“Larsen & Toubro Limited Q3 FY18 Results Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY'18 Earnings Conference Call of Larsen & Toubro Limited. As a reminder, all participant' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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, Corporate Accounts & Head - Investor Relations. Thank you and over to you sir.

Arnob Mondal: Thank you, Zaid. Good Evening, Ladies and Gentlemen. A Very Warm Welcome to the Earnings Call of L&T Q3 FY18 Results. We will follow the usual format in which Manish will walk you through our analyst presentation and at the end of the presentation I will take over for the Q&A. We had uploaded a copy of our presentation and I hope all of you have already downloaded it, because, when Manish walks you through the presentation, he will refer to the relevant slide numbers. Over to you, Manish.

Manish Kayal: Thank you, sir. Good evening everyone. I will move directly to the disclaimer slide and I will consider that as read. However, I would like to make a few points. As you would all know that we may make some forward-looking statements, which may or may not materialize, and there are some risks and uncertainties related to these forward-looking statements which could go in direction that we may not have anticipated. In this backdrop we would request you to consider the comments we will make on this call.

Moving to the next Slide #3 which shows you the structure of the presentation. It is split into four parts. I will run you through the first three and Mondal sir will share his views on environment and outlook. We also have some tables in annexure which I would request you to have a look.

Moving to the next Slide #4. Here you can see that Q3 FY'18 was a satisfactory quarter for us on various parameters. Net outcome of this is improvement in ROE which for the trailing 12-months ended Dec '17 improved to 14.6%. I will run you through the other parameters in this following slides.

Moving to the next Slide #5 on key financial indicators. Q3 order inflow grew by 38% on YoY basis. This is partly on account of release of orders after GST settling in and we also saw momentum in tendering activity.

Order Book stands at Rs.2,70,000 crores which is a 5% growth on YoY basis.

Revenue for the quarter is Rs 287 billion which is a growth of 10% on YoY basis. EBITDA at Rs 31 billion witnessed a growth of 25% on YoY basis. EBITDA margins stands at 9.1% for the quarter, this is down by 24 bps from the last year same quarter; however, for nine months period our EBITDA margins ex-services stands at 8.5% for the nine months period and this was 8% last year. So this is heading in line with our full year guidance of 25 bps improvement.

Finally, the recurring PAT grew by 48% during the quarter.

We will move to the next slide which gives you an overview of order inflow and order book. As I mentioned earlier, Q3 witnessed strong ordering activity. This is due to domestic market, where the public sector continues to drive capex. Private sector capex including real estate and building construction is yet to pick up.

In the international market, the shrinkage of opportunity basket was compensated by the domestic market. International orders last year constituted 34% of the order inflow, but this year it is only 18% of the total order inflow.

The international mix of the order book is slightly down from the last year. The current mix of international orders is about 25% Vs 29% last year. Our strong diversified order book is reflective of diversified sector presence, and this provides us the hedge against volatility in any particular sector.

I will move to the next slide on sales and cost. Q3 revenue growth of 10% on YoY basis was basically led by Infrastructure business, Hydrocarbon, Heavy Engineering and Services business. The revenue growth was mainly on account of domestic market.

MCO Charge was contained through cost curtailment and operational efficiencies during the quarter.

Financial charge is basically the finance cost that we charge as operating expenses on our financial services business and the finance lease activities which is Nabha Power project.

Staff cost was in line with the headcount increase partly because of the higher scale of operations that we have witnessed in our business.

SG&A increase is mainly on account of ECL provisions.

Moving to next Slide #9 titled “EBITDA to PAT”. EBITDA grew by 25% on YoY basis mainly led by Services businesses contribution. I will make more detail comment on the EBITDA margins business wise in the next few slides.

Other income mainly comprises treasury earnings.

On our PAT Share from JVs, Subsidiaries and Associates, we have a Slide #30 in annexure section for more details. As you all know that these businesses are consolidated under equity method, and hence it will not be represented in any of the coming businesses slides.

Non-Controlling Interest is mainly on account of higher profit and equity stake dilution in the subsidiaries.

Exceptional Item includes profit on divestments this year and this is offset by provision charge on receivables.

Moving to next slide, “Segment Composition”. This is a standard slide. We have 9 externally reportable business segments and the composition of each segment. The businesses in asterisks are consolidated under equity method under IND AS reporting standards.

I will move to the next slide #12 on Order Inflow and Order Book. This slide is mainly for reference. I would like to make a point here that revenues of Services business and other product businesses are grouped under order inflow as sales arise from very short cycle order. These businesses do not appear in the order book. As mentioned earlier, international order book contributes about 25% of the total order book.

