Financial Review 2019-20

I. L&T CONSOLIDATED

A. PERFORMANCE REVIEW

The Indian economy faced a challenging year in FY 2019-20. Post the general elections, the Indian economy witnessed sluggish investment momentum on the back of weak consumer sentiment, lower tax collections and fiscal slippages. The stress in the financial system due to non-performing loans led to risk aversion and low credit growth. The demand destruction in vital sectors such as real estate, automobiles, etc., led to the slowing economic growth and absence of broad-based private investment in industrial capex and infrastructure development. The onset of the global pandemic at the very end of the financial year led to the lockdown of the country's social and economic activity, adding further impetus to the economic slowdown.

To counter these challenges, the Government along with the RBI initiated several measures both monetary and fiscal at various times during the year, viz. reduction in corporate tax rates, capital infusion into Public Sector banks, relaxation of External Commercial Borrowing guidelines for affordable housing, Realty Fund for stalled housing projects and periodic lowering of interest rates in line with an overall moderated inflation trajectory. The Government's firm commitment to substantially boost investment in infrastructure development, rural electrification, airports, railroads, water supply & irrigation, social sector, education and health is expected to provide opportunities to the Company's various business segments; although in the near term, the Company would be required to deal with the economic fallout of the Covid-19 pandemic. Further, with the Government's focus on structural reforms and the launch of the National Infrastructure Pipeline (NIP) of ₹ 100+ lakh crore, the Company expects the measures to improve India's long-term growth potential.

The global economy witnessed significant volatility in 2019-20. The continued slump in manufacturing coupled with challenges relating to growth, inflation and employment, weakened the global GDP. Driven by protectionist policies in developed economies, trade wars intensified in various pockets across the world. The year 2019-20 also witnessed delayed Brexit, an oil price war between Saudi Arabia and Russia, rising geo-political tensions in the Middle East and the onslaught of the global pandemic, leading to major lockdown measures across countries. All these effectively created recessionary conditions in the world economy towards the end of the fiscal year.

Against the backdrop of such an environment, the Group recorded satisfactory growth in order inflows and revenues during FY 2019-20, though the impact of the pandemic will inevitably be felt in the FY 2020-21. Slowdown of infrastructure projects in multiple states due to change in State Governments, macroeconomic concerns and the systemic liquidity challenges slowed down the growth plans of the Company for FY 2019-20. The diversified portfolio of the Company coupled with the acquisition and the quick integration of Mindtree Limited, has however helped register reasonable growth at the Group level.

Post the acquisition of Mindtree Limited during the year, the entity has been consolidated as a subsidiary from the second quarter of FY 2019-20. The acquisition will help consolidate the Company's position in the IT-enabled services sector. In compliance with regulatory requirements, the Company further diluted its stake in L&T Technology Services (LTTS) to achieve 25% minimum public shareholding during the year.

Shareholding in L&T Infrastructure Development Projects Ltd (L&T IDPL) was also diluted to 51% on the partner Canadian Pension Plan Investment Board obtaining statutory approvals for conversion of Compulsorily Convertible Preference Shares (CCPS) into a 49% equity stake in L&T IDPL under a negotiated agreement. L&T Shipbuilding Limited which was a 100% subsidiary company has now been merged with L&T standalone entity as an adjusting event after obtaining NCLT approval to the scheme of amalgamation. Also, during the year FY 2019-20 the Company exited its shareholding in L&T Kobelco Machinery Private Limited by selling its stake to its JV partner Kobe Steel Ltd.

The Company is on course to complete divestment of its Electrical & Automation (EA) business to Schneider Electric. The approval of Competition Commission of India subject to fulfilment of certain conditions has been received and the business has been classified as 'discontinued operation' from June 2019, pursuant to which the previous year figures have been regrouped wherever necessary. Progress is being made on fulfilling the conditions precedent to the divestment.

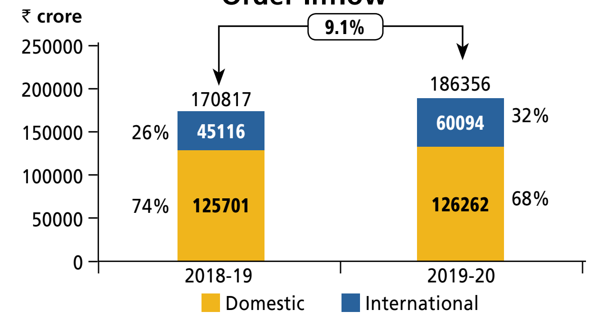
L&T Metro Rail (Hyderabad) Limited, a subsidiary company, successfully operationalized and commissioned the last stretch of the metro rail during FY 2019-20, thereby completing the full network of close to 70 km in the city of Hyderabad. Another subsidiary company, viz. Nabha Power Limited, which houses two units of a thermal power plant at Rajpura in Punjab, received a favourable Supreme Court judgement on its income related disputes with Punjab State Power Corporation Ltd. Also, in compliance with environment norms, this subsidiary has placed an order for construction of Flue Gas Desulphurisation system and work on this is in progress.

As at March 31, 2020, L&T Group comprises 117 subsidiaries, 6 associates, 25 joint venture companies and 35 joint operations. Most of the group companies are strategic extensions of the project and product businesses of L&T, while the Hydrocarbon business is housed in a separate set of group companies to provide the desired focus and independent functioning. The majority of the subsidiaries support L&T's core businesses and enable access to new geographies, products and business segments. Certain distinct service businesses such as Information Technology, Technology Services, and Financial Services are housed in separate listed subsidiaries. The development projects business resides in separate subsidiaries and joint venture companies.

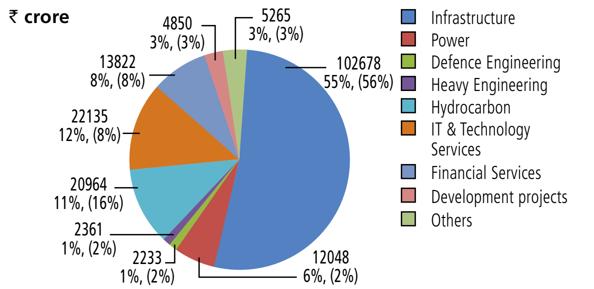
The Company continued on its journey of shareholder value creation by focusing on cost efficiencies, leveraging technology for productivity gains, efficient fund management and targeting select international opportunities beyond the Middle East. The Company's strong Balance Sheet, coupled with sound policies and procedures and committed work force is helping it tide over the current volatile economic environment and will enable business to thrive and grow, once the environment improves.

Order Inflow and Order Book

Order Inflow



Order Inflow Composition

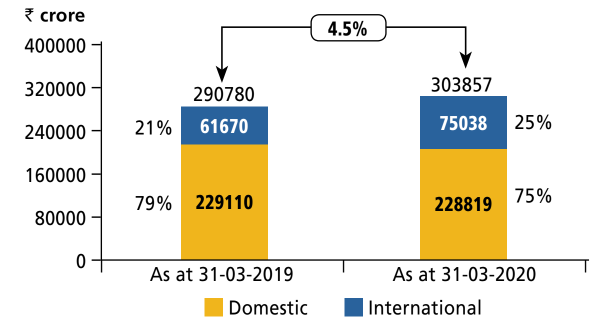


Total Order Inflow: ₹ 186356 crore during the year 2019-20

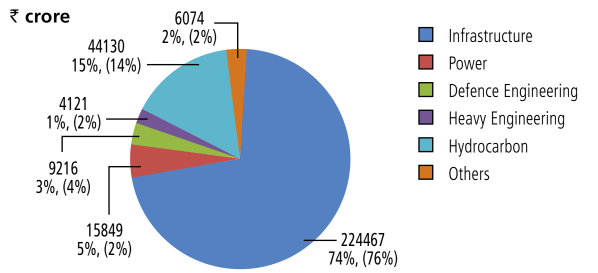
[Figures in brackets relate to previous year]

L&T Group achieved order inflows of ₹ 186356 crore during the year 2019-20, registering a growth of 9.1% over the previous year, growth largely being driven by international business. The year witnessed some noteworthy order wins in thermal power, affordable mass housing, a substation & transmission line project in Africa, gold beneficiation order in Saudi Arabia, residue upgradation in refinery modernisation and an order for offshore oil facilities in Saudi Arabia. Despite deferral of various prospects, Infrastructure contributed 55% of the total order inflow, while the share of Power increased from 2% in previous year to 6% in the current year on receipt of a large value thermal order and increased ordering by thermal power plants for emission control equipment to meet environmental norms.

Order Book



Order Book Composition



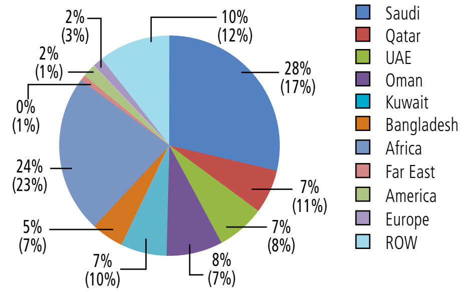
Total Order Book: ₹ 303857 crore as at March 31, 2020

[Figures in brackets relate to previous year]

The Group crossed the ₹ 3 lakh crore mark as at March 31, 2020 with the Order Book standing at ₹ 303857 crore. Infrastructure segment constitutes the highest proportion of the consolidated Order Book at 74% share, though reduced from 76% as at March 2019, with increase in the share of the Power segment from 2% to 5% on higher order inflows during the year.

The Order Book growth at 4.5% was constrained on deletion of some non-moving orders from the portfolio, mainly impacted by review decisions in the post-Covid scenario and change of Government in Andhra Pradesh during the Financial Year. The Order Book comprises of 27% from various State Governments, including local authorities. With major orders received from Public Sector Undertakings during the year FY 2019-20, the composition of the Order Book from that customer segment increased from 35% to 44%.

International Order Book Composition

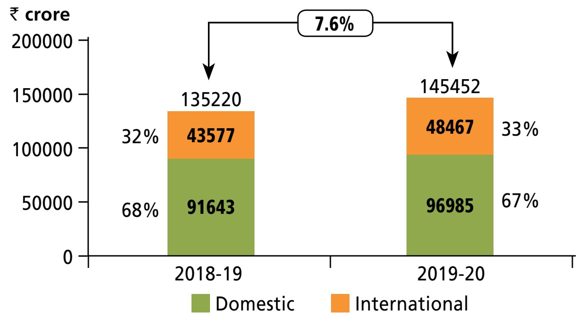


Total International Order Book: ₹ 75038 crore as at March 31, 2020
[Figures in brackets relate to previous year]

FY 2019-20 order inflow growth being driven by international business, the share of the international Order Book grew from 21% to 25%, with Saudi Arabia and Africa contributing the majority of the growth – resulting in their increased share in the overall international Order Book to 28% and 24% respectively.

