"Larsen & Toubro Limited Q2 / H1 FY '25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q2 FY '25 Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touch tone phone. Please note that this conference is being recorded.

Today we have with us on the call, Mr. Subramanian Sarma – Whole Time Director and President of Energy Division; and Mr. P. Ramakrishnan – Head Investor Relations of Larsen & Toubro Limited.

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

P. Ramakrishnan: Thank you, Sagar. Good evening, ladies and gentlemen. A very warm welcome to all of you into the Q2 FY '25 earnings call of Larsen &Toubro.

The Earnings Presentation was uploaded on the Stock Exchange and on our Website around 6:35 pm, maybe one hour back. Hope you have had a chance to have a quick look at the numbers.

As per past practice, instead of going through the entire presentation, I will take you through the important highlights for the Quarter, followed by our Financial Performance summary for the Q2 FY '25 in the next 25 to 30 minutes. Post that we will take questions.

Before I start, a brief disclaimer from our end:

The Presentation that has been uploaded on the Stock Exchange and our website today, including the discussions that we will have on the call today, may contain certain forward-looking statements concerning the group's business prospects and profitability that are subject to several risks and uncertainties. And the actual results could materially differ from those in such forward-looking statements. I would request you to go through the detailed disclaimer which is available in Slide #2 of our Earnings Presentation that has been uploaded on our back.

The Indian economy continued to remain resilient and is expected to maintain a stable growth momentum for the rest of the Financial Year. This growth is being aided by a prudent policy framework of the Government of India, complemented by a proactive Monetary Policy Management from the Reserve Bank of India. Besides achieving a healthy trade-off between growth and inflation, the country's fiscal discipline and a well managed Balance of Payments converges towards macroeconomic stability. The well capitalized Balance Sheets of the banks and the companies further strengthen our hope of sustainable growth in the real GDP in the near to medium term.

With the risk of elections and monsoon behind us, one expects recovery in economic activity in the coming quarters. Further, we expect healthy Public and Private Capex spend to drive economic growth in the second half of this fiscal year FY '25.

Moving on to international:

The global macro picture is marred by the geopolitical uncertainty arising out of the conflicts in West Asia and Eastern Europe. The growing divergence in the growth inflation dynamics across countries has resulted in varying monetary policy responses, wherein many developed nations have reduced rates while some are providing policy stimulus to revive their economies. Despite all of this chaos, it is encouraging to note that the countries in the Middle East, led largely by Saudi Arabia, are continuing to focus on investments in oil and gas, Infrastructure, industrialization and energy transition projects.

Having covered the macro landscape, let me now share a few important highlights for the Quarter:

Effective 1st September 2024, the Company has carved out a separate business vertical for Renewable Energy out of the Power Transmission and Distribution business within its Infrastructure segment, primarily to capitalize on the growth opportunities in the renewable segment in a more focused manner. This strategic move comes as the global shift towards clean energy gains momentum and is driven by the need for decarbonized electricity to combat an all-pervasive climate change.

Moving on to CarbonLite Solutions - I wish to clarify once again that in Q1 FY '25 we had renamed L&T Energy Power to CarbonLite Solutions. We had mentioned that we expect this business to play a major role as enabled for energy transition by offering low carbon solutions. This will include gas to power, carbon capture and various low carbon solutions. We had also mentioned that we were not keen in pursuing EPC opportunities in thermal power because of the unfavorable contracting terms, whereas we would selectively pursue BTG, that is Boiler and Turbine Generator island opportunities over time. I hope this clarifies our position with respect to our strategy with respect to CarbonLite Solutions.

Heavy Engineering business: The Heavy Engineering business won a new order on a sole sourcing basis from ITER, which is the International Thermonuclear Experimental Reactor project, for deployment of a critical advanced welding technologies for the world's largest nuclear fusion project at the ITER site in southern France. The ITER is an engineering mega project aimed at creating energy through nuclear fusion process. Earlier in calendar 2020, L&T had successfully fabricated and completed the early delivery of the world's largest stainless steel high vacuum pressure vessel cryostat for the ITER project. The ITER project is a globe-spanning collaboration comprising of 35 countries.

Coming to the Precision Engineering and Systems business: Since its inception in the early 80s, this business has built a portfolio of wide-ranging indigenously-designed and developed products, systems, solutions, platforms and technologies for the defense, engineering and aerospace sectors. We believe the Government's indigenization efforts will immensely benefit the defense PSUs, including multiple private companies such as us. While remaining very excited about the opportunities in the near future, we also need to factor the stretched timelines around ordering as multiple programs need to pass the development test and need government clearances at various levels. We will regularly communicate with investors on the progress made.

With respect to Green Energy, the Electrolyser Manufacturing business: We have signed the technology license agreement for 4 MW electrolyser design with McPhy on the 18th of September 2024. Previously, this agreement was signed for 0.5 megawatt electrolyzer design with McPhy in March ‘23. Continuing with the electrolyzer factory expansion, the first automated robotic line for stack assembly with the capacity of 150 megawatts has been installed and commissioned successfully at our AM Naik Heavy Engineering Complex in Hazira in September ’24. As mentioned earlier, we will ramp up the capacity to 500 megawatts in the near to medium term, followed by 1 gigawatts in the medium to long term. The group will actively pursue opportunities in the Green Energy EPC and target selective participation in green energy Development Projects as well. We will share the details at an appropriate time.

Coming to Real Estate development: In our group strategic plan that ends FY ’26, we had targeted exit order inflows, that is FY ‘26 order inflows and revenues for the Realty Development business around Rs. 8,000 crores and Rs. 5,000 crore, respectively, for the year FY ‘26. We are on track to achieve the goals on the revenue side. As far as order inflows are concerned, they are dependent on the launching of projects in Mumbai, Bangalore, Chennai and possibly new launches elsewhere. We remain optimistic on order inflows for the current as well as the next financial year. Whereas it will be difficult to comment on the period beyond FY ‘26, I would like to mention here that we possibly target around three to four times growth on order inflow and revenue from our exit trajectory in FY ‘26. Depending on the market conditions, we will pursue growth in residential and commercial through multiple formats. Here, again, we will share the details once our plans are finalized with respect to real estate development.

