"Larsen & Toubro Limited's Q2 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q2 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, Larsen & Toubro Limited. Thank you and over to you, sir.

P. Ramakrishnan: Thank you, Faizan. Good evening, Ladies and gentlemen. A very warm welcome to all of you to the Q2 FY22 Earnings Call of L&T. The analyst presentation was uploaded on the stock exchange and our website an hour back. I hope you would have had a chance to take a quick look at the numbers. As usual, instead of going through the entire presentation, I will try to summarize the key highlights for the quarter, followed by our commentary on Environment & Outlook which I believe will take the next 20 or 25 minutes, post that we will get into Q&A.

Before I begin the overview, a brief disclaimer: The presentation which we have uploaded on the stock exchange and in our website today, contains or may contain certain forward-looking statements concerning L&T's 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 or statements made during this call.

Q2 FY22 can best be described as a comeback quarter for India. Not only did the Covid second wave in India abate faster than expected, but from the various published high frequency economic indicators, it does appear that the dent created to growth by the second wave was shallower than the first. Green shoots were visible in various industry, services, investment and mobility indicators towards the latter half of Q2. In a way, the widening trade deficit in September '21 is also an indicator for a more normalized India. The higher tax collections witnessed in Q2 also reinforces our growth thought process. On the flip side, the supply side inflation challenges continue to remain a source of worry. India completed more than one billion vaccinations and as we speak the daily Covid infections are already at an 8-month low. Going forward, a combination of pent up plus festival demand should augur well for India recovery in Q3 FY22 and beyond.

Coming to our L&T group performance, Q2 FY22 was about striking a balance between "profitable growth" and "capital employed". Let me assure you that the return ratios at a group level are being pursued rigorously irrespective of the macroeconomic volatility.

I will now cover the key financial indicators for Q2 FY22. Our order inflows for Q2 FY22 at Rs 421 billion, registered a growth of 50% over the corresponding quarter of the previous year. In the Projects and Manufacturing business, our order inflows for Q2 FY22 at Rs.301 billion, registered a growth of 73% over Q2 FY21. The order inflows in the Projects and Manufacturing businesses(P&M) are fairly spread out across all the segments that comprise the P&M business, namely Hydrocarbon, Infrastructure, Heavy Engineering, Realty and the Industrial Machinery & Equipment businesses. Having said that let me mention here that in Q2 FY22, we did witness some delays in domestic awards finalization despite a robust pick up in tendering activity.Just to elaborate on that point further, whereas macro level domestic projects announced and tendering activity in Q2 FY22 was up by 19% over Q2 FY21, projects awarded drop 22% over the comparable quarter of the previous year.

Moving on to our prospects pipeline. In the Projects and Manufacturing business, for H2 FY22, our total prospects pipeline stands at Rs.6.83 trillion as against a total prospect pipeline of Rs.6.13 trillion that existed as of September 2020. This reflects an overall increase of around 12%. This overall prospect pipeline comprises of domestic prospects of Rs.4.66 trillion and international prospects of Rs.2.16 trillion. I am sure you would recall that our total prospect pipeline at the end of Q1 FY22 was around Rs.8.96 trillion. With the Covid second wave behind us and remote risk of a third wave, we do expect a very busy H2 in terms of tendering and awards finalization.

Now moving on to order book. Our order book as on September 30th, 2021 is at a near record high of Rs.3.31 trillion. A large and diversified order book gives us multi-year revenue visibility. As our Projects and Manufacturing business is largely India-centric, 77% of this order book of Rs.3.31 trillion is domestic and the rest 23% is international. Around 89% of our total order book comprises of infrastructure at 74% and hydrocarbon at 15%. Within infrastructure, our order book is well diversified across the various business segments like Heavy Civil, Water, Power Transmission and Distribution, Buildings and Factories, Transportation Infra and the Metallurgical and Material Handling businesses.Further breakdown of the domestic order book is as follows: Central Government 10%, State Government 33%, Public Sector Units of state-owned enterprises at 42% and the remaining Private sector at 15%. Again, around 31% of the total order book is funded through bilateral or multilateral institutions.

Coming to revenues. Our group revenues for the Q2 FY22 was Rs.348 billion, registering a growth of 12% over Q2 FY21. International revenues constituted 35% of the revenues during the quarter. The IT and technology services portfolio did report industry leading growth in Q2. In the Projects and Manufacturing business, our revenues for Q2 FY22 were at Rs.228 billion, registering a growth of 12% over Q2 FY21. The executions in the Projects and Manufacturing business were calibrated in line with the cash flows that we realized during the quarter. Going forward, as cash flows improve in the second half and if there are no major risks emanating from a possible Covid third wave, we should witness improved execution level just like any normalized second half of the year.

Moving on to EBITDA margin. Our group level EBITDA margin for Q2 FY22 at 11.5% vis-à-vis 10.7% in Q2 FY21 reflects an improvement of 80 basis points largely on account of improved overhead recovery despite cost headwinds. It is important to note here that even on a sequential basis, our group level EBITDA margin has improved 70 bps. Kindly refer to the detailed breakup of the EBITDA margin businesswise which is given in the annexures to the analyst presentation.

Coming to Projects and Manufacturing business portfolio, our Q2 FY22 EBITDA margin is at 9.2% vis-à-vis 8.1% in the second quarter of the previous year, again registering an improvement of 110 basis points. Even sequentially, there is an improvement of 30 basis points. As guided at the beginning of the year, we will maintain our Projects and Manufacturing business EBITDA margin in the current year at the same level as last year, which is around 10.3%. We have multiple levers in the businesses to offset the cost headwinds being experienced in the current year. I will briefly explain that. Our current composition of variable price contracts in the order book should be around 60%-65%, that is one fact that gives as far as cost increases is concerned, a sort of compensatory impact. Secondly, there are jobs that are expected to cross the threshold margin level in the current year. Thirdly, there will be cost contingency releases for the jobs nearing completion. And on top of them, we have overhead optimization initiatives, enhanced productivity through digitization, value engineering and wastage control initiatives, negotiation with vendors and discussions on clients on use of alternate variates of inputs, all these measures see us through in terms of managing the cost pressures experienced in the current year.

Moving on to PAT. Our operational PAT for Q2 FY22 at Rs.17.2 billion, is up by 56% over Q2 FY21. The improved EBITDA due to better overhead recoveries as well as reduced finance cost due to lower borrowing at a parent level, contributes to this PAT improvement. Our reported PAT at Rs.18.2 billion for Q2 FY22 has registered a decline of 67% over Q2 FY21, mainly due to the two one-off items in the last year; one being the gain on the divestment of the Electrical and Automation business and two exceptional items that we took with respect to impairments of our exposure in the Forgings and the Power Development business portfolio.

