"Larsen & Toubro Limited Q4 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q4 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 the conference call, please signal an operator by pressing '*' and 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 morning, ladies and gentlemen, a very warm welcome to our Q4 &FY20 earnings call. The analyst presentation was uploaded on our site last night around by 8 o'clock or so, I hope all of you have downloaded it. The format that we will follow is that my colleague and all of you would have met him or talked him sometime, Mr. Harish Barai will walk you through the presentation and after that, we will open the session to questions and answers which Mr. S. N. Subrahmanyan, CEO & MD as well as Mr.R. Shankar Raman, Group CFO will take. Just one small point since Mr. Subrahmanyan and Mr. R. Shankar Raman will be taking the Q&A, I would just request all of you to kindly concentrate on broader things like strategy and business and if you have any nitty-gritty questions, you can always ring me up or send me a mail offline subsequently. With that, I will hand it over to Harish. Harish, you can please go ahead.

Harish Barai: Thank you, Mr. Mondal and good morning, ladies and gentlemen. Once again, very welcome to all of you into the Q4 & FY20 earnings call of Larsen & Toubro Limited. I will move onto the next slide on 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 the 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 onto the next slide which is Slide #4, the performance highlights for FY20.

Our order inflows for FY20 at Rs. 1,864 billion, registered a growth of 9% over the previous year. Our revenues for FY20 at Rs. 1,455 billion, registered a growth of 8% over the previous year. And our EBITDA and PAT for FY20 grew at 7% each over the previous year. Our order book as on March 20 is at Rs. 3,039 billion, up 4% over March 19. These numbers have to be seen in the context of the current domestic macroeconomic environment. FY20 order inflows grew by 9% even in the phase of subdued business environment and economic challenges.

Coming to revenues, despite carrying a large order book, we consciously slowed down execution to prevent further working capital buildup. Payments from the public space as you know have not been very encouraging during the year. Secondly, as you are aware 5% of our order book was not moving for most parts of the year. Lastly, COVID-19 also impacted revenues in the March quarter. Despite all these challenges, our revenues for the year FY20 grew 8%. If we were to just summarize, we could say growth achieved in a difficult year.

With those comments, I will move onto the next slide on key financial indicators. Now, the quarterly numbers are mentioned on the left portion of the slide and the full year numbers are on

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your right. Since we have broadly covered the full year numbers in the previous slide, in this slide I will mainly focus on the quarterly numbers. Our order inflow in Q4 FY20 at Rs. 578 billion, up 5% primarily on the back of significant orders received in the infrastructure segment. Our order inflows have grown in Q4 FY20 despite a high base in the corresponding quarter of the previous year. Our revenue for Q4 FY20 at Rs. 442 billion, up 2% despite challenges faced due to COVID-19 and work from home or lockdown kind of environment in the last fortnight of the quarter.

Our EBITDA and PAT for Q4 FY20 at Rs. 51 billion and 32 billion respectively, has registered a degrowth of 3% and 6% respectively, mainly due to execution challenges that are arising out of not moving jobs and impact of COVID-19. Just to mention here, we lost about Rs. 17.5 billion of revenues in Q4 due to COVID-19 and around Rs. 4 billion of PAT which includes COVID-19 provisions in FS business and around Rs. 15 billion of collections due to partial/complete lockdown in the last fortnight of March 20.

Some comments on working capital. Our net working capital at 23.7% in March 20, is up from 18.1% in March 19. As I mentioned in the earlier slide, payments from the public space has not been very encouraging during the year. In addition, you would recollect that we had to support our vendor ecosystem in Q1 of FY20. Now at this juncture, I want to just mention that as a company philosophy, we have been doing a balancing act between revenues and working capital for last couple of years now. Secondly, we would also like to mention here that despite a tough March quarter, there has been no sequential working in net working capital levels from Q3 FY20 to Q4 FY20. Lastly, contrary to popular perception, we did receive collections from clients even during the last week of March 20 and we have enough liquidity buffers on our balance sheet.

Our return on net worth for financial year FY20 is at 14.8% from 15.3% in March 19. As I said, our inability to execute 5% of our order book during large parts of FY20 as well as the COVID impact in the last quarter had an impact not only on the revenue growth, but also impacted PAT and consequently our return on net worth.

With those comments, I will move on to the next slide which is Slide #7, Q4 FY20 order inflow, order book. Our order inflow numbers again on the left, order book on the right. Our Q4 order inflow at Rs. 578 billion, up 5% over the corresponding quarter of the previous year, largely on the back of strong domestic order inflows in an otherwise subdued March quarter. It is good to note that domestic orders were back in Q4 FY20. In FY20, we managed to secure almost the same level of domestic orders as last year. Our order inflows for FY20 at Rs. 1,864 billion, up 9% over the previous year, largely on the back of international orders. We had international order wins in power transmission and distribution, metallurgical and material handling business, water affluent and IT&TS segment.

Coming to order book, yes, a strong order book provides a good hedge against cyclicality. You will observe from the numbers that our international order book as a percentage of total order book has moved from 21% in March 19 to 25% in March 20. Today, we have 6 business verticals where each of their order book is between 9% to 15% of the overall order book. They are

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buildings and factories, water, power transmission and distribution, heavy civil infra, transportation infra and hydrocarbon. Diversity of order book helps and future revenue growth is not dependent on the fortunes of any single vertical.

With those comments, I will move onto the next slide, Group performance – Sales & Costs. Since we have already explained the revenue variance for Q4 FY20 and FY20, we will move onto other P&L Items. If you will observe, MCO as a percentage of sales has declined for Q4 FY20 and full year FY20, largely explained by two factors; 1) due to the higher proportion of IT&TS business which is largely due to Mindtree consolidation and secondly, due to cost control initiatives within the group. Finance charge opex largely represents borrowing cost of financial services business. Staff cost increase for Q4 FY20 and FY20 is largely explained by Mindtree consolidation and resource augmentation in our service businesses.

Sales and administration increased for Q4 FY20 and FY20 is mainly on account of credit provisions in the financial services business and Mindtree consolidation. Consequently, our total Opex at Rs. 391.3 billion for Q4 FY20, up 3% and total Opex for FY20 at Rs. 1291 billion, up 8%.

With those comments, I will move onto the next slide which is Slide #9, Group Performance – Profit Stack. For reasons explained in the previous slide, our EBITDA for Q4 FY20 at Rs. 51.2 billion, has registered a degrowth of 3% and EBITDA for FY20 at Rs. 163.3 billion, is up 7%. The finance cost increase for Q4 FY20 and full year FY20 is commensurate with group debt levels reflective of the scale of operations and phased commencement of Hyderabad Metro. Our average borrowing cost at the parent level in FY19-20 is around 7.5%, which is one of the lowest amongst corporates. Our parent company as you know enjoys the highest credit rating in India.

Higher depreciation charge for Q4 FY20 and FY20 is on account of Mindtree consolidation and write-off used assets. Other income is reflective of the level of short term investments at a group level and higher yields earned during the year on those investments. JV/Associate PAT share reflects IDPL assets, forgings and power JV's performance. NCI variation is largely due to Mindtree consolidation, increase in LTI, LTTS share and moderated by lower financial services profits. E&A business has been classified as discontinued operations. Consequently, our Q4 PAT at Rs. 32 billion, has registered a degrowth of 6% over the corresponding quarter of the previous year and our full year PAT at 95.5 billion, up 7% over the previous year.

With that, I will move on to the next slide, which is Slide #11, Segment Composition: This slide on segment composition is essentially for reference purposes. 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.

Moving on to the next slide, FY20 Order Inflow Composition: This slide is again for reference purposes. As you can see, 55% of our total order inflows in FY20 is from the infrastructure segment. If you recollect, up to 9 months FY20, infrastructure as a percentage of total order

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inflows was 48%, essentially means that our Q4 FY20 order inflows have largely been powered by the infrastructure segment.

Moving on to the split between domestic and international, 68% of our total order inflows are domestic and 32% international. Now last year, in FY19, our international order inflows were 26% of the total order inflows. In this current year, 44% of our international order inflows is from GCC whereas in the previous year FY19, 33% of our international orders was from GCC.

We will move on to the next slide, FY20 Order Book Composition. As you can see, 89% of our order book of Rs. 3,039 billion is dominated by infrastructure and hydrocarbons. Within infrastructure, as I mentioned earlier, the order book is very well diversified across five large verticals. We are predominantly an India centric company and, therefore, 75% of our total order book is India based. Now over the last couple of years, we have tried to consciously move away from the Middle East. These efforts have borne fruit and about 44% of our international order book today is non Middle East.

With those comments, I will move on to the next slide, FY20 Revenue Composition. This slide is, again, for reference purposes and there are no major observations in this slide. Except that, Infra continues to dominate the revenue pie at 50% and secondly, 67% of our total revenues in FY20 is domestic. And within international, 42% of our revenues is Middle East.

With those comments, I will move on to Infrastructure Segment, Slide #15. Now infrastructure segment, as you are aware, is the largest segment within the group. And obviously, the financial fortunes of this segment impacts the group performance. Quick comments on order inflows before we move on to other financial parameters. As I said earlier, the segment has witnessed strong order wins in Q4 FY20, both from domestic and international in an otherwise challenging quarter. Our full year order inflow and the infrastructure segment crosses the Rs. 1 trillion mark in FY20. Order wins were in varied areas of health sector, affordable mass housing, power transmission and distribution, renewable energy, airports, industrial water systems, water supply and distribution projects, hydel projects, network management system, gold beneficiation plant and railway freight facility package. Consequently, the order book of this segment is Rs. 2.20 trillion as on March 20.

Coming to revenues: For FY20, Infra revenues at Rs. 730 billion, is up 1% whereas for Q4 FY20, infra revenues at Rs. 253 billion, has registered a degrowth of 6%. Now, muted revenue growth for Q4 FY20 and FY20 is largely reflective of execution challenges on account of stoppage of AP jobs, slow moving orders, funding constraints and finally impact of COVID-19. And as I said earlier, we would not compromise our balance sheet for the sake of execution. Due to this inability to execute jobs in a tough environment and also the fact that some of our large value jobs did not cross the margin recognition threshold, finally impacted margins for the segment. As a company philosophy, we do not recognize margins till the jobs cross a certain margin recognition threshold. Secondly, Jan to March quarter is a seasonally strong quarter for progress in the infra segment. We have also been impacted by the slowdown and finally leading to the

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lockdown in the month of March. Consequently, our FY20 margins for the segment have moved from 8.5% in FY19 to 8.1% in FY20.

We move on to the next segment, which is the Power Segment, Slide #16. Strong order inflow in the current year replenishes the order book and provides healthy revenue visibility for the coming quarters. Revenue for the segment at Rs. 5.6 billion for Q4 FY20, registered a degrowth of 40% whereas revenues for the full year FY20 at Rs. 22.9 billion, registered a degrowth of 42%, largely reflective of the depleted opening order book and tapering of international jobs. The new job awards during the current year are yet to pick up execution momentum. Margins again are reflective of job mix and state of execution. The substantial increase in Q4 FY20 and full year FY20 margins is on account of client claims. Finally, as a you are aware, Power business margins always appear optically low because Boiler and Turbine JVs as well as other power JV companies are consolidated at a PAT level under the equity method.

With those comments, I will move on to the next slide which is Slide #17, Heavy Engineering segment. A quick comment on order inflow before we move on to other financial parameters. This business segment had a robust order inflow in the previous financial year which is FY18-19. Current year award is impacted by deferments. However, that again, I guess to some extent would be dependent upon the economic cycles of global oil and gas industry. Revenues for FY20 at Rs. 28.5 billion, up 31% largely driven by the strong opening order book. Q4 FY20 revenues have largely been impacted by client delays and shutdown.

Coming to margins, global competence, technology differentiation, proven track record and cost efficiencies yield strong margins for this business. Q4 & FY20 margins have been impacted by cost provisions.