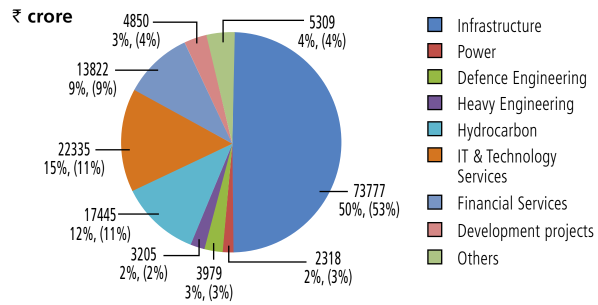
Consolidated Revenue from Operations

Gross Revenue from Operations



L&T Group recorded revenue of ₹ 145452 crore during the year, registering a growth of 7.6%. The growth however, was below expected levels with execution impediments of Covid-19 in the last few weeks of the year, coupled with delayed clearances, right of way constraints and the review of awarded tenders by some state governments leading to stoppage of work in the Infrastructure segment for a prolonged period of time during the year. With the consolidation of Mindtree Limited acquired in early July 2019, the composition of international revenue at the Group level increased to 33% in year FY 2019-20.

Segment-wise Gross Revenue*



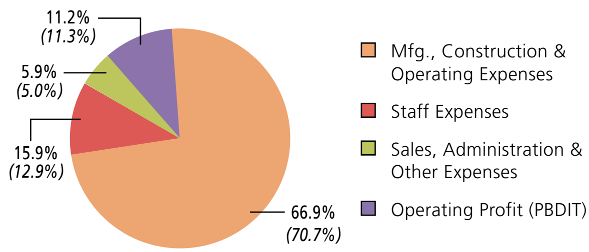
* includes inter segment revenue ₹ 1590 crore for FY 20 and ₹ 1700 crore for FY 19
[Figures in brackets relate to previous year]

Despite the challenges faced in the Infrastructure segment and sharp deceleration of business activity in the last few weeks of the year due to Covid-19, satisfactory growth in the Segment Revenue for the year was achieved with pick up of execution momentum mainly in Hydrocarbon and Heavy Engineering segments. The composition of IT&TS segment in the overall portfolio registered a growth of 400 bps achieved with consolidation of Mindtree on acquisition of control from Q2 FY 2019-20 onwards.

Operating Expenses and PBDIT

Operating Expenses and PBDIT 2019-20

[% to revenue]



[Figures in brackets relate to previous year]

Manufacturing, Construction and Operating (MCO) expenses for FY 2019-20 at ₹ 97363 crore increased by 1.8% 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 represent 66.9% of revenue, a decrease by 380 bps, mainly on account of increased share of IT&TS segment as well as cost control initiatives at the Group level.

Staff expenses for the year 2019-20 at ₹ 23114 crore increased by 32.3% over the previous year mainly on consolidation of Mindtree - adjusted for the same, the increase is 10.5% on a like-to-like basis. Adjusted for IT&TS segment (where manpower augmentation for revenue growth has led to an increase in the total headcount), the staff cost as a percentage to revenue increased by 30 bps, representing normal escalation. The Group has sharpened its focus on productivity improvement, digitalization and manpower rationalization.

Sales and administration expenses increased by 27.3% y-o-y to ₹ 8647 crore - when adjusted for Mindtree consolidation, the increase stands at 17.7% on a like-to-like basis. The increase is mainly in Financial Services due to higher credit cost and provisions in conformity with RBI guidelines (issued consequent on moratorium relief given to borrowers in the Covid-19 scenario). Other increases that contributed to the rise include Expected Credit Loss provisions for financial and contract assets, donations to PM Cares fund and provision for write down of Yes Bank AT1 bonds under regulatory mandate.

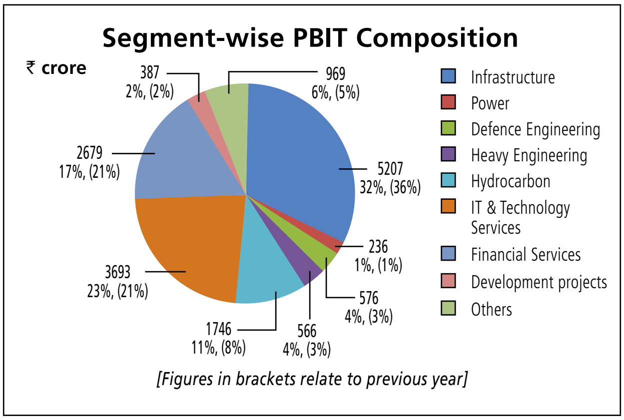
The Group operating profit at ₹ 16329 crore for the year 2019-20 registered growth of 6.5% y-o-y. The EBITDA margins for the year was lower by 10 basis points at 11.2%. Cost overruns encountered in some projects coupled with slow progress in some jobs mainly in Infrastructure segment impacted the operating margin. The drop was partially offset by a favourable job mix, coupled with execution efficiencies in Defence and Hydrocarbon segments, and the reversal of provision on a favourable arbitration award in the Power business.

Depreciation and Amortization charge

Depreciation and amortization charge for the year 2019-20 increased by 28% to ₹ 2462 crore, compared to ₹ 1923 crore in previous year. The increase was largely due to consolidation of Mindtree, full operationalization of the Hyderabad Metro Rail concession and amortization of Right of Use asset on adoption of the newly introduced Ind AS 116 accounting standard in 2019-20.

Profit Before Interest and Tax

Segment-wise composition of PBIT for FY 2019-20 is represented below:



Other Income

Aided by profit on sale of liquid investments, interest earnings and dividend income from treasury investment, Other income at ₹ 2361 crore, increased by 28.6% over ₹ 1837 crore in the previous year.

Finance cost

The interest expenses for the year 2019-20 at ₹ 2797 crore was higher by 55.2% over ₹ 1803 crore for the previous year. The increase was mainly attributable to the higher interest cost in L&T Hyderabad Metro Rail upon commencement of full operations, interest on lease liability on application of Ind AS 116 and higher level of borrowings in the standalone entity to fund the higher level of working capital caused by the tight liquidity conditions. Average borrowing cost for the year FY 2019-20 increased to 8.1% from 7.9% in the previous year.

Exceptional Items

There are no exceptional items during the year under review. Previous year exceptional item of ₹ 192 crore (post-tax) represents write back of certain customer dues upon realization based on favourable NCLAT order.

Tax Expense

Income Tax charge for FY 2019-20 (excluding tax charge on discontinued operations) decreased to ₹ 3263 crore compared to ₹ 4067 crore in FY 2018-19 on adoption of tax ordinance resulting in lower effective tax rate, partially offset by write-down of opening DTA for the rate differential and write-off of opening MAT credit, due to its unavailability under the new tax regime. Creation of DTA in 2019-20 for set-off of capital losses has also contributed to the lower tax charge.

Consolidated Profit after Tax and EPS

Consolidated Profit after Tax (PAT) at ₹ 9549 crore for the year 2019-20 rose by 7.2% over the previous year at ₹ 8905 crore.

Consolidated Basic Earnings per Share (EPS) from continuing operations and discontinued operations for the year 2019-20 at ₹ 68.04 registered growth over previous year at ₹ 63.51.

Return on Consolidated Net Worth

The Net Worth, as on March 31, 2020, at ₹ 66723 crore, reflects net increase of ₹ 4348 crore, as compared to the position as on March 31, 2019. Return on Net Worth (RONW) for the year 2019-20 was lower at 14.8%, compared to 15.3% in the previous year. RONW for the current year has been adversely affected by Covid impact and provisions in financial services business.

Liquidity & Gearing

Cash flow from operations (excluding change in loans and advances towards financing activities) decreased to ₹ 6687 crore as compared to ₹ 9100 crore in the previous year due to delay in customer collections, impacted by fund constraints with Government and Public Sector clients. Borrowings increased by ₹ 13874 crore to sustain higher level of operations and increased working capital requirements in a liquidity-constrained environment. During the year, borrowing was supplemented by additional funds generated from divestment of stake in subsidiary companies, profit on sale of investment and treasury income.

Funds were used mainly for purchase of stake in Mindtree Limited. Further, the Group incurred capital expenditure of ₹ 3299 crore (including capex for full operationalisation of Hyderabad Metro Rail concession). Funds were also utilized for payment of final dividend for FY 2018-19 ₹ 2526 crore, towards interim dividend of ₹ 1404 crore for FY 2019-20 and DDT ₹ 621 crore. The cash outflow also included net interest expense of ₹ 2903 crore during the year FY 2019-20.

Consequently, there was a net increase of ₹ 4809 crore in the cash balances as at March 31, 2020 as compared to the beginning of the year.

Consolidated Fund Flow Statement	₹ crore	
Particulars	**2019-20**	*2018-19*
Operating activities	6687	*9100*
Borrowings/(Repayment) of Borrowings	13874	*4319*
Treasury and dividend income	952	*983*
Sale/(Purchase) of other investments	3983	*(8252)*
ESOP Proceeds (net)	18	*11*
Sources of Funds	**25424**	*6161*
Capital expenditure (net)	3299	*3499*
Net investment/(divestment)	9802	*255*
Dividend paid	4551	*2647*
Interest paid	2903	*2983*
Increase/(Decrease) in cash balance	4809	*(338)*
Payment (to)/from minority interest (net)	60	*(2885)*
Utilisation of Funds	**25424**	*6161*

The total borrowings as at March 31, 2020 stood at ₹ 141007 crore as compared to ₹ 125555 crore as at March 31, 2019. The major increase is in the standalone entity to support the increasing business volumes, increase in borrowings of Financial Services and higher debt availed to complete operationalization of the Hyderabad Metro Rail concession. The gross debt:equity ratio increased to 1.85:1 as at March 31, 2020 from 1.81:1 as at March 31, 2019. The net debt:equity ratio stood at 1.53:1, as at March 31, 2020 from 1.52:1 as at March 31, 2019.

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 were examined and the ratios with significant changes i.e. change of 25% or more as compared to the immediately previous financial year have been provided hereunder along with the explanation for the changes:

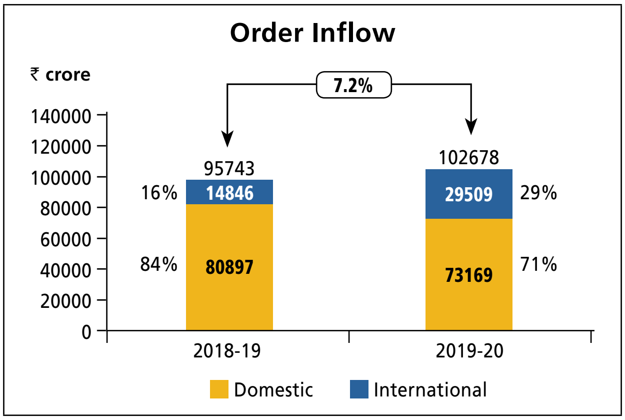
Sr. No.	Particulars	*2018-19*	2019-20	▲
(i)	Interest Coverage ratio* (Interest cost excludes Financial Services and Finance Lease Activity)	*8.93*	6.12	-31.5%
(ii)	Net Working Capital % of Sales** (Excluding Financial Services & Corporate)	*18.1%*	23.7%	30.9%

* The significant change in the Interest Coverage Ratio for FY 2019-20 has been due to implementation of Ind AS 116 resulting in accounting for interest on lease liability, as well as full commissioning of L&T Hyderabad Metro Rail leading to cessation of capitalization of interest on borrowing done hitherto.

