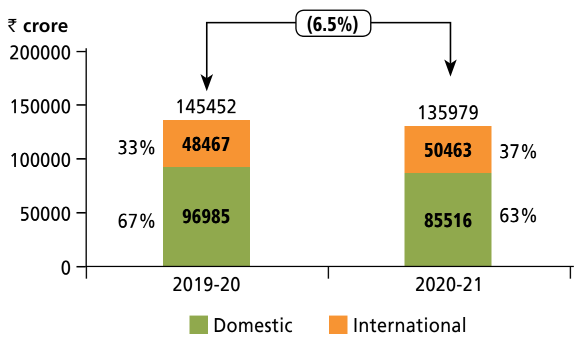
Total International Order Book: ₹ 68773 crore as at March 31, 2021

[Figures in brackets relate to previous year]

The FY 2020-21 order inflow growth being driven by domestic business resulted in decline in the share of the international order book, from 25% to 21%. The share of Saudi Arabia in the overall international order book increased to 33%, mainly with some large-value orders received by the Infrastructure segment, while the share of Africa declined to 21%.

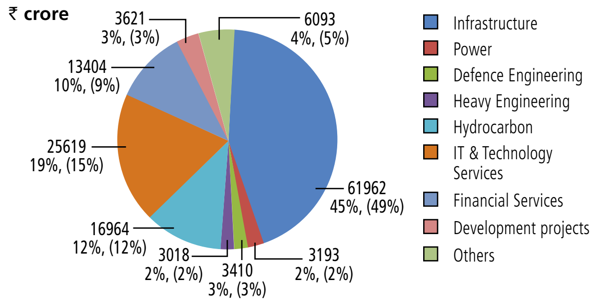
Consolidated Revenue from Operations

Gross Revenue from Operations



The L&T Group recorded revenue of ₹ 135979 crore during FY 2020-21, registering a decline of 6.5%. The decline was mainly due to the slowdown of project execution and manufacturing activity, affected due to lockdown-related disruptions in the first quarter of the year, partially compensated to a more normalised level of operations witnessed during the second half of FY 2020-21. The new norms of social distancing, quarantine procedures and safety protocols, coupled with supply chain disruptions, continued to impact the project performance throughout the year. The composition of international revenue at the Group level increased to 37% in FY 2020-21 compared to 33% in the previous year, with the increased contribution of revenues from the Hydrocarbon and IT&TS segments.

Segment-wise Gross Revenue*



* includes inter segment revenue ₹ 1304 crore for FY 21 and ₹ 1590 crore for FY 20

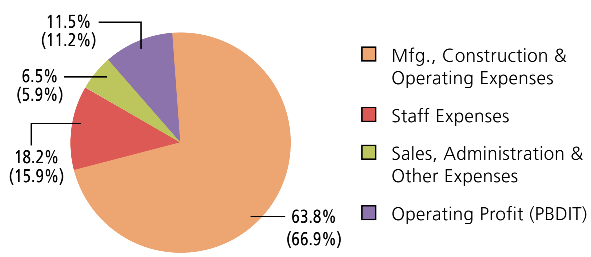
[Figures in brackets relate to previous year]

During the year, most of the businesses registered a decline over the previous year. The revenues from the IT&TS segment demonstrated satisfactory growth, in tandem with the growth opportunities witnessed in their respective customer domains.

Operating Expenses and PBDIT

Operating Expenses and PBDIT 2020-21

[% to revenue]



[Figures in brackets relate to previous year]

Manufacturing, Construction and Operating (MCO) expenses for FY 2020-21 at ₹ 86701 crore decreased by 11% over the previous year. These expenses mainly comprise cost of construction material, raw materials and components, subcontracting expenses and interest costs in Financial Services business. This represents 63.8% of revenue, a decrease by 310 bps, mainly due to change in job mix, slowdown in the construction activity at sites during the first quarter of FY 2020-21 and increased share of IT&TS segment.

Staff expenses for FY 2020-21 at ₹ 24762 crore increased by 7.1% over the previous year and as a percentage to revenue increased by 230 bps, reflecting manpower ramp-up in IT&TS segment. The Group continues to focus on productivity improvements, digitalisation and manpower optimisation across most of its businesses.

Sales and administration expenses increased by 2.8% y-o-y to ₹ 8892 crore. The increase is primarily in Financial Services due to higher credit cost reflecting the effect of the pandemic, partly offset by savings in travelling expenses and advertisement / publicity and lower donations.

The Group's operating profit at ₹ 15624 crore for FY 2020-21 registered a decline of 4.3% y-o-y, largely due to lower revenue volumes. The PBDIT margins for the year improved by 30 bps at 11.5%. Cost savings, sale of commercial property in the Realty business, claim settlements mainly in the Infrastructure business supported by operational excellence measures in L&T Infotech and Mindtree Limited aided the margin improvement. However, cost overruns encountered in some projects coupled with unabsorbed overheads during the lockdown, the higher provision in Financial Service business and lower passenger ridership of Metro services in Hyderabad were the margin headwinds.

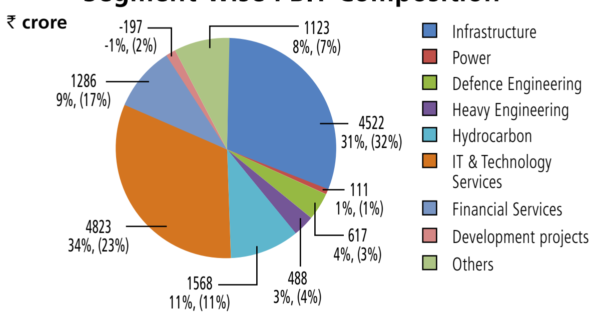
Depreciation and Amortisation charge

Depreciation and Amortisation charge for FY 2020-21 increased by 17.9% to ₹ 2904 crore, compared to ₹ 2462 crore in the previous year. The increase is largely due to full operationalisation of the Hyderabad Metro Rail and the impact of the consolidation of Mindtree for the full year.

Profit Before Interest and Tax

Segment-wise composition of PBIT for FY 2020-21 is represented below:

Segment-wise PBIT Composition



[Figures in brackets relate to previous year]

Other Income

Aided by higher investible surplus with cash generated from the divestment of the Electrical & Automation business, the interest income increased. Further with profit on sale of liquid investments, and dividend income from treasury investments, other income at ₹ 3429 crore, grew by 45.3% over ₹ 2361 crore in the previous year.

Finance cost

The interest expenses for FY 2020-21 at ₹ 3913 crore were higher by 39.9% over ₹ 2797 crore for the previous year. The increase was mainly attributable to the higher interest cost in the Hyderabad Metro upon commencement of full operations and higher borrowings in the parent entity, retained as a buffer to address uncertainties emanating from the pandemic. The average borrowing cost for FY 2020-21 decreased to 7.7% p.a. from 8.1% p.a. in the previous year.

Tax Expense

Income Tax charge for FY 2020-21 (excluding tax charge on discontinued operations) increased to ₹ 4011 crore compared to ₹ 3263 crore in the previous year on higher effective tax rate caused by additional disallowances such as withdrawal of depreciation on goodwill etc. and non-creation of deferred tax asset for the losses incurred by the Hyderabad Metro.

Exceptional Items

Exceptional items during the year comprise (a) impairment of funded exposure in the heavy forgings facility joint venture, (b) impairment of assets in the power development business and partly offset by way of (c) gain on the divestment of wealth management business in Financial Service.

Profit from Discontinued Operations

Profit from Discontinued Operations includes gain from divestment of Electrical & Automation and Servowatch business of ₹ 8186 crore and profit from operations of the divested business up to the date of transfer / sale, ₹ 52 crore.

Consolidated Profit after Tax and EPS

Consolidated Profit after Tax (PAT) at ₹ 11583 crore for FY 2020-21 rose by 21.3% over the previous year at ₹ 9549 crore.

Consolidated Basic Earnings per Share (EPS) from continuing operations and discontinued operations for FY 2020-21 at ₹ 82.49 registered growth over previous year at ₹ 68.04.

Return on Consolidated Net Worth

The Net Worth, as on March 31, 2021, at ₹ 75869 crore, reflects net increase of ₹ 9145 crore, as compared to the position as on March 31, 2020. Return on Net Worth (RONW) for the year 2020-21 was higher at 16.2%, compared to 14.8% in the previous year. The improvement was primarily on account of divestment gains, offset by impairment of investments / assets and

Covid-19 related additional provisions in the financial services business.

Liquidity & Gearing

Cash flow from operations (including change in loans and advances towards financing activities) increased to ₹ 22844 crore as compared to ₹ 6694 crore in the previous year due to better operational efficiencies and the thrust on collections and receipt of customer advances from new orders. During the year, additional funds were generated mainly from the divestment of the Electrical & Automation business, treasury and dividend income.

Funds were utilised mainly for purchase of investment ₹ 17560 crore and repayment of borrowings (incl. repayment of lease liability) ₹ 9047 crore. Further, the Group incurred capital expenditure of ₹ 922 crore. Funds were also utilised for payment of dividend ₹ 3651 crore. The cash outflow also included net interest expense of ₹ 3388 crore during FY 2020-21.

Consequently, there was a net increase of ₹ 2141 crore in the cash balances as at March 31, 2021 as compared to the beginning of the year.

Consolidated Fund Flow Statement	₹ crore	
Particulars	**FY 20-21**	*FY 19-20*
Operating activities	22844	*6694*
Net divestment / (investment)	11574	*(9802)*
Treasury and dividend income	1479	*952*
Receipt from / (Payment to) minority interest (net)	796	*(60)*
ESOP Proceeds (net)	16	*18*
Sources of Funds	**36709**	*(2198)*
Capital expenditure (net)	922	*3299*
Repayment of Borrowings / (Additional Borrowings)	9047	*(13867)*
Purchase / (Sale) of investments	17560	*(3893)*
Dividend paid	3651	*4551*
Increase / (Decrease) in cash balance	2141	*4809*
Interest paid	3388	*2903*
Utilisation of Funds	**36709**	*(2198)*

The total borrowings as at March 31, 2021 were lower at ₹ 132605 crore as compared to ₹ 141007 crore as at March 31, 2020. The major decrease is in borrowings of Financial Services. The gross debt equity ratio decreased to 1.51:1 as at March 31, 2021 from 1.85:1 as at March 31, 2020. The net debt equity ratio improved to 1:1 as at March 31, 2021 from 1.53:1 as at March 31, 2020.

