"Larsen & Toubro Limited Q2 FY 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Larsen & Toubro Limited Q2 FY 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arnob Mondal. Thank you and over to you, sir.

Arnob Mondal: Thank you, Zaid. Good morning, Ladies and gentlemen. A very warm welcome to our Q2 FY 2021 earnings call. I hope all of you would have been able to go through the results. And last night, around 7:30 or so our presentation was uploaded on the website and hopefully all of you have downloaded that presentation, since we will be walking you through the presentation in some time.

Today, we are very pleased to have with us Mr. R. Shankar Raman – Whole-Time Director and Group CFO. He will start the call with a few opening remarks, primarily because this time there are quite a few large numbers that need to be explained. And after which, our IR team, Mr. P. Ramakrishnan and Harish Barai will walk you through the presentation. And after that, we will open it to question and answer.

With that, I would like to hand it over to Mr. Shankar Raman. Sir, over to you.

R. Shankar Raman: Thanks, Mondal. Good morning, everybody. Thank you for participating in today's call, always good to connect with you. As has been the practice, these performance update calls are hosted by our IR Head and IR Team. But since we are covering the results of a very significant quarter, that has just gone by, I thought it fit to join you all today to share some perspectives. After my observations around some significant developments in the quarter, the usual format of performance presentation, followed by Q&A will kick in. It is possible, depending on the duration of the call, that I might log out a bit towards the end of the call, maybe a little earlier than the scheduled closure of the call, depending on developments that I am expecting. But if that were to happen, please excuse me for that.

Now jumping into the purpose of the call today, quarter two has been a very busy quarter, I mean, full of activities for us. We had to, first and foremost, ensure safety of our workforce, employing over 160,000 people across the Group. We always had to deal with the infection touching someone or the other. And happy to tell you that despite close to 7,500 people across the Group contacting the infection, most of them, majority of them have rebounded quickly and well and have resumed work. It is very unfortunate that about 17 of our staff succumbed to the illness. In most of the cases, barring one or two, they had some comorbidity which actually got accelerated due to the virus. But while that is pretty sad to not have them with us, but the good news is, all those who have rebounded are back to their full energy levels.

We also had to make sure that during the quarter the workforce returned to their respective places of work in orderly fashion. Each city had its own prescriptions around attendance and stuff like that. Public transport was very varied across cities and towns. Taking all of that into account, we had to make sure that the recovery is orderly and we are seen to be responsible employers.

We also had to complete our labour mobilization at the sites. The challenges were very different as trying to get people back to offices to work. The challenge at the site is to make sure safe transport for a large number of people. The sites being most of them in little relatively isolated locations, it was not much of a problem in terms of transmission. But the work practices in construction and project sites, as you know, is not really amenable to social distancing and stuff like that. There is a lot of modifications that we had to do, we had to re-adjust our operational plans and procedures to respond to this unfortunate pandemic, and face unlocking that the respective state administration's announced.

We also had to catch up on lot of loss ground. Q2 was a pretty low quarter, to our living memory at least, in the company. And to make up for that, required a fair bit of energy, enthusiasm and commitment and will. And I think the company had done most of these things with good measure of success. But as we started the quarter, there were a lot of repetitions because we didn't know how bad the quarter two is going to be and how quick the recovery is going to be, having lived through a horrendous quarter one. But as we closed the quarter, we are happy to share with you that we feel more enthused by the developments around. There are some green shoots, if I can say that, visible in the environment. The parameters that we track to measure, whether this bounce back in the economic system, volume of traffic, this is both goods and passengers. The port traffic, the road traffic, the rail traffic, all of them have significantly picked up.

Now there has been a fair bit of demand for energy, the power generation got a lift up in quarter two, coal production went up. So these were indicative of higher levels of activity at factories and other commercial establishments, which is a good development. Imports and exports picked up. And gradually, I think, April and May were pretty low. Though, they may not yet represent the full potential of the country to import and export, month-on-month there has been marked improvement. The PMI, the Purchase Managers Index, have also been indicating improved confidence and sentiments. And to top that, the GST collections for the month of September was a full 4% higher than the GST collection on pre-COVID September of the previous year. And that is, again, a good sign about trade and commerce, possibly trying to get back. While the lockdown and the procedures around it is very understandable, and I think the government and the state administrations must be complimented for such stringent actions. It's equally important that we find the purpose of our lives back and try to, in a more responsible manner perhaps, get back to normalcy. And if Q2 is of any indication, we are looking to Q3 and Q4 with more optimism.

Having said that, the specifics of Q2 being so important for L&T is because it had to deal with two significant events. One, of course, was we had to complete the EAIC, the electrical and automation business divestiture, which has been in the works for quite a while now. And this ought to have been done possibly by end of FY 2020, but for the disruption caused by the pandemic. But somehow we managed to get back on track, commitment of both the parties to the transaction, that we could almost remote basis on a virtual manner, complete all the pending documentation and close out discussions. And so that transaction has got completed. And secondly, we also had to re-evaluate the carrying value of some of our investments based on certain developments that took place during the quarter. So I would like to provide some perspective to these two significant events. And the rest of the parameters as to how we fare versus our plans and how we see the road ahead, the IR Team could cover in their presentation.

So first let me talk about the EAIC divestiture. We have received the full constitution, as you know, the transaction was for Rs. 14,000 crores gross, free of debt and free of cash. And we received the entire consideration, barring some retentions that have been held back for some pending obligations, and closing balance sheet adjustments, as you know, in such transactions. The pending obligations are largely to do with all the existing contracts. And there are thousands and thousands of contracts that we have with our customers, getting innovated each one of them painstaking in favor of the buyer. We have certain thresholds for completing this by certain timelines. By the time on August 31st, when the transaction long stop date concluded, there were some pending obligations. So, close to Rs. 400 crores of retention amounts were held back for completing those obligations. I am glad to tell you, as I speak now, the obligations have been completed and we shall, hopefully, in the current quarter realize the balance retained amount as part of the tail consideration into the current quarter.

We also had to make adjustments for the debt, as I told you, it was a debt free cash free transaction. So about Rs. 350 crores towards both debt obligation and working capital adjustments had to be retained, pending the closeout audits by the auditors. And that is work in progress and we hope to possibly complete that in maybe 30 days or so from today. So, that left about Rs. 13,250 crores to be available to us and we had incurred close to Rs. 250 crores of expenditure on completing this transaction, roughly translates to less than 2% of the transaction. But apart from the legal fee, the stamp duties and all of the various cesses and levies involved in transfer of establishments, we also paid a handsome bonus to our parting colleagues, erstwhile colleagues. After all, this business has been with us for 60 years and many of the colleagues have actually been L&T lifers. So, as a gesture and a thank you goodwill, we had paid fairly generous parting bonus to all of them. And all of that accounted to that to that Rs. 250 crores. So, consequently, the Rs. 14,000 crores of consideration translated into about Rs. 13,000 crores of net cash on hand. The value of the assets that we transferred is about close to Rs. 2,500 crores and the taxation obligation is about Rs. 2,500 crores. So, about Rs. 5,000 crores had to be reduced from the net consideration to arrive at a profit of Rs. 8,000 crores, which is what you will see us having reported. I am rounding off for ease of conversation, the precise arithmetic is visible in the earning charts.

Now, this is insofar as profits are concerned. When it comes to cash, as I told you net of retention and expenditure we had about Rs. 13,000 crores on hand, a portion of that retained money will most certainly come back on close out audits, etc. But of the balance Rs. 13,000 crores, Rs. 2,000 crores is the tax payout, in terms of book provision that is Rs. 2,500 crores, but because of some carry forward tax advantages the net cash outflow on account of tax, cash wise, would be about Rs. 2,000 crores, that leaves about Rs. 11,000 crores of cash with the company.

Now, the associated conversation around such a large cash pool with the company is how does the company plan to use the cash. And there have been a lot of commentary, even in the media, about into what use the cash can be put to. But being a company who is completely committed to all the obligations from all the stakeholders, we have drafted out a plan for this cash utilization. Close to Rs. 5,000 crores of debt we would like to retire from the balance sheet. As you know, we had rather elevated debt levels in June quarter, because the pandemic struck us in March end, one of the first things that we did was to beef up the liquidity structure in the month of April, by borrowing additional amounts, just to be sure, because we had no idea as to how bad the pandemic was going to be and our strained the liquidity is going to be. Consequently, we sort of beefed up our cash reserves. But having seen through the pandemic and having thought of coming to a conclusion that Q1 could be the lowest in the cycle of the pandemic and Q2 has been indicative of some recovery and Q3, Q4 could be, hopefully, stronger recovery than Q2, we do think that we should, in the remaining portion of the year, retire that excess debt that we accumulated. So about Rs. 5,000 crores of the proceeds we have earmarked for debt reduction.

We also need to make some investments in our business. And these are largely with services business. The businesses like financial services, etc., would require some capital allocation. We also need to grow our other services business, IT, technology services, which have done very well during this difficult phase, encouraging us to keep nurturing them and making them stronger and bigger. So an allocation of Rs. 2,000 crores for various business investments, including financial services is what we set aside.

We also were required to safe harbor the Hyderabad Metro project. As you know, just as the pandemic struck, we commissioned the project fully. And quite unfortunately, despite all the lines being commissioned, the traffic had to come to a halt because of the severe lockdown. And the lockdown has got lifted in Hyderabad only on September 9th. So we had some tail revenue coming in from the end of the quarter for the entire six month period. And even then, the resumption of work from office is not complete. And IT town that Hyderabad is, there is going to be gradual pickup in terms of IT office going traffic. Also the fact that social distancing norms have to be adhered in trains and there has been some staggered admission of people, etc., the traffic that we anticipated to ride on the trains before the pandemic is not going to be the same immediately, it is going to be, possibly in my opinion, gradual build up at least before the traffic comes back to some normal levels, feeling safe all the while.

So this has forced us to restructure the capital. State Bank has been one of the largest lenders to the project and the lead banker to L&T as well. So L&T and State Bank have sat down together and been trying to work a refinancing package. It is not a restructuring package that Commerce Committee recommended to RBI. This is a refinancing package because we had to reevaluate the cash flows of the company based on the revised conditions. And consequently, it's quite clear that there has to be some amount of sustainability brought into the debt and being an L&T company, given our track record of debt servicing for the last eighty years perhaps, we cannot afford to have any blot on that reputation. So, consequently, we are discussing with state bank, including capital infusion by third party, including some discussions with the government for long-term financial assistance etc. We need to rehash the capital structure and make sure that the revenues that will pick up gradually going forward will have sufficient wherewithal to meet all the financial obligations. So, as a measure of prudence, and since Hyderabad Metro is very much a part of our portfolio as we speak, we have allocated about Rs. 2,000 crores for all such financial refinancing, restructuring options that will get finalized hopefully by the end of this quarter or at best early part of next quarter.

