



“Larsen & Toubro Limited Q4 FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Larsen & Toubro Limited Q4 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. P. Ramakrishnan - Head, Investor Relations. Thank you and over to you, sir.

P. Ramakrishnan: Thank you Steven. Good evening, ladies and gentlemen, a very warm welcome to all of you into the Q4 FY22 Earnings Call of Larsen & Toubro Limited. We have with us on the call today, Mr. S. N. Subrahmanyam - CEO & MD and Mr. R. Shankar Raman - Whole time Director and Chief Financial Officer. The analyst presentation was uploaded on the stock exchange and in our website around 5:30 p.m. This time, the presentation contains our Q4 and FY22 numbers and an overview of strategic plan ending FY26. Hope you all had a chance to have a quick look at the numbers. As usual, instead of going through the entire presentation, I will walk you through the key highlights for the quarter in the next 15 to 20 minutes and thereafter I will request Mr. S. N. Subrahmanyam to take us through the key goal posts embedded in our group strategic plan road map.

Before I begin the overview, a brief disclaimer:

The presentation which we have uploaded on the Stock Exchange and our website today including the call proceedings now, contain or may contain certain forward-looking statements concerning our business prospects and profitability, which are subject to several risks and uncertainties and the actual results could materially differ from those in such forward-looking statements.

During the quarter ended 31st March 22, the Indian economy displayed stability despite rising Omicron cases and the global headwinds emerging from geopolitical tensions. Our group performance can best be described as buoyant amidst this continuing global macroeconomic volatility.

Let me now cover the financial performance parameters for Q4 FY22:

Our group order inflows for Q4 FY22 at Rs. 739 billion registered a sequential and Y-on-Y growth of 47% and 46% respectively. Within that our Projects and Manufacturing businesses secured order inflows of Rs. 611 billion for Q4, thereby registering a sequential and Y-on-Y growth of 61% and 55% respectively. Our Q4 order inflows are mainly from Infrastructure, Hydrocarbon and Defence. We have bagged a fair share of international orders in this quarter. The couple of orders that we have received in Q4 have not yet been filed on the stock exchanges as we are still waiting for the customer clearances or approvals. Now on a full year basis, our group reported order inflows of Rs. 1.93 trillion registering a growth of 10% over the previous year. Again, within that, our Projects and Manufacturing business secured order inflows of Rs.

1.44 trillion. You would recall that we had guided for up to a low to mid-teens order inflow growth for the year. Whereas the domestic order pronouncements and tendering activity continued at a brisk pace during the year, the award finalizations were a little delayed. The award tender ratio in the current year was 51% as compared to 70% for FY21. At a macro level, even though the Central Government and PSU Capex continued at the brisk pace, the State Government Capex got deferred. On the contrary, major traction was seen from the international region especially from the GCC countries where the company bagged large value orders during the year. We have an encouraging prospects pipeline of Rs. 8.53 trillion for FY23 which comprises of domestic prospects of Rs. 6.31 trillion and international prospects of Rs. 2.22 trillion. You would recollect that our total order prospects at the beginning of last year that is April 2021 was at Rs. 9.06 trillion. I would like to mention here that the degrowth in the prospect pipeline over that of the last year is mainly because we have been a little selective in the opportunities that we are targeting for FY23.

Moving on to the order book:

Our order book at Rs. 3.58 trillion as of March 2022 is once again at a record high. As our Projects and Manufacturing business is largely India centric, 73% of this order book is India based and the rest is overseas. During the year, we have been beneficiaries on some large orders in the Infrastructure and Hydrocarbon segments and which is why our incremental order book has moved up from 21% at the beginning of the year to 27% by March 22. Of the international order book of Rs. 952 billion which is the subset of the total order book of Rs. 3.58 trillion, around 76% of this Rs. 952 billion is from GCC countries and 13% is from Africa. Clearly, the GCC Capex in Infra and Hydrocarbon is on an upswing post recovery in the oil prices.

The breakdown of the domestic order book of Rs. 2.62 trillion as of March 2022 is as follows. Central Government comprises 11%; State Government orders comprised 29%; PSU or State-Owned Enterprise contributes to 44% and the balance 16% is from the private sector. Approximately around 30% of our total order book of Rs. 3.58 trillion is funded by multilateral and bilateral funding agencies. As you can see from the presentation, 89% of our total order book is from Infrastructure and Hydrocarbon. Again, within Infrastructure, our order book is very diversified across the various businesses namely Heavy Civil, Water, Power Transmission Distribution, Buildings and Factories, Transportation Infrastructure and Minerals and Metals. Finally, during the year, we have deleted around Rs. 70 billion of non-moving orders from the order book and our slow-moving orders in the current order book is around 2% to 3%.

Coming to revenues:

Our group revenues for Q4 FY22 at Rs. 529 billion registered a sequential and Y-on-Y growth of 34% and 10% respectively. The international revenues constituted 33% of the revenues. The IT and TS portfolio continued to report industry leading growth in Q4 as well.

In the Projects and Manufacturing businesses, our revenue for Q4 FY22 were at Rs. 400 billion thereby registering a sequential and Y-on-Y growth of 47% and 9% respectively. The better

execution in Infra and Power segments during the quarter was to some extent offset by other businesses. I will cover the details a little later when I cover each segment.

Now for the year, both our Projects and Manufacturing as well as the group revenues has grown at 15% which is in line with the guidance that we gave at the start of the year. Even going forward and as a philosophy, we will continue to calibrate our execution in line with the cash flows that we generate. Finally, our current labor availability is around Rs. 2,63,000 as at March 22 is near normal levels and more than 97% to 98% as both our employees and contract workmen have received both the doses of the COVID vaccination.

Moving on to EBITDA margin:

Our group level EBITDA margin without other income for Q4 FY22 is 12.3% vis-a-vis 13.3% in Q4 FY21. However, for the year FY22, our group level EBITDA margin without other income at 11.6% is up 10 basis points over the previous year. The detailed breakup of the EBITDA margin business wise is given in the annexures to the presentation. You would have noticed that the EBITDA margin in the Projects and Manufacturing business for Q4 FY22 is at 10.2% for the current Q4 vis-a-vis 12.7% in Q4 of FY21. Also, for FY22, that is the full year, our EBITDA margins in the Projects and Manufacturing portfolio is 9.2%, down 90 basis points for the year. This drop of 90 basis points for the year is explained by job mix, cost headwinds and delayed claim certification. All of you would recall that we had guided that we will maintain the margins in the Projects and Manufacturing portfolio in the current year at in and around the same levels of 10.1% for the last year. Although the cost headwinds were a known fact, the non-certification of client claims and the job mix pushed us behind during the quarter and impacted the annual performance as well.

Our operational PAT for the quarter at Rs. 36 billion registers a growth of 6% over the previous year, largely aided by lower borrowing cost, depreciation and tax expense. The full year operational PAT at Rs. 85.7 billion registers a growth of 23% over the previous year, despite the margin headwinds in the Projects and Manufacturing businesses. For FY22, below the EBITDA line item, lower borrowing cost, inline depreciation charge and lower tax expense are contributing to improved profitability. The group performance, the P&L construct along with reasons for the major variances under the respective heads is provided in the analyst presentation.

Coming to working capital:

Our NWC to sales ratio has improved from 22.3% in March 21 to 19.9% in March 22. This is a significant improvement from the guidance that we gave at the beginning of the year which was in and around 22.3% by March 22. The NWC sales moved lower during the quarter, primarily due to better collections, improved vendor payable management and also due to the fact that the revenues moved higher. Our group level collections excluding financial services for Q4 FY22 is at Rs. 0.43 trillion vis-a-vis Rs. 0.39 trillion in Q4 FY21. Similarly, for FY22, we collected Rs. 1.35 trillion vis-a-vis 1.26 trillion in FY21. The last quarter of any financial year is generally a seasonally strong quarter for customer collections especially with respect to the Projects and

Manufacturing business portfolio. However, given the volatile cash flow in this segment, we do expect some variability in NWC to sales ratio in the coming two quarters of FY23.