The group performance P&L construct along with reasons for major variances under the respective function heads is provided in the analyst presentation. The only place I would like to draw your attention is to the exceptionals reported for the current quarter i.e. Q2 FY22. The Rs 1bn billion exceptional net of tax for Q2 represents the gain on divestment of our stake in Uttaranchal hydro power plant which is at Rs 1.44 billion and at a group level a tax outgo on transfer of the next digital business that happened on 1st of July from L&T to Mindtree at Rs 0.47 billion as an outgo.

Coming to working capital. Our group net working capital to sales ratio has improved from 26.7% in September '20 to 22% in September '21. One of the reasons for this ratio moving lower is due to the denominator moving higher. Secondly, as I mentioned earlier, we have tried to maintain a healthy balance between execution and working capital management during Q2. You would have noticed that the NWC to Sales ratio has also improved from the March '21 levels where we had reported 22.3%. Customer collections have been good during the quarter. Our group level collections that exclude the financial services portfolio for Q2 FY22 were at Rs.322 billion vis-à-vis Rs.296 billion in Q2 FY21. If you glance through the cash flow statement given as part of the annexure to the analyst presentation, you will notice that the net cash from operations in Q2 FY22 was at Rs.40.4 billion, vis-à-vis Rs.27.3 billion in Q2 FY21, registering a strong growth of almost 48%. The capex for Q2 FY22 was at Rs.5.7 billion vis-à-vis Rs.3.6 billion in Q2 FY21. As we look at it, we are off to a good start in the first six months. Now hopefully, we should consolidate and sustain this momentum.Finally, as we had mentioned, at the beginning of this year, our endeavor is to maintain our group level net working capital to sales ratio in March '22 in and around the same levels that we reported for March '21, which was around 22.3%.

Moving to balance sheet. If you glance through the balance sheet given in the annexure to the analyst presentation, you will notice that our group level gross as well as net debt ratios have improved vis-à-vis the March '21 numbers. This is primarily due to repayment of liabilities in our financial services business around Rs.37 billion, power development business around Rs.21 billion and as well as at the L&T parent level around Rs.17 billion.

Finally, our trailing 12-month ROE as on September '21 is at 11.8% vis-à-vis 16.8% printed for September '20. As you are aware, the ROE in September '21 includes the benefit of a one-time gain on the sale of Electrical & Automation business, net off the exceptional write-offs that we took in Q2 of the previous year. Further, you would also recollect that as on March '21, our ROE on the continuing operations is at 10.1. We are improving progressively and as I said earlier, return ratios going forward will be pursued rigorously. A robust business portfolio, focus on cash generation & distribution, eye on capital employed and divestment of the non-core concession assets should hopefully lead to an improvement in ROEs in the near future.

Very briefly, I will now comment on the performance of each of the business segments before we move on to the final comments on the Environment and Outlook.

Coming to infrastructure, order inflows in Q2 are fairly spread out across the various sub-segments. Having said that, let me mention, that Q2 was a quarter of robust new project announcements at a macro level and even tendering activities happened at a brisk pace, however we did witness delays in the awards finalization. Our order prospects pipeline in this segment for H2 for the current year remains healthy at Rs.5.29 trillion vis-à-vis Rs.4.40 trillion same time last year, reflecting an increase of 20%. Of this Rs.5.29 trillion of prospects, domestic prospects are at Rs.4 trillion and international at Rs.1.07 trillion. The prospects are well spread across various areas like buildings and factories, hydel projects and tunnel projects, ports and harbors, metros, nuclear power construction, roads, railways, water, power transmission and distribution and metallurgical and material handling. The order book in this segment is at Rs.2.43 trillion as at September 2021. The average execution cycle of this order book is around 27-28 months. So the book-to-bill ratio is close to around three years. The Q2 revenues at Rs.139.2 billion registered a growth of 7% over the comparable quarter of the previous year. We followed a calibrated execution approach in this segment in line with the cash flows during the quarter. To some extent, we suffered on the execution front due to supply chain bottlenecks overseas largely due to Covid reasons and also intermittent and incessant rains and finally cyclone Tauktae which impacted project execution progress in Maharashtra and Gujarat sites. Our EBITDA margin in this segment improved from 6.4% in Q2 FY21 to 8.3% in Q2 FY22 due to a better job mix and improved overhead recovery despite commodity prices headwinds experienced during the quarter. Even on a sequential basis, that is from Q1 FY22 to Q2 FY22, the margin has improved by 120 basis points, that is from 7.1% to 8.3%.

Now, moving to the Power segment. The subdued ordering environment continues. Having said that, let me mention here that we have a fairly good order prospect pipeline of Rs.160 billion for H2 comprising a couple of domestic and international opportunities. The revenues for Q2 FY22 for this power segment at Rs.11.1 billion was up by 62% over Q2 FY21. The large opening order book drives healthy execution for the quarter. The reported margin for this segment for Q2 FY22 is at 2.7%, reflective of job mix and stage of execution. As you may be aware that the profits of boiler, turbine and other JV companies, in all aggregate to Rs 0.43 billion for Q2 FY22 is consolidated at a PAT level under the equity method.

We come to the Heavy Engineering segment. In Q2 FY22, this segment had multiple order wins in the refinery, oil and gas vertical. Revenue for Q2 FY22 is at Rs.6.2 billion, up by 4% over Q2 FY21. The job-specific challenges and slower execution impacted revenue in Q2. The Q2 FY22 margin was at 15.7% vis-à-vis 5.1% for Q2 FY21. The previous year Q2 margin was impacted by a one-time international customer settlement.

I come to Defense Engineering segment. On the back of the government's thrust towards indigenization, we continue to remain optimistic on multiple order wins in the medium-term. Having said that, the order inflows in Q2 FY22 continues to be impacted due to award deferrals. The revenue for Q2 FY22 for the Defense Engineering segment was at Rs.8.4 billion, up by 10% over Q2 of the previous year. The job progress across multiple systems jobs that we executed led to the improvement in revenue for Q2. The reported EBITDA margin at 13.7% for this quarter is a function again of job mix, at the same time previous year Q2 FY21 margin were aided by cost savings and contingent releases on job completion. At the cost of repetition, we once again reiterate that this business does not manufacture any explosives or ammunition of any kind, including cluster ammunition or anti-personal landmines or nuclear weapons or components for such munitions. Further, the business does not customize any delivery systems for such munitions.

