"Larsen & Toubro Limited's Q2 FY'23 Earnings Conference Call"

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MANAGEMENT: MR. P RAMAKRISHNAN – LARSEN & TOUBRO LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Larsen & Toubro limited Q2 FY'23 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. 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 this Q2 FY'23 Earnings Call of Larsen & Toubro Limited.

The Earnings Presentation was uploaded on the stock exchanges and our website in and around 6:35 p.m. Hope you have had a chance to have a quick glance at the same.

As per past practice, instead of going through the entire presentation, I will take you through the key highlights for the quarter in the next 20 to 25 minutes, post which will take Q&A.

Before I begin, our standard disclaimer:

The presentation which we have uploaded on the stock exchanges, and our website today, including the interaction in this call, contains 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 Q2 FY'23, despite the strong inflationary impulses, the Indian economy displayed surprising resilience as evidenced by the pickup in high frequency economic indicators, particularly increase in the consumption demand and higher public expenditure. The tax collections for the government have continued to remain strong, and the balance sheets of the banks as well as private sector is quite healthy. With COVID hopefully behind us, we expect festive spends to be strong this time around and the above average monsoon augurs good for a revival in the rural demand as well. Most of the Indian macro indicators, be it growth, current account, fiscal deficit, as well as inflation are relatively better vis-à-vis other countries in the world. Despite the depreciation, the Indian rupee continues to be one of the better performing currencies in the world. Both the government and the RBI needs to be complemented for having successfully navigated the country through these turbulent times. Within GCC, we see many countries building their economy by investing in areas like green energy, water and at the same time, are continuing to ramp up their spends on oil and gas investments. These are interesting times where despite the continuing global turmoil, both India and GCC, which are our group's primary geographies remain relatively stable.

I will now cover the various financial performance in parameters for Q2 FY'23:

Our group order inflows for Q2 FY'23 at Rs.519 billion registered a YoY growth of 23%. Within that our Projects and Manufacturing businesses secured order inflows of Rs.373 billion for Q2, registering a YoY growth of 24%. Our Q2 order inflows in the Projects and Manufacturing portfolio are mainly from Infrastructure and Hydrocarbon businesses. During the quarter, our share of international orders in this portfolio is at 21% vis-à-vis 49% in Q2 of the previous year. The domestic ordering environment therefore in Q2 was significantly better compared to Q2 of the previous year. At a macro level, there was an improvement in domestic tendering and awarding activity. Although the domestic award-to-tender ratio was a bit soft in the current quarter, the fact that the tendering momentum is strong, augurs well for the quarters ahead.We also expect the public CAPEX spends comprising of Centre, States and PSUs in the current year to be better than that of the previous year. Year-to-date, the public Capex spends have been significantly higher over the comparable period in the previous year, driven by Centre and PSUs, although the momentum in the State Capex is yet to pick up. Private Capex is also seeing signs of revival. In Q2 our share of private within the domestic orders, was 29% vis-à-vis 22% last year, largely due to more orders in the Buildings and Factories and the Minerals and Metals sectors. We will be closely watching this momentum build up in Private Capex in the coming quarters.Our order prospects pipeline for the remaining six months of the current financial year is around Rs. 6.3 trillion, comprising of domestic prospects of around Rs.5 trillion and international prospects of Rs.1.3 trillion. The broad breakup of the overall prospects pipeline is as follows: Infrastructure contributes to Rs.4.54 trillion, Hydrocarbon - Rs.1.13 trillion, Power - Rs.0.38 trillion and other businesses comprising of Heavy Engineering, Defense and Smart World & Communications the balance Rs.0.27 trillion.

Moving on to order book:

Our order book is at a record Rs.3.72 trillion as of September '22. As our Projects and Manufacturing business is largely India-centric, 72% of our order book is domestic and 28% international. Now, out of the international order book of Rs.1.04 trillion, around 80% is from Middle East, 10% from Africa, and the balance 10% from countries including Southeast Asia. Clearly, GCC Capex in both Infra and Hydrocarbon is on an upswing post recovery in the oil prices. The breakdown of the domestic order book of Rs.2.68 trillion as of September '22, comprises Central Government at 10% share, State Government at 30%, PSUs or State-Owned enterprises at 42%, and the Private Sector at 18%. Approximately, around 27% of our total order book of Rs.3.72 trillion is funded by bilateral and multilateral funding agencies. 91% of our total order book is from Infrastructure and Energy. You may kindly refer to the presentation slides for further details. During Q2 FY'23, we have deleted around Rs.16 billion of non-moving orders from the order book and our slow-moving orders in the order book is around 3% to 4%.

Coming to Revenues:

Our group revenues for Q2 FY'23 at Rs.428 billion, registered a YoY growth of 23%. International revenues constituted 36% of the revenues during the quarter. The IT&TS portfolio continue to report industry-leading growth in Q2 as well. In the Projects and Manufacturing business portfolio, our revenues for Q2 FY'23 at Rs.281 billion, also registered a YoY growth of 24%, largely contributed by the robust execution in Infrastructure business. I will cover the details a little later when I cover each of the segments.

Moving on to EBITDA:

Our group level EBITDA margin without other income for Q2 FY'23 is 11.5%, which is at the same level as Q2 of the previous year. The detailed breakup of the EBITDA margin business wise is given in the annexures to the Analyst Presentation. You would have noticed that EBITDA margins in the Projects and Manufacturing businesses for Q2 FY'23 is at 8.2% vis-à-vis 9% in Q2 of the previous year. This drop of around 80 basis points for the quarter is mainly due to job mix, cost pressures in certain jobs and close out costs in a couple of jobs. Despite the drop in EBITDA margin in the Projects and Manufacturing business at an overall group level, we have been able to maintain EBITDA margin in Q2 current year at the same levels as Q2 previous year, primarily because of improved performance in the Financial Services and Hyderabad Metro.

Our **Operational PAT** for Q2 FY'23 at Rs.22 billion is up 29% over Q2 of last year, aided by improved treasury operations during the quarter. The reported PAT though has grown 23% largely due to the Rs.1 billion exceptionals (net of tax and minority interest) in Q2 last year, representing gain on divestment of stake in L&T Uttaranchal hydropower and the tax expense arising on the transfer of the Nxt Digital business from the parent L&T to Mindtree.

The group's performance in P&L would construct along with the reasons for the major variances under the respective function heads is provided in the presentation.

