



“Larsen & Toubro Limited Q3 and Nine Months FY16 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Larsen & Toubro Limited Q3 and Nine Months FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone telephone. I now hand the conference over to Mr. Arnob Mondal – Vice President, Corporate Accounts and Investor Relations. Thank you and over to you, sir.

Arnob Mondal: Thank you, Inba. Good evening, Ladies and Gentlemen. Glad to have all of you with us this evening, even though I do know that it is a slightly latish sort of hour, but better late than never. As usual we will follow the format where my colleague, Nishit, will first make a presentation. I hope all of you have downloaded the presentation from our website, which was uploaded close to an hour ago, so that you can follow it slide by slide. After the presentation is over he will hand it over to me just at the end and then we will start our Q&A session. With that, I would like to hand over to Nishit. Nishit, go ahead?

Nishit Dave: Thank you sir. Good evening everybody. I hope you all have the presentation in front of you. We will start with the Slide #2, which is the disclaimer in view of any forward-looking statements that we may make during the course of this presentation. I will consider the slide to have been read.

The structure of the presentation is, first of all we have the Group performance highlights followed by a performance summary for the Group as a whole, after which there is the performance of each of the business segments and key subsidiaries, followed by the outlook section which would be taken over by Mr. Mondal.

We will now move on to Slide #5 which is the Performance Highlights for the third quarter of FY16. During the quarter, order inflows grew by 11%, the order book as of 31st December, 2015, has grown by 14%, the growth in revenues for the quarter was 8%. EBITDA margins were lower by 180 basis points while profit after tax grew by 19%.

Now we move on to Slide #7, Group level Order Inflows and Order Book. The order inflow growth during Q3 FY16 has been contributed mainly by orders for Highway construction and Railway Systems in the domestic Transportation Infrastructure business and significant order growth in international orders in both Power Transmission & Distribution and Water Infrastructure. This signifies a continuation of tendering activity in the Middle East for basic infrastructure build up even in the face of the oil price drop that we have seen. Domestic infrastructure investments continue to be dominated by public sector spends, while private sector CAPEX is yet to pickup in Infrastructure or Industrial sectors. With the addition of Q3 orders which were 11% higher than in Q3 FY15, the cumulative order inflows for the nine months in FY16 are now lower by 13% as compared to the first nine months of FY15.

In terms of geographic breakup of cumulative inflows from April to December 2015, 68% of the orders are domestic and 32% were international. The outstanding order book position as of 31st December, 2015, was Rs.2.565 lakh crores, which is higher by 14% as compared to the order book position as of 31st December, 2014. Domestic orders represent 73% of the order book now and 27% are international orders.

On Slide #8 we have the Group financial performance from sales to costs. Revenue growth for the quarter was 8% while it was 9%

for the nine months ended 31st December, 2015. As against this, international sales growth was 39% for the quarter and 31% for the nine months period. The execution environment in the domestic sector continues to be challenging, with key hurdles being posed in the form of slower payments and delays in clearances from customers, and of course the slow moving sectors like metals, heavy engineering, etc., which have had an impact overall on revenue growth. On the other hand, progress in execution of international projects has been as per schedule. The proportion of international revenues to total revenues has increased during the period because of the faster growth in sales.

Now moving on to costs – Staff Costs for the quarter have increased by 25% and by 17% for the nine month period, mainly due to the growth in the size of international operations and consequent increase in man power. The Sales, Administration and Other expenses, or SGA expenses have risen by 35%, which is mainly on account of NPA Provisions in the Financial Services business and Provisions for Bad or Doubtful Debt in other segments. The total operating expenses for the quarter were higher by 11% and by 10% for the nine months' period.

On Slide #9 we have a breakup of Sales into the various cost components leading up to EBITDA, both for the quarter and for the nine months' period.

On Slide #10 we move from EBITDA to Profit after Tax. EBITDA Margin for the third quarter came in at 10.3%, and in absolute terms it was lower by 8% over Q3 FY15. For the nine months' period it was 10.8% to Sales and it was lower by 3% in absolute terms as compared to the similar period last year.

Interest expenses for the quarter were lower by 19% as compared to Q3 FY15. This was primarily due to retirement of debt and

refinancing of loans. Other Income for the quarter was higher by 91% which was primarily due to gains made in Treasury operations. The net result, Profit After Tax and Minority Interest was higher by 19% for the quarter at Rs.10.35 billion.

On Slide #11 we have the Group Balance Sheet. Key things to note here are the increase in Minority Interest, the Borrowings in financial services business that have gone up if you look at the Sources, and again in the Application of funds you can see that Loans and Advances have also gone up in the Financial Services business. The gross debt to equity as of 31st December, 2015, is 2.32 times and net working capital excluding Financial Services is 24% of sales.

