Larsen & Toubro
Investor Presentation - Ind AS convergence
June 28, 2016

Disclaimer

The objective of this presentation is to provide information on the broad implications of transition to Ind AS on the financial statements of L&T.

The information represents our current best estimates based on principles, rules and regulations known and may be affected by amendments to Ind AS or the interpretation or audit review thereof.

The presentation may contain certain forward looking statements which may or may not materialise due to factors beyond Company's control.

Presentation Outline

1. Ind AS – Applicability and Timelines
2. Ind AS – How different?
3. Group Structure and Consolidation
4. Segment Reporting
5. Subsidiary – divestment gains
6. Expected Credit Loss
7. Performance Linked Rewards
8. Dividend Declaration & payment
9. Effective Interest Rate
10. Premium on Forward Exchange Contracts
11. Fair Valuation
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    b. Investments
    c. Long term liabilities (other than borrowings)
12. Losses attributable to Non-controlling Interests
13. Presentation of Profit & Loss and Other Comprehensive Income
14. Business Combinations
15. Other Ind AS adjustments

Ind AS – Applicability and Timelines

Phase I : April 1, 2016	Phase II : April 1, 2017	Phase III : April 1, 2018
▪ All companies, listed and unlisted, with net worth of ≥ INR 500 crore	▪ All companies listed or in process of being listed ▪ Other companies with net worth of ≥ INR 250 crore	▪ All banks, NBFCs, insurance companies

Ind AS is applicable to holding, subsidiaries, joint ventures or associates of companies covered above

Impact on L&T Group Financials

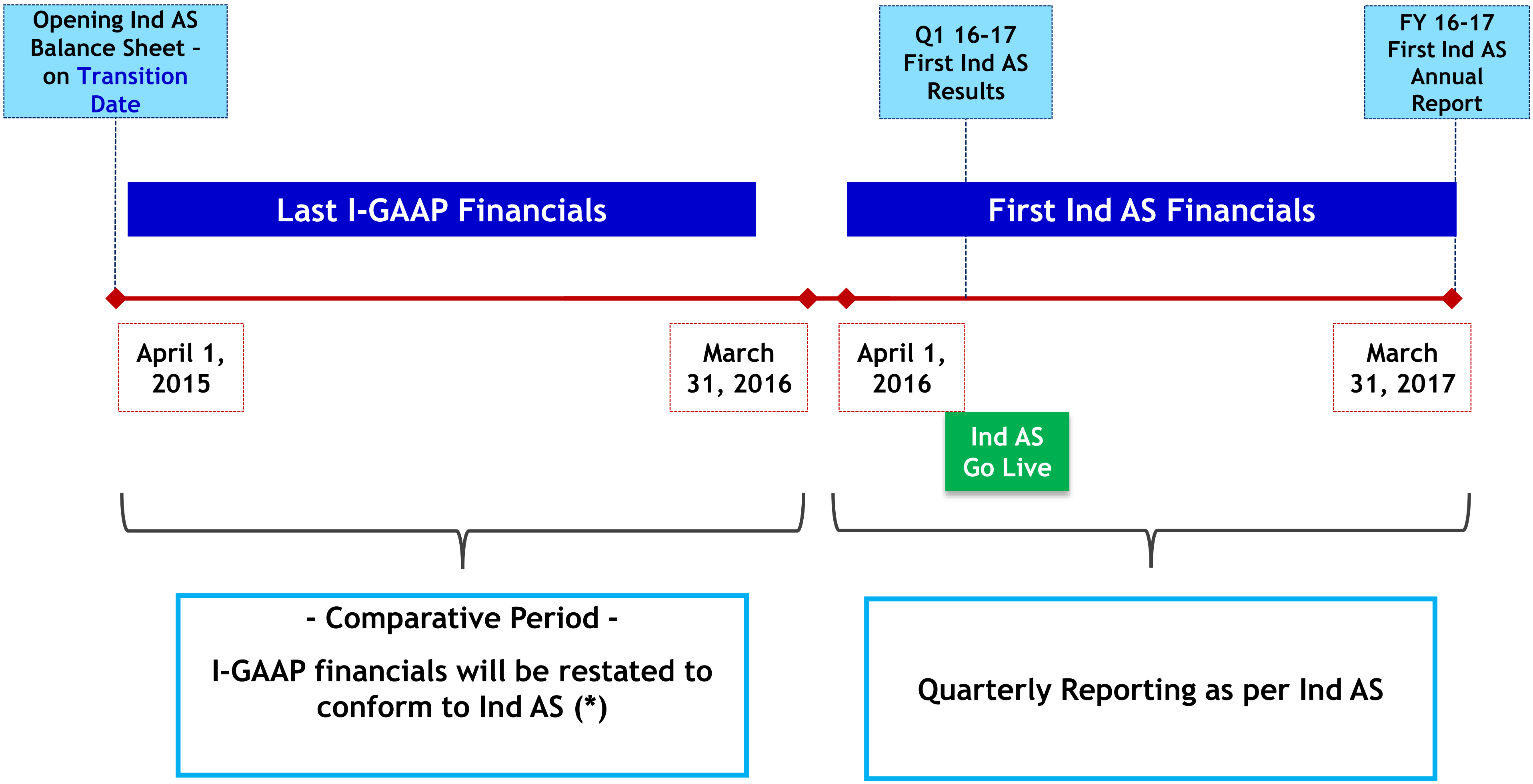
Individual (Independent) Financial Statements

