



“Larsen & Toubro Limited Q1 FY-23 Earnings
Conference Call”

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TOUBRO LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Larsen & Toubro Limited Q1 FY23 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 Nirav. Good evening, ladies, and gentlemen. A very warm welcome to all of you into the Q1 FY23 earnings call of Larsen & Toubro Limited. The earnings presentation was uploaded on the stock exchange and in our website around 6.40 PM IST. I hope you have had a chance to take a quick look at the numbers. 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 minutes or so, post which we will get into Q&A.

Before I begin the overview, a brief disclaimer. The presentation which we have uploaded on the stock exchange and our website today, including the discussions during this call contains or may contain certain forward-looking statements, concerning L&T business prospects and profitability which are subject to several risks and uncertainties and the actual result could materially differ from those in such forward-looking statements.

During Q1 FY23, the Indian economy continued to exhibit resilience supported by relatively strong macroeconomic fundamentals and as evidenced by improving high frequency economic indicators. Despite global turbulence and rise in energy prices both government and the Reserve Bank of India have succeeded in maintaining fiscal and monetary stability in the country. We can safely conclude that, during this quarter, India remained a bright spot amidst continuing global “CHAOS”.

Our group also reported a strong all-round performance in an otherwise seasonally weak quarter. Before I move further, I would like to mention here that effective April 1, 2022, that is the start of this financial year, the operating segments of L&T have been reorganized in line with the business strategy to be adopted by the company under its 5-year Lakshya plan 2026. We had articulated on this aspect when we spoke about the Strategic Plan roadmap for FY26 during the Q4 FY22 earnings call. Just to refresh, some of the existing segments have been realigned to reflect the group’s Lakshya 2026 strategy. The changes are as follows.

Energy projects: This is the newly formed segment that constitutes the current segments of Hydrocarbon and Power to reflect the company’s integrated pursuit of opportunities in a rapidly transforming energy sector, including green energy EPC opportunities.

The second segment is Hi-Tech Manufacturing; This being a segment that comprises the Heavy Engineering and the Defence Engineering business is being combined to leverage the extensive engineering, manufacturing, and fabrication expertise across the various customer segments.

IT and Technology services: This segment earlier comprising of the listed three IT&TS subsidiaries that is L&T Infotech, L&T Technology Services and Mindtree will now so include the new age businesses of Data Centers and e-commerce and digital platforms. Both Data Centers and E-Commerce Digital Platforms are recently incubated businesses were shown under the other segment in the previous year.

Now we cover the financial performance parameters for Q1 FY23. Our group Order Inflows for Q1 FY23 at Rs. 418 billion, registered a y-o-y growth of 57%. Within that, the Projects and Manufacturing businesses secured order inflows of Rs. 281 billion for this Q1 registering a y-o-y growth of 85%. Our current year Q1 Order Inflows in the Projects and Manufacturing portfolio are mainly from Infrastructure, Hydrocarbon and Defence businesses. During the quarter, our share of international orders in the Projects and Manufacturing portfolio are at 33% vis-à-vis 15% in the Q1 of the previous year. The domestic ordering environment in Q1 was also significantly better compared to Q1 of the previous year. At a macro level, there was an improvement in domestic tendering and awarding activity. Secondly, we expect public Capex spends comprising of Centre, States, Public Sector Units in the current year to be better than that of the previous year. Hopefully, the private Capex would also witness improvement in the second half of the current year. Our order prospects pipeline for the remaining nine months of the current fiscal is around Rs. 7.6 trillion comprising of domestic prospects of Rs. 6.1 trillion and international prospects of Rs. 1.5 trillion. The broad breakup of the overall prospect pipeline of Rs. 7.6 trillion is as follows: Infrastructure Segment Rs 5.6 trillion, Energy Rs 1.6 trillion and Other Projects and Manufacturing around Rs. 0.4 trillion. Finally, we remain confident of achieving the annual guidance we gave on order inflows at the beginning of this year.

Moving on to order book; our order book at Rs. 3.63 trillion as on June '22 is once again at the record high. As our Projects and Manufacturing business is largely India centric, 72% this orderbook is domestic and the balance 28% is international. Of the international order book of roughly around Rs. 1 trillion, around 79% is from the Middle East and 11% from Africa. The remaining 10% is from various countries including Southeast Asia. Clearly the Middle East Capex in Infra and Hydrocarbon is on an upswing post recovery in the oil prices. The breakdown of the domestic order book of Rs. 2.63 trillion as the June is as follows; Central Government 11%, State Government 30%, Public Sector Corporations of State-Owned Enterprise at 42% and Private Sector at 17%. Approximately around 26% of this total orderbook Rs. 3.63 trillion is funded by bilateral and multilateral funding institutions. As you can see from the slides, 91% of our total orderbook is from Infrastructure and Energy. Again, within Infrastructure our order book is well diversified across various businesses like Heavy Civil, Water, Power Transmission and Distribution, Buildings and Factories, Transportation Infrastructure and Minerals and Metals. Finally, during the quarter, we have deleted around Rs. 14 billion of non-moving orders from the orderbook. Our share of slow-moving orders in the order book is just around 3%.

Coming to revenues; our Group Revenues for Q1 FY23 at Rs. 359 billion registered a y-on-y growth of 22%. International revenues constitute 37% of the revenues during the quarter. The IT&TS portfolio continued to report industry leading growth in Q1 as well. In the Projects and Manufacturing business portfolio, our revenues for Q1 FY23 were at Rs. 221 billion thereby

registering a y-o-y growth of 23%. The robust execution in Infrastructure and Power within the Projects and Manufacturing business portfolio during the quarter was to some extent offset by other businesses. I will cover the details a little later when I cover each of the segments. We remain confident on achieving the annual guidance on revenue given at the start of this year.

