



# “Larsen & Toubro Limited Q3 FY20 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q3 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arnob Mondal. Thank you and over to you, sir.

**Arnob Mondal:** Good evening, everybody. A very warm welcome to our Q3 FY20 Earnings Call. The format as usual will be that we will first walk you through a presentation and hopefully all of you would have downloaded the presentation. It was uploaded on our website just about an hour ago. After the presentation is over, we will open the session to question and answer.

And today I have my colleague Mr. Harish Barai, who is part of our IR team, who will walk you through the presentation. And then he will hand it over to me right at the end. Harish, over to you.

**Harish Barai:** Good evening, ladies and gentlemen. A very warm welcome to all of you into the Q3 FY20 earnings call. I will move on to Slide #2, which is disclaimer. Essentially, this presentation contains certain forward-looking statements concerning L&T's future business prospects and business profitability, which are subject to a number of risks and uncertainties, and actual results could materially differ from those in such forward looking statements.

The remaining portion of the statement, I will take it as read and move on to the next slide, which is Slide #4. The performance highlights for Q3 FY20, our order inflow recorded a growth of 2% over the corresponding quarter of the previous year. Our order book at Rs. 3.06 trillion as on 31st December 2019, is up 9%. Our revenue for Q3 FY20 is up 6% over the corresponding quarter of the previous year. And our EBITDA and PAT for the quarter is up 10% and 15%, respectively.

Now, a couple of comments here. These numbers have to be seen in the context of the current domestic macroeconomic environment. It is important to note that despite strong macro headwinds, we have posted growth on all parameters. Despite deferrals in domestic awards in Q3, we have managed to grow our order inflows by 2%, largely led by growth in international orders. In fact, 43% of our Q3 order inflow is international.

Some comments on revenue:

Despite carrying a large order book, we consciously slowed down execution to prevent working capital levels from rising further. Payments from the public space has not been very encouraging in Q3. Secondly, execution challenges arising out of non-moving jobs, mainly in AP and coastal road, has also impacted our revenues for Q3.

With these comments, I will move on to my next slide on Key Financial Indicators, which is Slide #5. On Slide #5, quarterly numbers are mentioned on the left portion of the slide and the

nine monthly numbers are on your right. Since we have covered the quarterly numbers in the previous slide, in this slide, I will cover the nine monthly numbers only.

Our order inflow for a nine month FY20 is Rs. 1,286 billion, up 11%. Now, if you slice the nine monthly order inflow into quarters, you will realize that our Q1 order inflow growth was largely domestic, whereas our Q2 and Q3 order inflow growth is largely international. I also want to mention here that in the previous year we had large orders like expressway, Dhaka Metro and coastal road.

Moving on to revenues:

Despite the domestic payment challenges and the fact that 5% of our order book was not moving during the nine month period, we still achieved 9M FY20 revenue growth of 10% at Rs. 1,012 billion. Our EBITDA and PAT for 9M FY20 grows at 12% and 16% respectively.

Coming to working capital:

Our networking capital levels at 23.5% in Q3 FY20 has largely remained at the same levels as Q2 FY20 and Q1 FY20. There has been no sequential worsening in working capital levels, despite the payment challenges that I just mentioned. Our return on net worth on a trailing 12-month basis is that 15.7%. All efforts are being put to achieve our ROE goal of 18% by FY21.

With this, we will move on to our next slide, which is Slide #7. Q3 9M FY20 order inflow order book. Again, order inflow numbers are on your left and order book numbers are on your right. Growth in order inflow in Q3 and nine month is largely driven by international business. In fact, you would observe that 43% of Q3 order inflows and 34% of 9M order inflow in the current financial year is international. Domestic prospects have witnessed deferrals in award decisions in Q3. Having said that, let me mention here that domestic project pipeline for Q4 is encouraging in a subdued environment. Our bottoms-up domestic project pipeline for Q4 is around Rs. 2.5 trillion.

Coming to order book:

Yes, a strong order book provides a good hedge against cyclicity. You will observe from the numbers that our international order book as a percentage of total order book has moved up from 20% in 9M FY19 to 24% in 9M FY20. Today, we have six business verticals where order book ranges between 10% to 16% of the overall order book. They are Transportation Infra, Heavy Civil Infra, Power Transmission & Distribution, Water, Buildings & Factories, and Hydrocarbon. Diversity of the order book helps and future revenue growth is not dependent on the fortunes of any single vertical.

With those comments, I will move on to Slide #8, which is Group Performance - Sales & Costs. In this slide, I will mainly be explaining the Q3 numbers as nine months numbers are essentially

a derivation. Our Q3 revenues at Rs. 362.4 billion, up 6%, is driven by hydrocarbon and IT&TS businesses.

Our manufacturing, construction and operating expense or MCO at Rs. 218.5 billion in Q3 is down 3%, reflecting cost savings in businesses. Finance charge OPEX for Q3 FY20 at Rs. 20 billion, is up 1%. Finance charge OPEX largely represents borrowing cost of the financial services business. Our staff costs at Rs. 61.3 billion in Q3 FY20, up 38%, is largely reflective of Mindtree consolidation and resource augmentation in our service businesses. Salary cost of over 21,000 minds of Mindtree is included in Q3, which largely explains the variation over the previous year. Total increase in staff costs in Q3 over the previous year is Rs. 16.8 billion, of which Rs. 12.5 billion pertains to Mindtree.

Coming to sales and administration:

Our sales and administration expenses at Rs. 21.4 billion for Q3, up 40% over the previous year largely on account of Mindtree consolidation and credit provisions. Consequently, our total OPEX at Rs. 321.3 billion for Q3 FY20 is up 5% over the previous year.