The Group Cash Flows are on Slide #12. Net cash flows from operations for the third quarter was a positive number of Rs.17.2 billion, Rs.13.74 billion was raised through sale of Long-term and Current investments and there was also an issue of Share capital and other instruments including minority interest by an amount of 14.06 billion.

We will now move on to the performance of different Business Segments and Key Subsidiaries. The Slide #14 gives a brief view of what each business segment comprises in terms of different Business Units and areas of operation.

We will start with Slide #15, the Segmental breakup of Orders for the nine month period both in terms of Order Inflows and the Order Book. The inflows for the nine month period in fiscal 2016 have been skewed more towards the Infrastructure business while Power or Hydrocarbon have not seen any large order inflow during this time. The outstanding Order Book therefore is now overwhelmingly represented by the Infrastructure space.

On Slide #16 we have Revenue breakup in terms of different businesses. Infrastructure contributes 44% while the three services businesses, i.e. Financial Services, IT and Technology Services, and Developmental Projects together contribute approximately 23% of total revenues. In terms of geographical breakup, 34% of the revenues during the nine month period were from International business and 66% were from the Domestic business.

Slide #17, performance of the Infrastructure Segment. You can see that the segment saw a tepid growth in revenues during Q3 FY16, which was primarily due to slower payments and delayed clearances from customers in some cases, which affected the pace of execution in the Domestic business. On the other hand, international revenue growth was quite robust and it was in line with execution schedules.

EBITDA margin for the quarter and for the nine month period has come down slightly, which is a characteristic non-linearity of margin accruals in the project business, with a larger proportion of projects that have not yet reached their margin recognition thresholds this year as compared to the proportion in the previous year.

On Slide #18, performance of the Power Segment. This segment has seen a robust growth in Revenues. Apart from execution progress in large Domestic projects won in previous years we have also seen International projects starting to contribute in a major way to the revenues and fueling further growth. On the other hand, EBITDA margins have come down noticeably for the business which is due to two reasons: one is, large projects which are still at a pre-margin recognition stage, and as the previous

year also saw write-backs of various provisions in case of older projects that were at advanced stages nearing completion.

On Slide #19 we have the Metallurgical and Material Handling Segment or MMH Segment. This segment has been seeing revenue decline for some time now due to various challenges faced by the Metals and Mining sectors owing to global and domestic business conditions. While we have seen some initial inklings of revival in the Mining segment domestically, the Metallurgical sector continues to face headwinds and Order Book replenishment is also slow. This has resulted into a continuing revenue decline and the margin decline as a consequence of under recovery.

On Slide #20 we have the Heavy Engineering Segment. Within this segment the Process Plant and Nuclear business is also facing a challenging global business scenario, which has resulted into a depleted Order Book situation. As a result, Revenue growth has been muted for the quarter, while for the nine months' period it has been negative. Margins have suffered due to under-recoveries because of low volumes and because of cost provisions in some orders.

On Slide #21, the Electrical and Automation Segment. Excess capacities in the Industrial sector of the Indian economy and the impact of two successive weak monsoons on the Agricultural sector have lead to a weak business environment in the E&A segment. It has registered flat revenues arising from a low offtake due to this environment. EBITDA margins have weakened due to a change in the Sales mix between Projects and Products during this period, and because of introduction of new products in the market.

The Hydrocarbon Segment on Slide #22. You can see that the business has seen a robust growth in sales and a recovery in margins, as legacy challenging projects in the Middle East are drawing closer to completion, and losses on such projects as seen in the previous year are minimized now.

On slide #23 we have the Information Technology and Technology Services, or IT&TS Segment. This segment has continued to see growth in Revenues across almost all sectors except the Energy sector, which is a challenged sector globally as you would know. The focus of both these businesses is now on Client mining for finding new avenues of growth among existing customers. Operational efficiencies in the business have led to a growth in the EBITDA margins.

The Others segment on Slide #24, which comprises Construction Equipment and Other products, Industrial Valves, Welding Products, Shipbuilding and Realty. Q3 Fiscal 2016 has recorded a decline in revenues, which is arising primarily from a slowdown in the Realty business and because of delays in Order receipts. Variation in margins is a result of the recognition of accumulated margins during Q3 FY15 in the Realty business which was again, a a margin decline because of higher base impact. This was largely compensated for by the divestment of the Elante Mall in Chandigarh during the last quarter.

On Slide #25 the Developmental Projects segment, which represents various Infrastructure Concessions under IDPL and the Nabha Power Project under PDL. This business registered significant growth in revenues from the Concessions business during the nine month period in fiscal 2016. This growth was a result of commissioning of new road projects, and an increase in traffic on GSRDC roads in Gujarat. On the other hand, lower

offtake of power from the Punjab State Electricity utility has affected Nabha Power's PLF as well as the heat rate of the power plant.