We will move on to the next segment which is Defence Engineering which is on Slide #18. Policy bottlenecks, fiscal constraints and lengthy MOD procurement procedures have continued to beset investment momentum in the sector for many years now. Consequently, large order inflows are missing and order inflows in the current financial year comprise of multiple small value orders. Having said that, the very recent announcement from the time bound depends procurement processes and faster decision making awakens hope for the future. Announcements around separate budget provisioning for domestic capital procurement are also a positive. FY20 revenues at Rs. 39.7 billion, up 6% led by the noteworthy progress in the execution of a marquee order for tracked artillery guns. Q4 FY20 revenues at Rs. 9.3 billion, down 15%, largely impacted by delays and non-receipt of targeted orders. Margins reflect stage of execution, job mix and operational efficiency. L&T Ship Building Limited, a 100% subsidiary under the Defence Engineering Segment has now been merged with the parent after obtaining NCLT approval. However, this does not have an impact on group financials even the advertisement.

Moving on to the next segment which is the Hydrocarbon segment, this is on Slide #19. Hydrocarbon segment has been doing very well. And today, there is an unexecuted order book close to 3 years of revenue. Hydrocarbon business had significant order wins in the current financial year, from both domestic and international markets. Slowdown in Q4 order inflows

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was largely due to global volatility in oil prices. Moreover, Q4 FY19 had a large international order which is the last year last quarter of FY18-19, so the base effect obviously comes to play again. Strong revenue growth of 15% for Q4 FY20 as well as full year FY20 on the back of in-line execution of large opening order book. Finally, margins are contributed by efficient execution, job mix and claims.

Moving on to the next segment which is the Development Project segment. Now, Development Project segment comprises of as you know 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. Here again, roads and transmission lines are consolidated at a PAT level under the equity method. So obviously the numbers presented in this slide do not include roads as well as transmission lines. Now the balance stretch of Hyderabad metro was commissioned during Q4 FY20 with which the metro is now fully commissioned. Revenue of this segment is largely contributed by power development business. For Q4 FY20, the revenues of this segment at Rs. 9.8 billion, down 9% largely due to the maintenance shutdown. It is a regular maintenance shutdown of 1 power unit during the period. Secondly, lockdown impacts, metro ridership in March 20. Full year FY20 revenues at Rs. 48.5 billion, down 4% largely due to Kattupalli port sale in the previous year. Margin profile of this business segment is still emerging primarily because the final outcomes will depend on the various claims that we have filed in respect of metro and the court cases in Nabha Power. While metro ridership is dependent on external factors, we will be working towards TOD monetization, financial restructuring and induction of equity partners.

With those comments, I will move on to the next segment which is the IT&TS segment. All the 3 companies in the IT&TS segment are listed companies and they had their earnings call as well. All the numbers are available in public domain. Revenues from the IT&TS segment for Q4 FY20 at Rs. 63.5 billion, up 68% and for full year FY20 at Rs. 221.4 billion, up 54% primarily because of Mindtree consolidation from Q2 FY20 onwards. It is important to note here that all the 3 listed IT subsidiaries have posted healthy Q4 numbers in an otherwise challenging quarter. An array of business verticals has contributed to the strong growth within each of those companies. The details are mentioned in the slide. It is important to note that each one of the listed subsidiaries has smoothly transitioned to work from home environment during the pandemic with encouragement and support from customers. Margin variation again is an outcome of increased resource cost.

We move on to the next slide which is Slide #22, this is on the Other segment. The other segment comprises of Construction and Mining improvement, Rubber processing machinery, Industrial valves and Realty business. Q4 FY20 revenues of this segment at Rs. 11.3 billion, down 13% largely due to the delayed handovers in Realty business. Secondly, low demand impacts construction and mining equipment revenues. However, valves business records growth on the back of large growth in order book. FY19 revenues and margins of this segment are higher compared to FY20, primarily because previous year included lumpy sale of commercial premises in Realty business.

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Moving on to the next slide which is the L&T Finance Holdings Group. L&T Finance Holdings, a listed company again, and they had their earnings call as well. All the numbers available in public domain. For Q4 FY20 as well as FY20, income from operations has grown 6% and 9% respectively. The group over the last couple of years has demonstrated tremendous resilience despite the challenges facing the NBFC space. The group continues to maintain healthy capital adequacy level and sufficient liquidity buffers in its balance sheet during these challenging times. L&T Finance Holdings and all its lending subsidiaries have been reaffirmed AAA from all the 4 rating agencies. Company 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 ALMs as well as diversification of fund sources over time. Without getting into the numbers above, let me mention here that FY20 profits have largely been impacted due to one time restatement of opening deferred tax assets post migration into the new tax regime. Q4 FY20 profits have largely been impacted on account of credit cost arising due to COVID-19 provisions as per RBI guidelines.

With those comments, I will move on to the next slide, which is Electrical and Automation, this is on Slide #24. As mentioned earlier, E&A business has been classified as discontinued operations in FY20. You would have observed in the earlier slide that PAT from E&A business is being aggregated as a separate line item in our profit and loss account. FY20 revenues at Rs. 52.3 billion, registered a decline of 10% primarily due to reduced industrial offtake in a soft demand environment. Muted revenues in Q4 FY20 are a product of soft demand and COVID lockdown. Consequently, margins are also lower in Q4 FY20.

We will move on to our final slide on Environment and Outlook, this is Slide #26. Now, just when some green shoots of economic recovery were visible in early parts of Q4 FY20, India got impacted by COVID-19. Consequently, India's real GDP growth fell to 3.1% in Q4 FY20 and full year FY20 real GDP growth fell to 4.2% versus 6.1% in FY19. Now, government of India and RBI both put together have announced total measures of 20.97 trillion which is roughly about 10% of our nominal GDP. Being an exception year, both the central government and the state governments will be borrowing an additional Rs. 9 trillion for FY21 to substitute for the shortfall in tax revenues and handle the forecasted expenditures for the year. Now as a company, we are back to our feet and at present, 90% of our sites are operational. Secondly, around 40% of labours is available with us today. We are in the wait and watch mode and any type of forecasting is fraught with uncertainties till the macroeconomic situation stabilizes. We will be reworking our numbers once it does settle down, in fact even the government of India is waiting to recompute the budgets for the year. So, if you have to talk slightly longer term, government has come out with a detailed road map around national infrastructure pipeline with projects of 111 trillion. Around 85% of this total NIP spends will be in areas like energy, roads, railways, urban infra and irrigation. Since we are present across the entire infrastructure spectrum, we will definitely benefit from this spends. We believe much of it is achievable, India achieves a nominal GDP growth of 9 to 11% over the next couple of years which is not a tall ask for any means whatsoever. We do believe that our large order book, strong balance sheet, robust business portfolio and our capability spectrum will get us through this challenging period. Moreover, 80% of our domestic order book is from the central government, state government and PSUs. Believe

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me, government credit risk is the best risk to have in these challenging times. Thank you everyone for the patient listening and we will now commence the Q&A.

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 Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: Hope you and your teams and families are keeping safe in these unprecedented times. Sir, I have two questions where the first question is, what is the proportion of slow moving or non moving orders currently due to COVID-19 or due to other factors?

R. Shankar Raman: SNS, I can take this. Sumit, during the course of the year, we have been actually removing some of the non moving, in our assessment difficult to execute project. So, for the entire year of FY20 where we have reported 3,03,000 crores order book is after removing about 29,000 crores during the year in aggregate and it is not specific to COVID, it is specific to issues surrounding the project as an award. For example, all the Andhra Pradesh orders that we won in the prior year which is due for execution in the current year got removed and likewise there were some orders which are subjected to green tribunal stay and those have got removed as well and a few of the building orders that the real estate sector took a beating and many of the developers who had placed some orders on us, we had to reassess the viability of those projects and remove them. So, the 3,03,000 crores have next to nothing in terms of non-moving orders. We do believe all the orders that we have reported are executable subject to of course the current pandemic situation.

Sumit Kishore: And because of the pandemic situation, you would say what portion of the order backlog is probably non-moving?

R. Shankar Raman: No, as I was telling you we think all the orders that we have in the order book are executable and they are capable of moving forward. The only uncertainty is how long is this restriction and movement of people, movement of goods, etc., are going to exist in the larger scheme of things in India and once those are sorted out, I think each of these 3,03,000 crores is executable and not slow moving.

Sumit Kishore: My second question is, could you please elaborate on the order inflow prospects for the year ahead and the visibility especially on the big ticket order prospects, I know there is a lot of uncertainty but within the constraints?

S N Subrahmanyan: Little early my friend, but as we see it, we see good prospects, the good is a smaller, nice word to use nowadays, reasonable prospects in some of the segments like heavy civil, power transmission, water and heavy engineering. These are expected to gather momentum over time. There are fairly large value tenders on hand and that was the norm we don't get into the specifics. Other tenders which are fairly large value tenders on hand, both domestic, Middle East as well as from Africa and this should see the light of the day as we go forward. We are L1 in quite a few of these tenders, there were also fair amount of proposals on hand to take it forward. Some other businesses like hydrocarbon, buildings, transportation, we see the prospects but not

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immediately, maybe it will start coming back into stream by Q2, Q3 and may be those will be something which frutifies in the later part of the year. Construction equipment and business like that we expect the momentum the later part of the year as you would know the mining sectors have also been opened up, we do expect fresh investments to come in, we expect mines which have been blocked but now can be opened up from a mining activity point of view to be opened up for the later part of the year or may be sometime in the early part of the first quarter of next year, I mean the January, March part of the quarter and therefore those would also pick up at that time. So overall, there is nothing to say that it doesn't look very good but it could be better, looking so positive.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC. Please go ahead.

Mohit Kumar: Congratulation on a good order inflow in a tough environment, how is the execution is spanned out in Q1 as the working capital challenges and how has the activity picked up in recent weeks and when do you expect things to go back to a slightly normal level and the challenges, can you comment on that?

S N Subrahmanyan: As I see it, it is a no-brainer that April and May have been difficult. India is one of the few countries or probably the only country in the world which had a total lockdown and lockdown in my opinion was enforced fairly strictly in most parts of the country with not only the states taking strict powers, but also the local district magistrate, taluka chief and others aggregating sufficient powers to ensure a total lockdown. Therefore, whatever billing could be done was more on the engineer procurements and certain minimal activities from safeguarding point of view but not much of work could take place. It is also a fact that we had held back nearly 160,000 laborers in our various labour camps and facilities and to hold human beings more than 2 months is no means an easy task. We did give them wages, we gave them breakfast, lunch and dinner, we took care other medical and such facilities. And as far as domestic is concerned, there are hardly any cases of COVID positivite or any other facts from that point of view. So, I think our administration has done a reasonably good job from that point of view. It is clear that due to psychological reasons, due to the need to go back to the families, due to the various media and such are the news that is coming out, as soon as the restrictions were limited, the labour did want to go back to Bharat as we call it from the villages and towns, predominantly from the Northern and Eastern part of the country and much of the Shramik trains and other facilities that the government had opened up were filled with these laborers going back and quite a bit of them must have been Larsen & Toubro labours in our rolls too. So now the challenge in front of us to get these labourers back, it is not a new challenge for us as you know in a year, 4-5 times the laborers go back and come back during the harvest season, during the Holi season, during the Diwali season and during other festivities like marriages, etc., so we normally employ about 270,000-300,000 laborers and that means we employed 4 or 5 times . That means about 1 million, 1.25 million people is what we employed because many of them go back, the same labour doesn't come back, somebody else comes back, but that is how they offering. So, this is not something which is impossible for us, we have been doing it every year, so we have put our organization back to work to get back these laborers. Good thing is that most of the people in the country want to work hard, they want to earn their living and by doing the jobs they know and being

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correct about it, so there is an innate feeling in many people to get back to work, now that they have seen their families, seen that most of the conditions are okay. We already got back quite a few laborers, at the pre-COVID it was about 170,000 and during the last 3-4 weeks back, it went down to 70,000, now it has come back to about 120,000. Every day, we are adding about 1500-2000 laborers, the speed of adding laborers expect to pick up and this happens, we need to get back to about 2,20,000 as we see it right now to get back to more kind of activity that we did and if that happens I think we should get back to billing. They should take another 30 to 45 days in my guess, the monsoon is happening also at the same time, so may be at some point of time, we have to be more careful, not only from social distancing and other norms that exist from a work point of view but also form the monsoon point of view because one tends to be careful when monsoon tends to prevent accident and such, so I guess in another 45 days if the pandemic does not reappear again in some manner and does not create any other scare, we should be back and that is one worry which nobody can answer any question as of date. Luckily for us in India, though there are COVID positive cases, the number of deaths or fatality is comparatively, compared to the rest of the world is very negligible, though it is very unfortunate that some deaths are happening, but I do hope that it doesn't become Wuhan as we can pray towards that and that is not in our control to answer that but assuming that is from that point of view something which can be managed and which does not create any further flutter, I think it will get back to very normal thing in about 30 to 45 days, so that is the way I would like to answer that.