Coming to the Semiconductor Design: I would say the incubation that we have done, this is done through L&T Semiconductor Technologies Limited, LTSCT, that is currently a wholly owned subsidiary. LTSCT has inaugurated its new development center in Bangalore, pivotal step in its journey to innovation and excellence in the Indian semiconductor industry. During the current quarter, LTSCT completed the acquisition of 100% equity of SiliConch Systems Private Limited, a Bengaluru based semiconductor startup, focused on power semiconductors with a portfolio of more than 30 granted patents, and a team of 60 experienced engineers. The acquisition is expected to accelerate LTSCT’s product development roadmap for power semiconductor devices. LTSCT also signed an MoU with the Center for Development of Advanced Computing, an autonomous scientific entity under the Ministry of Electronics and Information Technology, Government of India. The strategic collaboration will aid indigenization efforts, with an emphasis on the creation of Make in India integrated circuit, system on chip circuit, and electronic systems designed and Manufacturing solutions for automotive, industrial and energy applications. At the current juncture, LTSCT will operate as a fabulous semiconductor entity, with the primary focus on nurturing IP and fostering innovation with the Indian semiconductor industry. LTSCT, therefore, proposes to operate as an integrated product company, offering a wide range of semiconductor solutions and software products, with a focus on analog, power, mixed signal, MMS, radio frequency and VLSI chips catering to automotive industrial products, communication, and energy Infrastructures in India as well as globally.

Coming to another expansion to a new business, that is data centers, a quick update: Our 2 MW data center in Panvel is under integrated testing and is expected to be commissioned in the current quarter, which is October to December ‘24. Further, a 12 MW data center in Chennai is nearing completion of its testing phase and is expected to be commissioned shortly. We have plans of scaling up the data center in Chennai to 30 MW in the near term. Besides Chennai, we will also be looking to set up data centers at Mahape, Navi Mumbai, and Whitefield, Bangalore, in the near to medium term. We are also evaluating multiple other opportunities currently and will share the details once the plans are finalized with respect to this business.

Lastly, Hyderabad Metro achieved the highest ridership ever on a single day of 5.63 lakhs on August 14th, 2024.

Now, I will start by giving you a summary of the various financial performance parameters for Q2 FY ’25:

Q2 FY ‘25 was a quarter of robust performance across all the financial parameters. Our group order inflows for Q2 registered a sequential growth of 13%. On the back of a strong ordering momentum, our order book crossed a new milestone of Rs. 5 trillion. Aided by a strong execution momentum from several businesses within the core Projects and Manufacturing portfolio, our group revenues for the quarter registered a growth of 21% on a Y-o-Y basis. Similarly, our margin for the Projects and Manufacturing portfolio also expanded by 20 basis points over the corresponding quarter of the previous financial year. Our Net Working Capital to Revenue at 12.2% as of September ’24, this is with respect to the group, improved by 170 basis points on a sequential basis.

A very strong financial performance this quarter is also supported by robust free cash flows and an improvement in the return on equity as well. Our Return on Equity on a trailing 12-month basis as on September ‘24 is at 16.1%, improving by 140 basis points, and 80 basis points on a sequential and Y-o-Y basis, respectively.

Moving on to individual performance parameters: The group order inflows for Q2 FY ‘25 at Rs. 800 billion registered a sequential growth of 13% and a Y-o-Y decline of 10%. The corresponding quarter of the previous year had the benefit of the receipt of some international ultra mega orders in the Hydrocarbon business. Within the group order inflows, our Projects and Manufacturing business secured order inflows of Rs. 630 billion for Q2, reporting a degrowth of 14% over the corresponding period of the previous year. Just now I mentioned that this is largely because of the high base in the corresponding quarter of the previous financial year. Our Q2 order inflows in the Projects and Manufacturing portfolio are mainly from Infrastructure, Hydrocarbon, Precision Engineering & Systems, as well as Heavy Engineering. During the current quarter, our share of international orders in the Projects & Manufacturing portfolio is at 62% vis-a-vis 68% in Q2 of last year. The current quarter witnessed orders getting received from multiple segments like renewables, transmission and distribution, roads and runways, urban transit systems, nuclear power, hydel and tunnels, minerals and metals, factories, precision engineering & systems as well as offshore vertical of the hydrocarbon business.

Moving on to the prospects pipeline for the near term: We have a total prospects pipeline of Rs. 8.08 trillion for the near term, more so for the six months of the current financial year. This corresponds to Rs. 8.78 trillion at the same time in the last year, representing, I would say, a marginal drop of 8% on a Y-o-Y basis. This decrease is primarily due to a fall in the Hydrocarbon and CarbonLite Solutions prospects pipeline. The broad breakup of the overall prospects pipeline for the near term, largely for six months is as follows: Infrastructure comprises Rs. 5.42 trillion vis-à-vis Rs. 5.06 trillion last year; Hydrocarbon - Rs. 2.25 trillion current year vis-à-vis Rs. 2.91 trillion last year; CarbonLite Solutions, Rs. 0.24 trillion vis-à-vis Rs. 0.55 trillion last year; aggregate of Heavy Engineering and Precision Engineering & Systems Rs. 0.16 trillion vis-à-vis Rs. 0.23 trillion last year.

Moving on to order book: Our order book is Rs. 5.1 trillion as of September ‘24, which is up 13% vis-à-vis September ‘23 last year. As the Projects & Manufacturing business is largely India-centric, 60% of the order book is domestic and 40% international. Out of the international order book of Rs. 2.05 trillion, around 85% is from Middle East and the rest is from other countries across the world. Like I said earlier, the various countries in the Middle East are continuing to focus on investments in oil and gas, infrastructure, industrialization and energy transition.