Then we have left with, after the debt repayment plan, after the investment in businesses plan and after the Hyderabad Metro restructuring plans, we are left with about Rs. 2,500 crores of cash, which is what we have distributed as special dividend to investors at Rs. 18. The whole plan around the use of cash was just to make sure that we also use the proceeds to strengthen the balance sheet of the company and by the deleveraging, and also strengthen the underlying business of the company. It is quite clear that the infrastructure assets that we have built so far, including Hyderabad Metro which is the latest, are monetizable assets. So as part of the discussions with the bankers, we are also trying to work out a mechanism by which, in due course, after the traffic stabilizes, there will be options available for divesting our stake and de-risking our balance sheet from these exposures.

So talking about de-risking on exposures, particularly on infrastructure, has actually led us to a few more decisions in this quarter. And I would like to share that as well with you. One is, we have a coal based supercritical power plant in Punjab, where we have the PPA with the Punjab State Electricity Board. It's one of the most efficient plants being a supercritical plant and one of the latest plants in Punjab. The plant gets priority in the consumption of power, both for the quality and consistency of availability from the Punjab State Electricity Board. So it's a very important asset for the Punjab Government and the electricity authorities. In the quest of moving towards asset light business model, we had identified the infra assets as monetizable pieces, except that they are all in different forms embedded in our financial statements, structurally. Some of them are in subsidiary some of them are an associate company joint venture form.

So one of the first things that no course of the quarter we crystallized our plans for an orderly exit from Nabha. We do not yet have any specific offers on table, neither have we kick started a process as I speak today. But these are subsequent steps that the company might have to walk in the quest of monetizing that asset. But having said that, it became important for us to reevaluate the carrying value of this asset. We looked around at market multiples, because once there is a plan for monetization, then it is important that the asset gets valued or carried in the books until monetization in an appropriate manner, based on the multiples that are available for coal based plants, and looking at the nature of the asset, it's a single asset company as well, doesn't have multiple power plants. We applied a prudent discount in consultation with our merger and acquisition and divestiture teams. And we had invested about Rs. 2,700 crores in Nabha power plant as our equity, and over the years the Nabha power plant has been generating profit every year, year-on-year. And the accumulated profits have been come back and reinvested in that business. So the carrying value had grown to about Rs. 3,800 crores. And based on the market valuation, we assessed the realizable value to be around Rs. 2,200 crores, leading to impairment of about Rs. 1,600 crores.

The second asset that we closely looked at was another power plant, but this is an hydro power plant in the hills of Uttarakhand. It's a project called Singoli-Bhatwari. We took almost 10 years, because there were enormous amount of challenges to complete the power project. It took all of

L&T's commitment to project completion, to stay on course and complete this project despite a 10 year delay. And now the project, in September the turbines were commissioned and mechanical completion was certified, so the project is up and ready for generation. We are in advanced stage of discussions of PPA with the Uttarakhand Government. And based on the regulations and tariff fixation norms of the Uttarakhand electricity regulatory authorities, it appears as though that the levelized tariffs would be around Rs. 3.5 per unit, with the obvious initial tariff being at Rs. 5 and then levelling off over the duration of the long concession period that we have. So, reflecting the possibility of the tariff sitting through the PPA, we re-evaluated the carrying value of this asset which is actually close to Rs. 1,900 crores, Rs. 1,890 crores actually. And on the basis of the PPA and the tariffs potential, we have carried the recoverable value at about Rs. 837 crores, impairing in the process about Rs. 1,000 crores from the carrying value.

The third asset that we have been dealing with, and it is not an infra asset, but we have spoken about this at length in the earlier commentaries and conversations. We have a nuclear power shop meant for nuclear power plants. It is a joint venture with Nuclear Power Corporation of India, we own 74% and NPCIL owns about 26%. We have been battling with gross capacity underutilization in this plant ever since commissioning. The frequency of the ordering and the speed at which nuclear power plants orders out foraging has been a steep learning curve for us. We cannot set up such an advanced and sophisticated workshop with no periodical orders, it has to have regular flow of orders. So, the nuclear power capacity addition, today possibly has taken a bit of a backseat in contrast to the thrust that has been given to renewable energy. Regardless of the quality of the prioritization of the decision making, the hard fact is that the workshop that we have, is struggling for capacity utilization. But recognizing the fact that the capacity utilization is going to be a challenge, we have been in deep discussions with the government and through NPCIL about converting the loans into equity just to rid the plan of the burden of having to service the borrowings. But despite almost two years of effort, we have come to the painful conclusion that there is no urgency on the part of a Nuclear Power Corporation to resolve this issue, given their own constraints, etc. So, not wanting to comment on that current stand of their, it is important for us to recognize that this asset is not going to justify its carrying value of about Rs. 1,000 crores in the consolidated books. So, the funded exposure that L&T had on this plant was about Rs. 1,000 crores, and that we impaired it as well because our conversations with Nuclear Power Corporation, Government of India came to a standstill. So these three actually together led us to an impairment during the quarter of about Rs. 3,700 crores. And the results that we have announced reflects this impairment.

I think I will stop here, because I am sure you will have a lot of things to absorb through the presentation and Q&A thereafter. But before that, one of the most compelling reasons why I thought I should speak to you today is my long serving colleague and friend, Mr. Arnob Mondal, who has been spearheading this IT activity for over 10 years, is retiring on 2nd of November, after 25 glorious years with L&T. Like all L&Tites, he is a very, very passionate about his work. And I have no hesitation in saying that he was able to lift the quality of IR practice that the company was adopting by sheer commitment, enthusiasm and passion for the work. So, you have been a great support to him through this period. So, I just wanted to, in your presence, acknowledge the tremendous contribution that Mondal has made and the value that he has created to this function.

I also want to use the chance to welcome P. Ramakrishna, who along with Harish Barai will form the core of our IR team. P. Ramakrishna has also been a very long serving senior colleague of mine in L&T, worked in several functions. The last function that he was, he was the CFO of L&T Technology Services, the listed company. So maybe some of you have had an opportunity to interact with him in that avatar. But I think Mondal has taken the effort to introduce P Ramakrishnan, Harish Barai to you. And I seek all your support to the new team while wishing Mondal a very, very happy retired life.

So thank you. I will hand it over to the IR Team for the presentation going forward.

Arnob Mondal: Thank you RSR for the lovely words and sentiments. And the clarity that you brought to the very large items of both the P&L and cash flow that have been embedded in this quarter's results, I think that answers a lot of queries. Many people have been asking me since yesterday after we declared our results on these matters, and obviously, I told them that I would not be able to share details, because it would be selective dissemination of information. So I asked them to wait for the call and you have very clearly clarified all those.

So without any further ado, I will now hand it over to Mr. P. Ramakrishnan, who is taking over from me. And we affectionately call him PR, by his initials. He will walk you through the presentation. And after that the IR Team will take the Q&A. So PR, over to you.

P. Ramakrishnan: Thank you, Arnob. And good morning to all of you. Some of you may have heard me during my previous stint as the CFO of L&T Tech Services. My name is P. Ramakrishnan, shortly abbreviated, and as Mondal talked about, PR. I will take the presentation, hopefully, all of you must have downloaded and probably went through it. So, I will probably summaries the presentation in the next 20 minutes or so.

Before I start off, the standard disclaimer. This presentation and what we have spoken in this particular call, does have forward-looking statements and conversation that may concern our L&T's future business prospects and profitability. These are subject to a number of risks and uncertainties, and hence the actual results going forward could materially differ from what we have disclosed in the Analyst Presentation or what we speak in the call today.

With this, I come to the Slide #4, which summarizes the Q2 of FY 2021. As the title says, we have had a sequentially strong quarter, but it is in the backdrop to see our Group performance in this quarter to be seen in the context of domestic macroeconomic environment, that is India, where we primarily operate in. As we see going by the month-on-month improvement in the high frequency lead indicators, it appears that the Indian GDP contraction in Q2 of FY 2021 could be less severe than the 24% contraction that we saw in the previous quarter Q1 FY 2021. Now in this backdrop, we still managed to secure orders of roughly around Rs. 280 billion in the current quarter. Whereas in the previous quarter, the order inflow was up Rs. 236 billion. So despite the pandemic situation, we have had a reasonably healthy Q-o-Q pickup in order inflow, almost to the extent of 19%.

Our order book at roughly around Rs. 3 lakh crores, which is precisely Rs. 2,989 billion is relatively stable and is largely unchanged from that of the previous quarter of the previous year as well. Our Group revenues for Q2 FY 2021 reported at Rs. 310 billion, vis-à-vis Rs. 213 billion of the previous quarter Q1 FY 2021, demonstrated a growth of almost 46%. This is on the back of strong sequential improvement in revenue across most of our project businesses, and also service businesses. Most of our sites were operational with the near labour strength of around 250,000 workforces. But our operational productivity or efficiency, as RSR also talked about, is yet to catch up to pre pandemic levels because of work related restrictions. We believe that as restrictions are eased progressively, we do expect sequential improvement in site productivity. Our operational PAT, that is before the exceptional item and the gain on the discontinued operations, has been reported Rs. 11 billion for Q2 FY 2021, almost up multiple times from what we had in Q1 FY 2021.

Coming to cash flow:

We have had a reasonably good cash flow momentum, even stretching into Q2, more because of there has been ample systemic liquidity in the system. And the fact that both the central and state governments have front loaded the borrowings programs for the year, our client collections in H1 has been reasonably robust. To that extent, we need not have drawn down on our cash reserves to fund our operations for H1. And going by the government's borrowing calendar for H2 of the current financial year, and also the fact that the economy is showing pickup across all areas, our outlook with respect to customer collections remains positive for H2 as well. To summaries the performance of Q2 with respect to Q1 of the current financial year, I would say, businesses are catching up on lost ground, aided by the government's actions to restore normalcy.

I come to Slide #5, which is the summary of the key financial indicators. So, just to convey here, in this slide, the quarterly performance snapshot is presented on the left and half yearly on the right. I will focus on the Q2 FY 2021 numbers, as H1 numbers are a derivation. Please understand that the sequential improvement in performance on quarter-on-quarter, as I mentioned while I spoke on the previous slide, the Q2 FY 2021 and the H1 FY 2021 are not comparable with the corresponding quarter and the H1 of the previous year for obvious reasons. Our Q2 FY order inflows are Rs. 280 billion, has registered a decline of 42% over Q2 of the previous year. As I said, the order book at Rs. 2,989 billion, there is a marginal decline of just around 1% over the September 30, 2019, number.