Mohit Kumar: And sir, on the working capital challenges in the first quarter?

S N Subrahmanyan: You have to look at working capital in 2-3 different directions right now, yes, the working capital during the last quarter went up a little bit for two reasons. Number one, the clients had their own difficulty in paying, second I think we as an organization also took a very clear view that we have thousands of small scale industries and other small vendors and people who believe in our ecosystem, who trust us and who survive because of the work that we give them and that we extract out of them and therefore it is very important for us to support them and we took a policy inside that all the vendors would be paid and to the extent possible wherever there were issues we sorted them out, we paid them and to that extent some cash outflow is there beyond the collections that we did. As my colleague Shankar and Harish said earlier, even during March, even during the pandemic, we did one of the record collections and even during April and May, the collections have been fairly decent from that point of view. Now, what we got to see that we have to keep to maintain the pressure to ensure the collections continue. A very good thing that has happened and I would like to compliment the government also out here they understood the industry is facing problems in much of the government jobs and as we know 80% of the government jobs whether it is central, state or public sector, a great effort has been there to have dialogues with us and even during the pandemic times, we have had extensive M Teams or Zooms or Bridge Calls or whatever and we have been able to water down the contract conditions to the extent that the payments have been, the advance enquiries have been postponed, certain milestones have been broken down, certain milestones have been preponed, certain way of billing has been altered and therefore the anxiousness on the part of the authorities, whether it is central, state or public sector to ensure that cash flow is maintained during this times as they

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knew that as an organization, L&T and may be others too who were doing a national duty by helping out laborers, maintaining them so on and so forth including facilities and therefore there has been quite a bit of easing on that. So, this should help us next 6-7 months as we go forward and therefore I feel there should not be any major problem in working capital beyond what it is right now. The only negative effect that could arise due to the pandemic going forward as fresh proposals and tenders come into our books, one should be careful to see that due to tightening of budgets, due to non availability of sufficient funds as before, it should not be the case that the government organizations or the public sectors put payment conditions which are more back-ended, which have mobilization advance, secure advance which are high interest bearing and such because that would deviate the payment part of it from a contractual point of view. And as for the moment, we don't see anything but we do expect that something could happen like this in certain cases but as for the moment, things are as they are and we hope to take it forward.

Mohit Kumar: Second question is you did touch a bit upon domestic execution, can you touch base upon the international order execution in the wake of COVID situation?

S N Subrahmanyan: There are two parts international, basically Middle East and Africa and from a Middle East point of view, I think all the orders are going, whatever we have as a backlog in the hand are all executable orders, are all moving quite well. There have been incidences of COVID positive cases there including quarantine of some fair amount of staff and labour in some of the key sites, no major incidents per say, but as a precautionary measure the clients are over reactive there because of may be the less population and more availability of facilities and testing. To that extent, works have slightly got affected for the first two months where things are getting back to normal. So, all the sites are moving, all the clients are positive, payments are coming in and as of the moment, things are moving as they should from an execution point of view. We do expect because Middle East has gone through a double whammy; one, the oil price coming to where it is right now and second, the Corona issue, so we do expect further prospects for Middle East to slow down a bit. Some study indicated that the oil prices will back to $50-$55 somewhere during the end of the year, so may be till the time there will be certain amount of traction from a new proposals point of view but there are new ways of doing business coming up there, we are certainly seeing fair amount of traction on solar, we are seeing various social infrastructure schemes being rolled out and therefore may be there is another way to look at it. Therefore, we are still neutral on Middle East but what is going on is going on decently well right well. From an Africa point of view, some of the states did get affected by Corona but largely it has been less from an overall point of view compared to India or Middle East. There has not been any major quarantine or any COVID positive cases in any one of our sites. The work that going on is normal. There has been some slight non-availability of labour because of the psychological issues of pandemic etc., the people are may be trying to be restrictive in their movement but that issue should be got over in another 14-20 days from a work point of view.

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

Renu Baid: First question is to understand a bit more for an update on the E&A business which was due for sale closure by the end of June, so how are we moving there with respect to timeline and broadly

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what would be the broad planned utilization of the fund given that in the April itself we have raised about Rs. 90 billion of NCDs, so how should we look at the sale transaction along with the utilization of the fund thereafter?

S N Subrahmanyan: From EAIC sale point of view, the transaction was supposed to be completed by 31st March. We could not do it because France got locked out around February and therefore the senior people from Schneider could not move out of Paris and their offices and therefore certain work and detailing that how to have been done could not be done. Second from our point of also, as you know this is a business within the Larsen and Toubro existing system and therefore the land involved, properties involved, various building structures involved, there was novation of contracts involved and such it is work in progress, we have come to a fairly high point in terms of closing out much of the issues. I think hopefully as soon as the international travel begins and we are able to sit across the table, a few of these matters which needs to be checked and cross checked and verified before one does the transfer. I guess it gives us another 2 to 3 months and they should be on its way from that point of time and I would request Shankar to answer the other question that you asked.

R. Shankar Raman: Renu, I think the resource raising that we did was actually in anticipation of the requirement for the year. Half of the resource that we raised will be to refinance maturing liability and the other half would be for our growth requirements. So, to that extent, the resource raising has been more of using the proceeds for the year's requirement. The proceeds that Schneider transaction would release is actually capital unlocking and we would like to possibly use the proceeds the right size the capital allocation that we have done to our large projects like say Hyderabad Metro and stuff like that.

Renu Baid: And second would be, to align the capital allocation, do you think there would be any requirement for equity infusion in any of the subsidiaries which could be a bit strained during this lockdown period, specially there has been lot of investor concerns on capital infusion required in finance holding, so any view on that?

R. Shankar Raman: Finance holding is debt play, if you want to retain the AAA that we are, our debt equity has to be around 6-6.5 and currently it is almost at 5.6-5.7. The growth has slowed down and hence the disbursement has slowed down, so recycling the existing capital on collections, etc., to meet the current requirements at this pace of operation is okay but if the operations were to pick up in let us say, second half of the year, post monsoon, the rural India settles down and operation picks up in rural India, a lot of our disbursements go there, then possibly we might have to relook at the need for capital. This business, every 2 years, every 3 years depending on the growth would go in for capital injection because that is the nature of the business. So, I think when we come to that point, we might have to look as to whether further capital for the company is required and we will also have to take stock of the market since at that point in time for either dilution or in terms of raise. Those bridges, we will cross at that time.

Renu Baid: And my last question would be relating to the asset monetization strategy, now that large two assets are left in the portfolio which are yet to be monetized, we have the Nabha Power Plant

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left with you, so what would be the broad outlook in terms of the road map for kick-starting the monetization process partially or fully for both these projects specially on Hyderabad Metro, there was some InvIT structure planned over the next 24 months?

R. Shankar Raman: I think unfortunately the plan was cooking up nicely and then this pandemic happened through a spanner in the wheel, so first we will have to wait for the trains to start. As you know, as a part of this lockdown, the Metro network has been shut and whatever ridership that we are having in pre-COVID has come to zero now being the case of the last 2 months. We will have to wait and watch when the state is confident to open it up and then the ridership has to climb back and secondly, we also through this period of lockdown experienced all of us that it is possible to work from home and be productive, so many companies are reviewing their policy about how much of infrastructure they should incur by setting up large grand offices or how much can actually be achieved from sitting at homes. So, I think every organization will go through some reassessment of this requirement and that will also have a bearing on the leadership because Hyderabad as you know like Bangalore is a very IT strong computer traffic, so to that extent we have to wait and watch as to how these developments happen. Ultimately, it will happen because our intention to unlock capital is very much on cards, no change in that strategy, timing could have to suite the environment.

Renu Baid: So probably it might be FY22-23, that bucket rather than 21 for at least the Nabha project as well?

R. Shankar Raman: You should say good things, why don't you please, these things can improve fast and we can get back fast, so we will do it ASAP, Renu.

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

Venugopal Garre: My first question is more to understand the contraction obligations on the number of projects you have given that they are several sites and several projects you simultaneously work and each of them might have different obligations. The backgrounder to this is that in a situation where you have a couple of, let us say, 1 to 2 months of delay has already happened. So, two things happened, one is ofcourse there would be extra cost because you would have some lease equipment where you are paying money, you would have paid money to labour while this work going on and more importantly we will of course see some delay in terms of timeline of delivery of the project. The third thing is the fact that you are adding into a monsoon season, so I am assuming that when you create your project schedule, you always decide what to do during monsoon and what to do pre-monsoon, so that could also have potentially some impact on how you look at project execution and not see the labour challenge which I am assuming will be less as we go forward, so putting all this into picture, as we manage to negotiate on all our contracts to get cost overruns part and assuming execution timelines of course will get pushed out and if that is not the case, how do you look at provisioning cycle through the year?

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S N Subrahmanyan: I think let us be positive on this. We knew this Corona was hitting us and we think as a management we were agile enough to get back to all other sides on what to do and what not to do. Luckily for us, the company split up into various verticals, though on an overall basis, there could be about 950 odd size, India and International put together. When you look at it IC wise, some ICs are just 35, 60-70 size, some ICs may be 200 size, but one could do that including some of the workshops were contracting, work is taking place in terms of fabrication etc., one could do that and since there is also a fairly good robust risk management process within the company, broadly the kind of contractual obligation that we have undertaken in terms of what kind of risks we have, may not be in terms of pandemic but in terms of some stop down etc. were rather clear. Some contracts, it could be hazy but most of the contracts are very clear. So we did 2-3 things immediately, number one we went back to all our sites to read the contract and write the necessary letters to the client because the contract is not in obligation from our side which is dripping, it is also an obligation to the client consultant which was not coming through that they were also working from home was not able to work etc., they were not coming to the offices, they need to give us drawings, they need to approve something, so that process is also on. So, it is a tip from both sides and therefore in many cases, either the force majeure clause or certain clause towards that we are riddling and we need to be compensated, etc., have been taken up and that is work in process as to how to get the cost reimbursed. At the same time, within the company, I think we put up an elaborate structure in place as staff focus within various ICs to look at how to optimize resources, to look at how to ask certain people or service provider or others to stay at home, to ask discounts. The prices have also come down, the commodity prices are coming down, the oil prices are coming down, that means the logistics and production costs will come down. On a high charges point of view, we said the equipments are idling so give us discount or take it away. Though we have managed our labour for much of these months, there is also a diktat from the government from the Ministry of Home Affairs that most of the client should reimburse us, so there are letters from most of the clients and some clients had even started paying us in terms of reimbursing the labour based on records, etc., that we are showing, collecting and proving it to them and such and that is why I think is a fair play on. At the end of the day, there is a disruption but from a cost point of view, yes, the fixed cost would definitely catch up, but that has to be rubberized over performing better in the next 10 months or 9 months that is available. How much we would be able to catch up is what we need to arrive at in some uniformity within the next 30 to 60 days as they are not able to gauge it right now. Monsoon is the factor, but off late we have learnt to live with monsoon, we have learnt to work with monsoon unless it is very heavy in some parts of the country, then work does get affected for a few days, rather than that work goes on in monsoon, may be if you are pouring x concrete per day may be slightly less but at the same time we work extra shifts etc. and work goes on because it is also good time to do the work from the climatic point of view. And therefore, overall, I don't think one needs to unduly put a measurement here that something has totally gone wrong, but there would be lot of discussions, there would lot of give and take, there would be a cost that has built up which needs to be rubberized over a period of time and that cannot be helped. But at the same time, I would think that there is a very remarkable change in many government agencies may be because the central government diktat that most state government, central government and public sector units are being very fair to make earlier payments, to look at reimbursement of certain

