



“Larsen & Toubro Limited
Q1 FY’24 Results Conference Call”
July 25, 2023



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

Moderator: Ladies and gentlemen, good day, and welcome to Larsen & Toubro Limited Q1 FY '24 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. P. Ramakrishnan, Head of Investor Relations from Larsen & Toubro Limited. Thank you, and over to you, sir.

P. Ramakrishnan: Thank you, Neerav, and good evening, ladies, and gentlemen. A very warm welcome to all of you into the Q1 FY '24 Earnings Call of Larsen and Toubro. The presentation summarizing the performance of Q1 FY '24 was uploaded on the stock exchange and in our website at around 6:00 p.m. today evening. As usual, 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 that, we will take Q&A.

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

India has remained an oasis of stability despite the continuing global macroeconomic volatility. The domestic activity in Q1 FY '24 remained resilient, as reflected by the various high-frequency economic indicators. The purchasing managers index or the PMI that we call for both manufacturing and services is also indicating a sustained expansion. The growth momentum is likely to continue on a stable ready crop production, expected normal monsoon, continued buoyancy in services and stable inflation with a softening bias. Although I did mention a normal monsoon, let me clarify that the distribution of rainfall is as important as the total volume, and we will be monitoring these developments closely.

Secondly, given the healthy balance sheets of banks and corporates, supply chain normalization and declining uncertainty, conditions are favourable for a continued capex cycle in sectors like infrastructure, power, that includes renewables, petrochemicals and defense in the near to medium term. When we look outside India, it is our view that although the global economy is turning the corner, but it does face a long road ahead in order to attain stable and sustainable growth.

It is positive to see China come back, energy prices being stable, headline inflation on the reverse in many developed economies and supply chain normalization. The Middle East, which is our next big geography for our projects business is stable. We continue to see plenty of opportunities revolving around oil and gas core industrialization and energy transition initiatives in this part of the world. Before I get into the details of the financial performance parameters, I would like to share a few important highlights of the quarter.

- The Board of Directors of the company has approved a proposal to buy back through the tender route equity shares of the company for an aggregate amount not exceeding Rs 10,000 crores. The Rs 10,000 crores exclude tax on buyback. The proposal is subject to approval of the shareholders. Further, the Board has also approved a special dividend of Rs 6 per equity share.
- Secondly, our Defense engineering business has signed a teaming agreement with Navantia Spain for the purpose of submission of a techno-commercial bid for the Indian Navy's prestigious P75(I) submarine program.
- Thirdly, our daily ridership in Hyderabad Metro crossed the 5-lakh mark on July 3, and as recent as yesterday, the metro ridership touched a record 536,000.
- Our group company, LTIMindtree has entered the Nifty 50 index from July 13, 2023.
- Finally, our Financial Services business achieved the Lakshya 2026 goal of more than 80% retailization of its book 3 years in advance.

I will now cover the various financial performance parameters for Q1 FY '24. Q1 FY '24 was a quarter of robust performance across most of the financial parameters. Our group Order Inflows, Revenues and PAT is up by 57%, 34% and 46%, respectively, over the corresponding quarter of the previous year. Our NWC to revenue that is Net Working Capital to Revenue at 17% in Q1 FY '24 has improved 360 basis points over the corresponding quarter of the previous year. Our ROE is at 12.8% on a trailing 12-month basis in June 23, that has gone up by almost 130 basis points over the 12 months TTM as of June 22 and by 60 basis points when you compare with the year ended March 2023.

I will now move on to individual performance parameters. Our group order inflows for Q1 FY '24 at Rs 655 billion, registered a Y-o-Y growth of 57%. Within that, our Projects and Manufacturing businesses secured order inflows of Rs 504 billion for this quarter, which is a growth of almost 79% over Q1 FY '23. Our Q1 FY '24 order inflows in the Projects and Manufacturing portfolio are mainly from Infrastructure and Hydrocarbon segments. During the current quarter, our share of international orders in the Projects & Manufacturing portfolio is at 35% as compared to 33% in Q1 of last year. Our share of private orders within the domestic Projects and Manufacturing orders is at 24% for Q1 FY '24 as compared to 32% for Q1 FY '23. During the quarter, orders were received across segments like rail, renewables, rural water supply, transmission, and distribution commercial and residential buildings and both onshore and offshore verticals of the hydrocarbon segment.

Now moving on to prospects pipeline. We have a total prospect pipeline of Rs 10.07 trillion for the remaining 9 months of FY '24, vis-a-vis Rs 7.52 trillion, at the end of Q1 last year. This itself represents an increase of 34% on Y-on-Y basis. The increase is largely due to the sharp improvement in Hydrocarbon prospects pipeline. If you recall, we had started or commenced this year FY '24 with a prospect pipeline of Rs 9.73 trillion. We normally begin every year with a particular prospect pipeline. And with every passing quarter, the same is updated for the remaining quarters of the financial year. This time around, the prospects pipeline has moved

up after our Q1 results, primarily aided by substantial improvement in Hydrocarbon prospects that I mentioned a little while ago. The broad breakup of the overall prospects pipeline at the end of Q1 FY '24 would be as follows: Infrastructure, Rs 5.85 trillion as compared to Rs 5.47 trillion Q1 last year. Hydrocarbons Rs 3.47 trillion as compared to Rs 1.02 trillion Q1 last year. Power is at Rs 0.45 trillion vis-a-vis Rs 0.6 trillion Q1 last year. And the rest combining of Heavy Engineering, Defense, and Green Energy EPC aggregates to Rs 0.29 trillion for the current 9 months vis-a-vis 0.43 trillion that we saw at the end of Q1 previous year.

