



“Larsen & Toubro Limited  
Q4 FY '23 Earnings Conference Call”  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q4 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. 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 into the Q4 and FY '23 earnings call of Larsen & Toubro Limited. We will have with us on the call today our Whole-Time Director and Group Chief Financial Officer, Mr. R Shankar Raman. The earnings presentation was uploaded to the Stock Exchange at our website around 6 p.m. Hope you had a chance to look at the numbers and the presentation content as well. As per usual practice, instead of going through the entire presentation, I will take you through the key highlights for the quarter in the next 30 minutes or so, and post which myself and Mr. Shankar Raman will take the Q&A.

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

During Q4 FY '23, the Indian economy continued to display a surprising resilience despite the continuing geopolitical uncertainties globally. Most of the Indian high-frequency economic indicators are continuing to exhibit growth momentum. PMIs and industrial activity, power demand, credit growth, investment indicators, mobility indicators, passenger and cargo traffic data, etcetera, are all pointing towards a stable macroeconomic environment. However, the discretionary consumption spends have continued to remain a bit of lackluster. The tax collections for the government have continued to remain strong and the balance sheets of the banks as well as private corporates are healthier. Clearly, most of the Indian macro indicators, be it growth, current account, fiscal deficit, as well as inflation, are relatively better vis-à-vis other countries in the world. Within GCC, one of our primary geographies besides India, we also see many countries are building their non-oil economy by investing in areas like water, green energy, and at the same time, continuing to ramp-up their spend on oil and gas investments. These are definitely interesting times where despite the continuing global turmoil, both India and GCC remain relatively stable.

Before I get into the details of the financial performance parameters, I would like to share a few important milestones and highlights for the year. For the first time ever, our group order inflows for the year FY '23 has crossed Rs 2 trillion. Secondly, our order book at around Rs 4 trillion is obviously at a record high. Our group revenues for the year FY '23 at Rs 1.83 trillion has registered a growth of 17% on a Y-on-Y basis, once again a five-year high.

We have reported an NWC to revenue, this excludes financial services segment, the NWC to revenue at 16.1% as on March '23 is again the best reported in the last five financial years. Finally, our recurring PAT for the year has crossed the Rs 100 billion mark, again an important milestone for our group. A few other important highlights for the year are, we successfully concluded the merger of L&T Infotech and MindTree in Q3 FY '23. The combined entity, which is LTIMindtree, with an annualized revenue currently at USD 4 billion, possesses the capabilities of a Tier 1 company and yet retaining the agility of a next tier firm. Similarly, our technology services company, LTTS, also crossed the revenue run rate of USD 1 trillion during the last quarter.

Further, LTTS has successfully absorbed the Smart World and Communications business of the parent. The transaction got completed on April 1, 2023. The expertise of Smart World and the Communications business in communications, envisioning and creating smart and safe cities, power and cyber security services and 5G enterprise solutions offer ideal synergies for LTTS and three out of its six bets they are placing in the future, which are electrical, autonomous and connected vehicles, 5G, medical technologies, digital products & artificial intelligence, digital manufacturing and sustainability.

During the year, the company commissioned a pilot green hydrogen plant at its Hazira campus, marking its entry into the Green Hydrogen business. The pilot plant produces 45 kgs of high purity green hydrogen daily. Additionally, the company has entered into a technology license agreement with McPhy Energy France for manufacture of pressurized alkaline electrolyzers. The company has also entered into MOU to develop floating green ammonia projects for industrial scale applications with the Norway based H2 carrier.

With the conclusion of the sale of the mutual fund business and a phased reduction of the wholesale loan assets book, L&T Finance, a listed subsidiary, will also transform into a full scale retail oriented digitally enabled business.

The Realty business of the group, in addition to development and monetization of existing land banks, will continue to pursue growth in residential and commercial through multiple formats. During the year, the company entered into an agreement with CapitalLand India for developing 6 million square feet of prime office space in Mumbai, Chennai and Bengaluru. Finally, the IDPL divestment was also announced during Q3 FY '23. The transaction closure, however, is subject to regulatory approvals and should get concluded in the next one or two quarters.

I will now cover the various financial performance parameters for Q4 FY '23. Our group order inflows for Q4 FY '23 at Rs 761 billion registered a Y-on-Y growth of 3%. Within that, our Projects and Manufacturing business secured order inflows of Rs 611 billion for Q4 around the same levels as that of the Q4 of the previous year. Our Q4 order inflows in the Projects and Manufacturing portfolio are mainly from Infrastructure, Hydrocarbon and Defense segments.

During the current quarter, our share of international orders in the Projects and Manufacturing portfolio is at 43% vis-à-vis 39% in Q4 of last year. Our share of private orders within the

Projects and Manufacturing portfolio is at 18% for Q4 FY '23 vis-à-vis 22% in the corresponding quarter of the previous year.

Coming to FY '23 as a full year, our group order inflows at Rs 2,305 billion has registered a strong growth of 19% over the previous year. We had given a guidance of 12% to 15% at the start of the year and our actuals has been in higher of 19%. Within this total order inflow, our Projects and Manufacturing businesses have secured orders of Rs 1,722 billion for the year, growing by 19% on a Y-on-Y basis. The share of private orders for FY '23 in this portfolio that is the Projects and Manufacturing is at 27% vis-à-vis 22% in the previous year and the share of international orders is at 28% as against 37% in the previous year.

The year witnessed booking of some noteworthy orders in domestic irrigation projects and wastewater project in the Water and Effluent treatment business, a project in public spaces business in the Buildings and Factories vertical, a few orders in the hydel and tunnel business including a lift irrigation project and a strategic order in the Heavy Civil Infrastructure business. Apart from this, a couple of orders in ferrous metal space, some select large orders in the defence business and a large order in the onshore vertical and multiple orders in the offshore vertical of the Hydrocarbon engineering business were all secured.

Moving on to the prospects pipeline for FY '24, we have a total prospects pipeline of Rs 9.73 trillion for FY '24 as against Rs 8.53 trillion that we had announced at the start of FY '23. This by itself represents an increase in the prospects of almost 14%. The broad breakup of the overall prospects pipeline that I just now mentioned at Rs 9.73 trillion, Infrastructure comprises Rs 6.5 trillion, Hydrocarbon at Rs 2.44 trillion, Power at Rs 0.5 trillion and Hi-Tech Manufacturing at Rs 0.29 trillion.

Moving on to order book. Our order book is at Rs 3.99 trillion as on March '23. As our Projects and Manufacturing is largely India-centric, 72% of our order book is domestic and 28% is outside India. Of the international order book of Rs 1.11 trillion, around 87% is from the Middle East countries, 4% is from Africa and the remaining 9% from various countries including Southeast Asia. As is evident from the statistic, GCC capex for both Infrastructure and Hydrocarbon sectors is on an upswing post the recovery in oil prices. The breakdown of the domestic order book of Rs 2.88 trillion which is 72% of our order book, the breakup is as follows: the share of Central Government orders 14%, State Government 30%, Public Sector units or State-Owned Enterprises at 36% and Private Sector at 20%. Around 22% of our total order book of Rs 3.99 trillion is funded by bilateral and multilateral funding agencies. Around 89% of our order book is from Infrastructure and Energy. You may refer to the presentation slides for further details. During Q4, FY '23 and FY '23, we have deleted orders of Rs 53 billion and Rs 103 billion respectively from the order book. As of March '23, our slow moving orders in the order book is around 1%.