Now, we move on to Hydrocarbon. The receipt of a high value international order, obviously, buoys the order book. As per the standard protocols for order inflow announcement concerning job and client description and other relevant details will be made to the stock exchange post receipt of specific client approvals. The book-bill ratio in Hydrocarbon is currently around 2.5-years. H2 FY22 prospects pipeline for Hydrocarbon is around Rs.1.2 trillion which primarily comprises of international prospects of around 80%. Revenues for Q2 FY22 is at Rs.48.7 billion, up 20% on YoY basis, mainly due to peaking of execution activities on onshore jobs. There has been no major margin variation in Q2 FY22 vis-à-vis Q2 FY21.

Moving on to the Development Projects, that is the concessions portfolio. This segment includes the Power Development business, comprising of Nabha Power plant and the Uttaranchal Hydel Power plant, up to the date of its divestment which was August 30, 2021. It also includes Hyderabad Metro. As you are aware, the roads and the transmission line concession business part which is a part of L&T IDPL is consolidated at PAT level, that being under a joint venture. The revenues for this segment for Q2 FY22 is at Rs.11.7 billion, up 3% YoY. Majority of revenues in this segment is contributed by Nabha Power. The lack of coal availability impacted

Nabha revenue in Q2 and on the other hand a subsiding Covid second wave led to improvement in the Hyderabad Metro ridership. In Q1 FY22, the average metro ridership was around 55,000 passengers a day, which has improved to 146,000 passengers a day in Q2 FY22. As we speak, in the month of October, we have been witnessing on an average around 190,000 to 200,000 ridership per day. The Q2 FY22 margin in this segment is a combination of the Hyderabad metro and the hydel power plant up to the date of divestment which is as I said earlier is August 30th. As you are aware, we are not consolidating the Nabha margins from Q3 FY21 onwards. The metro at a PAT level reported a loss of Rs.4.47 billion in the current quarter. The operating and the amortization cost are around Rs.0.75 billion each whereas the interest cost of Rs.3.7 billion to 3.8 billion was incurred during the quarter for Hyderabad Metro. At this juncture, I would like to give a quick status update on the divestments of our concessions portfolio. As I mentioned earlier, our stake in the hydel power plant was successfully divested in this quarter. The gain on this divestment is recorded as an exceptional item during Q2 FY22. For Nabha, various divestment options are being explored and we will make the announcement at an appropriate time. Coming to IDPL, we are exploring the possibility of divesting our remaining 51% stake in favor of third-party investors. For metro, multiple options are in the works, currently ranging from seeking state government assistance to getting third-party investors and also refinancing of existing debt. Further, a combination of improved traffic recovery as well as the transit-oriented development real estate monetization that hopefully should augur well for Hyderabad Metro in the near future. Needless to mention that this asset is an operational asset and the residual concession period is almost close to 60-years.

Coming to IT & TS portfolio. The revenues for Q2 FY22 at Rs.78.8 billion, that roughly translates to USD1.05 billion is up by 9% on QoQ basis and 28% on YoY basis, largely benefiting from the strong tailwinds in the sector. The export billing constituted around 93% of the total customer revenues for the quarter. The IT spends earlier focused largely on enablement and improving efficiencies whereas the IT spends today are focused more on redefining revenue models and revenue maximization. There are a lot of spends that are happening in areas like cloud, data security and intelligence. The margin for this segment is a function of wage cost, utilization ratios, onshore-offshore revenue mix and operational efficiencies. I would not like to delve too much on this as all the three companies in this segment are listed subsidiaries and the detailed fact sheets are already available in the public domain.

Moving onto the other segment. This segment comprises Real Estate development, Industrial Machinery, Valves and Smart World and Communication. For Q2 FY22, the revenue of this segment is at Rs.13.8 billion, up by 4% over the comparable quarter of the previous year. The strong growth in Realty and Industrial Machinery business is offset by subdued revenues reported in Smart World and Communication as well as Industrial Valves. The margin buoyance in Q2 FY22 is mainly driven by Realty and Industrial Machinery.

We move onto financial services. Here again, L&T Finance Holdings is listed and the detail results are available in the public domain. Q2 essentially revolved around pick up in the retail disbursement, strong collections, improved net interest margins and fees and maintenance of adequate liquidity on the balance sheet. I would like to emphasize here that this business continues to pursue the strategy of higher “retaili-sation” of its loan book, diversification of liability, maintaining prudent ALM and targeting sustainable net interest margins. Finally, post the rights issue that happened in January '21, this business has sufficient growth capital.

Before I move on to the final section on the Environment & Outlook, let me talk about the ESG disclosures. We released an Integrated Report for FY21 on the 21st of October and that is already available in our website. This Integrated Report for FY21 is the 14th consecutive year of sustainability disclosure by L&T. The various aspects starting from Corporate Governance to Climate and Environment covering various aspects of energy consumption, conservation, greenhouse gas emissions reduction, water consumption and recycling, material management and recycling, safety, green portfolio, improved supply chain sustainability, employee engagement and well-being and community development programs are covered in detail in the report. Further, L&T is committed to becoming water and carbon-neutral by 2035 and 2040 respectively. The next steps post release of the Integrated Report FY21 will be to recommence our engagement with the leading ESG rating agencies in order to explain our ESG journey which hopefully should translate into improved ratings for our company.

Coming to the final section on environmental outlook. I would like to sum up the narrative in two parts: One is our medium to long-term view and another being a near-term view. First, I will talk about the medium to long-term view. For various reasons, we believe that the current decade will be India's decade of inclusive growth. During the last decade, we witnessed multiple reforms like demonetization, GST, IBC, RERA, labor reforms, etc., which impacted growth in the near-term but all of these reforms were essential if India were to improve the quality of its growth. Needless to mention that the government followed up the reforms exercise with a sort of a booster dose during the current period to revive the economy, starting from direct tax cuts to introducing the PLI scheme, a fiscal push, RBI monetary easing, National Infrastructure Pipeline, National Monetization Pipeline, Gati Shakti, etc., The base is therefore set for India to grow from now on. India's current decade could therefore witness Capex resurgence which was absent in a meaningful way in the last decade. A combination of public and private Capex resurgence is expected in the current decade. With PLI relating investments fructifying India should possibly become an attractive manufacturing destination which will alleviate pressure on imports and lead to exports from India. Along with physical infrastructure, we would see substantial investments in the digital infrastructure as well. Needless to mention, that for a cleaner India, there will be trust on renewables, green hydrogen, battery, etc., The risk to this view could revolve around inflationary conditions across the world, geopolitical tensions and a possible return of the third Covid wave.