Moving on to EBITDA margin; group level EBITDA margin without other income for Q1 FY23 is 11% vis-à-vis 10.8% in Q1 FY22, up by 20 basis points. The detailed breakup of the EBITDA margin business wise is given in the annexure to the analyst presentation. You would have noticed that the EBITDA margin in the Project and Manufacturing business for Q1 FY23 is at 8.2% vis-à-vis 8.8% in Q1 FY22. This drop of 60 basis points for the quarter is explained by cost headwinds and the change in the job mix. Despite the recent correction in commodity prices, our average procurement cost for the quarter was still higher compared to the corresponding quarter of the previous year. We retain our annual guidance on EBITDA margin in our Projects and Manufacturing portfolio at 9.5%. The recent commodity price correction brings in the much-needed relief but since our EBITDA guidance for the current year was constructed basis average price levels of FY22, we believe it is prudent to retain the margin guidance for the year at a same level at this juncture. We will have better visibility on improvements if any as the year progresses.

Our operational and reported PAT the quarter at Rs. 17 billion, registers a healthy growth of 45% over previous year Q1, largely aided by the improved group level EBITDA margin as well as improved treasury operations and a lower tax expense. The group performance P&L construct along with the reasons for major variances under respective function heads is provided in the analyst presentation.

Coming to working capital; our NWC to sales ratio has improved from 22.9% in the Q1 of the previous year to 20.9% in the current quarter. However, this ratio has moved up from 19.9% reported as on March 22. NWC to sales moved higher on a sequential basis primarily due to vendor payments which fell due during the quarter. As we have stated before, Q1 of every financial year is seasonally a weak quarter for customer collections. Having said that, let me mention here that our customer collections for Q1 FY23 is substantially higher than that the corresponding quarter of the previous financial year. Our group level collections excluding financial services for Q1 FY23 is around Rs. 0.34 trillion vis-à-vis Rs. 0.27 trillion in Q1 FY22. Although we expect some interim volatility in the NWC to sales ratio for one or two quarters, will endeavor to bring down our NWC to sales ratio closer to 20% by March '23. Just to reiterate here, we had guided for NWC to sales ratio of ranging between 20% to 22% for FY23.

Moving on to the Balance Sheet; if you glance through the Balance Sheet given in the annexures to the analyst presentation, you would notice that at the group level, the group debt equity ratio has improved over March '22. We are at the same net debt equity ratio in June '22 vis-à-vis March '22. This is mainly due to repayment liabilities of the financial services business around Rs. 36 billion and development projects Rs. 19 billion offset by Rs. 23 billion increase at the parent. Some portion of our debt in the parent company is coming up for repayment and therefore

this incremental borrowing at parent is largely front ended in an environment of rising interest rates.

Finally, our trailing 12-month ROE for Q1 FY23 is 11.5% vis-à-vis 17.2% in Q1 FY22. As you are aware, the trailing 12-month ROE for Q1 FY22 includes the benefit of the onetime gain on the divestiture of our Electrical and Automation business net-off exceptional items. However, on a sequential basis our ROE has improved from 11% in March '22 to 11.5% in June '22, an improvement of around 50 basis points. A robust business portfolio, improved working capital management, focus on cash generation/distribution and finally divestment of non-core assets will lead to better ROEs.

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

Infrastructure segment: On order inflows, our Q1 FY23 order inflows are well spread across various subsegments. Infrastructure segment secured orders of Rs. 183 billion for Q1, registering a healthy growth of 66% over Q1 the previous year. During the quarter orders well diversified across public spaces, metros, waste management and wastewater, minerals and metals, factories, data centers and power transmission and distribution. Our order prospect pipeline in infra for the remaining nine months of the current financial year is around Rs. 5.61 trillion comprising of domestic prospects of Rs. 4.76 trillion and international prospect of Rs. 0.85 trillion. The sub-segment breakup of the total order prospects in infra is as follows; Power Transmission and Distribution would be around 19%, Water 22%, Transportation infrastructure 19%, Heavy Civil 18%, Buildings and Factories 20% and Minerals and Metals for the balance. The order book in this segment is at Rs. 2.64 trillion as on Jun'22. The book to bill for Infrastructure segment is around 30 months. The Q1 revenues at Rs. 142 billion registered a growth of 36% over the comparable quarter of the previous year aided by improved execution momentum as the COVID related challenges receded in the current quarter. Our EBITDA margin in this segment dropped from 7.1% in Q1 FY22 to 6.5% in Q1 FY23, largely impacted by input cost escalation and changes in the revenue mix.

Moving onto the next segment which is Energy Projects; the receipt of a large order from the Middle East in the offshore vertical of Hydrocarbon business buoys order book of this segment where the subdued ordering environment continues in the thermal power business. The order prospects pipeline of Rs. 1.6 trillion in this segment for the balance nine months is healthy. The order book for this Energy segment stands at Rs. 654 billion as on June '22 with the international order book constituting 58% . The Q1 FY23 revenues at Rs. 50.7 billion registers a growth of 3% over the comparable quarter of the previous year, that is largely attributed by healthy execution in the Power business on the back of robust opening order book. The Hydrocarbon revenues on the other hand was impacted to some extent due to client delays and supply chain issues. The EBITDA margin for the segment at 8.5% for Q1 FY23 improved compared to 7.5% of the corresponding quarter of the previous financial year. The execution cost savings aided Hydrocarbon margin where cost contingency release improves the Power margin.

We will now move on to the Hi-Tech Manufacturing segment comprises the Heavy Engineering and Defence Engineering businesses. In Q1 FY23 this segment witnessed the broad based pickup in order inflows across the Defence and Heavy Engineering businesses. We have an order prospect pipeline of Rs. 300 billion in the remaining three quarters of the current financial year. The order book of this segment is at Rs. 194 billion as of June 30th, 2022. The revenues for Q1 FY23 at Rs. 12.7 billion registers a marginal growth of 3%. Improved execution drove Heavy Engineering revenue whereas tapering of certain shipbuilding jobs in the Defence Engineering business impacted Defence revenues. The EBITDA margins in this segment is at 15.1% in Q1 FY23 vis-à-vis 19.2% in Q1 FY22. The previous year margin in the segment was higher primarily due to release of cost provisions on the completion of a key project and also due to recognition of certain claims. As we repeat in every quarter, let me once again mention that the Defence Engineering business does not manufacture any explosives, nor ammunitions of any kind including controversial weapons. The business also does not customize any delivery systems for such ammunitions.