Details of significant changes in key financial ratios along with explanation

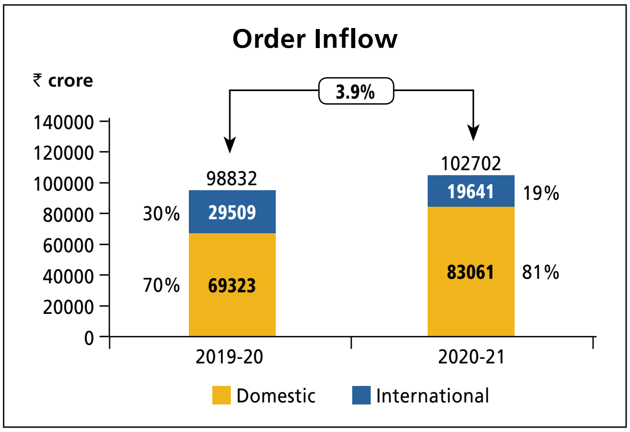
In compliance with the requirement of listing regulations, the key financial ratios of the Group have been provided hereunder along with the explanation for the significant changes i.e. change of 25% or more as compared to the immediately previous financial year:

Sr. No.	Particulars	*2019-20*	**2020-21**	% Growth
(i)	Gross Debt Equity Ratio	*1.85*	1.51	18.4%
(ii)	PBDIT as % of net revenue	*11.2%*	11.5%	2.4%
(iii)	Net Working Capital % of Sales (Excluding Financial Services & Corporate)	*23.7%*	22.3%	5.9%
(iv)	Interest Coverage Ratio* (Interest cost excludes Financial Services and Finance Lease Activity)	*5.80*	4.13	-28.9%

* The significant change in the Interest Coverage Ratio for FY 2020-21 has been due to full commissioning of the L&T Hyderabad Metro Rail leading to cessation of capitalisation of interest on borrowing done hitherto coupled with under-utilisation of the metro services.

B. SEGMENT-WISE PERFORMANCE (GROUP)

1. Infrastructure Segment

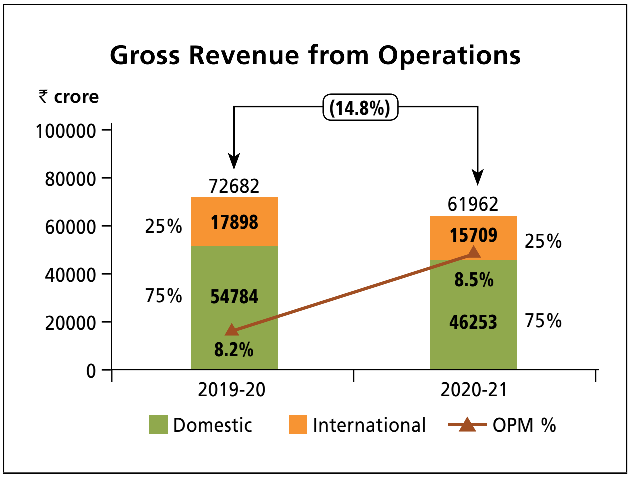


Effective from April 1, 2020, the Smart World and Communication business, which was previously reported under the Infrastructure segment, has been reclassified to the 'Others' Segment to reflect the revised organisation structure, change in business model and management of financial performance. Accordingly, the previous year's figures have been regrouped, wherever necessary.

The Infrastructure segment won orders worth ₹ 102702 crore, higher by 3.9% over the previous year, mainly due to the large-value high-speed rail orders. The Heavy Civil Infrastructure segment also received some marquee orders in the Special Bridges, Metros and Hydel and Tunnel business, aiding growth.

Though the Power Transmission & Distribution business registered a decline, it received some large value international orders, notably the order to establish one of the world's largest solar PV plants in Saudi Arabia. The Buildings & Factories and Water & Effluent Treatment businesses had lower orders in FY 2020-21, due to deferral of targeted prospects. The decline seen in Metallurgical and Material Handling business orders was mainly due to large-value gold beneficiation plant order and railway freight facility package orders booked in the MENA region during FY 2019-20.

The share of international order inflow for the Infrastructure segment decreased to 19%, from 30% in previous year, with international order wins being predominantly booked in the Power Transmission & Distribution business.

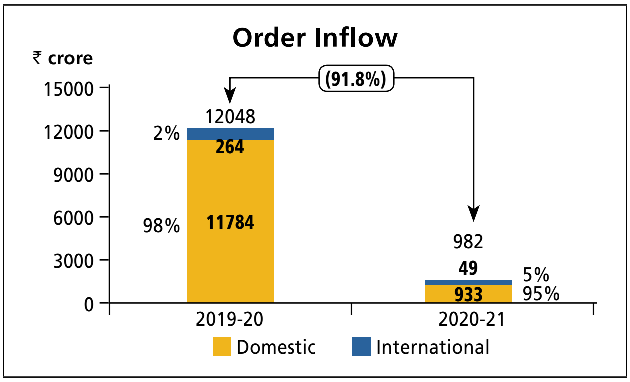


The Infrastructure segment clocked a gross revenue of ₹ 61962 crore for FY 2020-21 registering a decline of 14.8% over the previous year. Revenue was impacted due to lockdown-related disruption during the first quarter and a slower progress of construction activity post the lockdown due to social distancing norms and mandated safety protocols impacting site productivity. Revenue from international operations constituted 25% of the total revenues of the segment during the year, same as that of FY 2019-20, with some large-value orders being completed substantially.

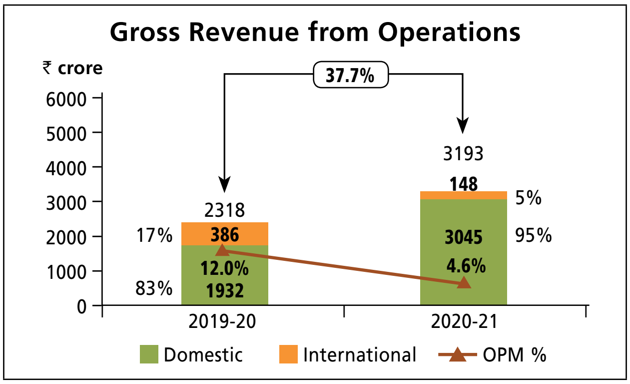
The Infrastructure segment posted an operating profit of ₹ 5227 crore. There was an improvement in margins from 8.2% to 8.5% mainly due to claim settlements in a few domestic projects, reduced ECL provisions and tapering of stressed projects.

The funds employed by the segment at ₹ 25170 crore as at March 31, 2021 registered a decline of 7.4% vis-à-vis March 31, 2020, with higher collections, especially from the government / PSU customers, reduction in contract asset, receipt of advances in large-value projects, partly offset by higher vendor payouts to support vendors / sub-contractors during these challenging times.

2. Power Segment



The Power segment recorded an order inflow of ₹ 982 crore for the year ending March 31, 2021, significantly lower by 91.8% as compared to the previous year, attributed to the absence of greenfield thermal power project opportunities, while the previous year included a large domestic order for an ultra-supercritical thermal power project and an order for a comprehensive boiler island package in the Boiler JV. Further with the extension of the deadline to meet the emission norms, the tendering of FGD orders also got deferred.

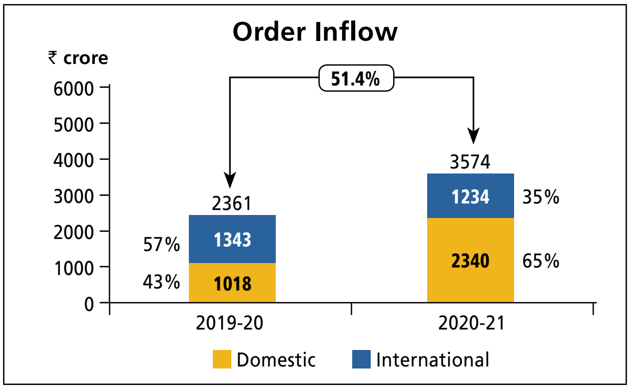


The segment's revenue improved y-o-y by 37.7% to ₹ 3193 crore, with a higher execution momentum aided by a higher opening order book. The composition of revenue from international projects decreased to 5% of the total revenue for the segment, from 17% in previous year with the Bangladesh gas-fired power project orders nearing completion.

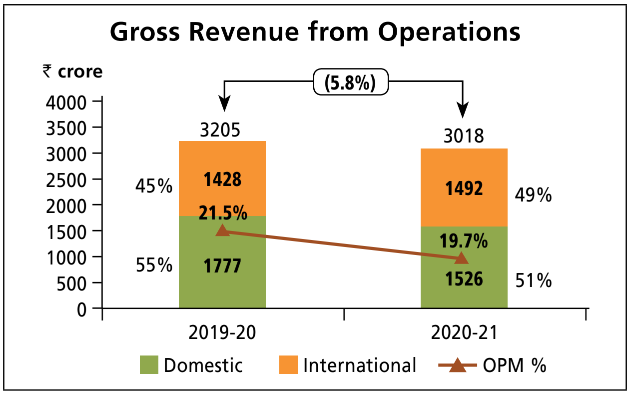
The segment operating profit has declined from ₹ 274 crore in the previous year to ₹ 147 crore in FY 2020-21 and the margin decreased to 4.6% from 12%, as the previous year's profits included receipt of a favourable arbitration award. The current year's margin was also impacted with the stage of projects in the job mix.