Talking about near-term, with the progressive weakening of the second Covid wave and the sustained vaccination efforts, the overall business environment is looking a lot more positive. As I mentioned earlier, there are plenty of high frequency economic indicators evidencing a return to normalcy. Further, our near normal monsoon along with ongoing festive season, coupled with pent up demand, could give a boost to demand-led recovery across the various segments. Resources generated through the National Monetization Pipeline could be utilized to fast track the investment program of the government. Further, the global economic outlook remains fairly strong aided by respective governments extending fiscal support and central banks offering monetary support. The elevated oil price will positively favor the economic prospects of the GCC nations and give a fillip to several investment programs. Although the global surge in commodity prices augurs well for capacity additions in the minerals and metals sector, but in the interim, could pose headwinds to their consumption. Under this scenario, the company continues to focus on profitable execution of its large order book, leverage strong momentum in its IT and TS portfolio, cost optimization measures through automation and intensive use of digital technologies, release of funds through improved working capital management and a phased divestment of non-core assets. The company is confident of building on the current business momentum and is committed to creation of sustainable returns for all its stakeholders.

Finally, we continue to retain our guidance of a low to mid-teens growth in order inflows and revenues for FY22. In the Projects and Manufacturing business in the current year as I mentioned earlier, the margin should be maintained in and around the same levels that we posted for FY21, and the same applies to NWC revenues at the consolidated group in and around the same levels that we printed for March '21 last year.

Before I conclude, our five-year strategic plan is in the final stages of completion. The timing and format for the same will be announced later. That completes my overall summary of Q2 performance. And thank you, Ladies and gentlemen for this patient hearing. We will now get into Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, my first question is to understand a bit more on the execution side. Execution number still seem to be relatively weak. While you have given the explanation at your end, have we seen relative weakness in collections from Government sector customers which has led us to moderate the execution pace?

P. Ramakrishnan: Renu, in Q2, whereas right from the start of this financial year we have been ensuring that there are certain sites where if the collections are not happening on time, we don't want to invest further working capital to the extent the asset build up becomes more than the collections made. But the most important thing I would like to emphasize, which I mentioned in my speech earlier is that, in Q2, because of the fact of two reasons: there were supply chain bottlenecks especially when it comes to imports of materials from other countries. So, what was expected to come in the month of August, doesn't come up and it comes almost in the month of September for various reasons, it could be Covid reasons, it could be also the reason, as you are aware, the entire global freight trade was impacted in terms of availability of vessels and containers, that has also had some impact. Secondly, the workforce availability what we have now, almost at 2,51,000 as of September, is actually even more than what we witnessed in the Q2 of the previous year. I think Q2 of the previous year we closed at around 240,000. Unfortunately, what has happened this time is that the mix of workforce also has undergone a change. So, what went out of the site in the first half the previous year and what came in the first half of the current year, there is a change. So, to that extent, some amount of efforts have happened to reskill the workforce to the need of the specific site. This was witnessed in Q1 and in a way it is also witnessed in Q2. Last but not the least, we are executing some major projects in western India, mostly in Maharashtra and Gujarat, so the cyclone Tauktae and also the rains which happened in the month of September, also impacted the third month execution. So, at this stage we do believe that the execution in the second half of the current year should not be having any of such challenges.

Renu Baid: My second question is, given that most of the inflationary trend that we have seen over the last 12-15-months seem to remain, what would be the implication of this on the Rs.345 bn of Mumbai-Ahmedabad high speed rail project that we won? Do we plan to make any provision in terms of potential cost overruns, or you think it would be adequately provided in the contractual terms, while this is a three-to-four-year contract in terms of execution cycle?

P. Ramakrishnan: Renu, this was a project that was bid out sometime in Q2 last year. We secured the project in October 2020. And as you rightly mentioned, it is a four-year project. But I wish to assure you that with the cost parameters, the assumptions that have been taken, including the contingency assumptions, we do believe that there has been no substantial change to the margins what we estimated at the time of project bid, as we speak now. The project today has achieved only around a 3-4% completion and we would see a substantial progress happening in the next 12-months. You could see a build-up, but we do not expect at this juncture, considering the way the project has been bid out and the assumptions that we have considered, any major dent in the margins that was at the time of bidding with respect to this project.

Renu Baid: On some of the newer areas, a) we have emerged as one of the contenders in solar panel manufacturing PLI, what is the planned capex and investments? And also, recently, there was a detailed release on the education technology side. So, what are the L&T plans in terms of investing in these new and emerging areas and the likely growth prospects?

P. Ramakrishnan: So, on the two new initiatives that L&T has undertaken in the last one year or so, one we have already launched L&T Edutech and maybe in the next three to four months we will have another launch happening of a sort of industrial e-commerce kind of a business. So, these are the initiatives that have been already incubated. But in terms of further investments into the other areas that we have been talking about, be it electrolyzers or be it batteries or be it data centers and all, these all feature as part of our overall strat plan. At this juncture, it would be inappropriate for me to talk about the numbers and figures but necessary initial steps, in terms of filing for approvals or schemes, are being taken. But in terms of the actual roadmap, maybe you will have to wait for some time. Till the end of Q4 of the current year, we will be able to articulate about each of these new ventures that we are looking ahead as part of our next five-year plan ending FY26.

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

Sumit Kishore: My question is, if I look at the win ratio for infra order wins divided by the reduction in the order prospects for infrastructure, the win ratio appears to be single digit while in hydrocarbons it is a healthy double-digit number. So, were there any misses to competition in infra segment? And could you talk about the competitive intensity particularly for Hydrocarbon? What was the large order not disclosed on the exchange?

P. Ramakrishnan: So, I did talk about when I was summing up the performance that we will announce it the moment we have the client approvals. So kindly bear until then. Coming to your first question, I will put it like this, with respect to infrastructure segment, we have got opportunities coming across all the segments that we are present in from the entire gamut of infrastructure, but consciously we have been very careful in pursuing these bids, in a sense that we are not bidding very aggressively for projects where we see plenty of competition coming up. And as you may be aware that we have been desisting to bid for HAM-related projects in the transportation infrastructure. But the pipeline as I mentioned, looks to be quite good. And if I have to go by past track record, the H2 performance and the conversion thereon, gives us the confidence that at an overall level, for the Projects and Manufacturing business, we still would like to retain the order inflow guidance of low to mid teen for FY22.

Sumit Kishore: Could you spell out the breakup of order prospects in infra segment wise and for Hydrocarbon what is domestic and what is overseas?

P. Ramakrishnan: So, in Hydrocarbon, the total order prospects are of Rs 1.2 trillion against which the international prospect is almost Rs 1 trillion. Now, coming to Infrastructure side. I was talking about a total order prospect of Rs 5.29 trillion, out of which international was Rs 1.08 trillion. When I take the total of Rs 5.29 trillion order prospects, I would say that it is evenly spread out between Buildings and Factories, Heavy Civil, Transportation Infrastructure, Water, Power Transmission and Distribution and a small number which accrues on to the Minerals and the Metallurgical business as well. But for the sake of giving you a flavor, this Rs 5.29 trillion, I would say is fairly spread out between the first five segments and a small amount to Minerals and Metals because we do believe that the private sector capex, especially in this segment, although it's seemingly very positive, but in terms of the actual investment outlay should be happening sometime next year.