Coming to our Net Working Capital-to-Sales ratio:

Net Working Capital-to-Sales ratio has improved from 22% in September '21 to 20.2% in September '22. There is also a sequential level improvement in this ratio since we have reported 20.9% in June '22. Our group level collections excluding financial services for Q2 FY'23 is Rs.0.38 trillion vis-à-vis Rs.0.32 trillion in Q2 of the previous year.

Now, moving on to the Balance sheet:

If you glance through the Balance Sheet given in the annexures to the presentation, you will notice that the debt level ratios are at comfortable levels, with the gross debt-equity at 1.33 and the net debt-equity at 0.89. Finally, our trailing 12 months ROE for Q2 FY'23 is 12.1% vis-à-vis 11.8% in Q2 FY'22.

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

First comes Infrastructure which is the largest

Coming to order inflows:

Our Q2 FY'23 order inflows are well spread across various sub-segments. The Infrastructure segment secured orders of Rs.251 billion in Q2, registering a strong growth of 107% over Q2 of the previous year. Our order prospects pipeline in infra for the remaining six months of FY'23 is at Rs.4.54 trillion, comprising of domestic prospects of Rs.3.98 trillion and international prospects of Rs.0.56 trillion. The sub-segment breakup of the total order prospects in infra would be as follows: Water would constitute 23%, Heavy Civil Infrastructure 22%, Transportation Infrastructure 20%, Buildings and Factories 19%, Power Transmission and Distribution including renewables at 14% and Minerals and Metals at 1%. The Order Book in this segment is at Rs.2.6 trillion as on September '22. The book-to-bill for this segment is around three years.

The Q2 current year's revenues was at Rs.194 billion, registered a growth of 39% over the comparable quarter of the previous year, largely aided by a combination of a large opening order book and improved customer collections during the quarter. As a philosophy, we always step-up execution when customer collections are flowing at a healthy pace. This is essentially to strike a healthy balance between the P&L and the Balance Sheet.

Our EBITDA margin in this segment dropped from 8.3% in Q2 FY'22 to 6.6% in Q2 FY'23 largely impacted by a combination of job mix, cost pressures, and close out costs in a couple of jobs. The 170 basis points variants is explained by 80 basis points attributable to close out costs in some jobs and 90 basis points is explained by a combination of an unfavorable job mix tilting more towards cost jobs and cost pressures in select jobs. The close out costs mainly refer to extra costs incurred due to extended stay and commissioning in two of the projects. Coming to explaining the other part of the impact on margin; it is due to higher percentage of cost jobs in the current quarter coupled with cost pressures in certain jobs, mainly due to changes in design, leading to quantity variations, and finally, higher input costs to the extent, our procurement orders were placed before the correction happened in the commodity prices. The current high energy prices is also to some extent, affecting our ability to do timely sourcing of items.

Moving on to the next segment, which is Energy, which comprises of our Hydrocarbon and Power businesses:

The receipt of multiple domestic orders in Hydrocarbon buoys the order book, whereas power business benefits from receipt of Flue Gas Desulfurization order in Q2 The order prospects pipeline of Rs.1.51 trillion for the remainder of the financial year is favorable. The order book for this Energy segment is at Rs.689 billion as of September '22, with the international order book constituting 54% led by Hydrocarbon. Q2 FY'23 revenues at Rs.55.9 billion, registers a degrowth of around 7% over the comparable quarter of the previous year.

The Hydrocarbon revenues were impacted primarily due to supply chain challenges, whereas lower revenues in the power business is reflective of a depleting order book. The EBITDA margin of this segment at 8.5% for Q2 FY'23 improved compared to 6.6% over the corresponding quarter of previous year. Execution cost savings in Hydrocarbon and an improved ECL profile in Power aided the margin improvement.

We will now move on to the Hi-Tech Manufacturing segment which comprises of Defense and Heavy Engineering businesses:

In this quarter, we saw multiple order wins in Heavy Engineering whereas Defense ordering was a little subdued during this quarter. We have an order prospect pipeline of around Rs.190 billion for the remaining two quarters of the current financial year. The order book of the segment is at Rs.197 billion as of September '22. The revenues for Q2 FY'23 at Rs.14.6 billion registers a marginal degrowth of around 1%. Improved execution drove the Heavy Engineering revenue, whereas the degrowth in the Defense revenue is explained by certain defense contracts yet to pick up momentum.

At this juncture, let me once again mention that the Defense engineering business does not manufacture any explosives nor ammunition of any kind, including cluster ammunitions or anti-personnel landmines or nuclear weapons or components thereof. The business also does not customize any delivery systems for such ammunitions. Please also see the disclosure to this effect as mentioned in the Chairman's statement in the Integrated Annual Report for FY'22.

Coming to the IT&TS services portfolio:

Our revenues for Q2 FY'23 at Rs.101.5 billion registered a growth of 29% over the corresponding quarter of the previous year, largely reflecting the continuing growth momentum in the sector with a surge in demand for technology-focused offerings. The business outlook for this segment continues to be strong despite the fears around global recession impacting IT spends. A lot of spends today are being directed towards cloud, data security and intelligence. Margins in this segment is lower in Q2 FY'23 vis-à-vis the Q2 FY'22 largely explained by increases in wage costs, partly offset by favorable movement in the dollar-rupee and other improved operational efficiencies. The merger of L&T Infotech and Mindtree should hopefully get concluded before the end of this calendar year. 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.

Now, we move on to financial services segment:

Here again, L&T Finance Holdings is listed and the detailed results are available in the public domain. The highlights for Q2 FY'23 were improved net interest margin, improved fees, lower credit costs, better asset quality and a thrust towards retailization of the book. In fact, as of September '22, the share of retail in the overall book is at 58%. The strategic deliverables in this business revolve around portfolio reorganization, strong asset quality, and improvement in ROA.

The business endeavors to be a top class digitally enabled retail finance company moving from a product focus to a customer focus approach. Finally, to conclude, sufficient growth capital is available in the balance sheet with the CRAR at around 22.6%.

Moving on to Development Project segment:

This segment currently includes the Power Development business of Nabha Power and Hyderabad Metro. The Q2 of the previous year also included two months of performance of the L&T Uttaranchal Hydropower plant up to the date of its divestment, i.e. August 30, 2021. As you're aware, the roads and the transmission line concession business, which are a part of L&T IDPL, a joint venture, is consolidated at PAT level under the equity method. The majority of revenues in the Development Project segment is contributed by Nabha Power. Improved ridership in metro and higher PLF in Nabha drive the revenue growth for this segment in this quarter. To give you some statistics, the average metro ridership improved from 1,46,000 passengers a day in Q2 FY'22 to around 3,55,000 passengers per day in Q2 FY'23. Our average ridership in Q1 FY'23 was around 2,85,000 passengers.