The funds employed by the segment at ₹ 2022 crore as at March 31, 2021 registered an increase of 15.9% over the previous year, mainly due to delay in collection of retention amount in jobs nearing completion, coupled with the build-up in contract assets with pick-up in execution momentum.

3. Heavy Engineering Segment



The Heavy Engineering segment recorded an order inflow of ₹ 3574 crore for the year ending March 31, 2021, higher by 51.4% as compared to the previous year, mainly due to a large order in the Nuclear Equipment system business, resulting in drop in share of international orders from 57% in the previous year to 35% in FY 2020-21.

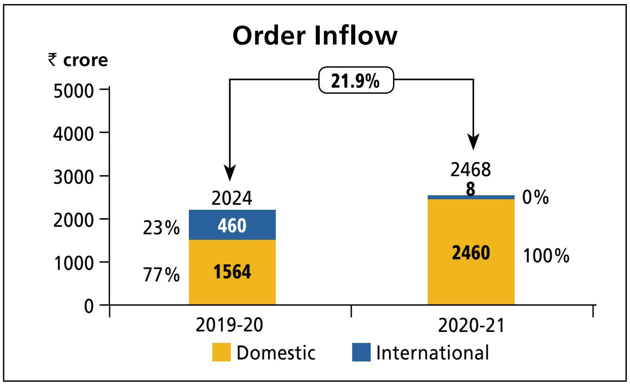


The segment's gross revenue of ₹ 3018 crore registered a decline of 5.8% compared to the previous year, which had a higher composition of revenue from refinery orders coupled with a lower opening order book for FY 2020-21 in the fertiliser and petrochemical business. Revenue from international operations constituted 49% of the total revenue for the segment.

The segment operating profit for the year decreased to ₹ 536 crore, registering a margin decline, from 21.5% to 19.7%, mainly due to a one-time settlement reached with an international client with respect to a warranty claim.

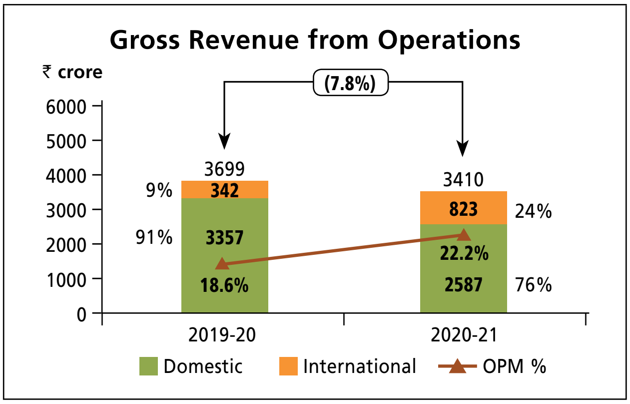
Funds employed by the segment as on March 31, 2021 at ₹ 1740 crore, lower by 40.1% over the previous year, are attributed to the writing down of funded exposure in the heavy forgings facility joint venture.

4. Defence Engineering Segment



The Military Communications business, which was reported under the Defence Engineering segment till FY 2019-20, has now been made part of the Smart World and Communications business which is now reclassified to the 'Others' Segment. Accordingly, the previous year's figures are regrouped wherever necessary.

The Defence Engineering segment recorded an order inflow of ₹ 2468 crore for the year ending March 31, 2021, higher by 21.9% over the previous year with the receipt of an order from the Ministry of Defence. There were no major international orders in FY 2020-21.

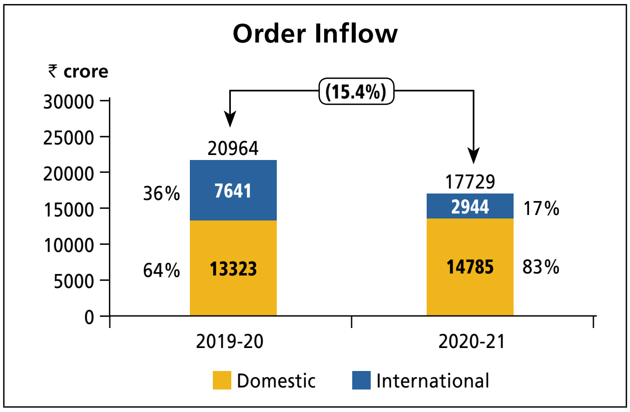


The segment's gross revenue of ₹ 3410 crore declined by 7.8% compared to the previous year. The decline was mainly due to the tapering of the K9 Vajra order. This was partially offset by increase in the Shipbuilding business, on the sale of two commercial vessels and progress being achieved on an international order, with which the share of international revenues increased to 24% from 9% in previous year.

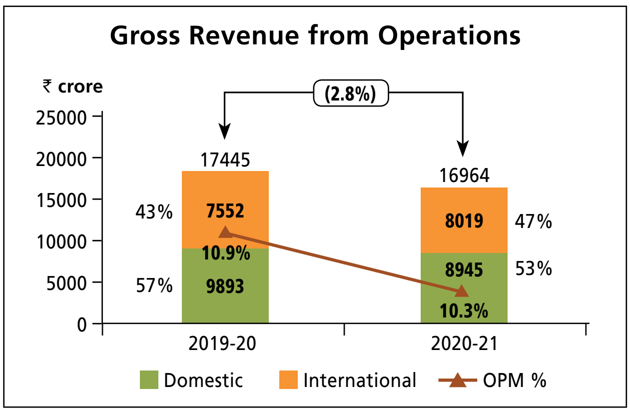
The segment recorded an increase in the operating profit for the year at ₹ 754 crore. The operating margin improved from 18.6% in the previous year to 22.2% in FY 2020-21 mainly due to cost savings and release of project contingencies.

Funds employed by the segment as on March 31, 2021 at ₹ 2090 crore decreased by 29.9% y-o-y, on account of collections against deliveries of the K9 Vajra order.

5. Hydrocarbon Segment



The Hydrocarbon segment achieved order inflows of ₹ 17729 crore, registering a decline of 15.4% with respect to the previous year. The segment witnessed many deferments of project opportunities due to the Covid-19 pandemic and some targeted prospects being lost to the competition. The segment managed to successfully procure some prestigious domestic orders in the petrochemical space. With most of the countries within the MENA deferring the investment in the hydrocarbon sector, the share of international orders dropped to 17% in FY 2020-21 from 36% in the previous year.



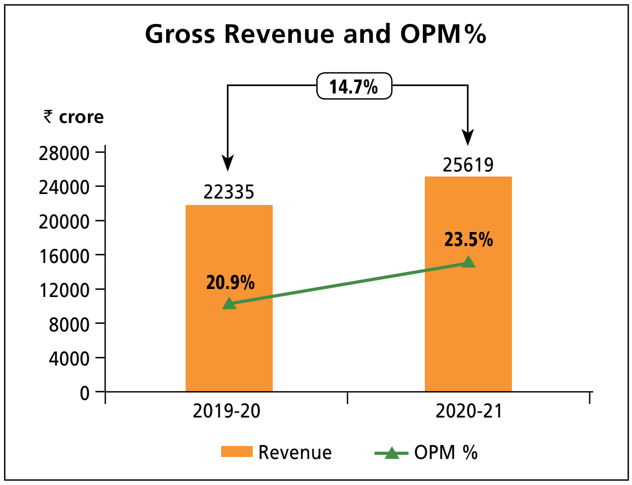
Segment revenue at ₹ 16964 crore for the year declined by 2.8% y-o-y, due to the slowdown in the execution activities of key projects impacted by the lockdown. The share of international revenue in FY 2020-21 was higher at 47% of the total revenue of the segment as compared to 43% in the previous year, essentially a function of the stage of execution of orders and access to sites during the pandemic year.

The segment's operating profit for the year declined to ₹ 1748 crore. The operating margin reduced by 60 bps from 10.9% to 10.3%, reflecting under recoveries during the lockdown.

The funds employed by the segment as on March 31, 2021 at ₹ 3029 crore increased by 5.2% as compared to March 31, 2020, despite liquidation of current customer receivables. The increase is mainly due to higher investment of surplus funds.

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

As Mindtree Limited was consolidated from the second quarter of FY 2019-20, the previous year includes only nine months' performance of Mindtree Limited. Hence the current period is not comparable with the previous period on a like-to-like basis.



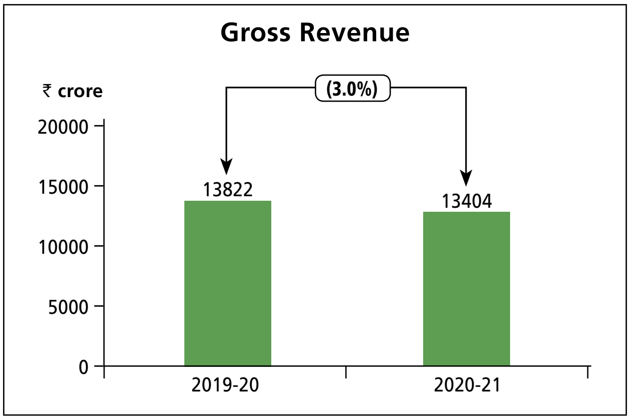
The IT&TS segment comprises the listed companies and the entities under their respective control, viz., (a) L&T Infotech Limited (LTI), (b) L&T Technology Services Limited (LTTS) and (c) Mindtree Limited. The segment recorded a gross revenue of ₹ 25619 crore for the year ended March 31, 2021, registering a growth of 14.7% over the previous year. On a like-to-like basis, the growth would have been 6%. International revenue constitutes a steady 92% of the total revenue of the segment.

The segment's operating profit was at ₹ 5986 crore for FY 2020-21 as compared to ₹ 4635 crore in the previous year. The operating margin improved by 260 bps, mainly on improved resource utilisation, higher offshore volume and savings in other operational cost.