Moving on to order book. Our order book is at Rs 4.12 trillion as at June 23. As our Projects & Manufacturing business is largely India centric, 71% of our order book is domestic and 29% international. Now of the international order book of Rs 1.21 trillion, around 87% is from Middle East and 5% is from Africa. The remaining 8% is from various countries, including Southeast Asia. So clearly, the Middle East capex in both Infra and Hydrocarbon segment is on an upswing post the stability in oil prices. As far as the domestic order book of Rs 2.92 trillion is concerned, the breakdown is as follows or the share of the various constituent customers.

- Central Government - 12%
- State Government 29%
- Public Sector Units and State-Owned Enterprises 39%
- and private sector 20%.

Approximately around 23% of our total order book of Rs 4.12 trillion is funded by bilateral and multilateral funding agencies. Again, 91% of our total order book is from Infrastructure and Energy. You may kindly refer to the presentation slides for further details. In the current quarter, that is during Q1 FY '24, we have deleted orders of Rs 17 billion from the order book. And as at June 23, the share of slow-moving orders is less than 1% of the order book.

Coming to revenues. Our group revenues for Q1 FY '24 at Rs 479 billion registered a Y-o-Y growth of 34%. International revenues constituted 40% of the revenues during the quarter. In the Projects & Manufacturing business, our revenues for Q1 FY '24 at Rs 327 billion registered a Y-o-Y growth of 49%.

Moving on to EBITDA margin. Our group level EBITDA margin without other income for Q1 FY '24 is 10.2% a drop of 80 basis points over the Q1 of previous year. This drop of 80 basis points is mainly due to cost pressures in the legacy EPC projects. The detailed breakup of the EBITDA business-wise is also given in the annexures to the earnings presentation. You would have noticed that the EBITDA margin in the Projects & Manufacturing business for Q1 FY '24 is at 7.4% vis-a-vis 8.3% in Q1 FY '23. I will cover the details when I talk about the performance of the segments. Our Recurring and Reported PAT for Q1 FY '24 at Rs 24.9 billion is up by 46% over Q1 of last year. The robust PAT growth is delivered on the back of substantially improved activity levels and further aided by improved treasury operations. The Group performance P&L construct along with the reasons for major variances under the respective functions aids is provided in the presentation. You may kindly go through the same for further details.

Coming to working capital. Our Net Working Capital / Sales ratio has improved from 20.6% in June 22, to 17% in June 23, an improvement of 360 basis points. Our group level collections, excluding the Financial Services segment for Q1 FY '24 at Rs Rs 439 billion vis-à-vis Rs 344 billion in Q1 FY '23, that representing an increase of 28%. The improvement in gross working capital ratio on the back of improved customer collections is also flowing into the overall improvement in the net working capital to sales ratio. At this juncture, I would also like to mention that on a sequential basis, our NWC / Revenue has come down by 90 basis points. That is from 16.1% in March '23 to 17% in June '23. As you may be aware, Quarter 1 of every financial year is generally a seasonally weak quarter for customer collections and therefore, the 90 basis points of reduction is well within the guided or the desired range.

Finally, the trailing 12-month ROE for Q1 FY '24 is at 12.8% vis-a-vis 11.5% in Q1 FY '23 an improvement of 130 basis points and improved profitability with every passing quarter is contributing to this improvement in ROE.

I will now comment on the performance of each segment before we give our final comments on our outlook for the remaining nine months of the year. First, Infrastructure. Coming to order inflows, this segment secured orders of Rs 401 billion for Q1 FY '24 vis-a-vis Rs 183 billion in Q1 FY '23, registering a growth of more than 100%. During the current quarter, the orders were secured in renewables, rural water supply, transmission distribution, minerals and metals as well as commercial and residential real estate. Our order prospects pipeline in Infra for the nine months for FY '24 is at Rs 5.85 trillion vis-a-vis Rs 5.47 trillion during the comparable period of last year. This infra prospect pipeline of Rs 5.85 trillion, comprises of domestic prospects of Rs 4.61 trillion and international prospects of Rs 1.24 trillion. The subsegment breakup of the total order prospects in Infra is as follows. Transportation Infra, the share is 23%. Buildings and Factories - 21%, Water and Effluent Treatment - 18%. Heavy Civil Infrastructure - 17%, Power Transmission & Distribution, including Renewables - 15% and Minerals and Metals at 6%. The order book of this segment has crossed Rs 3 trillion mark for the first time and is at Rs 3.01 trillion as of June 23. The book bill for this segment is around three years.

Coming to revenues. The Q1 revenues for Infrastructure at Rs 221 billion registered a growth of 56% over Q1 of the previous year, obviously, largely aided by the strong execution progress across multiple jobs from the opening order book. Our EBITDA margin in this segment for Q1 FY '24 is at 5.1%, as compared to 6.5% in the corresponding quarter of the previous year. The margin for the quarter is a function of the job mix that we have and legacy Covid jobs nearing completion in the current year. I would like to highlight the fact that Q1 FY '24 margin is well within our own internal budget estimates for the quarter. We expect these legacy Covid impacted jobs to conclude possibly by the end of Q2, Q3 of the current year. Having said that, we are rigorously pursuing customer claims under the terms of the respective contracts. The settlements, however, may happen over a period of time. Finally, although infra margin has taken a subdued, I would say, reporting due to the impact of Covid and commodity prices over the last couple of years, it is heartening to note that the working capital intensity has

substantially improved during the same period resulting in stable return ratios over a period of time.