Our Q2 FY 2020 revenue and EBITDA at Rs. 310 billion and Rs. 33 billion has registered a decline of 12% and 17% respectively, over that of the previous year. Our Q2 FY 2021 PAT reported at Rs. 55 billion is inclusive of the gains on divestment of the electrical automation business and offset partly by exceptional items, which was highlighted by RSR during his call. To sum up, the gains on the divestment of the electrical automation business post tax is in the order of Rs. 8,100 crores. And just to convey the exceptional items net of tax during Q2 FY 2021, represent impairment of funded exposure into heavy forgings joint venture Rs. 10.7 billion and impairment of assets in the power development business aggregating to Rs. 26.57 billion.

Coming to working capital:

As I stated previously that our customer collections have been fairly robust, the gross collections across the Group for Q2 aggregated to Rs. 29,000 crores, almost up by Rs. 4,000 crores as compared to Q1 of the previous quarter. And out of this, the project business or the core business also show a growth in collections. We reported collections of roughly Rs. 15,000 crores for the current quarter as compared to Rs. 12,000 crores of the previous quarter. The working capital coefficient was roughly around 26.7% has remained almost the same as of June quarter, but has moved up when you compare with September 2019 position of 23.2%. We believe that given the current year, as this is being an exceptional year because of COVID, the intention of the company is to ensure that the absolute working capital as we progress and close the year March 2021 is at almost the same level as what it was in March 2020, without really measuring the working capital to revenue as a percentage. Our return on net worth on a trailing 12-month basis is roughly around marginally less than 17%, but not comparable strictly because it does contain the divestment gains and also exceptional items.

I move to Slide #7, which summarizes our Q2 H1 FY 2021 order inflow and order book:

Again here, order inflow numbers are mentioned on the left and the order book on the right. Our order inflows for Q2 FY 2021 at Rs. 280 billion is down 42%, but it is good to note that the momentum has improved in infrastructure, covering both domestic and international despite the pandemic concerns. The power generation continues to see some award deferments, and the hydrocarbon CAPEX is muted in the quarters due to soft oil prices. In Q2 FY 2020, we had large order winds in both power and hydrocarbons, which largely explains the decline in Q2 FY 2021 order inflows over the corresponding quarter of the previous year. As at September 2020, and for the remaining months of the FY 2021, when we see from a bottom-line prospects approach, the pipeline seems to be quite robust of almost Rs. 6 trillion, and out of which Rs. 4.7 trillion is domestic and Rs. 1.3 trillion international.

Coming to the latter part of the presentation, Arnob would take us through summarizing the outlook based on this particular metric. Coming back, the government has ensured in the first part of the year that project execution continues and payment to contractors are not withheld. It looks like in the next part of the financial year the government will now turn focus on awards, that is on new ordering, which hopefully should aid economic recovery and generate employment. As we speak, the order prospect pipeline does see a lot of opportunities in areas like water, power transmission distribution, Metro and RRTS systems, railways and as well as roads and expressways.

Coming to the order book at Rs. 3 lakh crores. The portfolio diversity what we show and our dependence on government and PSU investments mitigates the cyclicality, and especially considering the current outlier event of Corona. Today, we have roughly six business verticals where each of their order book is ranging between 9% to 15% of the overall company order book.

They are Buildings and Factories, Water, Power Transmission and Distribution, Heavy Civil Infra, Transportation Infra and Hydropower. The diversity of order book helps and the future revenue growth is not dependent or not seen to be dependent on the fortunes of any specific sector.

Out of the total order book of Rs. 2,989 billion as at September 2020, 76% belongs to domestic and 24% in international. Coming to the domestic order split, which is around Rs. 2,273 billion. The split between central government at 14%, state government at 38%, public sector units at 30% and the rest private at 18%. So therefore, as I stated earlier 82% of our domestic order book is from the public space. And we believe that in the current times, a larger proportion of public sector order book possibly mitigates credit risk.

Coming to Slide #8. This summarizes the Group performance from an overall cost perspective, starting with revenue. Here again, I will focus on the left side of the slide which is the Q2 number. Our Group revenues at Rs. 310 billion for Q2 FY 2021 has registered a de-growth of 12% over Q2 FY 2020. However, as I explained earlier, our Q-on-Q revenues have registered as smart recovery of almost around 50%. The services portfolio of our business has done reasonably well in Q1 FY 2021, there is acceleration momentum there as well in the current quarter Q2 FY 2021.

Coming to the summary of the cost:

The MCO expenses, which is nothing but manufacturing, construction and other operating expenses, is largely attributed to the project parts of our business, is reflective of job progress, revenue mix, which is between core and service businesses, and cost control initiatives. The finance charge OPEX largely represents borrowings in L&T Financial Services. The Q2 cost is largely flat. The overall headcount for Q2 for the Group is around 161,000 as of September 2020, as compared to Q2 of last year, that is September 2019, at 165,000, overall drop in headcount of around Rs. 4,000 people. The lower SG&A charge in Q2 on overhead savings, primarily resulting from travel, rent and other miscellaneous expenses, is partly offset by incremental credit provisions in Financial Services business. You are aware, the Financial Service business has been making prudential macro provisions over and above the mandated provisions as is required. Consequently, are total OPEX for Q2 FY 2021 reported at Rs. 277 billion, de-grows 12% over Q2 FY 2-20.

I move to Slide #9. For reasons which I explained in the previous slide over EBITDA for Q2 FY 2021, at Rs. 33.3 billion, it has registered a decline of 17% over Q2 FY 2020. The finance cost at Rs. 10.4 billion for Q2 FY 2021 is commensurate with the level of borrowings at the parent L&T level, and also has gone up primarily on account of the full commissioning of Hyderabad Metro. At the current levels of around Rs. 16,000 crores, the finance cost of Hyderabad Metro ranges between Rs. 350 crores to Rs. 375 crores per quarter.

You would recollect, as our Mr. Shankar Raman also talked about, that at the start of the financial year, the company had borrowed, the parent company and almost borrowed Rs. 12,000 crores as an emergency liquidity buffer to act as a sort of insurance against the slowdown. So, against that, we have almost paid Rs. 4,000 crores during the current quarter.

The depreciation charge at Rs. 7.1 billion for Q2 FY 2021 includes the full impact of the Hyderabad Metro capitalization, which averages around, I would say, Rs. 75 crores per quarter. The other income reported at Rs. 5.6 billion for Q2 FY 2021 is largely a reflection at the level of treasury investments and the yields that we have earned during the quarter. The share of JV associate companies largely comprises the results of our IDPL, Development Projects Group, Power Equipment and Forgings JV. The non-controlling interest or minority interest reflects the profit share of minority shareholders across all the subsidiary companies.

Coming to operational PAT. Our operational PAT for Q2 FY 2021 at Rs. 11.1 billion has registered a de-growth of around 52% over Q2 FY 2020, largely on account of drop in revenue, and under recovery of overheads due to Corona pandemic, in our core businesses. Underutilization of Metro services in the current quarter, the metro was put up for commissioning again post lockdown on 8th of September, so we also missed mostly the second quarter as well. And additional prudential provisions in the Financial Services business.

As Mr. Shanker Rahman talked about, that the EAIC divestments, the PAT after discontinued operations at Rs. 81.46 billion, includes the gain on divestment of roughly around Rs. 81 billion of the EAIC business. Whatever numbers which we have reported in Q2 against this may undergo some changes because of the explanation what Mr. Shankar Raman spoke, post transaction closing adjustments and additional recovery of consideration post completion of our obligation, we may see some amount of closure to this transaction as we go along, hopefully by the end of FY 2021 this should have been closed.

I move to Slide #11. This slide summarizes the segment composition and one particular slide which is the Electrical Automation has been highlighted, because that is forming part of our discontinued business. One important point which I would like to draw your attention to the segment composition is that the Information Technology segment, IT & TS mentioned here also includes Mindtree, which what consolidated into the L&T system from Q2 of the previous year. Effective 1st April current year, we are a Smart World & Communications business that has been shifted from the Infrastructure segment to others. Similarly, Military Communications business has been transferred from our Defence Engineering segment to in fact Smart World & Communications, which in turn has been mapped to others. So to that extent, the figures of the previous period has been reGrouped in the segment results to conform to the new classifications in the current year. Having said this, this does not materially impact the performance of the segment's to which these two segments were previously being reported.

I move to Slide #12. This summarizes our H1 FY 2021 ordering flow composition. Again, this is more a slide for reference purposes. We just want to draw an attention that 50% of order inflows has been contributed by Infrastructure in H1 FY 2021. Hydrocarbon and Defence contributed around 3% each, and Heavy Engineering around 1%. Obvious reasons, the share of Services percentage as a total of order inflow is higher at 40% for H1.

Moving on to the split between domestic and international. 63% of order inflows for H1 were domestic and 37% international. And against this, domestic order inflows, a substantial portion accrued from the Infrastructure business. Moving to international, a significant proportion of international order flows is from the IT & TS business. Having said that, the Infra, Hydrocarbons and Heavy Engineering has also contributed to international wins during H1.

I move to Slide #13. This is a summary of the H1 FY 2021 order book composition. As you can see, 75% of total order book as at September 2020 is from the Infrastructure segment and 13% from Hydrocarbons. Within the Infra, as I mentioned earlier, order book is well diversified across the five large verticals within that segment. Coming to the geographical split, we are predominantly an India centric company, and because of that 76% of our total order book is domestic based. Against that domestic order book, the public space will be around 82% and private at 18%. Our international order book is 24% of the total order book. And as you may be aware, over the last couple of years, we have tried to move consciously from the Middle East where we add a predominant presence. As we speak today, 40% of the international order book is outside of Middle East.

Moving to Slide #14. This is H1 FY 2021 revenue composition. As you may see, the services business at 39% has acted as a good hedge in our overall business portfolio, which has been hitherto dominated by ENC. So, in a period like this, the revenue across core businesses, in case there is a problem and which we have been witnessing, the services portfolio has come to a rescue. Of the total revenues of Rs. 523 billion for H1 FY 2021, the Services contributed to 39% and Infrastructure contributed to 37%. Moving on to the geographical split. 59% is from India and the balance from outside India. This percentage of especially the revenue share of Rs. 5,941 billion maybe a little skewed because in the current year because of a larger proportion coming from the IT & TS business.

With this, I have summarized at the company level. Now, in the next few slides I will take you through the segments of the company.

