"Larsen & Toubro Limited Q1 FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arnob Mondal, Vice President and Head of Investor Relations. Thank you and over to you, Sir.

Arnob Mondal: Good evening, ladies and gentlemen. Glad to have all of you on this conference call for the first quarter FY18. We will follow the usual format whereby my colleague, Manish Kayal will make an initial presentation and that presentation will be followed by the Q&A. I will take the Q&A. We uploaded the presentation one hour before this call. So I presume that all of you who have logged in have downloaded the presentation for your reference, so that when Manish talks, you can flip to the relevant slide.

With that, I will hand it over to Manish. Manish, over to you.

Manish Kayal: Thank you, sir. Good Evening everyone. This is Manish Kayal from the Investor Relations team. I will run you through the analyst presentation. I will start with the Disclaimer Slide. I will consider it as read by everyone. However, I would like to highlight key points here. Firstly, as you all know we may make some forward-looking statements which may or may not materialize. Secondly, there are some risks and uncertainties related to these forward-looking statements which could go in direction that we have not anticipated.

The next slide is on the presentation outline which is broken in to four parts namely Group Performance Highlights, Group Performance Summary, Segment / Key Subsidiaries and finally The Environment & the Outlook section which Mr. Mondal will take over.

Going to the next slide #4 on performance highlights for Q1: As you can see, Q1 has seen strong numbers across the board in today's tough times. Except for the order inflow which has declined by 11%, all the other metrics have seen good growth on Y-o-Y basis. Revenue witnessed growth of 10%, EBITDA registered growth of 9% and PAT grew by 46% Y-o-Y. Our order book currently stands at 2.63 trillion.

Going to the next slide #5 on key financial indicators: This basically gives you an overview of the financials of this quarter starting with the order inflow, order book which I have already covered previously. Coming directly to the cash flow from operations, on a Y-o-Y basis we have seen increase of Rs. 13 billion. Borrowings have increased mainly on account of financial services business and consequently the debt equity ratio has increased from 1.8 times to 1.9 times.

The net working capital has reduced from 23% previous year to 20% this quarter. And if you remember the net working capital in FY17 reduced from 23% to 19% of sales. We have been mentioning this before that there is a fine balancing act which happens between net working capital movement and revenue growth. So this quarter movement from 19% to 20% is line with our internal expectation.

Moving to the next slide #7 which is on order inflow and order book: As I said earlier, the order inflow for the quarter is Rs. 264 billion, decline of 11% and as we have been mentioning that this should not be extrapolated specially in our line of business and specifically when we had received a large order of $1 billion from Saudi Aramco previous year. And one thing I would like to highlight is that this decline of 11% hide the fact that our domestic order inflow has grown by 12%. International order inflow witnessed a decline of 40%. And infra business has seen a order inflow growth of 27%.

The order book currently stands at 2.63 trillion and the international jobs contribute 26% of our order book as compared to 29% previous year. Our large and diversified order book provides us hedge against cyclical volatility in various sectors that we are present into.

Moving to the next slide: Revenue grew by 10% this quarter to Rs. 240 billion. This quarter domestic execution was better than international execution and was a key driver for overall revenue growth. Among the businesses, infra, hydrocarbon and E&A business witnessed higher growth.

Variation in MCO charge was due to higher material and subcontracting cost. Staff cost optimization was mainly due to automation and productivity improvements. SGA increase has been mainly on the increase in credit cost that we witnessed in financial services business.

Moving to next slide: Our EBITDA grew by 9% Y-o-Y from Rs 18.9bn to Rs 20.6bn. Further details on segment wise margin movement will be presented in the respective business slides. As previously conveyed, margins in our businesses are non-linear if seen on QoQ basis and those are not indicative of long term trends if considered in isolation.

The increase in interest cost was due to mainly because of interest bearing advances. Depreciation was mainly due to the asset impairment consequent to capacity rebalancing in Middle East. Other income mainly comprises treasury earnings. And finally, the PAT share from JVs and Associates. As you know that we consolidate many of our JVs like IDPL, Roads portfolio, Kudgi transmission line, forging business, etc. on equity method basis. Our share of P&L from those businesses is reflected in this line. We have witnessed improved performance in those businesses this quarter.

Moving to the next slide #11: This slide gives you an idea of the reportable segments of the group and as mentioned we have 9 externally reportable segments and you may see the components of each segment.

Next slide #12 is on the order inflow and the order book breakup: This slide is mainly for reference purpose and I would like to highlight that the revenues of services business and other product businesses are grouped under order inflows as their sales arise from very short cycle order inflows. These businesses does not appear in the order book.

Moving to the next slide on revenue breakup: This slide is again for reference purpose and as I mentioned earlier, the domestic execution picked up this quarter, which was the main reason for our revenue growth. International contributed about 34% of revenue versus 35% previous year.