** The significant changes in Net Working Capital % of sales is due to delay in customer collections, impacted by fund constraints with Government and Public Sector clients as well as support extended to vendors and sub-contractors in a tight liquidity environment.

B. SEGMENT-WISE PERFORMANCE (GROUP)

1. Infrastructure Segment

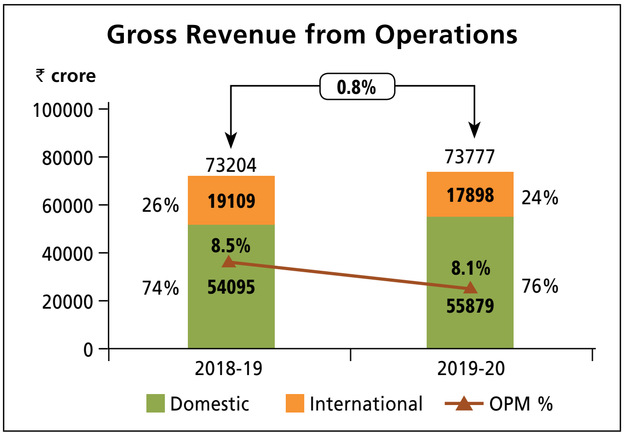


The Infrastructure segment won orders worth ₹ 102678 crore, higher by 7.2% over the previous year, mainly from Public Sector Undertakings. Large value orders were bagged by Building & Factories, Power Transmission & Distribution, Water Effluent Treatment and Metallurgical and Material Handling businesses. Investment by the Maharashtra State Government in the affordable housing segment and by private sector players in the airport and health segments boosted the order inflow momentum of the Buildings & Factories business vertical. Heavy Civil Infrastructure registered growth with receipt of orders in Hydel and Tunnel business, the Power Transmission & Distribution business recorded growth on receipt of key international orders, while the Metallurgical and Material Handling business registered significant growth with the receipt of a large value Gold beneficiation plant order and railway freight facility package in the MENA region.

The order inflow momentum was maintained in the Smart World & Communication business with the receipt of an order for an army network management system from the Indian Army and in the Water Effluent & Treatment business with order wins in the water supply and distribution segment.

De-growth was registered in the Transportation Infrastructure business due to deferral of some large value award decisions.

The share of international order inflow for the Infrastructure segment increased to 29%, from 16% in previous year. The Middle East region contributed 65% of the international order inflow. Lower contribution from South East Asian countries was compensated by a higher proportion of orders from African countries, reflecting the result of past efforts to expand presence in those countries. International order wins were predominantly in Power Transmission & Distribution and Metallurgical and Material Handling business.



Infrastructure segment clocked gross revenue of ₹ 73777 crore for the year 2019-20 registering a nominal growth of around 1% over the previous year. Revenue was impacted due to lack of progress in jobs in Andhra Pradesh with the stand taken by new state government to reassess new awards, execution challenges in some projects viz. obtaining approvals, securing Right of Way, rationalisation of fund allocation in certain states, and stay on execution due to litigations concerning environmental clearances. The sharp deceleration in execution in the last few weeks of the year on account of the pandemic and consequent regulatory clampdown on business activities also impacted revenue growth for the year as a whole.

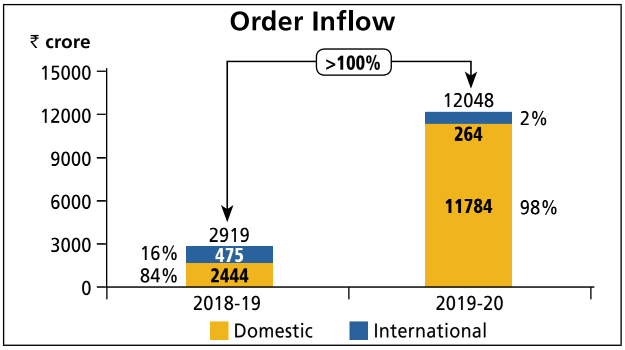
Revenue from international operations constituted 24% of the total revenues of the segment during the year as compared to 26% in the previous year with some large value orders in the opening Order Book nearing completion, especially in Heavy Civil Infrastructure.

Infrastructure Segment earned operating profit of ₹ 5912 crore. There was a decline in margins from 8.5% to 8.1% due to cost and time overruns in certain projects in Transportation Infrastructure and Buildings & Factories business. The decline was also due to the margin impact caused by Covid-19 led slowdown / lockdown in March 2020 and lower margin earned during the year in Heavy Civil Infrastructure business partially offset by realization of claims in Transportation Infrastructure and Water & Effluent Treatment business.

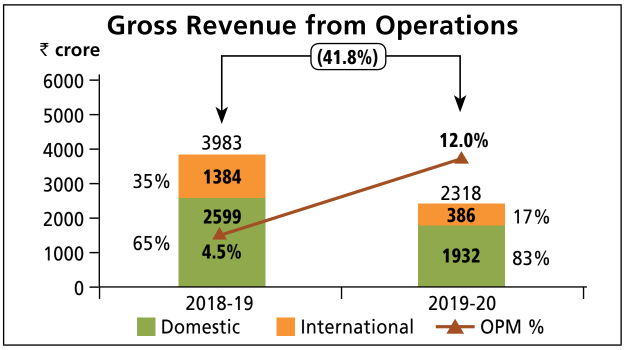
The Funds employed by the segment at ₹ 28279 crore as at March 31, 2020 registered a sharp increase of 18.1%

vis-à-vis March 31, 2019, mainly due to stalled projects and fund allocation issues in certain State Government contracts. The funds employed were also impacted by the mandated stoppage of business activity / lockdown in the last 2 weeks of the financial year, a period that is usually characterized by a high level of customer collections.

2. Power Segment



The Power segment order inflow registered a substantial growth by bagging orders worth ₹ 12048 crore as compared to ₹ 2919 crore in the previous year. The segment received a large domestic order for an ultra-supercritical thermal power project, an order for a comprehensive Boiler Island package by L&T–MHPS Boiler JV, consolidated for L&T share, and several Flue Gas Desulphurisation projects following the mandate from Ministry of Environment, Forest and Climate Change to install emission control equipment in a timebound manner.

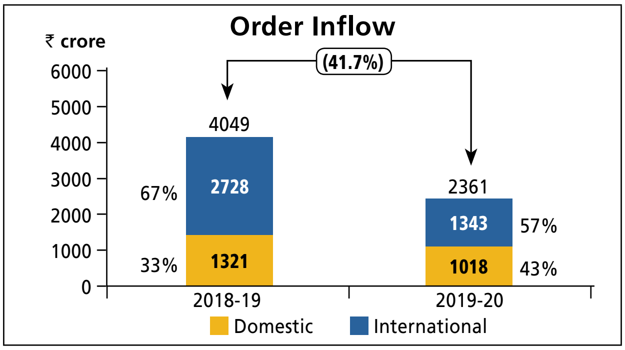


Despite the surge in order inflow, the Power segment's revenue declined y-o-y by 41.8% to ₹ 2318 crore, since the new orders are yet to pick up execution momentum, as well as tapering of execution in coal-based projects nearing completion. Composition of revenue from international projects decreased to 17% of total revenue for the segment, from 35% in previous year due to diminishing revenue contribution from a Bangladesh gas-fired power project nearing completion in 2019-20.

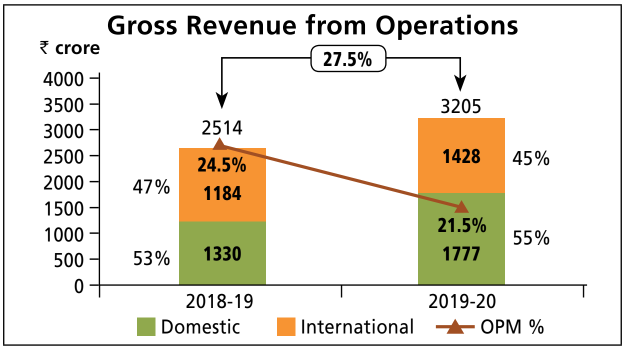
Segment operating profit has improved from ₹ 177 crore in previous year to ₹ 275 crore in FY 2019-20, with the margin improving to 12% mainly due to reversal of provision on receipt of favourable arbitration award.

The Funds employed by the segment stood at ₹ 1745 crore as at March 31, 2020 registering a growth of 46.3% over the previous year due to delay in collection of retention amount in jobs nearing completion and higher carrying value of Investment in Joint Ventures under Power Group, consolidated through equity method under Ind AS.

3. Heavy Engineering Segment



The Heavy Engineering segment recorded an order inflow of ₹ 2361 crore for the year ending March 31, 2020, lower by 41.7% as compared to the previous year due to deferment of orders, coupled with the loss of international orders on aggressive pricing from global fabricators in a low-demand-cum-surplus-capacity scenario. Share of orders from international business decreased from 67% in the previous year to 57% in FY 2019-20, largely attributable to reduced prospects of Marine Pollution Control equipment.

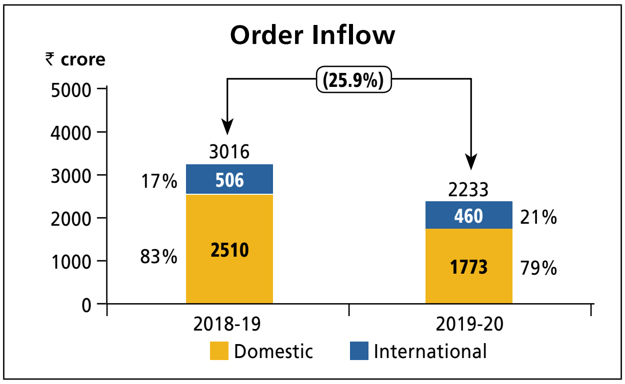


The segment's gross revenue of ₹ 3205 crore registered a growth of 27.5% compared to the previous year on the back of good progress in executing the Opening Order Book of the refinery, oil and gas equipment business. Revenue from international operations constituted 45% of the total revenue for the segment.

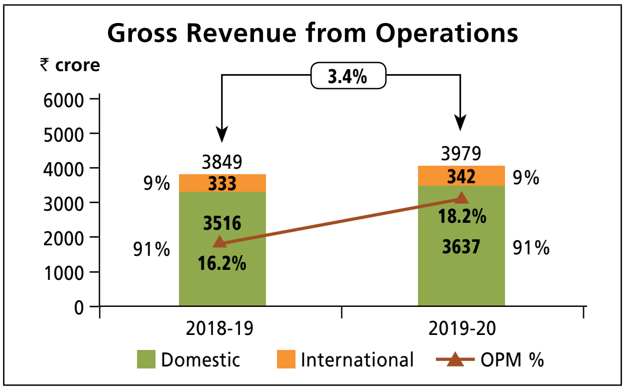
The segment recorded an increase in the operating profit for the year at ₹ 612 crore. The margin, however registered a decline from 24.5% to 21.5% due to prudential provisions made in an international project, partially offset by cost saving initiatives and a favourable claim settlement.

