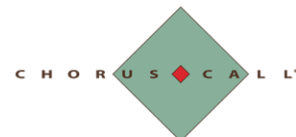
"Larsen & Toubro Limited
Q3 FY '23 Earnings Conference Call"

January 30, 2023



MANAGEMENT: MR. P. RAMAKRISHNAN – HEAD INVESTOR RELATIONS – LARSEN & TOUBRO LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Larsen & Toubro Limited Q3 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

P. Ramakrishnan: Thank you, Faizan. Good evening, ladies and gentlemen. A very warm welcome to all of you to the Q3 FY '23 earnings call of Larsen & Toubro. The investor presentation was uploaded on the stock exchange and our website around 6:20 p.m. today. I hope you have had a chance to take a look at the numbers. As per normal practice instead of going through the entire presentation, I will take you through the key highlights for the quarter in the next 20 minutes or so, post which we will take Q&A.

Before I start the overview, a brief disclaimer. The presentation, which we have uploaded on the stock exchange and our website today, including the discussions during this call contains or may contains certain forward-looking statements concerning L&T's business prospects and profitability, which are subject to several risks and uncertainties and actual results could materially differ from those in such forward-looking statements.

During Q3 FY '23, the Indian economy continued to display surprising resilience amidst the continuing geopolitical uncertainties globally. The high-frequency economic indicators are continuing to exhibit strong momentum. PMI, credit growth, rural and urban consumption trends, investment indicators, mobility indicators, passenger and cargo traffic data, etc, all of them are all pointing towards a stable and positive macroeconomic environment. The tax collections for the government have continued to remain strong and the balance sheets of the banks as well as private corporates look healthy. Most of the Indian macro indicators, be it growth, current account, fiscal deficit and inflation are relatively better vis-a-vis other countries in the world.

Within GCC, we see many countries building their non-oil economy by investing in areas like water, green energy, and at the same time, continuing to ramp up their spends on oil and gas investments. These are times where despite the continuing global turmoil, both India and GCC, which are our group's primary geographies as far as Projects and Manufacturing opportunities are concerned, look relatively stable.

Before I get into the details of the financial performance parameters, I would like to share a few important highlights for this quarter.

- We announced the divestment of L&T IDPL during Q3. The transaction closure is subject to receipt of various regulatory approvals.
- Our LTI and Mindtree merger both concluded on November 15, 2022. The merged entity, LTI and Mindtree will benefit from cost and revenue synergies over time

- With the conclusion of the sale of the Mutual Fund business and a phase to sale of the wholesale loan assets book, our Financial Services business will continue to pursue its retailization strategy.

Now I will come to covering the various financial performance parameters for Q3 FY '23. Our group order inflows for Q3 FY '23 at RS 607 billion, registered a Y-on-Y growth of 21%. Within that, our Products & Manufacturing portfolio secured order inflows of Rs 457 billion for Q3, registering a Y-on-Y growth of 20%. Our Q3 order inflows in the Projects & Manufacturing portfolio are mainly from Infrastructure and Hydrocarbon segments.

During the current quarter, our share of international orders in the Projects & Manufacturing portfolio is at 12% vis-a-vis 34% in Q3 of the previous year. The domestic ordering environment, therefore, in Q3 was significantly better compared to Q3 of the last financial year. At a macro level, the domestic tendering and awarding activity has continued to remain strong. Although the domestic award to tender ratio was a bit soft in the current quarter, which was 56% in Q3 FY '23 vis-a-vis 57% in FY '22, the fact that the tendering momentum is strong, augurs well for the quarters ahead as well.

For 9M FY '23, the award to tender ratio was 52% vis-a-vis 48% in 9M of the previous year. We also expect a public capex spend comprising of Center, States and PSUs in the current year to be significantly better than the previous year. The year-to-date public capex spends have been higher over the comparable period in the previous year, driven by center and PSUs. We expect the State Government capex to be up significantly in the last part of the current financial year, which is FY '23. Private sector capex is also seeing signs of revival. In fact, in Q3 FY '23, the project announcements by the private sector is at a multiyear high. In Q3, our share of Private within the domestic orders was 32% vis-a-vis 18% last year, largely witnessed in the Buildings and Factories sub-segment and in the Ferrous sectors. We will be closely watching this momentum build up in private capex in the coming quarters.

Our order prospects pipeline for Q4 FY '23 is around Rs 4.87 trillion comprising of domestic order prospects of Rs 3.82 trillion and international order prospects of Rs 1.05 trillion. The breakup of this overall prospects pipeline comprises of Infrastructure – Rs 3.89 trillion; Hydrocarbon – Rs 0.61 trillion, Power – Rs 0.20 trillion, Heavy Engineering and Defense in aggregate at Rs 0.17 trillion.

Moving on to order book. Our order book at Rs 3.86 trillion as of December '22 is largely India centric, 74% of that is belonging to domestic and the balance outside of India. Against the International order book of Rs 1.02 trillion, around 81% is from Middle-East, 10% from Africa and the remaining 9% from other countries. Clearly, the Middle-East capex in both Infra and Hydrocarbon is an upswing post the recovery in oil prices, a statement that I refer to you five minutes back.

The breakdown of the domestic order book of Rs 2.68 trillion, which I said is 74% of the overall order book is as follows: Central Government orders have a share of 9%, State Government,

31%, Public Sector Corporations or State-Owned Enterprises have a share of 40% and Private Sector, the remaining 20%. Approximately around 27% of our total order book of Rs 3.86 trillion is funded by bilateral and multilateral funding agencies. Around 91% of our total order book again of Rs 3.86 trillion is from Infrastructure and Energy. You may refer to the presentation slides for further details. During Q3 and 9M FY '23, we have deleted orders of around Rs 19 billion and Rs 50 billion, respectively, from the order book. The slow-moving order share as of 31st December 2022 is at a low of 3% to 4%.

Coming to Revenues. Our group revenues for Q3 FY '23 at Rs 464 billion registered a Y-o-Y growth of 17%, International revenues constituted 37% of the revenues. The ITTS portfolio continued to report good growth in Q3 as well. In the Projects & Manufacturing business portfolio, our revenues for Q3 FY '23 were at Rs 314 billion, also registering a Y-on-Y growth of 15%, again, largely contributed by robust execution growth in Infrastructure segment. I'll come to the finer points when I cover each of the segments later.

Moving on to the EBITDA margin. Our group level EBITDA margin without treasury income or other income for Q3 FY '23 is 10.9% at a drop of 50 basis points over the Q3 of the previous year. This drop of 50 basis points is primarily due to higher staff costs in the ITTS portfolio as well as a one-time merger integration cost posted by LTI Mindtree. The detailed breakup of the EBITDA margin business-wise is given in the annexure to the investor presentation. You would have noticed that the EBITDA margin in the Projects & Manufacturing business for Q3 FY '23 is at 8.5% vis-a-vis 8.4% in Q3 of the previous year. This improvement of 10 basis points is largely reflective of job and the activity levels in the various sub-segments of the Projects and Manufacturing portfolio.