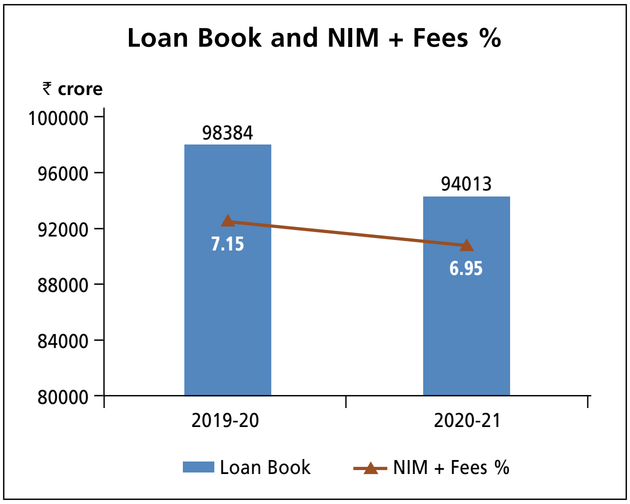
The funds employed by the segment as on March 31, 2021 at ₹ 23442 crore increased by 19.4% compared to March 31, 2020 mainly due to higher investible surpluses.

7. Financial Services (FS) Segment

The Financial Services segment comprises Rural, Infrastructure and Housing Finance and Asset Management.



This segment was adversely affected by the Covid-19 pandemic by way of extension of moratorium to customers through RBI directives, additional statutory provisioning requirements on account of such moratorium and slowdown of disbursements. The segment's revenue declined by 3% y-o-y at ₹ 13404 crore for FY 2020-21 reflecting unconducive business environment.



Disbursal of fresh Loans and Advances of ₹ 28324 crore during the year ended March 31, 2021 reflects a decline of 24% y-o-y, due to Covid-19 impacted slowdown across all segments. The Loan Book stood at ₹ 94013 crore as at March 31, 2021, a marginal decline over previous year. Though, the Net Interest Margins (NIM) improved by 10 bps on reduced cost of borrowings, the NIM, including fee income, declined from 7.15% to 6.95% mainly due to lower fee income.

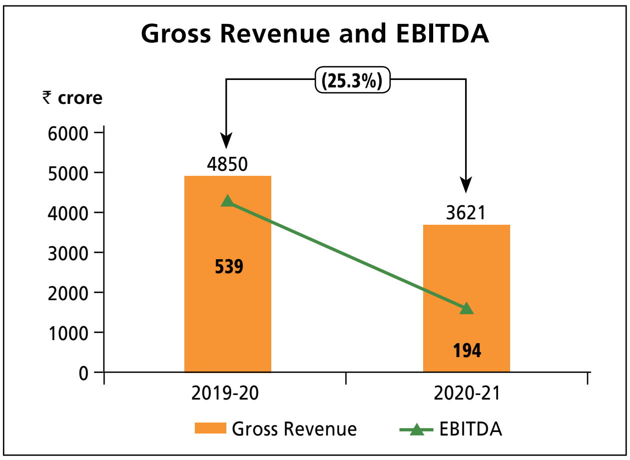
The Gross Non-Performing Assets (GNPA) ratio improved to 4.97% as at March 31, 2021 from 5.36% as at March 31, 2020. Net NPA ratio has also reduced to 1.57% as at March 31, 2021 against 2.28% as on March 31, 2020.

Average Assets Under Management (AAUM) in the Investment Management business at ₹ 72728 crore as at March 31, 2021 has marginally improved, despite volatile capital markets and stress in the debt market funds caused by yield corrections.

The Financial Services business has completed its divestment of Wealth Management business to IIFL Wealth during the year and has also completed the merger of L&T Housing Finance Limited and L&T Infrastructure Finance Company Limited into L&T Finance Limited as a part of business restructuring and simplification.

8. Developmental Projects (DP) Segment

The Developmental Projects segment comprises concessions acquired through a competitive bidding process for the development of Power projects, Roads, Bridges, Hyderabad Metro Rail and a Power Transmission Line project. The total portfolio of the Developmental Projects Group consists of 2 power projects (1 thermal and 1 hydel), 10 roads and bridges projects, 1 transmission line project and 1 metro rail project. The metro rail project has been executed under L&T Metro Rail (Hyderabad) Limited (L&T MRHL) which is a 100% subsidiary of the parent entity. The power assets are developed in SPVs held through L&T Power Development Limited, a 100% subsidiary, and other projects are developed through SPVs held by L&T Infrastructure Development Projects Limited, a joint venture in which the Company owns 51%. During the year, Company successfully commissioned its hydel power plant project in the state of Uttarakhand, and with completion of the hydel project, all the projects which were under construction have been commissioned by March 31, 2021.

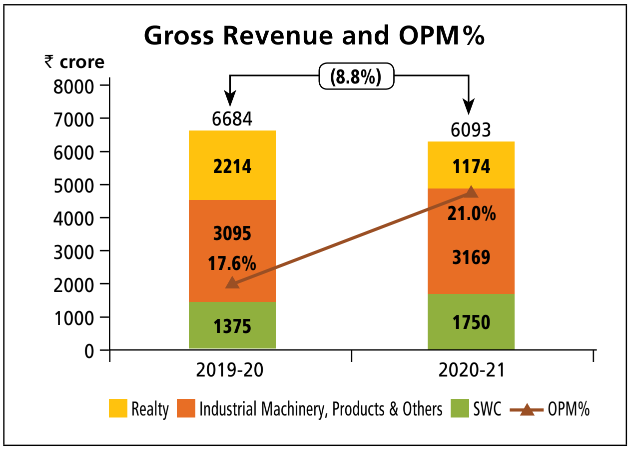


The segment recorded revenue of ₹ 3621 crore for the year ended March 31, 2021, lower by 25.3% over the previous year. The decline in revenue is mainly due to the suspension of metro services in Hyderabad during the first half of the year due to the Covid-19 lockdown and later due to lower ridership. Further, the lower Plant Load Factor (PLF) in Nabha Power Ltd., due to lower power demand in the state of Punjab post the lockdown in Q1 FY 2020-21 and non-availability of coal due to the 'Rail-Roko' agitation by farmers in Q3 FY 2020-21, had an adverse impact on revenues for the segment.

The segment clocked an operating profit of ₹ 194 crore for FY 2020-21, far lower than ₹ 539 crore earned in FY 2019-20, mainly due to under-utilisation of metro services.

The funds employed by the segment as on March 31, 2021 at ₹ 21403 crore were lower by 12.3% compared to March 31, 2020 mainly due to impairment of assets in the power development business.

9. Others Segment



The Others segment covers (a) Realty, (b) Industrial Machinery, Products & Others comprising Construction & Mining Equipment, Rubber Processing Machinery, Industrial Valves and (c) Smart World & Communication businesses. Revenue for the segment registered a decline by 8.8% from ₹ 6684 crore in FY 2019-20 to ₹ 6093 crore in FY 2020-21. The revenue decline was mainly in the Realty business, whereas as the other businesses grew marginally with improved conversion cycle time and resumption of the supply chain. Growth was registered by the Smart World and Communication business on better execution of existing orders. The operating margin improved over the previous year, due to the sale of commercial property in the Realty business.

The funds employed by the segment as on March 31, 2021 at ₹ 7653 crore decreased by 7.3% compared to March 31, 2020 mainly due to the sale of commercial property.

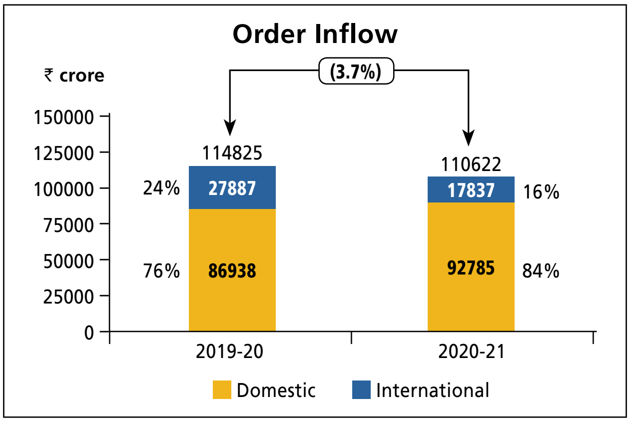
II. L&T STANDALONE

PERFORMANCE REVIEW

L&T's standalone financials reflect the performance of Infrastructure, Power, Heavy Engineering, Defence Engineering, and Others. The Others segment comprises non-novated projects in Kuwait in the Hydrocarbon business, Realty, Construction & Mining Machinery, Rubber Processing Machinery and Smart World and Communications.

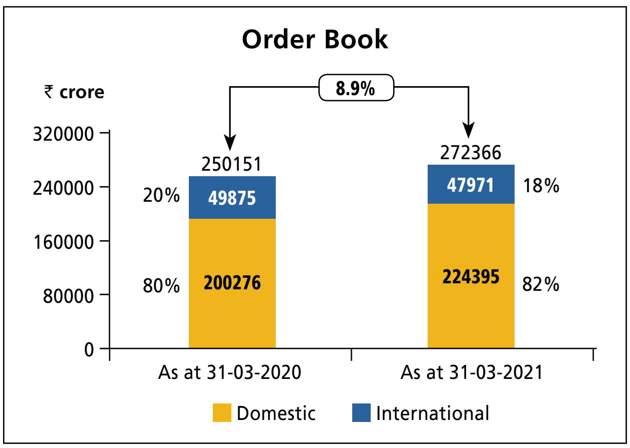
L&T standalone continues to be the major contributor to revenue and profits of the Group's performance.