Moving to the next Slide #13. This slide again is for reference purpose and you can see that international revenue contributes about 35% of the total revenue, this was 37% last year.

Now I will move to slides giving you overview of various segments starting with Infrastructure.

Infrastructure revenue grew by 11% during the quarter and 10% in 9 months period. This growth is mainly led by Water, Transportation Infra, Heavy Civil and Power T&D Businesses. Domestic orders execution higher than international projects, Q3 margin variation reflects job mix and stage of completion.

I will move to the next slide on Power business: Power sector as you all know is going through challenging times, which is also impacting us, as we do EPC and Power Equipment Manufacturing. Revenues for this segment declined by 22% in Q3 and 8% in nine months period. This decline reflects the depleting domestic order book, as you all know that there is severe competition in this segment. Execution of international jobs on track.

MHPS JVs where we do BTG power equipment manufacturing are consolidated at PAT level under equity method. These are our high margin manufacturing businesses which is not consolidated line-by-line and hence not reflected in the above numbers. Profits from these are included at the PAT level.

You can see our share of P&L from these businesses on Slide 30: "Share in Profit & Loss of JVs / Associates"

I will move to next slide, "Heavy Engineering", Slide #16. This segment witnessed good revenue growth of 19% in Q3 mainly due to defence business. Lower order book in PPN business which is our Process Plants & Nuclear led to decline in international revenue. Job execution pattern impacts short term margin fluctuation.

One other business which is part of heavy engineering segment but is not consolidated line by line and hence not incorporated in the above side is our Special Steel & Forgings business. It is still facing low capacity utilisation and our share of profit / loss from this business is consolidated at PAT level under equity method which is mentioned on Slide 30

I will move to Slide #17, "Electrical and Automation Segment." • On a like-to-like basis, revenue for this segment grew by 3% this quarter. This growth has mainly accrued from Products business. Margin improvement led by better product mix and operational efficiencies

I move to the next slide on "Hydrocarbon Segment:". Hydrocarbon sector witnessed strong ordering activity from domestic market. Both onshore and offshore segment contributed to the order inflow. Better execution progress of International jobs led segment revenue growth whereas margin improvement is due to job execution pattern & cost optimisation. As conveyed earlier, FY17 saw closure of all the ME legacy jobs which led to turnaround of this business that year

I will move to the next Slide #19 on "Developmental Projects.". This business constitutes Power Development (Nabha & Hydro power projects), Hyderabad Metro, and Kattupali Port (which is under divestment process and hopefully the process should be completed soon). Hyderabad Metro saw partial CoD of 30Km on 28th November 2017 effectively operational for slightly more than a month for around 34 days in Q3FY18. Our other developmental projects such as Road concessions portfolio and one Transmission Line Kudgi are being consolidated at PAT level as we have CPPIB as a partner there.

On the financials, the favourable supreme court judgement in our Nabha Power project benefitted revenues & margins as we resumed revenue recognition

Just a data point on the Road Construction portfolio, we have witnessed 8% traffic growth out of 11% revenue growth for the quarter.

I will move to the next Slide #20. This slide is again for 'Reference Purpose.'. As you all would know, these businesses are separately listed and has declared their results last week. Detailed presentations are available on their respective website. Let me share some key takeaways from their results

On L&T Infotech subsidiary: The BFS, Energy & Utilities, and CPG, Retail & Pharma verticals led revenue growth. Digital services offering witnessed higher growth which now forms about 33% of the revenue vs 26% last year.

On Tech Services subsidiary: Telecom and Hi-Tech, Transportation and Medical Devices verticals led revenue growth. Even for them Digital services offerings revenue almost doubled and now forms 20% of total revenue.

Moving to Slide # 21, this is the "Residuary Businesses". This is a residuary segment. As mentioned on the slide, this segment comprises MMH which is Metallurgical & Material Handling, IPM which is Industrial Products & Machinery, Realty and Shipbuilding. Revenues of this segment was affected by lower offtake, slowdown in realty sector and delayed clearance. Part of the revenue decline is also due to divestment of two subsidiaries during the year.

Overall revenue decline is by 13% in Q3. These businesses are focusing on operational excellence and productivity improvement. Again, one interesting thing is that MMH won some orders during this quarter and we can see that as initial signs of revival in that business.

I will move to the next Slide #22 on "L&T Finance Holdings.". We have presented the I-GAAP numbers here because this is what they have reported in their financial results last week. However, for consolidation purpose, we have considered IndAS financials.