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costs, to admit contractual clauses not necessarily a force majeure, but even of disruption or nonworking and trying to see how to provide for some cost reimbursement. We may not get what we need, but that there is a process involved to get something is fair enough. And maybe we will also have to improve our productivity and speed our work so that some of the sales which, I would say, is still in the backlog, which could not be done during the last two months can be done to get something back. See, the biggest point with an organization like L&T is, it's the brand-evokes trust, it's an 82 year old brand, we are known to perform, we have done things. And therefore, most clients look at us as, 'Yes, disruption took place but this company would catch it up, they would finally keep up their obligations'. And we could restart whatever we need to do on time. And therefore, with that trust I think most clients come back to us in a positive mood to see how to also assist us to pick it up. There was a client in Maharashtra who has come back to us and said that he will take care of all the labour wages for the next three months, just get the labour to site. He said he will fund the food for all the labourers, just get the labour to site. So, there are clients who are extremely positive on us. And therefore, most clients are, I would say, few are neutral. I won't say any client has been negative so far. So, we will get over it. But it will take some time.

Venugopal Garre: Thank you, it is good to hear. Actually, second question is again on government, a very small qualitative question. We just wanted to read from you on one aspect, there is a balancing going on, government seems to be keen to revive the economy, of course, they do have challenges on the fiscal side. When you speak to state governments and central governments, are you seeing any urgency from them at this point of time to kick start new projects in terms of tendering or also pushing you to execute where sites are open, which of course means cash flow side? And more importantly, things like the renewed focus on defense, Make in India, etc., will it finally lead to any large projects coming in the pipeline? That's it from me.

S. N. Subrahmanyan: Okay. From the speed point of view, there are government agencies, both public sector and predominantly central and some state governments, urging us to get back to sites and push the projects. I wouldn't say everybody is doing it, few of them are worried, few of them are worried about budget. Naturally, much of the revenue has also gone down terrifically in these two months, and therefore, I guess they are also scratching their head as to how to go about it, what to do about it. So, some states I would guess that there would be issues, but many other states are positive. Very surprisingly, states in the eastern part of the country, northern and eastern part of the country, northeastern part of the country seem to be wanting to hurry it up, seem to be wanting to really hurry it up. Maybe they have been affected less in the pandemic and they see also the labour coming back, and therefore the feel this is a situation where much of the migration labour would come back, have got to be given employment. And therefore, they see it as a panacea for that problem by seeing that work goes on faster. So, we have letters, we have phone calls, we have local discussions on how to speed up work on basically the northern and eastern part of the country, which is a substantial part of the country.

But the bigger part of the country, from our point of view, is the west and the south where the bulk of the backlog is, and there the key problem is, though the clients would want us to proceed ahead with the work, the key matter is how to attract the labour to these places back again. Because huge

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amount of labour has gone back to the north, central and east. And to get them back with the psychological cloud hanging on this pandemic, is a challenge in front of us. And if we can crack that formula, I think we can get moving there. No government or no state or central or public sector has come back to us saying stop the work, we are going to defer the work, we are going to postpone the work, there has been no statement like that so far, there have been no letters like that so far. We need to, as we get into the works, look into the amount of budget allocation that has been done, and whether these budget allocations are valid, and whether it is for the year. And then do the work according to that. Luckily for us, most of these contracts have price escalation and process towards the time escalation and so on and so forth. And therefore, assuming work needs to be completed in two years, it takes two and a half years, we would get reimbursed from a cost point of view. But that we are spending six more months maybe a little bit of heartache, but I think one needs to look into the situation from that point of view.

Now, on the second question of yours from the defense side, there has been a major liberalization which has been done, though principally I don't agree to that from an organization point of view, and personally on the liberalization that we have done. We have increased FDI from 49% to 74%. Most countries have an indigenous defense industry which is highly protected, even if FDI is improved to 74% or whatever, I don't think any foreign company is going to come here and put into play technology from high tech point of view, from a defense forces point of view or from a national security point of view. They will be more doing fabrication or offsetting kind of work or some low end CKD or assembly kind of work. And therefore, that kind of liberalization I don't see where it goes, except for the fact that few people have announced collaboration with some foreign names, but that will be low end facility, what you call, assembly etc., and not real true manufacturing or high end defense capability. So, we have, as you know, probably the largest defense manufacturing capability in India, that program is going decently. But the money allocated to defense is also under strain because generally the funds availability in defense is always considered an expense which has to be there, but which should not be there. And therefore, that defense side always struggles with the requirement of fund. I call it the permanent status, so it will continue in that manner, I don't see any major change coming up there.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Is there a risk for the consideration to be received from Schneider based on certain milestones? And because the performance naturally will be muted during these times?

S. N. Subrahmanyan: No, there is nothing like that. It is a straightforward deal. There is a concentration, business transaction agreement is signed, there are some conditions precedent as we go forward. Essentially, as I said before, it is on the transfer of properties, it is transfer on the innovational agreements, and the regular few other transfer of some of the vendors and wholesalers and retailers. And that part is going on and beyond that there is nothing else in the agreement, it is a straightforward agreement.

Sujit Jain: Sure. And during these last three, four months, what is your experience in the Middle East geography which is dependent on broadly oil and gas, in terms of closure cost, in terms of

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receivables, collections? And with our past experience of what has happened with hydrocarbons previously with us, do you see those risks coming and hitting us going forward?

S. N. Subrahmanyan: I will answer the second part of it first. See, hydrocarbon went through problems. Many of the L&T businesses which went abroad have had some problems initially, hydrocarbon has had its fair share of problems. It's got a great leadership in one of my colleagues there, Mr. Subramanian Sharma, has got a good set of people whom we have brought in now to strengthen the organization, not only from a managerial point of view, from a risk assessment point of view, from an execution point of view, from a client relationship point of view, engineering point of view, so on and so forth. I think it is a robust and extremely good setup as we see, it is a fantastically good fighting commando force. It has done very well last three years and it continues to perform well. Hydrocarbon has got a backlog of roughly about Rs. 50,000-odd crores, as we see it. 50% is Middle East, 50% is India, therefore it also balances. And from a Middle East point of view, most of the contracts that we have are rigid contracts, good contracts and very essential contracts from a future production point of view, because some of the wells are going down therefore they need to have this to keep up the production from the future point of view. And so, these jobs are all going well.

Where the problem will come, as we see, it is future proposals, future contracts from Middle East, that may see a slowdown immediately. As I said, when you read the Goldman report, the Ramstad report and many other reports that are privy to many other details which we may or may not be aware, and which are much better researched and such are the data scientists associated with them from a research point of view, you find that the oil prices are expected to come back during the latter part of the year or the other last quarter of this year, that is January to March. Therefore, we hope that these prices come back. Also, the oil producing countries, OPEX-plus as they call it, which includes Russia and Venezuela, etc., have cut down oil production by 10 million barrels, roughly about 100 million barrels of oil comes down to about 90 million barrels for oil. They also say that, due to the present low prices, the shale and the Venezuelan hard and in the North Sea some of the rigs are getting decommissioned. And therefore, there is a natural tendency to lower the oil production even from where it is today, it may come down to $70. As such, at the moment, the oil consumption has gone down. But once this oil comes back to normal, the U.S. economy has suddenly generated 2.3 million jobs. Even Indian economy yesterday when you saw some green shoots of economic activity again picking up. Therefore, the world is coming back to order. And let's pray to god there's no W of this pandemic. And assuming all that happens, I assume Middle East will come back from a hydrocarbon point of view. And therefore, I am reasonably confident about it.

From a Middle East spending point of view, yes you to lower oil prices you may not find sufficient proposals during the Q2, Q3 times. But I guess it will come back during Q4. Much of the infrastructure that needs to be created has been done, but surprisingly what is happening there is, suddenly you see a spend towards social infrastructure, that means power transmission, distribution, water jobs and some pipelines and such. And therefore, we will try to capitalize on the opportunities that is available as we move forward.

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Moderator: Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Two questions, first, in terms of the execution expectations, you refrained to give a guidance and rightly so. But could you give us a sense as to how many of the infrastructure projects or percentage of projects are funded through the MFA, central and state government exposure, private sector exposure? Just trying to understand what proportion will remain steady despite all the economic challenges that we see.

S. N. Subrahmanyan: As I see, about 80% of our projects are central government, state governments and public sector units. And in those 80%, about 35% odd is multilateral funded agencies, JICA, JBIC, World Bank, Asian Development Bank, so on and so forth. And the rest is that means 50% are funded directly by the state and central government. As I see it now, we don't see any problem anywhere. The one problem that was there was Andhra Pradesh which we believe was more political in nature rather than economical in nature. There was a change in government and they had some tribulations whether the capital should come up at Amaravati or some other places. The present regime was declared three capitals, and maybe the confusion created out of that they decided whether they needed a capital in Amaravati. And much of the project that we were doing was towards the capital city development. We had decided to withdraw from that, we have drawn up all those backlogs that we had. And some money to be collected, we will do that over a period of time, we have started receiving it, we will continue to receive it. There have been some disruptions in Madhya Pradesh, Rajasthan too, again, change of regime, and more to do with the allocation of funds and reprioritization of projects, somebody said let us do the waterline there, somebody said let us do the electricity substation here. These things will happen. We have not seen any cancellation or go slow on the projects. We have reconciled many of these matters and some of these projects have started moving and cash flows have also started.

I think the government to generally realizes that the key challenge in front of them to keep the economic activity going, to keep the nation at large peaceful, the most important thing facing them is the creation of jobs. So, as you can see, huge money has been allocated when MNREGA scheme, what is the main purpose towards that? Sufficient contracts are not available therefore the labour that is free, the labour that is migrating back from the west and south into the east and north have to be given jobs. And contracts take time, three to six months for the best of fast procedures to happen even a Rs. 500 crores job or Rs. 1,000 crore jobs, because that are the procedures involved, whereas in the MNREGA something which can create a job. So, in my sense, as I answered one of your colleagues previously, there is an urge in northern and eastern areas to quickly push ahead of the projects even at the fastest speed, because that will give employment to the people who will come back, I mean, who are locals, but who had migrated and have now come back. Therefore, I feel with these broad thoughts in mind, maybe new proposals to come, it takes certain times, but existing proposals to push and fulfil and to and to fructify, I think there will be a hard pressure to get going on it, because that gives employment.

Abhishek Puri: Thank you for the answer. Sir, my second question is on the working capital front. We understand that you have managed it pretty well despite the tough scenario and the lockdown period. But till

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Q3, if you look at the commentary and the data for the Q2, which has been disclosed in terms of receivables, it had been declining. And the entire increase in working capital was due to the vendor support that we had given. Whereas, when we look at the balance sheet data for now, the receivables and other current assets have gone up sharply. So, has there been any change in payment terms or project parameters that has led to this?