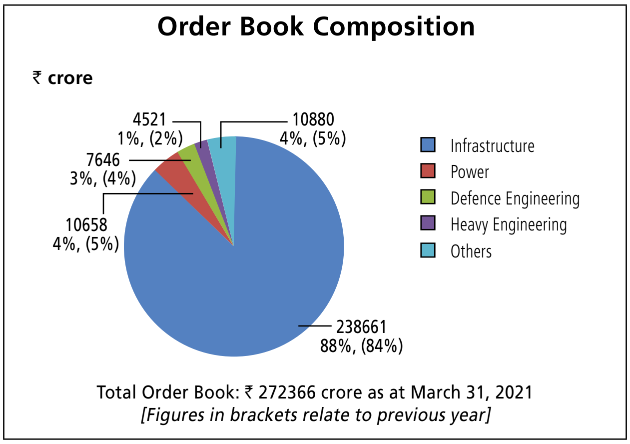
Order Inflow and Order Book



The order inflow during FY 2020-21 declined by 3.7% at ₹ 110622 crore as compared to ₹ 114825 crore in the previous year. The Infrastructure segment contributed 90% of the total order inflow during the year on receipt of the prestigious high-speed rail packages and orders from Hydel and Tunnel, Special Bridges, Rural water supply and a few international orders.

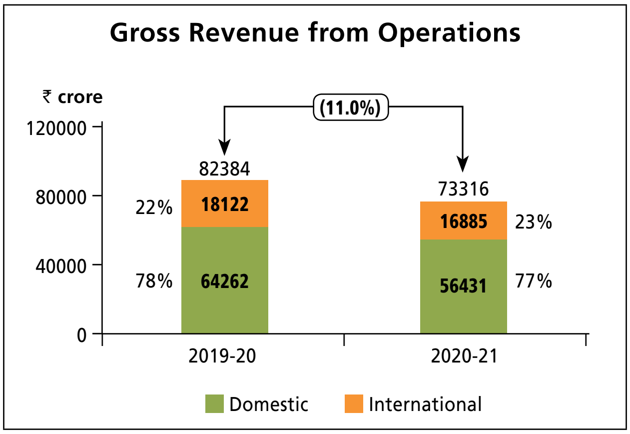
The international order inflow decreased to 16% of the total order inflow for FY 2020-21 as compared to 24% in the previous year.





The Order Book as at March 31, 2021 stood at ₹ 272366 crore, 88% of which is contributed by the Infrastructure segment. International orders constituted 18% of the current Order Book. L&T continues to carry a healthy order book-to-revenue ratio at 3.71, providing better visibility of revenue over the medium term.

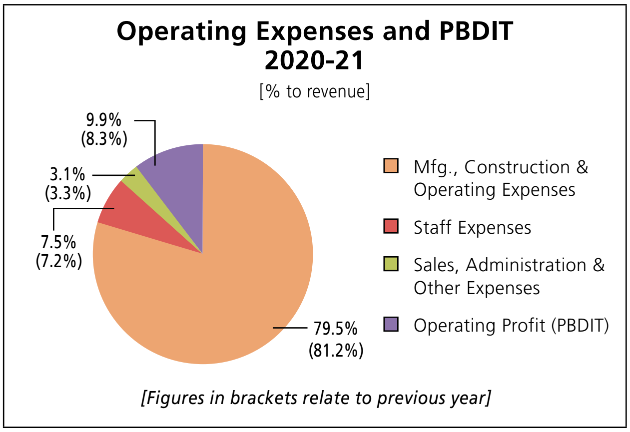
Revenue from Operations



The parent standalone entity reported a revenue of ₹ 73316 crore during FY 2020-21, a decline of 11% over the previous year, mainly in the Infrastructure segment with several execution impediments due to the Covid-19 lockdown and preventive measures adopted to counter the pandemic.

The above shortfall was partly mitigated by growth in the Power segment on picking up of the execution momentum of jobs in hand, in the Realty business on the sale of a commercial property, and in the Smart World and Communication and Hydrocarbon businesses on better execution of projects.

Operating Expenses and PBDIT



Manufacturing, Construction and Operating (MCO) expenses, comprising cost of construction material, raw materials, components and subcontracting expenses, amounted to ₹ 58290 crore, which is 79.5% of revenue, and improved over previous year on subdued execution of projects in Q1 FY 2020-21 due to the lockdown.

Staff expenses for the year at ₹ 5485 crore decreased by 7.9% y-o-y mainly due to reduction in staff welfare expense and reduction in provision for leave encashment on change in leave encashment policy. Staff Cost as a percentage of revenue increased from 7.2% to 7.5% reflecting under-utilisation of resources during the lockdown.

Sales and administration expenses for the year at ₹ 2274 crore decreased by 16.0% y-o-y, mainly due to lower professional fees, donation, reduced travelling cost partly offset by higher ECL provisions on financial and contract assets.

Profit before depreciation, interest and tax excluding other income (PBDIT) was ₹ 7266 crore for the year, higher by 6.3% over the previous year. The 160 bps growth in PBDIT at 9.9% of sales is mainly due to gain on sale of a commercial property in the Realty business, cost savings in Defence Engineering and release of contingencies along with some large-value orders crossing the margin threshold in the Infrastructure business. This was partly offset by higher ECL provisions and cost overruns in some projects in the Infrastructure segment.

Depreciation and Amortisation charge

Depreciation and Amortisation charge for FY 2020-21 at ₹ 1026 crore is almost in line with the previous year at ₹ 1021 crore mainly on account of lower capex spend.

Other Income

Other income mainly comprises income from treasury operations, dividend and income from Group companies. Other income for FY 2020-21 at ₹ 3435 crore, increased as compared to ₹ 2808 crore for the previous year mainly due to higher earnings on a larger corpus of investible surplus.

Finance cost

The interest expenses for FY 2020-21 at ₹ 2420 crore were higher by 6.7% vis-à-vis ₹ 2267 crore for the previous year. The increase is mainly attributable to higher borrowings retained during the year to ensure liquidity in challenging times. The average borrowing cost for FY 2020-21 was at 6.4% p.a., lower from the 7.4% p.a. in the previous year, reflecting the lower interest regime.

Exceptional Items

Exceptional Items of ₹ 2819 (net of tax) crore for FY 2020-21 represents impairment of funded exposure in the heavy forgings facility joint venture and carrying value of investment in the power development business while the previous year included gain on dilution of stake in L&T Technology Services.

Profit from Discontinued Operations

Profit from Discontinued Operations ₹ 8650 crore includes gain from divestment of Electrical & Automation to Schneider Electric SE and operational profit till the date of divestment, 31st August 2020.

Profit after Tax and EPS

Profit after Tax (PAT), including exceptional items (continuing operation), for FY 2020-21 at ₹ 2686 crore, registered a decrease of 55% as compared to ₹ 6025 crore in the previous year mainly due to impairments of ₹ 2819 crore and higher tax expense. With gain on divestment of ₹ 8557 crore from discontinued operations for sale of the Electrical & Automation business to Schneider Electric SE, overall PAT has improved to ₹ 11337 crore from ₹ 6679 crore in previous year.

The Basic Earnings per Share (EPS) from continuing operations & discontinued operations for FY 2020-21 at ₹ 80.74 has improved compared to ₹ 47.59 in the previous year.

Other Comprehensive Income (OCI)

Other Comprehensive income during year reflected a profit of ₹ 492 crore, vis-à-vis loss of ₹ 519 crore in the previous year, mainly due to mark-to-market gain on hedging instruments while the previous year was impacted by a fair valuation of investment in Mindtree prior to acquiring controlling stake.

Return on Net Worth

The Net Worth of the standalone parent entity as on March 31, 2021 at ₹ 60414 crore increased by ₹ 8238 crore as compared to March 31, 2020.

Return on Net worth (RONW) including Exceptional Items and profit from discontinued operations for FY 2020-21 at 20.1% is higher as compared to 13.1% in the previous year, largely due to profit on divestment of the Electrical & Automation business.

Liquidity & Gearing

Business operations generated cash flows of ₹ 8351 crore during the year as compared to outflow of ₹ 121 crore in the previous year. The increase is mainly attributable to higher customer collections and receipt of customer advance on new orders. The cash generated through the divestment of the Electrical & Automation business at ₹ 10846 crore, treasury income of ₹ 818 crore and dividend income from S&A companies at ₹ 1244 crore has been utilised towards repayment of borrowings (incl. repayment of lease liability) of ₹ 2263 crore, investment in S&A companies at ₹ 2433 crore and towards purchase of other short term investments of ₹ 10972 crore, in addition to dividend payment ₹ 3651 crore (comprising of final dividend of FY 2019-20 ₹ 1123 crore and special dividend ₹ 2528 crore) and interest payment ₹ 1954 crore respectively.

There was a net decrease of ₹ 93 crore in the cash balances as at March 31, 2021 as compared to the beginning of the year.

Fund flow statement	**₹ crore**	
Particulars	**FY 20-21**	*FY 19-20*
Operating activities	8351	*(121)*
Net divestment/(investment)	8413	*(10890)*
Treasury and dividend income	2062	*1902*
(Increase)/decrease in cash balance	93	*(464)*
ESOP Proceeds (net of buyback expenses)	16	*18*
Sources of Funds	**18935**	*(9555)*
Capital expenditure (net)	95	*1309*
Repayment of Borrowings/(Additional Borrowings)	2263	*(13453)*
Purchase / (Sale) of Other investments	10972	*(3463)*
Dividend paid	3651	*4159*
Interest paid	1954	*1893*
Utilisation of Funds	**18935**	*(9555)*

Total borrowings as at March 31, 2021 were lower at ₹ 23809 crore as compared to ₹ 25785 crore in the previous year. The loan portfolio of the Company comprises a mix of Rupee and suitably hedged foreign currency loans. The gross debt-equity ratio reduced to 0.39:1 as at March 31, 2021 from 0.49:1 as at March 31, 2020. The net debt-equity ratio was nominal at 0.04:1 as at March 31, 2021 from 0.31:1 as at March 31, 2020.