Coming onto the IT&TS portfolio; our revenues for Q1 FY23 at Rs. 94.2 billion registered a growth of 30% over the corresponding quarter of the previous year, reflecting the continuing growth momentum in this sector with a surge in demand for technology focused offerings. The business outlook for the segment continues to be good. Lot of spends today are being directed towards Cloud, data security, machine learning and artificial intelligence. The margin for this segment is a function of wage cost offset by operational efficiency. The merger between LTI and Mindtree is progressing satisfactorily and should hopefully be concluded by the end of this financial year once all the regulatory approvals are obtained. I will not delve too much on this segment as the factsheets of all the three companies are already available in the public domain.

We will now move on to the Financial Services segment. Here again L&T Finance Holdings is a listed subsidiary and the detailed results are available in public domain. L&T Finance's thrust towards retailization continues and as of June 22, the share of retail in the overall book has moved up to 54%. The strategic deliverables in this business revolve around portfolio reorganization, strong asset quality and improvement in return on assets. This business endeavors to be a top class digitally enabled Retail Finance company moving from "product focus" to a "customer focus" approach. Finally, to conclude, sufficient growth capital is available in the Balance Sheet.

Moving onto Development Project segment; this segment currently includes the Power Development business that comprises of Nabha Power and in Q1 of the previous year also included Uttaranchal Hydropower that was divested in August 30th, 2021. Besides Nabha Power, the segment also includes Hyderabad Metro. As you may be aware, the roads & transmission line concessions which are forming part of L&T IDPL are consolidated at a PAT level under the equity method. The majority of revenues in the segment is contributed by Nabha Power. Improved ridership with Metro and 95% average PLF in Nabha drive revenue growth for this segment in Q1. Just to give you on some statistics, the average Hyderabad Metro ridership improved from 55,000 passengers a day in Q1 FY22 to around 2,85,000 passengers per day in Q1 FY23. Our average ridership in the preceding quarter that is Q4 FY22 was 1,99,000

passengers per day. We are happy to report that as we speak the current ridership in Metro has also touched a peak of 3,77,000 passengers on one of the days this month. The Q1 FY23 margin in this segment at 4.5% is contributed by Metro operations only as Nabha margin is not being recognized from Q3 of FY2021. The improvement in average daily ridership has enabled Metro to report positive EBITDA for Q1 FY23 vis-à-vis as EBITDA loss for Q1 FY22. The Metro at a PAT level reported consolidated loss of Rs. 3.25 billion in Q1 FY23 vis-à-vis a loss of Rs. 4.72 billion in Q1 FY22. The operating and amortization cost are around Rs. 0.75 billion whereas interest cost is Rs. 3 billion for the quarter.

At this juncture I would like to give you a quick status update on the divestments of our concession portfolio. As all of you are aware our stake in Hydel Power Plant that is Uttaranchal Hydropower Project was successfully invested in Q2 FY22. For Nabha, various divestment options are being explored currently. Coming to IDPL, we are also exploring the possibility of divesting our remaining 51% stake in favor of third-party investors. For Metro with a prospect of improved ridership and the confirmed government assistance including a phased TOD monetization and with the recently concluded debt refinancing, the performance parameters for Metro should look up in FY23. We are also discussing with strategic investors for equity infusion into the SPV however it is premature to comment on timelines at this juncture.

Moving on to the last segment, “Others” segment; this segment comprises Realty, Industrial Machinery, Industrial Valves and Smart World and Communications businesses. During the quarter, the strong revenue growth in Realty and Industrial Machinery businesses was offset by subdued revenues in Valves and Smart World and Communications. Realty revenues were primarily driven by higher handover of flats. The revenues for this segment at Rs. 16 billion registered a growth of 21% over the corresponding quarter of the previous financial year. The EBITDA margin for this segment at 17.2% for Q1 FY23 remained stable compared to 17.1% in Q1FY22.

Coming to the last part of my presentation; we remain optimistic on India recovery despite the ongoing global geopolitical uncertainty. The government’s persistent efforts to jumpstart economic growth through higher infrastructure spend and incentivizing domestic manufacturing should yield benefits in medium term. Possibly the Private Capex should also join this bandwagon in a couple of quarters. On the global front amidst a continuing chaos, we are closely monitoring the movement of commodity prices and resultant supply chain disruptions. Surprisingly, the Middle East has better budget visibility due to the high energy prices and continues spends on Hydrocarbon and Infrastructure projects. This augurs well for us in terms of providing a larger scope of contracting opportunities. For the year FY23 we retain our guidance of 12% to 15% growth in the group order inflow and revenue and our margin in our Projects in Manufacturing business portfolio to remain at around 9.5%. On the working capital side, the group level NWC to sales, we have given a guidance for range of 20% to 22%, however we will continue to endeavor to end March ‘23 at around 20%. The Company in its first-year post announcing its Lakshya 26 strategic plan expects to continue its planned trajectory of profitable growth, to efficient and timely execution of its large orderbook and along with this many value enhancing measures, retain its leadership position and improve shareholder value

on a sustainable basis. The company is on the path of diversification into new businesses of green energy and e-commerce and digital platforms and at the same time pursuing exit options/or limiting exposure in non-core businesses over this Lakshya 2026 strategic plan period. Thank you, ladies, and gentlemen for the patient hearing. We will now take the Q&A.

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

Mohit Kumar: Has your confidence level on the order prospects have improved compared to the end of Q4? It seems there has been increase in prospects because I think the prospect come down from Rs 8.5 trillion to Rs 7.6 trillion while the last quarter order inflow was around 40,000 crores and which are the segments where the prospects have improved?

P. Ramakrishnan: In fact, at the start of the year we had given the order prospects at around Rs. 8.6 trillion and today it is at Rs 7.66 trillion. Even at the start of the year, we were very careful in targeting the opportunities that will come up and we were pursuing a very selective bidding approach during the quarter and the awards that got finalized and the share of L&T awards, we do believe that we have against the current order prospects of Rs. 7.66 trillion, considering the award win ratio that we expect to happen, we are reasonably confident to meet the order inflow guidance of 12% to 15% that we have given. Essentially, the orders that we expect to happen in the next nine months, in that once again Infrastructure will continue to have a lion's share and followed by Hydrocarbon opportunities. As I mentioned just now that the Hydrocarbon opportunities in the Middle East has also picked up and we do believe that we have a fair share of order wins in the next 9 months or so.