With those comments, I will move on to the next slide, Group Performance - Profit Stack:

Our EBITDA for Q3 FY20 at Rs. 41.2 billion is up 10%. Our finance cost at Rs. 7.1 billion for Q3 FY20 is up 33%, this is largely commensurate with group debt levels reflective of the scale of operations as well as the phased commencement of Hyderabad Metro. Our borrowing costs at the parent level is around 7.5%, which is one of the lowest amongst corporates. Our parent company enjoys the highest credit rating in India.

Coming to depreciation:

Our depreciation at Rs. 6.6 billion, up 63% in Q3, partly on account of Mindtree consolidation as well as depreciation on RoU assets which have been capitalized after implementation of IndAS 116 from 1st April, 2019. Other income at Rs. 4.7 billion, down 19% in Q3, is reflective of lower short-term investments. Tax expense at Rs. 7.1 billion, down 37%, largely because of the lower tax rate announced by the government in Q2 of FY20. JV/S&A PAT share largely reflects IDPL assets, forgings and power JV's performance. NCI change in Q3 is mainly on account of Mindtree consolidation. E&A business, which has been classified as discontinued operations, reports PAT of Rs. 1.9 billion for Q3 FY20. Consequently, our reported PAT is Rs. 23.5 billion in Q3, up 15% Y-o-Y.

Moving on to the next slide, which is Slide #11 on Segment Composition:

This slide on segment composition is essentially for reference purpose. E&A segment has already been classified as discontinued operations and consolidated at the PAT level. Information Technology mentioned within the IT&TS segment includes Mindtree as well.

Moving on to the next slide, which is Slide #12 on 9M FY20 Order Inflow Composition:

This slide is again for reference purposes. But as you can see, 48% of our order inflow in 9M FY20 is from infrastructure. If you would recollect, in H1 FY20, our infrastructure orders as a percentage of total order inflows was 38%, essentially means that our Q3 FY20 order inflows have largely been powered by infra.

Moving on to the split between domestic and international. 66% of our 9M FY20 order inflows is domestic. If you would recall, in H1 FY20, our domestic orders as a percentage of total order inflow was 70%, essentially means that our Q3 order inflows have largely been powered by international orders.

With those comments, I will move on to the next slide, which is Slide #13, 9M FY20 Order Book Composition. As you can see, 88% of our order book of Rs. 3.06 trillion is dominated by infrastructure and hydrocarbon. Within infrastructure, again, our order book is very well diversified across five large sub-verticals, be it Water, Buildings & Factories, Heavy Civil Infra, Transportation Infra and Power Transmission & Distribution. We are predominantly an India centric company and, therefore, 76% of the total order book is India based. Over the last couple of years, we have tried to consciously move away from the Middle East. These efforts have borne fruit, and about 46% of our international order book is non Middle East.

With those comments, I will move on to Slide #14, 9M FY20 Revenue Composition. This slide is, again, for reference purpose and there are no major observations in this slide. Except that 47% and 30% of our revenues in nine month FY20 is from infra and service businesses respectively. Secondly, 66% of our 9M FY20 revenues is domestic. Within international, for 9M FY20, about 41% of our revenues is Middle East.

We move on to Slide #15, on the Infrastructure Segment. Infrastructure segment, as you are aware, is the largest segment within the group. And obviously, the financial fortunes of this segment significantly impacts the group performance. Quick comment on order inflows before we move on to other parameters. After a muted Q1 and Q2, in Q3 we have registered significant increase in infra order inflows, largely driven by international orders. 41% of total infra order inflows in Q3 FY20 was international. Domestic ordering environment in Q3 was lackluster and we have witnessed multiple deferment of orders. Having said that, we are optimistic on the domestic ordering environment in Q4 FY20. We see total bottoms-up domestic infra prospects of Rs. 2.5 trillion in Q4 FY20, which should augur well for infra.

Moving on to revenues:

Muted revenues in Q3 is arising out of execution challenges and the need to preserve working capital levels in a constrained payment environment. Coming to margins, Q3 FY20 infra margins at 6.1%, up 70 basis points over the previous year. And 9M FY20 infra margins at 6.5%, up 20 basis points over the previous year, largely reflective of stage of execution and job mix.

With those comments, I will move on to Slide #16, which is on the Power Segment. Quick comment on order influence before I move on to other parameters. Strong order inflow in the current year replenishes the order book and provides a very healthy revenue visibility for the coming quarters. Coming to revenues, Q3 FY20 revenues at Rs. 6.9 billion, down 23% over the previous years, largely reflective of depleted opening order book and tapering of international jobs. Margins for Q3 FY20 is 3.4%, up 50 basis points over the previous year. Whereas margins for 9M FY20 at 3.6% is down 80 basis points. Margins are reflective of job mix and stage of execution. For the Power business margins appear optically low because MHPS boiler and turbine, and other power JV companies are consolidated at a PAT level under the equity method.

With those comments, I will move on to my next segment which is Heavy Engineering segment. A quick comment on order inflows, again, before we move on to other financial parameters. This segment had robust order inflows in the previous financial year. Current year FY20 order inflows have been impacted by multiple award deferrals. However, that again would be to some extent dependent upon the economic cycles of the global oil and gas industry. Revenue growth of 20% at Rs. 7.2 billion in Q3 FY20 is largely a reflection of the opening order book. Margins in Q3 FY20 at 23.5%, up 300 basis points over the previous year. This business yields strong margins in excess of 20% because heavy manufacturing business is essentially capital intensive. EBITDA margins tend to be higher to cover for depreciation and interest costs as well. Apart from that, the global competence, technology differentiation, proven track record and cost efficiencies yield strong margins for this business.

We will move on to our next segment which is the Defence Engineering segment. Government has been articulating the need to involve the private sector in defence for a long time, but little progress seems to have happened on the ground. Consequently, large order inflows are missing and order inflows in the current financial year comprise of multiple small value orders. Execution of tracked artillery gun order continues to drive revenue growth and margins for this business. Margins, again, reflect stage of execution, job mix and operational efficiencies.