III. STRATEGY, BUSINESS MODEL AND RESOURCE ALLOCATION

Strategy Formulation

Business strategy formulation seeks to set long-term goals and plans that help the Company in exploiting its strengths, identifying improvements, building new capabilities and realising new opportunities. This is enabled through a three-pronged approach, plans with time horizons ranging from the long-term Perspective (7-10 years) to medium-term Lakshya (5 years) and to short-term Budget (yearly). Each plan dovetails into the next.

The Company had earlier undertaken the development of a 'Perspective Plan' focussing on a long-term view (7-10 years) of the Group's various businesses which helped identify the megatrends, potential disruptions and future directions for the current businesses. Further, the exercise helped in identifying new business opportunities (L&T NxT, SuFin, EduTech) which are now in the incubation phase and are expected to bring significant benefits in the coming years. The exercise also led to setting up of an Innovation Fund focussing on identifying and investing in start-ups which help consolidate the market position for the core business. The insights garnered from the Perspective Plan exercise would also be inputs for developing the next 5-year strategic plan i.e. 'Lakshya-26'.

The strategic plan 'Lakshya', which runs for a period of 5 years, is developed through a collaborative and consultative process across the organisation. Formulating the plan helps in deciding the strategic directions for the businesses as well as setting the year-wise performance targets along with supporting initiatives. FY 2020-21 is the terminal year of the current 5-year strategic plan, 'Lakshya 21'.

The pandemic in 2020, the year of the formulation of next 5-year plan 'Lakshya-26', has resulted in delay in formulation and at the same time, it has provided an opportunity to address new dynamics in certain businesses. The Company has now initiated the formulation of 'Lakshya-26' plan and aims to complete the process by September 2021.

While the 5-year business outlook and broad financial goals are embedded as an overarching strategic plan, the annual operating plan is formulated before the commencement of every financial year. This helps provide flexibility in tailoring the annual operating and financial budgets to changing circumstances while keeping the 5-year strategic plan in view.

Strategy Formulation Schematic:

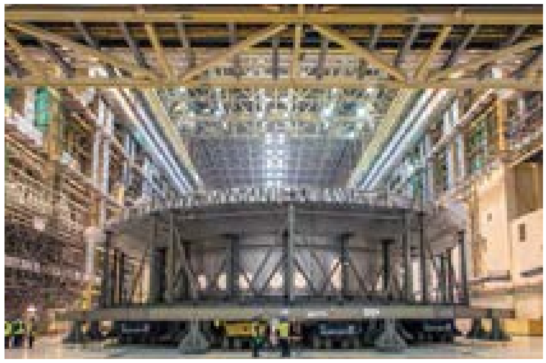
	Perspective Plan	5 Year Strategic Plan	Annual Plan
Objective	• Long Term Business Vision • Assessing Global Megatrends • Assessment Of Emerging Technologies & New Growth Opportunities • Identifying Relevant Growth Initiatives	• Assessment of Macro Environment and Mid-Long term Business Outlook • Strategic Priorities for Profitable growth of Businesses • Strategic Initiatives • Sustainability Roadmap	• Strategy for Key Account Management, Bid Management and Prospects Pipeline • Resource Plan • Sustainability Plan
Timelines	7-10 years	5 year	1 year
Scope	• Business Portfolio • Geographical Business Strategy • Investment In New Businesses • Leadership Pipeline • Long Term Capex Outlay	• 5 Year Business Plan • Market Outlook • ESG Risks & Opportunities • Talent Management and Leadership Development • Resource Allocation • Portfolio Assessment	• Annual Budget • Financial KPIs and Operational KPIs • Capex And Liquidity Plan • Resource Allocation for Order Book Execution • ESG Risks & Opportunities

Business Model

Value creation by the Group is enabled through leveraging its business models:

EPC Contracts

The Group will continue to focus on its proven core competencies of conceptualising, executing, and commissioning large, complex infrastructure projects in the areas of roads, bridges and tunnels, power transmission and distribution, thermal / hydel / solar / nuclear power plants, water and irrigation infrastructure, residential, commercial, institutional and factory buildings, airports, high-speed, metro, and conventional railways, onshore and offshore hydrocarbon facilities, renewables, energy and metallurgical projects.



Hi-Tech Manufacturing

Hi-Tech Manufacturing is mainly concentrated on heavy custom-built equipment catering to process industries, material handling equipment, and industrial products and machinery and defence engineering including shipbuilding. The Company has large manufacturing facilities at Hazira, Vadodara, Talegaon, Chennai, Coimbatore and Kattupalli in India and Oman in international geographies.

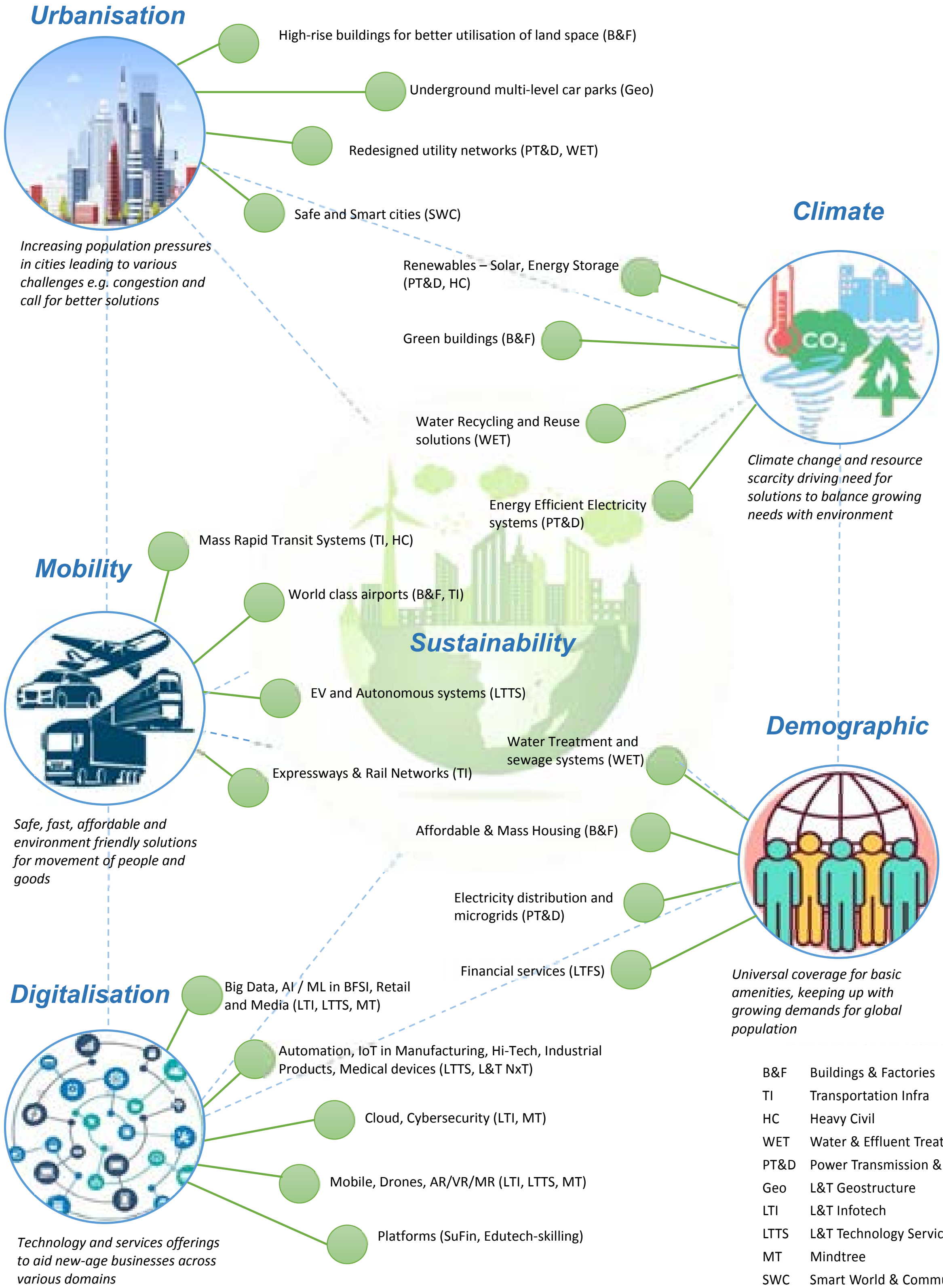
Services / Allied

The services and allied businesses cater to sectors of IT (through LTI and Mindtree), Engineering & Technology services (through LTTS, Smart World and Communication and L&T NxT), Real Estate and Financial services (through LTFHL).

Development Projects

While the Company has also undertaken major development projects such as the Hyderabad Metro, road operations and tolling (through L&T Infrastructure Development Projects Limited), Nabha Power and Uttaranchal Hydel Power in the past, the focus going forward would be to unlock the value embedded in the business portfolio.

Our businesses and offerings are closely linked to global Megatrends



B&F	Buildings & Factories
TI	Transportation Infra
HC	Heavy Civil
WET	Water & Effluent Treatment
PT&D	Power Transmission & Distribution
Geo	L&T Geostructure
LTI	L&T Infotech
LTTS	L&T Technology Services
MT	Mindtree
SWC	Smart World & Communications

The Covid-19 pandemic has influenced some of the global megatrends. While it has negatively impacted some, such as reduced mobility due to travel restrictions, it has also accelerated the push towards digitalisation, climate issues, renewables, and health & well-being. The businesses linked to digitalisation i.e. LTI, LTTS and Mindtree, have seen increased business traction and are expected to benefit from this tailwind in the coming years. The push towards environment-friendly solutions is expected to benefit some of our infrastructure businesses, e.g. Renewables (PT&D) and WET. The de-risking of supply chains via increased localisation / near-shoring and Government incentives for increasing local manufacturing are also expected to drive investments in new factories and capacity expansion in India.