Mohit Kumar: On the Private Capex, first time we are seeing a very-very positive commentary compared to last few quarters. How confident are you of Private Capex to pick up especially in 12 to 24 months horizon?

P. Ramakrishnan: In sense of L&T's scope in the Private Sector Capex, I would say would be largely focused on the Minerals and Metals and to some extent in the Buildings and Factories space. As is already available in the public domain, the Steel sector and including the other Non-Ferrous metal producers are looking forward to expansion of their existing production lines including putting in additional complimentary equipment in their existing plants. Most of the metal majors in this country are longstanding L&T clients and we do expect that the announcement that they have been making should fructify into reasonably good ordering opportunities at least in the later part of the current financial year. Similarly on the Infrastructure side, we see a reasonable uptick of opportunities in the IT real estate space, many of the IT companies given the fact of a hybrid kind of a working environment, they are also looking forward to putting more number of campuses if not in size but more in terms of campuses across the country as they tap talent to work from a sort of work from anywhere kind of a situation. So, we do expect some amount of Capex opportunity to come for us. Besides this, the country is also witnessing lot of investments in Data Centers and there again L&T does have a belief that in some of these data centers ordering that will happen, L&T stands to get a good share. Lastly, the e-commerce businesses

are also set to expand their delivery capabilities and that requires more amount of logistics and warehousing spaces and we do expect strong momentum of ordering opportunities in this segment as well.

Mohit Kumar: Are you bidding for coal-based projects or it's a completely no-go for us?

P. Ramakrishnan: Since the last quarter earnings call, the coal-based opportunities have improved substantially. Some of the major thermal power producers are thinking of putting up new plants, almost in the nature of 6000 to 7000 MW. But obviously there is a good amount of competition and we will be selective in bidding in this segment. But definitely we see an uptick of opportunities coming up for coal-based power plants in the near term.

Moderator: The next question is from the line of Ashish Shah from Centrum Broking Limited.

Ashish Shah: My first question is on the Hyderabad Metro. So could you update on what is the status of the support that we are expecting from the Telangana government, where are we in that process? And secondly the cash flow one sees of Rs 910 crores of long-term investment being made in the first quarter, so would that be to support Hyderabad Metro or if any some other asset that were we have mustered?

P. Ramakrishnan: So, the first point of your question Ashish is that with respect to the Hyderabad Metro, the Metro SPV company has executed the supplementary agreement with Hyderabad Metro Rail Corporation which is the granter of the concession and we are looking at getting a funding assistance of almost Rs 3,000 crores odd in the next 2 years in the form of term interest-free loans. We also have the approval of the granter to monetize TOD rights that the L&T Metro Rail Corporation has, the approval contains in terms of delinking our ability to monetize TOD irrespective of whether the Metro operations continues with L&T or not. So, to that extent it's a very favorable development. We have been talking of this in the past as well but I would like to tell you that in the current month we have executed the supplementary agreement and that is going to hopefully—as I stated earlier stated earlier in this call—the improved ridership, the government assistance, the TOD monetization and the possibility of a new investor if we are able to tie it up, obviously the impact of Hyderabad Metro on L&T's financials should hopefully come down. Secondly to the question of the long-term investments, the other question that you talked about that is essentially L&T Finance security receipts by converting some part of their loan book into ARC.

Ashish Shah: So, what is the support that we would have given for Hyderabad Metro this quarter or nothing?

P. Ramakrishnan: The financial support that we gave in the current quarter is almost around Rs 230 crores odd and the exposure of L&T to Hyderabad Metro as of June is around Rs 7,400 crores.

Ashish Shah: Just one more bookkeeping, the tax rate for the quarter is low. So, what is driving that low tax rate and in general what should we expect for FY23 because it's kind of becoming very difficult to plug-in that tax rate, if you can help us, it will be great.

P. Ramakrishnan: In this quarter, as you may be aware Mindtree has shifted from the old tax regime to the new 25.19 tax regime during current quarter and this is a CFS adjustment, that is the consolidated financial adjustment pursuant to Mindtree shifting to the new tax regime at a lower rate, the deferred tax liability that we had accrued at the older rate at the consolidation level has also taken an appropriate entry and to that extent the tax provisions I would say has been by way of a credit in the DTL of almost Rs. 134 crores. To that extent I would say it's a one-off event in the current quarter. This should not happen again. So, basis that you can see in the next nine months, the normalized tax rate should apply across the group.

Ashish Shah: Would that be like closer to 30% on a consolidated basis?

P. Ramakrishnan: It would be around 25% to 27%.

Moderator: Next question is from the line of Ankur Sharma from HDFC Life Insurance.

Ankur Sharma: I have three questions. One, little surprised to see the slowdown in execution on the hydrocarbon business given the fact that we have had a very strong order book as of end of FY22. So while you did highlight some supply chain issues from client, if you can just help us understand is this more of a Q1 phenomenon picks up as we go through the coming quarters?

P. Ramakrishnan: So, Ankur, let me tell you that this is a Q1 specific issue that there were certain client delays in terms of approvals and there was some supply chain issues. It doesn't mean that the execution momentum will not get into higher level. This is specific to Q1. We don't expect that to happen in the balance nine months.

Ankur Sharma: Secondly on the infra margins, now of course the backdrop is that RM prices have corrected meaningfully across to pretty much all metals, so fair to assume that at least as we go into the coming quarters at least on a Y-o-Y basis we start seeing margins on the infra segment look higher, would that be a fair assumption? Not wanting exact number here but at least on a y-o-y basis is it fair to assume that Infra margins would be better from Q2 onwards on a Y-o-Y basis?

P. Ramakrishnan: So, in Q1 FY23, the Infra margins was at 6.5% as compared to 7.1% in the previous year. Now instead of talking specific to Infra margins, if I take as the Projects and Manufacturing portfolio given the fact that this EPC contracting company, quarter-on-quarter developments on the execution side, the amount of projects that get into valuation threshold, the closure of projects, the release of cost provisions towards closure, all of that is in a sense a dynamic situation. However, in Q1 the impact of the drop is largely because of commodity prices because these procurements what we have put on the site during Q1 are essentially against orders that we have been placed in the previous quarter at elevated commodity prices. But going forward whatever procurements that will happen that will get into the activity level and thereafter for revenue recognition, hopefully I think it should be at a lower level. But as I said during the early part of my call, while we gave a guidance on the entire Projects and Manufacturing portfolio at 9.5%, we also stated that the cost of commodity prices that we have taken for FY23 is an average of FY22 and what we see today is essentially that most of the prices are coming to what we call in

FY22 average levels. So, this in a way has been factored in our yearly guidance that we had provided at 9.5%.