The breakdown of the domestic order book of Rs. 3.05 trillion, which I said is 60% of the overall order book, is as follows:

The share of Central Government projects is 14%, State Government projects aggregate to 28%, prospects from PSUs or State-Owned Enterprise comprise 36%, and the Private Sector has the remaining share of 22% of the domestic order prospects. Approximately, around 17% of our total order book of Rs. 5.1 trillion is funded by bilateral and multilateral funding agencies. Again, 90% of this total order book comprises from Infrastructure and Energy. You may refer to the presentation slides for further details. During the H1 FY ’25, that is April ‘24 to September ‘24, we have deleted orders of Rs. 6 billion from the order book. There are no deletions from the order book in Q2 FY ’25. As of September, ’24, the share of slow-moving orders is minuscule, which is around 0.5% of the total order book.

Coming to Revenues:

Our group revenues for Q2 FY ‘25 at Rs. 616 billion registered as strong Y-o-Y growth of 21%. International revenues constituted 52% of the revenues during the quarter. The strong execution momentum in Infrastructure, Hydrocarbon and Precision Engineering & Systems within the Projects and Manufacturing portfolio drove the overall group revenues for the quarter. Within the group revenue, the revenue for P&M business for Q2 FY ‘25 is Rs. 445 billion, up by 28% over the corresponding quarter of the previous year.

Moving on to EBITDA Margin: Our group level EBITDA margin without other income for Q2 FY ‘25 is 10.3% vis-à-vis 11% in Q2 of the previous year. This EBITDA margin variance is mainly due to a non-recurring TOD, that is Transit Oriented Development monetization gain that happened in Hyderabad Metro in the previous year. The detailed breakup of the EBITDA margin business wise, including other income, is given in the annexure to the earnings presentation. You would have noticed that the EBITDA margin in the Projects and Manufacturing business for Q2 FY ‘25 is at 7.6% vis-à-vis 7.4% in Q2 of the previous. I will cover the details a little later when I talk about the performance of each of the segments.

Our Consolidated PAT for Q2 FY ‘25 at Rs. 34 billion is up by 5% over Q2 of last year. This PAT growth is reflective of improved activity levels, partly offset by lower other income. The drop in other income is a function of lower average treasury investments in the current quarter compared to the corresponding quarter of the previous year. As you may be aware, the drop in average treasury investment is also attributed to the share buyback that was done by the company last year. Further, PAT of the corresponding quarter of the previous year includes this gain that I was talking about, the TOD monetization in Hyderabad Metro of Rs. 5.12 billion. Excluding this non-recurring TOD monetization gain, the consolidated PAT for Q2 FY ‘25 has registered a growth of 25% over the corresponding quarter of the previous financial year. The group performance, the P&L construct, along with the reasons for major variances under the respective functions is provided in the presentation. You may go through the same for further details.

Coming to Net Working Capital:

The Net Working Capital to Sales ratio, or NWC to sales ratio has improved from 13.9% in June ’24 to 12.2% in September ’24, mainly led through an improvement in the Gross Working Capital to Sales ratio backed by strong customer collections during the quarter. Further, on a Y-o-Y basis, the NWC to sales has improved from 16.7% in September ‘23 to 12.2% in September ‘24. The group level collections excluding Financial Services business for Q2 FY ‘25 is Rs. 621 billion vis-à-vis Rs. 463 billion in Q2 FY ’24, registering an increase of 34% on a Y-o-Y basis.

I would also request you to go through the cash flow statement as part of the annexes to the Earnings Presentation. The cash flow from operations for Q2 FY ‘25 at Rs. 77 billion has more than doubled vis-à-vis Rs. 35 billion in Q2 FY ‘24. Finally, trailing 12 months ROE for Q2 FY ‘25 is 16.1% vis-à-vis we 15.3% in Q2 FY ’24, an improvement of 80 basis points. The improved profitability with every passing quarter, along with the return of capital to shareholders in the form of first buyback is contributing to this improvement.

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

First, Infrastructure. Coming to order inflows:

This segment secured orders of Rs. 495 billion for Q2 FY ’25, registering a robust growth of 77% on a Y-o-Y basis. International orders constituted 63% of the total order inflows. The current quarter we received orders mainly in the transmission and distribution, renewable energy, and adequately supported by other business verticals like minerals and metals, buildings and factories, transportation, and heavy civil Infrastructure. Our order prospect pipeline in Infrastructure segment for the near term, that is six months, is around Rs. 5.42 trillion vis-à-vis Rs. 5.06 trillion during the same time last year. This represents an increase of around 7%. The Infra prospects pipeline of Rs. 5.42 trillion comprises of domestic prospects of Rs. 4.14 trillion and international prospects of Rs. 1.28 trillion. The sub-segment breakup of the total order prospects in this segment is as follows:

- Water & Effluent Treatment - 17%;
- Power Transmission and Distribution - 7%;
- Renewable - 8%;
- Transportation Infrastructure - 28%;
- Buildings & Factories - 15%
- Heavy Civil Infrastructure - 18%
- Minerals and Metals, 8%.

The order book of this segment at Rs. 3.43 trillion as of September ‘24. The book to bill or the execution time frame for this order book is around three years. The Q2 revenues for Infrastructure segment at Rs. 320 billion registered a strong growth of 30% over the comparable quarter of the previous year, largely aided by very strong execution progress across multiple jobs from the opening order book. Our EBITDA margin in this segment for Q2 FY ‘25 is at 6% vis-à-vis 5.4% in the corresponding quarter of the previous year. The higher margin is primarily explained by improved job progress.