We are happy to report that as we speak, the current ridership in metro has touched a peak of 4,22,000 on September 8th in Q2 FY'23. In the month of October, we have witnessed a new high of 4,41,000 and averaging around 400,000 each day in the month of October. The Q2 FY'23 margin in this segment at 5.2% is contributed by Metro operations only as the Nabha margin is not being recognized from Q3 of FY'21. The improvement in average daily ridership has enabled metro to report an EBITDA margin of 39% in Q2 FY'23 vis-à-vis 13% in Q2 FY'22.

In Metro, at a PAT level, we have consolidated a loss of Rs.3.28 billion in Q2 FY'23 vis-à-vis a loss of Rs.4.47 billion in Q2 of the previous year. The operating and amortization costs for L&T Metro is around Rs.0.8 billion each, whereas interest cost is Rs.3.1 billion for the quarter. In Q2 last year, this interest cost was at Rs.3.8 billion.

At this juncture, I would like to give a quick status update on the divestments of our Concessions portfolio:

You may be aware, our stake in the L&T Uttaranchal was successfully divested in Q2 of the previous year. For Nabha, various divestment options are being explored, but nothing has materialized as of date. Coming to L&T IDPL divestment; we have achieved progress and hopefully should get concluded soon. For L&T Metro, with the prospect of improved ridership, the phased transit-oriented development monetization, the confirmed government interest-free loan assistance, and with the recently concluded debt refinancing, our performance parameters for metro will look up in the later part of the current financial year.

Moving on to the other segment:

This segment comprises Realty, Industrial Valves, Smart World and Communications, Construction Equipment, Mining Machinery and Rubber Processing Machinery. The revenue buoyancy in this other segment in Q2 is largely driven by Smart World and Communications, as well as Construction Equipment and Mining Machinery and also Rubber Processing Machinery. Lower handovers in Realty and sales mix in the Construction Equipment and machinery impacted the segment margin in the current quarter vis-à-vis the quarter of the previous year.

Coming to the outlook:

Despite the ongoing military conflicts that we are witnessing and increased trade tensions globally, India clearly is a beacon of hope in this decade. The domestic growth momentum is healthy, largely driven by the improvement in private consumption and Public Capex. We also hope that private investments will also increase correspondingly. Outlook on GCC remains positive with the stability in oil prices. Our group will be a major beneficiary of the synchronous spends in India and GCC in the coming years. Having said that, one needs to be watchful of the continuing macro risk revolving around elevated levels of inflation, external and internal balances, the rising dollar and supply chain disruptions. The move away from quantitative easing to quantitative tightening will have its share of implications, although at the moment we are not very clear of the immediate consequences. The company's Projects and Hi-Tech Manufacturing businesses are rightly position to leverage the India and Middle East Capex opportunity and with tech-enabled skills and offerings, the IT & TS business will continue to pursue growth in the global services domain. Robust business portfolio including some of the newer businesses, focuses on cash generation distribution and eye on Capital Employed and finally the divestment of concessions and other non-core assets will lead to a better ROEs as envisaged in our strat plan for FY'22 to FY'26.

Finally, since we are off to a good start in the first half of the year, we continue to retain our guidance of 12% to 15% growth in the group order inflows and revenue with a stronger bias towards the upper end of the band. On the group level, NWC-to-sales, i.e., working capital to sales, although we have guided for a range of 20% to 22% for FY'23, we will endeavor to end March '23 at around 20%. As for the guidance on the margins for the Projects and Manufacturing business for the year is concerned, we do acknowledge that headwinds to achieve the targeted margin of 9.5% for FY'23, does exist in the form of disrupted supply chain, volatile input costs, and hence the growth of around 30 basis points we have planned over the margin reported in the previous year could be at risk. The developments over the next few months could give a clear indication of the final margin likely for the year.

Thank you, Ladies and gentlemen for this patient hearing. We will now take up Q&A.

Moderator: 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: First question is of course on the margin. As you said, some of the margin may be recouped, and there will be some improvement in margin. But qualitatively, are you seeing the reducing commodity prices to have very sharp improvement in margin for the second half? And secondly, on the revenue side, we have fabulous H1, very sharp revenue growth. Given that the 12% to 15% growth seems to on the lower side for the entire fiscal, it looks like we'll grow only at 5% to 7% in second half. So do you think a higher upside risk to revenue guidance?

P. Ramakrishnan: So, there are two parts. So I'll take the first one on the margin side. So, as I explained, the margins that we have reported for the first half of the current financial year at 8.2%, obviously had some one-offs and some closure-related costs. And also it had, I think, cost pressures arising out of the procurements that we contracted almost six months back that came into the P&L. But I would like to say that when we gave a guidance of 9.5%, in a way it has been factored. We do expect with the current round of procurement that will see us in the next two or three quarters will be at prices which are favorable to us. And we do expect that like the way we have demonstrated the revenue uptick to seep into H2 of the current financial year, and we do believe that the margins with respect to the Projects and Manufacturing portfolio could be at a slightly higher play, like what we witnessed in the H2 of the previous financial year. So, it is with this perspective, we are talking about that. Whereas it would be very difficult for us to position the exact number, but we do believe that we have sufficient levers and major projects getting into margin recognition threshold in the next six months will enable us to improve the margin trajectory from what we have reported in the first six months of the current financial year. Coming to the revenue part, I maintain that like order inflow and revenue, we have given a guidance of a band of 12% to 15% at the start of this financial year, but with the consistent revenue growth that we have witnessed more so in the Projects and Manufacturing business portfolio, this momentum will continue. But at this juncture, knowing fully well as I mentioned in my earlier part of this call, because of certain supply chain disruptions, that could potentially happen, it becomes a little difficult to again say whether we will be upwards of more than 15%. But today as we see it, we are confident to touch the higher end of the band that we have given at the start of this financial year.

Mohit Kumar: A clarification. We heard somewhere that we are looking to reduce the debt on the L&T Hyderabad Metro from Rs 130 billion to Rs 70 billion over the next 24 months. And I think this is based on the on the two key things. One is the monetization, which you are trying to do for the land and the soft loan for the government. My first question is how much is monetization which is possible over the next 12 to 24 months which we have been allowed? And secondly, what is the interest rate on the government loan?

