



Larsen & Toubro Limited

Q2 FY19 Earnings Conference Call

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Larsen & Toubro Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. I now hand the conference over to Mr. Arnob Mondal. Thank you and over to you, Sir.

Arnob Mondal: Thank you. Good Evening Ladies and Gentlemen, a very warm Welcome to earnings call for Q2 FY19. It feels very nice after declaring a very stellar set of numbers. The format for the call that we will follow is the standard format where my colleague Manish Kayal will run you through the Analyst Presentation ([website link](#)), which was uploaded on our website and exchanges one hour back. I hope all of you have downloaded it. After the presentation run through, we will open-up the session for Q&A. Manish, over to you.

Manish Kayal: Thank you Sir. Good Evening everyone.

I will directly move to the Slide #2, which is a standard disclaimer slide. We will consider the slide as read. However, we would like to make a few points. We may make some forward-looking statements which may or may not materialize due to the nature of business and there are risks and uncertainties related to these forward-looking statements, which could go in direction that we may not have anticipated. It is in this backdrop that you should consider the comments we make on this call.

Moving to the next slide #3. This is the outline of the presentation we have been following for some time. I will cover the first three parts and the fourth part which is on environment and outlook will be covered by Mondal Sir where he will share his views. We also have few tables and Annexure which I would request you to have a look.

Moving to the next Slide #4, on Performance Highlights, this slide as you can see shows the key financial and operational metrics for Q2. We believe Q2 was a strong quarter on various parameters considering the various macro challenges that we are operating in. We will highlight these parameters in further detail in the next few slides.

Moving to the next Slide #5, Key Financial Indicators, here starting with the order inflow:

Order inflow increased by 46% on a YOY basis from Rs. 287 billion to Rs. 419 billion. This is majorly due to pickup in domestic ordering activity.

Order book currently stands at Rs. 2812 billion. Again, this is 9% growth on Yoy basis from Rs 2575 billion last year. This order book growth is particularly noteworthy given the environment of limited tenders and stiff competition that we are facing.

Revenue for this quarter stands at Rs. 321 billion which is a growth of 21% on Yoy basis from Rs. 264 billion. This growth was facilitated from improved execution in Project businesses, strong growth in Service businesses, and recognition of revenue on completed performances in our Realty business on application of Ind-AS 115, which is applicable from this year for our Realty Business.

EBITDA of Rs. 38 billion seen this quarter has grown by 27% on YOY basis from about Rs 30 billion last year.

Reported PAT of Rs 22 billion grew by 23% on YOY basis from Rs 18 billion. Net Working Capital has seen an improvement of 110 bps, last year it was 20.7% of sales and this quarter this is 19.6% of sales.

Return on Net Worth has seen an improvement and we believe that we are progressing well on our journey of ROE improvement. On a trailing 12 month basis currently it is 15.2% and the similar number for the last year was 14%.

Moving to the next slide - Slide #7, which is on order inflow and order book:

As I mentioned, Q2 witnessed strong ordering activity from domestic market. International share of order inflow was lower this quarter and this is mainly due to Middle East going through a transition and as conveyed earlier, we are exploring other markets like East Africa, CIS countries and other nearby countries.

In domestic market, public sector continues to drive capex and as you all know private capex is still muted. We view that it will take some time for the private sector capex to revive.

Order inflow growth during this quarter was contributed mainly by Infra, Power, and Heavy Engineering. International orders contribution was lower

and hence the international order constituted 20% of the total order inflow in Q2. Last year, the same number was 36%.

Coming to the mix of order book, international jobs contributed about 22% of order book versus last year of 26%. Here again, the public sector dominates the order book. Since our order book is large and diversified, it provides hedge against cyclicity.

Moving to the next Slide #8: "Group Performance - Sales & Costs"

Revenue grew by 21% in Q2 from Rs 264 billion to Rs 321 billion, and this is mainly due to strong domestic execution. Among the businesses, Infrastructure, Hydrocarbon, Realty and Services business witnessed higher growth.

MCO charge grew lower than revenue growth due to the operating efficiencies and cost optimization.

Finance charge Opex: This item represents the finance costs charged as operating expenses on our Financial Services business & the Finance Lease activity which is basically our Nabha Power project. This is in line with the business operations.

Staff cost expense is in line with the headcount increase and higher scale of operations which we have seen in Services business.

SG&A expenses increase is due to cost provisions, business development expenses, and credit costs for the quarter.