Moving onto Balance Sheet:

If you glance through the Balance Sheet given in the annexures to the presentation, one will notice that at the group level, the gross as well as the net debt ratios has improved over March 21. This is mainly due to the repayment of liabilities at the Parent level which was around Rs. 43 billion, Financial services saw reduction of Rs. 23 billion and Development Project segment reported a reduction of around Rs. 25 billion.

Return on Equity:

Finally, our Return on Equity for FY22 is 11% vis-a-vis 16.2% in FY21. As you are aware, our ROE for March 21 includes the benefit of the onetime gain on the sale or the divestment of the Electrical and Automation business, net of exceptional items. Our recurring ROE for FY21 was 10.1% so thereby there has been an improvement of almost 1% over FY21 on a like to like basis. We are improving progressively and let me assure that the return ratios will be pursued aggressively going forward as well. A robust business portfolio including newer businesses, focus on cash generation and distribution, an eye on capital employed and finally the divestment of some of these concession assets will lead up to better ROEs in the future.

Very briefly, I will now summarize the performance of each business segment before we give our final comments on the guidance for FY23:

First Infrastructure:

Coming to order inflow:

Our Q4 FY22 order inflows are well spread across various subsegments. Infrastructure segment secured orders of Rs. 451 billion for Q4 FY22 registering a healthy growth of 44% over the Q4 of the previous year mainly with receipt of a mega order in GCC country and other notable awards for metro, expressway, health and public spaces.

On the domestic side, the conversion of tenders to awards continued to be on the lower side vis-a-vis Q4 of last year. We believe that this is a temporary and the ordering momentum will continue to pick up going forward. For the year FY22, Infrastructure secured order inflows of Rs. 935 billion registering degrowth of 9% compared to the previous year which had witnessed the receipt of the large value Mumbai-Ahmedabad high speed rail packages. Our order prospect pipeline in Infra for FY23 is around Rs. 5.72 trillion comprising of domestic prospects of Rs. 4.57 trillion and international prospects of Rs. 1.15 trillion.

The subsegment breakup of the order prospects in Infrastructure segment is as follows:

Power Transmission and Distribution, 23%; Water 21%; Transportation Infrastructure 19%; Heavy Civil Infrastructure 17%; Buildings and Factories 16% and Minerals & Metals 4%.

The order book in this segment at Rs. 2.61 trillion as on March 22 has a book bill of around 3 years. The Q4 revenues at Rs. 297.3 billion registered a growth of 13% over the comparable quarter of the previous year representing a normalized execution. For the year FY22, the revenues at Rs. 724 billion registered a growth of 18% with good pickup in execution momentum of the large orders that we have in this portfolio. Our EBITDA margin in this segment dropped from 11.5% in Q4 FY21 to 9.2% in Q4 FY22 largely due to job mix, commodity price escalation and the non-receipt of claim from clients. Due to the drop in Q4 FY22 margin, our FY22 margin for this segment contracted by around 30 basis points to 8.2% over the previous year.

Moving onto Hydrocarbon:

L&T Hydrocarbon Engineering, a wholly owned subsidiary has been amalgamated with the Parent with effect from April 1st, 2021, in terms of the scheme approved by the National Company Law Tribunal. On the performance side, the receipt of multiple domestic and international orders in Q4 buoys order book for this segment. For the year FY22, Hydrocarbon business secured orders of Rs. 309 billion registering a strong growth of 74% when compared to FY21, mainly due to the receipt of mega orders from GCC both in the onshore and offshore verticals. The order book for this segment stands at Rs. 564 billion as on March 22 with an international order book constituting 60%. The Q4 FY22 revenues at Rs. 52.4 billion registers a degrowth of 3% over the comparable quarter of the previous year, largely due to temporary supply chain disruption in a couple of domestic and international jobs. For the year FY22, revenues at Rs. 191 billion registered a growth of 13% with onshore portfolio in the order book gaining execution momentum. The EBITDA margin for Q4 FY22 is at 9.7% vis-a-vis 12.5% in Q4 FY21. The previous year Q4 margin had the benefit of cost saving upon job completion. The full year margin at 8.7% declined by 50 basis points reflecting the input cost inflation and a change in the composition of the jobs amongst the subsegments.

Coming to Power:

The subdued ordering environment continues in the thermal business due to the larger emphasis on renewables. However, opening order book drives healthy execution during the quarter as well as for the full year. The Q4 and the full year revenue in this segment at Rs. 14.8 billion and Rs. 44.2 billion registers a growth of 22% and 39% respectively. The EBITDA margin is at 5.2% for Q4 FY22 vis-a-vis 8.5% for Q4 FY21 is largely explained by the release of cost provisions in few projects in Q4 of previous year. Consequent to the drop in Q4 margin, our full year margin is at 3.9% down 70 basis points over last year. As you may be aware, the profits of the Boiler, Turbine and other JV companies in this segment are consolidated at the PAT level using equity method.

Moving on to Heavy Engineering:

The deferral of awards impacted order inflows for the quarter. Previous year Q4 had the benefit of large value domestic orders. The late receipt of orders in the current year impacted revenues for Q4 of this year. Revenues for Q4 FY22 at Rs. 8.7 billion registers a degrowth of 13% over the corresponding quarter of previous year. The full year revenues at Rs. 27.2 billion remained flat over the previous year as some of the orders are still in early-stage completion. The EBITDA margin in this segment is at 24.7% in Q4 FY22 vis-a-vis 29.3% in Q4 FY21. The Q4 of the previous year had the benefit of price variation and early completion bonus in a couple of jobs. The full year margin at 19% registers a drop of 70 basis points primarily due to lower export incentives in the current year.

Coming to Defence:

Let me mention here that on the back of the government's thrust towards indigenization, we continue to remain optimistic for securing decent order wins in this segment in the medium term. Having said that, the receipt of a couple of orders in the Shipbuilding vertical of this segment helped us to increase the order book. The revenues at Rs. 8.9 billion for Q4 FY22 registers a degrowth of 21%. For the year FY22, the revenues at Rs. 32.2 billion registers a Y-on-Y decline of 5%. The tapering of large jobs under execution led to the fall in revenues in Q4 and full year. The EBITDA margin for this segment for Q4 FY22 is at 23.3% vis-a-vis 29.3% in the Q4 of last year. For the year FY22, EBITDA margin is at 20.2%, a decline of around 200 basis points. Both the Q4 and the full year margin variance is explained by certain cost savings in the completed jobs in Q4 of the previous year.

Moving on to Development Project segment:

This segment includes the Power Development business comprising of Nabha Power, Uttaranchal Hydel Power plant, up to the date of its divestment which was August 2021 and Hyderabad Metro. As you are aware, the roads and the transmission line concessions which are a part of L&T IDPL are consolidated at a PAT level. The majority of revenues in this segment are contributed by Nabha Power. A lower PLF during the quarter due to routine maintenance explains the Nabha revenue degrowth where a subsiding Omicron will have led to improved Metro ridership thereby resulting in improved revenues for Hyderabad metro during the quarter. To give you some statistics, the average metro ridership from 55,000 passengers / day in Q1 of FY22 to 146,000 passengers in Q2, 218,000 passengers in Q3 and around 199,000 passengers in Q4. For the full year, the average ridership was around 155,000 as compared to 67,000 for FY21. We are happy to report that as we speak, the current ridership in Hyderabad metro has crossed the threshold of 300,000 passengers per day. The Q4 FY22 margin in this segment at 2.4% is contributed largely by metro operations as Nabha margin is not being recognized from Q3 of the previous financial year. The Q4 of the previous year had an impact of an exceptional item in the Nabha margin. The improvement in the average daily ridership has enabled metro to report positive EBITDA for Q4 and FY22 as well. The Metro at a PAT level, we have consolidated a loss of Rs. 3.49 billion in Q4 FY22. The operating and the amortization costs are

around Rs. 0.75 billion each whereas the interest cost is around Rs. 2.9 billion for the quarter. For the year FY22, the metro reported PAT loss of Rs. 17.51 billion as compared to Rs. 17.72 billion last year.