Our Recurring PAT for Q3 FY '23 at Rs 24.6 billion is up by 20% of Q3 of the last year, largely aided by higher treasury income. The reported PAT at Rs 25.5 billion is up by 24% over previous year.

Our exceptional item of around Rs 1 billion for current quarter ie Q3 FY '23 includes a gain on the divestment of the Mutual Fund business, partly offset by a onetime charge on the re-measurement of the wholesale loan assets by L&T Finance Holdings. The group performance P&L construct along with the reasons for major variances and the respective function heads is provided in the investor presentation.

Now coming to Working Capital. Our Working Capital to Sales ratio has improved from 22.9% in December '21 to 19% in December '22. Our Group level collections, excluding Financial Services for Q3 FY '23 is Rs 433 billion vis-a-vis Rs 331 billion in Q3 FY '22. For 9M FY23 , our group level collections, excluding Financial Services, is RS 1.16 trillion vis-a-vis RS 0.93 trillion in 9M FY22.

Moving on to Balance Sheet. If you glance through the Balance Sheet, given in the annexures to the Investor Presentation, you will notice that the Debt Equity ratios both Gross and Net in

December '22 have improved over the March '22 levels. Our trailing 12-month ROE for Q3 FY '23 is 12.4% vis-a-vis 11% in Q3 of the previous year.

Very briefly, I will now comment on the performance of each of the business segments before we give our final comments on our outlook for the near term.

First would be Infrastructure. Coming to Order Inflows. Our Q3 FY '23 order inflows for this segment are well spread across the various sub-segments. During the quarter, this segment bagged some large orders in the Public Space, Hydro projects, Irrigation projects and the Metals space. The segment secured orders of Rs 325 billion in Q3, registering a strong growth of 28% over Q3 of the previous year. Our order prospects pipeline in Infra for Q4 FY '23 is around Rs 3.89 trillion comprising of domestic prospects of RS 3.27 trillion and international prospects of RS 0.62 trillion. The sub-segment breakup of the total order prospects in this segment comprises of Heavy Civil infra has the largest share at 32% followed by Transportation Infra - 29%, Water - 14%, Buildings & Factories - 13%, Power Transmission & Distribution - 9% and Minerals & Metals - 3%. The order book in this segment at Rs 2.79 trillion as of December '22, has an execution visibility of around three years.
The Q3 revenues in the current year at Rs 219 billion registered a growth of 20% over the comparable quarter of the previous year aided again by a combination of a large opening order book and improved customer collections during the quarter. As we have been mentioning earlier as well, as a strategy, we have always stepped-up execution when customer collections are flowing at a healthy space to strike a healthy balance between P&L and Balance Sheet management.
Our EBITDA margin in the segment is at 7% in Q3 FY '23 vis-a-vis 7.1% in Q3 of the previous financial year. The margin for the quarter remained stable despite cost pressures.

Moving on to the next segment, which is Energy Projects, which comprises of Hydrocarbon and Power. Receipt of domestic orders in the Hydrocarbon business improved order book, whereas deferral of orders continue in thermal power. The order prospects pipeline of Rs 0.80 trillion of the Q4 FY '23 is more or less healthy. The order book for this energy segment at Rs 720 billion as on December '22 with the international order book constituting 50% largely on account of Hydrocarbon orders that we have been securing over the last six quarters.
The Q3 FY '23 revenues at Rs 63.3 billion registers a growth of 7% over the comparable quarter of the previous year. It is heartening to note that the execution momentum in Hydrocarbon is improved, whereas lower revenues in Power is reflective of a depleted opening order book. The EBITDA margin of this segment at 8.7% for Q3 FY '23 improved compared to 8.3% over the corresponding quarter of the previous financial year. The execution cost savings, productivity and efficiency in both Hydrocarbon and Power business enabled the margin improvement.

We will now move on to the Hi-Tech Manufacturing segment, which comprises of Heavy Engineering and Defense Engineering businesses. In this quarter, we saw multiple order wins in Heavy Engineering, whereas Defense ordering was a little subdued during the quarter. We have an order prospects pipeline of around Rs 170 billion for Q4 FY '23. The order book of this segment is at Rs 199 billion as on December 31, 2022.

The revenues for Q3 FY '23 at Rs 16.7 billion registered a growth of 14% over the corresponding quarter of the previous year. There has been strong execution in the Heavy Engineering business, whereas Defense witnessed certain tapering off some of the jobs that we executed last year.
The segment margin in the previous year also had the benefit from price variation claims and an important job crossing the margin recognition threshold in Defense, which explains the margin variation in Q3 FY '23 when compared to the corresponding quarter of the previous year.
On this segment, once again, to reaffirm the Defense Engineering business does not manufacture any explosives nor ammunition of any kind including cluster munitions or anti personal land mines or nuclear weapons or components for such ammunitions. The business also does not customize any delivery systems for such ammunitions. For those of you who have not gone through the Annual Report for FY '22, we have made an adequate disclosure to this effect mentioned in the Chairman's statement as part of our Integrated Annual Report of last year.

Moving on to the IT and Technology Services segment. The highlight for the quarter was, as I mentioned earlier was the merger of LTI and Mindtree. Coming to performance. The revenues for this segment in Q3 FY '23 at Rs 105.2 billion registered a growth of 25% of the corresponding quarter of the previous year reflecting the continuing growth momentum in the sector with the surge in demand for technology-enabled offerings. The business outlook for the segment continues to be strong despite the fears around global recession impacting IT spending.
The margin in this segment is lower in Q3 FY '23 vis-a-vis Q3 FY '22, once again, as I mentioned earlier, impacted mainly due to higher employee costs and a onetime merger integration expense that LTI and Mindtree had to incur. I will not detail out much in this segment as because both of the companies in this segment are listed subsidiaries and the detailed fact sheets are already available in the public domain.

Next, we move on to the other listed subsidiary, which is L&T Finance Holdings, clubbed under the Financial Services segment. Here again, the Company is listed, and the detailed results are already available. But to mention the highlights. The highlights for Q3 FY '23 was improved Net Interest Margin and Fees, lower credit costs, better asset quality and rundown of the Wholesale and expansion of the Retail book. As on December '22, the share of Retail book in the overall book is improved at 64%. PAT for the quarter includes gains on the divestment of the Mutual Fund business and partly getting offset by a one-time charge on the re-measurement of the Wholesale loan assets portfolio pursuant to the group's decision to have an accelerated sell-down of the wholesale loan assets book. The strategic deliverables in this business revolve around the portfolio reorganization that is a focus towards retail, strong asset quality and overall improvement in return on assets. The business endeavors to be a top class digitally enabled retail finance company moving from a product focused to a customer-focused approach. To conclude, there is sufficient growth capital available in the Balance Sheet, which means like the way we have mentioned earlier, we don't have any plan to infuse any further equity into this business in the near to medium term.