Moving to the next slide - Slide #9 "Group Performance - EBITDA to PAT":

EBITDA during the quarter grew by 27% and this is mainly on account of Services business, Heavy Engineering, Defense Engineering, and Realty business. EBITDA for the quarter was Rs 38 billion versus Rs 30 billion last year. I will provide more color on the business specific EBITDA margins and its movement in their respective segment slides.

Finance cost is contained through efficient fund management.

Other income mainly comprises Treasury earnings.

Coming to the JV/S&A PAT share, regarding this line item, we have a slide - Slide #31, which has all the details, the contribution of our various businesses which are counted on equity method and not line-by-line method.

NCI, which is Non-Controlling Interest, the increase in this line item is mainly due to higher profits that subsidiaries have witnessed.

Moving to the next Slide #11: "Segment Composition"

This slide is only for informational purpose and as you know, we have made some changes in Quarter-1 and there is no change in Quarter-2. In all, we have 10 externally reportable segments. There are few businesses which are not consolidated line by line, but are accounted on equity method. You can see the " * " which are placed on Roads portfolio, Forgings, and Power equipment manufacturing businesses. These are the business which we do not consolidate line by line, but by equity method and hence we consider our PAT share.

Moving to the next Slide #12 on "Order Inflow composition"

This slide and next two slides are mainly for reference purpose. I would like to make a note on the Services business and other product business. These business are counted under order inflow. However, these business does not appear in our order book because these are short cycle orders, hence these are not reported in order book, but reported in order inflow. On the composition as you can see, the infrastructure contributes 55% of the order book and region wise domestic contributes 77% of order inflow.

I will move to the next slide on Order Book composition. Here again you can see the infrastructure is the largest segment about 78% of the total order book and domestic contributes the largest, which is 78% and rest is international.

I will move to the next slide on Revenue composition, again this is for informational purpose. Infrastructure contributes 45% of total revenues for first half, Domestic contributes 66%.

From next slide, I will give you an overview of all the segments that we operate in to.

I will move to the Slide #15 starting with Infrastructure.

Infrastructure segment revenue grew by 22% during the quarter from Rs 125 billion to Rs 152 billion this quarter. Growth is seen across business verticals in this segment and this is mainly through pickup in domestic execution. Margins during the quarter was reflective of stage of completion and job mix.

Moving to the next slide #16 on Power

Here the sector challenges are nothing new to say. As you all know that this sector is going through challenging times with limited order tendering and aggressive competition. This impacts us because we are present into EPC as well as Power Equipment Manufacturing. However, this quarter saw a spurt of ordering activity for FGD equipment and we were successful in winning four FGD orders this quarter and this has given some respite for this segment. Revenue for the segment declined by 36% during the quarter, which also reflects the depleting order book. International revenue constituted 37% of the total revenue, last year it was about 42%. EBITDA margin for the quarter in this segment was higher at 6% versus 5.4% in previous year. This is on account of reversal of ECL provision on receipt of customer collection. As I mentioned earlier, we also have Power equipment manufacturing JVs. The PAT share of these JVs are consolidated under equity method (refer Slide #31).

I will move to the next Slide #17 on Heavy Engineering

Heavy Engineering witnessed strong revenue growth of 52% in Q2 and this is mainly due to Oil & Gas and Nuclear Power equipment businesses. International market business has also seen robust revenue growth and is showing good traction. International orders during the quarter contributed 49% of the total order inflow and this was mainly driven by buoyancy of activity in Oil & Gas sector and tightening of emission norms globally. Margins in this segment benefits from global competence, better working capital management, and job status. One other business which is part of Heavy Engineering segment, but is not reflected in this slide and which is accounted under equity method is the Special Steel and Forgings business (refer slide #31).

Moving to the next Slide #18 on Defense Engineering segment.

Revenue for this segment has remained flattish this quarter. Last year it was about Rs 9.8 billion, this quarter it is Rs 9.3 billion. However, the first half grew by 9%. Execution of tracked gun order has contributed to revenues and margin improvement is due to a progress and a key job which crossed the margin recognition threshold.

I will move to the next slide #19 on Electrical and Automation segment. This segment has grown by 14% in Q2 & H1. Growth in this segment is primarily driven by products business and mainly due to higher offtake from Buildings and Industrial verticals. Operational efficiencies and improved realization led to margin improvement. As you all know, we have entered into a definitive agreement with Schneider and we are awaiting for the regulatory approvals.

Moving to the next Slide #20 on Hydrocarbon segment. Revenue has grown from Rs 25.6 billion same quarter last year to Rs 35.4 this quarter, and this is mainly led by higher order book and efficient executions. Margin variation for this business has been due to execution stage and job stage mix.