P. Ramakrishnan: Hyderabad Metro balance sheet today is almost Rs.20,000 crores funded by external debt of Rs.13,000 crores. With the improved ridership which is now excess of 400,000, especially in the month of October, we do expect the ridership to consistently improve given the fact that all the other COVID-related restrictions are now off, and we do expect a ramp up in the IT companies taking back their employees back to working from office. So, we do see ridership improvement consistently happening. But the target from overall financial restructuring perspective is that to bring this Rs.13,000 crores to a level of say Rs.7,000 to Rs.8,000 crores over a period of two years, of course it's not going to happen immediate. As you are aware that the government of Telangana has accorded Rs.3,000 crores interest free long term financial assistance to the Hyderabad Metro. This is expected to come in tranches over a period of two, two and a half years. So, from Rs.13,000 crores if you subtract Rs.3,000 crores, so that brings to Rs.10,000 crores and the balance Rs.2,000 to Rs.2,500 crores is what we expect to monetize of the various land parcels and some part of the already developed properties that we have over the near term… near term could be in the next 12 months or so. So, with this Rs.3,000 crores plus Rs.2,000 crores to Rs.2,500 crores, our loan book should come down in the next two years to a more manageable Rs.7,500 crores to Rs.8,000 crores, and with the ridership at 500,000 to 600,000 hopefully to come in the next say 12 months or 18 months, I guess the worst is over as far as L&T Hyderabad Metro is concerned.

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

Parikshit Kandpal: My first question is about Hyderabad Metro again. You said that this assistance from the Telangana government will come over the next 2-2.5 years. So, is it right to assume that we are not going for any InvIT here and most of these restructuring or soft loan assistance will bring down the levels of profitability required to service the interest and the debt, so maybe we look at monetization only after three years now?

P. Ramakrishnan: So Parikshit, I think we have maintained this aspect earlier as well, that the immediate actions that L&T is doing as far as Hyderabad Metro is concerned is to bring down the debt levels. And hopefully, with improved ridership, the stress on L&T's performance because of L&T Metro should come down. So the ridership has been, I would say, ahead of our own expectations and we do expect that the ridership will improve by another 100,000 or 150,000 over the next six quarters. At this juncture, with the current debt levels, I think it would not be an attractive proposition to do an InvIT right away. So what we are looking to InvIT possibly could be two to three years down the line. That is the time when you could have investors who could look at this at a more attractive investment option rather than at this juncture.

Parikshit Kandpal: What kind of loss funding is seen because we have to incur in this year and over the next two to three years, because in the first quarter itself despite the improved ridership, we booked a loss of about Rs.330 crores?

P. Ramakrishnan: I would say that our total cash exposure to L&T Metro today cumulatively is around Rs.7,500 crores comprising of Equity of Rs.2,500 crores and the balance is the cash assistance. In the current financial, we have not done any significant amount of cash assistance to tide over because operationally the metro is now making positive EBITDA and with the government support in the form of loan, and also the TOD monetization that I was referring to… in fact, the TOD monetization could happen maybe at a more faster pace because the government funding or the government assistance will be over a period of two years or so average. So, we do expect with these inflows of Rs.3,000 crores plus Rs.2,000-odd crores should hopefully not have implications for L&T in terms of a higher cash support to the metro operations.

Parikshit Kandpal: Compared to the first quarter commentary and overall outlook, we seem to be a little more guarded this quarter. So, despite reporting a very strong quarter, I'm really surprised on your guarded commentary on growth, on margins, on supply chain when commodity prices seems to be coming off, supply chain issue seems to be getting more smoother. So just bit worried why this kind of defensive approach is there this time?

P. Ramakrishnan: Parikshit, let me put it like this. Our first half margins of the current financial year is actually a lower than the H1 of the previous year and it is because of the explanations that I already provided for. But we do believe, with the softening of the commodity prices and higher revenue uptick, hopefully, which will happen in H2, I guess, our margin trajectory in H2 should be better than the H2 of the previous year. But it's always a question of, as I said, if there is a particular supply chain issue which impacts a particular job not achieving the margin threshold, then obviously, it will have some impact on the margin trajectory. But we are sufficiently confident that we should be in a position to somehow meet the 9.5% target. If not, at least maybe because of the compositional jobs that could happen in the H2 of the current year, we are reasonably confident that we should be inching closer to the targeted margin for the current financial year. So I don't think it is a guarded statement. It is a question of the assessments that we have been doing. And as you may be aware, commodity price softening is one aspect, but there is also the fact that volatility in commodity prices is also impacting the way we are executing the jobs, and also the continuing energy crisis in Europe, which is also impacting some extent procurements in terms of time delays. So we have to be mindful of all these factors, and hence, we believe that we are on the job to, I would say, touch the targeted margin, but there could be some slippages that we have witnessed in the first half which probably could be difficult to completely compensate that in H2. But we are reasonably confident that we should be in and around the levels that we have forecasted for FY'23.

Parikshit Kandpal: Typically, when we do Cost to Completion accounting, as you said, some of the projects there were issues, site idling, delays, few projects, cost of closures, so, when we do this accounting/ Was this a negative surprise which came up in this quarter, or it's a regular exercise, which keeps happening every quarter and you'll see more of these negative surprises coming to the rest of the half?

P. Ramakrishnan: It's like this. When I talked about a particular aspect of close out costs in two jobs that we got completed, it was not an accounting consideration per se. So there have been additional costs that we had to incur to complete the jobs as per the customer specifications. But in terms of the claims that is something which we have not factored, obviously, we are taking up with the clients for these additional costs that we have incurred. And hopefully, I guess, when the claims get certified, that comes back to the system as clean margin. But since we don't account for claims unless and until they are certified by the client, you are constrained to take the cost as it is.

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

Sumit Kishore: My first question on inflows where infra segment has seen a very strong performance. Could you give some sub-segment color here for infra and elaborate which pockets have done relatively better. You also mentioned in your opening remarks regarding private sector also seeing some pockets of growth, could you please elaborate on this performance for infra segment?

P. Ramakrishnan: As far as order inflows are concerned, we have seen a robust order inflow again in all the segments, I would say, barring for Transportation Infrastructure, where we are targeting only select opportunities. Unfortunately, in the order inflow side on Transportation Infrastructure, we are not being quite successful. But insofar as the other segments, be it Water, be it Power Transmission and Distribution, Buildings and Factories and Heavy Civil Infra including Minerals and Metals we have seen good traction. The redeeming fact in Infrastructure segment order inflows has been a surge in Buildings and Factories inflows and Minerals and Metals, in a way trying to give a comfort that Private Sector Capex is coming in some form or the other.

Sumit Kishore: Your order prospects, though at the end of Q2 are down about 8% year-on-year. We were expecting that this order prospect might possibly improve as we go through the year, that is what was mentioned at the beginning of the fiscal. Any thoughts there? And particularly on states, what is the trend that you're seeing, why are the awards getting delayed and what is the outlook for H2?