Moving to Development Projects segment, which is essentially the concessions segment. This segment includes the Power Development business as well. The assets include Hyderabad Metro, Nabha Power and Uttaranchal Hydropower plant up to the date of its divestment that was

August 30, 2021. So Q3 of FY '22 onwards, Uttaranchal numbers are not there, but until Q2 of the previous year, you had Uttaranchal numbers that we have disclosed already. As you are aware, the Roads and Transmission Line concessions part of the business - which is L&T IDPL and is being consolidated at a PAT level using the Equity method. The majority of revenues reported in this segment is contributed by Nabha Power. The ridership in Hyderabad Metro and higher PLF in Nabha was one of the reasons for the growth in the segment.

Now coming back to Hyderabad Metro, some ridership statistics. The average metro ridership improved from 2,18,000 passengers a day in Q3 of FY '22 to 3,94,000 passengers per day in Q3 of current financial year. The average readership of the previous quarter of the current financial year, which is Q2 FY '23 was 3,55,000 passengers per day. So on a sequential quarter basis also, one can witness that what was in Q2 FY '23 at 3,55,000 has gone up to 3,94,000 in Q3 FY '22. All the numbers are the average ridership. Incidentally, on January 25, 2023, the Hyderabad Metro witnessed a record highest metro ridership at almost 4,71,000. Q3 FY '23 margin in this segment is contributed by Metro operations as Nabha margin is not being recognized from Q3 of FY '21. The improvement in average daily ridership has enabled Metro to report EBITDA margin of 40% in Q3 FY '23 vis-a-vis 23% in Q3 FY '22. The Metro at PAT level, we consolidate a loss of Rs 3.3 billion in Q3 FY '23 vis-a-vis a loss of Rs 4.8 billion in Q3 FY '22. Operating and amortization cost are between RS 0.80 billion to RS 0.90 billion each quarter, whereas interest cost stays at Rs 3.2 billion each of the quarters. In Q3 last year, our interest cost was Rs 4.3 billion. So coming back, to conclude on Hyderabad Metro, the improved ridership and a plan to have a phased Transit-Oriented Development monetization, the accrual of the government assistance that we had discussed in the previous quarters and with the recently concluded debt refinancing, the performance parameters for Hyderabad Metro should improve further in the coming quarters. The dilution of stake in this SPV may happen in phases over the next couple of years, but at this juncture, there doesn't seem to be any immediate visibility.

Moving on to the last segment, which is the residual known as the Others segment that comprises of Realty, Industrial Valves, Smart World and Communications, Construction Equipment, Mining Machinery and Rubber Posting Machinery. The Q3 revenue growth is mainly in Rubber Processing Machinery, Construction Machinery and Realty. Margin improvement for the other segment is driven by a favorable sales mix in Construction Equipment & Mining Machinery and Rubber Processing Machinery and as well as a sale of property in Realty.

Coming to the last part of my discussion on our presentation, the outlook for the quarter and the near term. The Indian economy continues to stay resilient amidst the geopolitical uncertainties, slowing global trade, disrupted supply chains, volatile commodity prices and rising interest rates. There is a visible tax buoyancy in the country, enabling the government to pursue its targeted capex plans. The PLI schemes of the government are expected to incentivize private players, both domestic and foreign to set up manufacturing facilities in an environment of improving demand conditions and business confidence. Major private capex investments are likely in energy transformation, emerging technology, health care, logistics, industrial parks, data centers, etcetera, which all of them augurs well for a EPC contract organization like us. The government is likely to continue the emphasis on infrastructure spending, while providing subtle support to

consumption and addressing the need for investing in new edge technologies to combat the climate change risks. Elsewhere, major parts of the global economy continue to tread in turbulent waters due to policy tightening, high inflation, worsening financial conditions and continued trade disruptions due to the ongoing Russia-Ukraine conflict. Further, China is running the risk of managing the Covid related challenges as restrictions on movement have been eased, however the impact, if any, could be temporary. With softening demand conditions and elevated interest rates, it is expected that inflation will soften in 2023. Despite these several headwinds, we believe the global economy is not at a higher risk of sliding into a recession. Oil prices are likely to remain firm at current levels, aiding the Middle East to continue to earn surpluses and create sufficient financial flexibility to invest in sectors besides oil. Like the way I mentioned of Industrial water and other Green investments.

In this backdrop, the company's portfolio has the necessary capability and flexibility to continuously rebalance its approach and strategy to benefit from the dynamic business environment. The company is focused on tapping emerging opportunities with its proven competence in the domains of engineering, manufacturing, construction, project management, IT and financial services and committed to create sustainable long-term value for its shareholders.

Finally, let me comment on our guidance for the year FY '23 before we take the Q&A.

Order Inflows - We believe that we are well positioned to meet and possibly exceed the guidance if the current tendering and award momentum continues into Q4 as well. In the Project business, as all of us are aware, the slippage of awards between quarters is normal and could ultimately influence the actual order inflow for FY '23.
Revenue - Our current execution rate is fairly encouraging and we believe that we are on course to meet the upper end of the guidance that we had given at the start of this financial year.
Margins - The overall margins for the Projects & Manufacturing business rely largely on the margin of our largest segment i.e. Infrastructure. Infra margins have been under pressure in the current year, partly because of execution of projects this year has involved absorption of project costs contracted during the inflationary period of September '21 to June '22. And in the Projects business itself costs are absorbed as incurred, while claims for contract price variation gets settled at the back end of the project. This leads to what we call a timing mismatch in reporting margins. Having mentioned that, we do believe that the margin in the Projects and Manufacturing portfolio could have possibly bottomed out, especially in the Infrastructure segment and should witness a recovery going forward, provided the input costs remain stable. Geopolitical dynamics the continuing war in Europe and COVID disruptions in China, does have some sort of residual bearing even to today on the supply chain. We had reported 9.3% as overall margin for FY '22. For the current year, we do expect a pressure of maybe around 30 basis points to 50 basis points, on this particular parameter.
Working Capital - The Q4 of every financial year is a strong quarter for our customer collections. And since our NWC / Revenue is at 19% in December '22, we believe that we could possibly close the year between 19% to 20% as against the year start guidance of 20%-22%.

So with this, thank you, ladies and gentlemen, for this patient hearing. Faizan, maybe we can now start to take the Q&A.

Moderator: The first question is from the line of Sumit Kishore from Axis Capital.

Sumit Kishore: This was a quarter of a fairly strong inflows and core business execution overall. My first question is that: You mentioned a strong oil and non-oil capex spend in GCC, but inflow growth in the quarter end and nine months is domestic led. So is L&T losing out on orders in GCC so far this year? Or if you could provide some color.

P. Ramakrishnan: Sumit, let me tell you that it's all timing mismatches because if you were to compare the nine months of the previous year vis-a-vis nine months of the current year, it is like, we did get large orders in the Middle East in the previous year, especially in Renewables and Hydrocarbons. So I would like to answer to your question saying that it's not that the competitive intensity has gone up and we have lost orders. I think it's more to do with the fact that there has been some amount of delays, but nothing to say from a negative perspective that the Middle East is slowing down or we are losing orders there.