Moving on to the next segment, which is Energy Projects. This segment comprises of Hydrocarbon and Power. The receipt of both domestic and international orders during the quarter helped the Hydrocarbon order book, whereas Power business reported muted order inflows. We have a very strong order prospects pipeline of Rs 3.92 trillion for this Energy segment for the remaining nine months of FY '24, comprising of Hydrocarbon at Rs 3.47 and Power comprising Rs 0.45 trillion. The order book for this Energy segment is at Rs 728 billion as of June '23 with Hydrocarbon order book at Rs 680 billion and Power at Rs 48 billion. The Q1 FY '24 revenues at Rs 66.8 billion, registered a healthy growth of 32%, mainly driven by the pickup in execution momentum in the international projects of Hydrocarbon business, whereas the de-growth in the Power segment is largely reflective of a depleting order book. The Energy segment margin in Q1 FY '24 is at 9.1% vis-a-vis 8.5% in Q1 FY '23. Execution cost savings aids margin improvement in power, whereas hydrocarbon margin is reflective of the jobs at various stages of completion and progress. The breakup of Order Inflows, the Revenues and EBITDA margins of this segment is given as part of Annexure to the presentation.

We now move on to Hi-Tech Manufacturing segment that comprises our Defense and Heavy Engineering business. The Order Inflows for this segment for Q1 has been impacted by deferrals in both Heavy Engineering and Defense. We have an order prospects pipeline of Rs 252 billion for this segment for the remaining three quarters of FY '24. The order book of this segment is Rs 256 billion as of June '23. Healthy execution momentum across both the segments drives a 40% revenue growth in the current quarter, whereas the margin improvement of 170 basis points over the corresponding quarter of previous year, is largely a function of execution cost savings. Once again, we have given a detailed breakup of Order Inflow, Revenues, and EBITDA of both the businesses under this segment in the Annexure to the presentation.

On the subject of Defense Engineering segment, I would like to once again reiterate that this business does not manufacture any explosives nor ammunition of any kind including cluster ammunitions or anti-personnel land mines or nuclear weapons or components for such munitions. The business also does not customize any delivery systems for such munitions.

Moving on to the next segment, which is Information Technology and Technology Services, which comprises of two listed subsidiaries, LTIMindtree and LTTTS. The revenues of this segment at Rs 108 billion in Q1 FY '24 registers a top quarter growth of 14% Y-o-Y. Despite ongoing macroeconomic concerns, the deal pipeline for the segment is healthy and a good visibility across all the subsegments that both the companies have. The negative variance in the EBITDA margin in Q1 FY '24 vis-a-vis the corresponding period of the previous year is largely attributed to increased talent acquisition and retention costs. As both the companies in the segment are listed entities, the detailed fact sheets are available in the public domain.

Now we move on to Financial Services segment. Here again, L&T Finance Holdings is a listed subsidiary, and the detailed results are available in the public domain. Q1 revolved around strong retail disbursements, lower credit cost, improved asset quality and a rundown on the wholesale book. The Balance Sheet is strong on the back of adequate provision coverage ratios and in-built macro prudential buffers. Financial Services segment achieved 82% retailisation of its loan book in June '23, well ahead of the Lakshya '26 targets. The retail book growth, asset quality and the return on assets are highly satisfactory. And finally, sufficient capital in the Balance Sheet is available to pursue growth in the medium term. The stage is set for this business to truly achieve Fintech@scale.

Moving to the Development Projects segment. This segment includes the Power Development business that comprises of Nabha Power, a 1,400-megawatt coal-based plant in Punjab and Hyderabad Metro. Let me mention here that the profit consolidation for L&T Infrastructure Development Projects, which is a joint venture that we do at PAT level has been discontinued from Q4 FY '23 post L&T signing the definitive agreement for the entire sale of stake. The investment in the L&T IDPL JV is classified as "Held for Sale". Coming back to the remaining two assets in the segment, which is Nabha Power and Hyderabad Metro, the majority of revenues in this segment is contributed by Nabha Power. Improved ridership aids the revenue growth in Metro. In Nabha Power, there was some impact of lower power demand in the Q1 of current year due to a moderate summer but having said this, the company is doing quite well on the back of a record Plant Availability Factor (PAF) and Plant Load Factor (PLF).

Coming to Hyderabad Metro, some statistics...The average metro ridership has improved from 2,85,000 passengers a day in Q1 FY '23 to 4,22,000 passengers per day in Q1 FY '24. Our average ridership in Q4 FY '23, that is January '23 to March '23 was 408,000 passengers a day. The ridership in the month of June '23 was at 445,000 passengers per day was higher than the Q1 FY '24 average. As I mentioned earlier, the ridership crossed per day crossed the 500,000 marks on July 3 and touched a record high of 536,000 yesterday. The higher segment margin in Q1 FY '24 is primarily due to the improved metro performance and consolidation of Nabha profits. In Metro at a PAT level, we consolidated a loss of Rs 3.35 billion in Q1 FY '24 vis-a-vis a loss of Rs 3.25 billion in Q1 FY '23, primarily due to a higher interest cost despite the improvement in daily ridership.

Moving on to the last segment, that is Others. This segment comprises Realty, Industrial Valves, Construction Equipment and Mining Machinery Rubber Processing Machinery and a residual part of the Smart World Communication business that was transferred to LTTS. The Q1 revenue growth of 50% over the corresponding quarter of the previous year is led by Realty and Construction Equipment and Mining Machinery. The margin for this segment during the quarter is largely in line with the corresponding quarter of the previous year.

Coming to the last part of my presentation, 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 growth story with the rest of the world. Encouraging real GDP

growth with stable inflation as well as manageable internal and external balances can be expected in the near to medium term. Besides the spend in basic Infrastructure, a higher government capex allocation in the green economy, including clean and renewable energy will provide the necessary impetus to investments in energy transition and larger infrastructure projects.