R. Shankar Raman: I will take this. Actually, it's not only what has fallen due and not collected, many of the contracts, there is also a milestone up to which we continue to invest money, progress the projects, reach the threshold for invoicing and then you are hard to invoice. Over the last two years there has been a shift in the trend that increasingly the clients have gotten used to using the balance sheet of the contractors. And to that extent, the terms of the contract have gone a little biased towards the customer. The milestones which used to be frequent to each other have got elongated. And secondly, we also have gotten larger and more complicated orders as compared to the past. So consequently, in the larger orders, the milestones are so defined that you need to first invest the money, reach the milestone and then raise the invoices. The nature of overdues, that is dues which the due dates gone past and customer is not paying has not deteriorated, we still continue to operate within 50 days and see the same in those overviews.

So, what I am saying is, if you look at the balance sheet, out of the Rs. 55,000-odd crores of dues from the customers, about Rs. 19,000 crores is what is overdue, and that includes retention as well. And retention, as you know, is linked to performance, confirmations and the completion testing and stuff like that. So, these are often very laborious processes in project business. So, to that extent, I want to say two things, one is, I don't think there is deterioration in the quality of customer receivables, volumes, the nature of the contracts that we execute from time to time will also **have impact** in the balance sheet.

Abhishek Puri: Sir, in that context, just as a continuation for this. How do we look at working capital in the coming period? I know it is difficult period. And as well as some of the cost reduction measures that we would have taken, if you can spell out that, it will be helpful for us to model it. Thank you.

R. Shankar Raman: I didn't hear the question though.

Abhishek Puri: Sir, the question is in continuation to the previous one, that any cost reduction measures that you would have taken? Or in terms of working capital, how do you see it, whether our targets which are there in 2021, how do we look at that at this point in time now?

R. Shankar Raman: See, we are a little short on data points to fix an exact target. But very simple, grandmother's recipe we are using, that we will collect and spend, collect and spend. So, to that extent, I don't expect, as well as earlier question, I don't expect working capital to deviate from here, because I think we are going to keep circulating the capital. And at site level, we have cascaded the message that the money that will be sent in the site is proportional to the money that we collect. So, we are now also trying to talk to the customers and they are in a bit of an appreciative mood now, given the situation that all of us find ourselves in. And we are trying to loosen up some of contractual terms to enable us to get some initial funding to be able to recommence the operations. So, I think it's a question of both very engaged partnership with the client in order to deal with the working capital

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situation. So, I think at the later period, maybe a month or two down the line, when we are clear about the revenue trajectory, we will also be clear about the working capital trajectory. But suffice to say that I don't see it going south from where it is today.

Moderator: Thank you. The next question is from the line of Balchandra Shinde from Max Life Insurance. Please go ahead.

Balchandra Shinde: As we are aware that there will be a limited budget opportunity for most of the state and center, and as we mentioned in the start related to national infrastructure pipeline, can we gauge, means like which projects can be prioritized over the next two years to achieve or to be on line on the target?

S. N. Subrahmanyan: I couldn't get your question. You have got to be a little more specific about it.

Balchandra Shinde: Means, as per sector wise, which sectors will be prioritized because of the limited budget available with the state and center from the national infrastructure pipeline? So, those pipelines can be seen as a good prospect over the next two years.

S. N. Subrahmanyan: I look at it in a slightly different manner. Most states realize that let the economy be where it is right now, let's save the life. I think now that that part is more or less achieved, the thing would get back to saving the economy or reviving the economy. Much of the states cannot last without it because they have huge commitments, both in terms of their own payment as well as many social and other comments that they have had. I think third is, most governments, central and state, realize that one way to get back to power is by creating employment. The self-respecting Indians and employment is paramount in everybody's mind. And you could see from the present central government's way they have gone about, it is more about empowerment than entitlement, there has been some entitlement, of course, because the very needy had to be provided for through direct benefit transfers and such. But much of the money was through MNREGA or various other forms of help by giving loans and facilities to micro, small industries, moratorium and payments so on and so forth. The whole idea is, give empowerment to people, they will find jobs, they will get back.

So, with this in view, also if you look at from an overall budget point of view, states have been allowed to draw 2% more overdrafts from the Reserve Bank, but with certain caveats. Rs. 90,000 crores of money has been given to the DISCOMs. And with all this there will be liquidity which is possibly created in the system, may not be the kind of liquidity that one wants, but definitely liquidity from that point of view. It is not necessarily a revenue liquidity, maybe it is a debt liquidity. But having said that, the necessary infrastructure for creating liquidity has been created. Now there are many projects which are also awaiting clearance of multilateral funding agencies like the World Bank, ADB, this Chinese bank, I forgot the name of it, and also the government to government financing, and so on and so forth. So, these will see the light of the day. Now, is this going to happen tomorrow, next month, within two months? I am not sure. But this will come back in some manner or the other.

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Now, we did some calculations internally, it's not that the central, state and public sectors are not going to spend. Maybe if they are spending $7 billion to $8 billion previously, it might have come down to $5 billion, so $3 billion would be get. So therefore, the priorities will be different. For example, they would look at rural electrification, rural water projects, they would look at roads to hinterlands because the goods need to be transported, creation of retail avenues, now the food grains and others can be sold across the country, that's a major liberalization that has come and farmer can sell his produce anywhere in the country and need not go through the fixed price, MSP and so on and so forth. The necessary storage and other facilities will come up. We will have to wait, we do not want to be opportunistic, but we will look for opportunities, and if there are good opportunities, we will definitely go behind it. So that is the way we look at it

Balchandra Shinde: And sir, on the metro project side, and even on the high speed rail, how we see those projects panning out? Especially high speed rail also, which has been on the back burner for Maharashtra government and even on the central government side?

S. N. Subrahmanyan: See on the metro projects, there is a national policy that every city with more than 1 million population will have a metro. And as you know, in the last few years many metros have come up across the country. Much of these metros are hardly 20% funded by the state government and the rest of it is funded by either a loan from JICA, JBIC, World Bank or sometimes even ADB, with some funding or viability gap funding from the central government. So, these projects will continue to grow because one, it's not enough if you drew a line, there will be always pressure to do multiple lines so that people from multiple points can be taken, brought in hub-and-spoke and such. So those metro projects will continue. High speed, I have my own doubts, it is a bit of a costly project, and to do that kind of a project in this particular season when you are constraint of budget and such, I am not sure that project will go on, though it is heavily funded by JICA. I have a feeling that project may take a back burner. That is my gut feeling, so let us see how it goes.

Moderator: Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, you spoke on defense as a state, but specifically referring to certain changes done by the government recently where they have reserved some 26 items for domestic procurement. Anything concrete that we believe we can benefit from that?

S. N. Subrahmanyan: I think that the key thing is the strategic partnership, the government went with this policy of identifying strategic partnership. The principle behind is that you can't have five people making tanks in India, five y companies making missiles in India, 10 companies making something else in India. The idea was to identify one or at best two partners who will make certain very high-end defense items, let's say, a tank or main battle tank or a submarine or an aircraft carrier, whatever it is. Because now look at this idea, we make submarines. So, if it is that we get one set of submarine, and after five years we don't get the next set of submarines, we are going to have two companies in the country making submarine. And if the third tender comes and there is a third party coming in, in the country like us with not so many submarine requirements, you can't have three companies making submarines, you can have at best one or two. And why does it help? Because if L&T is

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making submarines, it's just not making submarines, it is investing in an ecosystem of vendors, is investing in research, is inventing new methods to do it, it is doing low cost Make in India stuff, it is training it's our own people, so on and so forth. And you can't lose this entire trained set of people into fabricating something else tomorrow because the submarine does not come. So, the idea was strategy partnership, I think that has started moving. And that's a pretty good news from an overall welfare of the defense or the goodness of the defense point of view in our opinion.

The second is this FDA policy which is in one way good that some foreign companies would come and invest with some domestic name, and do some manufacturing out here. But I don't principally agree to it, because it will be low quality or not so very high value additive kind of item that will be done, because no foreign company will transfer or partake with its technology to an Indian company from that point of view. What we need to see is that we got enemies all around. China is a much big enemy, that is 25, 30 years ahead of us. Pakistan is another factor, both a nuclear armed country. And therefore, like what the Soviets and the Russians on the West did in terms of creating a military industrial complex, if a government does not think in that terms of taking private sector around its arms and then cusping it to create a solid defense industry sort of an environment, by which continuous developments and new products are introduced to predict the organization, this will not go further. I hope somebody is thinking like that, it is not enough if people like me steam around about it. It has to be a national policy, it has to be a national requirement, they need to see the imperatives of having two very highly armed neighbours around us. And from that point of view, I think with the country's economy being what it is, sufficient finds that they see and deem fit is being allocated. But I guess it is not enough from an overall standpoint point of view. So, we need to look at it from that overall perspective.

Ashish Shah: Sure, thank you. And the second one is on the AP, you did touch upon that you have canceled the order orders. So, presently, none of the capital city projects continue in our order book, can we take that as a position? And secondly, you did mention about certain receivables which you will get over a period of time, if you can quantify that, that will help. Thank you.

S. N. Subrahmanyan: The fact that none of the orders continue in our book is right. But from an accounting point of view, since we have some receivables, something has to be kept alive, and that is kept alive from that point of view. We don't use specifics of what is due from where, therefore, I would like to avoid it from that point of view. But it's nothing to be overall worried about. Let me also clarify that.

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

Aditya Bhartia: Sir, my question is mainly with respect to low commodity costs, how big a benefit could it be for us over the next few quarters? And what proportion of our orders would be having pass through clauses?

S. N. Subrahmanyan: Almost all the contracts have pass through clauses. And even if they are lump sum contracts without a separate escalation clause, escalations have been calculated and provided for in the contract value that we have got from the clients. And therefore, if the prices do not go up, that is a saving that is available; if the prices go up, that cost that has been provided for which is spent. And

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therefore, to a large extent, I can with absolute reassurance tell you that almost all the contracts have provided that. And without that, it does not go to the risk committee and high board committee within the organization. And therefore, that is the way it is.

Aditya Bhartia: Does that implies that with commodity cost being lower, that advantage would be largely in company?

S. N. Subrahmanyan: You are right, absolutely right. But we got to see whether there is any other increase in cost, labour is going to be a shortfall as we see it, skilled labour is going to be tough to get, maybe there will be some little bit of premium on labour cost. I do hope the oil prices continue as it is, I hope there is no other major disruption in supply chain, etc., that we had to cancel the order somewhere and go somewhere else. But to a large extent, these are limited and not negligible and does not cause one to lose sleep. So, we should be having some efforts to save on some of these matters and really good effort is going on within the system to capture whatever we can.

Aditya Bhartia: And sir, you explained about the Andhra projects, from Maharashtra projects there also we faced certain issues initially with the change enrollment. Is everything now settled over there? And execution is, I mean, once these COVID issues are resolved, should execution on those projects be at normal pace?

S. N. Subrahmanyan: Maharashtra, we never faced anything due to change in government. What happened in Maharashtra was, the two of the most prestigious projects we are doing there are the two packages of coastal road, and the metro project there. So, a lot of public interest litigations and unnecessary litigation from various points of view. Somebody objected saying that the coastal road is spoiling the fish livability there, somebody said it is spoiling the corals in the sea, somebody said his house's view is getting affected, somebody said the decibel noise which is 1840 Act is slightly more than what it is. So, we had to go through all that. And that was not anticipated that Mumbaikars when they know that they are getting such a good facility would object to that. So, we have passed through most of it. We went up to the Supreme Court to get it cleared. We lost six to seven months of good working in the previous year. This year, even during the Corona season, if you are a Mumbaikar, you would have seen the coastal road works going, the trans-harbour work going on. Metro got affected the last 14 days because one of the contractors in another package had 25 or 30 of those people COVID positive tested. None of the people in our sites were tested positives, so we have also had to stop the words because the administration got a bit panicky on that. But other than that, all works in Mumbai area is going on, but not as the speed at what we want because of labour shortage, and the hope is that we attract the labour back to speed up.