As I mentioned, the order prospects pipeline is of Rs 4.87 trillion for Q4. Out of that, the International order prospects is almost at Rs 1.05 trillion. And in fact, in Hydrocarbon prospects is at Rs 0.61 trillion, which is the total order prospects. The international order prospects is almost 2/3rd of that. So, I would say that it's more of a timing-related issue, nothing structural.

Sumit Kishore: The second point is just on your margin guidance, what was the 30 basis points to 50 basis points that you mentioned, if you could repeat that?

P. Ramakrishnan: So what I concluded was that we printed 9.3% for last year. And considering the fact that the first six months was a combination of higher commodity prices and some project closure costs that we witnessed, especially in Q2. And to that extent, if you see there has been a margin improvement in Q3, but the amount of margins that we missed out in the first six months; it is little difficult for us to compensate the entire thing in the next six months and still maintain the margin of 9.3 %. So here at this stage, of course, the Q4 of -- typically for our Projects & Manufacturing portfolio, is -- I would say, is a very good quarter in terms of the execution intensity, including some of the projects to cross the margin recognition threshold. But it is important that one should understand, since the first six months, we have had a drop in margin, we could see some amount of margin compression at a yearly level and that is largely because of the first six months drop that we had. And hence, what we are looking at is that there could be a 30 basis points to 50 basis points compression compared to 9.3% of FY '22.

Sumit Kishore: So is there any progress on outstanding customer claims, which have accumulated post-COVID and even in Q2 FY '23?

P. Ramakrishnan: I did mention this when I was giving my margin guidance that during COVID, what had happened is because of the lock-down restrictions, the customers were giving us extension of time. But in terms of the hold up costs that L&T had incurred way back then, getting the

certification will typically happen towards the job closure. So in this entire margin guidance, whatever we have been providing, we are excluding such kind of pending customer claims, not only for COVID, there can be claims for other aspects also. In the Project & Manufacturing business, it happens both ways, we can have over-run cost because of our account, and we can have cost over it because of time delays or because of write-off way issues that is typically the responsibility of the customer. So in this case, any customer claims that we are able to get will add up to the margins, but that has not been factored for Q4 FY '23.

Sumit Kishore: Just one data question. In your cash flow statement, your net investment in fixed assets has gone up from Rs 18 billion in 9M FY '22 to Rs 30.3 billion in 9M FY '23, what's driving and what's the composition of this capex.

P. Ramakrishnan: So the large part of this capex, Sumit, is coming from the Standalone business itself which is largely project-related capex that we are doing. The other part of the capex, obviously, is the IT&TS portfolio - because they also are expanding in terms of headcount and the normal IT equipments that we have. But I would say almost at a gross level, we have had a capex increase in by way of purchasing project-related equipment of almost RS 2,500 crores in the first 9M. I mean, increase as compared to the same 9M of the previous year.

Sumit Kishore: So your recurring capex now would be a higher number versus what you have been doing in the past?

P. Ramakrishnan: Actually, that is something I believe is a positive thing to handle with because recurring capex need not be that we are, its more to do with the projects that we are getting. And if you are talking about a lot of projects that are coming up in the coastal side, including High-speed rail, Hydel projects and all, which involves tunneling and the need to deploy Tunnel Boring Machines (TBMs).

So I guess that is something positive. But that doesn't mean that we are going to have a sizable capex. As far as this year is concerned, yes, there has been an increase. Let us see, next year when we give the guidance in all other parameters, how much of the project-related capex will happen. That depends on how we close the budgets in the next two to three months.

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

Deepak Krishnan: I just wanted to understand while we have seen an incremental order inflow of 32% in overall private mix. But in terms of your prospect pipeline, how would you look at private capex picking up, specifically if we kind of look at what is immediately possible for you?

P. Ramakrishnan: So in the overall prospects pipeline, in the domestic prospects pipeline we have is Rs 3.82 trillion. Against that, the share of private capex orders is still around, I would say, 10 to 15 percent. So it's not that. Although the announcements on the private side has been quite favorable in Q3 as compared to the previous quarters, but in terms of actual tendering momentum, we do believe possibly it could happen maybe post the Union Budget announcements that is expected two days from now. So that is something I think, but definitely, it is quite positive. And I also

would like to mention that even in the current year, we have seen a sizable mega order that we have secured in the minerals & metal space which itself demonstrates that some of the core industrial investments from the Private sector seem to be online or on track, I would say.

Deepak Krishnan: Maybe and just one follow-up on the margin side, especially on the Infra side. We've been seeing flat margins despite improved execution. Is there any other outstanding projects, which are sort of a challenge? And maybe just from an overall mix, how are we looking at the mix of fixed process variable price contracts currently in our order backlog?

P. Ramakrishnan: So at the aggregate portfolio level of Projects & Manufacturing, the share of fixed and variable contracts still continues to be the 1/3, 2/3 Deepak, and that has not changed much. The only thing is whatever fixed price contracts that we have been quoting for the last four quarters or three quarters or so has been something taking into account the current prices. Of course, in FY '23, what we are witnessing the execution ramp-up is largely the fixed price contracts that we had secured prior to the commodity price hikes that we have been witnessing. So some extent of that has seen an impact in the overall margins. Infra margins today is at almost 7%-odd. And I guess we are coming back; you should be seeing a sequential improvement quarter-on-quarter from now onwards.

Deepak Krishnan: So maybe just one last question, given that on the Hyderabad side, we are seeing an expansion of the metro network, but anything from the State Government side on the interest free loan that we were supposed to get? Any support any update on that?

P. Ramakrishnan: Okay. So as of December, the State Government assistance was announced at Rs 3,000 crores to be given over a period of two to three years. And as of December, we just got Rs 100 crores, and we are informed that we should be getting the Rs 900 crores of the first tranche of Rs 1,000 crores in the current quarter.

Moderator: The next question is from the line of Renu Baid from IIFL Securities.

Renu Baid: Three questions from my side. So basically, on the margins, essentially at the start of the year, we had guided a relative improvement in margins, which we had come down to flat margins and now, we are seeing 30 to 50 basis point decline in Y-o-Y margins. Am I right, towards the cut in the guidance from where we came through?

P. Ramakrishnan: Okay. So Renu, yes, I agree with you that when we started the year, we had initiated a guidance of 9.5%. But I guess, the first six months we witnessed a good amount of execution. Also witnessed two things, that the commodity prices that we took the first six months was largely on the back of contracted purchase orders for committed shipments which was a discount at the time of the prices prevailing then. So that has had one impact. And as I mentioned in the previous calls, in Q2 also, we had some amount of project closure costs that was not envisaged.