P. Ramakrishnan: In fact, Sumit, when we started this year itself no, I think we have been a little more careful in terms of looking at the right order prospects once they get tendered, the chances of getting the conversion of tender to award improves in our favor. So, as of Sep, what we are referring to Rs.6.32 trillion order prospects across all the segments, Rs.7.6 trillion is what we had indicated as of June. So, obviously, there has been a passage of time. We have seen tenders getting awarded. Some of them we have won, some of them we have lost. And we do expect that Rs.6.32 trillion what we have now talked about are again those prospects where L&T will try to put a serious bid, of course, assuming that the tenders will happen. And we do expect a decent share of these tenders to get converted to awards and L&T to get a decent share more than what is there in the earlier years or so. We are conscious of the fact that when we have given a 12% to 15% order inflow guidance for FY'23, and I just now mentioned that as the way things stand out in terms of our H1 performance and basis the order prospects and our own assessments of when these tenders to get concluded, we are reasonably sure that we should be positioned to meeting the higher end of the guidance that we have indicated.

Sumit Kishore: Basically the win ratio could improve because the order prospects as of September are down on a year-on-year basis?

P. Ramakrishnan: Yes, yes.

Sumit Kishore: So, one small clarification. If you could indicate roughly what is the size of solar EPC contracts in your order backlog and in any way have overall margins here dragged down for your EPC segment?

P. Ramakrishnan: So, the solar EPC contracts in the order backlog will be in the range of maybe around Rs.20,000 to Rs.22,000 crores, $2.8 billion or so. And while we have given the margin guidance for the current year, it takes into account some of the earlier solar orders having got impacted because of prices, but that is already factored in.

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

Ashish Shah: My first question is on the private sector prospect pipeline. So you did mention in a couple of occasions that it's looking very good. So, if you could quantify out of the Rs.6.3 trillion of prospects, approximately how much could be the private sector prospects and any specific segments where they're coming from?

P. Ramakrishnan: So, the total Rs.6.32 trillion obviously includes international as well, but at a Rs.6.32 trillion level, the private prospects pipeline will be ranging between 18% to 20% or so largely led by prospects that will come up in the Buildings and Factories and the Minerals and Metal sectors.

Ashish Shah: Is this proportion more if I look at domestic let's say Rs.5 trillion?

P. Ramakrishnan: Yes, the domestic proportion looks to be better. Of course, in international the major prospects pipeline are more tilted towards Hydrocarbons. But in Hydrocarbon, as you know, most of the ordering momentum comes from the State-owned enterprises in the respective domains viz, Saudi or UAE. But as far as domestic is concerned, I guess it will be coming largely from the domestic part itself.

Ashish Shah: And this proportion, is it appearing to be far higher than what it used to be let's say same time last year?

P. Ramakrishnan: Yes, it is more. I would say almost a 10% increase in the private order prospects is there as compared to September '21.

Ashish Shah: Secondly, if you can share if there is any update on some of the new businesses that we are planning? So we had spoken at length about some of these initiatives in the Q4FY22 call. It's been about six months. Any update that we should be aware of? Any progress, any capital outlay which has already begun? Just need to be more specific about the electrolysers and the fuel cells, etc., and the new age businesses.

P. Ramakrishnan: So insofar as the new businesses are concerned, as you may be aware, both L&T SuFin and L&T EduTech, the two digital platforms, one is on the B2B supply chain and other is on the higher education especially on the engineering side, both of them have got commissioned. And their numbers are as per our plans itself, as we speak. Coming to Data Centers, which is another diversification of L&T to get into this part of the business, we are putting up a pilot Data Ccnter in Panvel, which should hopefully get commissioned in January. We are setting up a new Data Center in Kanchipuram. Hopefully, I guess that should get completed by December '23 to March '24. And there will be a second more data center in Panvel. That will start in terms of construction and all maybe early next calendar year. So that again, the investment and activity is as per plan. As far as electrolysers is concerned, the pilot plant to make Green Hydrogen in our Hazira campus is almost ready. In test cases, it is producing for captive requirements. I think in terms of commercial operations, maybe it will happen in the month of November. As far as the mainstream Electrolysers is concerned, we are looking for a JV partner. And as we had mentioned in the May'22 call, I think the selection of JV partner should happen by March '23 or so. As far as storage batteries is concerned, anyway, that was planned to be an activity that will commence sometime in the early part of the next financial year.

Moderator: The next question is from the line of Deepak Krishnan from Macquarie. Please go ahead.

Deepak Krishnan: I just wanted to check for the margin profile. In terms of the order backlog, are we still 1/3 fixed price, 2/3 variable price and any still legacy projects that would kind of hamper our execution or any procurement impact that will continue into H2?

P. Ramakrishnan: So at overall Projects and Manufacturing portfolio, the order book of Rs.3.72 trillion, there has been no major change in terms of what we reported for the end of Q1, in a sense that two-thirds of the order book is variable price or contracts that are linked to inflation indexes and a balance 1/3 is fixed price contracts. As for infrastructure is concerned, almost 85% of the contracts are variable price contracts and the balance 15% are some sort of fixed price contracts. The projects that we had secured in periods prior to 2021 would be having some amount of margin impact because of the commodity prices. But I wish to tell you that contracts that we secured in the later part of the last financial year, we have been careful enough to emphasize on escalations. And if it's a pure fixed price contract, appropriate buffers have been considered. So, taking all of this account is the basis by which we gave the margin guidance of 9.5% for FY'23.

Deepak Krishnan: Maybe one last question on the order prospect pipeline. So if we look at Q1 or 1H itself, the win ratio for 2Q itself was north of 35% and then for 2H we're implying a slightly just now close to about 20% win rate. Is that the order wins in Q1 were larger order basis or is there anything different in terms of the prospect base at the start of the year versus what we're kind of targeting for 2H?

P. Ramakrishnan: Deepak, of course, this question is valid. But when we talk about order prospects, and then conversion, we are only talking of numbers. But it is quite possible, in the first half of the current financial year, we actually secured certain orders which never featured in the order prospects itself. And some of the other prospects that we have, have been postponed to H2 which hopefully when gets tendered, we should be getting. So from a pure statistic perspective, it seems to suggest that our award conversions have been better. We are talking about the past strike rates in H2. Maybe in H1, the strike rate was a little more higher, upwards of 22% to 23%. But as you know that one or two large orders if you get it, then the strike rate improves. But if it gets postponed or we lose it, then the strike rate will come down. So it's a question of absolute numbers. So, I guess, we have assumed a standard strike rate basis our assessment of the tenders that are going to happen in the next six months and getting awarded. We have taken the average strike rate that we have witnessed in the previous years.