We will move on to Slide #19, Hydrocarbon segment:

Hydrocarbon segment has been doing very well. And today, there is unexecuted order book of close to three years of revenue. Hydrocarbon business had significant order wins in the current financial year, both from domestic and international market. Strong revenue growth of 17% in Q3 FY20 at Rs. 43.9 billion is the consequence of large opening order book and better progress in the onshore and offshore jobs. Q3 FY20 margins at 12.1%, up 390 basis points over the previous year, largely on account of efficient execution, job mix and cost savings in certain jobs. One needs to note that this business runs on low capital employed and consequently generates abnormally high ROCE.

We will move on to our next segment, which is the Developmental Projects segment:

Development projects comprise of power development business and Hyderabad Metro. In the previous year, this segment included Kattupalli Port as well. You would recollect that we sold

off Kattupalli Port last year. As you can see, the Q3 revenue of this segment at Rs. 12.4 billion, up 4%, is largely contributed by Power Development business. Power Development revenues comprised of Nabha Power, which is a 1,400 megawatt power plant in Punjab. As far as Hyderabad Metro is concerned, we have already commissioned 57 kilometers, the remaining portion should get completed in Q4 FY20. Margin profile of this business segment is still emerging primarily because the final outcomes will depend on various claims that we have filed in respect of metro and Nabha Power. We will be able to guide you better in the coming quarters on margins. Here again, roads and transmission lines are consolidated at a PAT level under the equity method.

Moving on to the next slide, which is the IT and Technology Services segment:

Revenues of IT and Technology Services segment for Q3 of 2020 at Rs. 60.9 billion is up 65% over the previous year, primarily because of Mindtree consolidation from Q2 FY20 onwards. However, it is important to note that all the three listed subsidiaries have posted healthy Q3 revenue growth in an otherwise seasonally weak quarter. LTI revenue growth is led by manufacturing energy and utilities, and CPG retail and pharma. LTTS revenue growth is led by medical devices, plant engineering and transportation verticals. Mindtree revenue growth is led by high tech and media, and travel and hospitality. Margin variation is an outcome of increased resource cost, which is an industry wide phenomena, primarily because of the pressure of localization in developed countries, particularly USA. Jump in visa costs also contributed to margin rates. However, it is important to note that Q-on-Q margin profile of all these three companies reflect an encouraging trend.

With those comments, I will move on to my next slide, which is the Other segment. Other segment comprises of construction and mining equipment, rubber processing machinery, industrial walls and Realty business. Q3 FY20 revenues of this other segment at Rs. 12.5 billion registers de-growth of 22%, primarily because previous year revenue included a lumpy sale of commercial premises in our Realty business. Higher previous year margins is also due to the same. In realty business, let me mention here that we have seen improved traction and sales a reasonably priced residential apartments. Coming to other businesses, our construction and mining equipment, rubber processing machinery, and industrial valves have registered quarterly revenue growth rates of 1%, 27% and 74% respectively over the corresponding quarter of the previous year.

With those comments, I will move on to the next slide, which is on L&T Finance Holdings Group. L&T Finance Holdings, again, a listed company, and they had their earnings call as well. All the numbers in detail are available in public domain. Our company has demonstrated tremendous resilience despite challenges facing the NBFC space. Company enjoys the highest credit rating in India and continues to focus on various initiatives starting from prudent and smart lending, to focus on asset quality, generating robust NIMs and fees income, maintaining prudent ALM, diversifying the fund sources and retailization of loan book over time. In fact, retailization of both the loan and the borrowing book over time. Without going into numbers mentioned

about, let me mention here that 9M FY20 PAT de-growth of 26% is mainly on account of one-time impact arising out of DTA restatement post opting for a lower tax rate in the new regime.

I will move on to the next slide, which is the Electrical and Automation segment. As mentioned earlier, E&A business has been classified as discontinued operations in FY19-20. PAT of E&A business is being aggregated as a separate line item in our profit and loss statement. Revenue for Q3 FY20 at Rs. 13.3 billion, down 10% over the previous year, largely reflective of the soft demand environment. Better margins in Q3 FY20, over Q3 FY19 is largely reflective of the operational efficiencies and other cost optimization measures.

We will move on to our next slide on Environment and Outlook. I will request my senior colleague, Mr. Arnob Mondal to run you through the same. Post which we open up for Q&A. Thank you.

**Arnob Mondal:**

Thank you, Harish. Harish has already covered a fair bit of ground as far as the environment is concerned, but I will still touch upon a few points in the build up to giving you some idea of how we see things panning out in the remaining quarter of the year.

The environment is rolled out difficult and we are in the midst of a slowdown. But we feel that our economic moat with strong balance sheet, large order book, drivers, business portfolio, our capability, education track record still provides an economic moat for us which enables us to ride out short-term economic cycles.

As far as the lifeblood of our projects business is concerned, which is ordering, it is still a bit volatile in terms of timing, it's uncertain in terms of timing. But the prospect base is still fairly decent. Ordering today is still largely public sector driven, because private sector is still very, very muted. And as Harish said, we have seen largely being driven by international for the first nine months.

We have had a bit of a mixed quarter, we have won some awards, we have lost some awards. But that's all part and parcel of our business model, which happens every year, and there's nothing much different. But considering that the prospect base is still a decent and assuming that not much deferral of our decisions takes place, because many of our customers usually tend to order out, they complete their budgets in the end of the year. We expect to be in the band of 10% to 12% order inflow growth, as originally guided to markets.