I will move to the next slide on Developmental Project segment. This segment constitutes Power development and Hyderabad Metro. Kattupalli port business is accounted for only until divestment. The transfer formalities was completed in Q1. Coming to the Nabha Power, Nabha Power revenue growth was higher due to higher PLF this year. Previous year included lumpy revenue due to resumption of revenue recognition of disputed items. On the Hyderabad Metro, as you all know we saw commissioning of another stretch of 16 kilometers in September. In total, it has put 46 kilometers operational and is also the second-largest Metro line in India after Delhi. Our other developmental business such as Road concessions portfolio and the transmission line are consolidated at PAT level under equity method.

I will move to the next Slide #22 on IT and TS segment. This slide is again for reference purpose. Both LTI and LTTS are separately listed and they have already declared their results last week. They have also made a detailed presentation on their respective websites. I will share few key takeaways from their results. The revenue growth in L&T Infotech was due to higher growth in BFS, CPG, Retail & Pharma and High-tech Media & Entertainment verticals. Similarly, in L&T Technology Services, the revenue growth was led by Telecom and High-tech, Transportation and Process Industry verticals.

Currency and operational efficiencies improved EBITDA margin for this segment.

Moving to the next Slide #23 on “Other segments”

This is a residuary segment and it comprises of IPM which is basically “Industrial Products and Machinery” business and Realty business. Current year numbers does not include welding business which as you know was sold last year. Revenues and margin growth for this segment was contributed mainly by Realty business and largely due to adoption of completed contract method under new Ind-AS 115. Modest revenue growth was witnessed in Construction and Mining business, which falls under IPM business.

I will now move to the next Slide #24 on L&T Finance Holdings.

L&T Finance Holdings also came out with their results last week and in this slide, we have highlighted few key points from the results. The growth was seen in rural segments and asset management businesses. The focus continues to be on increased retailization, stable NIMs, increase in fee-based income and low credit cost. The target remains to achieve top quartile ROE. They have also made a detailed presentation on their website and would request you to have a look as it has more information on business dynamics.

With that, I end the presentation and hand over the call back to Mondal Sir. Thank you.

Arnob Mondal:

Thank you, Manish. I just wanted to touch upon on the last slide, which deals with the environment and outlook. This is almost replica of the previous quarter as well. The inner circle represents L&T operations with our focus on increasing Return on Equity (ROE) and outside the circle you have various external factors. While I have not touched upon all the external factors, my interaction with markets indicates that there have been six major concerns on the macro namely oil, currency, current account deficit, fiscal slippage, trade wars, and possibility of a fractured mandate after elections. In the last one month, a new concern has cropped up now which is liquidity and I think all of us know what the financial sector has been going through, but be that as it may, we think that our:

#1. A strong business model.

- #2. Our proven track record.
- #3. Our large unexecuted order book provides us a lot of comfort and bulwark against all these uncertainties and so to that extent, we think that we will manage to overcome whatever macro level obstacles there are in the economic environment which usually affects us in a bit of indirect manner.

As far as guidance is concerned, we have guided for an order inflow growth of 10% to 12% for FY19 and even though we are ahead of that, the fact is that there is a possibility of a bit of a slowdown sometime in Q4 on account of forthcoming elections as a result of which we maintain our order inflow guidance, same is for revenue guidance which was 12% to 15% growth. As far as margins are concerned we have guided for an improvement in EBITDA margins (excluding services business) of upto 25 basis points. We are just halfway through the year, so that guidance also remains unchanged.

With that I will hand it over to Chorus Call for Q&A. Over to you.

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

We have our first question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, first question is to understand as in we have seen almost 27% growth in core execution excluding services, so how do we read this, which sectors would be leading this kind of execution jump within the domestic market and do you think this high double digit not 20s, but at least high double-digit execution run rate to sustain?

Arnob Mondal: It is not 27% growth, in Q2 ex-services growth was 20% and 16% for the half-year.

Renu Baid: The domestic share of the business grew 27% in total.

Arnob Mondal: Domestic Yes, international has not grown so much. It does appear that there is a fairly decent thrust by the Government whether it be in the Central Government or State Government, in pushing a better execution environment both in terms of clearances, work front availability, right of way as well as

you could say decent payment terms even though today almost every project we see delays in payments, still delays are not so much, so there would be around 12 to 13 projects which have registered higher revenues than what we had originally budgeted. However, at the same time the fact is that one never knows what will happen in Q4 on account of pending election, so we will wait and see. If we see that there is a chance of swing either way at the end of Q3, we will definitely inform you.

Renu Baid: Right, but Sir this trend in the domestic execution is seeing it across subsectors or it would be limited two or three of the key end segments?