Moving to the segmental information starting with Infrastructure business: Revenue grew by 16% this quarter and domestic market was the main driver for this growth. Within infrastructure, the transportation infra grew higher than other infra businesses. On the margin side, the job mix, cost overruns and extended sales that we usually come across in this line of business, are the main reasons for the quarterly variation in margins. There is no other reason, no one-offs that we experience on the margin side in this segment.

Moving to the next slide on the power segment: Power sector as you all know is going through challenging times which is also reflected in the flat revenue growth that we witnessed. This is also because of the lower order book. International revenues were lower this time and that is because of the tapering revenues of Bangladesh cash projects that we are executing and that is almost at completion stage. Margins in this business are reflective of the competitive environment. As you know we consolidate our share of P&L of MHPS JVs under equity method.

Moving to the next slide #16 on heavy engineering: Revenues declined by 7% and again this is because of slower order book. Variation in quarterly margins is subject to job progress, so margins are reflective of the stage of various projects that we are executing. This segment also includes forging business which is consolidated at the PAT level because NPCIL is our partner and according to Ind-AS, we have to report it under equity method.

Moving to the next slide #17 on electrical and automation segment: Segment witnessed a higher revenue growth of 21% and as our CFO cautioned in the press meet, the revenues grew because of the inventory evacuation on account of GST. Both the businesses, the standard product business and the project business grew this quarter. Standard product business growth mainly obtained a growth from agri and retail sector whereas inline execution of the projects business drive the growth of the project business. Margin step up from 7.8% to 10.3% was due to the operational efficiency in the segment.

Moving to the next slide #18 on Hydrocarbon:

As you know, this business turned around in FY17. It came back in terms of profitability. Revenue grew strongly by 19% and it is reflective of the better execution progress mainly on the international jobs. Efficient execution also led to improvement in margin. Previous year margins were impacted by loss making legacy jobs. As of today we do not have any of those legacy jobs and those are all closed out.

Moving to the next slide on IT and Technology Services segment, Slide #19: This slide is mainly for reference purpose and as you know that these companies L&T Infotech and L&T Tech Services are separately listed and they have published their results a few days back. You can have a look at the detailed presentation that they have uploaded on their website.

Moving to the next slide on developmental project segment: This segment mainly constitutes power development, Hyderabad Metro, Kattupalli port. Kattupalli port is under divestment process and hopefully should be completed in Q2FY18. The other businesses part of the developmental projects are Road BOTs and the Kudgi transmission line and these two businesses are consolidated at PAT level because we have a partner CPPIB in these businesses. Revenues in this segment got impacted due to lower construction revenue recognized in Hyderabad Metro and lower PLF in Nabha Power. On a margin front, the margins were impacted on non-recognition of disputed revenue in Nabha Power.

Moving to the next slide on Other segments, Slide #21: This is our residuary segment and as mentioned on the slide, this segment constitutes metallurgical and material handling business, industrial product and machinery, realty and ship building businesses. The revenue growth in Shipbuilding and MMH business were offset by lower demand in Industrial Product & Machinery and Realty business. The overall revenue growth in this business was flat. Ship building and MMH business also contributed to the margin recovery. Realty segment was impacted by pending approvals related to fresh projects.

Moving to the next slide on L&T Finance Holdings, Slide #22: Here we have presented iGAAP number because this is what they have reported in their quarterly results day before and for consolidation purpose we have considered the Ind-AS financials. Few things that I would highlight here on the strategy part is that they are on track to achieve top quartile ROE earlier than planned, asset quality is the core focus, lending businesses witnessed healthy growth in disbursement and the asset management business has also shown good growth. I would like you to see the presentation that they have uploaded on their website for more details. That completes my main presentation. There are few slides in Annexures mainly data points and I would request you to please have a look. With that, I will transfer the call to Mr. Mondal and he will take the environment and outlook.

Arnob Mondal: Thankyou Manish for the presentation.

I will not go into every single detail of the slide #24 which is on Outlook and Environment. I just wanted to highlight a few things about the environment which ultimately leads to the outlook.

As far as the order inflows are concerned, the main factors which are affecting order inflows are firstly we still have a robust prospect base. And as we had mentioned earlier in the beginning of the year, there are a few large multi-billion dollar orders which are in the pipeline and hopefully they will get ordered out and hopefully we will get our fair share of those as well. However, I must also mention that we still see a situation where award decisions keep on getting deferred.

Middle East has definitely slowed down in terms of investment momentum and today it presents a smaller shrunk in the opportunity basket.

Private sector capex is very muted and I think the reasons are all too well known including leverage balance sheet for many private sector players, lower capacity utilization, constraint bank credits, NPAs and the likes.

However, the positive part on this is the public sector outlay is still fairly strong and keeping all this in mind, even though we did have a negative order inflow of 11% in the quarter, all of you are aware that quarterly order inflow numbers could be volatile. However, we feel that our guidance of 12%-14% growth in order inflows is something which we should be able to achieve by the end of the year considering the prospect base and the macro factors which affect this particular parameter.