Coming to revenues, our group revenues for Q4, FY '23 at Rs 583 billion registered a Y-on-Y growth of 10%. International revenues constituted 39% of the revenues during the quarter. The IT and TS portfolio continue to report an industry leading growth in Q4 as well. In the Projects and Manufacturing businesses, our revenues for Q4, FY '23 were at Rs 433 billion registering a

Y-on-Y growth of 8%. For the full year, we reported group revenues of Rs 1.83 trillion, a growth of 17%, largely achieved on the back of a pickup in the execution momentum in the Projects and Manufacturing businesses and a healthy growth in the IT and Technology Services business. For revenues, if you may recall, we had given indicated a guidance of 12% to 15% growth at the beginning of the year.

Moving on to EBITDA margin. Our group level EBITDA margin without other income for Q4, FY '23 is 11.7%, a drop of 60 basis points over Q4 of FY '22. This drop of 60 basis points is mainly due to cost pressures in the projects part of the portfolio. For FY '23, this drop is 30 basis points that is from 11.6% in FY '22 to 11.3% in the current year FY '23. The detailed breakup of the EBITDA margin business-wise is also given in the annexures to the earnings presentation. You would have noticed that EBITDA margin in the Projects and Manufacturing business for Q4, FY '23 is at 9.2% vis-à-vis 10.3% in Q4, FY '22 and for FY '23 as a whole is at 8.6% vis-à-vis 9.3% in FY '22. Against the margin guidance of 9.5% that we provided at the start of the year, we have fallen short by 90 basis points which is, as I said, largely attributed to cost pressures in the EPC projects part of the portfolio. I will cover the details when I talk about the performance of each of the segments.

Our recurring PAT for Q4, FY '23 at Rs 39.9 billion is up 10% over Q4 of last year, largely in line with the revenue growth during the quarter. Similarly, our Recurring PAT for the year at Rs 103.7 billion is up 21% over FY '22. The group performance P&L construct along with the reasons for major variances under the respective function heads is provided in the earnings presentation. You may kindly go through the same for further details.

Coming to working capital, our NWC to sales ratio has improved from 19.7% in March '22 to 16.1% in March '23. We have done substantially better vis-à-vis the guidance of 20% to 22% that we gave at the start of the year. Further, the GWC to revenues for FY '23 has dropped sharply to 62.3% as against the GWC to revenue of FY '22 at 73.4%. Our group level collections excluding the financial services segment for Q4 FY '23 is Rs 539 billion vis-à-vis Rs 430 billion in Q4 FY '22. For FY '23, our group level collections excluding financial services segment is Rs 1.7 trillion vis-à-vis Rs 1.36 trillion in FY '22 representing an increase of 25%. The improvement in Gross Working Capital is also reflecting in the Net Working Capital. Receipt of customer advances towards the orders received during the year also helped the extent of Net Working Capital drop.

Our Gross Debt to Equity ratio for FY '23, the close of FY '23 is 1.14 as against 1.29 at the end of FY '22. Finally, our Return on Equity for FY '23 is 12.2% vis-à-vis 11% for FY '22, an improvement of almost 120 basis points.

I will now comment on the performance of each of the business segment before we give our final comments on the outlook for the medium term. First would be the Infrastructure segment. Coming to order inflows, this segment secured orders of Rs 412 billion for Q4 FY '23 registering a de-growth of 9% that is primarily due to high base of the corresponding quarter of the previous year. However, full year order inflows in this segment were at Rs 1,171 billion reporting a substantial growth of 25% over FY '22 on receipt of multiple large value orders across all the

sub-segments under this particular business. During the current year, Buildings and Factories benefited from receipt of some prestigious orders in the public space business. The Heavy Civil Infrastructure registered growth on the receipt of a mega infrastructure order and the Water and Effluent treatment business also received numerous orders for irrigation and waste water treatment. The Minerals and Metals business performed well with the receipt of multiple ferrous orders from a private client. For two years in a row, the Power Transmission & Distribution business has continued to benefit from the gigawatt scale renewable opportunities from the GCC region. The decline in order inflow in Transportation Infrastructure for the year is mainly due to deferral of targeted prospects. Coming to order prospects for this Infra segment, for FY '24, it aggregates to around Rs 6.5 trillion vis-à-vis Rs 5.72 trillion as at last year. The share of domestic in the total order prospects of Rs 6.5 trillion is Rs 5.19 trillion and the balance international prospects of Rs 1.31 trillion. The sub-segment breakup of total order prospects in Infrastructure business is as follows:

- Heavy Civil Infra - 21%
- Water and Effluent Treatment - 22%
- Transportation Infrastructure - 19%
- Power Transmission and Distribution - 18%
- Buildings and Factories - 13%
- Minerals and Metals - 6%

The order book in this segment is Rs 2.845 trillion as on March '23. The book bill for Infra is around three years. The Q4 revenues at Rs 312 billion registered a growth of 5% over the comparable quarter of the previous year, whereas FY '23 revenues at Rs 867 billion registered a strong growth of 20% largely aided by the ramp-up of execution of large orders in the portfolio. As a philosophy, we always step up execution when customer collections are flowing at a healthy pace to essentially strike a healthy balance between P&L and the balance sheet. Our EBITDA margin in this segment for Q4 FY '23 at 7.5%, registers a de-growth of 170 basis points over the corresponding quarter of the previous year, whereas the full year EBITDA margin at 7% registers a decline of 120 basis points. Margins for the quarter and the year remain subdued due to job mix of largely government public-centered tender projects under execution, input price pressures, logistics constraints, cost overruns in certain jobs, pending delay in the customer claim settlements. Client claims will be pursued under the terms of the respective contracts, the settlement of which will happen over time.

Moving on to the next segment which is Energy Projects which comprises of Hydrocarbon and Power. Receipt of multiple Domestic and International orders in the Hydrocarbon business during the year improves the order book, whereas deferral of orders continued in thermal power. We have a strong order prospect pipeline of Rs 2.94 trillion for this Energy segment in FY '24 comprising of Hydrocarbon prospects of Rs 2.44 trillion and power prospects of Rs 0.50 trillion. The order book for this Energy segment is at Rs 724 billion as on March '23 with the Hydrocarbon engineering order book at Rs 670 billion and Power at Rs 54 billion. The book bill for this segment is around 20 months. The Q4 and FY revenue growth of 18% and 6% respectively is largely led by the execution momentum in Hydrocarbon, whereas lower revenues in Power is a function of a depleted order book. The improvement in EBITDA margin in this

segment for the quarter and full year is largely a function of execution cost savings in both the segments. Further favourable customer claim settlement in Hydrocarbon in Q4, FY '23 also aided the improvement.