Moving on to the next segment, Energy Projects, that comprise Hydrocarbon and CarbonLite Solutions: The decline in the Q2 order inflow for the segment is mainly due to a high base that I mentioned earlier during the call. Like I mentioned, the previous year Q2 had the benefit of ultra mega orders in the Middle East in the Hydrocarbon business. We have a strong order prospects pipeline of Rs. 2.49 trillion for this energy segment, for the remaining six months, that comprises of Hydrocarbon prospects of Rs. 2.25 trillion and CarbonLite solutions prospects of Rs. 0.24 trillion. The order book for this Energy segment is at Rs. 1.17 trillion as of September ‘24, with the Hydrocarbon order at Rs. 1.13 trillion, and the CarbonLite Solutions business having an order book of Rs. 0.04 trillion. The Q2 FY ‘25 revenues for the segment at Rs. 89 billion registers a healthy growth of 31%, driven mainly by the execution ramp up of international projects in the hydrocarbon business. The lower revenues in CarbonLite Solutions are largely reflective of a depleting or a lower order book. The Energy segment margin in Q2 FY ‘25 is at 8.8% vis-à-vis 9.5% in Q2 of the previous year. The negative variation hydrocarbon margin in Q2 over the previous year is reflective of the stage of executions of the various jobs, whereas the improvement in the CarbonLite Solutions project margin is due to a better job mix.

We now move on to the Hi-Tech Manufacturing segment that comprises Precision Engineering and Systems, and the Heavy Engineering business: The receipt of land and marine system orders contributed to the order inflow growth in the Precision Engineering & Systems business, whereas Heavy Engineering business benefited from the receipt of a significant nuclear order. The order book of this segment is at Rs. 356 billion as of September '24. The order prospects pipeline for the remaining six months in this segment is around Rs. 158 billion, a strong execution momentum continues in the Precision Engineering & Systems whereas Heavy Engineering revenue decline is reflective of jobs in the early stages of execution. The segment margin in the current quarter is impacted by additional cost provisions in certain jobs in the Heavy Engineering business.

Moving on to the Information Technology and Technology Services portfolio: This segment largely comprises of the two listed entities, LTIMindtree and L&T Technology Services. The revenues of this segment at Rs. 118 billion in Q2 FY '25 registers a modest growth of 6%, which is largely reflective of present market conditions. Despite the ongoing macroeconomic concerns, the deal pipeline for this Segment is healthy with good visibility across all the segments that both the companies cater to. The segment margin improvement in Q2 vis-à-vis the corresponding quarter of the previous financial year is mainly due to higher forex gains and other income. As both the companies in this segment are listed entities, the detailed factsheets of their performance are already available in the public domain.

We now move on to L&T Finance Limited: Here, again, the detailed results are available in the public domain. But very briefly, I would like to cover Q2 revolved around very strong retail disbursements, healthy collections, and improved profitability. The balance sheet is strong on the back of inbuilt macro prudential buffers. The Financial Services business has achieved 96% retailization of loan book in September '24, well ahead of its Lakshya '26 targets. The ROAs remain healthy at 2.6% despite the sectoral headwinds. Like I had mentioned in my previous call as well, this business is building itself on the five pillars of growth, namely enhancing customer acquisition, a sharpening credit underwriting process, implementing futuristic digital architecture, heightened brand visibility and capability building. And finally, adequate capital in the balance sheet is available to pursue growth in the near to medium term.

Moving on to Development Project segment: This segment includes Nabha Power and Hyderabad Metro. Most of the revenues in this segment are contributed by Nabha Power. The revenue and margin variance of this segment is explained by the non-recurring TOD monetization of Rs. 5.12 billion in Hyderabad Metro in the quarter of the previous year. At this juncture, I would like to give you some ridership statistics on the Hyderabad metro. They average metro ridership has improved from 4.32 lakh passengers in a day in Q1 FY '25 to 4.68 lakh passengers per day in Q2 FY '25. The ridership in Q2 FY '24 was 4.62 lakh passengers a day. The metro at a PAT level, the group has consolidated a loss of Rs. 2.07 billion in Q2 FY '25 vis-à-vis a profit of Rs. 2.4 billion in Q2 FY '24.

Moving on to the Other Segment: This segment comprises Realty, Industrial Valves, Construction Equipment, Mining Machinery, Rubber Processing or Tyre Processing Machinery, and the residual portion of the Smart World and Communications business. The Q2 revenues for this segment grew by 2% over the corresponding quarter of the previous year, mainly contributed by higher handover of residential units in the Realty business, improved performance in Valves business, partly offset by a de-growth in the Construction Equipment, Mining Machinery business, including the Rubber Processing Machinery as well. The sale of commercial space in Realty, and improved overhead recovery in the Valves business drives the segment margin improvement in Q2 over the corresponding quarter of the previous year.

Coming to the last part of my presentation, the Outlook for the near term: The Indian economy has remained sanguine despite the ongoing global political turbulence, and is poised for a steady growth. The macroeconomic parameters of inflation and growth are well balanced. The investment activity has remained resilient, with the government Capex rebounding from a contraction that was observed in the 1st Quarter. Additionally, a new government policy offering employment-linked incentives to workforce and companies could improve the availability of skilled and trained labor. Better than expected southwest monsoon augurs very well for the revival of the rural economy and consumption demand.

With the government's fiscal consolidation efforts, the government debt is projected to decrease. Further, consumer inflation is anticipated to remain range bound on account of an improved agricultural output. The various high frequency indicators point towards the healthy growth momentum. The Manufacturing activity is also gaining on the back of improving domestic demand, lower input costs, and a supportive policy environment.

The global economic perspective is one of cautious optimism as the conflicts in Eastern Europe and West Asia are yet to spill over beyond the affected countries. The continuing disruptions in the Red Sea are affecting global trade in terms of higher costs and longer lead time. Amidst all this upheaval, the Middle East continues to expand its investment in oil and gas, industrialization, and the various energy transition initiatives. The China Central Bank has unveiled its biggest stimulus since the pandemic to pull the economy out of its deflationary slide and back towards the path of growth.