At this juncture, I would like to give a quick status update on the divestments of our concessions portfolio. As all of you are aware, our stake in the Hydel Power Plant was successfully divested in Q2 FY22. For Nabha, various divestment options are being explored currently. Coming to IDPL, we are exploring the possibility of divesting our remaining 51% stake in favor of third-party investors. For metro, we have a couple of updates; The Government of Telangana has issued an order which outlines the various forms of support for the metro operations. The benefits will flow to the SPV which is as follows: First.... the refinancing of the term loan in Q3 FY22 helped SPV to save interest cost of around Rs. 90 crores during the current quarter. These are recurring savings which the Hyderabad Metro SPV will also report going forward. Second.... coming to the government assistance: We are expecting an assistance of Rs. 3,000 crores from GoTS in 3 installments to be paid as Rs. 1,000 crores each year starting from FY23 onwards. The repayment of this soft loan would be done at the 16th anniversary from the disbursement. The concessional rate of interest on the loan will be known over time. Third.... The concession is now confirmed to be available for the full tenure of 60 years that is up to 2072. We have also received an in-principle approval for implementing an InvIT for the project in accordance with SEBI regulations. For the TOD rights, there is an approval for sub-lease up to 2072 independent of the metro operations. Fourth, discussions are also going on with third party investors seeking fund infusion into metro, however, it would be a little premature to comment on the likely closure date, but finally to conclude on L&T Metro in Hyderabad, the prospect of improved ridership, phased TOD monetization program, the confirmed government assistance with soft loan and with recently concluded debt refinancing, our performance parameters for Metro should look up in FY23.

Coming to the IT and TS portfolio:

Our revenues for Q4 FY22 at Rs. 87.6 billion equivalent to USD 1.18 billion registered a growth of 30% over the corresponding quarter of the previous year. For FY22, the revenues at Rs. 322.6 billion equivalent to USD 4.4 billion registers a growth of 27% reflecting the continuing growth momentum in the sector with the surge in demand for technology focused offerings. The business outlook for the segment continues to be robust. Lots of spend today are being directed towards Cloud, Data Security, and Intelligence. The margin for this segment is the function of wage cost, utilization, onshore offshore mix, and operational efficiency. Finally, as all of you may be aware, the boards of LTI and Mindtree in the respective Board Meetings held on May 6, 2022, have approved the scheme of merger between the two companies that is subject to the approval of respective shareholders, creditors, and regulatory authorities. I will not dwell too much on this segment as all the three companies in the segment are listed entities and the detailed fact sheets are already available in the public domain.

Moving on to the Others segment:

This segment currently comprises Realty, Industrial Machinery, Valves, Smart World Communications, and the digital businesses. As you may be aware, the Edutech business was launched on October 15, 2021, whereas L&T SuFin was launched on March 7, 2022. These are the two new businesses incubated on the digital portfolio. During the quarter, a strong revenue growth in Realty and Industrial Machinery business was offset by subdued revenues in the other businesses thereby leading to a flat growth. For the full year though, this segment reported revenue growth of 2%. There is a broad-based improvement in margin across the businesses in Q4 of the current year. The benefit of gain on a sale of commercial property in the Realty business in FY21 explains the margin variance for this segment on a full year basis.

Next, we move to Financial Services segment:

Here again, L&T Finance Holdings is listed and the detailed results are available in the public domain. I would like to mention here that the strategic deliverables for this business revolve around higher retailization of its portfolio, a strong asset quality and improvement and Return of Assets. The Q4 FY22 revolves around disbursements in the focus areas and the share of retail book has moved up to 51% by March 22. Improved profitability in Q4 and FY is the function of lower credit cost and finally sufficient growth capital is available in the Balance Sheet.

Coming to the last part of our commentary, we remain optimistic on India recovery amidst the continuing global geopolitical uncertainty. Further, we are also confident around the Capex recovery in GCC due to the improved oil prices. The supply chain disruption and the cost pressures are expected to continue to the near term. For the year FY23, we are guiding for a 12% to 15% growth in the group order inflows and revenue and we expect the margin with respect to our Projects and Manufacturing businesses to remain around 9.5%. On the working capital, at the group level NWC to sales, although we will endeavor to maintain around 20%, but given the inherent cash flow volatility in the EPC segment, we are guiding for a range of 20% to 22% for FY23.

Thank you, ladies and gentlemen, for the patient hearing. I will now request our CEO and Managing Director, Mr. S. N. Subrahmanyam to take us through our strategic plan objectives up to FY26 post which we will take questions and answers.

Finally, when we get into Q&A, I would request all of you to restrict your questions to the economic environment and strategy to make the best use of our time. The book keeping questions can be addressed to me and Investor Relation team separately. Over to you, Mr. Subrahmanyam.

S. N. Subrahmanyam:

Thank you Ram. Good evening to all the analysts and investors who have logged on to this call. Hope all of you are doing well and are staying safe. Taking the opportunity here, I will talk about the macro context as we see it and the group strategic plan as we see it ending in FY26. On the macro level, as all of you aware, there has been many challenges over the last 24 months during

which we could not achieve much physical progress in our EPC project business and manufacturing business for nearly 8 to 10 months for various reasons. We have also lost precious time in mobilizing and de-mobilizing of personal. Despite all this, FY22 has ended on a strong note, something that is reflected in our financial results characterized by the sustained effort that has gone.

Here, I would like to particularly emphasize on the fact that people have been our biggest asset. Engineering and people skills are the most valuable attributes across all our businesses. We will, let me tell you that encourage and give these young and energetic people in the company all possible opportunities to grow. We had several reasons to celebrate too. We won some important mandates across the businesses that cumulatively swelled our order backlog to never before seen levels, launched new business initiatives and finalized our Lakshya 2026 strategic plan. Both the government and RBI needs to be complimented for the fiscal and monetary support during this time. Structural reforms carried out in India over the past couple of years will lead to sustainable and improved quality of growth in future. Various incentive schemes of the Government will lead to pick up in manufacturing and exports. India's FY23 budget focuses on consolidation with an infrastructure Capex thrust. Government's focus on Capex is also clear from the various initiatives starting from the National Infrastructure Pipeline, the PM GatiShakti program, creation of developmental finance institutions and such. We remain optimistic on the return of Private Capex in India on the back of improved business confidence, better demand outlook, healthy Balance Sheets and PLI incentives in some of the sectors. The evolution of digital infrastructure and the focus on ESG sustainability compliance businesses like renewables and green hydrogen are emerging trends.

On the international front, one can see the emergence of the new world order. The world at large realizes the pitfalls of relying too much on one country for a bulk of supplies. Though a shift away from this will not be immediate, many countries have adopted some or the other version of "Atmanirbharta" that is localization. One can see this in various forms throughout Middle East and certain parts of Africa. We see Capex led growth from the GCC countries in the medium term to continue. GCC as all of you are aware is the second biggest market for our EPC project business. Secondly, we expect growing infrastructure opportunities in the African subcontinent on the back of enhanced bilateral multilateral funding support. Some of the major matters that we will be monitoring would be high commodity prices and of course talent retention.