Coming to revenues:

Q3 has been a bit of a watershed and difficult quarter where we have had balance political and economic execution environment, headwinds, along with sluggish payment scenario at times from clients. We felt the need to preserve our balance sheet health and not working capital levels balloon to unacceptable levels. And also significantly, we are affected by the AP embargo on project execution since sometime in Q1 of this financial year. I think everybody knows that the Mumbai Coastal Road, which is a large project, order execution was stopped by an High Court



order since early April this year. So the whole nine months is something we have lost revenues. And we have also seen stoppage of all construction activity in the National Capital Region during the better part of Q3 due to high pollution levels.

So all these three together have also impacted our revenues. And our domestic infra segment has been at the receiving end of all these forces, they have had to pull back on the execution. And consequently, the infra segment has raised a de-growth in revenues in Q3. The current status is, the Coastal Road has again commenced in full swing, so Q4 should see better traction on that front. The Andhra Pradesh issue is getting resolved and we think that some revenues should start occurring sometime in Q4 as well. And of course, NCR region embargo is no longer there.

It would also not be out of place to mention that a large number of projects faced some execution impediments such as I already mentioned, the political headwinds. There are also some cases where the paucity of funds, there were some delayed client clearances which could be linked to paucity of funds. And of course, in a few cases, work-front availability was stuck. But be that as it may, we seriously are committed to preserving the quality of our balance sheet.

And coupled with the normal trends of urgency by clients to utilize cash flow budgets in Q4, by the end of Q4 rather, we expect Q4 to be a better partner on the execution front. The concerns and pullbacks in areas of AP, Maharashtra, NCR region have also receded, and hence we estimate that we will end the year within the band of 12% to 15% growth in revenues as was originally guided by us in the beginning of this fiscal.

Margins:

We have guided for stable margins for our businesses, excluding services business. And margins in almost all businesses have shown a very welcome buoyancy. To some extent, tapering of FY19 some losses in Transportation Infra has also been responsible. And, however, last year Q3 we had a lumpy EBITDA gain, in excess of Rs. 550 crores from a sale of commercial property and we are happy to note that, in spite of such a lumpy gain not having materialized in the current quarter Q3 our EBITDA margins have still inched up a bit. And considering the expected Q4 seasonality in job mix, we again expect to end the year within our guidance of stable margins for our services business.

With that, I would like to hand the session over to question-and-answer.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** Sir, my question primarily relates to the guidance you maintain for the order inflow. Given the fact that in Q3 there were a lot of deferrals, how confident you are of meeting this order inflow guidance at the lower end? And secondly, can you just comment on the international order pipeline which we are targeting?

**Arnob Mondal:** Actually, the prospect base is fairly decent, it is something close to Rs. 3 lakh crores. And Harish also mentioned that around Rs. 2.50 lakh crores approximately is domestic and around close to Rs. 50,000 crores is intentional. So, largely centered around Power Transmission & Distribution, some water projects, some Transportation Infra, and Hydrocarbon, so in international these are the areas that we are typically targeting.

Now, considering the fact that our ASK for Q4 to meet the lower end of the guidance is slightly less than Rs. 60,000 crores, of which close to, you can see around Rs. 50,000 crores or Rs. 45,000 crores would be the ASK for our project business. So on a prospect base, close to Rs. 3 lakh crores it seems reasonably achievable. Assuming that the prospects that we see today do not get converted to awards during the course of this quarter and don't get repeatedly deferred. But as I mentioned earlier, typically clients are in a hurry to usually, we have seen that in Q4 clients do tend to order out especially to meet their budgeted commitments. So, that gives us some element of confidence in being able to achieve our guided order inflow.

**Mohit Kumar:** Sir, are there any large order which we are targeting which maybe large component of the domestic order basket?

**Arnob Mondal:** Only two coal fired power plants are there. But apart from that, nothing very much. All the others are relatively small, there not really blockbuster orders that we are targeting as such. If we are lucky the package of the high-speed rail could get ordered out in Q4, that would be touch and go.

**Mohit Kumar:** Has the working capital stress reduced in the Q3 compared to the end of H2? And how do we see it panning in the rest of the year?

**Arnob Mondal:** It has remained in the 23% to 23.5% sales level. However, I also mentioned that usually we find that Q4 is a decent quarter in the sense that customers tend to pay fast to exhaust their payment commitments as far as their budgets are concerned. At the same time, that enables us to ramp up execution without receivables ballooning. And when I say ramp of execution, it means that we procure more material, we hire larger force, we hire plant and machinery and expand imports on our projects. And all of those typically we get some credit from vendors, so vendor credit also tends to increase. So, working capital levels tend to go down in Q4, but to some extent that will also depend upon whether customers keep on paying fairly strongly in the last quarter of the year, as they have been doing every year in the last quarter.

**Mohit Kumar:** Sir, last question on the Hyderabad Metro. So, I believe that this quarter, where we will commission the entire Hyderabad Metro, and given the fact that we had taken approval for monetization of 1.2 million square feet, is it possible to share what is the progress on the monetization front?

**Arnob Mondal:** We have not really envisage any monetization just now as such, it's always on our radar of course, but the fact is that we are more focused on operationalizing the metro, after which we will look at TOD. You may be aware that this project has 18.5 million square feet of transit

oriented development to be made. And we have barely touched the tip of the iceberg as far as that is concerned, primarily because we have been focused on operationalizing the metro. So let us operationalize that, and then we look to see whether we can ramp up the TOD part of it.

**Moderator:** Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.

**Venugopal Garre:** I would say congrats a lot, especially given the fact that orders were good, and the guidance seems to be pretty much intact. I just wanted to probe a couple of things on that. Number one is, the deferment of orders that you highlighted in Q3 especially, was there a common element to it? Was there a common driver that you would have seen for the deferment for those orders? Is it largely paucity of funds which was driving that or was it like little activity from the government in getting those approvals for these projects? What is it that was the major driver for deferment?