We will now move on to High-Tech Manufacturing segment, which comprises of Heavy Engineering and the Defence Engineering businesses. In this quarter, order inflow growth in Defence Engineering is driven by the government's thrust towards indigenisation, whereas Heavy Engineering ordering was impacted due to deference. For the full year though, both Defence and Heavy engineering have benefited from multiple order wins. We have an order prospect pipeline of Rs 252 billion for this segment in FY '23. The share of Defence against this pipeline is around 78%. The order book for this segment is Rs 262 billion as on March '23. Revenues for Q4 and full year for this segment registered a growth of 21% and 10% respectively, largely attributed to higher progress in the refinery business of Heavy Engineering and execution ramp up of select projects in the Defence Engineering business. Margin variance for the quarter vis-à-vis corresponding quarter of the previous year is largely a function of the job mix in this segment, whereas full year margin variance had some element of execution delays arising out of supply chain issues.

While I am on this segment, I would like to mention once more that the Defence Engineering business of Larsen & Toubro does not manufacture any explosives nor ammunition of any kind, including cluster ammunitions or anti-personnel landmines or nuclear weapons or components for such munitions. The business also does not customise any delivery systems for such munitions.

Moving on to the next segment, IT and Technology services. As you are all aware, the merger of LTI and Mindtree got concluded on Nov 15, 2022. The merged entity is uniquely positioned to scale up by competing for large deals and will benefit from cost and revenue synergies on upselling, cross-selling and stitching services together. The revenues for this segment for the quarter at Rs 106 billion and the full year at Rs 407 billion registers a growth of 21% and 26% respectively over the corresponding period of the previous year, largely reflective of the continuing growth momentum in the sector with a surge in demand for technology-focused offerings. The margin decline in the segment for the quarter is a function of higher staff cost whereas for the full year the margin was impacted to a combination of higher employee cost as well as one-time integration expenses due to the merger of the two companies. I will not delve too much on this segment as both the companies in this segment are listed entities and the detailed fact sheets are already available in the public domain.

We move on to the Financial Services segment. Here again L&T Finance Holdings is listed and the detailed results and the fact sheet are already available. The highlights for Q4 FY '23 for Financial Services segment were improved net interest margin and fees, lower credit cost, better asset quality and rundown of the wholesale and expansion of the retail loan book. In fact as on March '23, the share of retail in the overall book at around Rs 80,000 crores is at 75% of Rs 80,000 crores. The strategic deliverables in this business revolve around portfolio reorganization, strong asset quality and improvement in ROA. This business endeavors to be a top class digitally enabled retail finance company moving from a product focus to a customer

focus approach. Finally to conclude sufficient growth capital is available in L&T Finance Balance Sheet.

Moving on to Development Project segment. This segment currently includes the Power Development business comprising of the thermal power plant Nabha Power, Uttaranchal Hydro Power up to the date of its divestment in the previous year August 2021 and Hyderabad Metro. Let me mention here that profit consolidation of L&T IDPL at a PAT level has been discontinued from Q4 FY '23 post signing of the definitive agreement for sale of our entire stake in the company. The investment in this JV is now classified as held for sale. The majority of revenues in the Development Project segment is contributed by Nabha Power. Improved ridership in Hyderabad Metro and higher PLF in Nabha drive revenue growth for this segment. To give you some statistics on Hyderabad Metro, the average ridership improved from 1,99,000 passengers a day in Q4 FY '22 to 4,08,000 passengers per day in Q4 FY '23. Our average ridership in Q3 FY '23 was 3,94,000 passengers a day. Also average ridership for Hyderabad Metro in FY '23 that is the whole of the year was at 3,61,000, as compared to 1,55,000 in FY '22. The higher segment margin in Q4 FY '23 is primarily due to consolidation of Nabha profits led by increase in the benchmark valuation. In Metro at a PAT level, we have consolidated a loss of Rs 13.21 billion in FY '23 vis-à-vis loss of Rs 17.51 billion in FY '22. The interest cost in the Metro SPV has reduced from Rs 14.77 billion in FY '22 to Rs 12.73 billion in FY '23, largely reflective of the benefits of refinancing which got concluded in the previous year.

Moving on to Other segments. this segment comprises Realty, Industrial Valves, Smart World and Communications, Construction Equipment and Mining Machinery and Rubber Processing Machinery. The Q4 and FY '23 growth in this segment is mainly in Realty, Rubber Processing Machinery as well as Construction Equipment and Mining Machinery. The Q4 and FY '23 margins of this segment is in line with the corresponding period of the previous year.

Before I conclude on to the environment outlook, I want to draw your attention to two new slides which we have included in the annexures to the earnings presentation. The first slide is how return ratios have improved in the Projects and Manufacturing portfolio over the last five years. If you glance through the numbers, you will realize that a combination of revenue growth and a reduced capital intensity in this Projects and Manufacturing portfolio has offset the margin slide and actually resulted in improved return ratios over time. As I say this at the cost of maybe I am sounding defensive, I would like to mention that the delays and disputes on additional claims from clients has created in some sort of a timing mismatch in the books, consequently impacting margins in the shorter term. Hopefully, the benefits will accrue to P&L as and when the claims get processed over time.

There is one more slide as part of the annexures to the earnings presentation which explains the journey of return ratios to group level. In this slide, we have listed out three action points for ourselves as part of our Lakshya 2026 start plan to improve the returns to our shareholders and if you see that it covers the portfolio, the emphasis is on:

- Portfolio retailisation of Financial Services
- The phased exit or reducing exposure from our Development Projects portfolio and
- a higher cash return to shareholders over the period.



Coming to the last part of my presentation, which is the outlook. India's economic growth continues to display encouraging resilience despite the continuing global chaos, prudent fiscal and monetary policy management from the government and RBI respectively has resulted in the partial decoupling of India's growth story with the rest of the world. The government's push for growth through larger infrastructure spend is clearly evident from the enhanced budgetary allocations for FY'24, PLI incentives, improved business confidence and buoyant demand conditions will culminate into revival of private capex in the medium term.

Going forward, improved tax collections for the government will support its capex-led growth aspiration. Further, bank balance sheets are healthy, providing opportunities to lend funds to creditworthy projects. With the government's enhanced thrust towards manufacturing exports, the country's goods trade deficit should narrow over a period of time. The country is committed to net zero goals and both the government and the private sector are committed to investments around energy transition. Despite this, amidst this various moving parts, the silver lining is that India would continue to remain one of the fastest growing economies in the world.

The last two years have seen the global economy striving to deal with overlapping crisis, the latest being the liquidity troubles after a series of global bank crisis. While the impact appears to have been contained, these uncertainties continue to undermine the confidence among consumers and businesses to spend, possibly impacting global growth. Government and central banks across the world are attempting to strike a balance between containing cost-push inflation and pursuing demand-led growth.

A combination of China's reopening, a significant easing of the natural gas crisis in Europe and a resilient US consumer confidence should help the global economy tide over the current uncertainty overhang. With OPEC and partner countries announcing production cuts, oil prices are likely to remain firm at current levels, aiding the GCC nations to pursue their capex plan in oil, infrastructure, green energy and other industrial sectors. In this backdrop, the company will focus with cautious optimism on pursuing large project wins, timely execution of its large order book, growth of its services portfolio in its estate and glide path and preservation of liquidity and optimum use of capital and other resources.

The company is optimistic about its growth aspirations in the medium term, despite this uncertain macro environment and is committed to creation of sustainable value to all of its stakeholders.