Sumit Kishore: Your core business margins are tracking up 160 basis points year-on-year and you have had a calibrated execution approach so far. So is the guidance seeming to imply that in the second half of the year as your execution picks up again, gains will be evened out. Is there a possibility of peaking your flat margin guidance for the core business?

P. Ramakrishnan: Sumit, when we gave the guidance of 10.3% for core business EBITDA for FY22, this was basis a lot of assumptions, in a sense that we knew very well when we gave this guidance in the month of May, we were in the middle of Covid second wave and we did expect that Q1 will be little muted and our guidance was basis that the revenue momentum or execution momentum to be normalized from July onwards. So, as it stands now, it is in line with our own internal estimates and basis these internal estimates we gave a guidance of 10.3%. We will see if is there is any update to this maybe at the end of Q3. Based on how it is shaping up at that point of time, we will try to communicate if there is a change at all.

Moderator: The next question is from the line of Mohit Kumar form DAM Capital. Please go ahead.

Mohit Kumar: Sir, my first question is on the order prospects. It's a slightly subjective question. Are you more upbeat about the prospect compared to May 2021 or do you think it's a concern?

P. Ramakrishnan: So, when we closed March, the order prospects pipeline was Rs.9.06 trillion and then when we closed June, our order prospects pipeline was around Rs.8.96 trillion. So, one good feature is that, during Q2, the tendering activities has been almost in the range of 2 lakh crores. And with the kind of order prospects project wise that we have across all the sub-segments and also basis our businesses assessment of the price point that the customer is looking at, the intensity of competition, and also the historic conversion of order prospects to actual orders, it gives us the confidence, Mohit, even with respect to order inflow, we should be in a position to maintain the guidance that we are talking about of a low to mid teen kind of a growth for FY22 when compared to FY21. When I talk about the strike rate, and this is again based on assessments and past statistics, very often we have seen that the conversion of order prospects to the actual orders, ranges from a bad year between 15% on a good year at 20%. So, I will stay put here because at the end of the day it's a question of tendering, bid submissions, competitive intensity, meeting the project estimates of the client and last but not the least, the final ordering. So, on the basis of the entire assumption construct are confident to retain our guidance of order inflow for FY22.

Mohit Kumar: A related question is, are we seeing improvement in order prospects from domestic order inflow especially from private sector given a plethora of activities, I am asking specific from the FY23 perspective, do you think private sector capex will pick up and we will have a higher order inflow contribution in FY23?

P. Ramakrishnan: See, the way we are looking at FY22, the private sector composition in the order prospects and in a way in our order backlog also is around 20%. The only one change that we are witnessing in FY22 is that the share of Public Sector Corporations or Public Sector Units putting on the tenders and announcing awards has gone up, whereas the aggregate share of the Central and the State Government has actually come down. So, it is in a way positive, but I do believe that in H2, given the fact that the Government's recent announcement of National Monetization Pipeline and also the Gati Shakti initiative that was announced by the Prime Minister, I guess in the next six months you could maybe see a ramp up of Central Government and State Government led ordering prospects. As I said earlier, the share of Private sector which is today around 20%, maybe in FY23 that would go up. As I mentioned, we could see substantial investments or outlays being announced by the core industrials including the new age businesses like data centers and even I would say some of the IT powerhouses are also now looking at investment in new campuses. But that could be sometime next year. It would be premature for us to conclude in terms of giving a number of Private sector share to the total order prospects for the next year at this juncture.

Mohit Kumar: What is the timeline for Lakshya 2026 strategic plan? When do we expect it to be announced, by end of December or you think it will be in Q4?

P. Ramakrishnan: It would be in Q4, Mohit.

Moderator: The next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: A couple of questions: One, on the domestic ordering. As you said that there have been delays in finalization despite good tendering. So just wanted to understand from you what's leading to this delay and why should it therefore change say in the next quarter or so and your thoughts on that.

P. Ramakrishnan: I will take it in two parts: One is that for FY22 and especially the second half, the assumption construct that we are having is a pre-Covid normalized second half for the country, for the economy and for L&T. Given the fact that the Government has come out with a record set of multiple announcements starting with NMP, Gati Shakti and so on, and with the kind of order prospects and the projects that have been listed out, it gives us the confidence that like in any year in the past, pre-Covid, I am talking of FY20 and before, the H2 for the current year would see a lot of activity in terms of tendering and announcement of awards and so will be the case with L&T with respect to execution. So, as we speak, we believe we are well placed in various bids that we have submitted, but the procedural delays which we have witnessed in Q2 should wane out and we should see kind of a normal pre-Covid busy season in the second half of the year.

Ankur Sharma: Sir, would you also want to quantify your L1 orders say as of September, October-end?

P. Ramakrishnan: Ankur, at any point of time we are well placed or L1, but we have desisted until now to announce that because what happens is that you may get placed in L1, but there could be delays and so on. So, it would be inappropriate for me to give a number to that.

Ankur Sharma: Just last one question on execution. As you said and as we also understand that there were rains and there were some labor issues, etc., in Q2, but now as we head into the second half and of course with the assumption that there is no big third wave, execution should kind of pick up in a meaningful manner. So, would you believe that in second half we could at least maybe get back to the second half of FY20 kind of top line, that is the pre-Covid level?

P. Ramakrishnan: Ankur, the construct is obviously that it is a pre-Covid level of execution. As I mentioned, as of September, the workforce across the 800-odd sites got around 251,000 or so, and now I believe the update is that it's already mapped up to 260,000. And I also confirmed from the businesses like what those challenges we witnessed in the last one year, I am talking from almost August 2020 to maybe August 2021 where workforce changes also had an impact in terms of productivity. So, I think that also should not be a challenge anymore. The only place where we could have a challenge is, like as I mentioned on supply chain, the domestic supply chain is completely up and running absolutely smooth, but when it comes to the overseas part, there has been some challenges. Of course, it is improving but that could be one possible risk assumption we are looking at. And in terms of our experience, like I mentioned that we have been consciously trying to balance growth and capital employed and that has been the philosophy in the last four quarters especially post-Covid, and in a way that is witnessed in our working capital numbers, since collections have been improving. And if I take into a pre-Covid kind of H2 construct, then the collections usually jump up and that should also enable us to progress on execution to touch on the targets that we have set ourselves to with respect to our Projects and Manufacturing portfolio.