- Ind AS is applicable from April 1, 2016 to:
  - ✓ L&T Limited
  - ✓ All S&A and JV companies including non-NBFC subsidiaries of LTHFL
- LTHFL & its NBFC subsidiaries and IDPL: Applicable from April 1, 2018
- Foreign subsidiaries would continue to be governed by respective GAAPs

Consolidated

- NBFCs and Insurance companies to provide Ind AS compliant financials for consolidation purpose
- Foreign subsidiaries will provide Ind AS compliant financials for consolidation purpose

Timelines



(*) Quarterly reporting for comparative periods will be governed by the guidelines to be issued by SEBI

Ind AS – How Different?

- Minimal carve outs
- More Principle based
- Substance over form of a transaction
- Principle of neutrality to be followed as against conservatism
- Extensive disclosures
- Early adoption - IFRS 9 *Financial Instruments* effective from January 1, 2018
- Transition reporting - SEBI is following consultative process

Minimal carve outs

- An entity may use carrying value of items of property, plant and equipment on the date of transition in accordance with previous GAAP
- Conversion option in FCCB considered as equity and is not required to be re-measured at fair value
- Revenue based amortisation of intangible assets arising from service concession arrangements related to toll roads allowed to be continued
  - Applicable to service concession arrangements for toll roads entered up to the date of transition
- Accounting for Real Estate development as per ICAI guidance note

Group structure and consolidation

Change	Impact
• Consolidation criteria changed from rule based to principle based (control criteria)	• Consolidation criteria depend on shareholders' rights
• Entities consolidated only if L&T has control	• No impact (continue to be consolidated on line-by-line basis)
• A few subsidiaries under IGAAP will be consolidated as Joint Ventures under Ind AS (consolidated as per equity method)	• One line consolidation by applying equity method • Consolidated Revenue to be marginally lower (approx. Rs. 3000 crore) • Interest, depreciation and other expenses to be lower (approx. Rs. 2500 crore) • No impact on PAT • Consolidated assets, liabilities and borrowings to be significantly lower (approx. Rs. 34000 crore, Rs. 15000 crore and Rs. 16000 crore respectively)
• Line-by-line consolidation of Unincorporated Joint Ventures in standalone financials where share in assets and liabilities is established	• Standalone Revenue to be higher • Standalone Assets and liabilities to be higher

Major Subsidiaries to be treated as Joint Ventures

SN	Company	Business Segment
1	L&T Sargent and Lundy Limited	Power
2	L&T MHPS Boilers Private Limited	
3	L&T MHPS Turbine Generators Private Limited	
4	L&T Howden Private Limited	
5	L&T Special Steels and Heavy Forgings Private Limited	Heavy Engineering
6	L&T Gulf Private Limited	Hydrocarbon
7	L&T Sapura Shipping Private Limited	
8	L&T Sapura Offshore Private Limited	
9	Larsen and Toubro Electromech LLC	
10	L&T IDPL and its subsidiaries (excluding Hyderabad Metro)	Developmental Projects

Segment reporting

Operating segment	IGAAP	Ind AS
Criteria for identification	- Risks & rewards - Organisational structure	New concept of "Chief Operating Decision Maker" introduced. Criteria broadly similar.