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

Aditya Bhartia: My first question is again on margins. But leaving aside this particular year, and looking slightly kind of longer term, in the past, we have done 10%, 10.5% kind of core margins. And that was also done in a period wherein Capex cycle was actually not very strong. Do you think we can get back to 10%, 10.5% kind of margins over the next two to three years?

P. Ramakrishnan: Aditya, this has been a question which keeps coming up. But I wish to tell you in the Projects and Manufacturing business portfolio, it becomes a little difficult to try to forecast a margin trajectory ahead of more than 12 months beyond. So, we usually stick to what we believe the margin guidance given the order book that we have, the combination of fixed price and variable price contracts, the stage of completion that we envisage in each of the segments across the year, that will actually determine the margin trajectory. And last but not the least, margins can be a function of one-offs like the cost pressures that I talked about in the previous part of this call, but the same time margins can also get impacted favorably because of customer claim settlements and also from a timing effect of contracts where your variable price index base pass-through. So costs getting impacted in a particular quarter and getting repaid in the index prevailing in subsequent quarters based on the milestone that we have invoiced. So, it becomes a little difficult, but I would like to emphasize here that we are extremely careful today while we are executing the jobs, of course, the jobs that we are bidding we are taking into account what we believe the appropriate contingencies & buffers, but the volatility of prices that we have been witnessing on the commodity side for the last 15-months has been unprecedented. So, more careful assessment is being done. The risk mitigation or the risk management for this is also at a heightened level. But the larger point here is that L&T at this juncture is trying to focus between P&L and Balance Sheet in terms of ensuring that our execution and thereupon the margin development over the execution is in line to ensure that the Working Capital does not get exposed too much. So, a short answer to your question is that it's a little difficult for us to go into a margin kind of an outlook for the subsequent financial years because of the reason that I just now spoke about.

Aditya Bhartia: The reason I was asking this question is that this 9.5%, 10% itself has been impacted a lot by commodity cost inflation and by all the cost pressures that you spoke about. Assuming the things normalize and we are back to stable commodity cost environment, shouldn't we be building in a fairly sharp expansion, also, because if Capex cycle is picking up, then competition should also ease?

P. Ramakrishnan: One point I would like to refer about is also a question of the mix of orders that we are getting. Obviously, domestic orders for the last two to three years has been largely led by public sector which is obviously the L1 approach. And the competition has been quite fierce in some of the sub-segments that we operate. Similarly, margin mix at 9.5%, 10% or whatever we may refer, also depends on the composition of how much of orders come between infrastructure and hydrocarbons; in hydrocarbons, how much of orders are accruing in upstream and downstream. So it's a dynamic and variable, comprising the way all of these ordering momentum happens. But one important thing here is obviously the private sector ordering which has been below 20%-odd today, if that goes to crossing 20%, 22% or 25%, we do see expectations of a better margin in subsequent years if the share of private sector improves.

Aditya Bhartia: On the electrolysers side, I understand we had done a JV with IOCL and we also had this technology sharing agreement, I think with HydrogenPro. Which is the JV that you were referring to in one of the earlier questions? And a related question. We were also thinking of doing 500 MW of PEM. Is the technology sharing agreement for the same already tied?

P. Ramakrishnan: So as far as technology agreements are concerned, as I told earlier as well, that we expect to close out the technology partner for electrolysers hopefully by March '23. And insofar as the IOCL JV is concerned, I guess that particular JV where L&T and IOCL will have a stake, will be largely led for setting up plants for IOCL and maybe for other public sector oil refineries, on a BOO concept where the JV will set up a BOO entity or a special purpose vehicle, where L&T -IOCL, and also the partner that will provide us renewables energy, all of them will have stakes in line with the proportions of the work is concerned. But that's the overall spirit of the JV. But so far as technology partner is concerned, I think it would be speculative to comment on names at this juncture. The finalization of partner should hope to happen by the end of this fiscal.

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

Renu Baid: I have three questions. First is on the Hydrocarbon segment. While the order backlog build up has been happening now for almost three to four quarters, execution has continued to trail. So should we expect pick up in execution in second half materially and also the project in Africa which was stuck, is there any development on that project?

P. Ramakrishnan: The Hydrocarbon project in Africa, I guess we are executing a job in one of the countries in North Africa and it is almost I think on the verge of completion. I don't think we are executing any Hydrocarbon project in Africa other than the one I talked about, which is almost I think getting over. As far as the order backlog to conversion is concerned, in Hydrocarbon, as I mentioned, the revenue uptick could not achieve because of certain supply chain issues and close out with customers in terms of the final design changes. We do expect a ramp up in the momentum of execution to happen in H2.

Renu Baid: Secondly, you did share the combined prospect list for the Hi-Tech engineering segment. How would the different prospects look like because there are a couple of large projects where we are well placed and the cumulative prospects, if I got the number right, was about 190 billion. So how should we look at the split between Defense and Heavy engineering, and of the Defense prospects? Are you including K9 Vajra, I think you are L1, that would already be a part of it?

P. Ramakrishnan: So, Renu, it is like this, in the order prospects of Rs.6.32 trillion that I was referring to, the combination of the Hi-tech Manufacturing is that the Heavy Engineering division is Rs.3,300 crores or so and the Defense including the shipbuilding is around Rs.16,000 crores and Smart World and Communications around Rs.8,000 crores. so that in a way combines the total Rs.0.27 trillion that I was referring to comprising our Heavy Engineering, Defense and Smart World. So, the Defense part of the business of around 16,000 crores has a list of seven or eight opportunities. I think it would be inappropriate for me to comment on which of those opportunities are those. We do believe that going forward, we should be in a position to have some of them because typically in defense, our strike rates are far more better, but it also depends on the customer to get into the procurement mode.

Renu Baid: Lastly, the cost to completion provision on account of project closures, which you mentioned now, will it be possible for you to highlight which sub-segment were they related to or any particular large project to highlight here?

P. Ramakrishnan: It would be inappropriate for obvious reasons to comment on the two projects where we had cost closures. I think for obvious reasons, it would not be right for me to comment on that. But I would say that they are to be considered as one-offs while we have reported the Q2 numbers.

Renu Baid: Lastly, related to this, if I recollect, now for almost last three months to six months, we have been expecting that because of the steep inflationary impact which we had in the first part of this calendar year, you were expecting significant cost reimbursement of claims to be placed with clients. So now that your margin guidance is the risk of being shy compared to last year's margin, do we see a scenario where some of these cost differences which we had because of volatility, may not actually be reimbursed by clients or it's more of a timing difference between March and the next fiscal?