The oil & gas industry was already undergoing transformation and the pandemic has only accelerated the shift. This could have some impact on Hydrocarbon's future offerings. Negatively impacted sectors due to the pandemic are airports, public places (stadiums), new office buildings, etc. which are likely to face short-term challenges; however it is expected that these will pick up sometime in the near future, given their long-term uptrend.

Portfolio Strategy

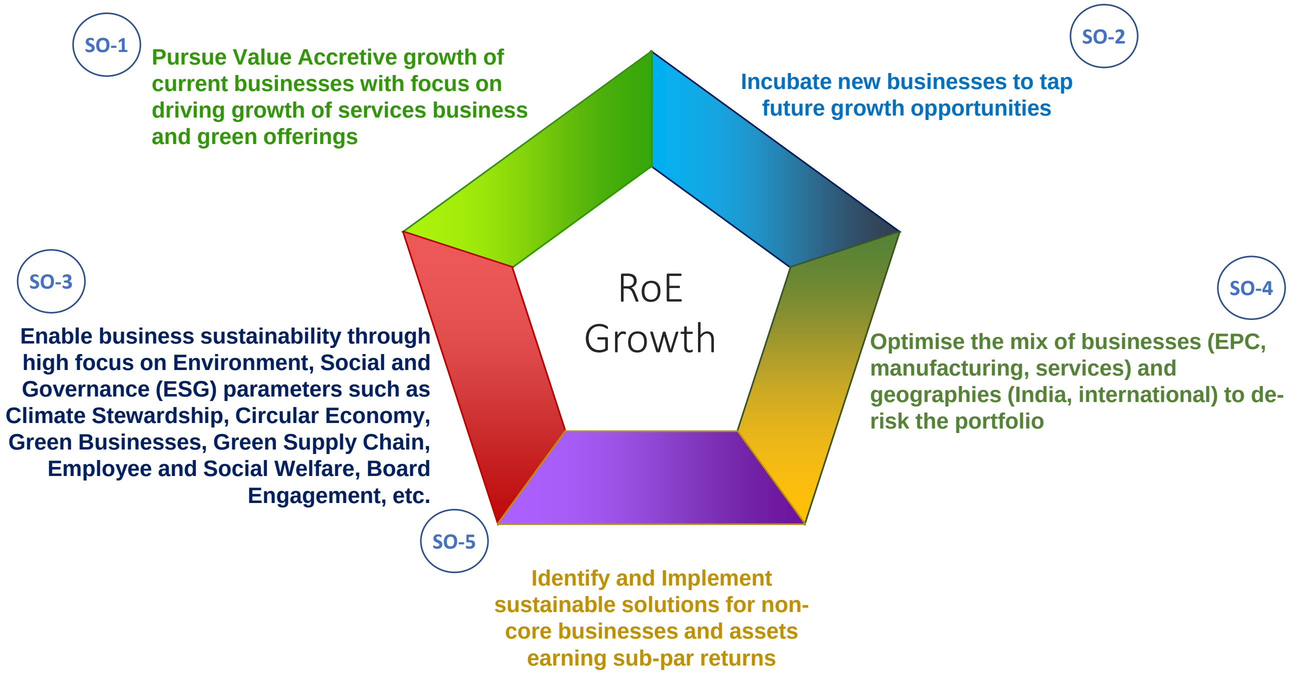
The portfolio strategy aims to create a 'sustainable' business model that results in improved returns and benefits to all the stakeholders, and this strategy focuses on:

- **Complementing the mature businesses with growth-stage businesses, with a focus on asset-light and high-margin businesses.** The Group is also trying to reduce exposure to asset-heavy businesses. Businesses with growth potential yet requiring periodic capital infusion such as Financial Services will be reassessed from time to time in the context of their emerging strategic significance and the capital allocation plans.
- **Well-balanced and geographically diversified businesses across domestic and international markets.** India will continue to be the focus geography for infrastructure businesses over next 5 years. In addition to India, infrastructure business would focus on international markets, i.e. select countries in the Middle East and Africa region. For the IT businesses, the Americas and Europe would continue to be the focus geographies. To further de-risk the geographical concentration and pursue new growth opportunities, a few more high-potential countries in Africa and ASEAN region have been identified for detailed evaluation of opportunities.
- **Balancing the cyclical nature of the EPC business through a portfolio of services businesses.** The 'Services' businesses has grown by 6% over the previous year, partly compensating for the decline of 11% arising out of the EPC business. With the aim of better profitability and a stable revenue profile, the Group intends to increase the share of services business while pursuing growth in the traditional EPC Contracts and Hi-Tech Manufacturing businesses.
- **Supplementing the standalone offerings with partnerships.** For the traditional businesses, the Company has partnered with several large global process and technology licensors, and for the IT and Technology Services businesses, the Group has extensive partnerships with established global software product and technology companies. These engagements enable the Group to offer a bouquet of value-added services to customers in different businesses.

Strategic Thrust & Direction

The focus of the Group's strategy is to create value for its shareholders, investors, clients, employees and other societal stakeholders through economic benefits, fulfilment of social obligations and ecological sustainability while protecting and promoting the L&T brand.

This value creation is driven through **Strategic Objectives** of the company, which are:



These Strategic Objectives are supported through **Strategic Enablers** which are:

SE-1
Operational Excellence for leadership in cost-competitiveness and world class execution

SE-2
Industry leading capabilities in digital technologies and analytics for productivity, ESG effectiveness and strengthening revenue streams

SE-3
Financial resources to enable growth of the businesses and strong financial health to facilitate access to capital markets, as and when required

SE-4
Talent and leadership pipeline to enable growth and business continuity

SE-5
Capability development through R&D, absorption of new technologies and partnerships

IV. RISK MANAGEMENT

The L&T Board has formed a Risk Management Committee to oversee the implementation and effectiveness of the risk management framework as required by SEBI LODR. The framework was earlier overseen by the Audit Committee.

The Company has institutionalised an Enterprise Risk Management Framework, which is continuously reviewed and benchmarked with industry best practices. The Risk Management Committee, on a periodic basis, evaluates and monitors the key risks at the Company level, viz., the impact due to the slowdown in the economy, geopolitical issues, risks relating to reputation and brand, competition, counterparty, foreign exchange & commodity prices, interest rates, cyber security and Environmental, Social, and Governance (ESG) related issues etc.

The Risk Management Committee periodically reviews the robustness and defensibility of the systems in place and suggests mitigation plans accordingly. The Audit Committee, in compliance with Companies Act and SEBI LODR, oversees the financial risk framework of the Company and reviews the corporate risk management framework once a year.

The aforesaid risk management processes are assisted by an Enterprise Risk Management System that facilitates monitoring risks across projects in various geographies of operation, provides a risk-weighted portfolio view of businesses and shares learnings across the organisation. An integrated Knowledge Centre portal is also available that provides a platform for assessment of financials of counterparty, geo-political and macro risks to support informed and fact-based decision-making.

The Company has a Chief Information Security Officer (CISO) in place who is responsible for forming and assuring implementation of IT security policies, frameworks to manage cybersecurity risk, and controls across the organisation. Also, the Company has rolled out Mission Zero Harm Plan targeting proper implementation of safety procedures, programmes, and practices.

The top enterprise-wide risks for the Company and their mitigation measures are summarised below:

	Risk	Mitigation
Pandemic	The pandemic has been one of the key risks impacting the operations of the Company. Project activity at worksites had slowed down during the period starting from March till May 2020 as Governments across the globe resorted to a range of measures, such as complete lockdown, night curfews and partial lockdowns to curb the spread of the coronavirus. The impact on economic and financial condition of counterparties in India or elsewhere may lead to delays in booking new orders or timely release of funds for the projects under execution.	The Company has quickly responded by implementing safety measures such as temperature screening, sanitising, and enforcing safe distancing norms and mandatory masks in private offices and project sites to ensure resumption of work. The Company also stepped up its employee health welfare initiatives and established well-equipped quarantine facilities to take care of the sickness / recovery process. The Company took steps to ensure liquidity was preserved to withstand any adverse developments. Credit-worthiness of counterparties is being continuously monitored to lessen the impact of adverse working capital resulting from customer delays in settlement of receivables.
Execution Challenges	The Company faces inherent risks throughout the execution phase of the project. Project challenges include employee / workmen safety, working in difficult / harsh weather conditions, unavailability of work front, land acquisition and Right-of-Way (ROW), environmental clearances, visa issues, etc. There have been additional challenges due to the pandemic, such as labour availability and mobilisation, supply chain disruptions, and some of the projects getting delayed / slowed down at the customer's behest.	Projects are put through Execution Risk reviews utilising the recently implemented Enterprise Risk Management (ERM) System. Each risk identified through the ERM system is classified into Generic and Specific Risks based on a comprehensive risk register. These risks are monitored at regular intervals for resolution / mitigation. Projects are closely reviewed via a quality and EHS audit, ensuring employee safety, regulatory, and environmental compliance.