Outside India, as I mentioned earlier, prospects in GCC countries appear healthy. Major oil producing nations in the GCC are continuing to invest in oil and gas, industrialization and energy transition initiatives that augur well for the company's projects business. In the backdrop of this mix sentiment, the company will continue to pursue its planned trajectory of profitable and return accretive growth.

I would like to emphasize that the focus will remain on cash generation judicious capital allocation and distribution of cash to shareholders on a regular basis. The company has a robust order prospects pipeline in the medium and is confident of sustaining its growth momentum by utilizing the emerging opportunities with the overarching aim of improving shareholder value on a sustainable basis.

Finally, I would like to comment on our guidance's for FY '24 before we jump into Q&A.

On Order Inflows and Revenue - We are indeed off to a good start in Q1, both in terms of orders secured and the revenue that we have printed. We remain confident of achieving the Order Inflow growth of 10% to 12% and a Revenue growth of 12% to 15% for the year FY '24. So our guidance on both these parameters remains unchanged. And in fact, as we enter into Q2 FY '24, we are also reasonably well placed in some large orders across Infra, Energy and the Defense sectors.

On EBITDA margin - Since our progress on margin in the Projects and Manufacturing portfolio in Q1 FY '24 is along the expected path, our guidance for 9% in this segment for the full year FY '24 remains unchanged. As you may recall, when we were summarizing the performance of FY '23, we also indicated that the margins of this particular Projects and Manufacturing segment for the first two quarters will be a little subdued considering a substantial completion of the legacy jobs that we secured prior to Covid, during Covid and post that, I think the mix of the recently awarded jobs will take a higher share. So the subdued margins is along with the expected estimates that we had already given.

On Working Capital, we would maintain the NWC to revenue guidance of 16% to 18% band for the current year.

Our Integrated Annual Report for FY '23 is published, and we have also captured the key ESG parameters as part of Annexures to this presentation. Kindly have a look at the progress that we have done in FY '23. We intend scheduling a separate ESG call for our stakeholders sometime soon, where we will explain in detail our ESG plans and the progress on various parameters.

Thank you, ladies, and gentlemen, for this patient hearing. We can now get into Q&A.

Moderator: Thank you very much. The first question is from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar: Congratulations on a very, very good quarter and the decision to reward the shareholders. My first question is on the clarification. Does the current quarter include High-Speed Rail order, which we announced on 22nd of July?

P. Ramakrishnan: So the orders in the Infrastructure segment includes the C3 order. As you may be aware, this bid happened on 11th of April, early April 2023 and as part of the process, the letter of award was formally issued in July, but before June itself, we had completed the relevant documentation. And incidentally, since we are executing the C4 package, I also would say that the preliminary work for the C3 package also has started.

Mohit Kumar: With respect to the guidance, despite having a very good quarter, our revenue growth and order inflow for the balance of the year looks like they are in the single digit, below 10%. Is there a reason to not revise the guidance given that the prospects are good, order book is at a high?

P. Ramakrishnan: So Mohit, if you recall, when we did our earnings call for Q3 FY '23 in January, we still had a similar question. And as you know, that this year, we all are aware that the first 3 quarters for India could be really busy. And there is always a chance that because of the impending general elections, although the dates have not been announced, we have to be mindful of it. So we are taking into account this aspect. Although Q1 order inflow has been reasonably robust. But as you know, the ordering momentum can be a little lumpy sometimes. So let's see, as we get into Q2, Q3, I think we'll have a better visibility to talk about revising the guidance.

As far as order inflows are concerned, we will still maintain that 10% to 12% trajectory. On the revenue execution part, we had given a guidance of 12% to 15% and I'm happy to say that the Q1 revenue growth has been reasonably good. But Q2, as far as the project is concerned, can have some impact because of the seasonal monsoon and all. Q2 will definitely at least give us a clear visibility in terms of the execution momentum that will flow into Q3, Q4 and maybe at that point of time we can have a better comfort on seeing whether we possibly can touch the on the higher side of the revenue guidance. But at this stage, it is premature to conclude. So we still maintain the band of 12 to 15 percent.

Mohit Kumar: Understood. And my second question is on the margins. The core margin Y-o-Y were weak. So when do you think the impact of the legacy projects will wear off? And are these orders before FY '21?

P. Ramakrishnan: So I think that once again, we had articulated quite in detail when we closed FY '23 in the month of May when we gave the guidance of 9% for Projects and Manufacturing with a clear qualifier that the first 6 months could be a little subdued on the back of a major part of the jobs

that we have secured until 2020-21, which is COVID year and thereafter, when they went into execution, they had the additional brunt of higher commodity prices.

So a major part of these jobs should get completed in the first half or possibly definitely by Q3 of the current year. And it is basis this construct that we have given a guidance of 9% for the full year with a clear view that the first 6 months for Infra could be a little subdued.

Moderator: Next question is from the line of Ashish Shah from JM Financial Limited.

Ashish Shah: My first question is on the mention of the commercial property sale during the quarter, which you mentioned in your press release, could you just elaborate a bit on that, sir?

P. Ramakrishnan: As you are aware, our Realty business comprises of both commercial and residential real estate. In Q1, we completed the sale of a commercial real estate in Bombay that gave us almost around Rs 80 crore of profit and it is included in the segment result of the Others segment.

Ashish Shah: And what could be the revenue corresponding to this, if you can add?

P. Ramakrishnan: Around Rs 120 crores.

Ashish Shah: Okay. Sure. My second question is on the Hyderabad Metro. So...