Moving on to Slide #15, which is the Infrastructure segment. Infrastructure segment, as you may be aware, is the largest segment within the Group. And obviously, the performance of this segment impacts the Group's fortunes as well. Some quick comments on order inflows before we move to the other parameters. You would recall that in Q1 FY 2021 the Infra recorded order wins of around Rs. 113 billion. And in Q2 FY 2021, this segment recorded order inflows of Rs. 145 billion, representing a healthy sequential growth. Our bottoms-up pipeline in this particular segment, which covers both domestic and international, is almost to the order of Rs. 4.2 trillion as we speak as of September 2020. The Indian Government is focusing on key areas like water, power transmission distribution, Metro, railways, roads and expressways. And as we speak, te ordering momentum is expected to pick up in H2. Hopefully, on the order inflow side, our Q3, Q4 order inflow should be better as the economic recovery and improved tax collections should give the sufficient comfort to the government to put more orders on to awarding stage.

The Q2 FY 2021 revenues for the segment as Rs. 129.7 billion is up 102% on a quarter-on-quarter basis, primarily because of supply chain normalization in Q2, and also almost full 100% a labour availability across the 700 sites. On a year-on-year basis, these numbers for Q2 FY 2021 would be down 20% over Q2 FY 2020. We do expect revenues to pick up in the coming quarters on the back of further labour supply normalization, and also sustaining, I would say, the logistics and supply chain. And coming to plant collections, Q1 and Q2 has been reasonably good for this segment. And I did touch upon this when I cover the previous slide. And hopefully, we should not be seen to execute the performance from our balance sheet in the coming quarters as well.

The margins for Q2 FY 2021 at 6.4% represents a marginal improvement of 10 basis points over Q1 FY 2021. Kindly note that in Q1 FY 2021, the margin buoyancy despite the lockdown was largely because of a couple of jobs which should have ideally closed into the resale RSV or the margin threshold stage in the previous quarter, that is Q4 FY 2020, actually moved to Q1 FY 2021. And that's the reason the Q1 margin at 6.3% and now at 6.4%, which is a marginal improvement. On a year-on-year basis, our margins have dropped from 7.2% in Q2 FY 2020 to what it is reported at 6.4% in Q2 FY 2021. The margin challenges in H1 FY 2021, obviously, were due to supply chain distribution and labour availability and productivity, and lastly, job mix. With now supply chain coming to near normalcy and overall improvement in productivity, the revenues from this segment are expected to move up. The margins, therefore, would be primarily a result of the way the job mix happens and not because of other factors as we saw in H1.

Coming to Slide #16, this slide summarizes the performance of the Power segment. Although there were a couple of power prospects and flue gas desulfurization opportunities which were lined up, the H1 witnessed award deferments due to the ongoing pandemic. Having said that, we would like to mention here that the business is actually sitting on quite a healthy order book of almost Rs. 146 billion, which provides us a revenue visibility for the near future. The revenue for Q2 FY 2021 at Rs. 6.9 billion was up 42% on a year-on-year basis, largely driven by the execution from a large opening order book. A major part of the revenues of the Q2 FY 2021 is yet to cross a margin recognition threshold. And this explains the margin variation of 4.1% in Q2 FY 2020 to 3.1% what we have reported in the current quarter. As you may be aware, the Power business margins are optically low, because our Power Equipment businesses are actually joint ventures. And if they were to be consolidated as subsidiaries, then the margins of the Power segment would be up to almost (+10%).

I move on to Slide #17, which is the slide covering the Heavy Engineering segment. The segment did see very, I would say, muted order wins in the current quarter, largely on account of order deferrals. The Q1 order inflows were good enough on the back of order wins in the international market. The orders what we bagged in Q2 was roughly Rs. 323 crores as against Rs. 476 crores in Q1 of the current year. The segment recorded revenues of Rs. 6 billion, registering a Y-on-Y decline of 3%, while sequentially it has increased by 59%, representing a substantial improvement of our operations because of better capacity utilization post the lifting of lockdown. The EBITDA margins for the current quarter at 5.1% as compared to 24.9% in Q2 FY 2020 is because of in the current quarter a one-time prudential provision has been made towards a settlement with a client. We do expect, going forward, margins to be normalized in the subsequent quarters.

I move to Slide #18, Defence Engineering segment. We had a significant order win in Q2 FY 2021 from the Ministry of Defence India, which replenished the order book. Having said that, the recent government announcement on timebound defence procurement processes and faster decision making hopefully awakens hope for the future. The announcement considering separate budget provisioning for defence capital procurement and the list of 101 items released by the Government of India to be exclusively manufactured in India over a period of time is a distinct positive development for this sector. We do have some RFPs which are lined up, and we are constructive on the future outlook. The revenues for Q2 FY 2021 at Rs. 7.6 billion registered a decline of 20% over the last year, largely due to the tapering of a large order in the current year and new orders which we had yet to gather execution momentum. Margins for Q2 FY 2021 at 24.4%, almost up from 18.1% in Q2 FY 2020, largely reflective of the face of jobs under execution, aided with operational efficiencies.

I move on to Slide #19, Hydrocarbon segment. As I explained while we covered the previous slides, due to the uncertain oil price scenario, we are relatively seeing very relatively subdued tendering activity. And because of that, this segment recorded, I would say, very low order inflows during the current H1. The order book of the segment is extremely robust. It has almost two years of revenue execution. And hence, even if a couple of orders deferment, that should not impact the revenue trajectory of this segment in the near-term. The segment clocked revenues of Rs. 40 billion during Q2 FY 2021, registering a Y-on-Y decline of 6%, however, sequentially the revenues have increased 32% with all our fabrication yards up and running. and most sites nearing normalcy. The international revenue constituted 53% of the total customer revenue. And jobs were primarily executed in Africa, Saudi and Kuwait. The segment margin reported at 8.5% in Q2 FY 2021 vis-à-vis 12.5% in Q2 FY 2020. Previous year margins were aided by a one-time favorable variation claim from customers that got accounted for in that quarter.

I will move on to Slide #22 which summarizes the Development Projects segment. The segment comprises of two portfolios, one is the Power Development business and the other is the Hyderabad Metro. Kindly note that other Development Projects business, which is IDPL, that comes under operations from joint ventures. Here again, the roads and transmission lines concessions, which we are hosting at IDPL are consolidated, as I said, in the equity method, so the numbers don't include in the Development Projects segment in this slide. The segment registered revenue of Rs. 11.4 billion, down 32% of the corresponding quarter in the previous year. The revenues in this segment are largely contributed currently by the Power Development business, primarily from Nabha. So, the performance of Nabha Power for Q2 FY 2021 was very robust, mainly because of a record PLF of 92%. Hyderabad Metro, for obvious reasons, has not contributed to any sort of meaningful revenue and operations in the current quarter. The EBITDA margin for the segment at Q2 FY 2021, 5.3% as compared to 10% of the quarter of the previous year. Again, largely impacted of Metro operations. As I stated earlier, the metro operations have started in a phased manner from September 7. As of 30th September, we have a traffic of almost 50,000 passengers per day, and as we speak, it is touching 1 lakh in that current month.

I move on to Slide #21, the IT & Services segment. As you may be aware, this segment comprises of our three listed entities, LTI, LTTS, and Mindtree. And since the details of the performance of these companies are already there in the public domain, post their board meetings and announcement of Q2 results, I will try to summarize the overall performance of the Group as one segment. The revenues in Q2 FY 2021 at Rs. 61.7 billion, it registered a growth of 5% of the corresponding quarter in the previous year. All the three listed subsidiaries have done fairly well on a quarter-on-quarter basis as well. An array of business verticals contribute to the growth between each of these companies. The details are summarized in this slide itself. I am happy to inform you that all the businesses have successfully adopted to a work-from-anywhere model, thereby giving us the assurance that there are no supply chain distributions from an execution perspective. The international sales, as most of them are primarily on export oriented, constitute almost 93% of the total customer revenue for the quarter ended September 30, 2020. The EBITDA margins for the segment increased to 23.2% for Q2 FY 2021 as compared to 19.5% for Q2 FY 2020, largely on account of improved manpower utilization, onshore-offshore revenue mix, and operational efficiency.

I move on to Slide #22, the "Others" segment which is a residual segment, which comprises of the Smart World & Communication, the Realty business, the Construction & Mining Machinery business, the Rubber Processing machinery business and Valves. The customer revenue of this segment during Q2 FY 2021 at Rs. 13 billion registered a decline of 33% over Q2 FY 2020. This decline was mainly in account of the realty business, where in the previous year, that is Q2 FY 2020, included the monetization of commercial assets in Navi Mumbai project and a higher proportion of handing over residential flats. The margins for this other segment for the current quarter Q2 FY 2021 reported at 18%, has largely remained unchanged from what we reported in Q2 FY 2020. Margins continue to be healthy on account of cost efficiencies in the residential projects in the realty business, and cost saving measures undertaken across other businesses.

I conclude segment results with L&T Finance Holding Group, Slide #23. This segment recorded an income of Rs. 33.4 billion in Q2 FY 2021, a year-on-year decline of 3% due to lower disbursements vis-à-vis corresponding quarter of the previous year. The loan book was marginally lower at Rs. 988 billion as compared to Rs. 1,002 billion in September 2019. The business's focus is on improvement on return on equity, realized through a strategy on realization of the loan book, prudent ALM, improving asset quality and increasing diversity of funding sources on an ongoing basis. The focus in Q2 of the current year, partly centered on recommencement of rural disbursements, controlling credit cost, improving collection efficiency, and yet maintains adequate liquidating buffers. The Group, over the last couple of years, has demonstrated tremendous resistance, despite the challenge surrounding the NBFC space. L&T Finance Holdings and all of its lending subsidiaries have a reaffirmed AAA rating by all the four credit rating agencies. Previous year Q2 FY 2020 profits were impacted by re-measurement of a deferred tax asset under the new tax regime which was announced last financial year.

With this, I have summarized the performance of the company for the quarters for H1, and also the segment performance. We now come to the last part of our presentation, which is the environmental outlook. And I am requesting Arnob to take you through. Thanks.

Arnob Mondal: Thank you, PR, for a very elaborate and illuminating discussion on the performance of the Group for this quarter, as well as this half year. Now coming to the last slide, it is obviously more macro. And I will, obviously, not read out every single word of it. I would just like to highlight a few things. Of course, PR has covered the results in detail, so I will not get in to all those. Mr. Shankar Raman also elaborated on the E&A divestments and impairments, so I will not get into that either.

Coming to the environment, I think it is clear that the government focus on infra remains unchanged and it's very strong. In fact, those of you who have gone through the detailed 300 page NIP plan will clearly understand that it's a fairly detailed, it's a robust plan, with the funding also reasonably laid out. And while the private sector could probably fall short, it does appear that the public sector spends seem to be well on track. Considering the fact that the center, state and PSU cash flow and CAPEX on an annual basis is typically around Rs. 15 trillion to Rs. 17 trillion. So on a six year timeline, the plan does not look like wishful thinking. Of course, the government's focus on infrastructure has been validated to a large extent by the big high speed rail order which we received yesterday. And we have also announced it to the stock exchange as well. So that is a clear demonstration of the fact that the government is focused on pushing infrastructure.