P. Ramakrishnan: So, Renu, it is a combination of both. I guess, wherever we have had cost escalations, considering the unprecedented increase in the commodity prices, we have gone back to clients for those type of fixed type contracts that we had secured sometime in 2021 for some amount of compensation. So it has been sort of a give and take. And because of that, I would say, in other way elsewhere maybe the margin trajectory would have been worse off. So to some extent, our customers also are aware of the piquant situation we are in. And there has been some amount of additional compensation that has got factored. But it is not essentially that the entire cost escalation can be passed off especially when you bid it out in a fixed price job. So, I would say some amount of that has been factored. But wherever you have had actual cost escalations, and we have put up the claims, obviously, we don't recognize extra cost claims unless and until they get certified. So, in a quarter when such claims can get certified as I was mentioning in response to some other person's question, that you could have some positive surprises on margins as well when these claims get crystallized.

Moderator: The next question is from the line of Priyankar Biswas from Nomura. Please go ahead.

Priyankar Biswas: My first question is again related to Defense opportunity questions that I heard. So if I go into slightly longer term, so not necessarily for the next six months, if let's say on two, three years. There has been a substantial emphasis on indigenization, a list has also been taken out. So, can you just elaborate on what are your addressable market opportunities and what sort of growth rates can we expect?

P. Ramakrishnan: So, Priyankar, I guess there has been a positive set of announcements by the government insofar as Defense procurement and the indigenous strategy is concerned. I guess that is something that will shape up well for companies like L&T to get advantage of the increased indigenization program. But that is an announcement coming from the overall Ministry of Defense or their thought process. Now from there to get converted into the actual procurement placement of orders, so I guess that will take some time, like the Ministry of Surface Transport, when they decided to go ahead with privatization on the roads part of it, especially on concessions, so it took some time for them to develop the overall business model for Ministry of Surface Transport in conjunction with NHAI. So similarly, I believe whereas the prospects look good, and the positive announcements obviously augur very well for indigenous Defense procurement, but it also depends on the on the procurement strategy, how fast paced it is. We do expect considering that the government's emphasis has been quite overt in terms of the intent to do this on a faster pace. But at this juncture, it would be premature to really comment. Maybe by March '23, we will have a better handle on this aspect. But yes, to allude to your question, we do expect the defense engineering segment to take a larger share of the opportunities especially when it concerns the army and the navy procurements.

Priyankar Biswas: Just one question here at a broader level. So you said that, in this quarter, there has been a some slowdown in the tender to award ratio. So like you gave it in the last quarter and a quarter before that, what has been the trend and how does it at least compare with pre-COVID levels? And lastly, you also highlighted some close out challenges on the EBITDA margin. So, are those challenges behind us in 2Q or do we see some flow through impact in the 3Q as well?

P. Ramakrishnan: So, the close out challenges what I was mentioning about, which had 80 basis points impact in Q2 can be positioned as a one-off incident in the quarter. So, let me clarify once more. And as far as the award to tender ratio is concerned, so, the Q2 award to tender ratio was I would say 34% in the current year as compared to Q1 of the current year, which was at 69%. But again, these are all timing differences, I would say Priyankar. But if you were to look at H1 level, so H1 current year, the awards to tender ratio is 49% as compared to H1 of the previous year, which was at 40%. So definitely, it has improved, but you could have quarterly volatilities here and there. So I guess on a longer term, if you see, this is something which has definitely improved.

Priyankar Biswas: So, same thing like if it had been like a pre-COVID level let's say, so, what is the typical tender to award ratio on annual basis in your experience?

P. Ramakrishnan: So, here again, in the first half, no, I think 35% to 40% about to tender ratio is expected, whereas in the second half, usually, India sees a busy second half in terms of tendering, in terms of business activity and so on. So, that could be upwards of 55%.

Priyankar Biswas: If you can comment on the thermal power tendering outlook, because in the last four years hardly anything has happened, but now we are seeing some movement.

P. Ramakrishnan: So, the total order prospects that we are looking at thermal which is a shade better than what we saw in the month of March let me tell you that. Today is almost around Rs.38,000 crores, and out of which we do have in the horizon almost across three particular projects in aggregate totaling to 800 MW into five units across three clients that tenders are expected to happen by the end of this fiscal and that is what is featuring largely in our order prospects of Rs.38,000 crores.

Moderator: 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 whatever margin impact that we've seen in the quarter, what share of that would be eligible for future then? And secondly, I think you'd mentioned last year also, there were some pending claims in the fourth quarter. Has any of that recovery come through in the first half of the year?

P. Ramakrishnan: So, Deepika, in fact, last year, when we started the year, we had given a guidance of 10% and we reported finally 9.2% for the year. Obviously, it had a break-up of increased cost pressures because of commodity prices, and some part of that didn't accrue because of customer claims. So, this year, when we gave a guidance of 9.5%, we have not taken into account customer claims, because typically customer claims take some time to get certified, obviously customer claims that are related to government in some formulations, be it Center, State or Public Sector corporation. So, I guess, at this juncture, it would be inappropriate for us to factor those claims by giving a guidance. So, we have not done that. And at this juncture, yes, in one or two customer claims, we are far more favorably placed than what we were in the month of March, but it would be premature for us to conclude whether that will happen in the current financial year or next financial year.

Deepika Mundra: Lastly, on the order inflow from international, Hydrocarbon, of course, is a tad weaker this quarter. Any specific reason for that? and secondly, the large order projects which are being executed in Saudi Arabia, are any of these large Infra projects in your prospect base?

P. Ramakrishnan: So, the Hydrocarbons international order inflow could be a little lower optically, because in Q2 of previous year, we had a large order that we got awarded from a reputed client in Middle East. So obviously, a big chunk which comes, then optically that comes as a relative measure, it is optically down. But in terms in terms of the overall prospects for Hydrocarbon in the Middle East, that robustness seems to continue as well.

Deepika Mundra: On the Infra side?

P. Ramakrishnan: As far as infrastructure is concerned, I think a major part of the total order prospects that we have for infra at 4.54 trillion, almost 3.97 trillion is domestic. So it is a small portion of 0.56 trillion, which is international. And that too, it is largely led by the opportunities that we have in our traditional Power Transmission and Distribution business out there.

Moderator: The next question is from line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: PR, can you tell us what is the Capex that we should build in for the next couple of years taking into consideration the investment into new energy businesses, etc.,?