**Arnob Mondal:** See, usually clients don't tell you exactly why they are deferring it, you just have to wait and watch. So Venu, I am sorry, I will not be able to give you any more granular color on this aspect of the deferment. But it's something that we have seen happening particularly in this quarter.

**Venugopal Garre:** Okay. To other small things. Maharashtra, excluding the coastal order which you mentioned, was there anything which was stalled post the change of government there or this was the only order which was sort of, because this order had some other issue?

**Arnob Mondal:** Yes, we have been doing some very large marquee orders and actually we practically slowed down significantly for around a month till better clarity emerged, because the initial statements that emanated from the new government were not very encouraging. However, they had quickly tone downed the rhetoric. So, yes, we did miss some revenue, but it was not for a very prolonged period of time, it is back to normal.

**Venugopal Garre:** Got it. My last question is, this new flow on Nabha which was a bit confusing with regards to FCD implementation not having been done, the new project was not generating power and then there were some issue on the notice from the Punjab power, and then it restarted again. So, what is the challenge there as of now, in terms of status is something that we should track.

**Arnob Mondal:** The challenge was that we had represented for extension of time to multiple authorities. In fact, Ministry of Power had also recommended our case, Punjab Pollution Control Board had also endorsed recommendation for extension of time. Unfortunately, the Central Pollution Control Board did not take any action and the deadline was 31st of December. So to actually make a point, we shut down our plants on 31st of December. But again, based upon advice from regulatory authorities, we again restarted within a few days. So expecting that, yes, we should get some extension of time for this.

**Venugopal Garre:** Okay, so the implementation is going on the FGD 1?

**Arnob Mondal:** Yes.

- Moderator:** Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.
- Abhishek Puri:** Congratulations on good set of performance in the challenging market. My two questions here, first, I think you have mentioned in the press release that there are some variation claims settled in the infra and hydrocarbon segment. How big would they be and could you spell that out?
- Arnob Mondal:** Actually we don't specifically talk about it. But in Q2 we got hydrocarbon claim of around Rs. 70 - 80 crores in Q2.
- Abhishek Puri:** Right. But in Q3 also is there an amount, because it's mentioned as per the quarter I think in the statement.
- Arnob Mondal:** We also got some claims.
- Abhishek Puri:** Okay. Would it be something similar? Last time it was about Rs. 70 crores if I remember correctly.
- Arnob Mondal:** I think we will take that question offline.
- Abhishek Puri:** Okay, right. Sir, second in terms of working capital, how is the mix now? I think last time when we discussed on this, the receivables were down and the working capital deterioration was only due to the vendor support that you had given. So how is the mix in Q3 now?
- Arnob Mondal:** It's still the same. In fact, receivables along with retention together is down maybe by a few hundred crores or so in absolute terms, but payables has still not moved up. So the mix is pretty much the same.
- Abhishek Puri:** Okay. The liquidity situation has not really helped or improved?
- Arnob Mondal:** No, not really. If you track credit growth, you will see the credit growth has been tapering downwards.
- Abhishek Puri:** And lastly, sir, the projects in Andhra, I mean, you did mention that some of the revenue could come back in Q4. Can you spell out which projects can come back out of this Rs. 14,000-15,000 crores order inflow that we have from there? If any settlement has been done.
- Arnob Mondal:** I am sorry to disappoint your, Abhishek, but we don't discuss project specific details. Suffice to say that it is getting resolved and on the verge of restarting again.
- Abhishek Puri:** So, can we safely say about 50% of this has been resolved or it will be more or less than that?
- Arnob Mondal:** I don't have a number, but a large part of it has been resolved.

- Moderator:** Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore:** The overseas infra order inflow performance was particularly pleasant to know. So, could you give us some color on the geography, sector and the customer profile of the international orders that you booked in third quarter?
- Arnob Mondal:** Sumit, since we have not given out specific press releases, in the absence of customer approval we will not be able to spell out these details that you are asking.
- Sumit Kishore:** But broadly these are from which geographies, is the nature of the project more than Rs. 30 billion- Rs. 40 billion of orders?
- Arnob Mondal:** Africa, Middle East typically are the geographies where we are seeing some traction in infra.
- Sumit Kishore:** And are these government contracts?
- Arnob Mondal:** Sumit, please, I will have to disappoint you, but whichever way you ask your question, my answer still will have to be the same.
- Sumit Kishore:** Very briefly, a follow up on the previous question. Certain portions in AP are getting resolved, is there an indication towards the Amravati contracts also given we are reading that they are possibly going to have three capitals; legislative, executive and judicial capital?
- Arnob Mondal:** Yes,, it's being resolved in a holistic manner, not just a few projects here and there.
- Sumit Kishore:** Okay. And finally on Hyderabad Metro, could you please give us the third quarter EBITDA interest, depreciation and profit for Hyderabad Metro?
- Arnob Mondal:** On a turnover of around to Rs. 225 crores approximately, we have got EBITDA slightly less than Rs. 100 crores and negative PAT of around Rs. 45 crores approximately.
- Sumit Kishore:** Okay. So, the interest cost was how much, because that is a key number?
- Arnob Mondal:** We will give you better clarity when we commission the full project sometime in Q4.
- Moderator:** Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Arnob, my first question is on the execution pace, wherein you expressed optimism around fourth quarter. Now, given the fiscal scenario of the government and given that allocations to some of the ministries is also getting curtailed, isn't there a risk that some of the trends that we saw in third quarter may persist in fourth quarter as well? Essentially that unless you are willing to relax working capital terms execution may remain challenged?