Now just a couple of points on the liquidity support. I think everybody realizes that there was a big tax shortfall collection in the first quarter and early part of the second quarter, even though September tax collections have picked up quite a bit. This is largely being thought to be mitigated through an increased borrowing plan by both center and state for FY 2021, apart from what they originally budgeted, they are planning something around Rs. 9 trillion additional, Rs. 5 trillion at center and Rs. 4 trillion collectively at state to tide over the liquidity crisis that the government faced in the initial part of the year due to COVID. However, the gross debt to GDP could also climb to around 90% by the end of this year, which is okay compared to many other countries, but still something which needs to be also closely monitored. I think the pandemic is, global pandemic is everybody has talked about it and countries which have been affected and the known variable right now is particularly with respect to resurgence in different countries in Europe, Germany and France have already announced limited re-imposition of lockdowns. So we'll have to see. In India, we have seen, obviously we have seen phase reopening that has happened and we will hopefully continue and we hopefully will not see a resurgence coming back. We have talked about the labor situation is back to normal, we are close to around 250,000 labor at project sites. Till around a week back. However, here again I need to reemphasize that we have been facing productivity issues, primarily due to imposition of strict social distancing norms in our workforce. However, we are still trying to, we are finding technology solutions and smart scheduling solutions to try to overcome that hopefully few months down the line maybe 2, 3, 4 months down the line, we should be able to be better placed on that front.

As far as L&T, in this slide, I've also shown an economic moat and I will not go into details of that, we have multiple protective rings. Even though, I do feel that markets seem to have discounted some of these so called rings and considering the way our stable services business has been delivering quarter-after-quarter, there is a case to have a relook at conglomerate discounts in your models, but you are the best judge of that.

As far as input costs are concerned, we have been seeing a decent period of relatively soft commodity prices, whether it be construction steel or cement or construction aggregates like bricks, stone chips, sand, etc. However, currently we are seeing some commodity inflation coming through on multiple fronts, hopefully it will not spike it will remain under the control as far as labor costs are concerned, big question which we have been facing is that, whether we are seeing strong labor inflation because of migrant labor coming back, yes we have had to incur quite a few one off expenses in bringing them back on the transportation part to some extent. However, the labor inflation has been very, very moderate and we have done a detailed analysis of around 70 odd sites at various states and our assessment is that from those sites, it is clear that if you take a base of January in January 2020 and going up to September, because that covers the pre COVID and the current situation, the labor cost inflation is barely around 3% because we have already been paying minimum wages at every site which is considerably higher than the MGNREGA wages, that are prevailing today.

So it seems to be well under control and of course those onetime costs have all been washed through the P&L already. So they will obviously not be a recurrent feature. I would just like to touch upon some macroeconomic trends because many people keep on asking us, how do you see the macro turning out and we do think that there's been a improvement from August and particularly strong improvement in September, some of the key indicators manufacturing PMI going to 56.8 is a very, very welcome sign even though services PMI is slightly short of the mid mark of 50. So at 49.8 still very small contraction, but obviously travel and hospitality sectors also weigh in on that. So that is not entirely unexpected. But overall, the PMI, composite PMI seems to be fairly strong now.

Going by IIP there's been a good trend of improvement in fact those of you who have track IP will recollect that in the month of April it contracted by 57% and in May it improved to 33%, in June to 15% and in August it touched something around 8.5%. So, there has been a steady improvement in IIP.

Power generation year-on-year September there's a focus in growth and for the first 25 days in October is very heartening that we are seeing and growth in excess of 10%. GST collections all of you would have noticed that we crossed 95,000 crores in September, which is a very welcome sign. Some other indicators like tractor sales, August and September saw a very strong tractor sales. To some extent it was also due to very healthy, strong monsoons that we saw with reasonably good spatial distribution across the country.

Road traffic is coming back going by our IDPL roads, and they are back to I would say around flat year-on-year revenues in this quarter. It appears to have normalized to a large extent, rail freight traffic there has seen a growth of close to 4% in year-on-year in September, that's also very heartening. Exports have been strong anything year-on-year growth of over 5% in September. All of you would have also noticed that FOREX reserves are in a very strong position, the last number that was given out was something like in excess of $510 billion. The marginal cost, NCLR marginal cost earning rate is also moderated somewhat it's around 7.4%

in September compared to 8.75% in May last year. Bank deposit growth has also shown a welcome improvement of around 10% in September year-on-year.

One indicator of traffic movement is of course fast track collections and that has also shown a decent growth. That's also seen decent numbers of nearly 2000 crore in September versus average of around 1500 crores in the December to February period. NPCI and UPI payments are back to slightly higher than pre COVID levels. Net FDI is also fairly strong positive, close to $18 billion in September positive even though the PLI thing is yet to fortify. We'll have to wait and see. Another thing is that going by the commentary which I keep on reading and hearing, the late pre Diwali this year could also probably I'm, it's not a guidance may could probably see strong FMCG and white good sale in November. We had also mentioned the import embargo on freight import embargo on defense equipment. And we are very we do think that there is very positive news because as a company in terms of the total count out over 101 items, we can actually address more than 50% even though the values could differ widely from item-to-item, but very welcome.

So these are some of the macroeconomic trends which I thought I need to point out. And because we are still in a slightly volatile situation, we still not giving any guidance, but we are positive on the outlook. Now, before I open the session to Q&A, I would also like to on a personal front, this is the last time that I will be addressing you in the capacity of at L&T spokesman. I am immensely grateful to both buy side and sell side for the great support and strong interpersonal relationships that we have built over so many years and people have never hesitated to reach out to me and at times that even at odd hours, which is a testimonial to the fact that they are very comfortable with the IR interchange that we have.

I would also like to extend my profound and heartfelt thanks to L&T management for the faith and trust that they have reposed in me for all these years and for the constant support. In fact, it's very easy to go wrong if top management wants to continually paint rosy pictures, but we've never been under that pressure. And a special thanks to my long standing boss Mr. Shankar Raman who has supported me through thick and thin and for the valuable advice and insights that he so freely given to me over the years, a large part of where I am today is because of that strong support and advice. The IR team we have already briefly introduced both Mr. P. Ramakrishnan and Harish Barai. And I will sleep easy at night knowing that the IR function is in very sound and in competent hands and both of them are long standing L&T employees, both of them been in L&T, Harish has been in L&T for over 22 years and PR over 28 years. So, L&T is nothing new to them. So that's a great relief actually for me.

With that, I would like to open the session to Q&A and since PR and Harish are already in the roof, so to say I will request them to handle the Q&A and if required, I will jump in or intervene if I need to add anything to what they have said. So, Zaid over to you.

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

Mohit Kumar: Sir my first question is, why are we still not giving any guidance given the fact that we expect, the labor availability has improved materially and we expect some kind of normal run rate, are we not confident of our H2 and also on the order prospect we are reasonably 6 trillion kind of order perspective there. What is stopping us from giving any guidance. That's my first question.

P. Ramakrishnan: Okay, so I will take that Mohit, this is PR here. You must have heard Mr. Shankar Raman and you heard me and you heard Mondal also, closing with this guidance on outlook. See it has always in the recent past we have always as a company always given us sort of a guidance on how you see orders and how we see revenue and also margins. But at the start of this financial year, because of this COVID situation, the unpredictability in terms of when the ordering momentum will start is absolutely there and it still lingers on. But there are as we have summed up across the three of us what we have spoken over the last one and a half hours, we do see a good amount of traction or opportunities which are being put, but as you are aware, these are all largely driven from the government side. And I'm talking first of India and I'll come to the overseas part later. As far as India is concerned, the first part of the year was more to do with how to address the situation more from a, it was more driven from a solution on a health perspective and having done that, the company still, the country still continues to witness turbulence as far as Corona is concerned, but at this time the government also realized that it is important to keep the economic engine running. So, they kept the economic engine running in the first part by ensuring liquidity and in the second part as the evidence by the prospects and the kind of tenders which are likely to be floated. So, the scene shifts more from a growth perspective in terms of kick starting the economy onto the growth track. Now, having said this, our internal discussions with our all our businesses just point out that, there are lots of opportunities which are coming up, and we are also trying to price it in a proper way and try to address those opportunities. But the timing of contract orders in the current situation becomes a little, I would say difficult for us to estimate. And hence, this is one of the reasons that we have refrained from giving a specific guidance. But I believe if this whole situation stabilizes hopefully by the end of March 21, I guess we would be in a better position to articulate as to how do we see 21-22. So this year has been largely a year for us to ensure, as Mr. Shankar Raman talked about in the initial part of the call, that ultimately safety and health of our employees of all our stakeholders is primarily important. And then addressing given the constraints, how do we execute and it's a important thing that since the large order book at least enables us to survive over the next I would say one or two years in terms of how we execute. And at the same time, it is important for us to also see the pipeline. So the pipeline looks robust but in terms of timelines for us to give an idea about what kind of order inflow guidance. It is a little premature for us to say at this juncture.

Mohit Kumar: Okay, understood sir. Secondly on this Nabha Power has been rolling, but my question is the valuation which you arrived for Nabha Power 22 billion, does this account for the disputes on custom duty getting resolved in our favor, or is this or it has not consider this disputes getting resolved and secondly, on the Singoli-Bhatwari is this completely funded by equity?

P. Ramakrishnan: Okay, so I will take. Mohit there are two questions, one is Nabha so the Nabha is our belief is that, whatever matters we are pursuing with our client, PSPCL they're all claims where we have a strong views on all these matters. And in fact, in most of the matters, the arbitration or the courts have come in our favor. We do have, we do believe that these things are going to be positive for us. Hence, the way we have valued the company at what we expect to realize on account to the possible divestment does not factor into such matters going against us, number one. Number two, Singoli-Bhatwari is currently funded entirely by L&T in terms of a combination of equity preference and loan assistance, so we don't have any third-party debt into the company.

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

Renu Baid: My two questions would be first, if we can help share some insight in terms of the overall net performance of Hyderabad Metro in terms of how was it at the PAT level and now what would be the estimated timeline in terms of towards the end of the year expected numbers. Also secondly on heavy engineering if you can elaborate what was the kind of warranty provision that we have taken on books for this quarter and largely on the order inflow though you have shared a broad prospect across couple of segments, if can give some granular detail in terms of bottom up across some of the key verticals in which you operate?