As far as revenues are concerned, you would have noticed that infra segment did fairly well. However, there have been some pull back of the revenue growth from other segments. Domestic execution as Manish mentioned has been strong and after a long time, we saw domestic execution growing at 11% versus 8% in international. Industrial offtake is, however, still a bit lackluster. Payments and clearances still plaguing us in some projects which at times leads to extended stays which leads to cost overruns and according to our accounting conventions, we first take the debits in our P&L and if we get any reimbursement on the cost overruns, well and good which we take credit for it later on.

Working capital, this quarter has marginally inched up from 19% of sales, end of last quarter to 20% of sales. We did indicate the range could be anything between 19%-21% and of course it is a tricky balance between revenue across and working capital maintaining. As long as we ensure that working capital does not balloon out of control that is sufficient for us.

Considering the progress that we have seen in the first quarter as well as the outlook for the remaining three quarters, our revenue guidance of 12% growth over the previous year remains unchanged. As far as margins are concerned, you will definitely see quarterly volatility from quarter-to-quarter and I keep on saying this every quarter. So please do not extrapolate one quarter numbers going forward. We do think that due to productivity improvement arising out of digitization and automation initiatives as well as our operational excellence programs that we launched sometime back in our businesses as well as some element of operating leverage which could come into play when revenues grow, we seem to be fairly comfortable with our guidance of 25 basis points improvement in EBITDA margins of the businesses excluding services businesses of IT and Technology Services, concessions and financial services.

With that, I would like to open the house to Q&A

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session.

The first question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Firstly these couple of smaller one-offs that I see, wanted to understand what they actually mean. So on depreciation, you mentioned there is an increase due to asset impairment upon asset rebalancing in Middle East. Just want to understand what is the absolute impact of that and what it was? Second question is on Rajpura's disputed revenues. I do not know whether I have asked that before or it has been discussed. Is that a recurring thing that will go on and third, financial services you mentioned SG&A increase because of the provisioning? So is it a permanent reset upwards or is it still the fourth quarter thing continuing where you are resetting to the 90-day norm.

Arnob Mondal: As far as the depreciation is concerned, it is an asset value restatement arising out of business reorganization in the Middle East where Heavy Engineering is reducing its operations and they are freeing up some capacity and hydrocarbon is expanding operations and they are taking part of that capacity. In the process what has happened is that some part of our fixed asset at this point of time is apparently looking to be unutilized for the near future and since it will no longer be a cash generating asset, we decided to impair that and the impairment is slightly in excess of Rs 100 crores.

As far as Nabha is concerned, the disputes actually arouse due to various issues mainly washing related charges and plus there is also denial of mega plant benefits. Revenues related to this was included in Q1FY17 results but not in Q1FY18 results post the adverse APTEL order during some time last year. The dispute is at Supreme Court level. We have prospectively stopped recognizing revenues and that has approximately led to around Rs 120 crores reduction in revenues from Q1Fy17 to Q1FY18. As you will know, the costs are still there, Rs 120 crores will obviously hit bottom-line. That is what has happened.

SG&A expense increase that you are seeing is some part is obviously due to normal increase in operations but at least half of that is also due to nonlinear items of which financial service's credit cost is one. So it is nothing out of line or neither it is very large.

Venugopal Garre: Sir my second question is on infrastructure segment while we have seen a fairly large increase in revenue growth after several quarters, now should we treat this as you seeing some signs of broad based improvement in the infrastructure segment in terms of execution or is it like a couple of orders which sort of triggered this increase and we shouldn't really look at this as a trend?

Arnob Mondal: It is a combination of both. A couple of orders went into the thick of execution which contributed to revenues. But the fact is that we still see some periodic orders here and there where clearances are delayed and obviously as we have mentioned this for quite some time now, that as a policy we decide to hold back the execution or slow down execution if customers do not pay on time and that still persists in a number of projects. So I do not think one can really extrapolate a 16% growth throughout the year based on one quarter. We will have to wait and see but it does seem that infrastructure will grow reasonably well. That is about what we can give. I cannot give any numbers at this point of time.

Moderator: We have the next question from the line of Aditya Bhartia from Investec.

Aditya Bhartia: Sir just to come back to that Nabha question, have we altogether stopped recognizing disputed receivables at Nabha Power and what do you see as the timing of dispute resolution?

Arnob Mondal: Yes, we have, wherever the disputes we have stopped recognizing the revenues related to that dispute. If we happened to win those cases obviously we will also recognize the arrear revenue as well. The matter is at Supreme Court level and we do hope that it is resolved soon.

Aditya Bhartia: Sir does that mean that there is no provisioning this quarter in respect of past receivables and this is kind of a recurring trend till the time we get the decision?

Arnob Mondal: Yes, you are correct.