Funds employed by the segment as on March 31, 2020 at ₹ 2906 crore, registered an increase of 16.1% over the previous year on higher working capital due to pending milestone completion in some refinery projects.

4. Defence Engineering Segment



The Defence Engineering segment recorded an order inflow of ₹ 2233 crore for the year ending March 31, 2020, lower by 25.9% over the previous year with deferment of orders from the Ministry of Defence. The share of international orders for FY 2019-20 was higher at 21% as compared to the previous year.

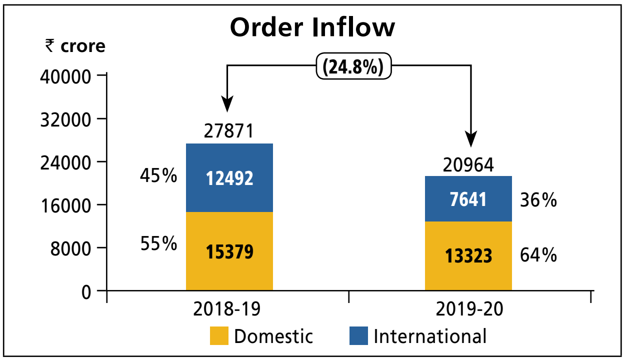


The segment's gross revenue of ₹ 3979 crore improved by 3.4% compared to the previous year. Growth was mainly contributed by the brisk execution of a tracked artillery gun order and partially offset by decline in the Shipbuilding business. Revenue from international operations was steady at 9% of the total revenue for the segment.

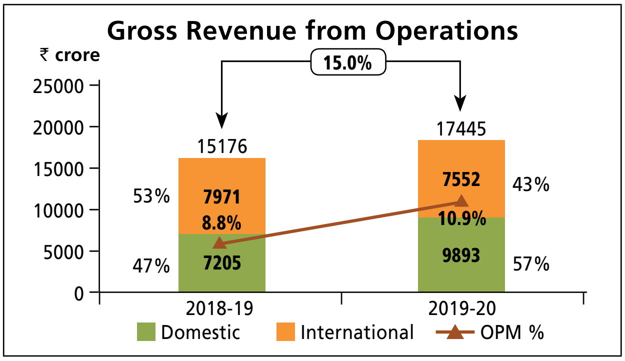
The operating margin improved from 16.2% in the previous year to 18.2% in FY 2019-20 due to cost savings across multiple projects in the Defence & Aerospace business and a favourable claim settlement in Shipbuilding business.

Funds employed by the segment as on March 31, 2020 at ₹ 3014 crore increased by 5.3% y-o-y, due to delay in collections from a fund constrained MoD.

5. Hydrocarbon Segment



The Hydrocarbon segment achieved order inflows of ₹ 20964 crore, registering a decline of 24.8% due to deferment of orders mainly in the Onshore vertical. The share of international orders decreased to 36% in FY 2019-20 from 45% in the previous year, which included one mega order received in Algeria. The Order Book, at ₹ 44,130 crore, however, still provides multi-year revenue visibility even in the current uncertain environment of low oil prices.



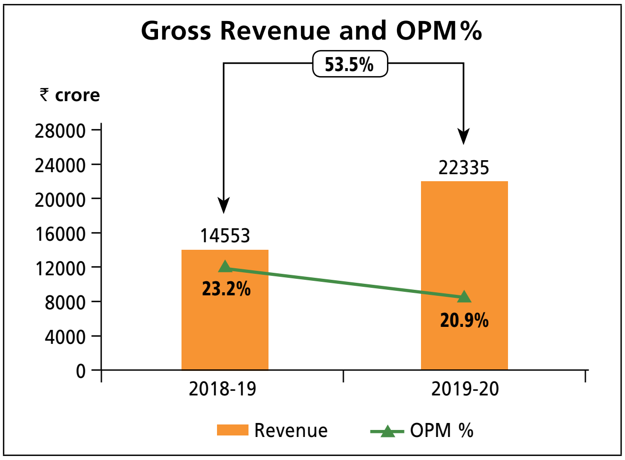
Segment revenue at ₹ 17445 crore for the year grew by 15% y-o-y, enabled by peaking of execution activities in key projects. The share of International revenue in FY 2019-20 was lower at 43% of the total revenue of the segment as compared to 53% in the previous year, with closing stage progress of some large value international orders in the opening Order Book.

The segment's operating profit for the year improved to ₹ 1898 crore, with the margin increasing by 210 basis points from 8.8% to 10.9%, reflecting operational / execution efficiencies and claim settlements in a few projects.

Funds employed by the segment as on March 31, 2020 at ₹ 2880 crore increased by 35.3% as compared to March 31, 2019, mainly due to the increase in current outstanding from customers in a tight liquidity environment.

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

The Company acquired a controlling stake of 60.59% in Mindtree Limited as of 2nd July, 2019. Subsequent to the acquisition of control, the financials have been consolidated from the second quarter of FY 2019-20 and reported under the IT & TS segment. The resultant figures for the current periods are not comparable with the previous periods to that extent. An additional 0.49% stake was acquired in March 2020, taking the total shareholding as on March 31, 2020 to 61.08%.



The IT & TS segment comprises publicly listed companies L&T Infotech Limited and its group of companies, L&T Technology Services Limited and its group of companies, and Mindtree Limited and its subsidiaries. The segment recorded a gross revenue of ₹ 22335 crore for the year ended March 31, 2020, registering a growth of 53.5% over the previous year, including ₹ 5915 crore on account of the Mindtree acquisition in FY 2019-20. Excluding Mindtree, the growth would have been 13% on a like-to-like basis. International revenue constitutes a steady 91% of the total revenue of the segment. Like other businesses within the Group, the IT&TS Segment was also initially affected by the transition challenges of work-from-home / lockdown situation that prevailed towards the end of the year. The businesses have, however, quickly ramped up the work-from-home business model on various projects under execution during the lockdown period in line with approvals obtained from customers. The end-customer geographical segments in the US and Europe continue to witness stress due the pandemic that has severely impacted these geographies.

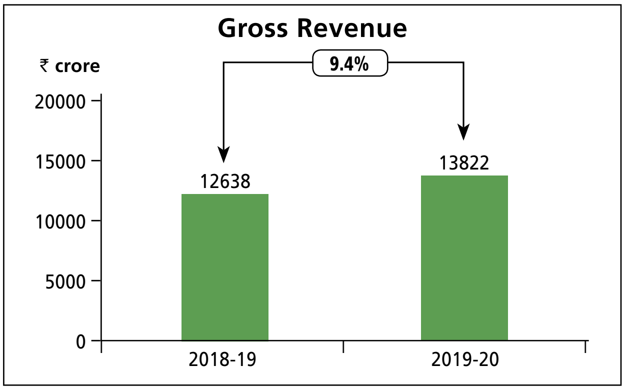
The Segment's Operating Profit was at ₹ 4635 crore for the year 2019-20 as compared to ₹ 3336 crore in the previous year including a contribution of ₹ 951 crore from Mindtree. The Operating Margin declined by 230 basis points, mainly on account of an increase in manpower cost, coupled with a drop in utilization and donations to the PM Cares fund set up for Covid-19 relief purposes.

The Funds employed by the segment as on March 31, 2020 at ₹ 19638 crore increased by 178% compared to March 31, 2019 mainly due to investment in goodwill and intangible assets of customer contracts on acquisition of Mindtree Limited.

During the year, the Company divested 4.26% stake in L&T Technology Services, towards meeting the regulatory requirement of minimum public shareholding of 25% within three years from listing of its shares. L&T' s shareholding in LTI and LTTS as on March 31, 2020 is 74.53% and 74.62% respectively.

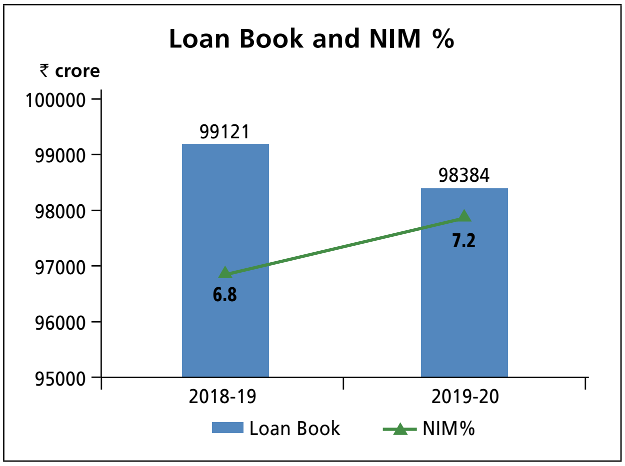
7. Financial Services (FS) Segment

The Financial Services segment comprises Rural, Infrastructure and Housing Finance and Asset Management. The segment's revenue grew by 9.4% y-o-y at ₹ 13822 crore for the year FY 2019-20 aided by growth in the loan assets of 'focused' business lines.



Disbursal of fresh Loans and Advances in Infrastructure, Real Estate, Micro Loans and Farm portfolio amounted to ₹ 37160 crore during the year ended March 31, 2020 – a decline of 36% y-o-y in a year characterized by multiple macroeconomic concerns that beset the financial services sector at periodic intervals. The Loan Book stood at ₹ 98384 crore as at March 31, 2020, marginally lower than the previous year. The Net Interest Margins (including fee income) at 7.2% improved over 6.8% in the previous year on the back of continued efforts to improve asset quality and profitability of operations, aided by the focus on increasing share of retail component in the Loan Book.

This Segment was also adversely affected by the Covid-19 pandemic by way of abrupt stoppage of disbursements at the year-end, extension of moratorium to customers through RBI directives and introduction of additional statutory provisioning requirements on account of such moratorium.



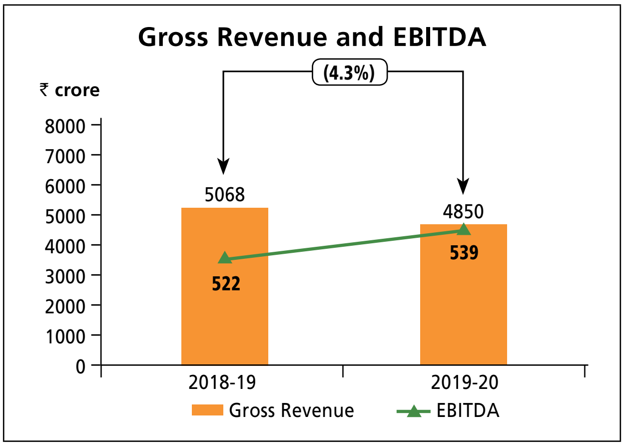
The Gross Non-Performing Assets (GNPA) ratio improved to 5.4% as at March 31, 2020 from 5.9% as at March 31, 2019. Net NPA ratio has also reduced to 2.3% as at March 31, 2020 against 2.4% as on March 31, 2019.