Finally, let me comment on our guidance for the next year before we take Q&A. On Order Inflows, this is at the consolidated level, that is at the consolidated group level, our guidance is around 10% to 12% band for FY '24. On consolidated revenues, we are providing a guidance of around 12% to 15% band in FY '24. On margins with respect to our Projects and Manufacturing business, we close the year FY '23 at 8.6. It is our endeavour to improve the margins of around 40 basis points to 50 basis points, maybe in and around 9% for FY '24. Having said this, the margin trajectory should be showing a good improvement in the later part of FY '24 in terms of the projects that will come and cross the margin recognition threshold. We see the later part to be a more profitable second half than the first half.

On Working Capital, we are giving a guidance, a range between, this is again working capital at a group level, the guidance would be between 16% to 18% for FY '24. On the sustainability front, the parameters for FY '23 are undergoing audit currently. We will be presenting you the same when we come with our Q1 FY '24 Earnings Presentation.

Thank you, ladies and gentlemen, for the patient hearing. We will now open the floor for questions. Both myself and Mr. Shankar Raman will be taking the questions, requesting the participants to restrict their questions around the broader aspects of performance and strategy in order to make the best use of the available time. Any bookkeeping questions can be taken up with the Investor Relations team later on. Over to you, Faizan.

**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 ICICI Securities. Please go ahead.

**Mohit Kumar:** Yes. Good evening, sir, and congratulations on a very, very strong Order Inflow. However, sir, the EBITDA margin has been slightly on the lower side. My first question is the EBITDA margin for the last three years for the core segment is 10.3%, 9.3%, and 8.6%. It has been continuously declining. As a result, EBITDA growth, if you look for the last three years for the core business, is around 7% to 8%. Do you expect margins to improve in FY '24 materially, in the sense that the losses which you incurred in FY '23 or in the COVID period will come back in FY '24 and will improve slightly on the higher side as 40-50 bps, look to the lower side? That's the first question.

**R. Shankar Raman:** Mohit, Shankar Raman here. Good evening. You know, you have chosen a very interesting three-year period to do your margin profiling, okay, and this has been the most challenging three-year period for EPC companies, as you will know. The margins that we have reported now largely reflect the cost of inputs that have gone into the execution. And to a limited extent, we were able to sort of fine-tune the time that is available at our hand to complete the project, waiting for the prices to cool down. But it was not possible across the length and breadth of the project business that we run. So we had to actually go ahead, complete the project, make sure that we don't get into the LD zone, and complete our obligations.

Now, as you know, in Project business, the margins are not linear, because, A, there are milestones, and B, there are various gates for margin recognition and contingencies, cost contingencies. And C is finally, at the end of the project, there is always a negotiation around any of the scope, time cost, overrun, etcetera. So it does take the project completion-plus 12 months to actually get the final outcome of a project.

Now, while it is true that as the projects are getting more-and-more complex, competition is increasing, the margins never used to be the same that used to be, because the world is getting far more competitive. So there's no doubt in my mind that the 10%, 12% margins that we used to comfortably enjoy is not there for some time. I think we need to learn to operate efficiently in a lower margin band. Now, what can be the compensating levers? One is the complexity of the project that we can bid for, where there is a higher engineering overlay which will give you some competitive advantage and keep the bar higher.

Second is how to ensure that the time erosion that happens in project execution improves, and to the extent to which we could have pre-bid arrangements with our entire vendor ecosystem, so that the margin erosion is just not confined to the EPC player, but the chain bears the cumulative burden, but in a more distributed manner.

And third, obviously, is I think as we broad-base our presence across geographies, we have to make sure that there is sufficient cushions that are available in the various markets that we operate in. The timing mismatch is part and parcel of our business, unfortunately, because the cost gets incurred first, and then the negotiations happen for final settlement. Except that, the cost gets accounted in a lumpy manner, and the benefits drip in in a phased manner, so you do not even realize the recovery that happens in this.

The sustainable lever that we are operating on, and it is very visible even in FY '23, is how to reduce the capital intensity. I think we should either run a business where the margins are very high, so you can afford to actually be less rigorous on capital allocation. The other scenario where margins are tending lower, because of general competitive environment, economic landscape, etcetera, and hence get far more efficient in resource deployment. When I talk about resource deployment, it is just not money, but money, men, material, etcetera. Also, the fact that we increasingly are getting to automate our processes, trying to use digital technology in our project-related manufacturing equipments, and also have modular fabrication so that we operate on a batch mode rather than on a sequential mode.

Now, these are levers that will take some time to seep into the organization. If we just allow the cost increases to play out, it would have been far sharper fall than what we have managed, because of all these compensating levers, which have all got at various degrees of maturity. We do believe in the next couple of years, two things will happen. Hopefully, we will perfect this model of getting less resource intensive and get more cost competitive, and more operationally efficient, reduce the rework time, reduce the downtime, etcetera.

The other thing is the backlog that is actually suffering the higher input costs would have got exhausted by then. According to me, 60% of the backlog that had large cost inflation has got exhausted during the current year. The balance will spread over possibly next year and the following year, but my belief, as Mr. Ramakrishnan was mentioning, the subsequent two quarters will continue to see cost pressures and softer margins. But as we tide over, turn over that phase and cross the hump, then possibly the margins will begin to look up. And '24-'25, my assessment will be a more accurate reflection of a normalized execution. Sorry for the long answer, but it deserved it.

**Mohit Kumar:**

Thank you. My second question is, when you look at your green manufacturing portfolio, what are we aiming in FY '24? What is the capacity we are looking for in the electrolyzer? And the related question is that, are we getting more and more inquiry for the EPC, for the green hydrogen, green ammonia, or green manufacturing plant?

**R. Shankar Raman:**

We are working on a capacity of 1 gigawatt for electrolyzer. As you know, we have tied up with McPhy France for technology licensing. The factory is getting set up now. We do believe by the

time this financial year runs out, we would have produced a first few electrolyzers. Initially, it would be a product used in India, but we do believe it has potential to be a global product. We should get the technology right. We should get the costing right, etcetera.

So, our sense is that by FY '24, end of FY '24, the electrolyzer plant will be up and running, meaning commissioned. We have not exactly chalked out how many units we will produce, etcetera, because that will be a function of marketing and product development. And so far as EPC is concerned, I think the world is actually beginning to come to terms with green hydrogen. It is still not, according to me, widely implemented. It is widely spoken. I think there is enough pressure in the system for people to get more green in their fuel efficiency and fuel usage, etcetera.

So, this trend will begin to pick up. My own sense is it will take zero to three years for us to see some scaling up happening in this opportunity. At the moment, what we are trying to do is we are trying to stay relevant to the technology developments around. We are having conversations. Maybe if the initial movers in this, for example, groups like Reliance have announced plans to manufacture, and given our EPC competence and also our electrolyzer manufacturing capability, if we are able to get some initial orders, maybe a couple of thousand crores could be the initial orders that we could get in this area. But '24-'25 would be a more appropriate time for us to actually size this opportunity.