Ankur Sharma:

And lastly, so just on the domestic ordering and it's nice to know the pipeline which I think now you share every quarter and that's extremely helpful. But just going in the domestic part a little more in terms of end segments within the domestic infra piece. Which segments look more promising? State ordering obviously has been quite weak over the last year or so, which is reflected in weak in Water in some way and other segments as well. So, just if you could help us sitting here today, which are the segments you are most positive on. We have also heard about some tendering pickup on the Bullet train side for Maharashtra section as well. So, some color there will be appreciated.

P. Ramakrishnan:

Ankur, the total order prospects pipeline for the balance nine months that I mentioned at Rs. 7.6 trillion, against that Rs. 6.14 trillion is domestic opportunities. If I give you a slightly granular details, in terms of infrastructure segment, that comes to around Rs. 4.76 trillion against the Rs. 6.14 trillion, that's the order prospects we have for domestic infrastructure and there where we see in terms of the order prospects which are likely to come into ordering momentum; in the Buildings and Factories sub-segment we do see lot of ordering opportunities across public spaces and Health. When I refer to Public Spaces, I am referring to Central Secretariat, State Secretariat buildings, I am referring to railway stations, new railway station developments and on the Health, a lot of money is being spent at the various state levels on setting up of Hospitals. So, this itself is a significant chunk in the B&F portion, that is Buildings and Factories. In the Heavy Civil portion of the prospects, we do feel a lot of opportunities or prospects in terms of Hydel and Tunnels and Metros, this itself is a large piece of action that we expect to happen. The Water segment also has a lot of opportunities in rural water supply and irrigation projects; again, a major part of the entire prospect of opportunities in the Water segment. Power Transmission-Distribution Almost 70% of the opportunities coming from the Transmission & Distribution segment, the balance 30% is Renewables. That's the overall on the Infrastructure piece in terms of where do we see opportunities, public spaces, health, hydel projects and tunnels, Metro, rural water supply, irrigation and the entire scheme of renewables and power transmission-distribution. Coming to the Hydrocarbon's piece, the total prospects pipeline in domestic is around Rs. 0.39 trillion largely comprising of Onshore and construction related prospects. In the Power segment, as I responded to an earlier question, Power opportunities in India is almost Rs. 0.58 trillion largely led by coal which is around Rs. 0.49 trillion. And coming to Defence, we do have almost Rs. 0.25 trillion of order prospects that we are looking at in the next nine-months or so.

Moderator:

The next question is from the line of Sujit Jain from ASK Investment Managers.

Sujit Jain:

If you can quickly spell out the balance sheet for Hyderabad Metro as in the equity, the debt, cash support from L&T and accumulated losses?

P. Ramakrishnan:

So, the total balance sheet would be in the range of Rs 19,000 crores. So, if I say the total balance sheet of around Rs 20,000 crores out of which L&T equity is Rs 2,400 crores odd, then there is

a total external borrowings of around Rs 13,000 crores and the balance as I said L&T's exposure to Hyderabad Metro is around Rs 7,400 crore minus Rs 2,400 crore equity, so that comprises the additional funding assistance. So, Rs 13,000 external borrowings plus L&T exposure at Rs 7,000 crore, that sums up at 20,000 crores.

Sujit Jain: And the current accumulated losses as they stand?

P. Ramakrishnan: Would be around 4,000 crores.

Sujit Jain: And just to quickly understand the sales, the OPEX, depreciation, interest, and tax for the quarter?

P. Ramakrishnan: I have already told that, that it is around Rs. 0.75 billion each for the quarter and Rs. 300 crores as interest.

Sujit Jain: If you can just spell out the depreciation so that we can back calculate the cash loss?

P. Ramakrishnan: Rs. 75 crores per quarter.

Sujit Jain: What will be the capital employed that will get released from the three assets that is L&T-IDPL 51% stake, Nabha power, Hyderabad Metro you have already told. If these were to get sold what is the capital employed that is currently staying on the consolidated balance sheet?

P. Ramakrishnan: As I mentioned earlier, we are looking forward to limit our exposure in the concessions, We are looking to divest in IDPL and also Nabha Power, so it is all work in progress. So, in terms of our exposure to IDPL, it would be around in the nature of Rs 1,100 crores and Nabha exposure around Rs 2,400 crores. That's the current carrying value that we have but question of time as to when we will release and how much we will release.

Sujit Jain: And one just last question on slide #26, that is your cash flow statement. Net sale and purchase of current investments that has released Rs. 28 billion for Q1 FY23. If you can just explain that?

P. Ramakrishnan: That's a reduction of our I would say overall surplus that we have at the group level, cash surplus.

Sujit Jain: And the long-term investment sale 9.1 was on the account of?

P. Ramakrishnan: As I said earlier that there has been the sale of a portfolio of L&T Finance to ARC, Security receipts of almost Rs 645 crores.

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

Renu Baid: Two questions from my side. First, if you can help us understand there seems to be one or two orders which were de-booked this quarter. Can you elaborate which segments or which orders were they related to; domestic, international, which business segment?