Arnob Mondal: No, this is across sectors except Power where depleting order book is leading to a decrease in revenues.

Renu Baid: Can you share with us what will be the contribution from Realty this quarter as in obviously because of change in accounting policy, it has been pretty bumpy so would it be possible for you to share some details in terms of revenues and margins?

Arnob Mondal: This quarter we booked around Rs 600 crores worth of revenues from Realty, last quarter was similar at around Rs 700 crores or so. If you compare that with previous year Q2, it was may be around Rs 100 crores.

Renu Baid: Was it an incremental Rs 500 crores on Yoy basis?

Arnob Mondal: Approximately, yes. This was essentially on account of handover of flats in Parel (Crescent Bay) and Powai (Emerald Isle).

Renu Baid: Sir, my last question would be on Hyderabad Metro, now that 46 kilometers is already done, so what is the kind of numbers that we are looking, though I know the last leg was completed in end of September itself for Phase 2, so how would the Metro financials looking for the first half and for 2Q, key headline numbers?

Arnob Mondal: We had an EBITDA of around Rs 35 crores and negative PAT of around Rs 70 odd crores.

Renu Baid: The monetization of the allied real estate would probably kick in next year once the project is fully complete or that has partially started?

- Arnob Mondal:** If you are referring to the Transit Oriented Development (TOD), then we have been essentially getting lease rentals as well as some non-TOD revenues like advertising, but there is a chance that we could monetize since some of the malls are ready. That could happen in the second half itself. That would also mitigate some burden of interest and depreciation on the operational metro rail portion.
- Moderator:** Thank you. We have the next question from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** My question is on margin recognition in infra segment, given that we have seen such a strong growth in Infra revenues, is it fair to assume that some large orders may not have growth margin recognition threshold and to that extent we may see margins improving over the next few quarters?
- Arnob Mondal:** You are correct that margins could be lumpy, but we would not be able to talk about individual large / specific orders crossing margin recognition threshold or being in a cost phase, sorry to disappoint you on that. Suffice to say that quarterly margins tend to be a bit lumpy and even though there has been bit of a dip both in Q2 as well as in H1 as far as Infra EBITDA margins are concerned, we do think that by the end of the year, it should be slightly positive maybe; however, I must also tell you that we have been facing cost pressures primarily on our input on commodities and even though we do factor in some inflation in fixed price contracts part of the margins do get eaten away primarily because the increase in commodity like steel, cement, or items made out of steel as well.
- Aditya Bhartia:** On SG&A expenses, we have seen a fairly sharp increase in both Q2 as well as H1, this despite I think provisioning in finance business being lower than last year, so what would that be on account of?
- Arnob Mondal:** This time a number of factors have contributed, one is we had to take an increased provision on account of Ind-AS 37 which is the Accounting Standard which deals with contingencies and warranties, because when we hand over any project, we have a defect liability period, which is typically around 18 months or so and we make provisions for that, so this time a number of projects were handed over as a result of which we had to make those provisions and that goes into SG&A expenses and that has led to a fairly significant increase.

Secondly, we also have done a fair bit of investment in business development and expenses mainly on international front, we have invested in other improvement initiatives like digitalization, and of course in financial services as well there has been a bit of an increase in things like trail commission because of increase in AUMs of mutual funds, so all these have ~~are~~ contributed to the increase, 34% in Q2 and 32% for H1 as a whole.

Exchange variation accounts for a very small part of the increase. In Q2, we had gains, but the gains were larger in Q2 last year so that leads to around Rs 50 crores reduction in gains, which is effectively a variation which is almost similar to what we had in H1.

Aditya Bhartia: Lastly, Arnob, could you guide us what proportion of our order backlog would be fixed price in nature?

Arnob Mondal: It is around half-half approximately at this point of time.

Moderator: Thank you. We have the next question from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Sir, my first question is I was just seeing the commentary from Mr. Shankar Raman in the press, there was this thing about liquidity which was mentioned there as impacting new orders and at the same time, you also raised this issue of liquidity as something which is potentially a challenge, now the reason for asking this is your working capital management has been fantastic in the first half of the year, so I wanted to understand is it something that you want to now use as a tool to still manage execution and should we see some inching up of working capital or you think that is not something that should be an area of scrutiny sort of?

Arnob Mondal: I will first deal with your question on liquidity, I will deal with it in two parts.

One is in terms of orders, the only way in which liquidity affects our release of orders is that many clients do not actually award it unless they achieve financial closure and that is where liquidity comes in, so to that extent it is not that we have seen orders being pulled back, but the fact is I think it has been talked about *ad infinitum* and especially in the media that there is a fair bit of liquidity gap and going by media reports I understand that the shortfall is to the extent of Rs 140,000 crores or so in the market, that is one part of it.