Average Assets Under Management (AAUM) in the Investment Management business has remained steady at ₹ 71056 crore during the year ended March 31, 2020 despite volatile markets and stress in the debt market funds.

The Financial services business is in the process of divesting its Wealth Management business to IIFL Wealth, and is awaiting regulatory approvals as of March 31, 2020.

8. Developmental Projects (DP) Segment

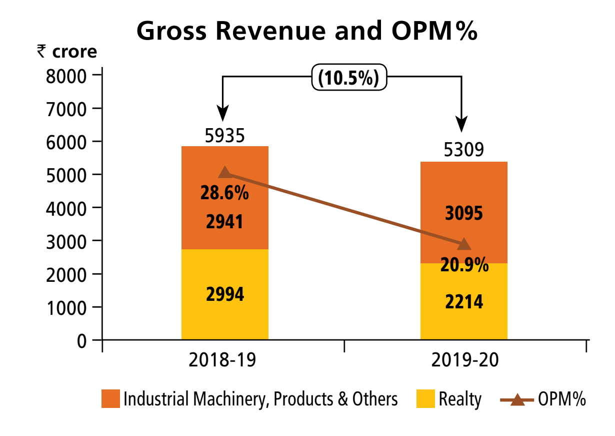
The Developmental Projects Segment comprises concessions acquired through a competitive bidding process for the development of Power projects, Roads, Bridges, Hyderabad Metro Rail and a Power Transmission Line project. The total portfolio of the Developmental Projects Group consists of 2 power projects (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 L&T. Power projects are developed in SPVs held by 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%. All the projects which were under construction have been commissioned by March 31, 2020, except 1 hydel power plant, which is expected to be commissioned in early part of FY 2020-21 on lifting of the lockdown.



The segment recorded a revenue of ₹ 4850 crore for the year ended March 31, 2020, lower by 4.3% over the previous year, which included gains from divestment of a container port business. The drop in revenue was also contributed to by a lower Plant Load Factor (PLF) in Nabha Power Ltd. on account of planned shutdown for plant overhaul in Q4 FY 2019-20.

The segment clocked an operating profit of ₹ 539 crore for the year 2019-20, largely in line with the ₹ 522 crore earned in FY 2018-19, mainly on account of higher contribution from Nabha Power and Hyderabad Metro, partially offset by a non-recurring divestment gain from sale of a Container Port business in the previous year.

9. Others Segment



The Others segment covers Realty, Construction and Mining Machinery, Rubber Processing Machinery and Valves businesses. Revenue for the segment registered a decline of 10.5% from ₹ 5935 crore in 2018-19 to ₹ 5309 crore in 2019-20. The decline was mainly in the Realty business, which in the previous year included a large value sale of commercial property and higher hand over of residential properties. Construction Equipment and other allied businesses have recorded a decline with lower demand for wheel loaders and excavators. The Valves business, registered growth with focus on its distribution business and higher order intake in the previous year. The Operating Margin declined over the previous year, which included a lumpy gain on sale of commercial property in the Realty business.

II. L&T STANDALONE

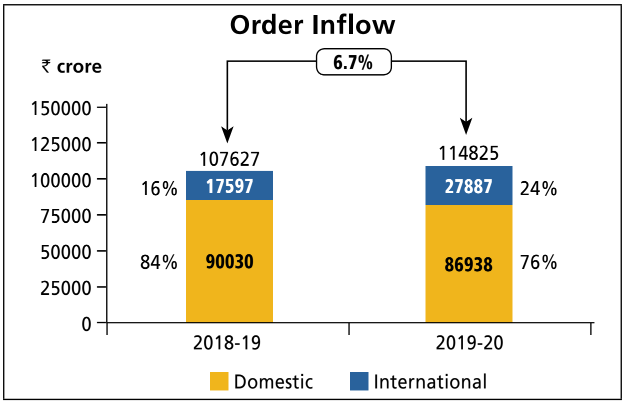
PERFORMANCE REVIEW

L&T's standalone financials reflects the performance of Infrastructure segment, Power, Heavy Engineering, Defence Engineering, and Others. The Others segment comprises of a part of Hydrocarbon business, Realty, Construction & Mining Machinery and Rubber Processing Machinery.

L&T Shipbuilding which was earlier a subsidiary has been merged with the Company with effect from April 1, 2019 pursuant to an NCLT Order. Accordingly, the previous year's financials are restated for comparison purpose.

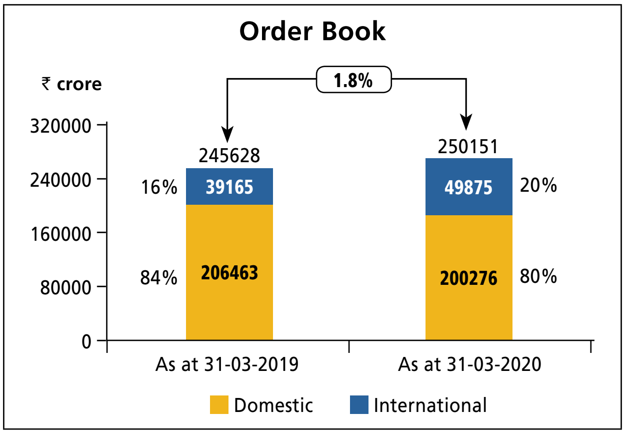
L&T standalone continues to be the major contributor to revenue and profits of the Group's performance.

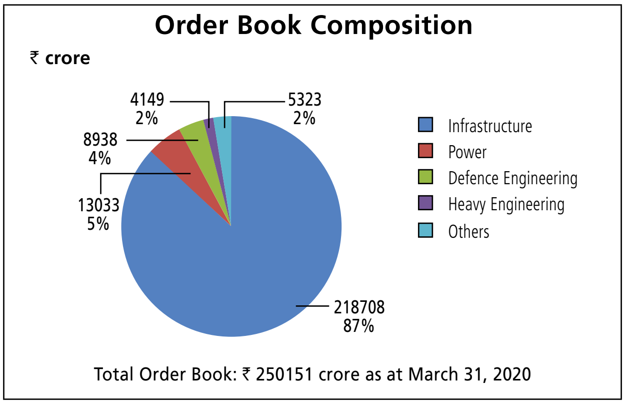
Order Inflow and Order Book



The order inflow during FY 2019-20 grew by 6.7% at ₹ 114825 crore as compared to ₹ 107627 crore in the previous year. The Infrastructure segment contributed 86% of the total order inflow during the year on receipt of orders from the airport sector, affordable housing sector, and a few international orders. The Power business registered growth with the receipt of orders for an ultra-supercritical thermal power project and several Flue Gas Desulphurisation projects.

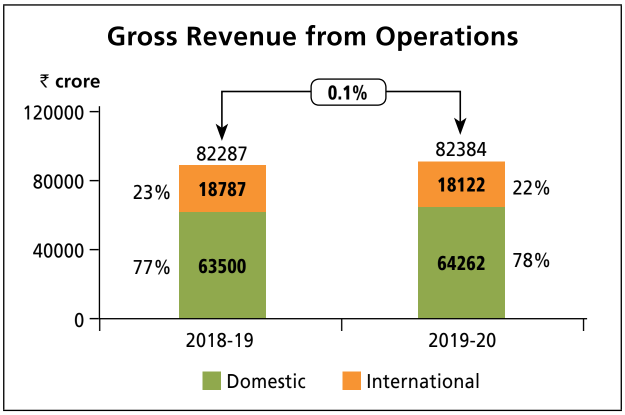
The international order inflow increased to 24% of the total order inflow for FY 2019-20 as compared to 16% in the previous year.





The Order Book as at March 31, 2020 stood at ₹ 250151 crore, 87% of which is contributed by Infrastructure segment. International orders constituted 20% of the current Order Book. The Order Book growth was restricted to 1.8% on deletion of some non-moving projects, especially in the Infrastructure segment.

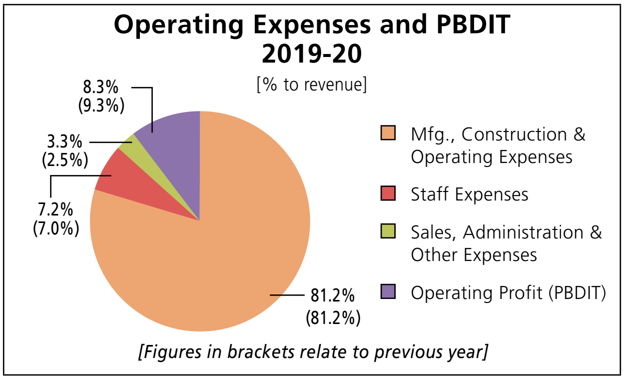
Revenue from Operations



L&T achieved a revenue of ₹ 82384 crore during FY 2019-20 reflecting a flat growth over the previous year, with several execution impediments and delayed payment challenges from customers in various Infrastructure projects.

The growth was further impacted due to a decline in the Power segment's revenue, since new orders are yet to gain execution momentum, whilst existing coal-fired power plant projects are nearing completion. The Realty business revenues also declined, since the previous year's revenue included the sale of a major commercial property and higher hand-over of residential flats. The Defence Engineering segment registered growth, on better progress achieved on execution of the artillery gun project.

Operating Expenses and PBDIT



Manufacturing, Construction and Operating (MCO) expenses, comprising cost of construction material, raw materials, components and subcontracting expenses, amounted to ₹ 66882 crore, which is 81.2% of revenue, similar to the previous year.

Staff expenses for the year at ₹ 5956 crore increased by 3.9% y-o-y mainly due to increase in manpower count. Staff Cost as a percentage of revenue increased marginally from 7% to 7.2%.

Sales and administration expenses for the year at ₹ 2707 crore increased by 32.2% y-o-y, mainly due to higher Expected Credit Loss provisions on financial and contract assets, impairment of investment and Donation towards PM Cares Fund in Q4 FY 2019-20.

Profit before depreciation, interest and tax excluding other income (PBDIT) was ₹ 6838 crore for the year, lower by 10.6% over the previous year. The 100 bps drop in PBDIT at 8.3% of sales is mainly due to higher ECL provisions and cost overruns in some projects in the Infrastructure segment.

Depreciation and Amortization charge

Depreciation and amortization charge for the year 2019-20 marginally increased by 2.1% and was at ₹ 1021 crore, as compared to ₹ 1000 crore in the previous year, with additional depreciation of ₹ 75 crore accounted on implementation of new accounting standard on Leases (Ind AS 116).

Other Income

Other income mainly comprises income from the Company's treasury operations, dividend and income earning from Group companies. Other income for the year 2019-20 at ₹ 2808 crore, increased as compared to ₹ 2711 crore for the previous year mainly due to higher earnings on larger treasury investments and dividend from subsidiaries.