- P. Ramakrishnan:** In terms of the international orders, we had secured one order in the Hydrocarbon space, one large order and in the other part we had secured one reasonably large order on the Defence Engineering space also and similarly we have secured one order in the Middle East with respect to Power Transmission and Distribution. All of this would be aggregate to our around 10,000 crores or so.
- Renu Baid:** Which segments were the orders which were canceled during the quarter or which were de-booked related to?
- P. Ramakrishnan:** That's a small amount, essentially it was smaller orders, some amount of smaller orders aggregating to 1,400 crores essentially in Power Transmission & Distribution and Transportation Infrastructure.
- Renu Baid:** So, nothing material there?
- P. Ramakrishnan:** Yes.
- Renu Baid:** Secondly on the infra margins, though we understand that it was more of a transient impact of commodities cost but if you see, fourth quarter also there was an impact of commodities because of which we missed on the infra margin front marginally and on the onset of this year itself infra margins have been sub 5%. So, broadly while the guidance is for the entire segment and not just sub-segment infra which is say today but do you think that infra margins is itself as a sub-segment should be back to 8%-9% levels once these commodity pressures ease out and the mix of projects which are under execution start?
- P. Ramakrishnan:** So, Infra margins last year was around 8.2% Renu, but as a guidance you will know that L&T, we give guidance at the overall P&M segment for obvious reasons, because each of these sub-segments are essentially in aggregate of pursuing EPC opportunities across multiple segments. So, in some segments you could have a mix of jobs that have get into margin recognition, some segments are having some orders getting in the closure where we will be able to get some margin releases, if the margins have been higher than what we bid for. But when we gave the construct of 9.5%, it is an overall construct at the overall portfolio level of Project and Manufacturing basis the assumption that commodity prices in FY23 will be an average of what FY22 was. Q1 did not witness that because obviously the cost that have been booked is basis the elevated commodity prices that was there prevailing in the last 6 months or so but now with the recent softness in the commodity prices, hopefully the procurement cost also should come down and hopefully result into better margins in each of the segment and having said this, at this juncture we would still like to maintain at 9.5%. We are working to improving margins through better or improved execution of projects and also possibly, if some of the customer claims that we have factored in last financial year that did not materialize, if they could materialize, we should hopefully improve the margin trajectory from whatever we have given guidance.

- Renu Baid:** And just to clarify, the margin guidance probably you will not assume much of, I mean the Bullet Train project margin, this would be the first proper full year of execution, we may not be able to cross the threshold limits, this fiscal?
- P. Ramakrishnan:** The C4 and C6 Packages of the orders have actually crossed the threshold margin in the Q4 of the previous year. So, yes, the momentum of execution will be the maximum in the current year and possibly in the next year as well.
- Renu Baid:** And lastly what percentage of the backlog that we have today is on fixed price basis?
- P. Ramakrishnan:** Is still around the same level Renu that at the overall Projects and Manufacturing portfolio we would have one-third of the contracts at fixed price, the balance to two-thirds I would say variable price in terms of actual reimbursements or linked to indexes.
- Moderator:** Next question is from the line of Aditya from Investec.
- Aditya:** Certain Middle East media articles have indicated that L&T has been the lowest bidder in a fairly large hydrocarbon renewable facilities contract for Neom. Anything that you can speak about on that contract?
- P. Ramakrishnan:** At this juncture, I think we will not be in a position to comment on client names or the sectors. So kindly excuse me for that.
- Aditya:** Sure, but are we pursuing Renewable and Hydrogen opportunities actively in the Middle East?
- P. Ramakrishnan:** Like the way we are pursuing our competencies for opportunities in India, the same stress and emphasis goes on to Middle East as well.
- Aditya:** Just wanted to clarify, roughly similar time last year, our order pipeline would have been somewhere around Rs. 8.9 to 9 trillion so to that extent?
- P. Ramakrishnan:** Rs. 8.9 trillion was the order pipeline.
- Aditya:** So, in overall pipeline terms we may be slightly lower as was the case at the beginning of the year we are possibly?
- P. Ramakrishnan:** Like the way we started last year with a 9.06 pipeline but this time we started the year at around 8.9 trillion. So, this time we have been a little, I would say, selective in pursuing the bids and the ordering opportunities. So, we do believe with a better run rate on awards happening and we getting a fair share, we are reasonably confident to get into the guidance of 12% to 15% that we have provided for order inflows.
- Moderator:** The next question is from the line of Kunal Sheth from B & K Securities.

Kunal Sheth: I just wanted to hear your thoughts on how has been the execution environment, specially both on Domestic and Overseas side? Has it improved and are we seeing any major constraint or now more or less most of the issues are behind us and we will see a much easier execution going ahead?

P. Ramakrishnan: So, Kunal, I will restrict myself to Q1. Q1 was just like any other normalized quarter for L&T prior to the onset of COVID in terms of workforce ability, in terms of overall supply chain as well. However, as we normally see in any normalized quarter pre-COVID, you can have certain things like the way I talked about in Hydrocarbon, there were right of way issues, client delays in approvals and even some supply chain disruptions. I won't say supply chain disruptions, supply chain delays. So, I would put it like this, it seems to be a normalized nine- months as well but you never know because with COVID gone, now we are talking of something else like monkeypox and so on. So I would say as it stands now, it's a normalized execution environment. The only one point I would like to emphasize is that L&T for the last 2.5 years or so, we have been focusing on execution ramp-up which is a direct function of payments from clients happening on time. So, if we find that any particular project, the periodicity of payments is getting delayed or there has been substantial delay in payments, in such cases we are consciously ramping down, we are bringing down the execution in such of those sites. But otherwise from an environmental perspective as it stands now, it is normal.

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

Deepika Mundra: I mainly wanted to understand how the commodity price, the recent fluctuation is impacting order inflows as well as execution? Are you seeing better traction on the prospects materializing because of a shift in the commodity prices?

P. Ramakrishnan: See Deepika, I mean I have to provide you a statistic here because I think that statistic itself will communicate in a way that the ordering momentum as far as India and Middle East is concerned which are the two primary geographies for our Projects and Manufacturing portfolio seems to be quite robust. The tendering activity. in terms of the tenders that got announced in Q1 FY23 was almost Rs. 2,566 billion, Rs. 2.5 trillion as compared to Rs. 1.35 trillion of Q1 FY22 which is almost an increase of 90% and obviously the tenders that have been opened out in the current quarter at that Rs. 2.56 trillion obviously takes into account that the clients are aware of the increase in the commodity prices and the award to tender ratio, a more important metric, as for Q1 FY23, the award to tender ratio stands at 70% as compared to Q1 FY22 at 39%. So, we believe this itself in a way communicates that, yes, commodity prices have gone up, project cost have gone up but I guess the kind of the India growth trajectory that we believe is going to be fairly positive; the government tax collections also has been quiet higher than what was expected. The government has, it seems had collected 7 lakh crores of total aggregate of taxes in Q1 which is far ahead of the estimates, far ahead of almost a 25% increase of Q1 of the previous year. So, with improved tax collections we believe that the ordering momentum will continue, largely led by the Government. Of course, there can be Black Swan events but at this juncture, looks to be fairly good for India and we do believe that India continues to be a good spot for investment led economic growth momentum.