The other part of it where it could affect us is our financial services business, because there again a lot has been talked about how strain in liquidity is affecting NBFCs in particular, however, if you had listened to the con call which was held by Financial Services business after declaration of their results, Mr. Dubashi, MD and CEO extensively talked about how they are managing liquidity including the ALM management and it does seem as if they are geared to handle that, in fact that is why we put that comment in the Financial Services slide that they are well-equipped to handle both liquidity, ALM as well as interest rate variations, so to that extent I do not think we are yet affected by liquidity, and hopefully, we will manage to sail through.

As far as working capital is concerned, this is always a tug of war between balance sheet and P&L. We always walk a tightrope on this front, so as long as our working capital remains in the 20% to 21% band, I think we are fairly comfortable. We definitely not like it to go beyond that; if it happens, we will obviously have to tighten it which could have an impact on revenues, but if it remains within that band, I think whatever revenues do come about will be fairly acceptable.

Venugopal Garre:

Sir, my second question is more to do with getting a sense of slightly more on granularly on the order pipeline especially large order pipeline for the second half of the year and is it a situation where you are actually seeing further acceleration in award activity given that we are going to per se as a country go into a relatively silent period after January and you would probably see a better order environment as we see in the next couple of months or is that not the case, and secondly, since I am touching on the topic of order inflows and on the granular pipeline, I saw this sort of news commentary on L&T JV to export missiles to Europe from Coimbatore SEZ and you are waiting for some industrial license, so want to understand that too as to whether that is like again going to be bidding for some orders or it is going to be like existing orders which MBDA has that will flow in and it is going to be a steady stream of income, so that is Part 2 of the second question?

Arnob Mondal:

I will answer the second question first. It is too early for us to comment on it, we have yet to get all the regulatory formalities, once that happens then we will see. But yes we will look at that as the line of business for sure.

Coming to your first question, Order pipeline is fairly healthy. Today, if I talk about the aggregated base of prospects on horizon even though once again the caveat is that trying to predict order inflows is an exercise fraught with uncertainty, but nevertheless prospect base is still fairly healthy. It is in excess of Rs 4 lakh crores even today at the end of H1 which around over Rs 2 lakh crores is from core infrastructure excluding Power T&D along with Power generation is another close to around Rs 95,000 crores, Minerals and Metals still has around Rs 15,000 crores of possible prospects likely to get ordered out in the near future, Hydrocarbon is Rs 80,000 crores, and Heavy Engineering along with defense has another Rs 10,000 crores odd.

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

Abhishek Puri: On this order pipeline that you mentioned, how much of this would be from State and Central Governments, is there a breakup available for that and similarly in terms of order inflow that we have received in the first half, which all segments within Infra would have really helped us in terms of our order inflow, I see water as one of the big segments?

Arnob Mondal: Actually all the ICs as we call it whether it be Buildings & Factories or Power T&D or Water or Heavy Civil or Transportation Infra, all these five ICs have grown fairly well.

As far as State versus Centre is concerned, I do not have that breakup with me as far as the prospect pipeline is concerned.

Abhishek Puri: In terms of the order inflows that we have received?

Arnob Mondal: In terms of order inflows that we have received Private is around 40% and we also have PSUs (Public Sector Undertakings) should be around 20%, 30% is State Govt, and 10% is Centre Govt.

Abhishek Puri: My second question on the infrastructure margins that as you mentioned that there have been weak because of the threshold not being crossed and commodity price pressures, so I think by far this is the largest segment and in terms of EBITDA it overtakes all other segments put together if I exclude the services part, so could you elaborate it a little bit more on in terms of the threshold that you talked about, so is that you covered 30% of expenses and then you start booking the margins or how does that work?

Arnob Mondal: Margins are accounted, firstly we account for revenues on percentage completion basis as a percentage of cost incurred to total estimated cost. For example, suppose my total estimated cost is Rs. 100 and I have incurred say Rs. 43, I assume that my project is 43% complete and I recognize 43% of my contract value as my revenue. However, up to 25% whatever cost we have incurred we take that as revenue without recognition of margins, so when I cross 25%, the backlog part of 25% of margins also get recognized in that quarter that is how the lumpiness in margin comes apart from the lumpiness arising from uneven revenue accruals.

Abhishek Puri: So basically 25% of revenue is the threshold to start booking margins?

Arnob Mondal: Not revenue, 25% of cost.