**Mohit Kumar:** Thank you and best of luck, sir.

**R. Shankar Raman:** All the best.

**Moderator:** Thank you. The next question is from the line of Ashish Shah from JM Financial. Please go ahead.

**Ashish Shah:** Good evening and thank you for the opportunity. So, my question is on the guidance. While, of course, 12-15% revenue growth guidance is good guidance, but given the fact that we are sitting on a record order book and our working capital cycle is probably at the lowest point in several years, do you think this is a slight conservative and there is a potential to do better, or do you think given the constraints, this is the correct number to look at?

**R. Shankar Raman:** There is an event risk at the moment, Ashish. Many states are going for elections. Country will be geared for union election. So far, things have been progressing well because the enablers for project execution has been much better in terms of environment. We have to be a little guarded in the current year. My own sense is it could be a bit of a truncated year, may not have the full benefit of 12 operating months. I really do not know how many months in the current year and how many months in the next year will actually get into some kind of a silent period, so to speak, for large moves by the government.

And secondly, the finance minister is blessed with a high degree of compliance and willing taxpayers. So, today, I think the fiscal conditions look very, very rosy. Now, if the allocations change track because of some political priorities, some of these projects can get a little slower. Now, while the apparent implication of this in order inflow is understandable, the operations in

infrastructure, public space, is always fraught with some risks of access, clearances, multiple agencies to give progress enabling approvals, etcetera. If the bureaucracy slips into some kind of a political prioritization mode, then some of these could get affected. We also have to see the war seems to be escalating at least the last one week. Whatever normalcy we thought the level of escalation will happen has got completely changed, and it is getting into another pitch of, rivalry and attacks and stuff like that. I do not know how much more supply chain disorientation is going to happen. So, and we do for our project business do a fair bit of equipment supplies from international markets. We want to be a little careful here. This is not to say that there is no upside.

For example, in the current year, we said 12 to 15 percent, but we landed up with about 17 percent. Our effort would always be to beat margins. But so early in the year, we felt that it is better to be a little more sure-footed than adventurous on the guidance.

**Ashish Shah:** Got that point. Thank you for that. This last question on the defense, we have got a pretty good inflow for the fourth quarter. You know, I just want to get some color on this because there were there were a few programs where we were in the front line. There's a cadet training ships, there's a modular bridges, the Vajra gun orders. So I just want to know which of these programs has been received and which is yet to be taken in the inflow. Also in the pipeline, we've again talked about a fairly good number in terms of prospects for defense. Any broad color on which programs are we eyeing on? That will help sir, thank you.

**R. Shankar Raman:** There are multiple programs. Some are land-based army systems and some are naval systems, as you know. Given the confidentiality with which we are bound on the FY' 23 wins, I'm not able to call out specifically as to which program is moving. But suffice to say, both the naval programs and the land-based programs are on course. I think the government is getting comfortable with private sector participation. Still early days. I don't think a few orders should make us conclude. That it's going to be an up and running volume.

We'll have to wait and watch. But these are areas where we have capabilities. To the extent, at the moment, let me be a little circumspect in calling out. But all the programs that you mentioned are alive. And these are continuing programs. So none of these programs is actually a one-order program. So our hope is that we will continue to keep receiving some of these orders going forward. Because the services require these quite badly.

**Ashish Shah:** Thank you. Thank you for your responses.

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

**Renu Baid:** Good evening, sir. My first question is on the cash utilization and the asset divestment. Now with IDPL almost done and hopefully Nabha also closes in fiscal '24, given that you have readjusted the net realizable value there. How are we looking at the overall cash shift of the books for the deleveraging coming in place? And with this reduced Net Working Capital cycle that we have seen because of a structural growth or a cyclical growth in orders. How are we looking at the overall utilization of these proceeds, any M&A in pipeline, etcetera?

**R. Shankar Raman:** Actually, in so far as M&A is concerned, we have so far been scaling up in the IT services. In the core business of engineering, construction, manufacturing, we think we have much of the competencies better than most available. So to acquire another company in those core areas, unless it completely changes the competency profile or the threshold map for pre-qualification, I do not think we are thinking in terms of any such major buy.

At the moment, the focus is two. One is to complete the divestments that we are working on. You mentioned about Nabha. As I mentioned to you possibly in one of the earlier meetings, Nabha is a unique asset. It is a fantastic asset by itself and it is being put to good use in Punjab. The problem with Nabha is that it has been constructed at a cost which is far higher than the cost at which power capacities are available through NCLT proceedings.

So to that extent, I think it suffers from some competitive disadvantage when it comes to being sold out in the market. But having said that, what we have done in Nabha is some very good effort in making sure we are closing all the litigations. Significant litigations have been won and money collected against those litigations in the last year. There are one or two which are still left and we will continue to get them also resolved. If we keep the plant running as well as we are doing now and take all the litigation related discounts out of the equation, we might possibly find interested people for a performing asset. Because when you buy an asset through NCLT process etcetera, you have to incur a fair bit of expenditure to revamp the plant. Many of these plants have remained shut for long etcetera. So who knows, there might be an interested party who could possibly aggregate its non-green capacity. But the fact is we are trying to sell non-green over time when everybody is talking green. So there is going to be a bit of an effort required. At the moment, it is not hurting us in terms of either utilization of the asset or the margin that it is contributing.

Whereas, if I look at IDPL, you are right, I think we are almost home. We have to make sure all the various approvals that we need to get, we get in good time and hopefully we will close it. In the course of this year. The core businesses are expected to generate good cash. We have worked very hard to make sure that the capital intensity, resource intensity, we have brought it down. Even though we surprised ourselves in getting to 16%, I think it is safer to plan to operate in that 16%-18% band. And we have seen that pattern in the past because generally the first two quarters would involve lot of vendor payouts. And thereafter, the customer cash flows get stronger in Q3 and Q4.

So there could be some ratio movements, but it will be within this band. If the cash flows are good and the debt servicing, I do not think would require lot of cash. Because anyway, the parent company, if you keep aside the Hyderabad Metro and the Nava Power plant debt and keep aside the financial debt, the parent company has pretty low debt. 0.21 is the kind of debt equity. So I do not think there is substantial debt to be done. There will be some strategic assets that we might have to invest in. Because of the kind of orders that we are trying to procure.

For example, when we got lot of metro work, especially underground, we had to invest a lot in Tunnel Boring Machines. We hardly used to have any. We are almost having two dozen now. So these are expensive equipments. Likewise, Dedicated Freight Corridor program involved a

lot of automated track laying equipments. Now these are large investments. So we do think about Rs 3,000-Rs4,000 crores worth of assets we might have to invest depending on the type of the projects. I mean, these are actually would be very contingent on the type of projects that we get.

But barring this, I do not think there is going to be any significant call on the capital. We have stepped up our dividend as you have been seeing now. It is almost 40%. In fact, 43% of our profits earned in this standalone company is being paid. So there is a move over the last couple of years to increase the dividend. We have spoken along the way. We said in this FY '26, we will also try to do some return of cash to shareholders by means other than just the dividend payout.

We had attempted for buyback in the past. And we were actually pushed back by regulations at that point in time. We have time now in this period. We should be able to one of the objectives and that is covered in one of the slides that we have attached this time to the presentation deck. That one of the ways to deal is to enhance the return of cash to shareholders. And that will possibly enable us to keep the cash required to optimal level within the company instead of sitting on extra piles of cash.