P. Ramakrishnan: That is Rs 200 crores, please. Rs 200 crore is the revenue and Rs 80 crore is the segment result.

Ashish Shah: Sir, also on the Hyderabad Metro plan. So could you elaborate on how much support we have received so far? And what is the view on the outlook of getting maybe Rs 2,000 crores over the period of 3 years. And are we on track on the revenue?

P. Ramakrishnan: Okay. So in FY '23, we received the government assistance of Rs 100 crores. In Q1 current year, we received another Rs 150 crores. And as we speak in the month of July, we have received another Rs 300 crores. So in all aggregate, we have received Rs 550 crore till date, and we expect to possibly get another Rs 450 crores, which is the first instalment of Rs 1,000 crores very shortly. So I would say it has been building our overall construct that Rs 1,000 crores each of the years in FY '24 and FY'25 and FY '23 is what got spilled over, but we do expect the government to help us out disbursing the money's at the soonest.

Moderator: Sir the line for the partners have been dropped. The next question is from the line of Puneet Gulati from HSBC.

Puneet Gulati: Yes. So congratulations on great numbers. Can you elaborate a bit more on what's driving this execution strength? Is it just the sheer number of projects that you're doing has gone up or the scale has gone up -- what's driving this humongous growth in revenue?

P. Ramakrishnan: So Puneet, it's a combination of all the statements that you made i.e. the size of the order book and the scale of the projects that we have secured over the last two years in terms of larger

project outlays, larger project bids. So, the size of the projects and the scale of the project has helped us to achieve this kind of revenue execution momentum and that is what is helping us out. And as you may be aware, we are also investing a lot on construction equipment or project equipment that will enable us to speed up the execution momentum.

Puneet Gulati: Okay. That's helpful. And secondly, if you can comment a bit more on the competitive intensity in the Middle East. That seems to be a very big market for you. You've shown humongous growth in the pipeline as well as prospects. Some color there would be very useful.

P. Ramakrishnan: So Middle East, as we see it now, I guess, would be largely in Hydrocarbon segment. And the next segment that we are seeing plenty of opportunities in sequence of size or opportunities would be the Renewables' part. And thirdly, other industrial sectors like Minerals and Metals to certain extent. There are some of these core industries being set up in that part of the world. But Hydrocarbon and Renewables are clearly seen as an addressable opportunity in the near to medium term.

And as far as competitive intensity is concerned, I guess, yes, the size of the capex spend that we are witnessing in some of the countries in Middle East is so large, and few companies have been selected as an approved bidder. So I think the size of the cake is so large that each one will probably get a fair share.

Puneet Gulati: Okay. So there shouldn't be any risk on the model side at all here at least?

P. Ramakrishnan: In terms of prospects, I would say that Hydrocarbon and Renewables are a good medium-term prospect in terms of newer orders. I wouldn't dare to comment upon whether the prospects will continue to sustain to three years down the line. But definitely, in the next 9 months to 12 months, the prospects are addressable and are visible. It all depends on how much of the share of those prospects gets converted into orders for L&T.

Puneet Gulati: And margins, this 10% kind of margin is -- should be base case here? Or can they go up as well?

P. Ramakrishnan: So Puneet, whereas it will be inappropriate for me to address the margins for orders that we are yet to secure, but definitely, the Hydrocarbon segment has reported consistently stable margins over the last 2 to 3 years. I mean, set aside quarterly because quarterly can be a function of the progress of jobs at various stages. But definitely, depending on successful project execution, I don't see a reason for any major change in the margins profile that Hydrocarbon has been demonstrating over the last 1.5 to 2 years.

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

Parikshit Kandpal: Congratulations on a great quarter. So, first question is on the statement said that the prospect pipeline has increased and large part of these are large size orders from railways and other segments. So what we are seeing is that on the capital goods orders, somewhere we are hitting the capacity constraint. So we see the coming quarters, there could be some challenges on the

execution side because of shortage of equipment. And you can highlight in which segments you have seen this kind of buildup happening where the capacity utilisation has been gone up from the supply side?

P. Ramakrishnan: So Parikshit, while I was giving you the order prospects pipeline where I also gave a split of the 5.85 prospect pipeline for Infrastructure segment for the balance 9 months. I also gave you a breakup ranging between Transportation Infrastructure, which is the highest to Minerals and Metals at 6%, which is the lowest across the entire 5 or 6 subsegments that we have. Once again, I wish to reiterate here that the actual set of opportunities that could come in these segments could be possibly even more higher, but we are mindful of the fact that today, the Infrastructure segment itself is having almost a 3 trillion order book for execution. So we are targeting the projects where we have the capacity to execute and also the competition intensity for such kind of a orders is a shade lower.

Parikshit Kandpal: My question was more on the securing equipment part. Like, the PNG project if there could be potential shortage of transformers, switchgears. The same way across your order book, there would be shortage in other segments. Are you seeing any trends where...

P. Ramakrishnan: Okay. So Parikshit, I'm sorry to interrupt you. As it stands now, because if you see the run up of growth in the Infrastructure segment in revenues also, that doesn't seem to suggest that there is any shortage of equipment for execution or any materials shortage. So I guess, at this juncture, premature to comment that there is a possibility of Infrastructure equipment getting into an obstacle for execution.

Parikshit Kandpal: Okay. My second question is on IDPL now. So, can you highlight on what stage we are in terms of closures and most likely when we get approval, there's money coming in?

P. Ramakrishnan: So, at this juncture, as you may be aware, IDPL is a holding company that has 8 operating road assets and one transmission line asset. The approvals from agencies like NHAI, Ministry of Road and Surface Transport and other customers is in the progress. The target is to try to complete it in Q2, but there is a possibility it can slip over to Q3.