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

Sumit Kishore: My first question is your press release mentions that there is a surge in oil prices is leading to revival of investment momentum in the Middle East regions in the infra and hydrocarbons segment, so could you please elaborate as to which parts of Infrastructure and Hydrocarbon are seeing this momentum and when can we expect an uptick in order inflow from that region given the first half performance?

Arnob Mondal: The areas where we are seeing decent investment momentum is primarily in areas of Transportation Infra, Power T&D, and Hydrocarbon both Offshore and Onshore, these are the main areas that we are seeing decent traction in terms of prospects.

Sumit Kishore: Are these prospects likely to materialize in the second half of the year or could it be more like FY20?

Arnob Mondal: These are slightly nearer terms even though invariably our past experience has shown that very often what we think will materialize in H2 slides over to the next year. As per our business team, these are slated to get order of sometime in H2, whether they actually get ordered or not is to be seen.

Sumit Kishore: My second question is in relation to the Balance Sheet and Cash Flow disclosures you have made in the presentation, what is it driving the increase in borrowing of Rs. 54 billion in first half of the year on Slide 29 in Others in

the borrowing which is excluding Financial Services and Developmental Projects?

Arnob Mondal: Large part of the borrowings' increase has come from the parent, I think what has also happened is that in the parent company, our gross debt to equity ratio fell to 0.2x and net debt equity ratio was near zero, so we decided that we needed to increase financial leverage slightly. This is conscious decision and it was decided to increase the borrowing levels at the standalone entity levels.

Sumit Kishore: Is that in anyway related to the purchase of current investments for Rs. 66 billion that has happened in the second quarter on Slide 30?

Arnob Mondal: Current investment increase is primarily tanking up the share buyback.

Sumit Kishore: Finally, the exceptional items in relation to which customer dues have become recoverable?

Arnob Mondal: This was a case where we had provided for as written off the dues, but in Q2 it begins recoverable based upon legal action.

Sumit Kishore: This is related to the core business which segment?

Arnob Mondal: Infrastructure segment.

Moderator: Thank you. We have the next question from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: I just wanted to understand is there any one-off in the Defense business margins because that look very high?

Arnob Mondal: One large order cross margin recognition threshold.

Renjith Sivaram: So it will normalize going forward, right?

Arnob Mondal: Yes, it will normalize going forward.

Renjith Sivaram: Even under the Developmental Projects is there any provisions or something like that?

- Arnob Mondal:** Actually, last year we actually booked around total of Rs 400 crores as one-time item based upon our positive outcome in the Supreme Court where we recognized areas of revenue on washing charges related matters as well as on the Rs 135 crore write back of ECL provision, so that total amount of Rs 235 crores plus Rs 135 crores that was there in Q2 of last year which is obviously not there in Q2 of this year, so that is why you see the swing.
- Renjith Sivaram:** Can we expect loss in Development Projects to normalize in the next two quarters or is there anything to worry about that?
- Arnob Mondal:** Development projects, the EBITDA margin of 4.3%, 18.3% includes that large profit on sale of Kattupalli port of Rs 4.1 Bn which is there on the slide itself.
- Renjith Sivaram:** I am referring to the EBIT which you disclosed in the segmental?
- Arnob Mondal:** As far as developmental projects are concerned, there is one-off charge. We impaired Hydel Power asset which is where we have just completed the DPR and we are unlikely to go ahead with the construction of that because after working for many years on the DPR, we finally worked out the end-user tariff which would make it viable and it appears to be too high, so we will probably not go ahead with that, we will surrender it, but apart from whatever deposit we have paid we are unlikely to be able to recover the cost that we have incurred, so there is Rs 87 crores impairment charge on account of that single project, it is sitting under development projects. That comes post EBITDA since it is an impairment, in the ad it comes under the line item Depreciation, Obsolescence and Impairment.
- Moderator:** Thank you. We have the next question from the line of Inderjeet Bhatia from Macquarie. Please go ahead.
- Inderjeet Bhatia:** My first question is on this guidance on revenues and order inflows. Now my simple question is are we being too conservative because if I go by the historical precedence of last three to four elections, it does not indicate that we go through a very sharp dislocation on revenues in say Q3 or Q4 of an election-year relative to what it typically happens, so is this just being more conservative or is there any reason to believe that it is going to be different this time?

Arnob Mondal: If we have to grow revenue by say 15% in FY19 as per our guidance, we still have to grow our revenues by 12% in the second half, which is not a very easy thing considering that second half revenues always tend to be very heavy.

Inderjeet Bhatia: Similar question on the margins, why are we more conservative because margins are more internal to the company and given that the first half run rate is well above our 25 basis points guidance, why are we being conservative and not changing the guidance on the margin side?