Lastly, heightened economic and financial market volatility is likely to continue in the short term as the US presidential elections are just around the corner. L&T is confident that the various structural reforms undertaken by the Indian government in the last 10 years will improve the quality of India's growth, besides setting a strong foundation to propel the realization of a Vikasit Bharat by 2047. The company remains committed on pursuing technology-driven growth and deliver profitable returns to all its stakeholders on a sustained basis.

Lastly, we continue to maintain our guidance for the current financial year around Group Order Inflows, Group Revenues, Margin in the Projects and Manufacturing portfolio, and Group Net Working Capital to Revenue. Just to recall, the guidance for Order Inflow was 10%, for the Group Revenues was 15%, the margins in and around the same for the margins for the P&M portfolio that we had printed for FY24 and the NWC to Revenue target around 15% as of March 25.

Thank you, ladies and gentlemen for the patient hearing. We can now begin with Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Congratulations on a very good order inflow in H1 FY25 despite a very high base. My question is on the first, how do you think about domestic prospects? Last year was subdued on account of general elections. The first half order inflows are also flat. The question is, are you seeing the signs of improving activity, I mean, in substantial terms in H2?

P. Ramakrishnan: Okay, Mohit, I think when we reported the financial results for FY24, when we gave the guidance for order inflow growth of 10% at the group level, we had actually baked in that the first six months as far as the domestic order prospects converted to order inflow could be a little subdued, given the fact that the first quarter was elections, followed by the government formation in Q2. Despite the subdued environment, we believe that our numbers of domestic order inflows have been quite good and in line with our own expectations for the first six months. But definitely the H2, we believe that given that the conditions for the GDP growth and the overall financial state of affairs for the government and the private sector, I guess we could see a more busier second half with respect to the overall domestic ordering environment is concerned. As I was talking about against the total order prospects of 8.08 trillion, the share of domestic prospects is 57% aggregating to 4.6 trillion. So, in a way, it actually suggests that as we had assumed at the start of the year, the second half of the current financial year would tilt more to domestic ordering resumption at a larger scale.

Mohit Kumar: Understood, sir. My second question is on the EPC tender for the thermal power plant. Is it fair to assume that you'll not participate in the full EPC tender for thermal power plant? Having said that, EPC has a forte, right, and why are we restricting ourselves to only doing BTG? In fact, even in the NTPC bulk tender, it's a main plant package, meaning that we have to do the EPC works for the main plant. Can you help us understand?

Subramanian Sarma: Okay, this is Sarma here. So, we had said earlier that in the overall thermal power plant scenario, EPC which includes BTG and balance of plant, we had seen: a) first thing was that the terms and conditions were not favorable, and 2) what we had seen is that there were significant delays in the balance of the plant-related activities particularly multiple interfaces with various stakeholders. So, combination of that was really causing some hardship in terms of extended project duration and hold up in bank guarantees and unfavorable cash flows etc. We had decided to withdraw from the whole segment, but then later on, there had been some extensive discussions and we have been able to negotiate better terms and conditions for the BTG part. And I think it also fits well into our core capability of Manufacturing, where we have a very advanced capacity and de-risk the overall portfolio because then we are kind of more in control of our own destiny and less dependent on others. I think all that fits into our overall risk profile. And we believe that with this approach, we should be able to deliver more consistent and better results.

Mohit Kumar: So, that's very helpful. So, my last question is that how are you thinking about monetization of the balance 14 million square feet of land at Hyderabad in medium term? And what is holding us back from the accelerated monetization?

P. Ramakrishnan: So, Mohit, I will take that. This is PR here. So, as we have been talking about in terms of bringing back the Hyderabad Metro on track and its a combination of two items: one is the State Government financial support and along with the TOD monetization. Since it is a concession project, each of the TOD monetization that we need to do are subject to prior approvals of the government. So, we did one particular tranche in the Q2 of the previous year, and we are looking to monetize some of the parcels in the near term. Hopefully, I think you should get something happening in the next six months or so. But it will all be done in tranches, and each tranche will be subject to a prior government approach because it is the overall, the Metro construction is a combination of running the Metro along with the real estate development. So, whenever we get an opportunity, interested party to buy over a particular land parcel, we will take a government approval and do that. And basis the pipeline of discussions and opportunities are happening now, we do expect some amount of monetization to hopefully gain momentum and get crystallized by the end of this financial year.

Moderator: Thank you. The next question comes from Atul Tiwari from JP Morgan. Please go ahead.

Atul Tiwari: Sir, one question again on Hyderabad Metro. So, the PAT loss was 2.07 billion in this quarter. It looks like that it has trended down versus close to being 2.7, 2.8 billion per quarter kind of number. So, is there any one-off or it is like a normal decline because of increasing the cash flows?

P. Ramakrishnan: So, Atul, Q2 of the current financial year is normal operations of Hyderabad Metro and of course the ridership has improved, but I would like to state that the loss in Hyderabad Metro today is on account of the interest on the loans that we have taken. It is because of a slightly lower interest rate and a lower loan portfolio, the losses are coming down. Now, this is steady state operations quarter as far as Hyderabad Metro is concerned. So, as the passenger traffic improves, slowly the extent of the loss should be coming down.

Atul Tiwari: Okay, sir. And sir, now that the execution of the large hydrocarbon projects won last year has started, so is it tracking in line with whatever we expected in terms of margin performance and the speed of execution, etc. Asking because there has been a bit of a concern on very large exposure in Middle East and in the margins in those projects.

Subramanian Sarma: Yeah, this is Sarma here again. Both those projects, of Rs. 40,000 crores, I think they are very much on track. In fact, as you speak, we are slightly ahead of schedule at this point in time. And we have made some significant commitments already with respect to cost commitments, in terms of supply and construction. So, far it looks good.