	Risk	Mitigation
		Practices like working in multiple shifts, providing a safe and healthy working environment, and arranging for workmen boarding with required facilities, are being implemented in projects. Sourcing from alternative channels has ensured minimum supply chain disruptions. Contractual remedial measures are being enforced with more rigour to mitigate the monetary impact arising out of project delays.
Under-performance in key sectors	Sectors such as Power, Nuclear and Defence - Shipbuilding, continued to show slow growth and under-utilisation of their capacities. These businesses are facing structural challenges, such as high receivables from Discoms, shift towards green projects, delays in environmental clearances, etc. Further, the Metro and Financial Services sectors have been adversely impacted by the onset of the pandemic.	Divestment of certain non-core business lines and proactive liquidity boosting have given the Company the financial flexibility to meet project milestones while investing in high growth areas. The Company works on sector-specific solutions to improve the performance of the business units.
Geopolitical Risk	The Company operates in numerous geographies and faces risks on account of protectionist policies, political dynamics, trade barriers, sanctions, and geopolitical conflicts. The ongoing geopolitical situation also impacts the supply chain, and hence could have a schedule and cost impact on projects.	The Company has in place mitigation strategies, such as country-clearance procedures, monitoring geopolitical conflicts, actively monitoring changes in sanctions regimes along with identification of alternative strategic sourcing options.
Inequitable Terms of Trade	The Company partners with multiple stakeholders in executing projects and the terms agreed upon with these parties have become more stringent over the years. Joint and several liability, long tenor of defect liability periods, cost overruns, back-ended payment structure, working capital challenges and claim management challenges will have an effect on the performance and cash flows.	The Company relies on its leadership position in the businesses it operates, strong internal processes, back-to-back arrangements with vendors / subcontractors, project & business level working capital monitoring policies, and pre-bid reviews as appropriate risk mitigation strategies. Project teams also maintain the required documentation and follow redressal mechanisms with clients / vendors / subcontractors to address terms and disputes on a case-by-case basis.
Cyber Security	The Company is undergoing digital transformation and cybersecurity has become a key concern for the continuity of business. Vulnerabilities such as targeted attacks, ransomware threats, and phishing have raised the importance of protecting the information technology infrastructure and data of the Company.	The Company has a Chief Information Security Officer in place, who, under the guidance of the risk management committee oversees the implementation of strong enterprise wide cybersecurity practices. These practices are grouped into people, process and technology control areas under the Company-wide Cyber Security Assurance Framework. Employee awareness on cybersecurity is being enhanced through initiatives such as awareness courses, information security day, quizzes, and the creation of infotoons. Maturity of security controls is continually being measured to ensure they maintain the desired benchmarks.

FINANCIAL RISKS

Economic growth has remained a challenge on account of the unforeseen disruption of economic activity due to the Covid-19 pandemic. Post the complete disruption of the logistics and supply chain as well as the reverse migration of the labour force, Q1 FY 2020-21 saw the India GDP slip by ~24%. With the phased easing of lockdown restrictions during Q2, Q3 and Q4 witnessing a return to near normalcy, the India GDP decline for FY21 at 7.3%. However, concerns on the second wave of the Covid-19 pandemic and the slow pace of the vaccination drive have again given rise to concerns on resumption of lockdown-like measures that will once again result in consumption slowdown causing, again, a spectre of asset quality challenges for the financial sector. Inflation in India rose sharply in the first 9 months of FY 2020-21 mainly on account of higher food prices led by supply-side disruption in the lockdown phase.

The global economy shrank by 3.3% in 2020. Amid the various waves of Covid-19 stretching across different geographies, there was a broad-based contraction of various large economies, with the exception of China. Global trade has declined and there has been a marked slow-down in services activities, even though the manufacturing sector activity has gradually picked up. Governments across the globe responded with unprecedented fiscal stimulus to avert this crisis. Further, central banks eased monetary policy and also provided liquidity to levels not seen since the global financial crisis of 2008. As a result, the asset prices have recovered after the initial Covid-19 fears-led fall, and have remained buoyant since. The pandemic has led to an uneven recovery and many sectors are still struggling to reach the performance seen before the onset of the pandemic. Fragility in the financial sector in a number of economies continues to remain a concern, though with stimulus and liquidity pumped in by Governments, led to higher consumption of goods (in lieu of services) by people. A combination of higher consumption of goods, infrastructure build-up expenditure driven by fiscal boosts and catch-up on lost time being attempted by various industries upon reopening of the economies led to a boost in the demand for raw materials such as steel, cement, base metals, semi-conductors, etc. The supply of raw material could not be increased at the same pace due to the spread of the pandemic in regions where the ores are mined, restricted supply chains, etc. This created a demand / supply gap leading to a sharp increase in commodity prices in the second half of FY 2020-21.

With the execution progress being impacted in the first quarter of FY 2020-21 due to the pandemic, the Company focussed on collection of receivables, making good progress, and also stepped up its support to the vendors during the crisis period. This has led to a decrease in the absolute level of working capital.

Capital structure, liquidity and interest rate risks

The start of FY 2020-21 saw the Company facing huge uncertainty in terms of liquidity as the duration of the lockdown and disruption of work at sites as well as at the client offices was uncertain. This meant uncertainty of cash inflows while the Company had its short term and long-term debt repayments, vendor payments and other fixed costs to provide for. To mitigate these, the Company raised a significant amount of long-term liquidity at the beginning of the year through debt capital markets.

The Company also concluded the divestment of its Electrical & Automation business and used its proceeds to reduce its gearing, thereby maintaining a conservative capital structure. The proceeds were also used for investing ₹ 1900 crore in the form of rights issuance of its subsidiary L&T Finance Holdings and about ₹ 1000 crore to support its subsidiary L&T Metro Rail Hyderabad Ltd. (L&T MRHL) whose operations were impacted severely due to the pandemic.

With the business conditions improving progressively in the 2nd half of FY 2020-21, till the onset of the second wave, the Company ended the year with significant liquidity on the balance sheet, aided by the divestment and lower working capital. Low gearing levels and high cash balances will equip the Company to deal with business uncertainty in the face of the ongoing second wave of Covid-19. The Company plans to maintain the higher liquidity buffer on the balance sheet to deal with the lingering pandemic crisis and possible downturn in economic conditions. With the Large Exposure Framework guideline of RBI implemented from April 1, 2019, the Company has been focusing on ensuring sufficient available limits to retain the ability to bid for large-value projects, though currently it has adequate banking facilities to cater to the business requirements. The Government's initiative to reduce the performance bank guarantee requirement in projects from 10% to 3% has also enabled the Company to retain adequate headroom in its non-funded facilities.

The Company judiciously deploys its surplus funds in short-term investments in line with the Corporate Treasury policy. It 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 managed its higher-than-usual treasury investments during the year to generate investment return to neutralise the higher interest cost due to extra borrowings raised in the beginning of the year. Given the extra liquidity buffer planned to be kept on the balance sheet due to the ongoing Covid-19 situation and long-term debt raised, both the debt and investments on the balance sheet are likely to remain elevated in FY 2021-22 as well. The Company dynamically manages interest rate risks through a mix of fund-raising products, investment products and derivative products across maturity profiles and currencies within a robust risk management framework.

Foreign Exchange and Commodity Price Risks

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

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

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

Despite a sharp rally in commodity prices during the year, the Company's robust financial risk management processes ensured that input costs impact on Company's profits remained under control.

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

Sr No	Commodity Name	Exposure in INR towards the particular commodity (₹ crore)	Exposure in Quantity terms towards the particular commodity (Tn)	% of such exposure hedged through commodity derivatives				
				Domestic market		International market		Total
				OTC	Exchange	OTC	Exchange	
1	Silver (Buy)	35	7	–	–	–	–	–
2	Copper (Buy)	1264	21,255	–	–	59.31	–	59.31
3	Copper (Sell)	(639)	(9,957)	–	–	100		100.00
4	Steel (Buy)	11679	23,90,829	–	–	–	–	–
5	Aluminium (Buy)	1143	72,758	–	–	29.15	–	29.15
6	Aluminium (Sell)	(179)	(11,000)	–	–	56.24	–	56.24
7	Iron Ore (Buy)	50	93,169	–	–	78.64	–	78.64
8	Coking Coal (Buy)	32	38,364	–	–	30.11	–	30.11
9	Zinc (Buy)	140	7,070	–	–	100.00	–	100.00
10	Lead (Buy)	70	5,091	–	–	100.00	–	100.00
11	Cement (Buy)	2776	48,82,763	–	–	–	–	–
12	Nickel (Buy)	22	208	–	–	–	–	–

V. INTERNAL CONTROLS AND SAFEGUARDS

The Company maintains adequate internal controls, appropriate to the nature and size of the business, and commensurate with the scale and complexity of its operations. The Company has implemented robust policies and procedures, which *inter alia*, ensure integrity in conducting its business, safeguarding of its assets, timely preparation of reliable financial information, accuracy and completeness in maintaining accounting records and prevention and detection of frauds and errors. The efficacy of the various policies is evaluated for the dynamic and ever-evolving business environment.

The Board of Directors and management at all levels of the Company demonstrate through their directives, actions and behaviours the importance of integrity and ethical values to support the functioning of the system of internal control. The 'Code of Conduct' and the 'Whistle-blower / Vigil Mechanism' policies form an integral component of the internal control system. The Code of Conduct compliance is mandatory for employees and vendors and the Whistle-blower / Vigil Mechanism policies enables employees and vendors to raise genuine concerns about any actual or suspected ethical / legal violations or misconduct or fraud, with adequate safeguards against victimisation, fear of punishment or unfair treatment.

The internal financial controls operate at the entity and process levels, and are aligned with the requirements of the Companies Act, 2013 and the globally accepted framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Corporate Policy on internal controls serves as the foundation for sound internal controls. The internal control teams at the corporate and business levels assist the executive management, who are responsible for establishing, operating and upgrading the internal controls system. The corporate team shares best practices across the organisation, reviews and assesses the processes, formulates and updates the policies, guidance notes and advisories.

The Audit Committee of the Board reviews the annual internal audit plan prepared by the Corporate Audit Services department, covering core business operations, corporate departments as well as support functions. Corporate Audit Services conducts independent internal audits and the significant audit observations are presented to the Audit Committee every quarter along with update on implementation of recommended remedial measures and agreed actions by the management.

The effectiveness of internal controls was tested during the year by the Statutory Auditors as well as by the Corporate Audit Services team and no reportable material weaknesses either in their design or operations were observed. The evaluation included documentation review, enquiries, testing and other procedures considered to be appropriate in the circumstances.

The Company also has an institutionalised mechanism of dealing with complaints of sexual harassment through a formal committee constituted in line with the Company's Policy on the 'Protection of Women's Rights at Workplace' under relevant statutory guidelines. This policy has been widely disseminated across the Company and all complaints are addressed in a time-bound manner.