Arnob Mondal: I have mentioned this earlier in response to somebody else who asked similar line of questioning that there are two things which are a bit uncertain, one is pressure of commodity prices and the other is the lumpiness of margin recognition that happens from quarter to quarter, so H1 or Q2 is not an indicative quarter, so you cannot extrapolate these and come to some conclusions for the year-end here as a whole, maybe we are being conservative, but at the same time we go by what projections that businesses give, so I think we will be able to give you a better color at the end of Q3.

Inderjeet Bhatia: Last question is if I look at slightly medium-to-long-term, typically large infrastructure projects once they start getting executed that typically means a lot of bottlenecks which are there pre-execution like frontages and land acquisition, a lot of those issues get cleared, so even if we get say one or two quarters of little bit of issues because of election and Government machinery not working, is it safe to say that we have kind of moved past with large part of our order book with those kind of bottlenecks and things actually now looking up on that front barring say one or two quarters of the election period?

Arnob Mondal: Execution environment has improved incrementally, but I will not go so far as to say that everything is very hunky-dory now.

Inderjeet Bhatia: But definitely much better than what it was in FY16 and FY17?

Arnob Mondal: I would say better, I would not like to put any adjective in front of the word "better" to describe it, but it does appear to be somewhat better but is very difficult to say. We have Rs 2,80,000 crores unexecutable order book and there are some large projects sitting there as well, those also have to get pass through P&L by the way of revenues and margins over a period of time, which means that all the enablers of land acquisition, right of way, financial closure, environmental clearance, pollution control board clearance, and

raft of other necessary enablers have to be put in case before that can happen, so I would still be slightly cautious.

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

Puneet Gulati: I have two questions, number one pertains you said that revenue growth in few projects 12 and 13 project seems to be running higher than expected, are you seeing a similar trend from order booking perspective some orders which you thought would be booked in H2 are getting booked in H1?

Arnob Mondal: I think right in the beginning of the year, we very clearly said that this year we expect the order inflows to be more evenly spread out rather than the skew that we see every time between H1 and H2, usually it is one-third, or 60:40 or even in some extreme cases it has gone up to two2/3: 1/3, we do not expect it to be like that this year primarily because of election so that is why we are probably seeing higher inflow in H1 this year.

Puneet Gulati: Secondly, is it possible to share some sense of margin for the realty business?

Arnob Mondal: Realty business I would not like to really talk about margins except for the fact that it is obviously made a difference in EBITDA level of around Rs 200 crores odd.

Puneet Gulati: Rs 200 crores of EBITDA on Rs 600 crores of revenue in Realty?

Arnob Mondal: Incremental margin.

Puneet Gulati: Thank you. We have the next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just one question which I think Venu raised about this liquidity, so the news which we keep on hearing developers not able to pay, is there any developers like Supertech in our client list and also from L&T Finance perspective, is there an overlap of clients where you think costing pressure L&T Finance is going, from my side?

Arnob Mondal: Supertech is a developer and our engagement with developer is typically in the Buildings & Factories segment and we do not have exposure there. As far as Financial Services business is concerned, I think Mr. Dinanath Dubashi, MD & CEO of Financial Services business has very exhaustively clarified exposure

to both Supertech as well as ILFS. In ILFS, they have exposure in six projects, four in annuity and two toll road of which five are operational and one has applied for COD which means that it is effectively operational and the projects which are operational are cash generating and they do not require equity support, and of course financial services is ring fenced through an escrow mechanism, so we do not expect any particular loss there.

Secondly, as far as Supertech is concerned, he has also clarified that we have exposure to three projects and in those projects 75% of the sale commitments are done and both the sales as well as cash collections are ahead of what we projected, so to that extent it appears that at this point of time he does not expect any loss there.

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

Pulkit Patni: Sir, my first question is again regarding execution, I had asked this question to SNS during our last Analyst Meet, about whether there is institutional capability for us to grow in high-teens, he said given the size of the business now even 12% to 13% is a good growth to have. Now given that we have delivered a strong growth number this year, I would obviously discount that there are certain good quarters and certain bad quarters, but it seems that if we have a order book and execution environment improves, then a growth in north of 15% in the core business is something that institutionally we can achieve, is that understanding correct?

Arnob Mondal: If the environment improves, I guess Yes, but I am not trying to really speculate on something like that, there are far too many variables that come into play, when you talk about environment we also talk about liquidity and availability of cash with customers and can they pay you on time which would lead to ramp-up in execution, I would not really like to speculate apart from the fact that 15% does appear achievable at this point of time.