- Deepika Mundra:** Secondly on the fixed versus variable priced orders. I think last year there were far more variable priced orders which were being booked. On a flow basis, is that changing now with the decline in steel prices?
- P. Ramakrishnan:** No, actually speaking I think last year also in terms of structurally it has been two-third variable and one-third fixed. So, most of the Infrastructure orders are largely orders where we get pass-through mechanism in some form or the other whereas in the case of Hydrocarbon, typically some of those projects are usually fixed price contracts. Now if the momentum of ordering in Hydrocarbons segment goes up as compared to Infrastructure, then the percentage of the fixed price contract should be inching up higher but otherwise if it continues the way it has been for the last 2 years, I guess this 66%-33% kind of a breakup will continue.
- Deepika Mundra:** And last one, could you comment anything on the competitive intensity in Middle East given that you are seeing so many large tenders coming through?
- P. Ramakrishnan:** The opportunities especially in the Hydrocarbon segment Deepika, I think is quite robust and I believe that with L&T's capability and its scope of offerings, these two have a good chance of winning some of the packages and there is at this juncture a place for all.
- Moderator:** Next question is from the line of Puneet Gulati from HSBC.
- Puneet Gulati:** I think last time there was some commentary from your side that because of sudden change in commodity prices, some of the tenders seem to have been delayed, government officials have gone back to recalibrate. That seems to have sorted out now, is it?
- P. Ramakrishnan:** So Puneet, in fact in the second half of the last year, the tenders did get delayed. We did not see tenders being announced in the same robustness that we saw in the previous year two quarters but the way the first quarter has started as I just now responded to Deepika's question, I think the tendering momentum has regained pace and hopefully I think should continue to remain at elevated levels in the next nine-months as well.
- Puneet Gulati:** In terms of the commodity price correction, should we see some benefit coming in Q2 itself or you think it goes with the lag of a quarter or so?
- P. Ramakrishnan:** I think Puneet, this is the fourth time the question on margins is coming. I have already explained that, that as we speak given our order book and given the kind of execution plan that we have across all the segments, we are fairly confident that we should be able to touch that 9.5% as we close the year. You can have quarter-on-quarter volatilities but that's the intrinsic part of whomsoever is following L&T business. Typically, the second half of the year is a very busy second half as compared to the first 6 months and we have started Q1 quite favorably.
- Puneet Gulati:** Lastly on some of the new initiatives that you announced last time. Any capital allocation so far in Q1 or too early?

P. Ramakrishnan: Still too early, if I see to put it across the cumulative investments that we have made on data centers and both the e-commerce and digital platform, all aggregate around 200 crores odd but no major investment as yet to happen on the green energy side because as we said earlier, the first priority is to tie up with a technology partner and then set up the JV.

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

Sumit Kishore: My first question is, it appears that the domestic order prospects have got a boost related terms versus overseas because, domestic order prospects have come out at Rs 6.31 trillion in the beginning of FY23 to about Rs 6.1 trillion now. So, is there any specific sub-segment in domestic which has been like faring better in terms of new prospects?

P. Ramakrishnan: So, Sumit, in June '21 I think the total order prospects that we had provided was Rs 8.96 trillion out of which the share for domestic was 70% and today, as we speak the share of domestic order prospects to the total order pecks at 80% at Rs 6.14 trillion. So, the share of infra was earlier at Rs 5.05 trillion is marginally down to Rs 4.76 trillion, Hydrocarbons in previous June '21 was Rs 0.52 trillion, it's now at Rs 0.4 trillion, Power is also at Rs 0.58 trillion compared to Rs 0.48 trillion. I don't think there is any structural change in terms of a particular segment showing higher prospects. I think it's more to do with the fact that we have been a little more selective this time as compared to the last year into targeting opportunities where we believe that these are large enough where L&T will bid and have a good chance to win.

Sumit Kishore: Being selective essentially means that you expect a better win ratio as well because you have been selective?

P. Ramakrishnan: Time will tell.

Sumit Kishore: You signed, put out a press release that L&T has signed up three projects worth a billion-dollar in prime locations in MMR of about 4.4 million square feet with a Rs. 80 billion sort of development opportunity? So, does that essentially mean that it's like harbinger of a contract for L&T for construction in Buildings and Factories which is already been booked or?

P. Ramakrishnan: So, Sumit, obviously yes, we have executed what we call in the industry parlance, a binding agreement to jointly develop certain plots across Mumbai. But in terms of transitioning all of that into a business opportunity for both Realty and potentially the Construction arm of our Infrastructure segment, I guess it's still some time away because we may have executed binding agreements to develop it but there are lot of as you know, there are lot of steps before we actually get into development in terms of approvals and all other stuff. So, we have joint development agreements, binding agreements for properties across South Mumbai, Andheri, and Thane. But I believe that it will still take some time before we receive all the clearances before we launch these projects.

Sumit Kishore: So, it may not be prudent for us to consider that as our order in Q2?