Moderator: Thank you. The next question is from the line of Keshav Lahoti from Angel Broking. Please go ahead.

Keshav Lahoti: Sir, can you please guide me, like, as we know 20, 30 odd days of work was not going on due to lockdown. What would be the proportion of fixed cost on the basis of revenue for core E&C business?

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R. Shankar Raman: Keshav, generally if you look at expenditure of the company, the staff cost is around 5%, 6% of the revenue, on an annualized basis I am saying. And the other administrative cost is around 3%, 4%. So, put together, about 10% of the revenue goes in form of people and all the administrative cost that we run. That's the thumb rule. Now, project to project, sector to sector, vertical to vertical it could vary. But this is something at the moment since we have not been able to exactly quantify what is going to be the revenue impact, how much is going to be the catch up etc., at the moment you can take it as possibly 8% to 9% of the revenue lost could be the cost that the company is carrying forward.

Keshav Lahoti: Okay. Is it possible for you to quantify how much proportion of your order book is from Maharashtra?

R. Shankar Raman: Yes. Around 22%, 23% of our order book is from Maharashtra.

Moderator: Thank you. The next question is from the line of Varun Ginodia from Ambit Capital. Please go ahead. As there is no response, we will take the next question from the line of Priyankar Biswas from Nomura Financial Services. Please go ahead.

Priyankar Biswas: So, I have just one question, as most has been answered. So, what I wanted is, like in your ex-services segments, so which of the segments which have been worst impacted by COVID and which has been least impacted? If you can like put in our order, like maybe the top most impacted and least most impacted? And where we are seeing utilization levels, let's say, coming back more faster than the others among the segments, if you can shed some light on that?

S. N. Subrahmanyan: Are you talking about the services segment?

Priyankar Biswas: No, ex-services, excluding the services.

S. N. Subrahmanyan: What to say, I mean, how do you answer this question? We have a backlog of Rs. 303,000 crores, so all the businesses have very healthy backlog at the moment. And all of them are proceeding with the work, so nothing has got impacted. The impact has been two months of severe lockdown like nothing else in the world in our country. And therefore, across the sectors we have had a lockdown and not much worker has progressed but for engineering procurement in certain basic activities to protect the site from some natural calamities and such. And therefore, once now that lockdown is getting eased, we have started activities, as I said, 90% of the sites are back, but laborers are only 40% when we need to pick it up. So, from that point of view, we are a healthy organization. There are a very few organizations in the globe which can say they have a 45 billion backlog, and that's what we have. And therefore, I don't think the cost, all our workshops have work till September 2021, the big complex at Hazira, the power complex at Talegaon, the Baroda, the Coimbatore, except for the Kattupalli where we are desperate to get some defense orders, but even the yard there has got work till September, November 2021. So, we have enough work on hand, that's not the issue at all for us.

Priyankar Biswas: Sorry, sir, I am just reframing the question. So, what I meant is like right now with the unlock thing happening, so what I meant was like, which segments are may be ramping up faster than the

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others. So, like for example, let's say, heavy engineering could be doing better than the infra sub-segments like power, T&D, heavy civil, so that sort of a thing I was asking.

S. N. Subrahmanyan: Trust and believe me, the biggest advantage of L&T is its virtualization, either it's an IC inside or it's a listed company outside. So, across the board, the IC head or the CEO of that setup, including his team of top management is going all out to revive the sector. So, across the board we see work happening and people trying to push. So, I wouldn't be able to rate somebody is doing better, somebody is doing less better, it is a question of somebody getting labours a little faster than the other, somebody getting slightly more skilled laborers, somebody holding some more in his camp, that's the very marginal difference. Everybody is going all out to get his team back to push the work. And that's across the company.

Moderator: Thank you. The next question is from the line of Amit Mahavar from Edelweiss. Please go ahead.

Amit Mahavar: Sir, two quick questions. First is on overall market opportunity and consolidation. Do you think in the coming quarters and years, we will see a much greater consolidation of market opportunities in the domestic market? Because if you actually see peer set for L&T, the profile of most of them is getting much poorer and our focus has been towards balance sheet and cash flow as reflected in past couple of quarters. Do you think you will have a much stronger consolidation of market share? It's already reflecting in some of our segments where we have a much higher share versus all the conventional segments. That's my question number one.

Second is more on reimagining the project sites. No one knows what is going to be the disruption cycle in project sites. You will have remobilization and demobilization of social distancing cost. So, do you think the contractual terms needs to change with the top clients at least, at least top 50, 100 clients? And as a sector also do you think there will be critical changes there? These are my questions. Thank you.

S. N. Subrahmanyan: I think your second question I did answer earlier to one of your colleagues who was on the line, but I will try to give you a short answer. On the first one, the market consolidation, you have got to look at it from a point of two views, number one, as much as the competition is under terrific strain from a balance sheet point of view, heavy debt, poor cash flows and so on and so forth, including many of them have gone very heavily into HAM and BOT projects and have huge debts on the books, and with this two, three months of lockdown they have collected sufficient tolls to repay back their debts and interest there on. We are not aware, but you do see the deterioration from that point of view. Now this will continue to happen because that is the way they have taken those contracts and such, I cannot come and beyond that on them. What will happen is, because of their inability to sometimes bid for large projects, etc., we maybe tend to get a higher share of the market. But that will also go through a process because in India normally a single bid basis is not accepted, mostly government clients, especially government clients will call for a bid twice or will hard negotiate with us to accept certain price they consider the budget. So, it makes a life a little more difficult from that point of view. But it's also good from the point of view that we make hay while the sun shines for some time, at least. So that hopefully answers your first question.

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Now, regarding consolidation, I am not very sure, there have been at least four or five of those construction companies who have come back to me saying, 'Can we buy them out?' We are not interested in any M&A in this space. I think we have a good backlog, we need to take that forward from various points of view. And some of these other construction companies, we know the type of contracts they have taken and what price they have taken, what kind of obligations under which they have taken those contracts, so we would avoid any M&A in that particular space. Now whether they consolidate among themselves, I cannot comment on that again.

Now, from a sites point of view, I did say tell your colleague earlier, and don't mind repeating it. As we have said, we have about 120,000 laborers in our sites right now, we need to get it to 220,000, 230,000 to attain the pre-COVID kind of good activities that we had. So, every effort is being made to do that. Yes, you are very right that due to the prevailing circumstances it is extremely important to have proper safe working conditions at site. So, elaborate standard operating procedures are being done for working from offices or working from project site offices, from working at site, so on and so forth. So, the productivity will not be as much as it ought to be because of the social distancing. As such, you can't pour concrete or do bar bending with social distancing, people have to be together to carry the load or to place it or to tie it etc. But what we are trying to do is we have been talking about mechanization for a long time, and what we ended up doing was we mechanized, and we also had the labour. So now we are getting back to many of our people saying that, 'Listen, at least now you get back to mechanization, improve productivity and so on and so forth'.

One of the good things that is happening is also due to lack of projects in Middle East, many of the companies there are not doing well, etc. A lot of labour who are much more productive, much more efficient and maybe used to better ways of working from Middle East are coming back, we will try to attract them back to the domestic sites now that they don't have work in Middle East. And that will bring in better work methods and more efficiency and productivity to the sites. So, a combination of this should help. But the fact remains that standard operating procedures and norms look good on paper. Well, in practice, it is going to be difficult, so I don't want to shy away from the answer that life at sites is going to be a little more difficult than it was originally, because you can't work in those conditions to your optimum.

Amit Mahavar: That helps. If I just have a follow-up on that explanation only. We will basically proceed on execution or we will first clarify with all major clients on all major sites? Because a lot of cost we cannot compensate, even if they say they will compensate, practically speaking, a lot of what we will incur might not get compensated. So just to safeguard ourselves, do you think we will more be held bent, because L&T has been focusing very well on the preferred cash flow over growth also, we have seen in last 10 quarters. And likewise, in profitability also, our fair share of profitability to claim that back, do you have something in mind so that we safeguard our profitability? That's my point. That’s it. Thank you.

S. N. Subrahmanyan: I will answer the question like, the only companies that will survive such a situation is the ones that have cash in hand. And therefore, our dictate to all of our site managers, accounts and project managers is very clear, chase cash, sales will come; progress, bill and collect. This dictate has been

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repeated thousand times by me and Shanker, and I guess it is recorded very well in the mind and they know it when they get up, when they go to sleep and even in the dreams. And it is known to all the people at sites, this message continues to be given. Now, also remember, in times of natural disasters, pandemic, etc., fear, etc., people will always migrate to organizations, brands or good names whom they trust. In our case, it's an 82 year old company with a brand that is highly reputable and which has always done things on time to quality. The clients look forward to holding your hands now to help us out in such circumstances and to cooperate with us to see how to get their work done, because we will be one of the few organizations which will want to get work done from that point of view. And therefore, I see in most of the cases, the clients wanting to help us in some manner or the other, even government clients, by easing out contract terms, by taking decisions which are not contractual, if it was pre-COVID they would not have taken such decision, but today they are taking suggestion. Yes, of course, there would be some public sector and government clients who will be stuck up about it. But then what we need to do is we need to show the good examples of what has happened in a, b, c, d, e, f, g, h clients and tell them x, y, z, please there is a precedent, one of your sister companies within the same government has done it, one of your government in the same country has done so why can't you do it, so we will have to take it this way. So, this will take some coaching, some amount of positioning, some amount of, what you call, leveraging. But trust and believe me, we are used to it and we will get it done.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: So, I am just looking at the company's forward looking view in the context of where the journey has been over the last four or five years. So, when we look at the EPC business, at least, the ROE has improved meaningfully over the last five years, perhaps with similar or lower margins. Now, as we stand today from an order book perspective, as you have covered earlier I think, we are well positioned. So, would it be fair to say that as we look forward in incremental bids, we should see some element of stronger margins, especially for sectors like infrastructure? Because, I mean, there are a lot of uncertainties in India if you look at the last three, four years, starting from demonetization to GST to NBFC issue to elections and now COVID, there has been no sort of let up in sort of unforeseen circumstances. So, do you start pricing that in into your bids going forward in a greater manner?

R. Shankar Raman: See, the margin play is not simply the demand and supply, most of the bids that we submit are prices, are also in the context of the budgets that get approved by the customer with their respective boards. We have had instances where we have been L1, but the prices have exceeded the customers' budget, and hence it had to be rebid. And it is actually a loss of productive time and money, effort to get into rebids. So, I think the effort would be to operate at a profitable level. It will be difficult to put a number to say that we will accept bids only if it gives me 12% margin, etc. There is a floor and a cap within which we operate. And if you see, over the past several seasons, despite the cyclical business cyclicality, we have been more or less stable in our margins. So, I think that strategy has worked well. We do not want to fix something that is not broken.

Nishant Chandra: Agree. No, I think it my question was also in the context that if you look at it five years back, there was some competition, now even those competitors who were there in the last three, four years,

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they have also gotten washed out, including some well-established names. So, I was just wondering whether that……

R. Shankar Raman: Affordability is also an issue, right.

Nishant Chandra: Fair point. I understand. The second one is in terms of the consolidated ROE target of 18% that you articulated a few years back. So at this stage, I think there may be some sort of timing challenges, but is it fair to say that if you were to look at that as a cut-off, would Financial Services, development projects, power development and Hyderabad Metro would be the four large things below the 18% threshold today?

R. Shankar Raman: Financial Services have been managed, but for the current year where there were some specific provisioning Financial Services has almost touched 18%, they are one of the first ones to touch 18%. Very asset heavy investments like Nabha, Hyderabad Metro will have a challenge, and that's why we want to unlock the capital. But we have not lost heart, we have been pushed back in time for our 18% ROE. But we will continue to plough along and figure out the sooner we get some divestments going, possibly we will touch there.