Moderator: The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: I wanted to get some more color on the nature of Hydrocarbon business that you are winning. And whether one should assume most of these businesses would still remain a single digit margin business or is there a potential to move to double digit there?

P. Ramakrishnan: Once again I reiterate, the Hydrocarbon order prospects that we have now for H2, is almost at Rs.1.2 trillion, out of which Rs.0.2 trillion is domestic and almost Rs.1 trillion is international. Yes, there is a good amount of competition for both the domestic and the international opportunites. And the international prospects today of Rs.1 trillion has gone up because there was hardly any ordering in the last 15-months or so. So, because of the crude prices being what they are, we do see a lot of enquiries and plans coming out by all the customers in the Middle East area. As far as margins are concerned, as we speak now, we can only talk about the margins which are residing in the order book, which will continue the way we have been printing out for this particular segment for the last two to three years. But going forward, in terms of giving you a margin forecast on the bids that we are going to submit against these order prospects, I think it would be a little premature for us to comment because ultimately competitive intensity, client visibility, client connect, the nature of the technical complexity, all of this have a bearing on the pricing. So, I will stay put with that comment, Puneet.

Puneet Gulati: Second is while you have talked about the solar and electrolizer business in the other part and you also mentioned Edutech and eCommerce. Can you talk a bit about what kind of capital allocation are you planning for those businesses?

P. Ramakrishnan: So, at this stage, these are all start-up investments. We have just launched Edutech. It happened on 15th October. Obviously, there will be spend happening. But in terms of overall thought process of how we would like to run and grow these businesses, it will all form part of our overall strat plan, Puneet. So as it stands now, the investments that we are making is not substantial and they are just incubation investments I would say, but yes, going forward, this may require some investment but in terms of our plans, how are we going to approach it, kindly wait for three to four months. In Q4 hopefully we will be able to articulate as part of our strat plan for FY22 to FY26.

Puneet Gulati: Unlike the IT, do you see any synergies in Edutech or is it just exploratory business?

P. Ramakrishnan: If at all you can say, it is a blend of our technology capability that we have done through IT and a domain expertise that we have in engineering. So, we are trying to marry both these competencies to create something for India's engineering talent.

Moderator: The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: We have a very strong backlog. Directionally, I am not trying to gauge because Q2 generally being a very low quarter for us in overall context but given that the backlog has been strong for the last four or five quarters and I understand there was Covid, is it possible to guide here in terms of execution? Because if I look at your second half of FY20, it is actually lower than second half of FY21. So, if you can guide us where we should end the second half in terms of the base of FY21 or FY20, can we grow at 15%, 20% given the backlog we have right now. And I am assuming with the projects which you have, the Government also wants the cycle to be short and execution to be faster in a few of the large projects because of the general election part as well. It will be helpful if you can help us on the execution part which is in our control, not the Government part.

P. Ramakrishnan: Nitin, I think you have asked me multiple questions, so I will try to sum it up in one answer. Nitin, when we started the year, I am sorry for repeating it, but we had given a guidance of a low to a mid-teen kind of growth forecast in revenue for our Projects and Manufacturing business. And this was after having taken into account the possible Covid-related delays and so on. So, in our opinion, the second half of FY22 is going to be a very busy second half as far as execution is concerned. Apart from the one or two risks that I just now cited in response to the previous question, if things change, we will have to again revise and update. But in terms of execution, given this order backlog, we should see a reasonably compensatory H2 to maintain the revenue guidance. That's the way I will put it up for you. And I would also like to reiterate that this record order book what we are talking about, all the projects, barring for maybe 4% to 5% which should be slow moving project backlog where for various reasons we would have stopped execution because payments not coming, but almost 95%-96% of this order book is active and subject to all things happening based on the construct or the assumptions that I just spoke, given the overall yearly guidance, we should see an improved execution in the next six months. Also, if you were to see the entire Projects and Manufacturing revenue for the first six months, that is H1 FY22, that has actually gone up 27%-odd over H1 of the previous year. So, in a sense we believe that we are looking at more than better pre-Covid normal given the fact that we have a larger order book.

Nitin Arora: Given the way oil prices are, in the previous cycle, there used to be a lot of gung-ho on the oil and gas projects at a global level, when these oil prices used to touch or have been in the range of \$80-\$85, any sense can you give us because at one end lot of the investors who are putting money in the shale gas or in oil and gas are restricted because of compliance and ESG. So, I just want to understand more, is it the ground activity still in a wait and watch mode in terms of oil and gas or you will see the activity really picking up from where the oil prices are, if you can comment on that at a global scale?

P. Ramakrishnan: So, Nitin, in terms of the uptick in order prospects in the Hydrocarbon segment, for us, it's not that it has been only in the one or two quarters. We did see improved prospects coming from the Q3 of the previous year itself once oil started moving upwards of \$60. So, if I have to talk about the statistic, the Middle East has been investing almost USD 80 to 100 billion worth of investments each year in the last four to five years and out of which oil and gas at any point of time has been almost 40% to 50% share. If I say USD 100 billion worth of investments being announced, then oil and gas will almost feature 35-40%. So, given the uptick in oil prices, you could see multiple investments happening, if not in Greenfield it would be in Brownfield, refurbishment, change in the product mix which will lead to additional Capex to meet the newer demands. We are quite reasonably bullish on this part of the world arising from the increase in crude prices and that in turn would also has a positive impact because higher the oil price more the surplus these countries have and that should also hopefully augur well with respect to the other sectors in Middle East where we operate, namely in Power Transmission & Distribution, to some extent in Transportation Infrastructure and also Water. At this stage, it looks to be what you are looking at is seemingly very positive from what it was almost a year back.

Nitin Arora: Can you share your first half Hyderabad Metro's revenue, EBITDA and PAT?

P. Ramakrishnan: Hyderabad Metro for first half of current year is around Rs.140 crores total revenues, but it has a combination of 70% of fare revenues and balance is other income arising of lease rentals, advertisements, and all. The operating cost maybe around Rs.115-odd crores, so thereby we have to the extent some operating gains. So Rs.142 crores has been the first half income. And as I spoke, the overall construct is that the amortization per quarter is around Rs.75 crores which is the amortization of the lease assets and interest cost at the current debt levels is around Rs.350-odd crores.

Nitin Arora: Can you share the revenue, EBITDA for Real Estate contribution in the first half?

P. Ramakrishnan: The Real Estate business Q2 revenues has been in the range of Rs.320 crore. As our Real Estate EBITDA gets clocked in only when you hand over the units that you have been giving for possession, obviously, at Rs.320 crores, the EBITDA margins is almost at 40%-plus.