All 5 focused businesses in this subsidiary contributed to growth and ROE improvement. Loan book witnessed growth of 23% and the asset management business AUM witnessed growth of 71%. The portfolio rationalisation step taken 7 quarters back is yielding results. Digital and Analytics aid operations including risk management

Attaining higher ROE is the focus of the company and this is being attained through

o growth in focused businesses

o improving asset quality

o focus on increasing share of fee income

o cost control & productivity gains

With that I end the presentation and hand over the call back to Mr. Mondal for The Environment & Outlook.

Arnob Mondal: Thank you, Manish. We now go to the Slide #24, which is basically a slide where we try to give some flavor of the outlook going forward. Every now and then, I try to change the format of the slide to make things interesting, this time around what we have done is that we have tried to epitomize our thrust area which is essentially improving return-on-equity and all the various levers that we are trying to pull in order to improve the return-on-equity and those are the ones in 'Yellow Boxes'. Points which are in 'Plain Black Font' represent some parts of the external environment that we thought are relevant to our fortunes going forward. Obviously, I will not dwell upon each and every item in the slide, but suffice to say, I will briefly touch upon some external factors which go towards giving an idea of the environment. One is that all of you have seen very strong order inflows in this particular quarter, and that came because of very strong tendering activity going on. In fact, apart from Mumbai Trans harbor link order, there were several large orders in excess of Rs.1,000 crores we received in this quarter.

The international execution is still a bit sluggish; however, the domestic market has picked up the slack to that extent, where international revenues grew by around 5% and domestic grew by around 12% giving an average of 10%, so the revenue pick up in domestic was decent. In fact, Infra which is our largest segment has grown fairly well and if you compare the sequential growth, it is around 16% and as I mentioned last time around, they were struggling with GST issues which are now tapering off.

As far as investment momentum in the economy is concerned, there is a bit of an improvement; however, some large tenders have been pushed to FY'19, but on the other hand order pipeline is still very decent. Public sector spends are still strong. But private sector capex is yet to pick up, though there has been some activity mainly in the metal space. We are also hoping that measures like GST and demonetization will start having an effect on higher tax revenues and widening the tax base in FY19. This will give the government wherewithal to increase infra allocations and also may increase allocations to the rural segment. The recent pick up in oil prices could help in some investment momentum in the Middle East. The geographical diversification which we have been pursuing in the last few years is now yielding some results; in fact, out of our total order book, around 25% is from geographies other than the Middle East.

I have seen some reports on high frequency indicators by some research houses, these also seem to indicate that there is a bit of pickup in many indicators in the economy. Considering all of this, we hope to meet the guidance that we had articulated earlier which is flattish or marginal growth in order inflows, 12% growth in revenues on like-to-like basis, 25 bps margin improvement excluding Services business.

Before I end, I would just like to highlight the top left hand corner points on the macro budgetary allocations, increase in tax revenue and the domestic market growth, are essential drivers of ROE improvement journey in our five-year strategic plan which ends in FY21.

With that I now like to open up the session to Q&A. Zaid, over to you

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. First question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Mr. Mondal, just wanted to understand on the Infra segment, there are two things would be segmental things I wanted to understand; #1 is Infra segment revenue growth that we have seen, are we reaching a steady state of execution there are sort of elements within infra, which are very-very sluggish in terms of execution, that is one? #2 is within that is, if I look at your other segment in the presentation when I look at the EBITDA margin that seems to have declined, and also fairly large EBITDA margin, but if look at PBIT there seems to be a sharp increase in PBIT. So what is that variable there on depreciation which creates the large difference in the other segment?

Arnob Mondal: Last year if you recollect, we have done asset value restatement where we took Rs.270 crores charge. That is why probably why you are seeing a pick up in the PBIT. Coming to your question on revenues on Infra, actually our sense is that this time around almost all the segments of Infra are registering a very decent revenue growth, barring Building and Factories which is still hamstrung by some problems which are fairly well known, problems particularly in the residential real estate, which was the big driver earlier and private sector capex was very-very strong three years back, now it is predominantly public sector. So that has still not picked up but barring that all the others have seen a fairly decent secular growth in Infra revenues, and this has come mainly from domestic market because international market we have seen signs of sluggishness in execution.

Venugopal Garre: My second question is more on cash flow generation and cash use. If I look at working capital obviously it still seems to be an outflow so has there been some expansion and is it still the GST issues which continue, and I do understand that 4th quarter is very large for you sales wise, lot of it will eventually get covered up, but just wanted to understand anything what is working there, is it more of execution-led working capital consumption, etc.,? Second question on cash use. That L&T Finance's commentary that you would be participating in the issuance, so what is the primary driver for investing there and how much would be the cash allocation?