Nishant Chandra: Understood. And just, I mean, I wanted to place on record the fact that free cash flow generation of the company has been quite robust, despite all of these times, that I think is a commendable achievement better management. Thanks a lot.

R. Shankar Raman: Thank you for appreciating.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Thanks. My questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Earlier you had highlighted that there are some good prospects in heavy civil, power transmission, water and heavy engineering. So, can you quantify at least for these parts that what is the prospect pipeline now?

S. N. Subrahmanyan: Don't call the chickens before they hatch, I have not summed it up but sufficient to say and quite busy going through pricings and risk review meetings and such that there are quite a bit of prospects which come to you and my level. So, they are sufficient, Parikshit, I have not added all together to see how much is the prospect, that's putting the cart before the wheel or being too hungry before you are hungry. So, let it come, let's be positive.

Parikshit Kandpal: Okay, sure sir. Sir, just on the labour issues, I have been talking to other contractors, the smaller ones and mid-sized, so their sense has been that because of the social distancing in between, not more than 60 people are allowed, and even some of the migrant laborers which want to come back. So there has to be a policy push from the government side like how they started the Shramik train,

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there has to be reverse Shramik trains and more in number for the people who want to get back. So logistically, I mean, how do you see this thing panning out? Have you represented this, has the federation presented this to the government to get these labours back? So, what will be the way forward for getting people back?

S. N. Subrahmanyan: No, the Shramik trains, let's say, originate outside Mumbai and go to, let's say, Ranchi. And coming back to, say, these coming back trains, we are loading back labour who want to come back and we are getting them back in a similar manner, Parikshit. It is not that it is not happening. In some of the labour clusters we are also arranging buses, and naturally if a bus can carry 50 people, they now carry only 30 people, but we are through that method also getting labour back. And some other major labour contracts, some people who hold 500, 1,000, 2,000 people, they are also playing the part in it. So, we may have to reimburse some cost of travel etc., which we will do from that point of view. If you see now beyond Shramik trains, some of the regular trains have also started, it is not that trains were not moving. I believe nearly 2,400-2,600 trains are functioning in the country, many of them between west and east, and south and east. And therefore, there is a movement in labour back. As I said to one of your colleagues, we are adding about 1,500 to 1,600 people a day. The target is to jump it to 3,000, 4,000 by next week or so, and we are on the job on it.

Parikshit Kandpal: Sir, on the real-estate business, we have been adding projects which have been lacking. And we are partnering with some of the developers in Mumbai, taking up their projects. So how do you see the developing business from the real-estate side now in the current context of COVID-19? And the capital allocation there?

S. N. Subrahmanyan: See, the real-estate business has got, let's say, two parts to it. One is the residential part, and second is the commercial part. The residential, again, had two broad segments in it, the larger ticket sizes, a four bedroom and the bigger flats and the studios and the small space apartments. Now, where we adopt these larger size blocks, because that was the trend three, four years back, five years back, so we went for it. And those are slightly odd moving or moving very slowly. Whereas the studio and small size apartments, for instance, the Boulevard that we are doing in Bangalore, we even had 25 bookings last week, including advance paid and such. So, the studio and small size apartments are moving very well. Our Mulund has gone very well, our Seawood has done very well, these are studio or small size apartments. The Parel one which has got one block of big apartment, that is not moving very well. We did a study in sight to see whether that could be made smaller apartment, but the cost of structural modification is very heavy compared to what we can sell, therefore we said let's wait for it and sell it over time, or we give some slight discount and sell it. As such, the residential I guess will move faster. Please understand, in terms of natural calamities, fear a pandemic, etc., people would not invest too much in shares and stocks and bonds, etc. They tend to invest in real-estate because considering it is a relatively safe investment. More so they have looked to a brand like L&T having constructed something to invest there because it's considered to be on time, all papers are clean, the property is good to invest structurally and otherwise, and therefore people would tend to do it. And therefore, we believe the residential will go well, maybe initially one or two months there would be a problem but it will tend to go well, because people have surplus money and they would want to invest it.

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And the commercial side, like you are, I am also confused. I don't know where this is going to go. We have some commercial developments at the moment. Now whether this work from home is going to come back in a big manner, whether this work from home is a temporary spike, and maybe there would finally be some 15%- 20% work from home, etc., I don't know. But at the same time, let me tell you some positives on it. The trend in U.S. after the present administration came to power was that they would want on-premise work. They would tell people to stay in U.S. and work, they would want locals to be employed, so on and so forth. But due to the pandemic there, many other states in the United States and Europe also have got closed out and the people there are working from home. So now we are going back to the clients and saying, 'Listen you were paying us x dollars to do the same work from home, we will do it at x minus dollar sitting work from home from India at home, so why do you want these people out here?'. And second, in India, many organizations in the United States are also looking into costs and optimization and better productivities and improvements. And therefore, I guess there could be a spike in IT spending from that point of view to bring in overall efficiencies. And that would mean more commercial spaces in India and otherwise. And therefore, that part is a bit confusing, we need to wait for the things to settle down from a strategy point of view. But what we look at real-estate today is, if there are very good developments available, and some of the developers are going financially kaput, some of the banks are not able to hold on, then it is a chance for us to get these properties at good prices and see how to make some capital out of it. And that's what we will try to do.

Parikshit Kandpal: Sir, I am talking about moratorium. So, have we availed any of the moratorium for our development projects? Lower asset, Nabha or Hyderabad Metro or any deferments on interest on the working capital side of the term loans?

R. Shankar Raman: For the main company there is no moratorium that we took. For Hyderabad Metro and some of the road concessions we had applied for moratorium, and we had availed what was available to us.

Parikshit Kandpal: And for Nabha?

R. Shankar Raman: No, Nabha we have not taken any moratorium.

Moderator: Thank you. The next question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Shalini Vasanta: I have two interrelated quick questions, so I will ask them in one go, and these are on the Group's financial strategy. Given that there are receivables leverage in the L&T group due to the Financial Services business, how do you view this appropriate standalone debt levels in L&T Limited? Would you see zero debt as an objective? Leaving alone the current environment is challenging, working capital always remains an issue in India and you do take some amount of creditors risk in the projects. So, the first question is regarding the standalone debt in L&T Limited, especially in the context of Financial Services business.

Then taking the same question forward, the Financial Services business apart from capital that you alluded to, also needs liquidity now and then because the market can break. You have committed

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some level of support, how do you see that in terms of support and other covenants saying that you will give this much support or this much capital to maintain shareholding, etc.? Thank you.

R. Shankar Raman: Let me take this. As I mentioned to someone earlier in this call, the standalone debt is a function of the refinancing that we are required to do, and the gross money that would be required for our own core businesses, not the ones that is run through listed subsidiaries. The standalone debt historically has been very low in L&T, they will continue to be low. We had raised about five years ago a lot of long-term debt, which is coming up for repayment in the current year. So, as we normally do, we have raised money a little ahead of time to repay those. So, you can call that as some kind of a timing issue from time to time, but standalone debt is for L&T's core requirements, which is largely working capital. When it comes to Financial Services. I think even though there is, as a parent or a sponsoring organization, there are credit lines sanctioned by the Board for the Financial Services. So far, they never have had the requirement to dip into those resources to be able to meet their liquidity requirements. Being a listed company, there is adequate visibility on their operations. And their disclosures have been fairly transparent to the capital market. They have been able to raise money on their own for their requirements, none of the financing that L&T Financial Services Group has raised has with any recourse to L&T. So, they are standalone debt. And even during the last six, seven months, when liquidity was very tight, and we have had so many NBFCs, governance issues and credit issues tumbling out of the cupboard, Financial Services have been able to manage raising money to the extent they require, and at an attractive cost. I do believe that their cost of money is pretty competitive. So, to that extent, I think we are closely managing and facilitating and helping the business in a manner of speaking handholding them to deal with the economic uncertainty. But I don't think there is any financial drain from the parent to support liabilities of the Financial Services business.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Bank of America. Please go ahead.

Abneesh Roy: Hi. This is Abneesh from Bank of America. I only have a couple of clarification questions now. So firstly, in a scenario of potential wage inflation on account of labour shortages, would that also not be a pass through in your contracts?

S. N. Subrahmanyan: Wage increases, yes, to a large extent minimum wages are fixed or base wages are fixed and if it goes up we can claim it from the clients. But if you are paying for transport or some incentive costs to get them to the site, that general CPI inflation claimable cannot be specifically claimed as what we did from a labour point of view, to a large extent that's how contracts are defined. In lump sum contracts, we would have taken the normal increases as we see it, based on CPI or any other factor. But there we had to put it in some of the cost and claim it from the client as done during pandemic are done during extra mobilization or something like that. We may or may not get the full cost that we have spent, but to a large extent it should be gone. But we are not talking about it, see at the end of the day if we take L&Ts contracts, labour wages are at about 6% to 7% of our total cost. Even if we assume 10% increase on that, it is about 0.6% to 0.5%. And assuming bulk of it can be get reimbursable, you are talking about very negligible cost increase from that point. That is one advantage of India, the labour costs are still low.

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Abneesh Roy: SNS, thanks for that. I think that you do use a lot of subcontract labour as well. And with the migrant labour, the labour shortages that we are talking about, there is a possibility that the subcontract labour wage goes up, and that is a decent percentage of your expenses. Isn't that right? And could that increase? And if that increases, can that be a pass through, is actually my question?

S. N. Subrahmanyan: It's like this, all our laborers are in the way subcontracted, we don't have any laborers directly on our roles. We employ the laborers through, what is called as, subcontract gang. And there are people who own labour gangs 100, 200, 500, sometimes even 10, 15 specialized people, so all the contracts are through them. So, we give contracts to them either based on minimum wages or through certain productivity measures, that we give a base wage, if you do so much productivity we give you more, we give so much more. So, there is a cost coming up there, we will recalibrate this productivity increases to tell them to produce more, and thereby compensate the cost increase with a better productivity and such other work content at site. Now, there is another form of subcontract, like for example, we give entire air conditioning to somebody, we give entire plumbing, sanitary work to somebody, give erection work to somebody. In those kinds of cases, it is a back to back contract, so if we get some money from the client we give it to them, if we don't get money we don't give it to them. So that's how contracts work. So, to a certain large extent protected from many points of view. Of course, they would make mercy claims on us, so we would pass on the mercy claims to the client, if we get it we pass it on. Sometimes if a well-known contractor is working with us for a very, very long time, we may have to make some adjustments even if we don't get the money. But these are given and takes that happen, and somewhere we gain, somewhere we lose, overall, it balances out.

Abneesh Roy: Okay. And my second question is around L&T Finance. So,he mentioned in his comments that if growth comes back then there may be a possibility of an equity raise. But just to clarify, and he did mention about dilution of rights, so does that mean that we are talking about if L&T is having to raise equity, L&T Finance will on its own and this is not about L&T infusing money or increasing its stake into L&T Finance?

S. N. Subrahmanyan: Anytime L&T finance has raised money since its listing, it has raised on its own. L&T had 100% holding, it had come down to 75%, it had come down to 65%. Last time over there was a preferential offer where L&T invested in money. So, we have had all kinds of situations. We need to judge this in the nature of the investment allocation. If the investment is going to create value for the L&T shareholders from a larger context, L&T will participate. If the alternate application of money that L&T has a better return potential, then obviously the money will be allocated to the more meaningful return asset. So, it's a contextual thing, we will have to take a call as and when we come to a situation where capital is required, then we will take a call. But the fact is that as a part of services business, Financial Services is an integral part of the services portfolio. And the broader derisking strategy that we have followed at the portfolio level is to balance the projects business, manufacturing business and services business. So that at the portfolio level we don't have imbalance or risk towards one particular type of activity. So, within that overall context, keeping that in the back of our mind, we will have to take a call from time to time.