- P. Ramakrishnan:** Q2 current year? No, it's still time out. We will articulate on that at an appropriate time.
- Sumit Kishore:** Just one quick question on the fact that like an instance of big water sewage treatment contracts awarded by BMC almost Rs. 260 billion in Bombay broken up into six-seven packages. L&T got one package simply because you couldn't take more than one. The Jewar Airport went to Tata projects. But in airports, L&T had a sort of dominance for PPP, EPC among the big Greenfield airports. So, what are your thoughts, is the competitive intensity for big-ticket contracts of 20 billion plus going up simply because bigger packages are being broken up into the smaller ones which are still 20 billion plus and the breadth of players who can take 20 billion plus contracts, is that going up?
- P. Ramakrishnan:** So Sumit, it is like this that, in terms of competitive intensity, we do see as has always been in the recent past, very intense in some segments and some segments we do see a reduced competitive intensity. But wherever the competitive intensity is lower does not necessarily mean that L&T should get. But one thing I would like to tell is that, wherever we are quoting for jobs, we are very careful about our ability to ensure that we don't compromise on our margins and that is what I would say is the fundamental pillar. Taking into account like, in the case of airports I believe we all must have a 90% share of all the contracting opportunities that have come and we have learnt to build and execute such contracts with some of more of experience so we are pretty careful in terms of pricing and obviously in many projects you can have L&T winning some and probably L&T losing some.
- Moderator:** Next question is from the line of Parikshit Kandpal from HDFC Securities.
- Parikshit Kandpal:** My first question is on the tendering. You said tendering is up 90% and award to tender ratio is up from 39% to 70% but our order book is only doing 57%. So, have we lost some market share here?
- P. Ramakrishnan:** No, I won't agree to that particular conclusion that whatever order prospects that we had at the start of the year against that I would say that we have got reasonably a good share. So, almost Rs 88,000 crores of that orders that we bid for, we have been close to getting 28,000 crores as award wins so if you see even award win ratio, this is quite favorable both for domestic and international put together. So, it is inappropriate to conclude that whether our competitive intensity is getting diluted, I guess it's a question of the type of project and how confident we are in terms of not compromising in margins in executing and so we have been a little careful but our Q1 bids to award for us has been quite, I would say, in the positive direction.
- Parikshit Kandpal:** Because if I look at the recent bids in the EPC segment, L&T is not at all aggressive, so in fact you have been L3-L4-L5, we don't see you bidding below for project cost most of the cases which is quite a departure from the historical trends. So, just wondering, if we are connecting the two things. Thanks for the explanation. My second question is on the Real Estate segment. So, Rs 8,000 crores of revenue addition is phenomenal and I think you have given competition to some of the large, listed developers or some of the larger developers in India. So, just wanted to know whether this 8,000 is a one-off or do we have a plan for the full year or were you see

Rs 15,000 or 20,000 crores of GDV. Also, if you can touch upon what kind of presales we have booked in this quarter or maybe last year. So, rather give us some sense on how big this business is now getting into because this could be a big value add to the overall equity valuation, as people are still not valuing this segment?

P. Ramakrishnan: You are referring to our real estate portfolio as a developer?

Parikshit Kandpal: Yes, developer business on real estate side. We have added 8,000 crores of gross development value which was announced earlier. So, for the 4 years I mean this is like what the larger developers do in India, they have like targets of Rs 15,000 or 20,000 crores of GDV addition. So, if you can just highlight, is this a one-off kind of an announcement or we are looking for more such deals like this because this will translate to more than Rs 2,000 crores of pre-sales annually, the strongest number if I expect that it will get developed over next 4-5 years. And also, if you can touch upon how much, what has been the pre-sales for the first quarter of this financial year or maybe last year how much was the pre-sales from the L&T realty?

P. Ramakrishnan: Parikshit, I will tell you that we have gone on public domain to say that as per the entire Start Plan for L&T Realty is concerned, we will try to do 5 million square feet of real estate development each year and over the next 3 to 4 years some of these developments will be largely from our own land banks in Powai, Navi Mumbai, Bengaluru and Chennai and we could have like I responded to a previous question; some joint development opportunities also that we could see in this particular area. In Q1, as pre-sales activity, we have around 649 crores of orders that we have secured in this particular segment.

Parikshit Kandpal: Just 5 million annually which you are looking to do sales for, we have an average realization of about Rs. 15,000 a square foot?

P. Ramakrishnan: It depends on the property across these places. So, at this juncture it would be inappropriate for me to be so granular in terms of giving the rates because this is a function of demand and supply but wherever L&T projects have been launched both in the Navi Mumbai side and also in Powai, they have definitely received a good amount of booking and demand.

Parikshit Kandpal: My next question is on the monetization bid. So, we have Nabha, L&T IDPL and Hyderabad Metro and little bit items here. So, do you think that in this financial year all of this can happen I mean which are the higher probability event part of the these three which could happen potentially in this year?

P. Ramakrishnan: The divestment of Hyderabad Metro under the concession agreement would not be possible. The only way we can target is to bring down our stake to 51% and after some time to maximum we can dilute by another 24% to bring it at 26%. Definitely we are looking at I would say fast forwarding the process of divestment of IDPL and Nabha power. It's at the top I would say objective of the management, we do expect an early closure but in terms of timelines would be a little speculating if I were to talk about that today, at this juncture.

- Parikshit Kandpal:** Last thing, you have disclosed the carrying value of Nabha and L&T, IDPL. Can you also tell us how much is the debt on these two?
- P. Ramakrishnan:** Sorry?
- Parikshit Kandpal:** The debt on Nabha and IDPL if you can give?
- P. Ramakrishnan:** The debt on Nabha is around Rs. 4,000 crores and IDPL is not getting consolidated.
- Parikshit Kandpal:** But when you sell it, so the enterprise value of that much debt.... anyways it is not getting consolidated.
- P. Ramakrishnan:** Correct.
- Parikshit Kandpal:** Your investment is Rs 1,100 crores.
- P. Ramakrishnan:** Yes.
- Parikshit Kandpal:** Lastly on the infra cess. Infra cess has been sharply cut by the government. So government used to mop around Rs 2.4 trillion annually which will now reduce to 0.4 trillion which was largely going towards the budgetary support and the Union Budget for various infrastructure investment segment. Do you think any impact of that in your ordering or awarding?
- P. Ramakrishnan:** See the Union Budget for FY23 I think refer to net tax collections at the center at 19.35 lakh crores and basis whatever Q1 numbers have come, we do expect that this number would be substantially higher than what they have budgeted for.
- Parikshit Kandpal:** So, you don't see any impact of this in the ordering?
- P. Ramakrishnan:** At least in Q1, the numbers have been robust enough so we don't see any negative implications in terms of tax collections thus far and even the remaining nine months is looking good.
- Moderator:** Thank you. I now hand the conference over to Mr. P. Ramakrishnan for closing comments.
- P. Ramakrishnan:** So, I hope all your questions have been answered. We have tried to be as granular as possible. Thanks for everyone for attending this call. It was a pleasure to interact with all of you. Thank you and good night to all. Thank you.
- Moderator:** Thank you very much. On behalf of Larson & Toubro Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.