Arnob Mondal: As far as cash flow is concerned, you are correct, working capital this quarter has eaten up quite bit of the cash flow, there has been an increase; however, we do expect that with GST problems tapering off, there could be some amelioration and of course going forward as and when we start recovering our outstanding old dues in Nabha Power, it would also see some amelioration coming in as far as working capital is concerned. But here again, I would like to make two points -- One is, which I missed out in my overall commentary is that once again I would reiterate, "Please do not take quarterly results as a representative of any long-term extrapolation of numbers." It would vary from quarter-to-quarter and we also said as far as working capital is concerned, you could see ups and downs from quarter-to-quarter but as far as direction is towards what we are envisaging, we are fairly okay with that. Your second question was on L&T Finance equity investment, is it?

Venugopal Garre: Yes, I saw in Bloomberg that you will be participating in the issuance plans of L&T Finance, so…?

Arnob Mondal: **F**act is that L&T Finance couple of years back went through a strategy change and they clearly articulated a journey of ROE improvement and today they are ahead of us. So, any investment that we do in the L&T Finance Holdings would obviously go towards improving our own return on equity. As long as that is valid, I personally do not see why we should dilute our stake.

Venugopal Garre: But more in the sense of expectation of some of these non-core as we call it as, so the context is more from that perspective?

Arnob Mondal: I think it fits into our overall plan of improving our ROE.

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

Renu Baid: A couple of questions: First, would it be possible for you to highlight Hyderabad Metro as in what would have been the impact this quarter from the accounting perspective, and any expectation from yearly as in what could be the initial losses through, though it has just been 30-day of COD for us?

Arnob Mondal: Yes, you are correct, we commissioned it on 28th of November. While we have done partial COD and capitalize some portions, effect on PAT is not very material, suffice to say. As and when we progress, we will definitely keep you informed.

Renu Baid: But then there would had been some element which would have come both in the costs as well as and revenues, so the consolidation has?

Arnob Mondal: Consolidation has 32-days of financials of Hyderabad metro.

Renu Baid: Overall in your commentary you did suggest that on the domestic side we have seen execution and order flow is also picking up. So broadly can one now expect that the last couple of years headwinds from domestic markets are broadly behind at least for the core Infra business, and one should expect this kind of momentum sustaining notwithstanding the slippages that we have seen because of GST from the last quarter?

Arnob Mondal: As far as order inflows go, award timelines can be very-very uncertain and we were fortunate that lot of award activity happened in Q3 and we won our fair share of that. In fact, just a couple of months back, people were completely downbeat on this saying that there is no way we are going to even meet our flat order inflow guidance and suddenly sentiment turns out and people are asking me, whether we are overly conservative. So, I personally do not have an answer for you, suffice to say Q4 is always a bit of swing quarter, and we have seen this time and again, I am sure you have seen it for many years, Q4 lands up to be a humongous large quarter in terms of order inflows, there were times we have also seen instances where a large number of orders which are expected to be awarded in Q4 slip over to Q1, we have seen both instances. So I would not like to comment on that or draw conclusions about the secular pick up in the investment momentum of the domestic economy as a whole.

I think we will wait for Q4 and by that time our own budgets will have also completed, and we should have a fairly good idea of what sort of prospects are out there that are likely to get converted into orders in FY'19 and what we can expect. May be at that point of time we should be able to give you a better color on the investment momentum in the economy.

Coming to revenues, it is a fact that GST disruption did affect our revenues in Q2, and I mention that those have tapered off, and that is the nature of the beast. I guess things are on more even track. Even though, in a company as large as ours where we do hundreds of project execution at any point of time, there will be blips in execution, some clients will not give clearances, some people will hold back because of paucity of funds, land acquisition or work front clearances may not be available, so there will be blips in the projects every now and then at any point of time.

Renu Baid: But on a broad side you are seeing much more positive as in drives the momentum when you look at the domestic execution landscape?

Arnob Mondal: Domestic execution as I mentioned earlier in Infra has certainly seen a big pickup.

Renu Baid: Third would be on defence side. As in this year probably we were expecting something on the strategic partnership or the LPD side, but nothing as of now. Could you help give us some update on what is happening behind in the pipeline on the defense orders?

Arnob Mondal: As far as defense are concerned, this I keep on saying, I would not even hazard a guess on timelines in spite of the fact that people keep on asking me. So, whether it will be the landing platform dock or strategic partner programs for submarines, I will not hazard a guess on what sort of timelines we are looking at.

Renu Baid: But any status on where is it at the moment, which stages of awarding or discussion is it?

Arnob Mondal: Still status quo.