Let me now briefly cover our previous strategic plan performance. The macro back drop from FY17 to FY21 was subdued in initial years largely due to government reforms. This got worsened due to COVID in the final years. Our group performance can best be described as "Resilient" amidst these macro headwinds. Despite the lackluster public and private Capex, our Projects and Manufacturing businesses posted noteworthy performance during this period. The IT and TS services portfolio outperformed over the tier 1 and tier 2 peers. We successfully integrated Mindtree during this period. The IT & TS portion of our services portfolio in a way helped us to count our balance EPC projects business cyclicality during the last 5 years. We also managed to unlock capital through the major divestment of the Electrical & Automation business.

If I were to summarize our previous strategic plan performance in a sentence, I would say, “Our expansive portfolio, a wide capability spectrum, multi geography international presence and a Strong Balance Sheet helped us to deliver results in these times.”

Now, going forward to the Strategic Plan Lakshya 2026. Let me now move onto the key themes around which the current Strategic Plan FY22 to FY26 is based. These are 1. Value accretive growth in the current business portfolio; 2. Exit exposure to concessions; 3. Incubate and scale up digital and e-commerce businesses and 4. Enable business sustainability through improved focus on ESG. We as an organization must constantly evolve, accept new ideas and re-vision our thought processes. New enthusiasm must prevail. We hope to practice this in the current plan period.

Our business portfolio will now comprise of EPC projects, Hi-Tech manufacturing, and Services. Let me elaborate on this.

EPC Projects will comprise of Construction and Energy business. The Energy portfolio encompasses the current business of Hydrocarbon and Power. Additionally, the Green EPC businesses targeting opportunities in the green hydrogen space will be part of this portfolio. We will be targeting order inflows and revenue growth of between 11% and 13% in this portfolio. On the execution front, our focus will be on timely or early completion. Profitability will be driven by a combination of resources productivity, operational excellence, and digitalization initiatives. Further, we will strive for lower working capital intensity overtime. Value creation in this portfolio will be a function of margin improvement and lower capital employed.

Hi-Tech Manufacturing will constitute Heavy Engineering, Defence and the new additions comprising Electrolyzers and Battery which is basically grid batteries. We will be targeting order inflows and revenue growth of 18% plus in this portfolio. Robust order inflow growth will be the function of various indigenization programs expected during the planned period and healthy execution will be driven by robust order book. We will target improved profitability in this portfolio through combination of various initiatives revolving around digital excellence, automation, value engineering, factory 4.0 and on timely delivery.

To give you some perspective of the new businesses forming part of the hi-tech manufacturing portfolio

Electrolyzers: We will be entering into manufacturing of Electrolyzers. We propose to set up 500-megawatt capacity by 2026 which would be ramped up to 1 gigawatt by 2028. Technology tie-ups will happen in due course of time. In Phase 1, we will target alkaline and in Phase 2 it will be PEM, that is membrane technology. Expected capital outlay will be around Indian Rs. 11 to Rs. 12 billion for 1 gigawatt. Project Capex will be primarily equity funded and we are targeting project IRRs in high teens.

Advanced Chemistry Cell manufacturing: We also, as I said, would like to look at Advanced Chemistry Cell manufacturing. This will be with a technology partner. Technology tie-up will

happen in due course. We will be looking for 5-gigawatt hour of cell manufacturing capacity and 3-gigawatt hour of battery module capacity by 2027. Total capital outlay is expected to be around Rs. 31 billion. Project Capex will be majorly equity funded and we will target project IRRs in high teens.

The finer details of the investments in Electrolyzers and battery will be communicated as and when the plan get certified.

At this juncture, I would also like to clarify once again especially in the manufacturing space that once again and I am repeated, some of the concerns around our defence businesses. Our defence business is nothing, but an extension of precision engineering capabilities and it will continue to remain an integral part of our manufacturing portfolio. We reiterate once more, "Our Defence business does not manufacture any explosives, nor ammunition of any kind including cluster munition or antipersonnel land mines or nuclear weapons or components to such munitions. We also do not customize any delivery systems for such munition.

I will move on to the services business. It has two broad areas, the IT and TS business portfolio will comprise of LTI, Mindtree and LTTS. As stated earlier, the growing IT and TS business will continue to balance the risk and cyclical nature associated with the traditional Projects and Manufacturing segment. The momentum from existing and emerging technology trends like cloud, digital AI, and industry 4.0 is expected to continue in the near term. This portfolio will target revenue growth in high teens during the planned period. Augmenting digital talent holds the key to success. Inorganic growth opportunities will be appropriately targeted to grow this portfolio over time.

The IT and TS portfolio will also include the recently incubated platforms, SuFin and Edutech and the new additions of data centers where for data centers, we are looking to set up a pilot plant of 2.5 megawatt in the near term, this would get to be done in another month or so and we intend to set up capacity of 90 megawatt by the end of this current planned period.

The Financial Services businesses will reorganize its existing lending portfolio and move towards retail very quickly. A growing digitalized retail portfolio should yield higher returns. The philosophy will be "Shrink to Grow". Our primary focus is to improve profitability and return over the planned period and this hopefully should result in vastly improved valuation.

"Others" portfolio will comprise of businesses like Realty, Smart World Communication, Industrial Products and Machinery. In Realty business, we will target growth in residential and commercial through multiple formats but will be predominantly residential with primary focus on development using our existing captive land banks. We will endeavor to touch order inflow and revenue of Rs. 80 billion and Rs. 50 billion in this business by FY26. Smart World and Communications will migrate from the current EPC O&M format to a smart solutions provider. We will grow our Industrial Machinery and Products portfolio comprising of Construction Equipment and Valves on the back of improved demand.

The Developmental Projects segment or the concession portfolio will largely constitute Hyderabad Metro as we are unable to get out of it as is the concession agreement, but we will derisk it over time. Hopefully, we should complete the divestment of L&T IDPL, a predominantly road concession and Nabha power during the early part of the current planned period. In Hyderabad Metro, a combination of capital restructuring, improved operations and TOD monetization will create value overtime.

Our group financial targets would be revenue of about Rs 2.7 to 3 trillion by FY26 registering a compounded growth of about 15% over FY21. The return of equity would be about 18% plus by FY26. Our focus will be to ensure sustainable growth through profitable expansion and execution of the current business portfolio and incubating newer businesses during the planned period as explained.

Let me now cover the broad cash flow profile at the group level. Cash generation during the plan period will be a function of improved profitability and lower capital employed. Further, capital unlocking through sale of non-core assets will also boost cash balances of the group. We expect Capex of around Rs. 100 to Rs. 110 billion to happen towards our existing businesses comprising Projects, Manufacturing and Realty, but these are normal capital expenditures. Around Rs. 60 to Rs. 70 billion will be towards new businesses like data centers, green EPC and BOO, Electrolyzers and battery. The IT businesses will have white space acquisitions of may be around Rs. 70 to Rs. 75 billion from the cash surpluses on their balance Sheets. Depending on how cash flows evolve and after necessary spends on Capex, if possible, we will drastically reduce the debt on the parent Balance Sheet. Cash returned to shareholders will be through a combination of dividend payout as well as buyback post adequate cash buffers on the Balance Sheet. We will also consider stepping up payout ratios over time. Returning the cash to shareholders on a regular basis will also aid ROE improvement and that will be the mantra as we go forward.

On sustainability and ESG as you are all aware, our company, Larsen & Toubro has committed to water and carbon neutrality by 2035 and 2040, respectively. Our interim targets on various parameters of Environment, Social and Governance up to FY26 are available as part of our Strategic plan presentation and you can go through it.