**Renu Baid:**

One follow-up question if I can ask. While it is credible the way L&T has managed its Net Working Capital and truly industry-leading, but on the operating performance side, sorry to harp again, despite having the diversity of project size and scale, at the end of the day when we have seen commodity uncertainty in the supply chain, the operating performance is not very different compared to other mid-cap EPC names.

I wouldn't want to take the names here. So what are the steps that we are trying to do so that these issues are addressed? And we already have quite a bit of risk management processes, commodity hedging in place unlike most of the other peers. But where do you think has the gap been which could be the reason for this underperformance on the operating front?

**R. Shankar Raman:**

I think it's very difficult to compare L&T given its history, age, maturity, cost structure, etcetera to various EPC companies which work in the same area. You would be surprised that companies which existed 10 years ago are no more in the picture. Forget about competing with us. They are just not in the picture. So we find that practices have been very varied and I would not like to join forces to pick holes on the accounting practices and recognition practices, etcetera. We do think that EPC business is catching the tiger by the tail.

You have to ride it and you will have to ride through several cycles. And if you happen to be a company which is 80 years old, it does go through these cycles. Our own sense is that the kind of de-risking that we have achieved between geographies, between the various verticals, etcetera provides us a requirement to keep investing in many of these areas. As I just mentioned a little while ago, I do not know how many companies would have invested in the kind of equipment that we invested on the back of projects and that's the reason why projects are moving forward. But all these are costs. And the cost will get recovered only if there are consistently large projects that are being given out. It's only in the last 3-4 years that we have been seeing some amount of consistency in ordering, order placements, the kind of projects, the complexity, etcetera. I think



we are on a cusp of a period where if you continue to see these kinds of investments, the wheat will get separated from the chaff. At the moment, we might suffer by comparison, but I think it is more structural rather than efficiency in execution.

**Renu Baid:** Got it. Thanks much and all the best.

**R. Shankar Raman:** Thank you.

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

**Deepika Mundra:** Good evening, sir, and thank you for taking the question. So, if you think back on the FY '26 strat plan, in terms of the prospect base, which areas do you see are surprising you more positively than what you would have thought? And where do you think a greater push is required, either from government or from private sector, which has been missing your expectations?

**R. Shankar Raman:** No, we are midway, isn't it, Deepika? In FY '26, we still have to cross 3 more years. I think so far we have been on course. If I were to plot what we have achieved in FY '22, what we have achieved in FY '23, I think we have been by and large on course. What is going to be important, rather than what has surprised us, etcetera, COVID surprised us. I mean, we never ever anticipated the kind of start to our strat plan. And what has surprised us is our ability to actually stay the course.

And despite this disruption, I think all credit to the organization that we work for, people actually put their shoulder to the ground and made sure that we are not losing our way. As far as government is concerned, the tax buoyancy has surprised us. And the confidence that the country has today, in not only defending its own domestic policies, but be able to articulate internationally as to why India is a market that others should participate in.

Now, if we are able to carry this forward, that's why I felt that it's extraordinary diplomacy and branding that India has done. If we are able to carry this forward, if we are able to widen the tax coverage, I mean, footprint, instead of 10% of the country paying the entire tax bills, if we are able to make it to 12%, 13%, 14%, 15%, if we are able to improve that, and keep focus on investments which will generate employment, which will generate connectivity. There is a pattern to the investment on infrastructure, if you see, because it is enabling movement of people, movement of goods, etcetera.

And I do share the central government's vision that a connected country will lead to overall development and more inclusive development than what has been in the past. So my sense is that if we are able to keep the political differences at bay and be able to pursue, regardless of which party actually succeeds in 2024, if we are able to pursue this and do whatever I just mentioned, I think we would surprise ourselves at our potential. Many of us have grown up thinking that India is a 4% growth country.

Now, in today's time, it's not hard to imagine India at double that rate. So I think a lot of work needs to be done, but the hope and optimism has gone up. The country has got a lot more



confidence and that has rubbed on us also. We also internally feel a bit confident. But there are lots of battles we'll have to win. As I mentioned, I think we are, as we get older and older, we have to make sure that we unlearn and relearn. We have to make sure that the talent that got us here is obviously aging talent. We have to make sure the younger talent is able to take this company forward. We have to adopt new technologies.

I think no more are we using the same methods to deliver. The clients are getting smarter and demanding. So we have to make sure that we measure up to that as well. So there are enormous challenges ahead. It's not an easy path. But I guess that's what would make the growth story of the company and maybe the country interesting.

**Deepika Mundra:**

Thank you, sir. And just a second question. Given that we've seen consistent commodity volatility plus supply chain disruptions, do you see that differentiation in contract negotiation with clients today both in domestic and in international markets or do you think some of the bidding practices largely remain same as what you've been following so far?

**R. Shankar Raman:**

To the discerning, there is a difference because people have seen us deliver despite COVID. And people have seen us take, knock and then hit, deliver. So to that extent, I think to the discerning, there is a difference between what we have done on the face of adversity otherwise. But if you also look at the other way that typically either public sector units or the government-sponsored projects are done, end of the day, it is L1.

I think there is some comfort that all these agencies take in having a bid responded to by at least half a dozen people. So they make the bid in such a way that more and more people can sort of participate. Despite a directive from the government that the bid should not be decided just based on L1 and there should be a quality and cost-based consideration, somehow the user departments, especially if it is driven by bureaucracy, is more comfortable with quantitative cost than qualitative assessments of technical capabilities.

So that has not played out as yet. We still have to be L1 to make sure that we make the cut. So that has not changed. And because of the need to have more people participating, if the thresholds do not go up sufficiently, we will have delayed projects. If India wants to be very competitive in its services, manufacturing products, goods, etcetera, it has to create infrastructure at a very competitive price. All the inputs that go into infrastructure are anyway generally market-driven, so there is nothing that you can do. What you can do is save time.

Make sure that the projects are awarded to companies which are able to execute within time. And my own assessment is at least 15% to 20% of the cost of infrastructure in the country. We are paying more just because of either unorganized, disorganized approvals and all the related project clearances and the inevitable delay in negotiating after the project is done. Because the scope gets negotiated, quantity gets negotiated, right of way, and all the utility removal gets negotiated. All of this falls in place and there is always some public interest group which doesn't like the project.

So we are not involved in that asset, but if you take even the high-speed rail, it came up to the border of Maharashtra and got stuck. And now slowly packages are being done. But we have

lost two years. And instead of the project getting completed, it's going to take at least three years more than the original. And who's going to pay for that extra time? It's only you and me as taxpayers and country's exchequer will pay.

So I think in this quest of creating competitive infrastructure, it is very, very important that we back companies which have the requisite capabilities and competencies. And that is something that somehow that has not completely changed to our satisfaction at least.

**Deepika Mundra:** Okay. Thank you very much, sir.

**Moderator:** Thank you. The next question is from the line of Aditya Bharatia from Investec. Please go ahead.

**Aditya Bhartia:** Hi, good evening, sir. So my question is again on Infra margin. The first time we had those cost overruns on the transportation side, we had spoken about possibility of getting some variation. So just want to know how's our experience been? Is it that we are getting variations and the margins that we are seeing are after accounting for those? Or is it that you're generally seeing that it's taking much longer to get those negotiations done?