Reportable segments	- Segment revenue is 10% or more of total revenue
	- Segment result is 10% or more of greater of following -
	  - Total absolute result of all segments in profit
	  - Total absolute result of all segments in loss
	- Segment assets are 10% or more of total assets (Net Fixed Assets + Investments + Current and other Non-Current Assets)
	- Reportable segments should constitute 75% of total revenue
		Along similar lines as IGAAP

Disclosure requirements	- Segment Revenue - Segment results (PBIT) - Segment assets/liabilities - Geographical segment	At the minimum: - Segment Revenue - **Segment Profit/Loss** - Segment assets/liabilities - Geographical segment - Reconciliations to the total

Illustration - Reportable Segment based on segment result

Segments	A	B	C	D	E	F	G	H	Total
(I) Segment Profit / (Loss)	5	(90)	15	(5)	11	(5)	5	7	57
(II) Combined absolute result of all segments in profit	5		15		11		5	7	43
(III) Combined absolute result of all segments in loss		90		5		5			100
(IV) Segment Result as a % of the greater of totals arrived at (II) and (III) above in absolute amount i.e. 100	5	90	15	5	11	5	5	7	

- Here, reportable segments would be segment B, C and E as their segment result is more than threshold limit of 10%.
- Voluntary disclosure of additional segments is permitted.

Subsidiaries - Divestment Gains

Change

- Gain on stake sale of subsidiaries without ceding control is credited to reserves in consolidated financials (instead of routing through P&L)

Impact

- Consolidated PAT to be lower due to non-accrual of gain on stake sale in L&T Financial Holdings Ltd
- Will continue to be credited to standalone PAT
- Gains pursuant to forthcoming IPOs will be credited to standalone PAT only

Expected Credit Loss (ECL)

Change

- Shift of approach from ‘Incurred loss’ to ‘Expected Loss’
- Provision required for credit risk as well as payment delay risk
- Matrix based approach recommended for receivables

Impact

- ECL deals only with credit risk and does not cover provisioning for other issues such as performance
- Provision for expected credit loss in financial services business to be computed on probability based method
- Provisioning for other businesses to be driven by matrix based on ageing of receivables

ECL Provision Components

Loss due to delay + Loss due to credit risk

Time value loss → Loss due to delay

Shortfall in realisation → Loss due to credit risk

Minimum Provisioning norms are not discretionary but matrix based

Time value of money

IND AS 109 Para B5.5.28

B5.5.28 Expected credit losses are a probability-weighted estimate of credit losses (ie the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

Quantifying the Provision

Prescribed method

Probability weighted provisioning (para 5.5.17)

↓

Individual / collective basis

↓

Example

Applicable to Financial Services

Permitted alternative

Matrix based provisioning (para 5.5.35)

↓

Norms based on historical credit loss

↓

Current data / conditions to be factored

Adopted for customer receivables

Measurement of Expected Credit Loss

Measurement of expected credit losses

5.5.17 An entity shall measure expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available

without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Provision - Probability Weighted Approach

Figures assumed for representation purpose

- The trade receivables as on March 31, 2015 of entity A is Rs. 600 cr. Entity expects that the probability of potential recovery of Rs. 600 crore is 15%, 500 crore is 20%, 400 crore is 30%, 300 crore is 20% and 200 crore is 15% respectively. The probability weighted measurement of Provision is as under:

Scenario	Potential Recovery	Probability	Probability Weighted Calculation
1	600	15%	90
2	500	20%	100
3	400	30%	120
4	300	20%	60
5	200	15%	30
	Total		400
Amount to be provided for Provision = Rs. 200 crore (600-400)			

Provisioning Matrix

IND AS 109 Para B5.5.35

B5.5.35 An entity may use practical expedients when measuring expected credit losses if they are consistent with the principles in paragraph 5.5.17. An example of a practical expedient is the calculation of the expected credit losses on trade receivables using a provision matrix. The entity would use its historical credit loss experience (adjusted as appropriate in accordance with paragraphs B5.5.51–B5.5.52) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant. A provision matrix might, for example, specify fixed provision rates depending on the number of days that a trade receivable is past due (for example, 1 per cent if not past due, 2 per cent if less than 30 days past due, 3 per cent if more than30 days but less than 90 days past due, 20 per cent if 90–180 days past due etc). Depending on the diversity of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group assets include geographical region, product type, customer rating, collateral or trade credit insurance and type of customer (such as wholesale or retail).