Aditya Bhartia: And secondly sir you have spoken about robust prospect base for orders. Could you give us some indication of the overall pipeline size and mention some of the key orders which L&T could win over next few quarters?

Arnob Mondal: Overall prospect base is slightly in excess of Rs 600,000 crores and very roughly speaking around Rs 300,000 crores in the infra segment, around Rs 160,000 crores in power including power transmission and distribution, approximately Rs 20,000 crores in metallurgical and metal handling, around Rs 80,000 crores in hydrocarbon, heavy engineering and ship building is around Rs 20,000 crores. I would like to put a few caveats here that firstly these have to be ordered out because we see that year after year that many of the prospects that we initially released gets deferred, some of them gets dropped and we have to win our fair share. We are not taking the large prospects of landing platform docks or corvette which could be ordered out. And all the other businesses where we add the revenues as order inflows would be another approximately Rs 30,000 crores that is the very broad stack up of prospects. The large orders that we are on radar are four landing platform docks which could be in excess of Rs 20,000 crores going by media reports. Hopefully, those will get ordered out by end of the year, but we will have to wait and see. Mumbai trans-harbour link could be in excess of Rs 15,000 crores. Bandra-Versova Sealink is around Rs 7,500 crores. Mumbai coastal road again going by media reports is around Rs 15,000 crores. Even though there could be a bit of an overlap between the Bandra-Versova Sealink in coastal road; however, the Mumbai Regulatory Authority say that this duplication is required for that particular transit way. Mumbai-Nagpur Expressway where they have shortlisted around 11 bidders is worth Rs 25,000 crores chopped in to various packages, Zojila Tunnel Rs 8000 crores, Anti-submarine warfare corvettes from Indian Navy could be another Rs 8,000 to Rs 10,000 crores and Artilleries could be another billion dollar prospect. Submarines is not likely to happen this year, maybe in FY19. These are the large prospects that is on our radar, but there is a long run up to what is actually being ordered out for any large prospects.

Moderator: Thank you. We have the next question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Just wanted to ask couple of things on the order inflows look to be a little weak in the current quarter. How do you plan to cover up given we have lost couple of large orders to competition, especially I am talking from the media reports on Patratu Power and the Zojila tunnel contract, today I think it is highlighted that IL&FS has won it and secondly, your views on the defense project there. At what stage of ordering LPD, Corvettes, etc are right now.

Arnob Mondal: Patratu order was a very large order that we lost. But there again, I think you are aware that as a policy, we won't sacrifice margin just on a sake of getting an order which will lead to future repercussions. We have still around 5-6 GW worth of orders yet to be ordered out. Power is a bit uncertain at this point of time, but I do not know why you seem to sort of imply that loss of one order means that our entire year's outlook has become bleak.

Abhishek Puri: And in your expectations, when do you think these large scale orders for the Mumbai specifically in Mumbai, the coastal project and the MTHL project and all will get ordered out because we read in the media reports that the government wants to start these projects before the monsoon period ends.

Arnob Mondal: I will not hazard a guess Abhishek because we have been disappointing time and time again on so many projects and particularly you asked about defense. Defense timelines, we have seen elongation of timelines so frequently that we would not hazard a guess on timelines of either defense or any of the other large projects. We are just hoping that should ordered out since some of these have reached tendering stage. At least that has happened. Once the tendering stage happens, at least you know that the award will happen and it is not likely to get dropped altogether.

Abhishek Puri: Fair point. My last question is on the real estate project. On Powai, what is the status right now in terms of the clearances and can we expect revenues in the second half on that project?

Arnob Mondal: I do not think we should expect much revenues from there because as we discussed earlier, approvals are still pending and even if approval comes, the booking and revenue and margin recognition threshold criteria has to be met before we can start recognizing revenues. So I think it will be optimistic for you to assume the revenues will come in the second half on that from Powai projects.

Moderator: We have the next question from the line of Inderjeet Bhatia from Macquarie.

Inderjeet Bhatia: My first question is whether you can share the number on ECL, how much of the ECL we provided in this quarter vis-à-vis last year?

Arnob Mondal: We do not get into that level of granularity as you know that, but suffice to say see, you would have noticed from the numbers that the SG&A expenses have barely increased by 7% total. So there is not much variation, in fact the total variation in the nonlinear items was barely Rs 50 odd crores.

Inderjeet Bhatia: I was implying that whether is it still at a very high level because last year in quarter one, there was a fairly elevated ECL provision that we did. So is it still as elevated or is it much lower than that given that our working capital has actually improved YoY.

Arnob Mondal: It is pretty much same

Inderjeet Bhatia: And second is on the depreciation and amortization that we have kind of taken, are we done with that rebalancing in that particular asset or we should expect some charge to kind of come through?

Arnob Mondal: It is not one particular asset, it is an entire facility that is being rebalanced from one business to another. On principal, the other assets are due to be taken over by the other business.

Inderjeet Bhatia: So, we do not expect from this particular facility more charged to be taken in the next few quarters?