**R. Shankar Raman:** Aditya, we're realizing the hard way that to get these cost overruns and to get these extra credits from the customer is not as easy as originally one would think. Because what is the customer's first priority to get the project completed? And what is our requirement? We can't go to the negotiation table without the project being completed. So I think first and foremost, I'll have to complete the project. And in the meanwhile, keep filing our interest in the negotiation, commercial adjustments that we want to achieve. But this typically happens at the end of the project.

And if it is, let's say a corporation, like let's say, for example, IOCL, ONGC, etcetera. They're also worried about the decision, discretionary decision being questioned in the parliament. So there is a lot of speculation involving a third party independent person. Even assuming it is not a dispute which gets referred to arbitration, even a conciliation to close out on the veracity of the claim and the validity of the claim, etcetera. That process is involved.

So it does take time to get all of this done. So to my mind, we don't normally recognize the claims ahead of time. We book the costs for projects completed and only on acknowledgement by client, either in terms of, accepting the liability or receipt of payment is the margins recognized of that extra claim. So it comes in months after the project is completed during the defect liability period for all these conversations to happen.

So my sense is what we have lost out in '22 and '23 possibly will start creeping into our books from '24, '25 onwards is my assessment. And it will go in for a couple of years. The same couple of years it took to hit us, it will take a couple of years to get back.

**Aditya Bhartia:** Sure, sir. And what about the past claims in respect of some of the transportation projects? Have we kind of received some money in respect of that?

**R. Shankar Raman:** Some portion has happened. I think I heard my colleague talk about in the context of Hydrocarbon, he was saying some claim settlement. These things happen except that they come in sizes which are actually not material. So they come in and then get submerged in the overall cycle of margins. Settlements are happening. We would like it to happen faster, but they are happening.

**Aditya Bhartia:** Understood, sir. And so my next question is on Nabha Power project. Should we read you reconsolidating of Nabha Power into accounts as an indication that something may be happening soon over there? You are in discussions with third parties and you are getting a feeling that realizable value is higher than the carried value?

**P Ramakrishnan:** So Aditya, this is PR here. If you recall, in the quarter ending September 2020, the board of Larsen & Toubro had decided to say that Nabha Power is looking for suitors. We are looking for prospective buyers. And since then, as a measure of conservatism, we restricted the carrying value in both Independent and Consolidated financial statement, the same value. And we actually took in that quarter an impairment hit as well.

Since then, from October 20 to March 22, we consolidated the revenue because Nabha Power is still not, we have not executed a firmed up deal like the way we have done for IDPL. So we were continuing to report the revenues and everything. But whatever profits that the company was accruing, was getting reversed, which means we are not taking the profits. Now since then, for the last one year or so, the company's performance has definitely shown an uptick in terms of very improved PLF of almost 85%, sorry, for availability factor was 91 for the year, improved PLF and a lot of cases that was there in between the legal court, most of the cases went into Nabha's favor and practically speaking now, the company has completely, in terms of operations and in terms of performance has actually strengthened.

So if you take by way of discounted valuations of the future cash flows, definitely the company's value has gone up and when you compare it with what you call comparative benchmarks, which are the listed companies in this field, that also has gone up. So of course, we take the benchmarks more as a reference point, but since because of the discounted valuations, the next steps that the company posted has been taken. I hope I have clarified your question.

**Aditya Bhartia:** Understood. That's very clear. Thank you so much.

**Moderator:** Thank you.

**P Ramakrishnan:** I have a request. Since we are now towards the end of this call, maybe a few of you can restrict to one question each, one question please for each of the people who want to ask.

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

**Sumit Kishore:** Good evening, Mr. Shankar Raman and PR. My question is again on margins. For a five-year period till FY '21, your core margins were in the range of 10% to 10.5%. You have clarified, you know, in your first response to a question regarding the new normal that margins are entering into and your guidance for the next two years is 9%.

You also mentioned that 60% of the impacted projects have already been executed, another 40% in the next two years. But are you going to move closer or if at all to your 10% to 10.5% trajectory once all these problems are sorted? And what is the extent of the, you know, unrecognized claims where you are reasonably confident and which have not really reflected in your margins over the last two years?

**P Ramakrishnan:**

Okay. So, Sumit, this is PR. I will take that because I think this is the fifth time or the sixth time the same question is creeping up. So let me try to answer it. So, Yes, we have given that today when we have printed 8.6 for FY '23, we are looking at definitely an improvement. We believe that the worst is behind us in terms of the projects that we secured before Covid. The projects that we secured during Covid went into execution at higher material costs. And we got because of Covid, there was a stoppage of work which enabled us to get time extension from the customers and thereby executing the project.

So time extension need not necessarily mean value extension in terms of additional claims. Time extension only protects us and the customer has no right on the terms of the contract to levy any sort of punitive damages. But definitely extended time stay in the project also has its cost implications and a combination of I would say time extension leading to cost and also higher material prices that we witnessed in the last year and to some extent sweeping into the current six months for projects that were back prior to COVID and it is a combined reason I would say that where we are seeing margins at 8.6.

As Mr. Shankar Raman talked about that this particular project execution trajectory is going to see possibly the end of by FY '24 the mix of these projects would be hopefully coming to a close as orders that we have secured during the later part of FY '22 and in the current year obviously factors into account. I would say the current material prices and to some extent the margin trajectory will be definitely protected. But all of this getting into execution mode for us to recognize margins is going to happen in the later part of FY '24.

So at this juncture it would not be possible to say in terms of how much of these claims will come because as you know as an EPC contractor definitely we will be putting up, we are putting up the claim but once the project is handed over to what extent it is getting cleared by the client is a question of negotiation and discussions and settlement at a point of time. So with this I would like to reemphasize that at overall Projects and Manufacturing level, what we have printed for 8.6% seems to be bottomed out.

We should be seeing an improvement and that is a reason we are giving a comfort that we do expect an improvement of almost 40 to 50 basis points, over 8.6, but that would happen in the later part of FY '24. FY '25 hopefully we should be seeing a major part of the orders that we have secured recently getting into I would say margin recognition threshold hopefully I think that should be coming back in terms of what margins we will see. As you know we typically guide the margins only for the year and for obvious reasons it is impossible for us to give a guidance beyond a year considering the varied nature of the project's business.

**Sumit Kishore:**

Thanks a lot PR.

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

**Pulkit Patni:** Sir, thank you for taking my question. So two quick questions. One on the Hyderabad metro, the ridership improvement has been very significant if you see year-on-year. But still profitability has improved a little bit and that too because of financing. In any ballpark number where we think we can get a bit of positive on Hyderabad metro because despite doing almost 400,000 we are seeing losses are pretty meaningful. So that would be question number one?

**P Ramakrishnan:** Yes, so in terms of Hyderabad metro, if I have to really talk about, just to give a construct today the ridership that we are witnessing in the current quarter on a normal weekday is ranging between 4.4 to 4.5 and during the holidays and weekends it ranges between 3.5 to 3.6 or so. Now for the benefit of all, if I take a construct at the average ridership for FY '24. If you assume at around 400,000, so at 3.61 average ridership, the total fare revenue has been in the range of Rs 450 odd crores. If you take 400,000 ridership with an average realization of 35 per passenger or per trip, then you can assume that the top line should be going around Rs 500 odd crores at 400,000.