Illustrative rates for ECL
(excluding financial services business)

Ageing (in Months)	Cumulative Provision		Total (weighted average)
	Delay loss	Credit loss (expected)	
0 – 6	-	-	-
6 – 12	7%	5%	8%
12 – 24	13%	10%	15%
24 – 36	21%	20%	25%
> 36	28%	30%	35%
Applicable to	Public Sector & Private Sector	Private Sector	

Note: Hypothetical numbers assumed

Provision rates for delay risk

- Considering a discount rate of 10%, provision rates for delay risk are as under:

Ageing (months)	Dates	PV Factor @ 10%	Average PV	Discount for Delay
	April 1, 2015	1.00		
0 – 6	Sept 30, 2015	0.95	0.98	0%
6 – 12	March 31, 2016	0.91	0.93	7%
12 – 24	March 31, 2017	0.83	0.87	13%
24 – 36	March 31, 2018	0.75	0.79	21%
36 - 48	March 31, 2019	0.68	0.72	28%

and so on…

Illustrative Blended ECL rates as on March 31, 2015
(excluding financials services business)

Ageing	0 - 6	6 - 12	12 - 24	24 - 36	> 36
Segment A	0%	6%	11%	22%	30%
Segment B	0%	7%	17%	25%	38%
Segment C	0%	9%	16%	26%	39%
Segment D	0%	8%	13%	27%	35%
Segment E	0%	9%	10%	23%	33%
Segment F	0%	7%	19%	20%	36%
Average rates at company level	0%	8%	15%	25%	35%

Note: Hypothetical numbers assumed for blended rates (combination of delay and other credit loss)

Provision for Performance Linked Rewards

Change	Impact
▪ Currently under I-GAAP, performance linked remuneration (PLR) to employees is accounted on crystallisation of the amount wherever there is no legal obligation to pay PLR. ▪ PLR to be provided as Ind AS requires provisioning for all 'constructive obligations' towards employee benefits.	▪ Main impact will be taken directly to opening reserves (approx. Rs. 450 crore). ▪ The PLR pertaining to FY 2014-15 was paid & accounted in I-GAAP in Q2 and Q3 2015-16. It will be accounted in opening reserves as on 1.4.2015 under Ind AS. ▪ The PLR for the year 2015-16 onwards, will be provided every quarter based on reasonable estimates.

Dividend

Change	Impact
▪ Dividend proposed or declared after reporting period will not be recognised as liability rather will be disclosed in the notes to financial statements ▪ Dividend will be charged directly to reserves on payment	▪ Increase in Net worth at period end ▪ Decrease in current liabilities and provisions (forming part of Net current assets) at period end ▪ Consequential impact on ratios e.g. RONW, NCA

Effective Interest Rate (EIR)

Change

Expense : Borrowing Cost

- Interest cost to be recognised at EIR - including coupon rate, redemption premium and associated issue costs
- Under IGAAP, a part of this effective borrowing cost in respect of debentures and bonds gets charged directly in Securities premium in the Balance Sheet

Impact

Expense : Borrowing Cost

- Interest at EIR is normally higher than coupon rate, reflecting actual structure of the borrowings
- Direct charging of issue expenses to reserves (Balance Sheet) not possible
- Higher accrual of interest on FCCB borrowings due to debt : equity split at inception

Foreign Currency Convertible Bonds (FCCBs)