So, as we see it, from the margin drop that we have seen in the first six months, it looks to be a little unlikely that can get compensated completely. But the one important thing I would like to reassure you is that, at least we seem to have changed the tide now with the improvement in

margins and we expect that the improvement momentum to continue on the back of commodity prices having eased. But as you know, margin guidance has been only given for the current Q4 and for the year. And base is the way we are at Q4, we are looking at possibly 9.3% is what we printed, maybe we should be in that 8.8% to 9% kind of a trajectory.

Renu Baid: Sir, basically, the question is, as the overall P&L margins, can we expect at least from next year, given that most of the project closure costs, onetime expenses and everything is behind; on a normalized basis, if there are no further shocks on the commodity side, can margins revert back to double-digit levels from next fiscal, given the mix of orders and execution that we have on books? Is that the possibility?

P. Ramakrishnan: So Renu, first thing, let me tell you that the commodity prices having eased obviously will be comfort for us in terms of our ability to improve the margins primarily because, as I mentioned, a few minutes back that the projects that we have bid -- fixed-price contract that bid for the last three to four quarters have taken some amount of higher commodity prices, which will added to a benefit.

But in terms of the margin projected trajectory, Renu, as I mentioned that it looks to be that we are bottomed out and from now onwards it should improve. But it is premature for me to comment on next year's margins because let us first take a stock of how the budgets of the individual business pan out. And as you may be aware that we always give the margins for the year in question. So kindly wait until 3-4 months before give the guidance for FY '24.

Renu Baid: And related to this, on the bullet train or the high-speed projects that we're executing the largest project in the backlog. Are we through with the margin threshold recognition for the largest packages there? Or are we expecting that around in 4Q or 1Q?

P. Ramakrishnan: The C4 package is almost 40% or so complete. So Renu, I was answering in terms of the high-speed rail, the two projects at C4, C6 have crossed their margin recognition threshold and are going as per plan, largely in line with what we have planned out.

Renu Baid: You also mentioned in your opening comments about a sale of property in Realty. Would it be possible to quantify the value?

P. Ramakrishnan: So the sale of property in the Realty business is part of Realty's own business portfolio itself. So I would say the impact to overall margin for the quarter would be at around 15 basis points.

Renu Baid: But no lump sum value in terms of sale consideration

P. Ramakrishnan: No. I would say, it's in the normal course of business of Realty, nothing to call out separate because anyway, it is getting subsumed under Others segment. And if it is material, anyway, I would have told you separately.

Renu Baid: And lastly, while your 9M order inflows have been very strong and your guidance unchanged implies a decline of almost double-digit 10% to 15% in fourth quarter. And you also mentioned

of possibility of slippages of orders in 4Q in P&M segment. So are you seeing certain large projects decision making getting delayed either in Defense or other segments or it's more of a cautionary segment and if everything is business as normal you should be able to exceed your inflow guidance?

P. Ramakrishnan: Okay. So Renu, let me tell you that when we gave our order inflow guidance at the start of the year at 12% to 15%. And today, what we are telling is that we are fairly confident to meet or cross the upper end of the guidance, which is 15%. But I think it's important to confirm this with numbers. See, typically, if you have witnessed L&T's Projects and Manufacturing business, you will always find that the H2 has been quite robust as compared to the first six months. But this year has been and that is something, I would say, very positive that we have seen a good amount of tendering awarding and award opportunities in L&T's favor right from Q1 itself.

Now if you trace to our Q4 numbers, the total order inflows that we have done in Q4 of FY '22 was almost RS 61,000 crores. Now even to keep that 15% guidance, I need to be having in and around that level of order inflows even in Q4. And obviously, you will have the combination of some mega orders and some good amount of orders to come in. So, there is always a Rs 5,000 crores to Rs 10,000 crores drop here could possibly impact that percentage. So we are confident -- and as I said, we are more positive to cross them on, but I think it would be a little premature for us to say at what level we will cross given the fact that the run rate itself is a need RS 55,000 crores to RS 65,000 crores.

Renu Baid: And on the Defense side, projects that you were L1 for quite some time, a repeat order for K9 Vajra and others, do you think those orders may materialize end of this fiscal, or still they are take some time away?

P. Ramakrishnan: I would say at this juncture, too early to comment on it Renu, possibly could be a spillover to next year.

Moderator: The next question is from the line of Mohit Kumar from DAM Capital Advisors.

Mohit Kumar: Congratulation on a very good set of numbers, especially on the order inflow. So my first question is on the prospect on the Defense side. Has the Defense prospects improved materially, I am talking about for the next 12 to 18 months; because we have seen the interview there where we are talking about the defense constituting higher proportion of the order backlog as we go forward.

P. Ramakrishnan: So, I was talking about that the giving us defense order prospects for Q4 at Rs 17,000 crores ie Rs 0.17 trillion. So let me tell you, and I'm talking about Q4. So, the order prospects for Defense is almost at Rs 15,000 crores ie Rs 0.15 trillion. One thing is definite, the government has a clear articulated plan on increasing the indigenization of the various different capex procurement.

But of course, there are large projects that may come up, but let me restrict here to say that order prospects where we see some amount of ordering and a possible award opportunity is only for Q4 and that is at Rs 0.15 trillion. But with a very positive outlook in terms of the extent of

Defense orders that can come up in the subsequent years. A little early to comment as to how much our order prospects will happen for next year, wait until May when we give you the numbers.

Mohit Kumar: Secondly sir, how has been our win ratio in the orders, which you announced in nine months and the closure of tender to award ratio, especially in Q3?

P. Ramakrishnan: So, in the domestic award to tender ratio, I think I did mention in Q3, it was 56% Q3 FY '23 as against 57%. So it's just a drop of 1%. But you know what, the tendering momentum for Q3 at RS 4.21 trillion is almost up by 54% as compared to the previous quarter that is Q3 of the previous year. Similarly, the 9M award to tender ratio, which was 52% in the current nine months as against 48% in the nine months of the previous year, here again, the tendering and actual value of tenders at Rs 10.1 trillion for nine-month FY '23 is almost up by 64%, which only re-emphasizes which most of us would agree that the Indian economy seems to be on the back good sustained investment or capex-led momentum with a clear intention to kick start projects and get into the execution side.

Coming to the first part of your question, I would say that this year, we have seen a more positive award to prospects ratio, whatever one may call is almost in the range of around 20%-odd, which is something which we believe is quite positive for us.

Mohit Kumar: Last question on Hyderabad Metro, are we expecting more to TOD monetization as we enter into FY '24? I believe the monetization has been pretty slow till date. Can you expect a substantial number in FY '24?

P. Ramakrishnan: Sorry, I didn't get you 524...

Mohit Kumar: TOD monetization of the Hyderabad Metro. Can you comment on that?

P. Ramakrishnan: So the way it will happen is I would say that one -- it would be reasonable to comment on the fact that we can assume around RS 1,000 crores to RS 1,500 crores as monetization over -- each year over the next two to three years.

Moderator: The next question is from the line of Deepika Mundra from JPMorgan.

Deepika Mundra: I have two or three questions. So mainly on Working Capital and Margin, given that you're seeing a pickup in the Private sector orders, like before, are you seeing a differentiated margin profile as well as working capital profile compared to public sector capex?