Finally, we would like to mention that we have always practiced the highest level of governance in this 8-decade old group. We will uphold the value systems and integrity that has been the hallmark of Larsen & Toubro over the years. We will not shy away from improvements and will strive to set benchmarks going forward. We are on the plus and positive side of things and should clearly and positively continue to be there.

Ladies and gentlemen, thank you very much. Let me now hand it over to Mr. P. Ramakrishnan for his closing comments before we take question and answers.

P. Ramakrishnan:

Thank you sir. Before we get into Q&A, I just wanted to reemphasize as to what Mr. Subrahmanyan also spoke in terms of reconstitution of our segments pursuant to the formulation of strategic plan. So, that is summarized in slide 47 of our Analyst Presentation, but to quickly

take you through, essentially what it means that, the existing infrastructure segment will continue to remain reported as infrastructure segment. The same applies to Financial Services, Development Projects and Others. The two changes that we are doing is, as part of the overall Energy portfolio what we report separately as Hydrocarbon and Power segments will get merged to form what we call as a energy portfolio and similarly Heavy Engineering and Defence Engineering, the two engineering or manufacturing part of L&T will get consolidated to be reported as Hi-Tech Manufacturing, however, while we report this as Hi-Tech Manufacturing as one segment, we will continue to explain or report the numbers that is related to the revenues from the Defence Engineering segment as an additional information. The IT and TS portfolio today comprises of the three listed entities, LTI, Mindtree and LTTS and going forward we will also add the new businesses that L&T is chalking out during the 5-year plan and those are L&T SuFin which is a B2B e-commerce platform, L&T Edutech, once more a digital tech engineering skilling platform and the investment in Data services. So, IT and TS will include the three listed entities and these three new digital initiatives. Other things will remain the same. So, I hope you would have got all the relevant explanations regarding our Q4 and FY22 performance and also heard S. N. Subrahmanyam take us through the objectives of L&T over the next 4 years starting FY23, FY26 and with that we can now get into Q&A.

Moderator: Thank you very much, Sir. We will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Sir, my first question is on the Hi-Tech initiatives. You have said that you are going to enter into Electrolyzers and Battery manufacturing. Is there any aspiration to be leader in this segment and any plan to export and are we restricting our initiatives to Electrolyzer and battery manufacturing and avoiding things like solar manufacturing or fuels cells and is there any plan to set up hydrogen production system on our balance sheet?

S. N. Subrahmanyam: Very good question to start with. So let me explain it like this. We want to be in the Green Hydrogen space because the black space that we are currently in, which is a coal-fired power stations, we do expect that over the period of the plan and further, we will not see much traction. We do not want to be in polysilicon or solar modules and solar production and all that. That is ruled out. We don't want to be in that area, either as a developer, but we will be there as an EPC as you know, but we will not be there as a developer. Now, the whole idea of green hydrogen is the fact that in the future, we do see green hydrogen coming up. It is an imperative for the economy. As a nation, India spends more than \$180 billion importing crude. Green hydrogen is a possible offset for that, in the sense that, we could reduce the dependence on crude and get into more hydrogen economy, hydrogen fuel cells, etc. But that is a little futuristic. But it can happen provided the hydrogen cost comes down. Today, it is not possible because hydrogen cost is upwards of \$4, it needs to come below \$1, so it is some time away. What are the two costs which is a major input to hydrogen cost? So one is the renewable energy cost and second is electrolyzer cost. So, we will not be in the renewable energy, and we will have to depend on partners or joint venture partners or friends from renewable energy point of view, but we would like to be in the electrolyzer part. So, we are talking to technology partners across the globe to get into fabricating electrolyzers; whether it is alkaline, whether it is PEM, whether it is solid oxide, time will tell,

but that will be in the future. We do hope to be in the EPC hydrogen, we hope to be in the electrolyzers and if there is a good opportunity with decent return on take or pay contracts that are available, then we will also like to invest in Hydrogen over a period of time. Grid battery is a little far away. At the moment, a good grid storage battery costs upwards \$190 to \$200. This also needs to come down because with that kind of cost, unit cost the power will go up and it is not possibly affordable. A few experimental things will come up, but if you want you do it on a large scale, it will take time. This is the plan during the planned period. If this fructifies and if the battery technology is affordable and possible to do it under say \$80 or \$60, we will seriously look at it. At the moment, any organization like ours which is forward looking, which wants to be where the country is growing, which is evolving always, will always want to think about future technology and bet on it and that is what we are doing right now. So, we have put some teams of people to work on it and if these come technologically proper and if these come price wise sensitive to the environment around us, we will look at investing. As you are aware, in all our businesses, we are number one except the services business, but we are growing our services business also and someday, we will be a top player there. We are already a number 5 player. We will hope to grow it faster. So, as you can see when we enter a new business the idea is to dominate the business over a period. But today it is too early to say anything about it. Let us see how things work out and the idea is to be a technology player in that and if you are a technology player, you hope to lead that business space.

Mohit Kumar:

Secondly sir, on the private Capex, are you seeing any traction compared to few years back and do you expect the proportion which is 16% of private Capex of the order book, do you think this will change materially over next few years. Are you seeing any more inquiry from the private side?

S. N. Subrahmanyam:

So, the Private Capex is also driven by the strengths of the Balance Sheet for the Private Promoters. Over the last two years, due to various reasons, especially due to commodity price increases and also due to the very good implementation of the NCLT program in India, that is National Company Law Tribunal, what you call as chapter 11 cases in India, you have found that many Balance Sheets have got repaired. Some of the Balance Sheets which were very bad also got acquired by better Balance Sheets and as the economy grows, I expect private capital to start getting invested. If you see the newspapers of last few weeks, you find lot of big companies in India, lot of big groups in India announcing major investments, whether it is in the metal industry, whether it is in the infrastructure space, whether it is in the factory space, etc. That means companies are reinventing back. The companies which are leveraged have come down on the leverage and are now thinking of possibilities of investments. So, we have to capture that space. Second, there is an Atmanirbhar program that is the self-reliance program which is gaining an importance in India. It is not only stated policy of the government to look at Atmanirbhar Self-reliance, but the government has also come out with incentives like the PLI scheme (the Productivity Linked Incentive schemes) by which they are encouraging companies to take advantage of the incentive schemes to encourage more and more in core sectors and futuristic sectors of the economy. All these means that people will start investing in some of these sectors and you have already seen announcement by various business groups on that. Third,

due to Russia-Ukraine war and the way the nations look at each other, there is a possibility that India being the only clean & efficient democratic nation on this side of the earth, right from Middle East to Far East, if you see there is a significant advantage people are seeing by putting up investments in India. We have already seen in factories and certain other scopes that we are able to look at from our overall distinctive orders point of view. So, I believe Private Capex will come back, but to define whether it is 20%, 30%, time only will tell, but there will be a significant pickup in Private Capex investment in India.

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

Renu Baid: The first question is on the broad based targets the project Lakshya. If you see during the last plan period when you started, the broad-based revenue targets were 10% to 12% kind of range and if you work backward with the data given in the presentation, for the core manufacturing business of L&T portfolio, the 5-year revenue growth number comes to approximately 13% and probably core inflows ex-services would be similar 10 to 11% kind of range. So, the question is, when we look at the last 5-year plan that versus the backdrop of the slowing economy, not much of Capex happening through versus now when we look at the next 5 years or the broad-based growth outlook from infra, private investment, new opportunities have been fairly strong including exports. So is there any way where you can comment that how do we look at the growth numbers from the perspective of being conservative or the key end market growth outlook here?