Moderator: Thank you. The next question comes from Amit Anwani from Prabhudas Lilladher. Please go ahead.

Amit Anwani: So, my question is on the Hydrocarbon prospect. You highlighted that there's been Rs 80,000-Rs 90,000 reduction in Hydrocarbon order prospects for H2. Just wanted to broadly understand, has the pace of ordering slowed down or is there anything which we are not considering now as a prospect order for H2? Is that the reason for the reduction in hydrocarbon prospects?

Subramanian Sarma: No, see the reduction what PR was talking about is with respect to last quarter same time and as he had explained that we had a large contract, two of them, Rs. 40,000 crores were awarded to us and but as such in this financial year and first half, we have secured awards. We are performing as per our budget, and it is as per our forecast. So, I said I do not see any slowdown or any loss of momentum. It is only in comparison to the lumpy big jobs we had last year and that is the nature of the business, I mean never know that maybe we will get similar lumpy large jobs in the second half. So, we have a still strong pipeline, and we are bidding for some large projects and we will have to wait and see how it unfolds in the second half.

Amit Anwani: My second question, sir, on the order prospect overall. So, we have seen that the prospect has been quite lumpy last year from international markets and this year also there's been substantial orders from international markets. Now we have been doing thermal also, BTG, as you highlighted. So, broadly for the domestic market, next 18 months, which areas or projects where we are seeing momentum? And are we overall seeing the domestic order intake also picking up strongly in next 12, 18 months since now the major events are over with respect to elections and many things are behind us. I just wanted to understand the 18-24 months perspective and major order prospects in domestic markets.

P. Ramakrishnan: Okay, so let me take that. Apart from what we spoke about just a while ago on the CarbonLite solutions that the order prospects with the BTG, I think a large part of the prospect pipeline centers on Infrastructure. So, if you really see the total Infrastructure order prospects for H2 aggregated to 5.42 trillion, out of which the share of domestic was 4.13 trillion. Now, if I look at the overall composition of this 4.13 trillion of domestic order prospects, I would say from our perspective, it is actually a good mix of industrial structures, factories, residential structures, data centers, hospitals in so far as the B&F segment is concerned. We do see a significant amount of investments happening on the transportation infra, both in rail and also on the road, expressways & elevated corridors. This also is quite substantial. And this also we believe that we should be getting a decent share provided the prospects get converted into the tendering mode. Besides these segments, there are also certain opportunities coming up in ports, in the airports and also hydel related projects in the country. So, in the Infrastructure segment, the composition of order prospects covers most of the segments where L&T is one of the leading players.

Amit Anwani: Lastly, on margins, you said that Project & Manufacturing margins would stay similar to last year. So, now, since we have moved 4-5 months, and you have some clarity on the prospects. Basis the current order book, are we now sensing improvement in FY26 and any quantum you would like to broadly highlight on margin front when the margin improvement can be expected to start?

P. Ramakrishnan: I would like to mention here that as far as margins, all the guidance is concerned, it is for the specific financial year. So, as we have closed H1 at a higher margin clip as compared to H1 of the previous year, the P&M portfolio margin has improved by 20 basis points. So, the year has been good. And at this juncture, I would like to maintain that the margin guidance that we have given at the start of the financial year with respect to the P&M portfolio at 8.2% to 8.25% still holds good. Let us see how Q3 shapes up before we look at revising. As far as next year is concerned, I guess we will look at next year at a separate timeframe, not at this juncture please. However, having said this, let me also tell you the order book that we have is a mix of both domestic and international with a good mix of projects across sectors, some high-quality jobs, and also some normal commercial-related jobs. So as we end FY25, I think FY26 looks to be a good start from an overall margin trajectory perspective. But to put a number to that, I think it's a little premature.

Moderator: Thank you. The next question comes from Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, earlier in your commentary during the call, you mentioned getting into development assets in the green power. So, if you can elaborate, what are you looking at in this segment?

Subramanian Sarma: Okay, in the green energy, we have two markets. One is the export market, and one is the domestic market. Within the domestic market, a lot of tenders have come out for green hydrogen as well as green ammonia, refinery sector as well as fertilizer sector. And we will participate on those. And they are all mostly on the development side. And similarly on the international also, we are seeing some development and traction in supply of green ammonia and green hydrogen in Korea and Japan and those countries. We are partnering with some of those international players and will participate in those tenders. And if we are successful, then we will maybe have an off-take agreement against which then we will consider investing and developing those assets. As far as IOCL tender is concerned, that is again for green hydrogen in Panipat that is available now as part of this large tendering activity going on and we will participate as we had done it in the past.

P. Ramakrishnan: Okay, to add to what Mr. Sarma just now spoke about as far as our presence in Development Projects in this space is concerned, I think we will be very clear that we will always work on with those projects where the offtake arrangements are confirmed and for a longer time so that there is a visibility of return.

Parikshit Kandpal: But will you also be open to looking at solar development assets?

Subramanian Sarma: No, currently that's not part of our plan.

Parikshit Kandpal: Battery storage?

Subramanian Sarma: Battery storage is something we are studying now, we are exploring and looking at some technologies and it is under evaluation. It's a bit premature to say anything definitive, but it is under consideration. But solar, we have made a decision not to get into development. I think it's too late in the game in my view.

Parikshit Kandpal: And neither into module and battery, I mean, still Manufacturing on the solar side. Even that you will not.

Subramanian Sarma: No, that is not in the plan.

Parikshit Kandpal: Second question is on the increasing share of export orders or international orders. So, PR, how do we look at the margins? You said that this year margins will maintain, but incrementally in absence of any large ordering on the domestic side till now and the share of international increasing, in the last call you highlighted, that a trend will be like from here on the margins will keep improving. So, will the trend change?