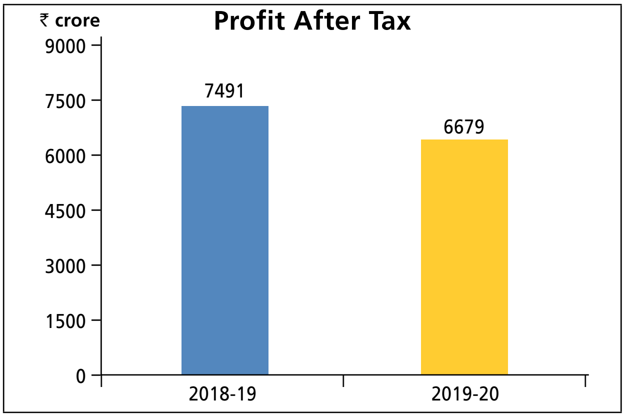
Finance cost

The interest expenses for the year FY 2019-20 at ₹ 2267 crore were higher by 26.8% vis-à-vis ₹ 1788 crore for the previous year. The increase is mainly attributable to an increase of ₹ 13,795 crore in borrowings as at March 31, 2020 compared to borrowings as at March 31, 2019, as well as a higher quantum of interest-bearing customer advances. The average borrowing cost for the year 2019-20 was at 7.4% p.a., lower from the 7.6% p.a. in the previous year.

Exceptional Items

Exceptional Items of ₹ 610 crore (net of tax) for the year 2019-20 represents gain on dilution of stake in L&T Technology Services, while the previous year included gains on dilution of stake in L&T Infotech and L&T Technology Services, as well as recovery of a receivable amount under Insolvency & Bankruptcy Code, partly offset by impairment of some investments in JVs.

Profit after Tax and EPS



Profit after Tax (PAT), including exceptional items, for the year 2019-20 at ₹ 6679 crore, registered a decline of 11% as compared to ₹ 7491 crore in the previous year mainly due to lower operating margin, higher interest expenses and lower exceptional income.

The Company has opted for the lower tax rate under the tax ordinance introduced during the year under review. This has resulted in saving in current tax. The said saving is partially offset by write down of opening Deferred Tax Asset for revised rate and surrender of Minimum Alternate Tax credit not being available under the new tax ordinance.

The Basic Earnings per Share (EPS) from continuing operations & discontinued operations for the year 2019-20 at ₹ 47.59 has declined compared to ₹ 53.43 in the previous year.

Other Comprehensive Income (OCI)

Other Comprehensive income during the year reflected a loss of ₹ 519 crore, vis-à-vis loss of ₹ 118 crore in the previous year, mainly due to impact of fair valuation of investments in Mindtree prior to acquiring controlling stake.

Return on Net Worth

The Net Worth of the Company as on March 31, 2020 at ₹ 52175 crore increased by ₹ 2127 crore as compared to March 31, 2019, reflecting mainly profit for the year, reduced by the payment of interim dividend of ₹ 10 per paid up equity share in March '20.

Return on Net worth (RONW) including Exceptional Items for the year 2019-20 at 13.1% is lower as compared to 15.7% in the previous year. The decline is largely due to higher exceptional income in 2018-19, which mainly included gains on dilution of stakes in LTI & LTTS.

Liquidity & Gearing

Borrowings increased during FY 2019-20 by ₹ 13452 crore to sustain a higher level of operations, increase in the working capital and for the acquisition of Mindtree Limited. During the year, additional funds were generated from liquidation of other investments, dividend income ₹ 1384 crore and Treasury income ₹ 518 crore.

Besides the Mindtree acquisition and operations, the funds were deployed for capex of ₹ 1309 crore, payment of dividend ₹ 4159 crore comprising of final dividend of ₹ 2526 crore for FY 2018-19, Dividend Distribution Tax of ₹ 229 crore and interim dividend of ₹ 1404 crore for FY 2019-20 and net interest expense of ₹ 1893 crore during the year. There was a net increase of ₹ 464 crore in the cash balances as at March 31, 2020 as compared to the beginning of the year.

Fund flow statement	₹ **crore**	
Particulars	**2019-20**	*2018-19*
Borrowings (net of repayment)	13452	*(493)*
Sale/(Purchase) of Other investments	3463	*(2612)*
Treasury and dividend income	1902	*1937*
ESOP Proceeds (net of buyback expenses)	18	*11*
Sources of Funds	**18835**	*(1157)*
Operating activities	121	*(2557)*
Capital expenditure (net)	1309	*792*
Net investment/(divestment)	10889	*(3053)*
Dividend paid	4159	*2597*
Interest paid	1893	*1528*
Increase/(decrease) in cash balance	464	*(464)*
Utilisation of Funds	**18835**	*(1157)*

Total borrowings as at March 31, 2020 stood at ₹ 25785 crore as compared to ₹ 11990 crore in the previous year. The loan portfolio of the Company comprises a mix of domestic and suitably hedged foreign currency loans. The gross debt:equity ratio increased to 0.49:1 as at March 31, 2020 from 0.24:1 as at March 31, 2019. The net debt:equity ratio has increased to 0.31:1 as at March 31, 2020 from 0.08:1 as at March 31, 2019 – the increase has primarily been driven by increased working capital requirements and the acquisition of Mindtree Limited.

III. STRATEGY, BUSINESS MODEL AND RESOURCE ALLOCATION

Strategy Formulation

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

Last year, the Company had embarked on the development of a 'Perspective Plan', with a long-term view of 7-10 years. The process started with the identification of emerging megatrends and potential disruptions in current businesses. This was followed by a call for ideas for new businesses as well as adjacencies and growth areas, conducted through group-wide exercises, large-scale interactive processes, brainstorming sessions and interactions with experts. Ideas were filtered based on certain criteria. Some ideas went through a stage-gated assessment and a few were selected for pursuing further. The exercise culminated in a future outlook for the Group along with seeding of potential new businesses in Digital Platforms such as the B2B marketplace, skilling platform, etc. The insights garnered from the Perspective Plan exercise, tweaked for the changed circumstances of the pandemic, would be used for creating the next 5-year strategic plan.

The strategic plan, which runs for a period of 5 years, is developed through a collaborative and consultative process across the organization. Formulating the plan involves a lookback analysis of performance against the previous plan, scanning market opportunities, outlook on investment and identification of critical areas to be addressed. The outcomes of the exercise are priorities for growth, key initiatives at business unit and corporate level, talent and leadership pipeline plan, financial resources plan, and broad financial targets for each business. The ensuing year (2020-21) is the terminal year of the current 5-year strategic plan, 'Lakshya 21'. The Company would be undertaking the development of next 5-year strategic plan 'Lakshya 26', which would lay down the strategic guideposts for the Company from FY 22 to FY 26. Changes in various industry segments as well as new areas of business, after considering the impact of the recent Covid-19 pandemic, would get factored into 'Lakshya 26'. The Strategic Plan usually gets to be reviewed after, say, three years for mid-course correction, if any.

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 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	• Mid-Long term Business Outlook • Assessment of Global and Domestic Macro Environment • 5 Year Business Plan • Key Strategic Initiatives	• Annual Business Plan • Financial KPIs: Order Wins, Revenues, Profits, Working Capital and ROE Targets • Operational KPI: Productivity Targets
Timelines	7-10 years	5 year	1 year
Scope	• Business Portfolio • Geographical Business Strategy • Investment In Emerging Businesses • Organization Structure • Leadership Pipeline • Long Term Capex Outlay	• Detailed Growth Plan • Assessment of Investment Environment and Competition • Medium Term Opportunities • Talent Management and Leadership Development • Strategic Partnerships • Portfolio Assessment	• Annual Budgets • Order Prospect Pipeline • Bid Management Policies • Key Account Management • Order Book Execution Plan • Capex And Liquidity Plan • Resource Allocation