S. N. Subrahmanyam: Lady what I would like to tell you is in spite of COVID, in spite of Russia-Ukraine war, in spite of commodity price increases, in spite of all the disturbance that we have seen including inflation, our order inflow grew by 10% which is a growth of 46% over the Q4 of last year. Our revenue has grown by 15%. What it tells you is that, there is a resilience in the company and also the economy. India is a developing nation. We need to bet on it. The government last two years has come out with a fantastic budget which is aimed at propelling growth, which is aimed at fulfilling the basic needs of the common people, which is aimed at fulfilling the needs of the economy. Moreover, the China border has also created an immediate sense of urgency including the Russia-Ukraine situation, that we need to be more self-reliant and need to do more things in India rather than depending on external sources for our consumption or Capex or whatever it is. All this makes us believe that there will be huge Capex in India which we can take advantage of. Yes, in the last plan we grew at a particular percentage, but as we have said, the next 5-year plan we expect that percentage to continue to grow and we hope to grow by 11% to 13% in our sales in the domestic region. The high oil prices will also help us with sustainable growth in Middle East which is more or less of the second market. The oil being where it is, many of the countries have swelled up their sovereign funds, swelled up their economic growth and they are spending reasonable amount of money not only towards the oil economy but also towards solar projects and other basic industries to develop their economy. World over, there is a feeling that unless you are self-reliant or Atmanirbhar your economies cannot sustain yourself because what this war has done and by sanctioning many things on Russia, etc., it has clearly shown that if you are an externally dependent economy, you are in trouble. You got to be an internally

dependent economy not only for your self-respect, but for your growth, but also for your self-resilience. I think there is a great advantage for organizations like us which are in the basic infrastructure sector and economy and we are hopeful that this will be to our advantage.

Renu Baid: So, my perspective was shouldn't the growth rates for the core portfolio be better and higher since the environment is more favorable today than what it was 5 years back?

S. N. Subrahmanyam: You are absolutely right. We in Larsen & Toubro believe in a very simple philosophy, under commit and overachieve and that is what we are trying to do.

Renu Baid: And sir, secondly if you look, specially the last two months, we had seen very steep inflation impact hitting us and good share of that was reflected in 4Q numbers and guidance have been broadly flat, so from a margin perspective given the mix of orders, has there been some kind of provisions on the conservative side which has come in the 4Q itself and broadly as a mix of orders and the new projects at the revised cost come in, shouldn't we actually look at margin improvement from 2 to 3-year perspective?

S. N. Subrahmanyam: Aren't you contradicting your own question, you are talking about inflation, you are talking about commodity prices, how can we talk about improved margin in this situation? We had to be careful, we have to be conservative, we have to give regard to what is happening in the world, there is nobody in the world who is able to predict what is going to happen. We are all praying to God the Russia-Ukraine war comes to an end, we are all praying to God that this side of the world, which is seeing turmoil right from Yemen to Middle East, to Afghanistan, to Pakistan, to Sri Lanka, to Nepal, to Myanmar, to Bangladesh should see some amount of stability. When such a world is there and we are the only stable and decent and economically growing country in this part of the earth, I think we have to look at various aspects of the world and we are little conservative as to how things go up. I think all our projections have to be conservative. I feel things will shape up for the better, there are I guess wise men in the world and wise leadership across the world including statesmen who will try to find solutions to all this, we will take advantage of it as it comes.

Renu Baid: One last question if I can ask, we have seen almost last 1-1/2 years of consecutive delay in finalization of multiple government order despite the trending pipeline we are fairly strong, so if you can help us understand when we look at 10% kind of growth and inflows in the next year, how would the mix of composition be would government lagging, declining or other segments in terms of hydrocarbon, defence picking up, any broad contours in terms of?

S. N. Subrahmanyam: Small change where the government orders as a proportion may slightly go down and private CAPEX as all of you have been asking may slightly go up. Middle East would be the same, we don't expect too much change, it will be more or less the same, may be private orders will slightly go up, that is what I would say.

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

Ashish Shah: Sir, first question is on the private CAPEX side, so just wanted to get a sense on that if you are looking at new steel plant coming or a new automobile plant coming up or a oil refinery, what is the opportunity that L&T addresses, of the Rs 100 of total opportunity , I know it may not be a very simple thing to answer, but any color can help us?

S. N. Subrahmanyam: See, we have the largest market share of whether it is hydrocarbon or a factory, whether it is a cement plant, steel plant or an automobile factory, I don't expect too many automobile plants to come up in India. What is happening in the automobile industry is the conversion of diesel, petrol vehicles to EV vehicles. We have just built the Ola factory in Chennai, maybe there will be one or two more factories coming up like that. There is a huge increase in steel demand and cement demand, one because those industries have done very well due to the commodity price increases, they have deleveraged and they have plenty of cash flows in the hand. We do see a possibility of steel plants coming up, we do see quite a propensity for building up cement plants. The prospects are pretty good. As the economy continues to grow, I feel more steel plants and more cement plants will come up in India and we will be able to take advantage of it because some of the core aspects of this plant are EPC by L&T.

Ashish Shah: On the process side, do we have sizable presence on the process side of such steel plant or a refinery and if any percentage, any rough ballpark you can throw us, what is the opportunity that L&T can address overall from a civil point of view as well as from a process point of view?

S. N. Subrahmanyam: Those are details which I will not be able to answer, but as the premier engineering and EPC company of India, we do have process knowledge of some of these aspects of the project, for example, cement plant, the cement companies themselves decide on one of these aspects like FL Smidth, ThyssenKrupp or somebody like that as a process engineer, but the entire aspects of the detailed design and construction is handled by Larsen & Toubro including manufacturing of some of the crucial equipments. Today, we don't make any cement equipments because we think that we have crossed that line a long time back, but we do source it from other companies. In a steel plant, certain aspects like Coke Oven or certain aspects like bar & rod mill, etc., we do possess process knowledge and we do them, but for certain other aspects of steel plant like the blast furnace etc., we do source technology from our technology partners like Outokumpu, SMS or Primetals and companies like that and we have good understanding with all these companies. So, it is a question of the mix and matters how it goes about but let me assure you that we are one of the only companies in this part of the world who can put our total steel plant or the cement plant and our various aspects of the steel plant because steel plant is huge and complex and we are very confident about what we can do in this space.

Ashish Shah: Sir, second is on the price escalation and inflation environment, currently to what extent in the domestic market the price escalation mechanism in indices are covering, to what extent are they covering for the inflation and what is the hit that we may end up taking on the domestic contracts?

S. N. Subrahmanyam: About 85% of the company's contracts in construction are covered by some price escalation or basic prices or some other factors. There are about 15% to 20% of the contracts which are not

covered by price escalation. Other things include metal, cement, steel, or nickel or cadmium or copper or aluminum or solar modules and various other things that we bought. Now, what we have done is we have analyzed the situation very thoroughly, where we have price escalation we are going all out for it. It is a fact that in some cases, even the price escalation formula do not totally cater to the escalation that is happening, but then there are provisions in the contract by which we can go back to the client to help us reimburse it including force majeure conditions, we are using that. In certain cases, where we do not have price escalation formulas, we do take it up with the clients, we are looking at alternative designs, we are, for example, if steel prices are going up, thinking of using more concrete. We are looking at alternative procurement methods, for example, if the price escalation is more in steel plants using pet coke, we are looking at small scale rerolling mills using coking coals, so various alternatives are being tried out. We are also hedging materials like copper, aluminum, iron ore, coke etc., to a very large extent, so many methods are being used to reduce the impact of the price increases, but the fact remains that everything is not solvable, there will be some pressure on cost due to this price increases and escalation and therefore we will have to tackle it with a cool head and take care of the situation.

P. Ramakrishnan: Okay. We will take the next person on the line.

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

Sujit Jain: When we look at working capital guidance that you give, could you give guidance on core working capital because as the proportion of services that you gave, but as the proportion of other businesses x of core manufacturing increase, your working capital percentage actually improves?