Renu Baid: My last book-keeping question. Can you just mention, in case I have missed what was the net working capital-to-sales at the end of the quarter?

Arnob Mondal: The quarter was around 21.5% approximately.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Road SPV losses appear to have risen in Q3. Is there any particular reason that you are seeing?

Arnob Mondal: Traffic growth is fairly strong, we have also commissioned one road project, and traffic growth this quarter was fairly strong, in fact, we saw total revenue growth around 11% of which 8% was on account of traffic and 3% was on account of inflation. That could be another high frequency indicator I am not sure whether you classify that has one or not, but seems to indicate that goods movement has increased.

Aditya Bhartia: My second question is on the Power segment. Are you seeing an improved outlook of Power sector in any manner, or is there any large opportunity that we should be aware about? Lastly, could L&T also benefit from SOx and NOx opportunity?

Arnob Mondal: One is SOx and NOx, the other is actual EPC orders. I think there are a total of 6 to 7 GW that is getting ordered out every year is being fiercely competed and prices that we cannot match unless we are willing to swallow a loss, we are closely looking at that but as things stand unfortunately we have not been able to win any large domestic orders, one because of the reduction in the investment size itself and secondly because of aggressive competition. So we hope that we will be able to win at least an order or two going forward.

As far as SOx and NOx is concerned, the SOx part are mainly FGD is getting ordered out. There are some opportunities but I do not know whether there will be humongously large. NOx, tendering activity is yet to be seen.

Moderator: Thank you. We will take the next question from the line of Inderjeet Bhatia from Macquarie. Please go ahead.

Inderjeet Bhatia: My question regarding the revenue growth. We did somewhere around high double digit growth in the last quarter. I am just trying to get a sense that on a strong growth in Infrastructure revenue, would the elements of operating leverage come through and we are still talking about the 25-basis points margin expansion, I know you want to say that quarterly phenomena keep happening. But is there a reason why we are saying that margins from that 45-basis points expansion already seen in 9 months this year will come down despite a very strong top line growth?

Arnob Mondal: One reason is that last year in Q4, a number of projects crossed margin recognition threshold and hence saw recognition of backlog of the 25% margin. So our assessment is that we should be able to meet our guidance based upon the business projections.

Inderjeet Bhatia: Does it mean that we also have a large number of infrastructure projects which are currently in early stage of revenue booking which are not contributing to the margin at this point of time given that we have seen a recent pickup in revenue there?

Arnob Mondal: If you talk about margin recognition, yes, the proportion of cost jumps were higher than what it was last year.

Inderjeet Bhatia: If I look at on our own real estate business, any sense on that where are we because we have launched Phase-2 in Powai, the Bangalore project, is there a likelihood that some of these projects actually get into revenue and margin recognition anytime soon or maybe in a big way in FY19?

Arnob Mondal: Obviously, we cannot comment on QoQ basis but since we launched, and work in Bangalore project started ahead of Powai Phase-II, it may reach revenue recognition sooner, but it will come sooner or later.

Inderjeet Bhatia: By any chance you can give us numbers for the quarter?

Arnob Mondal: Sorry, I will have to pass that.

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

Abhishek Puri: Two things; one, on the order inflow side, if I look at the fourth quarter implied from your guidance, it implies that 10% and 16% decline in fourth quarter order inflow, I understand it can be lumpy. So could you give us a flavor as to where your L1 pipeline is and what are you looking at in fourth quarter, any big orders that are due for finalizations?

Arnob Mondal: You are correct, it means a decline, but that decline still means that we have to get Rs.40,000 crores worth of orders in Q4. Last year was exceptionally heavy in Q4 and we cannot always bank on that sort of luck. So our assessment is that we should get around that. As far as L1 is concerned, at this point of time, I think we will have to disappoint you by not giving you those numbers, but we are hopeful that we should be able to get around Rs.40,000 crores worth of orders in Q4.

Abhishek Puri: But I think for the last three years, you have been clocking more than Rs.43,000 crores?

Arnob Mondal: It all depends on the prospect pipeline, Abhishek.

Abhishek Puri: Yes, that is why I wanted to understand if you have some sense on L1?

Arnob Mondal: At this point of time, we are obviously L1 in some orders, the prospect pipeline is also decent, but our assessment is that we will get around Rs.40,000 crores.

Abhishek Puri: Secondly, on the status of roads InvIT, I think what is planned for this year, receivables for Nabha power plant, when do we expect to get them, any such clarity on these two issues?

Arnob Mondal: InvIT, we are still waiting to get complete feedback from investors expectations and after that we will take a call. We hope to close it sooner than later. As far as Nabha is concerned, we are yet to get the money and we are in discussion with the PSPCL on modalities of working out that money and fact is that we do expect money to start to coming in from Q4 itself.