- Arnob Mondal:** Aditya, that risk is always there. But I don't see anything different from what we have seen in earlier years as well. The same question keeps on rising in early areas as well that if the government breaches its fiscal deficit will it pull back payments, and hence will your execution get delayed. And this is a standard question which we get asked in the beginning of Q4 every year. So that risk is always there, but we are hopeful that it won't play out in full blown manner.
- Aditya Bhartia:** Okay. And my second question, I just want to get a sense about how important is the operating leverage impact in our business? Because our infra revenues have been so weak in this particular quarter, do you think that has also impacted our margins on the interest side? In a sense, margins could have been lot better had some of the orders gotten executed?
- Arnob Mondal:** See, some element of operating leverage does play out, but those typically tend to be a more transient. In fact, people keep on asking me that infra if it keeps on growing shouldn't you see a significant bump up in margins. But the fact is that operating leverage gains tend to be transient, because the moment people see increase in margins, the natural tendency of business is to become more competitive in bidding. So it tend to wither out after some time. So it works both ways.
- Aditya Bhartia:** Especially in this particular quarter, wherein you may have appointed some subcontractors, you may be having some equipment on leases, and some of those contracts did not get executed. So will there be a charge on some of those orders wherein execution has been moving slow?
- Arnob Mondal:** Aditya, you must appreciate that we can't completely dissect every part of our margin and explain it. In any case, quarterly numbers are usually not reflective of either full year or steady state margins going forward. So, I suggest you don't go down that path and don't extrapolate quarterly margins into steady state level.
- Aditya Bhartia:** Sure. And lastly, I just wanted to understand if there's been any traction in the defence sector? And we obviously read about this article on submarines, anything that's happening over there, and what's your expectation?
- Arnob Mondal:** So, defence, what you read this morning was obviously a very positive development. But that's just one step in the journey towards finally getting it ordered out under the strategic partner program. It's a very long drawn out process and I don't expect anything to happen in the short term. It's unlikely that anything will happen immediately. Defence procedures are very, very lengthy and we have to go through many procedures which typically are not there in other parts of our business. Timelines can be very, very elongated on this.
- Aditya Bhartia:** But sir, could this order get placed next year in FY21 or do you think it will go down FY22 or FY23?
- Arnob Mondal:** Aditya, I would not care to even speculate on that, please.

- Moderator:** Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.
- Ashish Shah:** Sir, you mentioned about some possibility of HSR 1 package coming within Q4. Now that's a little surprising given the stand the new government has taken in Maharashtra. So anything you could elaborate on that?
- Arnob Mondal:** No, it is just that bid submissions and steps like that are progressing a bit, it has not to come to a complete standstill.
- Ashish Shah:** So you are saying that process still goes on?
- Arnob Mondal:** That process is going on, whether it will actually get ordered out, timelines of that are still a bit uncertain.
- Ashish Shah:** Sir, in the cash flow we see a net investment or purchase of investment about Rs. 1,140 crores. So, that would be towards the Hyderabad Metro or there is some other investment that you have made?
- Arnob Mondal:** It's mainly on financial services business. Hyderabad Metro investment will fall under investment, because it's a 100% subsidiary of L&T, and hence there is a line by line consolidation. So the CAPEX we have consolidated under investment in fixed assets.
- Ashish Shah:** Sure. So it wouldn't reflect here actually. So, this Rs. 1,140 crores that we see here is on the financing business?
- Arnob Mondal:** Largely that.
- Ashish Shah:** Okay. Maybe I will take it offline. Also, any impact of FOREX mark-to-market loss or gain during the quarter?
- Arnob Mondal:** During the quarter, there is some impact is there. But for the quarter there is a bit of a variation between the Q3 of this year and Q3 of last year. As far as FOREX is concerned, we have had a gain of around Rs. 100 crores this year against a gain of around Rs. 30 crores last year in this quarter.
- Ashish Shah:** Okay. So Q3 has a gain of around Rs. 100 crores?
- Arnob Mondal:** Yes.
- Ashish Shah:** Sure. And that would be part of the other expenses, I mean, the expenses would be lower to that extent?
- Arnob Mondal:** Yes, sales and admin expenses.

- Moderator:** Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.
- Girish Achhipalia:** Sir, thanks for the opportunity. The three states that you mentioned and now those issues are receding, had these issues not commenced in Q3, any ballpark number how much revenue would you have lost because of this? You know, different situations panning out in different states?
- Arnob Mondal:** As far as these three issues are concerned, we have lost around Rs. 2,500 crores to Rs. 3,000 crores of revenue in Q3.
- Girish Achhipalia:** Okay. Sir, just in terms of the process, not the timeline or anything for the defence strategic partnership program, because there are two vendors, which is yourself and Mazgaon Dock, which the media is quoting now. The steps now would be that you would partner with the foreign collaborator and then one of the two would finally be given the bid contract? So how it will flow through now from here on?
- Arnob Mondal:** I will get back to you on that, but suffice to say that, I would suggest you don't assume anything happening in a hurry.
- Girish Achhipalia:** Sure. I just want to understand the process. Okay. And the final thing is, if I look at the concession slide, you updated the balance equity or commitments across ICD VGF at Rs. 12 billion, which I presume in the last quarter was about Rs. 6 billion. So this incremental money is that for Hyderabad Metro on certain specific projects?
- Arnob Mondal:** Only for Hyderabad Metro.
- Moderator:** Thank you. The next question is from the line of Punit Gulati from HSBC. Please go ahead.
- Punit Gulati:** Just if you can give a little more color on the payment outstanding side, are you seeing these deferral payments more from government department, PSUs or some private entities as well?
- Arnob Mondal:** See, private sector now is less than 20% of our total order book, it's 20% of the domestic order book. So obviously, most of the payment stress is coming from public sector.
- Punit Gulati:** Public sector enterprises a government department?
- Arnob Mondal:** Actually combination of central, state and PSUs, all three, sluggish I mean.
- Punit Gulati:** But what gives you the confidence that this will come back, given that Q4 there are also budget constraint from the central and the state government side?
- Arnob Mondal:** Punit, I think somebody else asked this question, I think Venugopal asked this question already. There is no certainty on this, but we have also seen a similar situation happening year after year. In fact, from the last few years our economy has not been firing on all four cylinders. And the same stress has been seen in earlier years and it seems to get alleviated in Q4.