S. N. Subrahmanyam: See, working capital, there is nothing core and non-core, working capital is working capital. We would like to keep it as low as possible, whether it is IT services, whether it is manufacturing, whether it is EPC, if we have to put our money there it is working capital. So, we across our businesses try to tell our clients that we would like to work on your money. So, we will do all and everything that is possible to reduce this working capital and as the world evolves and IT becomes bigger, clients will also expect you to invest there in some form or the other and as EPC manufacturing goes bigger and as economy gets into inflation, there will always be problems there of immediate payment and contractual payments, but this is something which is heavily monitored within the company. As we can see broader working capital to 19.9% in the last quarter, last year, we will continue to drive this with all efficiency. I think our Shankar Raman and team have done an efficient job there, a fantastic job there and we will continue to do that.

Sujit Jain: And with our experience of developmental projects in the past such as Hyderabad metro, etc., what is the strategic imperative and thinking green energy BOO projects has potential developmental projects in the future?

S. N. Subrahmanyam: We have told that we are just wanting to get out of this concession business, so Hyderabad metro is derisked, IDPL is going out, Nabha power will move out. Now, if at all we are getting into green hydrogen, it will not be in the sense of a concession, it will be a take or pay contract where we will put up a green hydrogen for IOCL along with the money of IOCL and IOCL will have to pay us every month for the green hydrogen that we produce. If we cannot enforce this we will not get into that business. So, BOO or developmental project is not a priority for us. It is totally deprioritized and we are moving out of the sector.

Sujit Jain: And one last question about international project wins, in the past we have faced issues in the high of the cycle in hydrocarbon projects, what safeguards you have put this time around in the projects which one believe some of them could be fixed price projects?

S. N. Subrahmanyam: See, the problems that occurred were not due to fixed price or item rate. Problems occur because we got into contracts, we didn't have the right leadership team, we didn't have the right project team and many of the projects for whatever reasons we can keep thinking about it right now, but there is a lot of learning for the company, things were not done in time and to the speed and the technology that was required. That was a huge learning within the company. So, the last 4-5 years, taking from the learning, we have built a very strong team in Middle East, we have brought in process people, we have brought in engineers, we have brought in very senior project management people, we had even done some localization to help us to do projects faster and thereby there is a lot more confidence within the team now that we can take on billion dollar contracts and executed to time and within the cost. So, that is how project teams work and that is what we have brought on. We did some mistakes, we have learnt from it, we improved ourselves on it and we are moving on further from that.

Moderator: Thank you. The next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Sir, just two things from my side, firstly on the balance sheet you mentioned about the project monetization which has been on for a while now, in terms of the cash flow from these proceeds, outside of the CAPEX initiatives you mentioned, it signals a significant amount of capital release, is that all expected to come back to shareholders?

S. N. Subrahmanyam: No, in this case, there is no capital gain, the only capital gain that we got was from the sale of the EAIC business is Schneider which has all been reflected up to last year. Now, what we are trying to do is high-cost project like Hyderabad metro, we are trying to derisk it from the balance sheet, so what are we doing there, we invested a lot of money, Rs. 20,000 crores, the traffic went down, but it did not make revenue, the traffic is slowly getting back. What is the biggest concern on the project, the biggest concern on the project is the debt. So, we have got a soft loan for 15 years from the government of Telangana, Rs. 3,000 crores and that will help to bring down the debt. Second, we are also talking to very serious investors who will bring in equity into the project, thereby we are right now 100%, we will move down to 51%. It will become a subsidiary, the debt will also come down, the cost of interest will come down and thereby the project is derisked. Second, we also got the principal agreement from the government to go for an InvIT

at the right point of time and the project see some cash flow we will InvIT it and we will see the possibility of an exit. Second, Nabha power, it is a running power plant with about Rs. 6,000 crores of debt and profitable. What we have planned to do there is move it out of the balance sheet, so we are talking to some very serious players and as and when this occurs in a short while we will announce it to you. Third is our L&T IDPL. Here we already signed a term sheet with a very serious investor, we are going through the conditions precedent and certain governance which we need to overcome before we make the sale of IDPL. We will do it shortly and we will announce that also to you. So, once we exit the concessions portfolio, and leaving aside the debt in Financial services, we will become a debt free company.

Deepika Mundra: Just on the growth that you mentioned for the project and manufacturing business of 11 to 13%, could you guide us as to do you see a significantly faster growth in international given the commodity price cycle versus domestic over the next couple of years?

S. N. Subrahmanyam: I already answered that question. I said there is not going to be any significant difference between how we grow in domestic and international. It will be the same percentage, may be in domestic there could be a little more preponderance of private projects compared to government contracts, but there is no other significant difference.

Moderator: Thank you. The next question is from the line of Bharanidhar Vijayakumar from Spark Capital. Please go ahead.

Bharanidhar Vijayakumar: Could you give us split of the funding by agencies of our current order book, for example, multilaterals from center, state and what is the confidence we get from especially centre and state in their plan to fund large CAPEX plans like say last couple of years in the next 2 to 3 years especially in the light of inflationary pressures and their physical situation not going to be as great as last 2 to 3 years?

S. N. Subrahmanyam: As I said earlier, the bulk of our orders are still from the government sector, let us say 75%. In that central government would be 25% and balance 50% would be state government or public sector. State governments are negligible, it will be predominantly multilateral funding agencies like JICA, JBIC, World Bank and Asian Development Bank. So, as you can see, our projects are dependent on multilateral funding, public sector spending, central government spending and private sector spending. We are not dependent too much on state governments, very negligible.

Bharanidhar Vijayakumar: And when it comes to competition, we have seen competition increase of course for L&T's bids and how do you see this playing out going forward and is this is also one of the reasons why our margins would continue to be under pressure in the next 2 to 3 years?

S. N. Subrahmanyam: Competition has been there, will continue to be there, will ever be there, I hope competition does not exist, but that is not possible right my friend. Including the analyst community, you have competition, who ask better questions than you, more questions than you, so that is a part of life. Now, there is a cycle of competition that happens in India, a set of competitors from Andhra Pradesh come, they are disruptive, they take jobs at any prices and they disappear over 5-6 years

and new set of competition comes. We have lived through it over 8 decades of our competitive life. So, rest assured, this kind of things happen and we will know how to manage it. What is the strength of Larsen & Toubro, it is these engineers, it is the highly efficient project management skills, its ability to do projects on time to quality and to safety. We will continue to stress on that. We will lose some, we will win some, but today there is a backlog of nearly Rs. 3,60,000 crores. There is no need to go hammer and tongs to win a contract. We will take contracts at our terms; at our price and the way we want it and that is how we run this company and we will continue to do so as we go forward.

- Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Can you talk a bit about what kind of capital allocation you are willing to do for SuFin and Edutech and data center separately?
- S. N. Subrahmanyam:** SuFin we have spent about Rs. 150 crores and Edutech we have spent about Rs. 125 crores if I remember my figures, but these are developmental activities, these are platforms. As new courses or new things get added, some more money will be spent. Right now, having done what we need to do, we are concentrating on having launched this, having gone into the market, we are looking at how to grow the market, for example, in Edutech today we have nearly 80,000 students already enrolled, SuFin we are doing about Rs. 10 to Rs. 15 crores per month right now. Data Center as you know is about Rs. 30-Rs. 32 crores per megawatt. What we are planning now is one Data Center in Chennai and one Data Center in Panvel near Bombay, so we will see how it develops. As we are aware in the Data Center space, we also signed a very specific agreement with Microsoft, to be along with Microsoft, to do joint marketing for Sovereign Cloud, public sector cloud and public sector bank cloud. So, I think with this arrangement with Microsoft, one of the lead players in the Cloud business, Azure, we hope that this will give us traction to improve our data center returns as we push into that business.
- Puneet Gulati:** And on electrolyzers, what sort of capital allocation should we think of?
- S. N. Subrahmanyam:** I mentioned it my friend is about Rs. 1,000 for electrolyzers, that battery is later part of the plans, so I won't want to stress on it too much at the moment because there is still evolving.
- Puneet Gulati:** And this Rs. 1,000 crores for period of 5 years, right, as you said 500 megawatt and then going up to gigawatt?
- S. N. Subrahmanyam:** You put a plant and you start producing, so nothing more beyond that at the moment. I don't think we have the capacity to observe more than that from electrolyzer production point of view.
- Moderator:** Thank you. The next question is from the line of Atul Tiwari from Citi. Please go ahead.
- Atul Tiwari:** Sir, just one question, we have been hearing about this delay in finalization of award for at least 2-3 quarters, unless the economy has been by and large normal, so what is your diagnosis, why

is this delay happening, why state governments are going slow on awarding orders and what makes you hopeful that this can change next year?