Arnob Mondal: Should not happen.

Inderjeet Bhatia: Last thing on this infrastructure revenue side, given I think the initial comments about the fine balancing between working capital and the revenues, given that these projects you mentioned couple of projects entering into execution, but typically the margins tend to be lumpy when the projects get into that stage, but revenue should actually continue for a fair bit of time. So is it not a fair assumption to make that you have now achieved significantly higher run rate in domestic infrastructure revenues growth and we should sustain that over a period of time.

Arnob Mondal: Here, I would be cautiously optimistic. Just like if some projects get into the thick of execution, of course they will sustain for some period of time, but at the same time some large projects may move to the end stage of execution. So the run rate from that would taper off, but yes, we do think that revenue should be decent. Beyond that, I do not like to try to give you further extrapolation again based up on our own quarter number.

Inderjeet Bhatia: Just related one, was there significant impact on the real estate business because of RERA and GST implementation?

Arnob Mondal: Not so much. It is a combination of demonetization and RERA altogether. In terms of order booking, you would be aware that during demonetization there was a fairly large amount of demand disruption that happened in the real estate, high end residential real estate sector in general. It has picked up somewhat, though not back to pre-demonetization level. My guess would be around maybe 80% or so. But it is not firing on all cylinders.

Moderator: We have the next question from the line of Nitin Arora from Aviva Life Insurance.

Nitin Arora: Arnob, as you mentioned earlier also when Venu asked about the domestic infra growth, what we witnessed also, what we came to know from when we were talking to the government of authorities who certify bills across regions in our country, there are lot of certifications that happened very fast in order because the GST was coming in and lot of government authorities wanted to show purchases so that the contractor can show the sales. Was that also a helpful in terms of faster certification led to a revenue growth, should we read too much into it?

Arnob Mondal: I do not think you should read too much into it, but in some cases yes, for example in electrical business, which deals large part of which goes to SME sector, there was lot of inventory liquidation which happened and what you referred to as the government certification, I think to some extent it could have happened, but dont read too much into it.

Nitin Arora: And second thing with respect to the real estate revenue, I understand you do not share that number on a quarterly basis, but can you give us a sense on a YoY basis how much decline would be there, some reference in the percentage basis?

Arnob Mondal: I think last year was a tough year. We will probably not see a decline in that, it falls under buildings and factories and it was probably a tough year last year for the segment. So I do not think you will see a decline going this year on that front.

Moderator: Thank you. We have the next question from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

Venkatesh Balasubramaniam: On your slide 14, infrastructure segment, you mentioned that cost overruns on extended scale of few projects, can you tell us which projects you have had this cost overruns, any specific sectors, sub sector or geographies you had these issues?

Arnob Mondal: Venkatesh, I am sorry to disappoint you, but you know we do not go into such granular level details.

Venkatesh Balasubramaniam: One basic data question, can you tell in this quarter what was the dividends that from subsidiaries and associates at a standalone got this quarter? Is it possible to share?

Arnob Mondal: It was 113 crores in Q1 of last year. This year was around 20 crores.

Moderator: We have the next question from the line of Puneet Gulati from HSBC

Puneet Gulati: Can you give some more color on what really happened in the power sector, the PBIT margins were down?

Arnob Mondal: As Manish said, the share of international revenues came down quite a bit, you can see that on slide #15, it came down from Rs 340 crores to Rs 200 crores. And in terms of Bangladesh orders which had fairly high profit margins on the power plant orders that we got in Bangladesh and those are now towards the end stage of completion and they are tapering off and that is why the revenues witnessed a decline whereas domestic, you can see it move from Rs 1380 crores to Rs 1560 crores. Domestic margins are in general lower than the international margins that we get in power. So overall blended wise basis, the margins fell.

Puneet Gulati: Okay, that is helpful. Secondly on the electrical segment, you demonstrated a fairly good margin increase. Is that margin sustainable or can it go back to low levels again?

Arnob Mondal: I think last year actually, Middle East operations did not go well and operational efficiency in Middle East certainly improved this year. I think a 10% EBITDA margin is fairly sustainable in this particular business. It seems to have come back to normal levels.

Puneet Gulati: And lastly if you can give more color on what really are you doing on the Middle East you alluded to some shutting down of some impairment of assets?

Arnob Mondal: No, see heavy engineering which had a facility in the Middle East is going through a bit of a difficult phase because they are basically into hydrocarbon equipment manufacturing and there is an industry glut overall as far as capacity is concerned. People like Japan Steel Works or Doosan are international competitors. So whatever orders do come by are very fiercely fought for in the old market. This business has been doing a bit of rationalization and because their total order book has shrunk a bit, they are also resizing their facilities. So Middle East is one area where they decide to resize the facilities and since they had excess capacity and hydrocarbon is actually looking to expand their facilities there. So this facility came in handy where heavy engineering wanted to release facility and hydrocarbon wanted to take some facility. That is basically what happened.