Parikshit Kandpal: Last question sir is on the Real estate. I think, SNS has some time back said that they are targeting to be a top 5 player and Rs 10,000 crores is a target for presales by FY '25. So, wanted a sense, what is the number for Q1 FY '24 on the Real Estate business?

P. Ramakrishnan: So, at this juncture, Parikshit, the way we are looking at, obviously, L&T has captive land parcels across Powai, Navi Mumbai, Chennai, Bangalore and one parcel in North India as well. So, all of this has a potential to develop almost 12 million of Residential and 15 million of Commercial Property development. So, this is the overall objective of the Realty business that we have in the next two to three years, I would say.

Moderator: Sorry to interrupt you Parikshit. I will request you to join the queue again for a follow up question. I request to all the participants, please restrict to one question per participant, we

have a long queue and requesting to join the queue again for a follow up question. Next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Yes. Thanks for the opportunity I have...

Moderator: Renu you are sounding distance from the phone.

Renu Baid: My question is any update on the divestment of Nabha Power and if you can also share what is the value of cash and liquid investments on the Parent books at the end of the first half?

P. Ramakrishnan: Okay. So at this juncture, Renu, it is like this. We don't have a serious interest in terms of Nabha power, but we continue to operate the asset. As I mentioned earlier, the asset is doing very well in terms of being one of the best performing thermal power plants with a total PLF upwards of 85-odd percent. So, it's doing quite well.

Coming to the second question, the total investable surplus or what you call as cash, which is lying and which can be considered for capex, or which can be considered for even the divestment buyback or so, at a standalone level is around Rs 25,000 crores and at a Group level, it could be around Rs 35,000 crores to Rs 40,000 crores, because Rs 10,000 crores is the total amount of cash which the IT&TS companies have. And you cannot take L&T finance cash balance as investable surplus. So, I would say Rs 25000 crore plus Rs 10000 crore, around Rs 35 to 40 thousand crore is the total group cash that we have.

Renu Baid: Got it. And can you share from which sectors the Rs 17 bn orders were de-booked during the quarter.

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

Renu Baid: The Rs 1700 crores orders, which were deleted from the backlog are from which segment?

P. Ramakrishnan: Largely in the B&F real estate sector. It was an old order that was not moving, that was almost Rs 1,000 crores. The rest is all a combination of various orders which after the completion is no longer required, so they get deleted.

Renu Baid: Got that. Thanks.

Moderator: Thank you. Next question is from the line of Sumit Kishore from Axis Capital Limited. Please go ahead.

Sumit Kishore: Thank you so much PR. My first question is on Hydrocarbon prospects which have increased sharply. Could you give some color on what is driving this increase, whether it is onshore, offshore hydrocarbons, overseas or domestic and so on?

P. Ramakrishnan: I think I gave you the breakup of Hydrocarbons, both over domestic and overseas. So, the total Hydrocarbon prospects is at Rs 3.47 trillion, okay. I think you can take Rs 1 trillion as offshore and Rs 2.5 trillion as onshore.

- Sumit Kishore:** Got it. The second question is while the defense prospects for the balance fiscal seem to have gone down as included in that number for Heavy engineering, Defense, and Green Energy EPC. But I mean, clearly, what we are reading in terms of your press releases, on L&T co-developing AIP technology with DRDO, the prospect of P75 I, even the lightweight tanks that we are reading about. Over what time frame and how large can these opportunities be in Defense, if you could give some color?
- P. Ramakrishnan:** So, okay. So, let me tell you the order prospects for defense that we have for the balance nine months and what we believe as tenders will get floated and awards may get announced is aggregating to around Rs 20,000 crores. This was actually Rs 24,000 crores in Q1 last year. But that doesn't mean that the prospects have come down. We are talking of what we believe are addressable opportunities that will come up for bids and get awarded. So, we are really focusing on that. Needless to state, the P75-I, all those bids are not included in the current order prospects pipeline.
- Sumit Kishore:** Yes. But can you elaborate on like the conversion of submarines to AIP, the Scorpene class? What could be the size of those opportunities for L&T given that you have co-developed AIP with DRDO?
- P. Ramakrishnan:** It would be premature for me to give a value aspect to it, Sumit, because at the end of the day, these are jointly developed. Of the scope, how much of L&T gets it or how much goes to the public sector shipyards, I think at this juncture may not be appropriate for me to comment.
- Sumit Kishore:** Sure. And finally, on electrolyzers, would you be able to roll out your utility scale electrolyzer this year from Hazira or is it going to spill over into next financial year? What is the scale of setup that you're doing for electrolyzers?
- P. Ramakrishnan:** So, this has been filed in the stock exchange today for the benefit of all. So L&T Electrolyzers Limited as a subsidiary has been incorporated and the Board has approved an overall investment of around Rs 500-odd crores to set up this electrolyzer factory. And this is going to happen in Hazira in our AMN Heavy Engineering campus and we expect the factory to get commissioned possibly in the next 9 months or so.
- Sumit Kishore:** What is the capacity?
- P. Ramakrishnan:** It will cater to electrolyzer sizes up to 4-megawatts.
- Moderator:** Thank you. I request to all the participants, please restrict to one question per participant. The next question is from the line of Amit Mahawar from UBS Group. Please go ahead.
- Amit Mahawar:** Yes. Thanks for the opportunity. I just have a quick question on the ROE trajectory. Now that buyback is already in works, do you think FY '26 corridor for ROE of 18%, can see an upside risk, especially given next two years, the execution and margin ramp up in core that we can see. So, any color there?