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

Parikshit Khandpal: My first question is on execution. Just wanted one clarification that the execution has nothing to do with any client specific issues, right? I am asking because we have been mobilizing the site but there have been challenges because of reskilling and other related issues like supply chain. So, nothing specific on clients asking you to delay the execution for some period, is it the right assumption?

P. Ramakrishnan: Parikshit, you are 100% correct. As I mentioned, I once again reiterate, today we are working at almost 700-800-odd sites in the entire Infrastructure space. It is not correct to say that we don't have client-specific issues in any of them, but they are insignificant compared to the assumption construct that we are talking about. So, as we speak, a major part of our orders are in a very active category and all of them are progressing well, but for reasons which are specific to each project location, there can be some issues for which as I mentioned the reason for execution being what they are until the H1. But going forward, there are no specific client issues which will significantly impact the execution momentum with respect to our infrastructure segment.

Parikshit Khandpal: Second question is on Hyderabad Metro. So, you did touch upon the options being evaluated there to right size the capital. I just wanted to know by which quarter we will not require any funding support from the parent to this entity? By when can we expect resolution wherein, we will stop doing the loss funding of this project?

P. Ramakrishnan: At the start of this year, we did talk about that we are setting aside Rs.2,000 crores and until now we have already infused Rs.1,200 crores and we do expect another requirement of maybe Rs 1,000-odd crores until March'22 and internally we are working on a timeline to have this entire refinancing and the capital restructuring, all of this to get going and get completed or in terms of getting clear visibility of completion and everything happening by March '22.

Parikshit Khandpal: So, from first quarter of next financial year the project will be self-sufficiently processing its debt and interest?

P. Ramakrishnan: That's the objective, Parikshit, and our group is now currently working on that basis only. But let me also tell you that it is a large project and obviously we are taking assistance of the State Government. And the kind of assistance that we are looking at, that also over a period of time maybe undergo some change in some form, if not the amount, the form of assistance could change. And obviously, it is the decision of the Government, and it takes its own time. So, we are also actively pursuing to refinance the current loan with some extended maturities so that additional burden of arranging cash for debt repayments also do not crop up. So, all of these are targets and we hope that we will achieve substantial progress and maybe some sort of a closure by March '22.

Parikshit Khandpal: Last question is on the international order book, its size and nature. Given the commodity inflation and headwinds there, how much cushion you have that it may not result in any significant deterioration in the order book margin? You did mention that about 60% of the order book has pass through clauses.

P. Ramakrishnan: First and foremost, I think as a practice, we give the margin guidance for the year. We don't go beyond that. But having said this, to the specific question, if I take an order book of 3,30,000 crores, the international order book would be around Rs.75,000 crores. And as we speak now, the revenues that will accrue from the execution of this part of the order book also, the kind of projects that we have taken, so basis the progress, the milestone completion, the contingency release that we will do for some of these offsetting increases, we are reasonably sure that all of these would aggregate to the entire portfolio of the Projects and Manufacturing guidance that we have given at 10.3% for FY22.

Parikshit Khandpal: Last thing on the real estate. If you can quantify how much of saleable area currently L&T is holding in terms of million square feet and potentially the timeline for development of this saleable area?

P. Ramakrishnan: The total real estate area is maybe around 50 million square feet but of course that includes the Hyderabad Metro almost at 17 million square feet. So, I will take out that as it is the Realty business which will actively pursue in terms of whatever proposals are it is having. So, in terms of residential units, that will aggregate to maybe around 30-33 million square feet. In terms of the total number of units that have been launched is roughly around 7,600, out of which we have handed over, which means we have booked revenues of almost Rs.2,900. We have sold the flats but we have not handed over, which means it is in a sense an order book which is around 2,500 and the balance is what you can call as prospects pipeline which means yet another 2,200 yet to be sold against the flats of 7,600 that we have launched.

Parikshit Khandpal: What will be the total land bank holding which potentially in future come up?

P. Ramakrishnan: In terms of the land bank holdings, wherever it has been L&T's own land, is the Bombay Powai, we have Navi Mumbai and we have Bangalore. These are the three places where we are setting up real estate projects in our own land banks. As far as bought out land banks are concerned, we have not done that yet. All of this is being done through a joint development route where L&T and that real estate developer who holds the land title or the land possession, we jointly develop, and we have a share of revenues depending on the location and the overall construct of the project.

Parikshit Khandpal: This 30 million square feet covers all these land bank holdings as well like you mentioned about Powai, Navi Mumbai?

P. Ramakrishnan: Yes, it includes not only the own premises, it includes the joint development as well.

Parikshit Khandpal: Average realization of about Rs 15,000 will be per square feet on this?

P. Ramakrishnan: Now you are asking me specific queries. I don't have the data ready with me.

Moderator: The next question is from the line of Amish Shah from Bank of America Securities. Please go ahead.

Amish Shah: My first question is on the cash that we have on the book. It's close to USD 6 billion and obviously is a pretty large sum. With the Covid risk now abating, is there a potential for a one-off large payout?

P. Ramakrishnan: Amish, at the standalone level, because when you talk about payout right, it all depends. An the L&T entity level, I think the overall surplus we are having currently is Rs.19,000-odd crores and at a group level which essentially means cash lying in standalone of Rs.19,000 crores and almost a billion dollars or maybe Rs.7,000 crores which are lying in the IT and TS subsidiaries and the balance largely would be financial services but that is not to be considered as a cash surplus. So, about Rs 26,000-27,000 crores. So, in terms of Rs 19,000 crores, yes, as I mentioned at the start of my speech itself, we are looking at options as part of the overall improvement in ROE, what are the different things which L&T has to take and do, and this is a very important parameter while we are framing out our strategic plan. So obviously, maybe in the year of Q4 of the current year, you will be able to get a better perspective as to what we intend doing as far as surplus cash is concerned. But I wish to tell you that whatever cash flows that parent entity has taken accruing over the last 12-months because in the Q1 of the last year, we did take a debt in the form of almost Rs.12,000 crores in anticipation of the Covid situation going worse but fortunately, we were proved wrong. Not only we had the collections happening, but we also had the collections of EAIC and of course we have also given in fact some of that to shareholders in terms of special dividend. But wait for three or four months and then we will definitely address this point in terms of how we intend deploying the cash or returning the cash in any form as part of our overall strat plan exercise.

Amish Shah: The other question is related to your mix of order book between Central, State, PSU government. Currently, you said that your order book towards Central Government is only 10%. So, is that because at one point in time Central Government payments were getting delayed and on the other hand State Governments projects were funded by multilateral which were relatively safe, but now with the Government cash flows improving, is it a possibility that the skew goes more in favor of central government when you look at your pipeline prospect as well?