Abhishek Puri: Is that over six months equal installment period or will be one short?

Arnob Mondal: It all depends upon what PSPCL decides. In any case we will have to pay interest if there is delay in payments. Depending upon their fund position, they will obviously pay us.

Abhishek Puri: In terms of the private sector, you said you got orders only from the metal side…

Arnob Mondal: I did not say only from the metal side, I said that metal exhibited some pickup in private sector orders.

Abhishek Puri: So there is some pick up in the metal side. Is there any other segment for some of the other industrial companies we are seeing orders coming in from the cement sector, oil & gas is largely government-led but these are the two sectors which are contributing in a big way?

Arnob Mondal: Cement maybe showing some signs of private sector offtake but at this point of time we have not really seen much pickup in other sectors.

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

V Balasubramaniam: Sir, in this quarter have you had any order cancellations in terms of removals from the backlog?

Arnob Mondal: We removed around Rs.4,000-5,000 crores of orders in this quarter.

V Balasubramaniam: These are related to which sector sir?

Arnob Mondal: These are across.

V Balasubramaniam: Second question is on the Hyderabad Metro. Is it possible to share what is the size of the asset which you have capitalized?

Arnob Mondal: We will share that at the end of the year.

V Balasubramaniam: Moving on to a book-keeping question sir. In the standalone numbers, what was the dividends from subsidiaries and associates in this quarter and in the same quarter last year if possible you can share it?

Arnob Mondal: Around Rs.150 crores this year and Rs.140 crores in Q3 last year.

V Balasubramaniam: I think Aditya had asked this question but I could not understand your answer for this, because I think he had asked that why are the losses in the road subsidiaries gone up. You had said traffic growth has increased. Why…?

Arnob Mondal: I also mentioned commissioning.

V Balasubramaniam: Any reason why special steel the losses has gone up?

Arnob Mondal: There is a conversion of loan into preference shares and some losses were booked on that conversion.

Moderator: Thank you. We will take the next question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: Could you give me the breakup of the one-off that you have exceptional item that you have reported in the quarter, there are two components to it?

Arnob Mondal: One was the sale of divestment that we did. We got around Rs.270 crores gain from sale of EWAC Alloys and we also made a provision for some dues where customers are under the insolvency and bankruptcy code radar, that would be around Rs.200 crores post-tax. These are the two components. Post-tax is actually Rs.55 crores gain there.

Sumit Kishore: You made a provision which is about Rs.200 crores?

Arnob Mondal: The provision is around Rs.290 crores, but there is a deferred tax asset, so post-tax is around approximately Rs.200 crores.

Sumit Kishore: I know that Hyderabad Metro was consolidated only for 30-days. So next quarter will be for the full quarter. So should we work around the capitalization amount as a percentage of the project cost given that 30 Kms out of 70 Kms has got commissioned?

Arnob Mondal: Since we capitalize only a part of it, obviously we do not get the benefit of longer stretches which pass through that. So it will not be a pure kilometer-to-kilometre, but on an estimated fair basis.

Sumit Kishore: Could you also describe the state of maturity of your real estate monetization related activities at Hyderabad Metro?

Arnob Mondal: Those are early days yet. Now that we are heading towards commissioning major part of the metro in CY18, we will start going for monetization of the TOD portion soon.

Nitin: Hi! Arnob, this is Nitin from Ambit. Because you have moved a lot of businesses especially of IDPL into JVs and associates, how much could be the capital employed in these associates right now because it used to be about one year back in your balance sheet, so how much of the debt is outside balance sheet, how much of the capital employed is out of balance sheet?

Arnob Mondal: In annexure there is a slide on concessions where you get the total cost. IDPL barring one road, all the others are operational. Total project cost is Rs.16,000 crores and of course you have got Kudgi in the transmission line project which would be added further. These are the assets in IDPL.

Nitin: Because Rs 478 bn could include Metro also?

Arnob Mondal: We do a line-by-line consolidation because that is a 100% subsidiary of L&T and CPPIB does not have any participating rights in that.

Nitin: If you could just help us also in terms of your working capital that you explained. Is it also a function of the domestic infrastructure revenue growth of 20% that you posted in this quarter? Should one see that infrastructure as it becomes larger share and grows faster, for the next 12-months the working capital rises before it shutters down?

Arnob Mondal: I do not think one can generalize on that because it also depends upon the timing of milestones in different contracts. It may happen that in a particular quarter we cross a number of payment in milestones and manage to collect. Q4 is usually a collection quarter besides from being a heavy sales quarter. So it will not be possible to generalize that particular trajectory, Nitin.