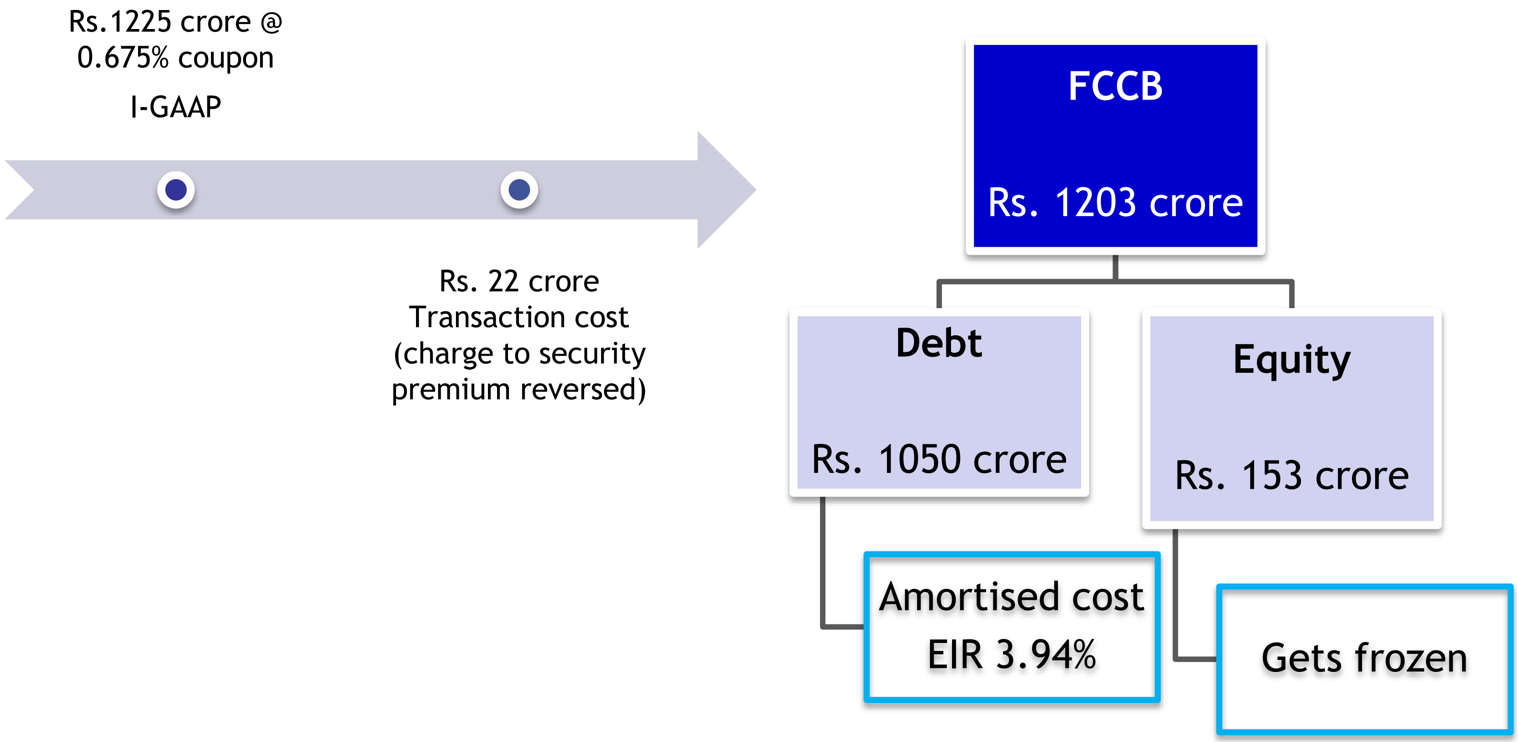


Illustration for Zero Coupon Bonds

(figures assumed for representation purpose)

- Zero Coupon Bond issued on 1.4.15: Rs.1000 crore
- Amount payable on maturity: Rs. 1500 crore
- Tenor – 5 years
- EIR - 8.45% p.a.

  (after factoring premium on redemption)

P&L Impact:

I-GAAP	Ind AS
Premium on redemption Rs. 500 crore – debited to Reserves (No impact on P&L)	Interest expense @ 8.45% p.a. charged to P&L

Total outgo Rs. 500 crore will be same

Premium on forward exchange contracts for Off-Balance Sheet Hedges

Change

Forward contract to hedge "Off-Balance Sheet" underlying

When the underlying turns On-Balance Sheet

MTM of such contracts to be accounted in Hedging Reserve (currently premium portion is credited to P&L on accrual basis

Transfer to P&L

Impact

- Revenue will not include premium on forward contracts taken to hedge "off-balance sheet" forex exposures

- Current standard (AS 11) specifically provides accounting treatment for "premium" and scopes out "exchange differences". Ind AS makes no distinction between the two.