P. Ramakrishnan: So, in terms of the overall pipeline prospects, as I talked about of Rs.6.83 trillion, out of which the total domestic is almost Rs.4.67 trillion, so I think it would be evenly spread between Central Government one-third, State Government one-third and the balance is public sector. That's the way I will put it up.

Amish Shah: Third question is actually quite futuristic. But I just want to understand your openness to it. So let's say US currently constitutes a very small percentage of your order book. But if US goes for this large infrastructure stimulus that they are talking about, would you be open to participating in that geography or it's just a new market and you won't venture out?

P. Ramakrishnan: Amish, I think 15-years back, we consciously decided to derisk from our dependency on India and went ahead to be reasonably well-known and big in the Middle East from all segments. We are known as one of the top contractors in many of the segments in Middle East. Two to three years back, we expanded further. We went westwards, we went into select six or seven countries in Africa and are doing projects in infrastructure like Power, Transmission & Distribution, Water and also while we speak, we are executing a big order in Algeria in Hydrocarbon. So, as we speak now, we are stretching to the current geographies of India, Middle East, Africa and also Southeast Asia. In terms of addressing to the opportunities in US, again, at this juncture it would be premature for me to conclude. I don't think at this juncture we will be addressing that opportunity. Because I believe in the EPC contracting business, typically most of the companies are localized corporations who address the opportunities in those respective geographies. If I have to put it like this, in Africa from the current seven or eight countries, we may actually expand into another four, five countries or so. But I don't think we will be expanding beyond that.

Amish Shah: Within the ESG metric what is it that we should look out for in terms of progress incrementally?

P. Ramakrishnan: If you go through the Integrated Report which overs our entire ESG journey from FY16 to FY21 in respect of the major parameters, be it water conservation, energy conservation or reduction of emissions, we have also gone out with a clear goal of being both carbon and water-neutral for those years of 2035 and 2040. I guess in terms of the detailing out, maybe again it will all form part of our strat plan. So, in terms of the fresh targets over the next five years, how we are going to do, today we have set ourselves the targets but how we are going to do it will feature as part of our overall sustainability plan.

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

Ashish Shah: In our order prospects, are there any large projects exceeding like a million dollars in value, the kind of projects that we would have got in the past like Riyadh Metro or some of the other very large ones, because that's where I think L&T will have very clear advantage over the other small and mid-size orders that we face a lot of competition, any color you can give on that?

P. Ramakrishnan: Ashish, as far as the order prospects pipeline that we are looking at of Rs.6.83 trillion, it's a combination of all the sectors where we are targeting with reasonably large parcels and where we believe that we have a good chance of bidding and getting those projects awarded. Based on the bid award ratio that I was talking about in a good year 17% to 20%-odd. It's not that there are only one or two big ticket items, I would say it's a well spread-out mix of order sizes across all the segments.

Ashish Shah: But there are certain large size orders, the scale of a billion dollars?

P. Ramakrishnan: There are in Hydrocarbon, there is also in the Heavy Civil also, we do have some large ticket items, but it would be very inappropriate for me to list it out at this juncture.

Moderator: The last question is from the line of Kirti Jain from Canara HSBC Life. Please go ahead.

Kirti Jain: Sir, my question was with regard to the Infra segment margins which you have improved. Apart from the reasons you highlighted, what are the key changes and initiatives which you have taken in last one or two years which is leading to improved margins in our Infra segment. If you can highlight something that will be great.

P. Ramakrishnan: Let me tell you that as far as infrastructure margins are concerned, it's a function of multiple sub-segments and also domestic, overseas. For FY19 & FY20, infrastructure margins were impacted because of certain cost overrun jobs mostly in the transportation infrastructure side and such of those jobs are almost near their completion. So, to that extent, we do not envisage any sort of cost overrun happening. Next is in terms of initiatives that we kickstarted sometime in the start of FY18, in terms of digitizing most of the site equipments to enable improved productivity and lower diesel consumption and so on, then the cost of doing detailed engineering in terms of accuracy all of which was earlier little manual, nowadays techniques like geospatial and LIDAR and all of that has actually become a part of the day-to-day activity of all the project bids or the projects that we are executing. So, some of these technology-led activities and the digital initiatives of sensorizing all of these plant and equipment has enabled us to achieve some amount of productivity gains, some of that, let me tell you could also be passed over as being competitive in that segment. So, it's a combination of the cost overrun jobs that are now tapering off and the new jobs that we have executed coming into some sort of a threshold margin because FY21 is a sort of an outlier year because you can't attribute anything and everything because of Covid and many things had an implication. But FY22 which is a normalized year, I do believe that having given the margin for infrastructure in FY21 what they printed, taking into account the Covid-related issues, tapering off bad projects and all, and we have maintained that same margins tagging on for FY22. So, we do believe that with the commodity headwinds on affecting some part of the orders in that segment, but with this improved productivity, margin threshold and also various cost optimization initiative in terms of design optimization, engineering optimization and even material substitution with approval of client, all of this should hopefully ensure that we are able to sustain the same margins in FY22 as well.

Kirti Jain: My question was you have achieved this performance in a hyperinflation scenario when almost all of the material costs have doubled and you have good quantum of book as the fixed price contract you have achieved such a number and also in terms of working capital…?

P. Ramakrishnan: No-no, Kirti, you are absolutely right in that question, but what I wish to tell is that we all are witnessing this commodity price increase and all of us agree, but in the projects business that L&T has been executing for the last so many decades, it is not that the commodity prices have been impacted only this time, we are witnessing current times and we are stating that. I don't think in the previous ever almost eight or ten years you would have seen some amount of commodity prices going up and down. I don't think we have attributed commodity upswing or downstream impacting the margins either way. It all depends on the fact that how we bid out, what kind of assumptions we have taken, what contingencies, what buffers we have considered. And if your engineering is perfect, if the bill of quantity is perfect… you will have impact on certain jobs but similarly you will have positive impact on the other jobs also. So, it is an assessment of all of these things as one portfolio is what gives us the guidance. It will not be right of me to say that all the margins the way have been bid will happen, but it's at a portfolio level we are reasonably sure that we will be able to weather the commodity priced action, we have demonstrated until six months, hopefully in the next six months also, you would see that way.

Kirti Jain: But we will not see any one-off provision?

P. Ramakrishnan: I will not be able to comment specific to your question. So, let us see.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. P. Ramakrishnan for closing comments. Thank you and over to you, sir.

P. Ramakrishnan: So, thank you, Faizan and thanks to all of you for having taken your time to attend this call. On behalf of L&T, I wish you all the very best for the festive season and best wishes for a very healthy, happy and prosperous 2022. I look forward to connecting with you again in the next investor call which will possibly be the Q3 earnings call scheduled end of Jan.

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