P. Ramakrishnan: So Deepika, I guess I think the last 1.5, two years, our major part of the capex that we have been taking is either Middle-East and the India side is largely Government. And despite all of this, I would like to mention that as a company for the last six quarters or so, we have been very careful to keep on track this margin trajectory.

And we have been, I think, fairly successful, although we started the year saying that we will have -- we will end the year with a 20% working capital trajectory, but see a maximum of maybe

22% in the intervening quarters. But I guess the company as a whole has been quite conscious of this fact. And we have been able to keep the 19% threshold even for nine months. But I would say that 19% to 20% is what we have targeted. And I guess we will be possibly below the guidance of 20% itself. On a favorable side coming to the close of this financial year.

Yes, to answer to your question, a combination of improved private sector order inflows could possibly, I would say, have a positive impact on working capital management. But there again, considering that we will have a large part of our order book as public sector-led or government led, I think it will be fair to assume in the near term, an improvement can happen maybe to 18%-odd beyond that, something I think I would not like to comment at this juncture.

Deepika Mundra: Also on some time back as part of your strat plan, you've announced some investments in clean energy on battery as well as on the electrolyzer side. Can you walk us through an update on that front? And since it somewhat included in your revenue growth outlook for the next three to four years, in terms of the confidence level on achieving some of that -- some revenue from new initiatives?

P. Ramakrishnan: So Deepika, I guess, when we had articulated our strategic plan, FY '22 to FY '26 in May '22, we also talked about in the current financial year, the one investment that we were planning to commit would be the business of setting up the electrolyzer manufacturing unit. So we have set up a commissioned pilot green hydrogen plant spending around Rs 35-odd crores that got commissioned in Q2 and Q3 of the current financial year. We are now looking actively at the JV partner who can assist us setting up this electrolyzer JV. The plan was that it should happen by March. Possibly that may happen maybe at the end of this quarter or possibly at the start of the quarter of next year.

In terms of overall investment outlay that we are looking at in Electrolyzer was around Rs 15 billion. I guess there is not much of change and in terms of revenues coming from this business, assuming that you could have a one year setup time which is the almost the major part of the next financial year. So revenues coming up would be billing over to FY ’25 and FY ’26.

As far as the next one, on the green energy side was the decision to get into the storage battery part. But I guess it’s a even premature for us to comment as to when are we looking at in terms of sizing of the technical specs because the entire technology is also changing so fast. I guess, in terms of clarity on that, maybe another 12 months down the line we should have better clarity as to what kind of technology, what is the size of the investment and who is the technology partner, maybe end of possibly next financial year is a portion where we'll be able to articulate.

Having said this, in the current strat plan, I don't think in what we have given as our overall topline numbers, there is any significant numbers coming from these two new lines of investments.

Deepika Mundra: Last question on the guidance. While on the order inflows, clearly, you've highlighted some potential upside risk even your execution is running well ahead of the full year guidance run rate. So any comment on that?

P. Ramakrishnan: So as I said, we have told that we are reasonably sure of, again, maintaining the upper end of the revenue guidance band with minimal downside risk. Let me put it that way.

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

Puneet Gulati: Congratulations on good numbers. My first question is with respect to your win ratio. If I go by your commentary on awards and tendering, all that seems to be much higher, 52% year-on-year. But your order inflow growth is clearly less. Does that mean that the win ratio is lower this year versus the previous year?

P. Ramakrishnan: No. Sorry, I think I mentioned that the win ratio is 20%-odd, which is higher than even the previous years, which are hovering between 15% to 16%-odd. So this year has been good for us. So I hope that we are able to maintain this ratio. So I don't think I have given any such message which seem to suggest that our win ratio in Q4 will come down.

Puneet J. Gulati: But if the tendering momentum was up 64% Y-on-Y. And that's not the order inflow growth so that...

P. Ramakrishnan: So let me tell you, Puneet, is that we have given our order prospects of almost Rs 4.87 trillion and let us try to focus on the domestic order prospects of Rs 3.82 trillion. Now this is also on the back of the prospects that each of our sub-segments are looking at, but can you understand that this is going to be one unusual year, where even in the first three quarters, a lot of tendering happened, a lot of awards have happened. So it is quite possible some of the mega prospects, ie more than $1 billion may have got tendered out, bids may have been submitted, but the question of awards, because we still have only two months of the year, and we are not seeing much of action in January. So that is the reason that there could be a spillover into next year. But it's more of a wait and watch mode. But I think, there is no suggestion from our side to say that the visibility of ordering intensity or anything coming down. Its more to do the fact of having time delays that can spill over to the first quarter of next year.

Puneet J. Gulati: Sorry, maybe I'm not clear. So what I meant was tendering is up 64% nine months Y-on-Y, award ratios to tender is at 52%. So clearly, the award is also higher than 64%. But if your order inflow growth is less than 64% or like 21%-odd. Then does it not mean that either you didn't participate or you didn't win enough?

P. Ramakrishnan: Okay. So let me put it like this, Puneet. It is not necessary that in all the tenders that are put up L&T bids. We are little selective and we typically bid for projects in each of the segments provided it has a particular size. So I think it's more important what we are trying to convey is that the capex revival that we have been talking about, all of us have been talking about seems to be in place. And in this capex revival, the large projects that come up, obviously, will favor I think contractors like L&T in a better way.

Puneet J. Gulati: So should one read that most of the projects actually were smaller size, which did not interest you as well.

P. Ramakrishnan: For example, there have been a lot of tenders and awards being given in Transportation infrastructure. I mean there, we know that we -- there is a competitive intensity, which is x times what we see in other sectors. So we know, we are aware of it, and we also don't want to take up orders in a segment where our pricing becomes what you call as commoditized pricing being played. So I guess part of the capex has happened there, where we have not seen much of traction as a bidder itself.

Puneet J. Gulati: And would you say, in general, the competitive intensity has gone up, remains flattish or down?

P. Ramakrishnan: I would say, the way competitive intensity was at the end of the previous fiscal, the same competitive intensity continues. In segments like, as I mentioned in roads and expressways, whatever we have seen, the same thing continues. We have not seen any structural change or difference between competitor intensity 12 months back and what it is today.

Moderator: The next question is from the line of Sujit Jain from ASK Group.

Sujit Jain: If you can just quickly spell out the Hyderabad Metro liability side of the balance sheet?

P. Ramakrishnan: So, on the liability side of the Balance Sheet, Hyderabad Metro has a debt of Rs 13,000 crores i.e. the external debt, which has a combination of Rs 8,000 crores medium-term NCDs and Rs 5,000 crores of short-term borrowings because that essentially will get backfilled by a combination of the government assistance that I referred to and also possible TOD monetization. Hence, that shorter term has been kept. The L&T exposure to Hyderabad Metro is around Rs 7,500 crores. So on the liability side of the Balance Sheet, you take Rs 7,500 crores equity, Rs 13,000 crores of debt. So, the total balance sheet size is around Rs 20,000 crores.