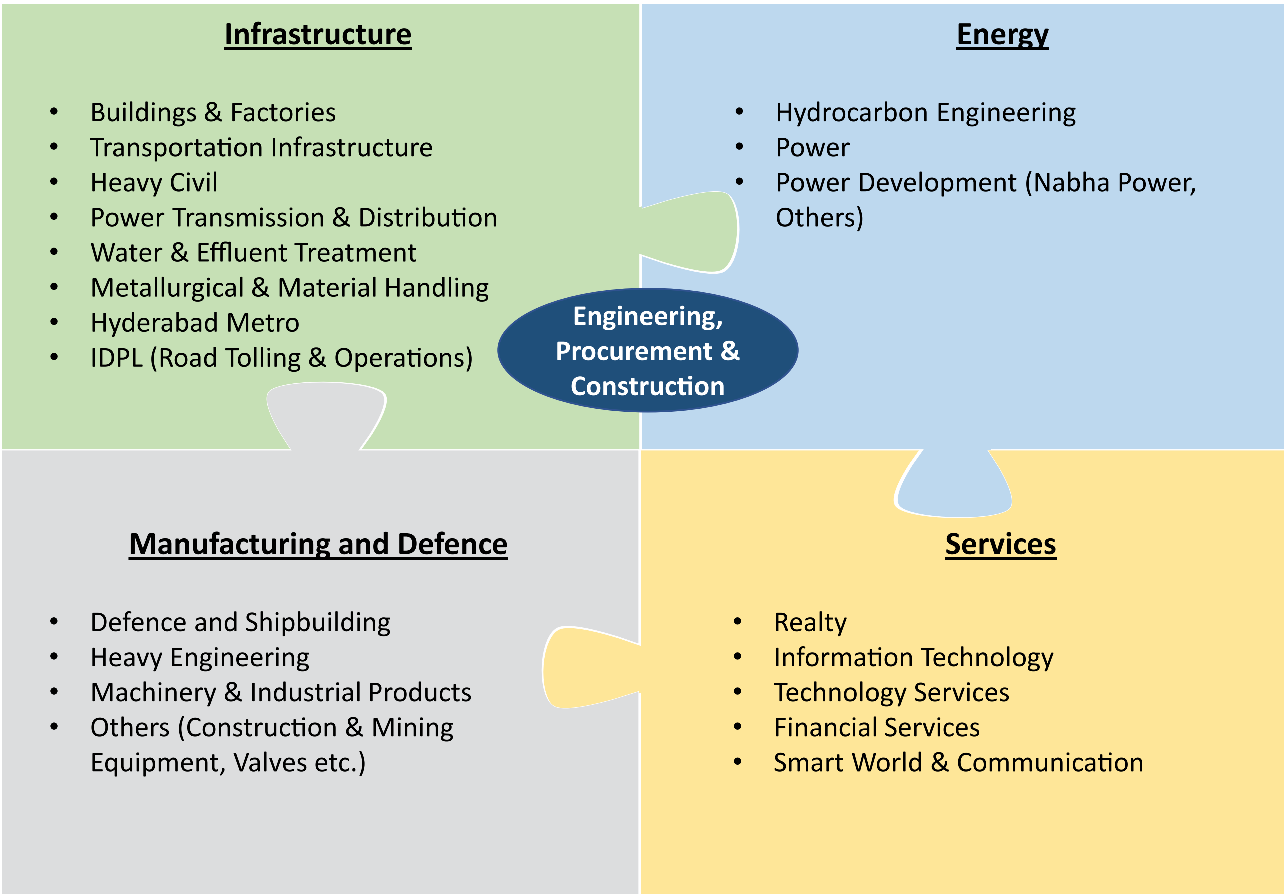
Business Model

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

- **EPC:** The company focuses on its proven core competencies of conceptualizing, executing and commissioning large, complex infrastructure projects in the areas of Roads and Bridges, Power Transmission & Distribution, Thermal / Hydel / Solar / Nuclear Power Plants, Water and Irrigation Infrastructure, Residential, Commercial, Institutional and Factory Buildings, Airports, Metro and Conventional Railways, Onshore and Offshore Hydrocarbon facilities and Metallurgical projects.
- **Manufacturing:** Manufacturing is mainly concentrated around Defence and Shipbuilding, heavy custom-built equipment catering to process industries, Electrical Products and Systems (made-to-stock and made-to-order), Material Handling Equipment and Industrial Products & Machinery. The company has extensive manufacturing facilities at Hazira, Vadodara, Ahmednagar, Talegaon, Chennai, Coimbatore, Kattupalli in India and Oman, UAE, Saudi Arabia, Malaysia in international geographies.
- **Services:** The services businesses cater to sectors of Information Technology (through LTI and Mindtree), Technology Services (through LTTS), Smart World & Communication, Real Estate and Financial Services (through LTFHL).
- **Development:** The Company has also undertaken development projects such as the Hyderabad Metro, road operations and tolling (through IDPL), Nabha Power and Uttaranchal Hydel Power, among others.

Business Portfolio Schematic

The Group is present in various business segments, which are shown below:



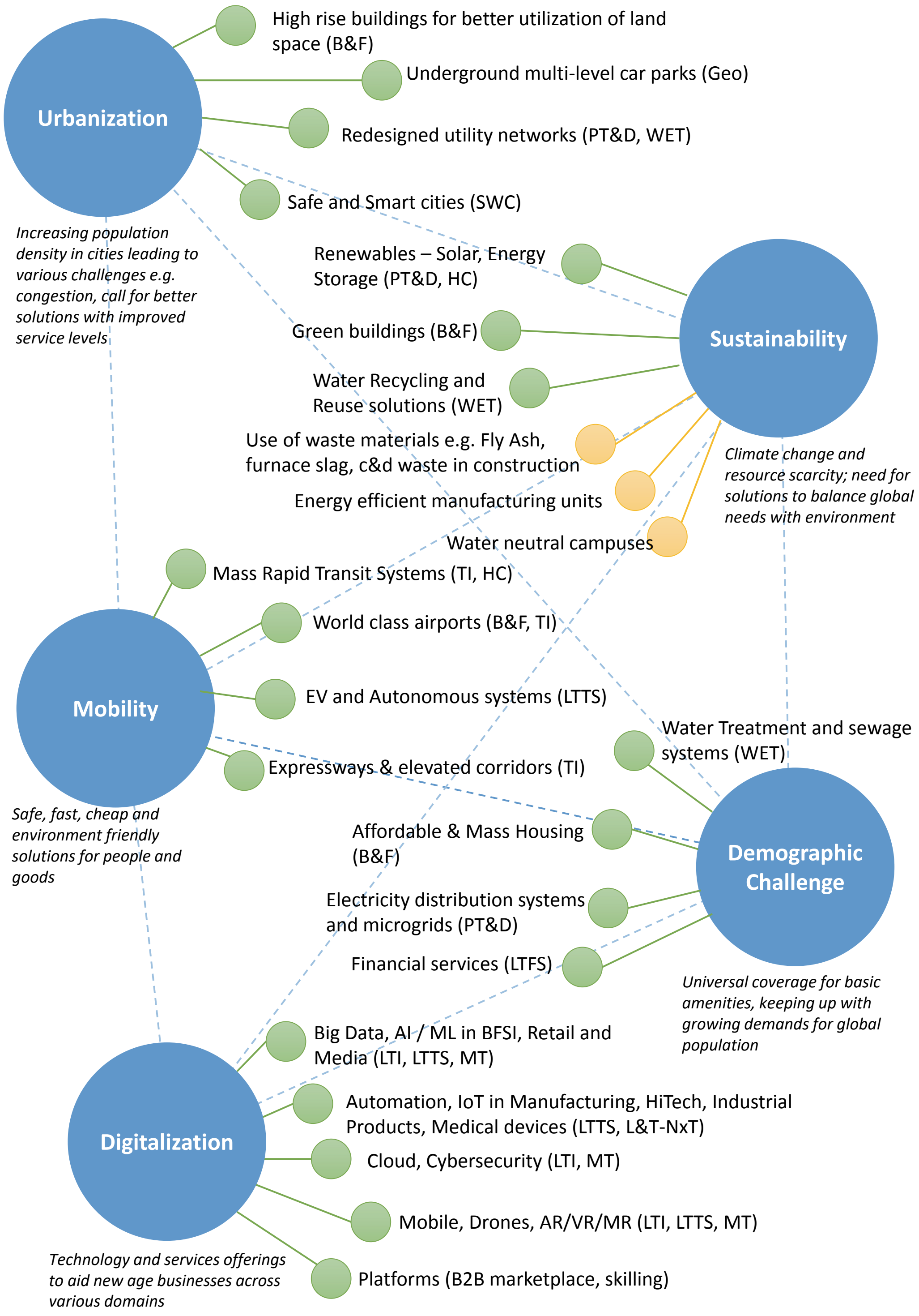
Portfolio Strategy

The portfolio strategy aims to de-risk the revenue while improving profitability in the pursuit of growth. This strategy focuses on:

- Complementing the mature businesses with growth-stage businesses, with a focus on asset-light, capex-light and high-margin businesses. The Group is also trying to reduce exposure to asset-heavy businesses. Businesses requiring periodic capital infusion such as Financial Services will be reassessed from time to time in the context of emerging strategic significance.
- Well-balanced and geographically diversified businesses across domestic and international markets. Over 35% of the business comes from international markets (primarily the Americas, Middle East & Africa and Europe). To further de-risk the geographical concentration and pursue new growth opportunities, the focus on few more high-potential countries in Africa and ASEAN region will be enhanced.
- Balancing the cyclical nature of the EPC business through a portfolio of manufacturing and services businesses. The 'Services' businesses contribute over 25% of the Group's revenues. With the aim of better profitability and a stable revenue profile, the Group intends to step up the proportion of services business while factoring the growth in the traditional EPC and manufacturing businesses. The acquisition of Mindtree Limited was a step in this direction.
- Supplementing the standalone offerings with partnerships: For the EPC and manufacturing 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.

Businesses and offerings are closely linked to global megatrends and the Company continues to build on these to address future challenges.

Our Business Offerings Backed by Megatrends



Strategic Thrust and Direction

The focus of the Group's strategy is to create economic value for its shareholders, investors and clients while generating social and environmental value for its employees and other societal stakeholders. This is enabled by:

- Ensuring efficient conversion of the Order Book into healthy margins through execution, operational excellence and digitalization initiatives
- Driving growth of the services businesses which have a higher RoE profile
- Maintaining an optimum mix between domestic and international business
- Managing financial resources for the growth of the businesses and strong financial health to facilitate access to capital markets, as and when required
- Incubating new businesses to tap future growth opportunities
- Engaging with start-ups to access innovations to enhance capabilities and develop new offerings
- Unlocking capital from non-core businesses and assets earning sub-par returns
- Leveraging digital solutions and analytics across various parts of its businesses, spanning areas such as remote asset management, material tracking, employee productivity enhancement, safety and procurement, among others
- Focus on businesses contributing to environment sustainability such as solar, energy storage, water reuse and recycling
- Thrust on opportunities linked to achieving the Sustainable Development Goals, like access to clean water for everyone, reduction in consumption of virgin material in construction, energy efficiency solutions, etc.

The Group retains its thrust on improving ROE.

Resource Allocation:

The Company has a well laid-out plan of resource allocation to meet its strategic goals which includes:

- Maintaining adequate liquidity on the Balance Sheet to exploit growth opportunities and fund emerging and high growth businesses
- Prudent allocation of resources (Capex and Working Capital) to fund growth in different businesses. Financial resources are monitored and directed at a central level with mandates for control at a local level
- Attracting and retaining a robust and thriving talent pool through employee engagement programmes, monetary and non-monetary incentives, leadership development initiatives, offering professional development opportunities and fostering a conducive organisation climate. The Company has evolved a series of structured HR policies to enable this resource allocation
- Long-term lasting engagements with labour sub-contractors to ensure a steady augmentation of resources at project sites
- Long-term engagement with vendors of services, materials and equipment to provide adequate resources for business growth in various business verticals
- Maintaining strong financial health to facilitate raising of resources from Capital Markets as and when required
- Ensuring judicious allocation of manpower and monetary resources to company-wide sustainability and growth initiatives such as CSR, Digitalisation and operational excellence programs

IV. RISK MANAGEMENT

The Company has an institutionalised Enterprise Risk Management framework, which is continuously reviewed and benchmarked with industry best practices. The Audit Committee and the Risk Management Committee are two Board committees that oversee the adequacy and effectiveness of the risk management framework and processes. Each business vertical has in place policies, structures and procedures to cater to the unique nature of its business aligned within the overall Enterprise Risk Management framework.

During the year, an Enterprise Risk Management (ERM) system for digitalizing the risk management processes for business operations was developed and implemented. This system enables monitoring risks across projects in various geographies of operation, provides aggregate risk-weighted portfolio views of businesses and shares learnings across the organization, etc. An integrated Knowledge Centre portal has also been developed and provides access to information on risks emerging from economic factors, geo-political happenings, financial markets, etc. It also provides a platform for assessment of counter-party risks and feeds useful updates to enable informed, fact-based decision-making.

The Company's emphasis on continuous learning has led to the creation of several programmes for improving the risk awareness across the organization. These include workshops, knowledge sessions, embedded risk management modules in project management / leadership development programmes and training content deployed on online learning platforms.

Once again in FY 2019-20 the Company has won CNBC TV18's prestigious 'Firm of the Year Trophy - 2019' for best Risk Management practices for Frameworks and Systems in two categories – Conglomerate and Technology.