Arnob Mondal: Renu, Mr. Mondal here, actually you folded it into three questions, but anyway, Hyderabad Metro in the current quarter our rate loss at PAT level is around 450 crores approximately mainly constituting the deposition, 75 crores interest, 25 crores and under recoveries at EBITDA level of around 25 crores approximately. PR would you like to take the heavy engineering?

P. Ramakrishnan: Yes. So, as I mentioned the heavy engineering segment the provisions towards a potential settlement going forward is in the order of 120 crores for the quarter.

Arnob Mondal: Renu, you also asked of some ideas?

Renu Baid: Yes, the bottom of prospects across some of the key verticals.

Arnob Mondal: Okay. I will very briefly touch upon that and obviously, it is very confidential information we will not be able to give out full details. So, in the if you take core infrastructure business and here I am I'm grouping power transmission distribution under power and not under core infra, the total prospects base is around 3,50,000 crores approximately Rs.3.5 trillion covering buildings and factories, heavy civil, transportation infra and water. Power which would constitute both coal and gas fired, ETC prospects as well as our transmission and distribution is around 1, 20,000 crores major part obviously is power transmission, priority is obviously higher than the EPC prospects. EPC also includes FGD, MMH, Metallurgical and Material Handling is relatively small at around 15,000 crores. Hydrocarbons both offshore and onshore including construction. hydrocarbon construction is around 1,10,000 crores and heavy engineering, defense and smart world and communication, these three together are around another 15,000 crores so that makes it around 6,10,000 crores as the EPC prospect that we are seeing as on the end of Q2. Thank you very much.

Renu Baid: Sure. Can, I ask one more or I'll come back in the queue?

Arnob Mondal: You get to the back of the queue, please Renu. Thank you.

Moderator: Next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: I have a quick question on the ROE, ex of this exceptional gain what is the ROE? and for calculation of net working capital which is about 26% odd. So, what is the exact number in your numerator and denominator, because I don't think the last four quarters as a total of the revenues as the denominator or you've taken FY20 revenues as the denominator?

Harish Barai: Hello, Harish here. So, for ROE calculation we take trailing four quarters. So the last two quarters of this financial year, the first two quarters of the financial year. So the ROE calculation that is there is based on the trailing four quarters. And so it includes the two quarters of this financial year, and the two quarters of last financial year. And since this includes exceptional gains, if we were to remove that the ROE would be in the range of 10% to 11%.

Sujit Jain: And the question for working capital again, here the bid that is the development phase last four quarters?

Harish Barai: Yes, absolutely correct. So it's the last four quarters only, and which is why the percentages look a little worse in the first six months of this financial year. Now, if there was not a problem of the denominator, our senses is that, our working capital net working capital to sales would have been better than 23.5% that we had reported in March. So essentially, what we are trying to do in this particular financial year is focus on the absolute levels of net working capital, as PR mentioned, and hopefully if we are able to maintain around these levels for the remaining part of this financial year, it would be a good achievement. And PR also mentioned that, in the first six months of this financial year, the entire operations of the company have been financed by client collections, that is a happy situation to be in.

Sujit Jain: So, for this the standalone net working capital, the hydrocarbon listed into a subsidiary right?

Harish Barai: Yes, the net working capital that we have reported, includes all the businesses except financial services.

Moderator: Thank you very much. Next question is from the line of Ankur Sharma from HDFC Life Insurance. Please go ahead.

Ankur Sharma: Just two questions, one on the hydro carbon order, when I look at the last almost four quarters now, actually the hydrocarbon orders have been very, very soft. And so if you could just talk about how do you see the situation currently, both domestic, overseas and also some of the larger prospects over there?

Harish Barai: Yes, so you're quite right. We had very good hydrocarbon orders in the first six months of the previous financial year. And you're quite right that, the last four quarters have been a little muted, primarily because it's a function of oil prices. And the Petchem, et cetera is also a derivative of oil. So that has been a little lackluster over the last couple of quarters for obvious reasons, both in India and in the GCC countries. But, if I were to share some information from the bottoms up prospect pipeline that we have, because hydrocarbon sector has seen quite a muted ordering over the last couple of quarters, our bottoms up prospect pipeline suggests that, close to Rs.1 trillion of domestic plus international orders might come quickly. Now very difficult to quantify which quarters but it seems that a lot of bunching up is happening because of lack of ordering over the last couple of quarters and let's see, we are hopeful if the tendering and ordering activity picks up quickly and which we believe will happen, once normalcy comes back in the world and oil prices revive, we are very hopeful and constructive in the coming couple of quarters.

P. Ramakrishnan: To add to what Harish just now told, in case of hydrocarbons the opportunities going forward will be seen more on the mid and downstream, which is what we call the petrochemical spot. Because of obviously, the muted oil prices and expected to continue, we don't see much of traction in the upstream side.

Ankur Sharma: Sure. And just on hydrocarbon again, your press release mentions about some kind of provisions being taken there, this quarter as well. If you could just elaborate more, it was on the domestic business, India business so size of provisions, what does it relate to, are you seeing some delays, et cetera what exactly is there?

Harish Barai: So see, essentially the variation in margins that you see, in Q2 of FY20 versus Q2 of FY21 is largely on account of certain claims settlements that we had in the previous financial year. There are no such major issues in the current financial year and the margins are hovering between 8% to 9% in the current quarter of this financial year, and it is more normal. Of course, the COVID pandemic has created some challenges as far as under recoveries are concerned, but it's quite normal.

Ankur Sharma: Okay, so there are no provisions this quarter, so 8 to 9 is like a more normalized margin?

Harish Barai: If you look at the history, and if you have seen the margins, the margins have remained in this band of 8% to 10%. Last year Q2 was a little bit of an exception.

Ankur Sharma: Fair and just the last question would be, are there any order cancellations during this quarter, which you've taken out from the order book, any significant number you want to share or is it just business?

Harish Barai: There has been no significant order cancellations during the quarter. There will be minor ones, but nothing too as we say the order book what we have is relatively at 300000 crore is reasonably robust enough for us to deliver. So, there has been no significant cancellations

Moderator: Thank you very much. Next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Just wanted to check on if you look at the overall order intake pipeline, what bring these opportunity from the state front because we had enumerated the segmental wise, in the states which are all the states here in the operative and how much is come from the state segment?

Harish Barai: Large part of it is from states because water and power transmission distribution is obviously from states and these are fairly strong. So, while we not be able to quantify a large part of it is definitely from the states. Mainly in water and power transmission distribution.

P. Ramakrishnan: Whereas the metro, the RTS and the roads and expressways could be central head.

Renjith Sivaram: Okay and in terms of the overseas market, apart from Middle East are you seeing activities improving from the Africa and the others South East kind of markets or is it still some time away?

Harish Barai: So, out of the 1.3 trillion worth of prospects that we see for the next six months of this financial year from the international markets, it is fairly well distributed across businesses be it infra or hydrocarbon. Infra largely we see some opportunities in the water space and the power transmission and distribution space, and it is fairly well distributed across GCC Africa and Southeast Asia.

Renjith Sivaram: Okay and lastly on the infra margin, it has been kind of subdued for quite a long time. So was there any provisions here or can you throw some color on the infra margin?

P. Ramakrishnan: So the infra margin, I did talk about when I was covering the infrastructure segment. Okay, in the current quarter, it was at 6.4 as compared to 6.3 in the previous, the quarter of the previous quarter of the current year that is Q1 is at 6.3. The Important point the year is as, we as have ramped up across the sites in Q2, the productivity challenges however continue to linger on. So what we see as Q3, Q4 is that there will be as that is absolute near normalization in terms of logistics of supply chain and also full 100% availability and with lockdown restrictions easing, we do expect the momentum of revenue growth to substantially go up or significantly go up in the next two quarters. But as you are aware, all of you must be aware that our margins on the entire ENC project business is largely driven on the project mix, the way it is progressing. So each quarter to that extend across all the segments besides infrastructure would all depend on which project enters into some sort of a margin threshold. And like what we saw in defense, there was a particular order in terms of defense order which went into a tapered stuff, because it entered into execution a major part last year, and whereas in the current year it tapered off, so margin movements across the sector's would be dependent on the progress of jobs. And also on the mix whether is the cost job and RSP job. There is only one thing I would like to say that despite the situation in terms of getting to get as much as orders as possible. We are being a little cautiously optimistic in terms of pricing that we are factoring all the attendant risks and try to ensure that our bids which are going up for submissions, do have what we call as acceptable margin thresholds and factoring into all kind of risk parameters.

Arnob Mondal: I just wanted to add to what PR mentioned. So, yes, he mentioned about job mix and productivity headwinds. Now, one thing I just wanted to say yes, productivity headwinds are there, but to some extent, they also get mitigated due to lower raw material prices, that Mr. Mondal mentioned and operational efficiencies that we are trying to implement across the group level. But as we said, we will have to wait and see how it pans out during the next two quarters.

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

Parikshit Kandpal: Sir just on the high speed rail, so have we concluded our negotiations on the project and when do we expect to start the work?

P. Ramakrishnan: Actually, this was announced yesterday, and we are pricing the stock we have got the letter of intent. So that the project is obviously is in our favor and we will have to enter into more detailed negotiations as to the commencement of work, but it's a four year project that's the way I will put it.

Harish Barai: So just to add, the timelines between an LOI and the contract is a couple of months. So only after that the design work will start so maybe a couple of months away before we start working on it.

Parikshit Kandpal: Okay, and my second question was on Hyderabad Metro, now, we have an planning interest cost of 375 crores odd per quarter and we have set aside about 2000 crores and we're also talking to government and trying to get in an investor. So, just to get a sense on by when do we expect the cash from the project to start servicing the liabilities, which may be finalized over the course of time after refinancing and getting some support from the government or getting an investor so, any sense on that should be helpful?

P. Ramakrishnan: Okay. So as I did talk about the interest cost per quarter would be in the range of 350 to 360 crore for this business. The point here is that this is a, it's a complex project in terms of the way it is structured, that key positives in this project for us is that it is a, in all the cities in the world, you have the entire Metro transport as linked in commissioned in one particular way, and that is entirely operational today. So that is a key positive. The second key positive is the construction period is confirmed 435 and further extended by another 25 years. So you can technically say that it is a perpetual asset for us. Now, and as we commissioned this project, early February we manage to get what we believe, now our internal estimates almost four lakh passengers per day. In fact, that's around two to three lakh passengers per day is the first milestone, to cover entire operational cost. And beyond that you start servicing the finance cost itself, but because of COVID pandemic this is absolutely a black swan event in the traditional sense which has impacted this particular project. And so, today as a group when you say as a a group, we as the lead promoter along with our lead banking finance institution led by SBI, along with even the

Telangana government, we are in a we are absolutely discussing to restructure the project in a possible way. So, as to minimize the effect it will have on all its stakeholders. Now, such kind of decisions are not expected to happen, so fast but it is our intent that we should try to close it as early as possible, but it will be very difficult for us to comment at this juncture, a timeline Having said this, this particular project in terms of the attendant, I would say concern from L&T is nowhere strength with Ms. S N Subrahmanyan – the MD CEO, and Mr. Shankar Raman taking their, at their levels the discussions are happening, so hopefully we should try to close it out soon. But no timelines, please, at this juncture.