P. Ramakrishnan: So Amit, I think I have mentioned the bridge of 12 to 18. The capital allocation part ie. the buyback and higher amount of dividends will enable us to improve by 150 basis points to 200 basis points. The second and more important thing is on the concessions part of our business, which is essentially L&T Metro. Hopefully, I think it should come back on track on the timely receipt of the State Government assistance and also the TOD monetization. So, definitely, in the next 2 years to 2.5 years, I think we will be seeing a good amount of progress in terms of metro operations turning around the corner. At least in the next 2 years to 3 years. And as far as the Projects and Manufacturing business is concerned, I guess, with the kind of order book we have and the opportunities that we are looking at both India and Middle East will sustain itself into improved margins from at least '24, '25 onwards. But the more important part in terms of the value capture in the Projects and Manufacturing portfolio, Sumit, would be the working capital intensity which we are bringing down from almost 23% in that segment to almost 18% now.

Amit Mahawar: Okay. Got it. And sir, second and quick question on Middle East, particularly Saudi. We seem to be getting a lot of business attention there. Will that entail significant investments in that region for us? And how do you see the scenario vis-a-vis what we saw say 10 years ago when there were a lot of competitive scenarios impacting profitability. So how do you impart more comfort on that region as far as our strategy is concerned?

P. Ramakrishnan: So as far as Saudi is concerned, the two opportunities that we are targeting, I would say, in terms of priority or aggregate size, what we see is Hydrocarbon and secondly is the Renewables part of the new city development. Over a period of time, I guess the amount of opportunities into other sectors besides renewables, including water and all, will shape up. The Kingdom is going through, I would say, a big transformation in terms of approach to both investment and mindsets, and this is something quite favourable.

Competitive intensity, I would say, as far as Hydrocarbon is concerned, is with a select few set of bidders. And as I mentioned in response to an earlier question of the same subject, I think the size of the capex is so big in terms of next 12 months to 18 months, I guess every one of us will have a fair share of the size of the pie.

Amit Mahawar: Okay. Thank you and good luck PR.

P. Ramakrishnan: Thank you, Amit.

Moderator: Thank you. Next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Hi PR and congratulations for a good set of numbers. I limit it to one question, which is on Hydrocarbon. Probably probing you slightly more on this one. See, this almost trebling of pipeline that you have seen for a 9-month basis, is this something that can sustain the Rs 3 trillion looking number or do you see the case of Rs 1 trillion number coming back at some point of time in the future. If you can give me some more color on the geographies and the

areas where investments are happening, it will just give us more sense on the sustainability of this number?

P. Ramakrishnan: So, Aditya, I guess you are right to say that the Hydrocarbon pipeline prospects itself at Rs 3 trillion this time around. We are only looking at the prospects for the next 9 months. It would be a little speculative for me to comment as to in June '24, whether the prospect pipeline will be equal or more than this. But definitely, in the next 12 months the opportunities that we are looking in Hydrocarbon, more so from Kingdom of Saudi Arabia is quite significant. Besides the KSA, there are one or two other countries in the MENA region, GCC region, where we do see favourable opportunities to come our way.

Aditya Mongia: Maybe I'll just kind of ask a related question over here, not a new one. See your subsidiaries in KSA have seen a lot of volatility in the top line. I don't know whether that is indicative of the way things happen in KSA, but what is changing at this point of time for us to be believing that the change in mindset over there is something that can lead to medium-term gains for us, which are more sustainable?

P. Ramakrishnan: So, when you talk about medium-term gains, I'm sure you're referring to margins. I did mention that Hydrocarbon margin has been consistently in that 9% to 10% band over the last two years or so. And with the kind of order book that we have across both India and outside India, I don't see any reason for us to comment upon whether there would be a significant upturn in margins or a downturn.

The only fact I would like to put across here is, we have to be mindful that the execution has to be in line with the planned timelines. If that happens, I guess, that will be our credibility in the system, which we have already done. And hence, that is one of the few important reason that L&T has been getting consistently large orders from this part of the world so far as Hydrocarbon is concerned, because of the favourable experience that the customer has seen while L&T has executed the jobs in the recent past.

Aditya Mongia: Got that. Thanks a lot for the color. Those are my questions.

Moderator: Next question is from the line of Ashwani Sharma from ICICI Securities.

Ashwani Sharma: Congratulations to the entire L&T team for the strong performance. Just a quick one. So we have exceedingly done really well in Saudi over the years. We were No. 1 international contractors in CY22 in Saudi. So, do you think that we can replicate this success in other GCC geographies? Is there a strategy to capture in FY '24 or '25?

P. Ramakrishnan: So Ashwani, I guess, as a contractor, we are an approved or a selected bidder or accredited bidder by most of the major customers across the various countries in the Middle East and the MENA region. So today as we see it, it is possibly Saudi and 1 or 2 opportunities outside of Saudi where we are seeing a sizable amount of business traction that can happen.

But we also need to be mindful that you should have each and every country in Middle East talking about projected jobs. Only when those jobs are addressed, then we can quote. So today, we are seeing is that the maximum amount of opportunities coming from KSA.

Ashwani Sharma: Okay. And the last one and second, the quick one. On the offshore wind business, which you have recently formed, I wanted to understand what kind of opportunities over there you see.

P. Ramakrishnan: We are still working on offshore wind. Obviously it is a natural extension of our offshore Hydrocarbon competencies that we are going to leverage upon. At this juncture, we are looking at technology because that also requires some amount of technology inputs for us to position ourselves like the way we are now putting across to put up this electrolyzer plant for catering to sizes up to 4-megawatt electrolysis.

Similarly, for offshore wind also, we are looking to increase our capabilities out there, leveraging our offshore hydrocarbon competencies that we have.