Sujit Jain: Equity is RS 2,400 crores in this, right? And rest is tech support.

P. Ramakrishnan: Yes, correct, RS 2400 crores.

Sujit Jain: Cumulative losses would be?

P. Ramakrishnan: The cumulative losses would be around Rs 4,500 crores.

Sujit Jain: And when you are done with this, let's say over a two-year period, Rs 1500 crores + Rs 1500 crore from monetization and Rs 3,000 crores of support from the government, what would be the cash loss per year, what it gets reduced to then? Interest cost savings basically…

P. Ramakrishnan: So Sujit, I would say you're combining everything. So first, let me tell you that structurally speaking, Hyderabad Metro gets into a good amount of positive EBITDA to take care of an interest on debt of around Rs 9,000 or Rs 10,000 crores once the ridership goes at around 700,000 to 750,000, let me put it that way. Anything on TOD monetization, obviously, brings in cash and enabling us the third-party debt, which we are talking at Rs 13,000 crores.

The intention is to bring the overall third-party debt to Rs 8,000 - 9,000 crores over the next two to three years, which will be a combination of Rs 3,000 crores of the State government support,

one, and possibly, as I mentioned, around Rs 2,000 crores of TOD monetization over the next two years, which would bring the debt level at Rs 8,000 crores. And with the ridership, which is today averaging at 4,20,000 or so in the current I mean I'm seeing a January number. Moving to 6,00,000, 7,00,000, I guess the worst could be over. Unlikely that L&T may have to infuse further cash as it looks like, provided what I just mentioned in terms of TOD monetization and the government assistance comes on time.

Sujit Jain: So FY '25, most likely.

P. Ramakrishnan: Again, at this juncture, it's a question of time. So I've given you the boundary lines on this aspect.

Sujit Jain: And the net working capital, which is currently at around 19%, ex of services, how much that would be?

P. Ramakrishnan: So that's a good question, Sujit. I would also like to tell you currently we don't take financial services, so what we are reporting in 19% comprises of ITTS portfolio and Projects & Manufacturing, I wish to tell you that in Projects & Manufacturing, working capital intensity is also at around 20%-odd.

Sujit Jain: And what it would have been a year back?

P. Ramakrishnan: 23%.

Sujit Jain: That is ex of ITTS, 23%.

P. Ramakrishnan: Right.

Sujit Jain: And is this safe to say that the nine-month tendering was Rs 10.1 trillion. And L&T, ex of services got orders of close to I think RS 1.1 lakh crores, right?

P. Ramakrishnan: But see, what we talk about tendering, I think I answered this question. First, we are referring to country-level tendering. So there are many tenders of capex where probably L&T may not participate or would not have participated or there are, as I mentioned, to answer to previous questions, so many tenders that have come out in Transportation infrastructure, where obviously, we don't stand a big chance other than very large packages that get tendered out. So it is covering all the segments and all the segment need not be taken by EPC contractors like L&T.

Sujit Jain: And does this number look far later than it or in terms of the prospects that you spoke at the beginning of the year?

P. Ramakrishnan: So I stated like this that I think to -- since there has been multiple questions on this particular aspect, whatever tender to award ratio and the tender values that we have taken, obviously, these are all in public domain. These are all country-level numbers. We are only trying to convey that the capex cycle or the investment cycle in the country seems to be shaping out well. From a perspective of specific to our company, I guess, I think more important would be the order prospects that we tell at the start of each reporting period. What I mentioned at the start of the

year and what we are mentioning today for the Q4, I think that is more important. Against which the orders that we book in each quarter will possibly give you what we call the award win ratio.

Sujit Jain: And this Rs 4.87 trillion is for fourth quarter?

P. Ramakrishnan: Yes, please.

Moderator: The next question is from the line of Amit Mahawar from UBS Securities.

Amit Mahawar: Congratulations for great order inflow. Sir, just two quick questions. First is, you mentioned about the next 4-5 years of investments of $2.5 billion. Just want to understand the equity investments that L&T is looking at this number, broadly. That's question number one.

P. Ramakrishnan: Sorry, can you repeat that question, Amit?

Amit Mahawar: Yes. Sir, the $2.5 billion that you intend to invest over the next couple of years in a lot of green initiatives along with other partners, it will involve investments by various partners, total project capex is different. How much is the equity commitment that you're looking at signing on this number?

P. Ramakrishnan: Okay. So I guess the way we are looking at on the electrolyzer part, I think we communicated that the commitment we are looking to invest is around Rs 15 billion, Rs 15 billion is the total investment. So I means that there will be some amount of debt and equity and the equity will be basis the JV ratio that will happen. So let me once again confirm what we are talking is Rs 15 billion, the total investment and not necessarily the cash flow from L&T towards the entire exposure.

Amit Mahawar: That's for that one project, but I think we have furthermore projects like battery storage, etcetera, I think...

P. Ramakrishnan: Yes. So storage batteries, I'll give a refresh. Storage battery, we are looking to commit ourselves to an amount of Rs 25 billion, that is Rs 2,500 crores. But in terms of, I guess, even in the plan that was in the selection of technology and the JV partner was to happen in the latter quarter of FY '24, which is the next financial year. So I guess it is going to be a more rear-ended investment in the current strategic plan. The investment that is now happening, I would say, we are planning to do is the data centers that we're putting out, there are two data centers, which are expected to get commissioned in the next 18 months or so. 30-megawatt data centers, each, one close to Mumbai and another one close to Chennai.

Amit Mahawar: Is it safe to assume, sir, in this $2.5 billion, the equity commitment by L&T in the next four, five years is going to be a small sum, maybe 10%, 20% of the project cost, I can say that, not more than that.

P. Ramakrishnan: Yes. So okay. I mean you're asking a structural question for a Q3 call, actually I had answered. But since you have asked, let me put it like this. We are talking of RS 1,500 crores-plus Rs 2,500 crores. So this is the total investment. One can assume because it's typically manufacturing, so

apply the standard debt equity and take share, even assuming it is 100% subsidiary on a worst-case scenario, which don't happen because the JV partner also will come up the equity. Data center total investment that we're looking at is around Rs 18 billion to Rs 20 billion, which is happening from L&T Balance Sheet.

Amit Mahawar: The last question from my side is if we see last two-three years, the cash on-site strategy that we've been following, we will free cash flows or revenue recognition. And even on the EPC active rationalization strategy there, there will be seem to be hearing on some high-growth segments. Our market share -- so in FY 2023, broadly, can I say that our market share in Transportation and Water and Hydrocarbon would range between 40% to 60%, especially in Hydrocarbon is anyways 50%-plus, but in Transportation and Water, are we now around 30% to 40% of the total mix that we target.