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

Risk Description	Mitigation
Pandemic	
Covid-19, declared a pandemic by the World Health Organization in March 2020, posed a risk to health and safety. It also has had various implications on businesses in terms of slowdown of new orders, delays in execution of existing orders and supply disruptions.	A task force comprising members from leadership and Risk Management was formed to assess and develop suitable mitigation strategies to address the impact of the pandemic. The Company is following all the lockdown restrictions imposed by the Government of India. Construction sites were closed and Work From Home for employees was enabled with appropriate data security controls. Standard Operating Procedures including safety precautions and social distancing norms were prepared in order to resume operations once the lockdown restrictions are progressively lifted. To mitigate the risk of supply disruptions, alternative procurement strategies have been considered. The Company is also exploring various contractual remedies to deal with the situation. The above steps taken along with other measures, will help the organization to be resilient and help weather any major shocks.
Geopolitical Risks	
Over the last few years, risk on account of sanctions, trade barriers, protectionist policies and geopolitical conflicts have increased.	Appropriate mitigation strategies are in place for addressing geographical concentration, strategic sourcing options, regular monitoring of international sanctions and realignment with international partners based on the geopolitical situation.

Risk Description	Mitigation
Slowdown in economy	
There has been a slowdown in various sectors like infrastructure, hydrocarbon, power, defence, metals & minerals, realty, etc., on account of several factors, such as budgetary allocation, funding issues, decline in oil prices, slow pace of decision-making, lack of investment demand, green initiatives and delays in environmental clearances. Due to Covid-19 there will be further stress on the resources available with central and state governments.	Being a diversified conglomerate has helped mitigate the risk of such a slowdown in some specific sectors, which is compensated by growth in certain other sectors like water, airport construction, renewable energy, metro network, health infrastructure etc. The Company will continue to seek opportunities and take appropriate measures to offset the impact of the slowdown and the pandemic. The Company is also analysing various sectors to identify areas of growth and reallocate resources accordingly.
Terms of Trade	
Over the years, terms of trade have become more restrictive and stringent both in terms of aggressive timelines as well as contract clauses such as payment terms, etc.	Various mitigation strategies are undertaken by the Company, such as negotiating with the customer for equitable terms with better value offerings. The Company also enters into back-to-back arrangements with vendors and sub-contractors.
Competition	
Due to the overall slowdown and limited opportunities, there has been aggressive bidding from various foreign and domestic players in the past few years.	The Company's competitive strength is derived from its engineering expertise, excellence in executing projects, particularly the large and complex ones, reputation for quality, usage of technology, project management expertise and strong resource base, including the Balance Sheet strength. The Company has also taken various initiatives, such as digitalisation and cost-optimisation via value engineering, and this has helped to win new orders.
Reputation and Brand	
The Company has a presence across sectors in various geographies, and the size and scale of projects being prospected / executed is of increasing magnitude and high visibility, hence maintaining its reputation / brand is paramount.	The Company addresses the potential risk of erosion of reputation and brand value through a strong corporate governance framework and delivering projects on time and in conformity with contracted quality of deliverables. It has a Compliance Policy in place, mandating adherence to a Code of Conduct and Internal Controls, complemented by regular knowledge-sharing of best practices across the organisation and mechanisms to track various social media platforms. The Company's Corporate Brand Management & Communications department also protects and bolsters the brand in Indian and international markets through a wide range of online and offline media.
Cyber Security	
As IT systems get increasingly interconnected and with implementation of various digitalisation initiatives, cyber security has become a key concern for Governments and businesses.	The Company has taken several steps to mitigate the cyber risks. These include roll-out of an enterprise-wide cyber security framework that provides for technology solutions to enforce detective and preventive controls and employee education to create awareness of cyber risks.

Risk Description	Mitigation
Execution Challenges	
The Company faces execution challenges like unanticipated geological conditions, availability of work front, land acquisition and Right-of-Way (ROW), delay in approvals and clearances from Government agencies, working in difficult/harsh weather conditions, manpower issues, etc.	The Company closely tracks the key risks for each project to ensure timely mitigation with proper escalation and resolution mechanism as required.
Counter Party Risks	
The Company partners with different contractors (joint venture / consortium projects) across businesses based on technical requirements / local market conditions. The partner's performance and financial strength is crucial for project success.	Learnings from past projects are incorporated in the inter-se agreements with the partners and clauses on liability of each partner is carefully drafted after legal due diligence. On a periodic basis the Company carries out a financial assessment of its key counter parties and appropriate measures are adopted based on the outcome of the analysis.
Working capital challenges	
Project delays and adverse contractual payment terms lead to increased working capital requirements.	Guidelines have been issued to monitor and manage working capital, both at the project level as well as the business level. The Company also deploys specific cashflow management strategies at both client and vendor level, to mitigate working capital challenges on a case-to-case basis.
Claims Management	
The EPC business has an inherent risk of timely and acceptable settlement of claims due to dependency on various stakeholders for approval and clearances.	The Company maintains a strong documentation and follow-up protocol with various stakeholders for any claim management and to ensure timely and equitable settlement of such claims. Documentation in relation to Covid-19 / force majeure is being reviewed on a project-to-project basis and is being suitably taken up with all stakeholders.

FINANCIAL RISKS

Inflation in India remained benign in the first half of FY 2019-20 but picked up sharply in the second half mainly due to the rise in food prices driven by supply concerns. Further economic growth remained a challenge amidst follow-on concerns on domestic credit growth, corporate deleveraging cycle and lack of pick-up in private consumption. The US Dollar remained strong in FY 2019-20, primarily on the back of strong growth divergence between the US and rest of the world including emerging market countries. Slowdown in manufacturing gripped countries from Europe to China and various emerging markets in the first half of the year 19-20. During the second half of the year, risks pertaining to Trade War and Brexit temporarily abated. Liquidity infusion by Central banks and Corporate Tax cuts provided thrust to various asset classes. The Indian currency depreciated accordingly but less so due to better fundamentals compared to other emerging market economies.

The last quarter of FY 2019-20 witnessed elevated financial market volatility, primarily due to the emergence of the Covid-19 pandemic, thereby halting economic activity across the globe. Lockdown and closure of customer offices, non-completion of certification inspections and the Company's inability to generate invoicing resulted in significant amount of collections not being realized within the financial year. This has led to a sharp increase in working capital levels in the current year, which, for the last 3 years had been on a targeted improvement path. The Company believes that this is a temporary setback and hopes to pull back working capital levels in the next year or two.

Capital structure, liquidity and interest rate risks

The Company maintains a conservative capital structure. Low gearing levels equip the Company to balance business stresses on one hand and raise growth capital on the other. This policy provided the Company the required flexibility for fundraising at short notice to deal with the sudden worsening of the working capital due to the lockdown and also build up a liquidity buffer as the year FY 2019-20 ended.

The Company has been investing capital into subsidiaries as scheduled and also to optimise overall Group interest costs. The Company also completed the acquisition of shares of Mindtree Limited from a few of the existing shareholders of Mindtree and the Open Offer, which evidenced an overwhelming subscription resulting in acquisition of over 60% stake in Mindtree Limited.

Despite the lower liquidity environment in FY 2019-20 on the back of risk aversion (post defaults by some large AAA-rated entities in the NBFC sector) by both retail and institutional investors, slower consumer demand and the sluggishness around investments in the private sector as well as disruption caused due to the Covid-19 outbreak, the Company managed to meet its fund requirements and also managed to add to the cash and cash equivalents of the Company from ₹ 7588 crore at the end of December 31, 2019 to ₹ 9998 crore at March 31, 2020.

The Company plans to maintain adequate liquidity on the Balance Sheet to deal with the ongoing Covid-19 crisis and downturn in economic conditions. With the implementation of the Large Exposure Framework guidelines of RBI from April 1, 2019, the banking limits sanctioned by domestic banks to any of the Group companies will need to fit within 25% of Tier 1 capital of banks versus 40% of Tier 1 and Tier 2 capital prevalent till now. This is likely to constrain the availability of bank limits (both fund-based and non-fund-based) and also impact the pricing of the same for the Group unless some regulatory relaxation is granted and may have some adverse impact on the growth plans of the Group.

The Company judiciously deploys its 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. Given the extra liquidity buffer planned to be kept on the balance sheet due to the Covid-19 situation, both the debt and investments on the balance sheet are likely to remain elevated in FY 2020-21. 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 treasury products.

The disclosure of commodity exposures as required under clause 9(n) of Part C of Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in the format specified vide SEBI Circular dated 15th November, 2018 is given separately on page 335 of this Annual Report.

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

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

V. INTERNAL CONTROLS

The Company maintains a robust framework of internal controls sized appropriately with the nature of business, size of operations, geographical spread and changing risk complexity, which are impacted by varying internal and external factors. This framework forms the building blocks of a strong corporate culture of good governance.

The Company has aligned its internal financial controls with the requirements of Companies Act, 2013 and the globally accepted framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission that operates at both entity and process levels. The internal controls systems and activities at L&T cover the operational controls in the business processes besides the requirement of Internal Controls over Financial Reporting (ICoFR).

The internal controls are designed to provide reasonable assurance on recording of transactions and providing reliable financial and operational information. The Company has well documented policies, procedures and authorization guidelines commensurate with the level of responsibility, besides standard operating procedures specific to respective businesses. This ensures the propriety of transactions and authorisations at an appropriate level of management.

The Corporate Policy on internal controls sets the tone at the top and serves as the foundation for sound internal controls. The internal control teams at corporate and business levels assist the executive management, who are responsible for establishing, operating and upgrading the internal controls system. The Corporate team reviews and assesses the processes, formulates the policies, guidance notes and advisories. It also shares best practices across the organisation.

The effectiveness of internal controls is tested by Statutory Auditors as well as by the Corporate Audit Services team. The Corporate Audit Services department develops an audit plan for the Company, which covers core business operations, corporate departments as well as support functions. The Audit Committee of the Board reviews the annual internal audit plan. Significant audit observations from the independent internal audits conducted by Corporate Audit Services are presented quarterly to the Audit Committee along with the status of the management actions and the progress of the implementation of recommended remedial measures.

The Corporate Governance is strengthened by a ‘Code of Conduct’ applicable to the employees and implementation of a separate ‘Code of Conduct’ for Business Partners, which reinforces ethical behaviour by aligning them to the unique corporate culture and values of the Company. The whistle-blower mechanism forms another integral component of the internal control system, which is overseen by the Audit Committee. It is available to both employees and business partners, to enable them 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 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 ‘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.

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)	353	60	–	–	–	–	–
2	Copper (Buy)	873	18,788	–	–	76.90	–	76.90
3	Copper (Sell)	(502)	(12,221)	–	–	68.26	–	68.26
4	Steel (Buy)	11735	3,128,865	–	–	–	–	–
5	Aluminium (Buy)	546	40,353	–	–	86.07	–	86.07
6	Aluminium (Sell)	(141)	(12,629)	–	–	34.52	–	34.52
7	Iron Ore (Buy)	44	108,129	–	–	42.13	–	42.13
8	Coking Coal (Buy)	55	44,524	–	–	42.13	–	42.13
9	Zinc (Buy)	90	5,388	–	–	100.00	–	100.00
10	Lead (Buy)	63	4,149	–	–	100.00	–	100.00
11	Cement (Buy)	2941	5,911,690	–	–	–	–	–
12	Nickel (Buy)	66	660	–	–	37.88	–	37.88