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Abneesh Roy: Sure. And very quickly, my last question is, the project business as we calculate it, actually even currently owns around 18% ROE, which is actually quite healthy in this environment. While you may not want to confirm the number, but would you say that despite the working capital challenges, execution challenges that we are facing around, this is like a pretty high return business even if you were to draw an average, is it an above average return business right now?

S. N. Subrahmanyan: See, it's a bread and butter of L&T, it is core of L&T, EPC business is core of L&T. So, I think, over time, we are learning and we are mastering the art of execution. So consequently, I think the current levels of return on equity on project business has been hard learned over many, many, many years. And to that extent, I think we would like to stay and improve on that level of capital efficiency for EPC business. Fortunately, most of the EPC business we do in client's premises, so we don't have to incur substantial fixed expenditure like setting up a factory and stuff like that. We will have to manage working capital efficiently, we will have to contract smartly, procure very capably. If you do all that, I think it is a good business to be in. Risky, and the returns that you are talking about is actually the reward that matches the risk that we think.

Moderator: Thank you. The next question is from the line of Abhishek Poddar from HDFC Asset Management. Please go ahead.

Abhishek Poddar: A part of this question was touched upon before. So, this is regarding the increase in the working capital. And we have seen that the margins have not increased commensurately, and that has led to decline in the ROCE in last few years. And if you look at the competition, I think the situation for L&T still looks better where competition balance sheet is even in worse state. So, what is your sense, do you think that working capital stretch would start getting priced in by the competition as well as company where the ROIs can return to historical levels?

S. N. Subrahmanyan: See, working capital, again, is a function of the contractual obligations that we run. Normally when we sit down and price a bit, we take into account the cash flow trajectory of the project and price amount of money that we need to invest. And that hopefully becomes a winning price. So, if we have a contract that we have won at the price at which we have quoted, so long as there is a congruence between the projected cash flow and the actual cash flow, you can say that the working capital has been compensated for by the client or by the projects that we are executing. The problem happens when the projects start getting executed at a timeline which is different than what was originally anticipated. When there is a time delay, a lot of things go wrong in a project, including working capital. So, what we need to be acutely focused on is that if we are able to execute project in time, a lot of these things actually will fall in place and should not create mismatches. But that's wishing for an ideal world, we do go through our own upheavals in trying to execute projects. So, the working capital that we are allocating is mostly working capital that has been priced. But because of the way we account they appear as capital in the current assets scenario. And the margins have been stable despite these movements of working capital. So other way to look at it is, why is it that the company has been able to maintain a certain stability in its margin, give and take a certain band, which in my opinion is a highly acceptable band of 1%. So, the only reason why we have been able to do is, most of the times we have been able to get the pricing of working capital as part of the budget.

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Abhishek Poddar: Okay. But if we look at the competition, there are companies with net debt to EBITDA even of 4x or 5x, and part of that problem is created by working capital. So, I understand, you also mentioned the budgets and all, but won't the companies themselves when they are quoting the pricing, they would be mindful more about the all these issues that are there? Because these issues are not going away in last two, three years, and we are still at working capital kind of, we were at 14% to 15% five years back, but those were different times, but we have accepted that 20% to 23% is kind of a normal level right now. So, wouldn't that get priced in, in terms of when you are quoting? Or would you be constrained so much by budget, because essentially what quotation is coming from the entire industry, and everybody is a price setter there.

S. N. Subrahmanyan: No, that's why I did say that we will obviously price it in and try to endeavour to stick to the same trajectory, and most of the other competition, especially the types that you are referring to will be so stressed on working capital, the problem is not so much about cost of capital, the problem would be access of capital for them. The availability of bank line to be able to give various guarantees as we get into the project itself becomes an issue. So, access to credit according to me the competitive advantage for L&T rather than just the competitive pricing of credit between the competition and ourselves.

Abhishek Poddar: Okay. So, moving to the second question. You had mentioned earlier that your intent is to monetize development assets, including Nabha and Hyderabad Metro. You made a comment about allocating more capital to Hyderabad Metro, so how do we see that?

S. N. Subrahmanyan: No, I said capital reallocation in the terms of capital structure correction. See, when the project is getting implemented, it takes in a more traditional capital structure. And once the project gets completed, the construction risk is off the table, and then thereafter it becomes a project which is essentially based on revenue risk. So, that gives an opportunity for us to resize the debt equity in a project. So, if you come across a situation where the project is going to generate less revenue than what is anticipated, the amount of sustainable debt in that project has to come down. So, to that extent, there could be a infusion of money to repay the debt of that particular project to make it a sustainable viable debt. On the other hand, if the revenue profile improves in a project, and it can afford to take a little more debt than what it is currently engaged in, then possibly the capital unlocking will happen and then the debt equity will get appropriately altered. So, what I was trying to say is, there are several options given that we have a portfolio of investments that we have made around our businesses, there are several opportunities for us to productively use the capital so that the overall return at the consolidated level improves from where it is. So that's what I meant, I did not mean either to give capital or take capital. Take capital would be to derisk equity exposure, give capital would be to derisk the unsustainable debt to sustainable debt.

Abhishek Poddar: Okay. So, the proceeds of Schneider Electric which will be coming through, so part of it you said could go into equity infusion in Hyderabad Metro, is that the right understanding?

S. N. Subrahmanyan: Yes, it could go do reduce the debt, whether it goes as equity, it goes as any other form is something we need to sit and evaluate. But essentially, if the traffic does not pick up and suppose there is an extended lockdown and stuff like that, we need to recalculate as to what is the level of sustainable

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debt. The debt we have committed in that project is based on a certain level of traffic and running without interruption.

Abhishek Poddar: Right. And sir, you mentioned that part of the capital can go in growth of the core business. Is that because of the COVID challenge and it's the short-term thing? Or do you think that for your EPC business growth you still need more capital?

S. N. Subrahmanyan: See, growth is life, right. And I think we have not come to a conclusion that we are hitting the ceiling in so far as growth opportunities. And we do think that we should continue to look at a 10% to 15% growth on a year-on-year basis. And when you are looking at a 10% to 15% growth, on the delta growth we also need to provide the capital support. So, when I talk about growth requirement, this is what I meant. Obviously, there is going to be a timing mismatch because of the pandemic and the disruption that has happened, but we are not measuring the company's requirement in a limited timeframe of one quarter or one year, we are trying to look at next three, five years, what is it that would take the company to become more stronger, more formidable than what it is. So, from that point of view, these capital raise etc., will go to strengthen the growth opportunities for the company.

Abhishek Poddar: Sir, regarding, if I look at the EPC operations and kind of cash flows it generates, if I looking at modelling the numbers for next four or five years, I see EPC business actually throwing up cash flows rather than taking something. So, I am not very clear that where the capital will be going in the growth business in the core operations.

S. N. Subrahmanyan: Can we actually take this offline, because this would mean getting into the details of EPC business and where the growth opportunities would come up. And secondly, in a very simplistic way, the model of EPC which used to be working on customers' cash has changed over time. And going forward, our customers are largely government and PSU, looking at the way the cash flows are arranged in the next couple of years, I would expect that the working capital intensity not to relent to go those levels of either having customers' cash or having very low working capital. So, when you want to add another Rs. 10,000 crores of revenue, you might have to think in terms of Rs. 2,000 crores of working capital, just to give you a ballpark estimate.

Moderator: Thank you. Ladies and gentlemen, we will be able to take the last two questions. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Is the statement correct that you are not facing any major delays in terms of execution of existing orders? And no major cancellation has been reported as well?

S. N. Subrahmanyan: Yes, I confirm. There has been delays, of course, because of the two months lockdown, but we hope to catch it up. But there is no request from clients for cancellation or go slow or anything like that. There has been some discussion on reallocation of budget and can we do this little later and prioritization and such, but as such nothing else.

Puneet Gulati: Okay. And sir, do we hold any private sector orders?

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S. N. Subrahmanyan: Private sector, it is not much, if at all, it's mainly some lease clients who are requesting reallocation of budget and so on and so forth, but hardly anything. No, no specific. In fact, many private sectors in India are requesting to speed up and roll back to the original commissioning time in spite of the last two months.

Puneet Gulati: Can you give some numbers for the prospect order book?

S. N. Subrahmanyan: We never do that. As I said, there are prospects, we are quite busy, we have proposals in many of our businesses and we look to the future with positivity. But to give any numbers is not fair at the moment.

Moderator: Thank you. The next question is from the line of Charanjeet Singh from DSP Mutual Fund. Please go ahead.

Charanjeet Singh: One thing which I wanted to check is, if you look at the ability of the state or central government to order out the average size of the project, do you think that may go down? Because even in the prospect size there was some reduction in the average order sizes. And looking at this scenario, with capital constrained, maybe they might focus on the smaller projects. So how do you see that? And then L&T's ability to look for those smaller ticket size projects?

S. N. Subrahmanyan: I think that depends more on the season that you are talking about. See, last two years there were huge packages of Dedicated Freight Corridor and this national water schemes and distribution schemes that were going on, and you had good packages. Now much of the work has been done. Now unless and until the government comes out with new Dedicated Freight Corridors or the high speed or river interlinking or this Bharat Mala scheme and such, I don't think there would be scope for very big packages immediately. When you say very big packages, greater than Rs. 5,000 crores or Rs. 7,000 crores, etc. So, what I would guess would happen is, unfortunately, we are such a low cost country, even a huge football stadium which in Qatar costs Rs. 4,000 crores, in India the entire cricket stadium, the world's largest, the reasonable margin that we have made has cost only Rs. 800 crores. That's the kind of costing that we have in this country because of the low prices. We are 3x lower cost than other countries. Just to give you an example, say if L&T was in the United States, our turnover would be 3x what we reflect in India. But that's the way it is in India and therefore we have to live with the fact that our rupee buys a lot more things and what a dollar can do from a pricing point of view. And therefore, at the moment, I guess, since there are no major new schemes that has been announced and what they will do is carry on existing schemes and existing projects which will be mainly railway projects, predominantly the national highways sector, the certain amount of river interlinking they are talking about, the power transmission, the water kind of projects and expansion of refineries and such, these would be reasonably big projects, but not those very big value projects.

Charanjeet Singh: Thanks for that. And just lucky from my side now, if you look at the NIC and the thought processes which the government has, so government wants to sell out assets across different sub-segments or across different companies to raise money. And what we are seeing is that there could be a limited appetite in the near-term from the different pension funds or wealth funds to invest. So, government is one thing, crowding out as a developer in the market will also create problems for

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the other developers to deleverage their balance sheet. So how do you see this overall selling of the assets to different stakeholders in the market going forward? That's all from my side.

S. N. Subrahmanyan: I think sale of assets is taking place in two particular manners, one is the divestment program that the government is thinking about. And second is the NCLT process which has kicked in very earnestly. Now unfortunately, the NCLT process due to this pandemic, etc., there is a deferment there, and much of the cases that were fast tracked and going very well from a disposable point of view has got deferred for three months, six months. Though, off late some beginnings of disposals have again started. So, that is one point. From a central government point of view, even for them to achieve their budget or even for them to generate certain cash flow, a divestment is a must and part of the overall scheme of things. Few of these asset divestments like BPCL, LIC etc., started, but again were put in back burner due to the pandemic. I guess, if they have to match their budget or come anywhere near matching the revenue requirement of the budget, they need to do some of these things. And that's a process that will continue in my view. So good assets will find buyers and not so good assets they will have to see how they take it forward.

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

Arnob Mondal: Thank you, ladies and gentlemen, for a very patient and interactive session. Frankly, it went on considerably longer than what we expected. And with this we will close this session with a strong note that if anybody else has any queries, feel free to contact me or Harish. With that, good afternoon and goodbye. Thank you.

S. N. Subrahmanyan: Thank you. Thank you, all.

Moderator: Thank you very much, sir. 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.

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