Moderator: Thank you very much. Next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Just wanted to check one on the liquidity that we raised during the pandemic was upwards of about 8000 crores and looking at the cash flow from operations in the current first half of the year. Not much cash has been consumed on I believe it's almost 500 odd crores and it is resting in, a significant amount of money is resting in current investments, low yields today. So, why don't we use that for debt repayment instead of the E&A proceeds and used at 50 billion or 5000 crores for the E&A proceeds for better purposes?

Harish Barai: So Abhishek, so if you see our cash flow statement, so first I'll throw some light on our standalone borrowings which P R mentioned, we had raised about 12,000 crores in April largely as an insurance buffer. Now, by September, and if you observe our Q2 cash flows as well, we have repaid around 4000 odd of that. Secondly, there has been some repayments in our subsidiaries as well. So, if you see in Q2, we have repaid close to 9000 crores of borrowings and the allocation plan on after receiving the proceeds of EA IC has been well articulated by Mr. Shankar Raman. Now, cash flows, as you have seen, both Q2 and H1, operational cash flows have been very robust. PR also mentioned that, we expect Q3 and Q4 to be more normal in terms of client collections. And if that happens, we will have a little bit of more flexibility to have maybe retire a little bit of more debt that we have on our balance sheet, and the rest will remain as surplus. Now, having said that, it's very important. Yes, we have done well for the first two quarters of this financial year, but the virus, the Coronavirus still continues across the world and you can never be very sure how the next six months will be. So we are being guarded. Let me put it that way.

Abhishek Puri: Fair enough. When I'm looking at the 34,000 crore current investments, is that entirely into liquid funds or is it allocated into certain businesses. If you just break up on that and my second question is on, at the beginning of the year we talked about payment terms getting adverse and the EPC contractors have to make fund some of these projects that doesn't show in your numbers yet both other current asset and receivables are down, so what has changed in the past six months on that?

Harish Barai: Okay. So, let me answer the second question first. So, as we said broadly over net working, capital absolute net working capital levels have remained unchanged from March. Now, the good thing is that, we have been able to bring down our gross working capital levels close to

9000 crores it is a combination of reduction in customer outstanding and capital work in progress. So, more of capital work in progress moving into client billing and finally culminating into collections, so that's the good part. But yes, if we have to continue our operations we have to keep paying our vendors. So, the entire liquidation that has happened on the grace working capital side has gone into paying our vendors. So that our execution continues and as you know, first two quarters have been slightly subdued, but operations will pick up in Q3 and q4 so, that's where we are. What was your first question sorry?

Abhishek Puri: In the 34,000 crores current investments?

Harish Barai: Yes, so the entire, so if you look at our H1 cash flows broadly the net cash from operations is 36 billion and if you see March to September our group browning's are up by 5000 crores so that makes it 9000 crores and the EAIC proceeds everything has moved into surplus investments only.

Arnob Mondal: Abhishek, the current investments is lastly into what we do surplus investments all financial instruments across various asset classes, there has been no structural change in that, there's no investments in to any other entity or so. So all in the normal course of business parking your temporary surplus.

Abhishek Puri: So broadly, the entire 20,000 crores has moved into surplus investments only.

Moderator: Thank you. Next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: My first question is this disconnect between; we obviously talk about a big prospect base. But at the same time, RBI talks about weak state government balances. How do you reconcile these two, is there a concern that second half order inflows could be weaker given what's happening in at the state level finances if you could take that as the first question?

Harish Barai: Yes, sure. So Pulkit the first two quarters of this financial year in terms of collections for us has been normal. The primary reason being that, both the central and the state government as you know have front loaded their borrowing programs for the year, not only have they increased, but they have also front loaded. So, when we do our calculations, the H1 borrowings are already over for the center and the state. So, the numbers suggest that close to 11 lakh crores of borrowings have happened between the center and the states for the first six months of this financial year. Now, when we look at, now the central government borrowing program for Q3 and Q4 is out. The stages we only have the borrowing program for Q3. Q4, we are yet to find out, but basis some rough cut calculations we believe that if center plus states raised about 11 lakh crores in H1, the H2 numbers seem to be around 9.5 lakh crores, which is not a far departure from H1. So to say number one, number two, why are we constructive, because you know, Mr. Mondal, Mr. Shankar Raman they all covered the moment and the pickup in high frequency economic indicators and GST collections, etc., are moving higher. So, the government will be hopeful as far as its tax collections are concerned for the second half. So, the remaining borrowing plus the tax collection should get us there. Now, execution the government was very keen that it continues and they have released payments. Ordering was a bit patchy, but not too bad as well, for both for Q1 and Q2. Going by the recent media news reports, there seems to be an activity pickup in tendering and ordering from the government side. So, we believe that Q3 and Q4 as far as ordering is concerned, should be much better than Q1 and Q2 that's the initial first sense we have but still refraining from kind of putting our neck out and saying that we are in for very good times.

Pulkit Patni: Sure, makes complete sense. My second question is on these write offs that we've taken. So obviously, in the last few years, we've been cleaning up our books. Now, as I think through the future, Hyderabad Metro is something where obviously we are in process of restructuring. The other one is our power equipment business while it's been doing well, but we all know the future of BTG equipment. So is there any other business where in the next few years, we could see the risk of some write downs coming or impairment, or we are other than these two largely sort of done with the kind of no readjustment we had to do. That would be my second question.

Harish Barai: Okay, first and foremost it is very difficult to go talk about into the future as to saying that, whether do we expect any further kind of reduction, write down or impairments in any form. So, as we see today and in fact just to once again, comment that there has been a background in the current quarter as to necessitating L&T for us to take a sort of an impairment charge on all these three specific assets, okay. The decision to try to see, it's a defocus kind of business from a power development, that portfolio is concerned. Mr. Shankar Raman also talked about that; we are planning to divest from Nabha. Now, it's an operational asset and hopefully, we should find out, identify a buyer soon and in case of Uttaranchal, the plant should be hopefully come for commercial completion, it has undergone mechanical completion in terms of the commissioning of the turbines and should go into commercial operation sometime this quarter, that is maybe December or so and we are in the advanced stage of trying to structure out the long term PPA. Now, this was the event when we try to talk about negotiation on a PPA perspective from a cost plus approach, there is no way to justify the current carrying costs of that investment. And hence, that was the reason for prudentially taking the write off. You also talked he also talked about Hyderabad Metro as we say, Hyderabad Metro for us to even take a evaluation of the project, it is important that we see the project post its commissioning in terms of because we have seen its commissioning, but again because of this event, there is something it is very difficult for us to estimate. Now, the same logic may come up for Uttaranchal, Uttaranchal it's a power project, you know it's capacity, you know the base so the output of that particular project is known, whereas in case of Hyderabad Metro it is impossible for us to factor what kind of an output will work. So, today is we are in the process of restructuring that, it will not be possible for us to even refer to going forward are there any sort of a write down impairments. So, the decision to evaluate a matter from a right down impairment or even reversal of a right down is a dynamic process, which has to be seen every quarter depending on the developments and depending on each and every business and the sector to which it caters to.

Pulkit Patni: Sir, my question was actually more on the BTG business, but I can take it offline in the interest of time.

P. Ramakrishnan: No, BTG business also today as a BTG, first and foremost the BTG business is sort of a joint venture for us, we have invested as an investor so it is not getting consolidated into our financials other than the share of profits. Now, yes the amount of profits has come down because of lower order intake, order intake considering the I would say the lack of opportunities in the power sector, especially in supercritical space, but both the companies, both the joint ventures have a order book for them to execute profitably. So till such time we keep accruing profits in fact, as we speak, the boiler turbine actually had a dividend declared to the parent in this current quarter. So obviously, there is a cash, there is a profit, it will be difficult for us to even say at what juncture we will try to do the impairment because the company isn't profitable.

Harish Barai: Even though we test it for impairment regularly.

Arnob Mondal: And just to add to what PR just mentioned, this year has been an exceptional year where for the first six months, we have not seen any power plant ordering happening. Yes, power plant, the thermal power plant ordering is down from what we have seen couple of years back, but even going forward, 4 to 6 gigawatt of ordering should happen over the next couple of years or so. So, I don't think there is any kind of stress there and as PR mentioned, they are still having something like one and a half to two years of order book to work on.

Moderator: Thank you. Next question is from the line of Priyankar Biswas from Nomura Financial Services. Please go ahead.

Priyankar Biswas: So question sir regarding the reinvestment of the Snyder deal proceeds. So, one of the thing if I heard it right so, around 2000 crores would be invested in Hyderabad Metro and another 2000 crores would possibly be investment into the financial services. Now, first question is, is the investment in Hyderabad Metro adequate to keep the debt level, to keep the servicing of debt levels adequate. So, I would like to know going forward do we expect more infusions into Hyderabad Metro that's first and secondly, for the finance business. Since based on media reports, it seems that the mutual funds business is getting sold quite a fairly high value. So, there is cash there also. So, what is the need for credit investments in the finance business. So, if you can clarify on that?

P. Ramakrishnan: So, Priyankar this is PR I will take that question, two questions here on Hyderabad Metro just to state, the metro project is complete from an investment perspective, there are no residual investments in terms of additional capex which necessitate combination of equity or net. The only other part is item for the project is the development of the associated real estate to some extent we have already done and to some extent we need to do or we can do it's not we need, it's more to do we can do. We have a total package of 18 lakh square feet which we can develop in the real estate, but that is based on demand and supply requirements in the future. So, the Hyderabad Metro from a perspective of completion is already done. So, in that context, we are only trying to see the restructuring the balance sheet more from a liability perspective liability side perspective. Liability side perspective, one. Secondly, Mr. Shankar Raman also talked about that, when we talk about 2000 crore which we are setting aside it was actually services so, which means it includes financial services and also our other portfolio, okay both put together. So, he gave a number of overall 4000 crores out of which 2000 is for financial services in sense special specific reference to, but I wish to tell you that what we hear in the market or it's all media speculation, we don't have anything to comment upon whether it is a new actual news or not. So, the decision to infuse funds will depend on the requirements of the business of L&T Finance Services businesses and based on that, that call has been taken.