Pulkit Patni: Second in terms of margins, we have had very strong execution in the quarter particularly in the infrastructure segment, the margins have sort of stayed in the same 6.5% to 7.5% ballpark number, now again as an organization are we happy with that kind of margins, basically I am trying to understand that is there room for that number to go up if execution improves further because we have not seen any sort of operating leverage into that particular segment despite our execution be reasonably strong?

Arnob Mondal: 6.5% to 7.5% we are basing it on what you...

Pulkit Patni: The quarterly ones, I mean obviously Q4 we do as much higher number?

Arnob Mondal: Last year, we had 9.8% as EBITDA margins in Infrastructure segment for the year FY18 so we expect to at least reach that this year.

Regarding your question on operating leverage, there are two things, one is large part of the operating leverage that you are talking is about number one gets eaten away in high commodity price scenario, number one.

Secondly, what happens is that if we see that margins are kicking in through operating leverage, typically what happens that businesses would like to maintain the margins and become more competitive so over a period of time that gets quickly passed on to customers in order to stay competitive, it may not be sticky that is a small caution that I am putting.

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

Sumit Kishore: My question is on the "L&T and Others" in the annexure that you give, the depreciation in L&T and others in Q1 was Rs. 5 billion and at the end of 1H, it is Rs 8.4 billion, so Qoq there appears to be a steep drop, so what is the recurring depreciation here and was there something in 1Q that was increasing the number?

Arnob Mondal: In 1Q we did some Seawood's impairment of around Rs 100 crores.

Sumit Kishore: My second question is the subsea contract from ONGC in the KG basin, it appears has not been recognized in 2Q in the hydrocarbon segment, that would flow in 3Q?

Arnob Mondal: Yes, because we got that I think in first week of October, documentation was dated post-Q2, so that will come in Q3.

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

Ashish Shah: Just one question on the Forex gain you did talk about the numbers, the incremental difference being about Rs 50 crores, but can you just for the

sake of clarity give the exact number in Q219 versus Q218, the exact numbers?

Arnob Mondal: It was around Rs 80 crores in the current quarter vs 130 crores last year.

Moderator: Thank you. We have the next question from the line of Charanjit Singh from DSP Blackrock. Please go ahead.

Charanjit Singh: Sir, in Defence Segment what is the kind of margin run rate which we should see because definitely this quarter we had one large order getting executed, but general run rate if you can highlight and how is the buildup happening in the defense segment?

Arnob Mondal: I do not like to speculate on that, that is a newly reportable segment that we introduced from April 1st, request you to please wait till the end of the year to get an idea what the run rate could be like. I will have to disappoint you on that.

Charanjit Singh: Sir, on Realty business, we have quite a decent amount of revenues in this quarter, so how is the expectation going forward on the run rate in terms of the launches and revenue booking?

Arnob Mondal: Revenue booking will become lumpy, henceforth, because it will be based upon handover of flats, so that I think is a bit of an uncertain thing at this point of time, I cannot really speculate on that.

Charanjit Singh: But there would be any plan in terms of the phasing where the handover is planned something like that is there?

Arnob Mondal: We don't give that level of granular detail. There is definitely a plan of handing over of flats, whether those plans fructify or not is something which we will have to see.

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

Inderjeet Bhatia: My one question is on Buildings & Factories. Arnob, do you want to like to comment on that as to what you are seeing on the ground in this space, is it improving, deteriorating, any comments on that?

Arnob Mondal: Buildings & Factories appears to be improving on all fronts especially in Q2 itself, both in order inflow, decent revenue growth, decent EBITDA. I would not like to speculate going forward, but definitely turn in better performance in Q2 this year.

Inderjeet Bhatia: Any particular reason is that customers asking us to kind of complete projects because of RERA, any reasons or that you want to attribute this to?

Arnob Mondal: Residential real estate today is a relatively small portion, high-end residential area is around 3% of our total consolidated order book today, so it is not as if that really swings the needle substantially, but we have made decent progress in public sector projects as well.

Inderjeet Bhatia: Based on your pipeline, is the pipeline kind of expanding or has it been more stagnant?

Arnob Mondal: Pipeline is strong.

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. Sir, over to you.

Arnob Mondal: Thank you for your patient hearing, Ladies and Gentlemen. Once again as I mentioned earlier, it is a pleasure to be able to present and talk about results when they are very good, and again just before concluding, I would again like to stress the fact that please do not take quarterly numbers as a base for extrapolating for the full year. Ideally speaking since we have executing timeline in excess of two years, we should take a two-year timeline, but a one year period is still reasonably okay, with that I would like to end this call.

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