Now in terms of the interest cost, the total external debt that L&T HMRL comprises of around Rs 8,000 crores of short-term and medium-term NCDs and Rs 5,000 crores of short-term commercial paper. So all of this what I spoke now, if you can since the NCDs and the commercial papers are listed, so the entire financials of the Metro has actually been filed in the stock exchange and actually what I gave you is the overall context of the ridership, the fare revenues, what we can assume as ridership for FY '24 and what kind of EBITDA one can see.

**R. Shankar Raman:** Also, Pulkit Shankar Raman here. You know there has been a development in terms of fare fixation committee agreeing that the sponsor, namely L&T, can, subject to demand-supply conditions, revise the fares. So at the moment all the projections that we are talking about is based on the fares that we are currently collecting. If things settle down and this work from home, etcetra., further moves towards work from office, I think, and the general population gets more comfortable with the usage, we do expect that there could be an opportunity along the way to re-look at the fares and that will also be another kicker depending on how much we are able to do.

**Pulkit Patni:** Got it. Sir, just one quick one on the Power JVs. I mean, we've been talking about, you know, potential orders in this segment and we know that it's been tough. What is the thought process about running these businesses? Could we look at, you know, doing something else on those factories over time? Just your thoughts on this thermal power JVs and their future.

**R. Shankar Raman:** It's under discussion because we are also talking to our partner, and we're trying to figure out a way as to what is to be done because these are good capacities that have got created and it will not be appropriate just to scrap it. Of course, the plants can always be used because it's space which we use, but to some extent export of some of these equipments is also possible subject to the JV partner willing to route some of the businesses through us.

So, right from, the investment being bought over by them, to the plant being used for their requirements to we trying to do something else, all of that are getting discussed because I think we do recognize this energy transition is a major implication in terms of whatever we have created on ground capacity. But let me share the details only when we progress a little more clearly on one of these various options that we are trying to evaluate.

**Pulkit Patni:** Sure, that's useful, sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kodak Securities. Please go ahead.

**Aditya Mongia:** Thank you for the opportunity. My question was more specific on the working capital situation and the way it is improving. Should we be asserting from 16% working capital as a proportion of sales number that the intent of the customer is to make us execute faster? I'm saying so because obviously at the back side, there were changes that had happened on the procurement side of things that ensured that an incremental order, the payment should be very, very prompt. Has that started to kind of satisfy on a broad-based basis for you?

**P Ramakrishnan:** So, Aditya, if I understood it right, the way your question is that do you expect an improvement revenue if the working capital, the way we are managing, it is a little more made more flexible? Is this what you referred to?

**Aditya Mongia:** No, I'm basically trying to assess the possibility of working capital further coming down if there is a pure intent from customers to go in that direction?

**P Ramakrishnan:** So, definitely, I mean, if you see structurally from the Indian economy perspective, since a major part of the order book is oriented towards or exposed to government in some form or the other and given the fact that the government finances have improved over the last two years or so, so we have definitely seen a more timely certification of the work done and the payments happening on time.

And I also like to mention here that the GCC part of the order book is also increasing and typically in the GCC countries, the client paying on time and certifying the bills on time happens at a faster scale. So, to the extent of a larger share of the GCC order book coming in also has enabled us to overall improve the working capital at a segment and at a group level.

**Aditya Mongia:** I just want to mention one more question, sir, over here. On the GCC side of things, the comments being made are quite bullish for the near term and we understand that, let us say, the entire territory and Hydrocarbon space is becoming a larger proportion of our overall business. Does that kind of worry us at some point of time beyond the next 6 to 12 months that we are so exposed to Hydrocarbon, especially that in the Middle East?

**P Ramakrishnan:** So, in the Middle East, our opportunities today, the way we are looking at is a combination of Hydrocarbons and Infrastructure. And when we talk about Infrastructure, the opportunities largely center around Renewables and Power Transmission & Distribution and obviously opportunities in the non-ferrous sectors that come once in a while discreetly. And we do see in

the next year, that is FY '24 and possibly maybe FY '25 as well, the opportunities from the refinery or the Hydrocarbon side continue to be holding good for us in terms of better order prospects and hopefully larger orders as well.

**Aditya Mongia:** Those are my questions. Many thanks for your response.

**P Ramakrishnan:** Thank you, Aditya.

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

**Deepak Krishnan:** Thank you for the opportunity. My question is more about your ROE target. How do we reach the 18% from the 12.2% in the next three years, given that core margins may still see some issues, say, for FY '24? What end margin do we kind of assume when we have the 18% ROE target in mind?

**P Ramakrishnan:** So, Deepak, I guess I think this we have covered in numerous calls and conversations. So, the way to see it across is that if you see the slide that we have put it as part of our additional slides in the deck, so the two major, I think, margin erosions are in a question of the Development Projects, which is the concessions part of the business. So, once that is done, definitely, we can see in terms of an improvement of 1.5% to 2%, which means reduced losses or profits of Hyderabad Metro through a combination of restructuring of that company's current position and the possibility of an investor coming in, maybe not now, but maybe definitely after two to three years, once the assistance that has been declared by the local government comes in, and we are able to monetize the TOD rights that we are looking at, maybe in the current year.

So, improved performance of Hyderabad Metro, divestment of IDPL hopefully should get completed in the next six months or so. And also, hopefully, I think with improved performance of Nabha, we should be looking forward to a buyer who can possibly match our price points and this margin, the ROE stack itself will probably improve by 1.5 to 2%. The second point is, I would say, the steady growth of our traditional portfolio of Projects and Manufacturing, which today, in the current year is almost 19-odd percent. If we are able to manage what we are talking about, sort of a mid-teens growth in the overall growth portfolio of the entire group, with better margins, I guess that should add up to another 2% into the ROE.

And the last 2% would be a combination of, as Mr. Shankar Raman referred to, in terms of higher payouts to shareholders. So, it is a 12, plus two, plus two, plus two kind of a strategy.

**Deepak Krishnan:** Sure sir, maybe just one follow up, any update on the cash from the government for Hyderabad metro project?

**P Ramakrishnan:** So, of course, in their local budget, they have allocated Rs 1,500 crores for last year and in the current year, and as part of disbursement, which will flow into the L&T metro rail SPV. So, last year, that is till March '23, we got around Rs 100 crores, and we have got some token sum in the current year. Hopefully, I think this year, we should see a sizable amount of money coming in.

**Moderator:** Thank you. Ladies and gentlemen, we will take that as the last question. I now hand the conference over to Mr. P Ramakrishnan for closing comments. Thank you and over to you, sir.

**P Ramakrishnan:** Thank you, ladies and gentlemen. I hope we have been able to explain the contours of our performance for FY '23. And of course, you would have heard the comments of Shankar Raman in terms of how we are looking at FY '24 in the near term across segments, across margins, across businesses. With those few words, thank you for the patient listening. In case any one of you have any follow-on questions on the numbers in terms of stack up, please do not hesitate to call me or my colleague Harish. We will be definitely there to help you out. With that, thanks a lot for joining this long call. Thanks once more. Thank you.

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