Priyankar Biswas: So, what I meant by the Hyderabad Metro question was, see your per quarter interest is something like 350 odd crores so, broadly so almost like 1400, 1500 crores is the cash interest cost for the full year now is the eventuality, the traffic doesn't really pick up to let's say the four lakh passengers per day. So, will there be further equity or maybe subordinate debt infusions that may still happen in the future or are you not expecting it post the 2000 crores infusion that RSR just spoken out?

P. Ramakrishnan: No, that is actually, what we have, what Mr. Shankar Raman spoke to is based on our current level of discussions we believe that our further fund infusion of 2000 crore may have to be done into Hyderabad Metro, but it was form that is all based on of our the result of the discussions and closure which we will do with the lenders to the project led by SBI and also the assistance which we are seeking from the Telangana government. What we are telling now is that there in our understanding there could be a commitment of roughly 2000 but in what form that commitment will flow depends on the course of the discussions what we have with other stakeholders.

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

Nishant Chandra: I wanted to just understand the cash flow moment. So the one presented in the analysts presentation is for the console business. But if you were to look at the EPC business can you talk through the impact of the cash flow statement?

Harish Barai: Yes, see Nishant. I would request you to go through the cash flow statement that we have presented in the analyst presentation. Because essentially, the one in the advertisement includes the disbursements that are attributable to financial services as well. So we reclassified from the cash from operations and move it into financing activities. So, the one that we have presented in the analyst presentation will give you a better picture and the net cash from operations that you see there is ex-financial services and if you want to refer to you mentioned about core right, so do go through the advertisement on the standalone site to get a better sense on the core cash flows, which also will give you a good flavor.

Nishant Chandra: Okay, understand because there it seems that even the EPC business has thrown up cash, that's at least the interpretation I had, so?

Harish Barai: Yes, that is correct which is why I'm saying have a look at standalone, that will give you a good picture.

Nishant Chandra: Understood and just to be clear, in the analyst presentation, the Rs.127.8 billion of net sale of long-term investment is essentially pertaining to the E&A sale, right.

Harish Barai: Absolutely.

Nishant Chandra: Okay, understand and that is a gross number without taking the cash, the tax cash tax into consideration, right?

Arnob Mondal: Nishant what is shown in the cash flow you are referring to the advertisement, correct?

Nishant Chandra: No, I'm looking analyst presentation page #29, so it has 127.8 billion as net sale of long term investments. So, I just wanted to check whether that is the gross inflows excluding that tax attributable to the sale of E&A?

Harish Barai: So, Nishant what happens is that Mr. Shankar Raman mentioned about tax of around 2000 crores, but not all the tax gets paid up front. So, it happens in installments so, what you see there is roughly 13,300 minus 600 odd crores 375 crore around that, two installments of tax. So, the remaining part of the tax will actually flow in the subsequent cash flow statements.

Nishant Chandra: Okay, understand. I was not able to piece together the 2000 crore odd of tax payment in the statement, which is why I asked the question.

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

Sujit Jain: So in relation to my earlier question, what is the net working capital for the EPC business, what you've given us is the net working capital position for the entire business x of financial services. So, I'll just complete my question. So here, like you said to a previous question, if I look at the standalone balance sheet, and if I do the math, there is a 23,000 crore because that is the right representation. I may have to add hydrocarbons business there, but there is a 23,000 crore working capital and if I divide that by the last four quarters revenues, then that figure crosses 30% if I divide that by FY20 revenues, then that figure is still 27%. So we need to have a sense as to what is the working capital position in EPC business, in the infra business?

Harish Barai: Yes, so I'll give you a flavor on that. So if you look at standalone, which excludes a hydrocarbon obviously, first thing I wanted to just tell you that, don't look at percentages because fall in sales, the percentages look quite bad. But if you see the absolute levels of working capital that were there in standalone as on March 20, and compare it with what exists as on September 20, there has been a marginal moment of close to 1000 crores.

Arnob Mondal: Let me chip in here. If you take core business, including hydrocarbon and x services, the working capital levels, considering the four month trading thing is roughly around 28% and if you take services business it is roughly around 21% and that's how the average is to around 26.5% approximately.

Sujit Jain: Okay, that helps and in the cash flow statement, as you guys were just mentioning to a previous question page number #29. The net cash flow from operation of 27.6 billion to 760 crores or 3650 crores for H1 is the representation of the business which is of financial services.

Harish Barai: That is correct.

Sujit Jain: Okay, sure. And one last question and in correlation with the previous question Hyderabad Metro, we have chosen to take right downs in other businesses here there is no clarity, I understand. But the way if you look at things, what was the rationale of giving a special dividend when that dividend if I look at the current working capital of 25%, 26% needed, for an additional 10,000 crores of bills you would require that kind of money which is 2500 crores which you're giving as they dividend?

P. Ramakrishnan: The special dividend as Mr. Shankar Raman talked about is refers to the event which is resulting from the EA IC sale, it should not be confused or intermingled with L&Ts policy on dividend over the years. This because the exit from EA IC, is from an investment which is being one of the oldest of L&T and eventually resulted in a value creation, thereby giving a overall I would say cash flow consideration post tax around 11,000 and a PAT of almost 8000, 8500. It is again stag this particular dividend has been declared. So, if I were to put it, if there were possibly no EA IC divestments, we could done maybe we would not have declared a dividend in the first place. So we would again linking the special dividend only to the extent it relates to the EA IC divestment.

Sujit Jain: Would you not require this money for Hyderabad Metro or for your working capital requirement for incremental business? Does the business have room to actually give money back to shareholders when one can see easily and there is a requirement in the business itself?

Harish Barai: At the start of the call itself, Mr. Shankar Raman did talk about that against the consideration the post-tax consideration which accrues to the L&T parent, what is the proposal we have, how are we used, so he did refer to the fact that out of this money, we are keeping a 5000 crore of some sort of a liquidity buffer which will be used to for incase the COVID situation deteriorates or in case it stabilizes we will use that money to either retire the short term debt or possibly keep it as a liquidity buffer and then he did articulate about setting some amount aside for Hyderabad Metro. So, that is having factored the group felt that it is appropriate that we have around 2000, 2500 crores of cash which we should use it to declare a special dividend. So, the answer to your question the probable outflows because of our commitments into the projects like Hyderabad Metro, services, financial services and also a liquidity buffer that has been addressed before declaring the dividend.

Moderator: Thank you very much. Next question is a follow up from the line of Priyankar Biswas from Nomura Financial Services. Please go ahead.

Priyankar Biswas: So, just one more question here. So in the state ordered, so the state is I heard like 38% of the L&T current orders. So, if you can highlight that within this, how much is actually funded orders.

So essentially, like multilateral or something like a power finance corporation or through some sort of a bank consortium loans, so more seeing it from a payment point of view?

P. Ramakrishnan: Yes, Priyankar so, roughly about our order book from the domestic market is about broadly 2,30,000 crores of which around 52% comes from center and state. So, that would come to around something like 1,17,000 crores is center plus states, of which around 43% is funded by multilateral agencies.

Harish Barai: And major part of that is from state projects.

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

Renu Baid: Sir my just last follow up was, you did mention in terms of slight increase in working capital requirements by end of the year and targeted overall debt reductions. Would we have any number in mind that over the next 12 to 15 months, what could be the level of core debt levels that would you would be targeting after part of these reduction and working capital believes from the next year?

P. Ramakrishnan: See, now I think Mr. Shankar Raman articulated, the capital allocation coming out of EA IC. And as we see today, as on September we have debt levels of close to 34,000 crores on the standalone balance sheet. Now, everything will revolve around the operational cash flow generation, that we will achieve over the next two quarters, hopefully, if it continues to be robust, as it has been in H1, maybe we will retire more and bring down our gross debt to equity levels as the standalone. But having said that, because of the EA IC proceeds, let me tell you that, even as on September my gross debt to equity at standalone is 0.59 and net debt to equity is 0.11. So, things have worked according to the plan that we have in our mind, and hopefully if operational cash flows are good for the next six months, a lot of things will come in place.

Renu Baid: Sure, so probably by next year we should be looking at close to 25,000 crores or similar levels of core borrowing of the business?

P. Ramakrishnan: See it all revolves around Renu the operation cash flow generation, right. So how do you want me to give you that estimate?

Moderator: Thank you. Next question from the line of Ashish Aggarwal from Principal AMC. Please go ahead.

Ashish Aggarwal: Sir most of my questions have been answered, just one thing. We indicated that we were looking at 2000 crores for our services business, including financial services. Just wanted to understand for ex financial services, why do we need that money because those businesses are throwing good amount of cash. So, why do we need that money for the other services business?

P. Ramakrishnan: So, I guess like this, that the other services business obviously are on the growth trajectory. And they have, as you are right to say that they have reasonably large cash surpluses to justify that kind of acquisition by themselves. But it is more like a, I would say put it across then in case if there is some good large opportunity which probably necessitates some sort of a temporary kind of support, L&T as the parent may have to stand in good stead to lend that, but yes, to that extent acquisitions for those businesses will be largely driven from their own set of finances.

Moderator: Thank you. Next question from the line of Uttham Kumar Revenue from Spark Capital. Please go ahead.

Bharani: So, this is actually Bharani from Spark Capital. So, my question is on the order inflow. Now, there is a 36% order inflow in the quarter coming from international but that is including services, et cetera can you give the domestic international order inflow split on only the core construction order inflow of about 70,000 crores for this quarter and for the first half?

P. Ramakrishnan: Yes. So, broadly I will tell you the numbers for the first half out of around 51,000 crores of order inflows that we have reported at the company level core business would be around, roughly around 30, 31,000 and international out of that would be roughly between 5 to 6000 crores.

Bharani: Okay. So, six on one fifth so, the 20% is international of the inflow in the first half, that is on core construction?

P. Ramakrishnan: Ballpark numbers yes.

Bharani: Okay. And this will be the same for the quarter also like 20% in second quarter FY21 also?

P. Ramakrishnan: So, the international orders have been slightly better in Q2 as compared to Q1 so out of the 5000 crores of the international order inflows that I mentioned close to 3.5 to 4000 crores came in Q2 itself, Q1 was a little lackluster.

Bharani: Okay and this would be primarily in the power T&D and hydrocarbon primarily?

P. Ramakrishnan: Yes. So infrastructure, heavy engineering, and hydrocarbon these are the three core businesses which have international orders and within infrastructure obviously, power transmission and distribution and water are the areas where there is traction that is seen in the GCC countries.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing remarks, over to you.

Arnob Mondal: Once again, thanks to everybody for very interactive and long call, in fact this is the longest call that I have seen in the last over 11 years that I've been in this function and I thought it was very, very elaborate and exhaustive but be that as it may, wish all of you very good day and stay safe, stay well. Thank you.

P. Ramakrishnan: Thank you.

Harish Barai: Thank you.

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