Puneet Gulati: So is there a bit fair of fungibility between the two facilities?

Arnob Mondal: Except for one part of the facility where hydrocarbon is not taking it and heavy engineering is vacating that you cannot vacate only part of a facility, so that is what caused the impairment.

Puneet Gulati: And is there also room to move maybe this facility to India if there is a lot of surplus there?

Arnob Mondal: As you know, heavy engineering already has 5 or 6 facilities in India, they already have that.

Moderator: We have the next question from the line of Nishant Chandra from Temasek.

Nishant Chandra: I have a couple of questions. First one is on the domestic infrastructure and execution. Is it fair to say that this is a structural turn or are there any one timers we should be mindful of while thinking about the growth rates that have been achieved for this quarter from a revenue growth perspective?

Arnob Mondal: Are you talking about the infra segment?

Nishant Chandra: Infra segment domestic revenue growth, yes.

Arnob Mondal: Domestic revenue growth has been decent.

Nishant Chandra: It has been quite high compared to the historical trend line, so it is closer to 20%. It is basically Rs 6,000 crores going up to Rs 7,100 crores, like to like.

Arnob Mondal: There is no one-off as such. Revenue, you do not get. One-offs are usually there in margins.

Nishant Chandra: No, what I meant was so for example, understood. There is an element of catch-up when you cross the 25% threshold and all like that happens both on revenue and?

Arnob Mondal: Not on revenue, that happens on margins. What you are talking about happening on revenues is only in our real estate construction business, in realty business. In infrastructure, revenue that we accrued from day one.

Nishant Chandra And hence going forward, historically there have been some execution bottlenecks which had slowed down the conversion of order book into revenues, that should then consistently change going forward in the upcoming quarters at least, is that a fair statement to make?

Arnob Mondal: We hope so, but there again Nishant, I again would like to caution you that do not base it on one quarter.

Nishant Chandra: Second one is again the working capital transition has been again for the last at least 7-8 quarters now has been quite good and if you have look at it on a seasonally adjusted basis for Q1, again which has been quite solid. So are there further improvement possible on this front end because at least year ending March 2017 was a good year from a working capital perspective and should we expect that improvement to continue in FY18 as well?

Arnob Mondal: It is a difficult question to answer because as mentioned earlier it is always a tradeoff between balance sheet and P&L. We cannot ignore revenues just in order to bring down working capital. So as long as we are in 19% to 21% band that is reasonably okay for us, it will be okay for this year and maybe the next year as well. After which if you see there is an all-round improvement in the economic conditions, if liquidity improves, if customer payments accelerate if we get better customer advances, if all get happens a couple of years round the line, then we may look at trying to bring down it further. But maybe this year and next, we will not go all out to bring down working capital any further as such.

Nishant Chandra: No, the way I was reading it was that so let us say if you look at infrastructure as a segment and that contribute the lion share, their the growth has been good and despite that, there is actually a fantastic working capital performance. So I was just wondering obviously there is a pull down in revenue from other cyclically weak sectors, but that is some broader structural issue that we are looking at, but infrastructure is delivering with a low working capital intensity. I think the only missing piece is the margin right which hopefully over the full year should play out as per guidance, right?

Arnob Mondal: I do not know where you go the delivered fantastic working capital thing in infrastructure. I do not think infrastructure working capital has reduced.

Nishant Chandra: Okay, fine. The last question I had was just in terms of trend lines, is it fair to say that the cash flow generation profile as a company is going to be fairly strong, even though it is factoring in the potential asset sales and monetization options that the company is exploring, what is the plan from a cash induced perspective? What is the plan for the surplus cash?

Arnob Mondal: Firstly, obviously some amount of cash will be retained for growth purposes and any M&A opportunities had come along. On the other hand, you did see a dividend step-up this year and if we find that we do not have any use for excess cash, we will obviously step up returns to shareholders.

Nishant Chandra: And on the outlook for full guidance, that continues to be the same as what was guided to in May?

Arnob Mondal: Yes, correct. Order inflows, revenues and EBITDA margins excluding services business.

Moderator: Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Mr. Mondal the fact that your outlook slide is a lot less dizzy due to me is the first sign of the macro improving. Sir two questions from my side. First is this interest-bearing advances that has gone up if the order inflows have come down, please help me understand how come this number is actually gone up?

Arnob Mondal: It is a point in time number and we did get fair amount of advances from some businesses. The fact is that we recognized order inflows based on letter of intent and that is not necessarily the point at which we get a customer advance. The customer advance is usually received only when the contract is signed which would be 3 months after LOI is signed. So it is a point in time number. And it so happens in Q1, the quantum of interest-bearing advances were higher than the corresponding number in Q1 of last year. And that led to a bit of an increase in the interest charge, even though that interest charge increases nothing is not a broad increase as such. It is a 12% increase.