P. Ramakrishnan: So Amit, I think let me tell you, I'm not prepared to give this answer in terms of the overall market share in each of the sub-segments. I guess we'll try to cover that when we close the year. But I wish to tell you that in Water, I think the opportunity is fairly reasonable, and we have been getting a good set of order. Even in Q3 we managed to get a decent set of orders, especially in the lift irrigation projects in central part of India. So that is quite positive. As far as Hydrocarbon is concerned, it's a combination of ordering intensity in both domestic onshore/offshore and Middle East onshore/offshore. So, we have had fairly good wins. In terms of share and other things, I guess, maybe when we close the year, we'll be in a better position to comment.

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

Parikshit Kandpal,: Congratulations on a good quarter. So my first question is on margins. So you mentioned that these margins will be the lowest margins we have seen and from here on, sequential margins will improve. So my question was that we have seen in the recent bids, L1, L2 and L3. So L&T has actually been L2 and L3 L4 also in some of a large bid. So can we presume that from here on, maybe the most of the Infrastructure margins behind us and slowly our margins will improve from here on in the next quarters?

P. Ramakrishnan: So Parikshit, I was talking to margins. I was giving you what we have witnessed in the current year. I explained to you the reason for the first six months. And we definitely are looking at an improved margin in Q3, in line with our own internal estimates. In terms of structurally how much margins are improving, obviously, it's a combination of competitive intensity, ordering environment, movement of commodity prices. And then at which stage of your jobs are getting into valuation threshold, contingency releases, completion project cost closures. So it's a dynamic combination. Very easy for anybody to ask what is the embedded margins, but it is a volatile environment out there.

So I guess, the way we are looking at basis the fact that what we have seen now and going into -- going forward, as more of the recently executed, recently contacted fixed price contracts will get up into execution mode. It seems to me that we have bottomed out but having said this, I

would restrict myself to say what we have given a guidance for Q4. Wait for us to come back in the month of May when we give the guidance for next year.

Parikshit Kandpal: And my second question is on the Hyderabad Metro. So I just wanted to understand in the first nine months, what has been loss finally and for the full year, how much we are envisaging? And for the next year, what is expectation of loss funding? Because what I could understand is that though L&T is stop, may not require further loss funding, but whatever inflow is coming from the Telegana government as a soft assistance that will go towards loss funding, but may actually not reduce your debt. You will not incrementally rely more on TOD demonetization, which also seems to be like spread out over the next two to three years. So how will do the math on reduction on this lost funding? Just wanted to get a sense on that?

P. Ramakrishnan: Okay. So Parikshit, our cumulative exposure on Hyderabad Metro is around RS 7,500 crores as of December. At the start of the financial year, it was around RS 7,200 which means technically, we're looking at additional funding of Rs 300 crores that we have done in the current year.

But this is one assumption here was that we did expect that the State Government support to come a little earlier and possibly even the TOD monetization. So obviously, this being a concession asset and the fact it is a large concession asset, even a government decision has taken time, but they have been fully aware and fully cooperative with L&T in terms of understanding how L&T is running the metro. So it's a timing mismatch once more. If it would have happened maybe this Rs 300 crores additional funding may not have taken place, but we do believe that as it stands now with improved ridership and a clear visibility and confirmation with the government on the timing of the assistance and along with, I would say a more or less predictable TOD monetization of what I mentioned around Rs 2,000 crores over the next six or eight quarters, I think we should not be seen to be infusing like the times Hyderabad Metro got affected during COVID in the year '20-'21 and '21-'22.

Parikshit Kandpal: Just one last thing on this. So just, you said that for the nine months, you only have RS 300 crores of loss funding?

P. Ramakrishnan: Cumulative nine months funding additional, yes.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities

Aditya: So the first question, what I had was that If I see from a three-year CAGR perspective, your backlog has grown at about 8% or so, whereas your execution has grown at the slower pace, and at about 5-ish or so, and this is a three years CAGR number I'm kind of speaking about. Do you envisage a pickup in execution now that you've seen almost nine months of good collection, come back to earlier levels fully?

P. Ramakrishnan: So Aditya, if you are taking a three-year CAGR, there are two things which I want to convey is that in that three years, almost six to seven quarters, virtually had no execution because of COVID. That is one. And secondly, I want to communicate is that we have been a little more sharper focus on the working capital and restricting the execution to the extent of money is

collected in some projects where we believe that the money may not be coming on time. So I guess it's a combination of this. Otherwise, going forward, with barring for supply chain constraints, which is still hanging around here and there in isolated cases when it comes to buying out especially imports from part of Europe or China. I think otherwise, execution momentum is quite good. And we do expect that the collection momentum, especially for the government-led projects that we are having that the payments will continue to happen on time because the government's finances seems to be quite smooth and that will continue. And hence, the execution momentum should hopefully, I think, improve as we go forward.

Aditya: So a different way of putting this in that your backlog has grown almost 15% Y-o-Y, right? And that's an indication of the pace you can execute incrementally, can we think through a similar or higher number of execution growth for FY '24? I'm not asking for a number; I'm just talking about the direction that...

P. Ramakrishnan: Directionally, it is common sense what you are concluding, but I would like to take a pause here to say in terms of how we see FY '24, kindly wait until May.

Aditya: The next question that I had was more to kind of finalize numbers slightly better. See if I see the standalone numbers Y-o-Y for the third quarter and if I see your core E&C, core E&C at an EBITDA level has done much better than what standalone have done at an EBITDA level. Is there any specific kind of -- I'm just trying to get a sense of where or which subsidiary could be kind of driving, let's say, a recovery or a growth in EBITDA in overall level? Are there certain Infra subsidiaries that have started doing better? Is there some one-off effect, just trying to get some sense because standalone is not as great as core E&C.

P. Ramakrishnan: Yes, Aditya, I think the way you need to look at it is, please see Hydrocarbon segment in standalone, Hydrocarbon segment in consolidated. Some of the larger orders in Hydrocarbon segment have come in consolidated by way of the orders that have been backed in our subsidiaries in the Middle-East. So that is one aspect one may have to be mindful about. Infrastructure, I would say, a large part of the orders or Infrastructure or execution is happening in standalone only.

Aditya: So it's only the Hydrocarbon where there may have been some additional boost beyond standalone?

P. Ramakrishnan: Yes. There is.

Aditya: And then lastly, for the past two quarters at a consol level, your other income has been shown decent trends. Is it just good cash flows leading to higher other income and should it sustain? Are there any one-offs in side?

P. Ramakrishnan: So treasury income is obviously a question of two things. One is that you have, I would say, larger amount of cash accruals coming up, pending they are deployed, either in business, capex, returns to shareholders. And secondly, our ability to manage the volatility in the interest rates

which we have been doing fairly well until now, and we expect that to continue. So it's a combination of both value and return capital.

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

P. Ramakrishnan: So thank you, Faizan, and thank you all for having taken your time on a Monday evening so late into this hour. I hope most of your questions have been answered. In case if you guys have any follow-on questions, hygiene-related questions, please feel free to write to me or call me or my colleague, Harish, we will be glad to answer. Thanks for your time once more, and good night. Thank you.

Moderator: Thank you. 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.