Moderator: Next question is from the line of Deepak Krishnan from Macquarie. Deepak your voice is breaking. The next question is from the line of Ankita Shah from Elara Capital.

Ankita Shah: So, given the very strong prospect pipeline that we have, and you are expecting a good momentum in flows going forward. So, what is the kind of capacity expansion in terms of capex that you're looking at?

P. Ramakrishnan: Capex is a function of the type of orders that we get, Ankita. For very large orders like for example, when we talk about C3, C4 and all these coastal road packages, the various project-specific capex that we have to take is actually built into the project bid cost itself. Having said this, it would be appropriate for me to comment given the fact that we are having such large jobs and with the possibility of getting larger size jobs, the capex requirements in this segment of Projects and Manufacturing could range between average between Rs 3,000 crores to Rs 4,000 crores each year.

Ankita Shah: And you all the very best and any congratulations on the strong performance.

Moderator: The next question is from the line of Bharanidhar Vijayakumar from Spark Capital.

P. Ramakrishnan: It's little feeble. I think you have to come closer to the handset.

Bharanidhar Vijayakumar: Okay. Is it better now?

Moderator: Yes, okay. I can hear you. Go ahead.

Bharanidhar Vijayakumar: We have this TOD demonetization pipeline for Hyderabad Metro of about 18.5 million square feet. What is the status? When are we likely to receive money, how much in FY '24 and '25?

P. Ramakrishnan: So okay, 18.5 million square feet is the total TOD rights that we have. The monetization is not for the entire 18.5. Against 18.5 mn sq ft, we have developed around 1.5 million square feet of

TOD, which we expect to monetize. Hopefully, we should see some of that happening in the current year.

Bharanidhar Vijayakumar: Yes, we had some target of number to be received from TOD per year. How much would it be?

P. Ramakrishnan: So the target, Bharani, which we have mentioned earlier also, is that the TOD monetization will fetch the Metro SPV around Rs 2,000 crores in terms of the total cash that they'll be able to collect against the developed TOD parcels. And this cash will enable us to bring down the debt by Rs 2,000 crore which is the estimate that we are considering for TOD monetization. And in terms of the timelines, some part of that should happen in the current year itself or a major part. We are progressing satisfactorily on that. Let us see how it shapes out in the current year.

Bharanidhar Vijayakumar: Okay. Second question on the Power T&D prospects, we see government of India trying to push renewable auctions and a lot of auctions have happened. Though we are not a big player in India. Do we see good inflow from this segment this year?

P. Ramakrishnan: Okay. So, the share of power T&D in Infrastructure order prospects that we have at 5.85 trillion is almost 19% of that. And it is equally split. In fact, it is tilted more towards international, 55% is international, and the balance, 45%, is domestic.

Bharanidhar Vijayakumar: Yes. No, I was asking about the renewable portion there. Would we be expecting good inflow there given Indian renewable auctions are increasing?

P. Ramakrishnan: The international portion consists largely renewable. The domestic is all the classic traditional power transmission & distribution projects, including substations and so on.

Bharanidhar Vijayakumar: Okay. Got the answer, sir. All the best.

Moderator: Next question is from the line of Sanjay Kumar from iThought Financial. Please go ahead.

Sanjay Kumar: So on solar, I understand we don't want to do Solar Panel manufacturing because it is kind of commodity and 50-gigawatt capacity is coming through PLI. But does that mean we lose out to integrated developers, like say, Tata, Adani. What would be our market share in Solar EPC? It looks like we are not focusing on solar in India at all.

P. Ramakrishnan: So we have done a lot of solar renewable projects in the past in India. We are now focusing more of such opportunities outside of India. It doesn't mean that we are not taking those kinds of opportunities. In response to the earlier gentlemen's question, as I said, there are some solar renewable prospects in India also. But our focus is to take more of such projects outside India. The more important point is that the India solar projects that we are looking at now in terms of size and scale is a little smaller, whereas the overseas solar projects are opportunities that have big in scale.

- Sanjay Kumar:** Okay. Okay. Got it. And second, can you talk about the orders in U.S. because U.S. is spending a lot on construction, which we are seeing in jobs data and even project announcements. But for us, U.S. and Europe country grew 15% to inflows in revenue, but less than 1% to backlog for the last 3 years. So it seems to be a short cycle order. So are we focusing there because what kind of orders are we in?
- P. Ramakrishnan:** So Sanjay, what you see in U.S. and all, they are all reflecting nothing but the revenues of IT&TS portfolio, which has also put in order inflow. So as a EPC contractor, our order prospects pipeline currently does not undress any western world orders at this juncture.
- Sanjay Kumar:** Okay. And on Hi-tech manufacturing, sir?
- P. Ramakrishnan:** Having said this, I mean there are obviously opportunities. When you talk about making complex pieces of equipment, largely for the petrochemical sector which are more of an export job, which our Heavy Engineering does. But outside of that, U.S. Infrastructure or European Infrastructure are largely restricted to the respective contractors of those regions only.
- Sanjay Kumar:** And on HI-Tech, are we looking at semiconductors or small modular reactors for nuclear?
- P. Ramakrishnan:** Semiconductors at this juncture, no comments. As far as modular reactors are there, we are working on it, but it's a little premature for me to comment in detail.
- Moderator:** As there are no further questions, I now hand the conference over to Mr. P. Ramakrishnan for closing comments.
- P. Ramakrishnan:** So thank you all for taking your time to attend this call. I hope all the queries have been answered. In case if you have any further clarifications, please feel free to reach out to me or my colleague, Harish. We will be there to clarify. Thank you. Thanks, once again.
- Moderator:** Thank you very much. On behalf of Larsen and Toubro Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.