Pulkit Patni: Understood. And my second question is earlier participants have asked that question, but just to get a little more clarity that the fact that we have seen a pretty good recognition of the domestic infrastructure revenue, but still the margins in the segment has gone down which is not what we typically see, we would have expected the margins to at least stay flat in this particular segment. So anything peculiar going on in that segment or is it that structurally the margin should remain in the 8%-8.5% range here going forward even if execution is in the 10%-15% kind of a range?

Arnob Mondal: Pulkit, you are again getting stuck into that issue of trying to extrapolate quarterly margins. There will be volatility in quarterly margins, particularly if the quantum of cost jobs, jobs which we have yet to cross the 25% margin determination threshold is yet to be achieved. There will be quarterly volatility. And we have guided for a 25 bps improvement in overall margins ex-services for the full year.

Moderator: Thank you. We have the next question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: You have very well covered most aspects. Just if you can help us get some update on the divestment of noncore assets. So what is the progress on some of the assets which were there including the port and couple of more projects there. And on the E&A, what is the view within what timelines can we expect closure of sale of that business as it has been speculated by media also.

Arnob Mondal: See, we do not comment on speculative orders. I think you are well aware of that Renu. So, leave that E&A question for you to speculate on internally, but I will not add to that speculation. As far as other divestments are concerned, Kattupalli port as you know is pending because of state government approval in Tamil Nadu. We have got all the other approvals including Tamil Nadu Maritime Board, SEZ and National Company Law Tribunal and whatever else, but we hope that it should happen in Q2, but fingers crossed.

Renu Baid: Any other asset which you think could be knocked-off this financial year?

Arnob Mondal: We are looking at possibility of InvIT but that is in examination stage at this point of time. We have to take a decision. It could be public, could be private.

Moderator: Thank you. We have the next question from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: So just one question. We have seen quite a significant reduction in the losses in the development business. So anything particular you would like to highlight what has happened for the improvement to come in and whether this is sort of an improvement that one could also extrapolate for future?

Arnob Mondal: See, developmental business reduction in losses you are talking about the ones consolidated under equity method.

Ashish Shah: No, the overall. Under the equity method, you are right.

Arnob Mondal: Equity method because ones which undergo line by line consolidation, the losses is actually turned into a loss, but as far as ones consolidated under equity method is basically IDPL and subsidiaries and there it is due to revenue growth both in terms of construction through external contractors as well as traffic growth. So that has mainly been one improvement in the share of PAT. The second part is that last year there was around Rs 30 crores of impairment on surrendered projects which obviously was a one-off. But this year also, we have had couple of one-offs including an inventory write-down in ship building and I mentioned depreciation. So by and large, that is the reason why there seems to have been a fairly big loss reduction.

Ashish Shah: Again, this is not necessarily the very seasonal business. Could one extrapolate this number?

Arnob Mondal: I do not think you can really extrapolate this straight away because of two reasons. One is there are still a couple of road projects yet to be commissioned. When they commission, we will have to see what PAT impact they have. Most projects tend to have a loss in initial years and secondly, the construction revenue run by external contractors not L&T that will cease. So I don't think at this point of time as long as some projects are under construction, you should extrapolate it straight away.

Ashish Shah: Sir just one last thing. So, what will be the value of such revenues yet to be booked in terms of the external construction revenue? So what will be the pending order value there?

Arnob Mondal: I will not be able to give you that granular level of information, I am sorry Ashish.

Moderator: Thank you. We have the next question from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin: So continuing on the previous one on the IDPL, all the three projects, the Chennai one, Shamlaji and the Nasik one was surrendered last year. So is it like excluding the Rs 30 crores, is it like we could see that it is completely traffic growth impact?

Arnob Mondal: No, Halol-Shamlaji was not surrendered. Halol-Shamlaji went in for an SDR last year.

Bhavin: So only two projects have been surrendered

Arnob Mondal: PNG Tollway and Chennai Tada.

Bhavin: So Halol-Shamlaji is not yet surrendered

Arnob Mondal: Correct.

Bhavin: So the impact what we are seeing is completely traffic growth or?

Arnob Mondal: It is also revenue growth. There is a revenue growth of approximately, if you take pure roads as far as I recollect, it would be close to 10%.

Bhavin: Sir my second question was on the realty segment part of the other segment, if you could give us more color because we saw last year was also muted performance because we could not start new projects. So if you could give us color on the three sites, Powai side, the Bangalore and the Chennai side. Could we expect pickup in the latter half of the year?

Arnob Mondal: Actually, realty has couple of one-offs which happen every now and then. When we build up something and we sell it off and the regular part is high end residential real estate that we sell. The Powai side and second phase of Parel, approvals are yet to come in. Chennai, we have not yet launched. So, Chennai is in the works. So I do not think we are going to see any revenues from that. Bangalore is progressing reasonably well.

Bhavin: So could we expect growth in revenues profitability from last year's level?