- Punit Gulati:** Secondly, on the E&A business any clarity on when do you expect to receive money?
- Arnob Mondal:** See, we are having to go through various statutory formalities, including transfer of land and building, renovation, huge number of contracts for the new entities. So, those have to be done piece by piece. For example, suppose some customer has given a contract, he has given to Larsen & Toubro Limited, after the contract we have to tell the customer that customer has to agree that the remaining part of the contract will be done by some other legal entity. So, contract by contract renovation has to be done, there are huge number of contracts. So that's what is essentially taking time.
- Punit Gulati:** Does it look like the process will get complete in FY21 or can it extend beyond that?
- Arnob Mondal:** No, I don't think. In our press release we have mentioned that it should get concluded within the next few months. If you are lucky, by the end of this year, if not, hopefully in Q1 in FY21.
- Punit Gulati:** Okay. And lastly on the cash flow, there is a line item for disbursements towards financing activities, it is a positive Rs. 14.1 billion. What does that relate to?
- Arnob Mondal:** That was actually loan books sell down, ARC.
- Moderator:** Thank you. The next question is from the line of Atul Tiwari from Citi. Please go ahead.
- Atul Tiwari:** Sir, my question has been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Varun Ginodia from Ambit Capital. Please go ahead.
- Varun Ginodia:** Just I need a quick update on the claims that you have from the Hyderabad Government on the metro side, what is the update on that about Rs. 3,000 crores claims? And secondly, on the sale of Nabha Power, what is the latest update there? Just these two questions.
- Arnob Mondal:** So, as far as Hyderabad Metro is concerned, while the issue is still under negotiation, we would not like to speculate on what the final outcome could be. So hopefully when we commission the full Metro we will be able to give you some idea then. As far as Nabha is concerned, there are a number of cases pending in the Supreme Court, including a contempt petition that we have filed, because PCL has not paid their dues and there is another dispute on mega power policy benefits that is pending. So we will possibly look to see whether we can get a buyer only after these issues are settled at the Supreme Court level.
- Varun Ginodia:** Okay. And just one quick question if I may ask on the hydrocarbon margins, you have always maintained that 8% to 9% may be the most sustainable margin there. But for the consecutive second quarter, the margins have come out very, very nicely. So what's the trend there that we can foresee over the coming quarters? What is the sustainable margin there in the hydrocarbon side?

- Arnob Mondal:** Varun, here again I would like to urge you not to take quarterly number, especially margins, because they tend to become lumpy. One large project crossing our margin threshold would lead to a bump up in margin, one large claim in a quarter could lead to a bump up in margins. But just look at if the margins that they are getting now are on a slightly longer term basis, not the quarterly numbers but nine months appears to be sustainable, assuming that execution efficiency continues at this level.
- Moderator:** Thank you. The next question is from the line of Deepak Krishnan from Goldman Sachs. Please go ahead.
- Pulkit:** Hi, sir. Good evening. This is Pulkit. Sir, two questions. Firstly, we heard that there were some larger releases from various government department, payment released in the month of December. Anything that you saw in terms of big payments that came in during that particular month?
- Arnob Mondal:** I would not like to comment on individual projects. At our level we can't get absolute granular level details on every project we get.
- Pulkit:** Sir, basically, what I am trying to gauge is that despite a muted quarter on infrastructure execution, fourth quarter clearly we are not sounding as worried. So I am just seeing that is the momentum looking a little better than what it was a few months back? That's basically what I am trying to gauge.
- Arnob Mondal:** I mentioned three areas where we lost a significant amount of revenue, quarter after quarter, Andhra Pradesh, Coastal Road as well as in Delhi in Q3, NCR region. So since those appear to be getting resolved, two are already resolved, the AP one is getting resolved. Number one, part of the confidence stems from that. Secondly, the other part stems from the fact that, I already mentioned that usually Q4 is a quarter when most of our customers release payments to exhaust their payment commitment budgets. Apart from the fact that there is no artificial or natural seasonality in Q4, all of the quarters have some sort of seasonality, either very hot months or monsoons or too many holidays. But Q4 does not have all that.
- Pulkit:** Fair point. My second question is, now that 50% of our international order book is non Middle East, and particularly the last couple of quarters we have seen a pretty significant inflow of orders from international. Could you just give some qualitative difference between ordering in Middle East and non-Middle East, either in terms of risk or in terms of profitability? Anything that you can share on that?
- Arnob Mondal:** See, one thing I can say is that operation in the Middle East has become a bit more challenging than it was in earlier years, primarily due to localization efforts there. That's one basic difference that is there. And you would recollect, Pulkit, at one point of time our dependence on Middle East was very high and that is one of the reasons why we moved into parts of East Africa, North Africa as well as Southeast Asia countries.