Fair valuation under Ind AS

- Framework for measuring fair value and disclosures about fair value measurement governed by Ind AS 113 – *Fair Value Measurement*

- As per Ind AS 109, certain financial assets should be measured at fair value as on the balance sheet date

Financial Assets

- Financial Assets measured at fair value on the balance sheet date include investments in:
  - Mutual funds, bonds, G Secs, etc.
  - Listed and unlisted entities [other than S&A Cos]

Hedges

- Hedges taken for on-balance sheet items stated at MTM

Investment property

- Fair value as on the balance sheet date will be required to be disclosed in notes to account

Initial Recognition

- Initial recognition at fair value required for:
  - Concessional loans
  - Deferred payment liabilities
  - Equity portion of FCCB
  - Provisions

Fair value of investments

Change	Impact
▪ Financial asset at fair value through Other Comprehensive Income (OCI)	▪ MTM of investment of surplus funds in debt securities with fixed maturity such as Govt securities will be accounted in OCI.
▪ Financial assets at fair value through Profit and Loss	▪ MTM of investment of surplus funds in securities without fixed maturity such as equity / equity linked instruments, mutual funds will be accounted in P&L.

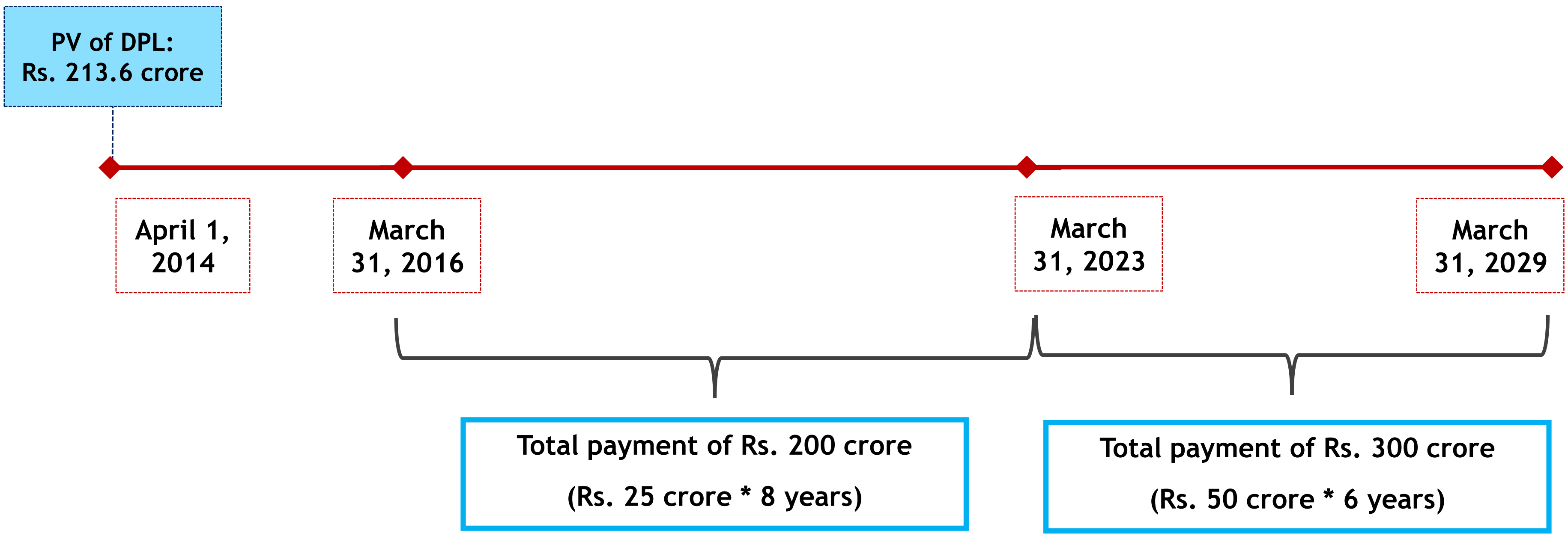
- Gain as on April 1, 2015 for following items credited in opening reserves under Ind AS though actually realised in FY 15-16:
  - Gain on sale of stake in Astra Microwave recognised in FY 15-16 under IGAAP: Rs. 85 crore
  - Gain on sale of mutual fund recognised in FY 15-16 under IGAAP: Rs. 120 crore