Arnob Mondal: I think as far as real estate is concerned, one should not factor in much of a growth in profitability going forward.

Bhavin: So it will be in the similar ballpark what we see in the last couple of years.

Arnob Mondal: While we do not give specific guidance on specific sectors, I just urge you to not factor in very optimistic projections on this, that's about it.

Bhavin: That is very helpful. The last question that I had was in the infra we have seen strong growth in the domestic. I know these questions have been asked and you said transportation has been one of the drivers and in one of the other conversations, you mentioned that the B&F has also started pickup because the real effect of demon are now behind us. So could we now see a strong traction going ahead because you had lower impact of lower B&F last year and you mentioned it is struck out.

Arnob Mondal: I guess you can say that yes, there will be decent growth in infrastructure, but beyond that, I would not like to add adjectives to that.

Moderator: Thank you. We have the next question from the line of Salil Desai from Premji Invest. Please go ahead.

Salil Desai: Arnob, again one question on this others segment. See, realty you said maybe flattish or not to expect too much to happen this year and in the presentation, you mentioned ship building has actually done well and contributed to margin. So if you can explain a little bit on what has changed, have losses come down or there is actually some substantial profitability there. How would you look at it going forward for the segment as a whole?

Arnob Mondal: No, Shipbuilding losses have come down primarily because the utilization has been better on account of some OPVs and FDN projects that we were executing, so losses have come down; however, at the same time I must also tell you that we also took an inventory write in shipbuilding down based upon after effects of the cyclone Vardah that happened. Based on that, we did reassessment of all the ships under construction, the commercial ones and we took an inventory write-down on the commercial one, but then again it evens out because we have taken a similar inventory write down last year Q1, so that sort of evens out. But the fact is that the improvement in ship building has come about due to better utilization as I mentioned.

Salil Desai: And for industrial production, machinery industrial products and MMH, how would you see profitability there going ahead. Is there any change?

Arnob Mondal: See, those are struggling to some extent, not MMH. MMH of course has also got a fairly decent order in Q1 which is very important for them because as it is suffering from depleted order book, but as far as industrial products are concerned, I think the industrial offtake in general has been a big lackluster. So I guess it will take a bit of time for the industrial products and machinery overall as a group to improve. There will be some improvement here and there. Construction and mining business could go up a bit, Valves have fallen a bit. Welding products could be stable, so since there are number of businesses within the industrial products and machinery, overall seems to be going through a bit of a difficult time patch in terms of low industrial offtake.

Salil Desai: So just to put this together, in second half you see some realty pickup because of approvals in Chennai in Parel and Powai.

Arnob Mondal: I did not say we will get approvals.

Salil Desai: I did not mean that come through, that at least approval part will come back.

Arnob Mondal: Approval part, I am unclear about the timelines. I think we need to be clear on that. Timelines are very unclear.

Salil Desai: And on ship building, this one-off hopefully will not recur and MMH decent order flow hopefully that should work out.

Arnob Mondal: It should start translating into revenues and margins.

Moderator: Thank you. We have the next question from the line of Chinmay Gandre from Future Generali. Please go ahead.

Chinmay Gandre: Sir just one clarification. Regarding the EBITDA margin guidance, earlier we had guided of 50 basis improvement. Excluding services, now we are talking of 25 or can you just clarify on that?

Arnob Mondal: I think you are mixing up two fiscal years. We have guided for a 50 bps improvement in FY17 which we achieved and in the beginning of this year, we said that EBITDA margin improvement excluding services business would be 25 basis points improvement for FY18.

Chinmay Gandre: And if you can just quantify the inventory write-down that we took in the ship building?

Arnob Mondal: Around 100 crores.

Moderator: Thank you. We have the follow-up question from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

Venkatesh Balasubramaniam : Sir, sorry about bothering you with this question again. I was making sure that you said dividend was Rs 20 crores of this Rs 113 crores last year, correct?

Arnob Mondal: Yes, you are correct.

Moderator: Thank you. We have the next question from the line of Pawan Parekh from BOB Capital Markets. Please go ahead.

Pawan Parekh: Sir just a small clarification on this real estate thing. You are expecting approvals for Parel and Powai Phase-II in Q2?

Arnob Mondal: No, we did not say that we are expecting approvals. Somebody asked whether we would get approvals and whether this contribute to revenues in H1, I said the timelines of approvals are unknown. That is the clarification that I gave.

Pawan Parekh: Assuming even if these approvals come by say Q2, you will just begin construction in H2 right, so revenue recognition meaningfully if at all there is any issue only in FY19 then?

Arnob Mondal: I suppose so.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Arnob Mondal for closing comments. Thank you and over to you, sir.

Arnob Mondal: Thank you, Aman and thank you ladies and gentlemen for patient hearing and interactive discussion. With that, we will bring this particular earnings call to a close. Good night and all the best. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Larsen & Toubro Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.