Nitin: If you can give some specific on what is the overall order book today in Defense and Water because they seem to be actually becoming a very important part in terms of driving both the segments growth, any large sense together, both of them are 20%, 15%?

Arnob Mondal: Defense is not very large yet, large programs are yet to get ordered out, so it is not all that significant. Water, while the order book is decent but however it is all part of infra, I will have to disappoint you but we cannot give sub-sectors of different segments. Suffice to say Water is very decent.

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

Bhavin Vithlani: A few questions: One is on the Infrastructure segment. We have seen some softening of the margins and I believe this could be due to buildings and factories, correct me, that is a better margin relatively. So if you can give some color on that segment, and when do we see margins trajectory moving back?

Arnob Mondal: Change in margins is more a function of the stage of completion and job mix. As I mentioned earlier, proportion of cost jobs in Q3 this year were larger in proportion. So that also has obviously had an effect on margins. Buildings and factories, there is not a huge difference, it is just that there is not much growth in buildings and factories.

Bhavin Vithlani: But when do we see that on annualized basis double digit margin trajectory in the Infrastructure, do you believe maybe order flows that are coming in, maybe over a three quarter gap we will see trajectory back as the execution picks up?

Arnob Mondal: I think you will have to wait for our guidance in FY'19. Any case we do not guide on individual sector wise margins, we guide on overall ex-services, but the margins are fairly stable now.

Bhavin Vithlani: So can we expect this range to continue?

Arnob Mondal: I will not hazard a guess at this point of time till we see the budgets of next year.

Bhavin Vithlani: On the realty part, which has been developed in Powai and Bangalore and Chennai, I understand you answered that this year could be more or less on the flattish trajectory, are you actually seeing some signs of improvement in terms of booking and consequently we see some pick up in subsequent years?

Arnob Mondal: Some booking has happened but at the same time I think everybody knows that the real estate sector is yet to recover from measures like demonetization and GST, bookings are happening but on the other hand we can start recognizing revenues and margins after crossing different thresholds that are defined in our accounting standards.

One small correction, you also mentioned Chennai for our realty business. We have not launched any project in Chennai, it is Powai and Bangalore.

Bhavin Vithlani: If you can give some color on the Hyderabad Metro. Initially you were mentioning that there were something which we were negotiating with the government on monetization of the real estate part wherein the government was wanting to do full commissioning, any color on that and any changes that we had requested with respect to increase in the project cost, have those things been sorted out, if you can give a status update on that?

Arnob Mondal: Bhavin, I had mentioned that we are in talks with the government on increasing project cost, that is yet to be resolved. We have been going slow on the build-out of TOD primarily because we are focusing more on the main metro rail itself. Now that the Metro Rail is progressing well and as I mentioned sometime in CY18, we should be commissioning a major part of it. We will start concentrating on build out and monetization of the TOD there.

Bhavin Vithlani: Any color you can give because it is over 20 mn.sq.ft…?

Arnob Mondal: It is 18 mn.sq.ft., and at this point of time, I cannot give you any color on timelines or amount sizes.

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

Ashish Shah: We see the interest cost has declined for the quarter on a sequential basis also whereas we have seen the working capital going up, we have seen probably some impact of Hyderabad Metro. So, what would have led to this decline if you can throw some light?

Arnob Mondal: Interest cost actually is all a function of treasury, it is in line with borrowings. Are you talking about standalone or …?

Ashish Shah: On a consolidated basis, the interest cost for the quarter is Rs 393 crores in the previous quarter, whereas last year it was Rs 379 crores. So one would have normally expected because of higher working capital and because of Hyderabad Metro commissioning, at least there would have been some bit of increase?

Arnob Mondal: Hyderabad Metro commissioning, I mentioned impact was not significant in the quarter. So I do not think you need to take that as one of the factors.

Moderator: Thank you. We will take the next question from the line of Amish Shah from Bank of America. Please go ahead.

Amish: I had a couple of questions on your international side of the business. There are certain segments where execution has been quite good and then there are certain like infrastructure where execution in international is weak. So should we attribute it to a few large projects within Middle East or is it more of an issue in a particular geography, little bit in the Middle East?

Arnob Mondal: Execution has been strong in Hydrocarbon primarily because of the large opening order book getting into execution phase. Otherwise, Middle East has seen execution blips… in some cases we are seeing delays in payments and hence we have slowed down execution there.

Amish: Actually that was my follow-on question on working capital cycle. So should we attribute any part of the increase in working capital to Middle East?

Arnob Mondal: Some part would definitely be attributable to Middle East.