Fair valuation of long term liabilities specific to concession business

Change	Impact
Negative grant to be accounted at present value of deferred payment liabilities and reduced from carrying value of intangible assets	• Asset / Liability recorded at lower values, to be built up through P&L
Positive grant to be reduced from carrying value of intangible assets	• Finance charge of the SPV to go up • Amortisation charge of the SPV to reduce
Provisions for major maintenance obligations for road concessions will be provided on present value basis	• In case of negative grant and provision for major maintenance obligation, finance cost will get built up through P&L

Negative Grant in respect of concessions business
(figures assumed for representation purpose)

- COD: April 1, 2014
- Negative Grant: Rs. 500 crore
- Concession period: 15 years
- Discount rate: 10%



Negative Grant in respect of concessions business

(figures assumed for representation purpose)

Date	Opening NPV	Interest unwinding @ 10%	Payment	Closing bal.
31-03-2015	213.60	21.36	-	234.96
31-03-2016	234.96	23.50	(25.00)	233.46
31-03-2017	233.46	23.35	(25.00)	231.80
31-03-2018	231.80	23.18	(25.00)	229.98
31-03-2019	229.98	23.00	(25.00)	227.98
31-03-2020	227.98	22.80	(25.00)	225.78
31-03-2021	225.78	22.58	(25.00)	223.36
31-03-2022	223.36	22.34	(25.00)	220.69
31-03-2023	220.69	22.07	(25.00)	217.76
31-03-2024	217.76	21.78	(50.00)	189.54
31-03-2025	189.54	18.95	(50.00)	158.49
31-03-2026	158.49	15.85	(50.00)	124.34
31-03-2027	124.34	12.43	(50.00)	86.78
31-03-2028	86.78	8.68	(50.00)	45.45
31-03-2029	45.45	4.55	(50.00)	-

IGAAP

Entry at inception	Debit	Credit
Intangible Asset	500.00	
To Deferred payment liability		500.00

Ind AS

Entry at inception	Debit	Credit
Intangible Asset	213.60	
To Deferred payment liability		213.60

Entry during FY 16-17	Debit	Credit
Interest Expense	23.35	
To Deferred payment liability		23.35

Presentation of P&L Statement

I-GAAP	Ind AS
▪ Only Profit & Loss	▪ Statement consists of: Profit & Loss + Other Comprehensive Income = Total Comprehensive Income Other Comprehensive Income (OCI) consists of: a) Items that will remain in OCI & related Income Tax b) Items to be reclassified to P&L & related Income Tax
▪ Earnings per equity share a) Before extraordinary items b) After extraordinary items	▪ Earnings per equity share will be excluding other comprehensive income under Ind AS

Major OCI Components

Items that will remain in OCI	
1	Changes in revaluation surplus
2	Re-measurements of defined benefit plans
3	Equity instruments through OCI
4	Share of OCI in Associates & Joint ventures, to the extent not to be classified into profit or loss

Items that will be reclassified to P&L		When transferred to P&L
1	Exchange differences in translating the financial statement of a foreign operation	On disposal of foreign operation
2	Debt instruments through OCI	On sale of instrument
3	The effective portion of gains and loss on hedging instruments in a cashflow hedge	When the underlying hedged item affects P&L
4	Share in OCI of Associates & Joint Ventures , to the extent to be classified into profit or loss	Based on nature of respective items

Business Combinations

(applicable for acquisitions on or after April 1, 2015)

- Fair valuation of all assets/liabilities taken over
- Contingent liabilities existing on the date of takeover to be brought to books
- Intangible assets being taken over - to be valued, accounted & amortised:
    - Trademark
    - Customer list
    - Franchise agreement
    - Brand
    - Patented technology

    (these are representative examples)
- Goodwill = Purchase Consideration *Less* fair value (Assets *minus* Liabilities)
- Goodwill will be a residual amount after considering all other intangible assets

Other Ind AS adjustments

- ESOP charge will be computed based on fair value method instead of intrinsic value method

- Actuarial gains and losses on defined benefit plans (Employee benefits) will get accounted in Other comprehensive income

- Preference share capital issued to outside stakeholders (e.g., financial services) will be classified as financial liability. Currently, this is reported as part of Minority Interest under Indian GAAP

- Minority Interest is regarded as Non-controlling Interest (as a part of equity)
  - Losses are attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

- Cash discount will be deducted from revenue

- Excise duty will be shown as expense (Rs. 891 crore for FY 15-16 as per IGAAP)

Guidance

- Order Inflow
- Revenue
- EBITDA

Thank You