- Pulkit:** But because these are relatively new geographies, just from a risk perspective, how are we sort of protecting ourselves? Because these are not primarily great geographies historically. So just wanted to understand that part a little better.
- Arnob Mondal:** Every project that we bid for goes through a pre-bid risk assessment where all the risks are assessed. And only if all major risks can be mitigated do we bid. To our reckoning, we do a decent due diligence on assessment of risks before putting in a bid for, every single project.
- Moderator:** Thank you. The next question is from the line of Ajinkya Bhat from Macquarie Capital. Please go ahead.
- Ajinkya Bhat:** Sir, my question is, in yours comments about margin you mentioned about tapering off some losses in transportation infra. So could you throw some color on when those loss making projects are likely to get completed, let's say, would that be in two quarters from now, three quarters from now? And do you have any internal guide path for infrastructure EBITDA margins to go back towards 9% kind of range?
- Arnob Mondal:** Ajinkya, you would appreciate that we don't give any guidance for individual segments, we give guidance for all businesses excluding services business. Because services business, as you are also aware, has a very different margin profile. So, yes, transportation, in fact, a few projects we did incur losses in FY19. When we say incurred losses, we provided for foreseeable losses, but that means that the remaining part of the project has to be executed on zero margin. So that obviously depresses margins to some extent. But once those are flushed out, then you could see a better margin profile. And we will give you a better color on overall guidance when we declare our results in the month of May, because by that time we will have completed our budgeting exercise, and the bottoms-up assessment of where our next year's margins are likely to land up with, what position it could be.
- Ajinkya Bhat:** But any timeline on when those projects might get completed, is it two quarters worth of execution left, three quarter?
- Arnob Mondal:** Ajinkya, different projects with different timeline, so I can't talk about individual projects either.
- Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kota Institutional Equities. Please go ahead
- Aditya Mongia:** So, I had a few questions. The first one was on the hydrocarbon segments. Now, as your press releases suggests, you have bagged almost nothing in the quarter gone by. Is it reflective of limited bids that one can be making of heightened competitive intensity in that segment?
- Arnob Mondal:** So actually, see, Aditya, hydrocarbon is one sector where usually the big sizes are pretty chunky, fairly chunky, could be anything between \$400 million, \$500 million, \$600 million, \$800 million dollars or \$1 billion dollars or so. And obviously, the Middle East and even in India some places where investment traction is happening. So these are very fiercely competitive, every large

international hydrocarbon EPC major tends to bid for these. So we have lost quite a few bids in Q3. And that's the reason why Q3 order inflows are practically close to zero. But the fact is that we would prefer to be very disciplined in our bidding rather than get orders at any cost, and this business has over Rs. 45,000 crores of orders in hand which is a very, very healthy situation for this business. So we are not desperate to bag orders. But the ordering is happening in hydrocarbon, both internationally and in India.

**Aditya Mongia:** Sir, just a related question, what do you think are the sustainable margins of the segment? Because the margins have been quite volatile over the past few quarters. And obviously, there are some claims impact, but would you suggest that 10% or above can actually be sustained in this segment or should one be thinking through lower numbers?

**Arnob Mondal:** Ajinkya, I have answered this question earlier. I said that if execution efficiency remains at the same level, then these margins appear to be sustainable.

**Aditya Mongia:** Sir, the second question was more on the infrastructure pipeline of Rs. 102 trillion that has been talked about by the government. Now, just wanted to get your sense as to whether on ground anything is changing for you to be believing that such large amount of CAPEX can actually happen? Let's say, issues of cost and time, to my understanding nothing as broadly changed, but if you could highlight something different would be useful.

**Arnob Mondal:** See, Aditya, even today around Rs. 14 lakh crores of spending, I am not talking about ordering, I am talking about cash spend. Even today happens year-on-year. If you take central government, for example, this year the central government's budgetary allocation is Rs. 3.3 lakh crores. Last year, state government spending was more than Rs. 6 lakh crores, we assume that it will come down to around Rs. 5 lakh crores this year. PSU CAPEX spends are another Rs. 5 lakh crores, multilateral funding came in around Rs. 70,000 crores. So, we are talking about Rs. 14 lakh crores on a regular basis, and this is without considering any nominal GDP growth. And this Rs. 102 lakh crores spend that you are talking about is over six years. So, if you take on an average Rs. 15 lakh crores and you multiply it by 6, you straightaway get Rs. 90,000 crores. So it's not too far from the numbers put out by the government, even though the funding pattern is yet to be established, but this sort of spend doesn't seem to be very, very fanciful as far as number crunching is concerned. If you consider the things that are happening today. And on a \$3 trillion economy, Rs. 14 lakh crores means \$200 billion, that's around 6.5% of the GDP, which is a reasonable assumption, if you ask me. It's not too fanciful.

**Moderator:** Thank you. The next question is from the line of Ankur Deore from Bank of America. Please go ahead.

**Ameesh:** Arnob, this is Ameesh here. Just a couple of questions. First on, the 10 toll roads that we have, I believe at some point in time, there was some arrangement to put it into an InvIT as well, right? What's the progress on that?

- Arnob Mondal:** There was no arrangement to put it under an InvIT. Every asset that will go under an InvIT has to go on its own merit. There is no prior understanding as such.
- Ameesh:** Okay. So, do we have anything in the work right now relative to those 10 projects?
- Arnob Mondal:** See, it will obviously be our focus area to see whether we can minimize our exposure to asset ownership in infrastructure space. So, we will obviously be examining all the possible ways of doing so. Whether that would be further dilution of our equity stake, whether that will be divestment of assets to an InvIT, or any other shape.
- Ameesh:** And if possible, can you give us some perspective on what is happening on your realty side of the business?
- Arnob Mondal:** As far as realty is concerned, if you take all the projects that we have launched, we have launched around approximately 5,000 flats, we have handed over around 2,000 flat for which revenues have been credited to the P&L account. We still have 3,000 facts to be handed over, of which 1,800 flats have been sold and 1,200 flats are yet to be sold, a broad brush picture, give or take 10, 12 here and there. Ultimately, the revenues of 3,000 flats are being credited back to the P&L over the next few years. Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would like to hand the constants over to Mr. Arnob Mondal for closing comments.
- Arnob Mondal:** Thank you, ladies and gentlemen, for a patient and interactive hearing. And with this we will close this session. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Larsen & Toubro Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.