Amish: Is it material impact primarily because of Middle East or you would not say that?

Arnob Mondal: Not primarily because of Middle East.

Moderator: Thank you. We will take the next question from the line of Subhadip Mitra from JM Financial. Please go ahead.

Subhadip Mitra: My question is with regard to the slow moving projects. I remember about eight or nine months back we used to talk about a number of 40 slow moving projects which came down to about 15 I think as of last quarter. Just wanted to know that as of now, where would that number be?

Arnob Mondal: 40 and 15 were in the context of very muted revenues. I also mentioned hundred of projects execution. So there will be numbers like that, but that should not really move the needle to that extent.

Subhadip Mitra: So that means essentially we are looking at probably a similar number in terms of 14 or 15 slow moving projects, but besides that we are seeing a lot of traction in terms of…?

Arnob Mondal: At any point of time, there will be 15 to 20 slow moving…when I say slow moving, it is not really that the projects are not moving, but there is usually the delays in either work front clearances or some clients not paying on time and we have slowed down. This is a part and parcel of hundreds of projects that we execute at any point of time.

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

Salil Desai: My question is again going back to the earlier question on your investment in L&T Finance. Although ROEs definitely will probably be better than and you will be maintaining a stake. But does this signal any change in your overall stance wherein you mentioned that you do not want to invest incrementally in subsidiaries and let them be selffinancing whenever they wanted to grow, and if that is the case can we expect say further investments in IDPL if they need capital?

Arnob Mondal: IDPL and L&T Finance Holdings are two completely different things altogether. L&T Finance Holdings investment is an investment decision which the management has taken, that is about it. Obviously because the returns are decent. The IDPL investment obviously will be to complete projects that are pending, not for any fresh BOT projects as such until we can churn our capital there.

Salil Desai: So this investment should we see it as one-off opportunistic?

Arnob Mondal: The communication was that we do not want to build out any more capex facilities, that was the communication, not that we do not want to do any investment in subsidiaries as such, that was the communication that we had given.

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

Pulkit Patni: When we talk about execution improvement in Q3, you say that the private capex is not picking up, is it just a function of our order book now the fact that we have been taking out some slow-moving orders, you mentioned that this quarter also you took about Rs 4000-5000 crores orders out of the book. Would it be fair to assume that we are just operating with a much cleaner book now which is why execution is expected to be better or is it something else?

Arnob Mondal: I think Q3 is a combination of various factors including tapering off GST disruptions.

Pulkit Patni: Even from a commentary perspective, I wanted to understand, are we operating with a much cleaner book now which is why execution could be better than what has been seen in the last couple of years?

Arnob Mondal: We try to clean our order book periodically as you know. Every time we think it is clean. Every now and then some projects we find has not moved in spite of us getting an award. I am not too sure whether it is a function of a cleaner order book or a larger order book. My sense is that execution conditions were better this quarter than it was in last quarter.

Moderator: Thank you. We will take the next question from the line of Puneet Gulati from HSBC Securities. Please go ahead.

Puneet Gulati: Just two questions from my side; #1 on Hyderabad Metro, you mentioned that 18 mn.sq.ft. TOD opportunity. Is there a thought behind how you will monetize it – will it sell it, lease it?

Arnob Mondal: At this point of time obviously we cannot sell it outright, it has to be a long lease because it is a long concession.

Puneet Gulati: If you can give more color on the depreciation part for Kattupalli, obviously, revenue and cost are now not a part of consolidated. How much of depreciation is still recorded in your books?

Arnob Mondal: Around Rs.15 crores every quarter approximately.

Moderator: Thank you. We will take the next question from the line of Madanagopal from Sundaram Mutual Fund. Please go ahead.

Madan: In the others segment EBITDA, is there any extraordinary items in this quarter, I am looking at Slide #21?

Arnob Mondal: Actually last year we took inventory write-down in Ship Building, that is why you see the margins have gone up in spite of the revenues going down.

Madan: No extraordinary income or something in this quarter?

Arnob Mondal: Nothing.

Moderator: Thank you. We will take the next question from the line of Inderjeet Bhatia from Macquarie. Please go ahead.

Inderjeet Bhatia: Just a book-keeping question. On the other income, that seems to be sequentially down from Rs.350, 400 crores run rate. Any particular reason there?

Arnob Mondal: It is just a function of treasury, nothing else.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Mondal for closing comments. Over to you, sir.

Arnob Mondal: Thank you, ladies and gentlemen of a patient and interactive hearing and we are always open to take any questions offline in case any of you want to ask us. With that I will have to close the session. Once again thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Larsen & Toubro Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.