P. Ramakrishnan: So, Parikshit, the international project margins have been maintained in line with the bid conditions that we had secured those projects. But as you may be aware, most of the international projects are largely fixed-price jobs. So, a timely completion will eventually lead to a better margin realization. Having said this, I think one important thing is, it is not only giving us size, it is also giving us recognition across the globe, because today the Middle East is just not the only geography where we are getting projects both in hydrocarbons and renewables. We are getting basis our strong performance in the projects that we secured. I think it's giving us good credentials to pursue opportunities outside of the Middle East also. But having said this, in fixed price contracts, timely execution will obviously ensure better margins in the future. As Mr. Sarma pointed out, some of the major hydrocarbon jobs that we secured in the last 12 months or so, the execution has been in line with expectation and some cases we are actually ahead. Hopefully, I think it should lead to an improvement in the margins profile, but to put a number at this juncture, maybe again premature, but I wish to conclude here that the mix or the 50-50 composition of, I would say, execution between domestic and international, also giving in the form of better cash flows and thereby overall improvement in returns is possible.

Parikshit Kandpal: The return wise is fine, but mix wise, it's diluted as the margins and then export mix or international mix will be margin diluted?

P. Ramakrishnan: It depends on the stage of execution. So, hydrocarbons, what we are witnessing is all early execution stage projects. So, hopefully in the next year, they will achieve peak execution when in the form of, we don't recognize margins unless the projects achieve a particular stage. So, once they achieve, once they cross that and if there is on-time execution, you should see some amount of margins improvement to happen.

Parikshit Kandpal: So, in the NWC data, we have seen a very, very strong kick-off and improvement there. So, what is driving this? We have been hearing from other much smaller EPC player, they are facing problems in the Jal Jeevan Mission project. The collections have not been up to the mark. So, because of that, they have reduced their execution. But overall basis, what is driving these strong collections for you and have you also faced some issues in the Jal Jeevan Mission projects, which is part of the order book?

P. Ramakrishnan: So, Parikshit, let me tell you that when we are giving the working capital, I wish to reiterate that this gain or the favorable movement in Net Working Capital is a combination of a major drop that we are witnessing in Gross Working Capital further supported by advances which are shown in current liabilities, advances from new projects. Yes, in certain sectors across certain sectors or segments there are some headwinds in terms of delayed collections because of the financial conditions of the respective customer or state. But we are mindful of the fact that we have a very large order book to execute, we are executing in such places only where the execution progress is in line with the collections that we are getting. So, we are able to manage this in a better way given the fact that we have a multi-segment, multi-geography that is within the India itself. Multi-geography means I'm referring to a combination of both state, central and across states. I think it's possibly enabling to ensure that we don't do execution unless and until payments are happening on time.

Parikshit Kandpal: Just last question for on the real estate business. I mean, now it has become quite sizable. I mean, you spoke about Rs. 8,000 crores of order booking and Rs. 4,000 crores of revenue. And the media reports suggest that you're looking at Rs. 40,000 crores of order booking over the next 10 years in this business and adding about 50 to 60 million square feet of land parcels. So, I wanted to know what kind of margins you typically make in these, because this is now going to become very sizable. Slowly and steadily, it's becoming quite sizable as a part of the business. So, what kind of margins typically you are able to record in this segment or embedded margins or if you can give some color on embedded margins on the sales or order bookings?

P. Ramakrishnan: Like for example, okay, let me put it like this Parikshit that in the current quarter, which is the Others segment, the real estate business i.e. the Realty business had secured a margin of almost 37%. Now, is this embedded margin because in this business? We recognize revenue only when the residential unit is handed over. So, in quarters, wherever there is a large amount of handing over after receipt of the clearances of the respective municipal jurisdiction, you will find a bump up in revenue and also bump up in margins. But just to conclude our immediate plan on this particular business is the total or a total portfolio of almost 84 million square feet comprising both residential and commercial, we have almost completed 24 million square feet, which means that is already gone into the P&L of the past. So, that leaves maybe around 40 million of residential square feet yet to be monetized or coming as revenue and profits in the near future, and a commercial around 20 million square feet. So, broadly speaking, 84, you have already done 24, that leaves 60. And in 60, you have residential comprising of 40 and commercial comprising of 20. Commercial would be a combination of lease and outright sale, whereas residential as the model is, it's an outright sale. Now out of this 40 million square feet of residential, under construction that is launched, and we are taking bookings, would be around 10 million square feet. And future development, I was talking about various places in a combination of joint development and also our own land parcels is another 30 million square feet. On commercial, under construction is 10 million and future development is 10. Now, basis this, this is the existing, I would say structure we have. As we finalize the real estate business, how we are going to take it up ahead, we will cover that at an appropriate point of time.

Parikshit Kandpal: Typically, what kind of Capex you do here on the land annually?

P. Ramakrishnan: The new parcels that we are developing currently apart from monetizing our own land parcels is largely on joint development route. We are not investing land for residential development at this juncture.

Moderator: Thank you. The next question comes from Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: So, if we look at our order inflow guidance, we are looking at almost 20% order inflow growth in H2 while our prospect pipeline is down by almost 10%. So, what is really leading to it? Are we anticipating a higher market share or are we anticipating a higher chunk of those tenders actually getting converted into orders? Finalization is happening quicker.

P. Ramakrishnan: So, Aditya, I think since you have asked a question, I need to go with numbers. Last year, FY24, the actual order inflow that the company printed was Rs 3 lakh crores consolidated. And if you take a 10% guidance on growth, the FY25 guidance for total order inflow is Rs 3,30,000 crores. Now, the H1 FY25 actuals is almost at Rs 1,50,000 crores. Now, if I have to go back to meet the guidance of Rs 3,30,000 and I subtract the IT companies and Financial Services, my core business of Projects and Manufacturing, my run rate, which I need for order inflow is another Rs 1,50,000 crore. Okay, now my order prospects is Rs 8 trillion or Rs 8,00,000 crores. Okay, now you know, you can derive the win rate that is required, provided all these order prospects come into tendering, I mean, the subject to the normal qualifiers, but this particular win rate that you will get, is not something very unusually different from what we have printed, or we have done in the recent last 2 to 3 years.