S. N. Subrahmanyam: Now, coming to investments it is like this, when you look at a government project, let us say a bridge to be built or a road to be done, the estimates for this was done by the government, say couple of years back based on the rates that they have and the prices have obviously gone up. Today, because of the extraordinary increase in commodity prices, the 100 has already become 110 or 115. Now when we bid, we are going to be 120 and 125. So, some of the government departments who don't have to wherewithal for decision making will tend to either rebid or rescope or tend to negotiate much more before placing an order. That is what my colleague, Shankar has said it will take some more time than normal to place some of these orders. It is not a general statement that all orders are going to get delayed, some of the orders could get delayed because of this nature of how the world is changing right now.

Atul Tiwari: And now these departments will have to go back and into the project, DPR or how does it work, if all the project DPR has to be redone and then probably we are looking at much longer time?

S. N. Subrahmanyam: I clearly clarified to you and you are going back to the question, I said some of the projects could be delayed because of the equation coming in. The governments have a method and procedure for it, they have to go back to the boards or they have to go back to the departments, may be recalibrate the budget and get back reflecting the latest, what has gone up, the price of cement has gone up, the price of steel has gone up, the price of copper has gone up, the price of aluminum has gone up. So, they have to reflect the latest prices in their estimate and come back with a new budget and then take the project forward. It takes 2 to 3 months for the government organizations to do it and some of the projects we will encounter that and we will have to go through it.

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

Sumit Kishore: PR in his remarks mentioned that the order prospects based for FY23 is lower than FY22 and in your guidance you are talking about 12% to 15% order inflow growth, so there is an implied improvement in the win ratio that you have since the order prospect base, could you please speak about this? Also in fourth quarter there seems to be a very lumpy order win which was not disclosed on the exchanges and that seem to be coming from the Middle East, what is the sector in which that, what is the qualitative description of the job and the potential size if you could talk about that?

S. N. Subrahmanyam: The lumpy order, I cannot talk about it because if I could talk about it, I would have spoken about it. The clients have still not allowed us permission to talk about it. It is a sensitive order and as and when the clients give us permission to talk about it, we will definitely talk about it, so please give me discretion to take it forward in that particular manner. Now, the other question that you asked is in the prospects, the prospects as we discuss today, what we see as of today, we don't have the full idea with us what is going to happen after 12 months, naturally so, right, so at the beginning of the year, as we see it we see the prospects more or less same as last year

and therefore from that we are still prognosing increase of 12% to 15% increase in order inflow. Let the year go by and may be as we come across the first, second, third quarter, we will have more visibility in the geographies that we are in, the sectors that we are in.

Sumit Kishore: You also mentioned under developmental projects that you will go for green energy on a build, own, operate basis, so is that restricted to green hydrogen or would you also look for other opportunities in renewable as a developer?

S. N. Subrahmanyam: I think I clearly mentioned it my friend that this green opportunity is only with IOCL. IOCL as you know is the largest refinery in the country. They do have hydrogen plants which is either grey or blue. They intend to convert many of these plants into green hydrogen, so if at all we invest along with IOCL and Renew into this green hydrogen plants subject to IRRs and calculations such on and if it is viable and proper contract "take or pay", we will do it for IOCL's purposes. Now, normally in public sector, IOCL does something and other refineries like BPCL, HPCL will follow. These are very good companies with very good governance and most of them are what is called as Maharatnas. So, it is a good contract like a "take or pay" we will take it forward. Now, we do not intend to get into solar or polysilicon or any other businesses which we already said before.

Moderator: Thank you. Ladies and gentlemen, we take the last question for today from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, generally on the tech side, which you mentioned that the green EPC and I am assuming it will be more complex, does margin profile really changes in this particular kind of segment for you? That is number one and number two, you highlighted a point that obviously given the macro conditions of the country and globally government would be thinking on revising the project's cost and everything, does the current order book also you see some slowness in terms of execution because of that, why I am asking this question because in the last 2-3 quarters, we have been more confident on the order inflow and on the execution where we were guiding that the bulk of the execution will eventually come on the core in the Q4, it has softened a lot, just a 8-9% growth generally being a strong quarter for us, any reading because of slowness in the order book or generally it slows because of any supply changes if you can throw some comment on that?

S. N. Subrahmanyam: My dear friend, we have gone through a very tough season wherein 24 months we have not worked for 8 to 9 months. We normally employed 290,000-300,000 laborers and about 65,000 to 70,000 people in our EPC and Manufacturing business. When COVID came, all the workers went back to their towns and villages, we came down to 70,000. We remobilized to 220,000-230,000 laborers. Again, during COVID II it went back to about 160,000 to 170,000. We have now remobilized it to 280,000-290,000. The company has gone through great strain and effort in all these cases and just as when we talk COVID is over, the Russia-Ukraine war has set up increase in commodity prices and supply chain disruptions across the world including logistics. So, this does affect the project business because with steel prices at Rs. 79 or Rs. 80 per kg, we have also deferred certain purchases. The clients have been pressurizing us for going ahead, but

we can't it at that price because we have quoted at some other price and the escalation also does not cater. So, it has deliberately slowed down some of the jobs. In spite of all this, we have had a revenue growth of 15%. The backlog that we have is stellar, very good and it is moving and we need to pressurize on it much more to move it and that is what we are trying to do right now. So, rest assured, all and every effort is being made to push the backlog to its logical conclusion of sales invoice and profit thereon, but in few selective cases, if the price increase does not cater to the escalation formula available, we will tend to defer or go slow, so that we can afford this material to input cost at the right prices to take it forward.

Nitin Arora: Why I am asking this is I absolutely respect your comment on that, but I was just wondering because you said 85% of the backlog is passed through, so they if coming from that angle and why to go slow when everything largely is a passthrough, but I got it?

S. N. Subrahmanyam: It maybe a passthrough, but if the transformer from ABB does not come on time because their input cost of some copper or aluminum has gone above. This is the very big company 5x our size, sometimes they also leverage things, you give me more money, otherwise I won't supply the transformer. Then I have to tell them, okay, you go slow, I can't give you money and supply it two months later and manage my clients.

Nitin Arora: And any comment on the green hydrogen EPC, any margin profile there?

S. N. Subrahmanyam: We already commented enough, you have heard it, there is no more to give.

Moderator: Thank you. I would now like to end the conference. Over to Mr. P. Ramakrishnan for closing comments. Over to you, sir.

P. Ramakrishnan: Thank you, Steven, thank you for your patient listening. We tried to cover all the important points with respect to our Q4 and FY22 performance and provided a color of our strategic plan up to FY26. Thank you once more for taking your time. We can now close the call. Thank you.

S. N. Subrahmanyam: Thank you all. Good night.

Moderator: Thank you. Ladies and gentlemen, on behalf of Larsen & Toubro Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.