P. Ramakrishnan: Pulkit, I think we had mentioned this during our May call where we covered the strat plan. So, in terms of the traditional Capex, that is the Capex that is required for our Projects and Manufacturing portfolio, basis the kind of orders that we are looking at, and what we have seen in the past, an average of, I would say, Rs 3,000 crores is what we can consider each year as part of traditional Capex, but this again depends. If you have a whole lot of jobs in the hydel and in the underground metro where you need a tunneling work, obviously, you need a higher number of equipment, especially the Tunnel Boring Machines (TBM). In fact, in the first six months, we have seen a sizable buildup of Capex as far as the Projects and the Manufacturing portfolio is concerned. So, it would be at this juncture good to assume that on a steady state 2,500-3,500 crores is what we can consider as Capex part. As far as the new investments are concerned, obviously, it's aggregating to almost Rs.7,500-odd crores where data centers of Rs.2,000-odd crores… this is an investment, Data Centers is being incubated in the parent L&T itself, so, the entire Rs.2,000 crores will come as Capex. But the overall investment outlay for electrolysers which is Rs.1,500-odd crores, actual spend likely to happen in next financial year after we close out with the technology partner. So, that will be the total investment. So, obviously, I don't think the equity exposure of L&T into that JV will be as much. Obviously, we'll have some amount of leverage and also the partner equity stakes as well. Similarly, when it comes to the storage batteries, where we expect to close out the technology partner maybe in next financial year. So, for the data centers, the electrolysers and the storage batteries, the overall investment is in the range of Rs 7,000-7,500 crores is what we are now looking at in terms of Capex or investment.

Pulkit Patni: PR, just an extension of this, I want to understand that given the fact that our working capital is a lot more comfortable now, we don't have any meaningful Capex going forward and our leverage ratios are also comfortable, is buyback on the cards anytime in the near future or it is not something that has been considered?

P. Ramakrishnan: Pulkit, I think we had indicated once more at the start of this financial year when we concluded on the strat plan part. Definitely, the objective of the group is to improve the ROE trajectory of 11% to 18% over a series of steps, which includes divestments of non-core businesses like concessions, reduced exposure to L&T Metro in terms of further cash assistance, and steady state consistent margins and growth in a controlled working capital as far as Projects and Manufacturing is concerned. So, all of this should hopefully see us through from 12% to 15% to 16%. Now, the 16% to 18% is obviously is what we call as the Balance Sheet actions. Now, in what combination it will pan out? I think it would be premature for us to conclude or comment at this juncture, but definitely it is being thought about seriously within the group.

Pulkit Patni: But not in the near future?

P. Ramakrishnan: I said it is being thought about. It would be not appropriate for me to comment with the timelines at this juncture.

Moderator: Ladies and gentlemen, we will take the last question from the line of Aditya Mongia from Kotak Institutional Equities. Please go ahead.

Aditya Mongia: The first question is that I wanted to ask you was on execution. If I see whatever is the rate of execution on let's say the prior quarters backlog, there have been an improvement seen in 2Q versus previous 2Q, but not to the extent where we were let's say just prior to COVID. I'm just trying to get a sense from you whether pace of execution can further move up and if that requires further reduction in working capital?

P. Ramakrishnan: Aditya, it is like this. First and foremost, as far as the Infrastructure segment is concerned, let me tell you that the execution momentum has achieved levels even better than what was pre-COVID. In terms of the overall execution momentum, of course, in Hydrocarbon, we have had, as I mentioned earlier, some amount of supply chain challenges that is coming once in a while. But the aspect today is, Aditya, that we are a little conscious about the fact that we don't want to go just on the basis of execution without getting paid. So the focus of L&T right now is to balance execution with money getting collected. So, it is I think one important parameter that all of us should be aware of that we would like to keep the overall working capital at check, and not to get into numbers that we have witnessed some years back where the projects and manufacturing part of the portfolio has even seen 23%, 24%. While we don't have challenges per se as far as execution is concerned, but we are fully conscious of the fact that we would like to get paid. And to that extent, if there are delays in payment, the execution gets trimmed to the extent of the payments that are coming from the client.

Aditya Mongia: The other related question was in working capital. I've been having discussions with you on the government guidelines that came about wherein the government is taking through kind of smoothening the entire EPC ecosystem in terms of payments. Any actions that you have seen that are concrete and have been taken in that regard?

P. Ramakrishnan: Aditya, guidelines came in October '21. But as far as we are concerned or I am aware of, I think the guidelines are yet to be getting enforced by the central government or PSUs itself. As of now, we have not seen cases where the three or four areas that they are talking about that L1 need not be the only basis of awarding a contract, it has to be a combination of both the technical and price credentials. Second is single bids can be given as award. So until now, we have not seen anything that way of bid because we are also being a little selective. I don't think those conditions have still got applied.

Aditya Mongia: But is it fair to assume that there is a scope of improving the pace of execution if for some reason, working capital payments would be more streamlined, is it possible for you to do things faster?

P. Ramakrishnan: Absolutely, obviously, for all the projects in India, if we are getting paid on time, I do think that our execution ramp up could obviously hasten at a faster pace.

Aditya Mongia: One more question on the margins. I think questions have been asked. I will try to put in a simpler manner. Are we seeing any trends in let's say, our own bid margin becoming better off in certain segments or on an aggregate basis just on the basis of whatever orders we are winning? I'm trying to get a sense from you on competition, because it seems as you're getting orders that you're not even factoring in. Just trying to kind of probe you slightly more on that aspect.

P. Ramakrishnan: So let me put it like this, I think in the last six or seven quarters ever since the commodity prices slowly started shaping up, we have been extremely careful while we are pricing our bids. We are focusing on I would say a smaller set of prospects where our ability to win is improved. At the same time, we are not compromising per se on margins. But also one should note that it is also a function of what we call a competitive intensity. So, it is a blend between competitive intensity to demonstrate and also keep ensuring that we don't cede market share to any of the competition. So, I guess it's a healthy mix that we are adopting. But yes, if the propensity of orders largely comes from State-Owned or Public Sector, then obviously L1 being the primary determinant for award of contracts, I guess that aspect will continue to remain.

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

P. Ramakrishnan: So thank you, everyone, for taking this time of the day for attending this call. It was our pleasure to interact with all of you. We have tried to answer as much as possible in response to the questions and also we have covered that in our presentation and also in the call that we just now had. In case if you have any follow-on questions or hygiene related questions, please feel free to call me or my colleague, Harish, and we'll be glad to answer of them. So thanks to all of you for your time. Thank you.

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