Aditya Bhartia: Generally, we have been noticing like 15-odd percent kind of a win rate is kind of slightly higher than that, which is why I'm wondering that are we also anticipating a pickup in market share?

P. Ramakrishnan: Obviously, the one big thing is that many of the order prospect that we have are very large ticket sizes in all the segments, both domestic and international. Obviously, we believe that some of these will get bid out and we stand a good chance of trying to make it. So, let me tell you that it is not something at this juncture a number where very high run rate that is required. This is something that we have witnessed in the last 2 years.

Aditya Bhartia: And sir my second question is on Power segment. There have been some media articles about us winning some orders from NTPC. So, just wanted to kind of know is that correct? Is that not correct? And while you mentioned that you'll not be undertaking any EPC orders, how serious are we going to be on BTG orders on the power side, on thermal power side?

P. Ramakrishnan: Aditya, I think this was covered in detail by Mr. Sarma, when we talked about sometime back at the early part of the call, that what's our plan. So, as the public domain news suggests, that we are well placed in some of the bids that has happened on BTG almost 6400 megawatts. We are well placed across 3 projects. Let us see how they come into a contracting opportunity in the current year or current quarter, I would say Q3. Mr. Sarma, would you like to add?

Subramanian Sarma: I mean you said it. I think we should know within this quarter where we reach on this. As far as the tender conditions, this 6.4 GW in three locations, the customer will award two packages of the bundle to L1 and third one could go to the L2 bidder if they are able to successfully conclude negotiations. We will have to see. But I think looks like that we will have at least 4 gigawatt if everything goes well.

Moderator: Thank you. The next question comes from Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: So, very good to see 60 basis point kind of improvement in Infrastructure EBITDA margin. So, would you say that underlying margin improvement, if you look at separately the domestic business and international business are probably far higher and partly getting offset by mixed change towards international business?

P. Ramakrishnan: So, Shrinidhi, I think I responded to specific question five minutes back. So, let me tell you that yes, Infrastructure margins have improved when you compare quarter-on-quarter. There has been an improvement. The margin trajectory in the Projects and Manufacturing portfolio is a cost, is a variation of the various projects execution across sectors, across states, across geography. So, basis the construct, we gave the guidance of around 8.2 to 8.25 for the full year. We are on a positive start, let me tell you, basis our H1 numbers. And we do expect that the H2 also, there are no such perceived headwinds in so far as execution is concerned across the entire projects and across the projects in all the geographies. So, hopefully, I think we should be at least meeting the guidance that we have talked about or we are referred to.

Shrinidhi Karlekar: And sir, second related question is, when we guided, we will be around 8.2 kind of margins in the projects business in 2025 as well. How should we see these margins in the context of trend margins? These 8.2 margins are still below the trend that is possible considering how business has changed, both on the kind of orders that you are winning, as well as how the business mix is changing or you think that probably 1% to 2% below trend levels. So, some kind of guidance on how one should think about improvement over the next couple of years from when you exit in 2025?

P. Ramakrishnan: So, let me tell you the projects that L&T has secured across the various segments in the P&M portfolio in the last 2 years, the momentum has been to pursue a profitable growth. That has been the underlying objective. Now, of course, as the project business, obviously the risk on execution always is there. And as we speak, we don't see any headwinds or external headwinds in terms of the project getting delayed in the execution. Now I was mentioning in response to a working capital in some sectors, the execution is delayed because payments is not happening. But a large part of the order book is coming under normal execution, both India-based projects and also international projects. And we have not compromised on our bidding philosophy in terms of taking projects and we are not compromising on margins. So, timely execution, timely completion will enable obviously improvement in margins from what they have been bid for.

Shrinidhi Karlekar: And the last one, if I may, is your commentary on both Public Capex sustaining momentum as well as visible improvement on the Private Capex side. But sir, if you look at contrary, we are seeing that a lot of State Capex budgets are getting moderated. Even the Central Capex for key Infrastructure ministry is seeing some moderation and on the private side, both B2C as well as B2B product demand is kind of getting moderated. So, in that context, what I wanted to understand is, could you please elaborate what is the confidence that you see sustained ordering moment from both private as well as public side?

P. Ramakrishnan: So, as far as Private Sector Capex is concerned, I guess the opportunities are still quite strong in so far as the entire expanse sector of real estate. When you talk about real estate, I am talking of healthcare, I am talking of data centers, I am talking of residential, I am talking of commercial. So, we do see significant amount of investments getting lined up as far as the private sector is concerned. In so far as core industry is concerned, we do see, like for example, the minerals and metals, if I had to talk about which is largely a sector where you have private sector investments, the total order prospects is roughly in the range of Rs. 45,000 to Rs. 50,000 crores. It's a mix of both domestic and international. So, domestic order prospects also is roughly around 50%. Now this is entirely coming from the minerals and metals industry or investment that have been planned. So, I would say that it could have picked up better, but it's not premature to comment that there is no private sector opportunity that is being addressed by Larsen & Toubro. Let me put it that way. So, wherever the prospects are there, these are all named prospects when we talked about the total prospects pipeline of Rs 8.08 trillion and we hope that many of these projects fructify.

Shrinidhi Karlekar: And in the State Capex sir, last one.

P. Ramakrishnan: State level prospects have come down relatively so because we do see some of the states looking to convert some part of the state revenues into subsidies and all of that stuff. To some extent, there is some drop. But I guess, let us say, given our structure of order book that we have, we are also going a little selective in terms of pursuing opportunities where we are sure our chances of winning are better and our chances of completing the project and getting paid on time is also better.

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

P. Ramakrishnan: So, thank you, thanks everyone for attending this call. It was our pleasure to interact with all of you. Good luck and wishing all of you a very happy Diwali. Thank you.

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