On Slide #26 we have a snapshot of various Concessions in the Developmental Business portfolio. You would be quite familiar with this slide, so I will move on now.

L&T Finance Holdings on Slide #27, it reported its results on 22nd January. It has seen a consistent growth in Loan Assets, which was led by healthy disbursements primarily to operational projects in Highways, in Renewable Energy projects especially wind Power, and with a strategic shift towards lending to the B2C sector segment in the Retail Lending segment of business. The business has also witnessed elevated stress in the Farming segment, but nevertheless it has seen gross NPA levels remain quite stable, and its focus has been on asset quality and sustaining Net Interest Margins.

And now, I will hand over the presentation to Mr. Mondal for discussion of the business outlook.

Arnob Mondal: Thank you Nishit. Now we go to the Outlook slide. I do know that the slide looks extremely complicated, but we have tried to capture the external environment in so far as significant factors are concerned. Since we are so dependent on the macroeconomic situation, both in India as well as globally, it would take me the better part of the evening if I had to explain every single point in detail. Rather than attempt to do that, I will touch upon some points which I think are relevant and significant.

I will guide you through the structure of this slide – The core of L&T is summarized in the central circle, which is self-explanatory and does not need elaboration. On the left hand side you have

some light green shaded callouts, which are the factors representing global macroeconomic factors that we consider to be relevant. These factors have an effect on Emerging Markets in general and India in particular. The top right hand light blue shaded callouts represent significant macroeconomic indicators of India. And the bottom right hand, light yellow shaded callouts represent some levers which have been pulled by the Government, particularly in the last couple of years.

Now I will touch upon a few aspects of each of these three broad categories. As far as the global macro is concerned, right on top you have got less maneuverability which effectively means there is less wiggle room for policy makers in most countries. Typically the policy measures taken are currency management, current account management as well as protectionist tax policies to try and improve fiscal and monetary conditions. However, due to lower growth, erosion of Forex reserves in commodity exporting countries, impact from low oil prices on oil exporting countries, etc., many countries have seen a depletion of fiscal buffers, which ultimately affects global growth as well. Global equity markets have been seeing a yo-yo effect, and we do not really know whether we are in the middle of a secular bear hug, or whether some positive news flows can turn sentiment. Emerging Market currencies, particularly in Russia, Brazil and Turkey, have been through carnage, while India has fared much better. China seems to be gliding towards a hard landing, some even call it a Chinese Flu which is spreading contagion, but very few people are still talking about a soft landing or a managed landing. The oil price plunge has been talked about ad infinitum and it is also being asked whether it can get worse, particularly if Iran ramps up output after the removal of sanctions and its re-entry on to the global stage. While this is good for India, it is not good for global growth and is likely to spur spending cuts in the Middle East,

which again affects L&T's fortunes. In fact oil prices are at decade low levels today.

Global growth concerns also have affected sentiment. The outlook has been aggravated by some recent growth and unemployment numbers coming out of the US, which looks like a small US growth wobble. There is also new focus on New Economy, and some terms are being branded about like BRICS to FANG, which actually stands for Facebook, Amazon, Netflix and Google, which seems to be a new buzz word doing the rounds at this point of time. In any case, the concept of BRICS, originally popularised by Goldman Sachs, does not seem to be very valid any longer.

As far as the Indian macro is concerned, it is a bit of a mix bag. There are some positives such as improved fiscal position, higher budgetary allocation to Infrastructure, larger PSU led capex, robust external flows by way of soft loans from bilateral and multilateral lending agencies and maybe some incipient signs of increasing spends on Mining and Railways. However, I would hesitate to call it green shoots even at this point of time, since we have had to eat our words on many occasions as far as investment momentum is concerned. There are also a few negatives, some of which appear bit intractable such as private sector capex, which is still very muted, whether it is industrial capex, Urban Infrastructure, or FMCG capex. The reforms have been stalled, particularly GST, sluggish execution conditions still prevail, and there is low business confidence as well as excess capacity in the system.

Markets sentiment has also turned unfavourable suddenly, and the Sensex and Nifty are at two years lows, even though there was a fairly hefty increase today.

As far as bottom right hand callouts are concerned, those represent the government's push in some important areas, where we have seen some welcome signs despite all the negativity and government bashing that is currently doing the rounds. Some of these include slow but sure signs of private sector involvement in Defence manufacturing, FDI push being taken by the government, transparent Coal and Spectrum auctions, Power Sector reforms both on agriculture as well as UDAY, which has been a topic of conversation in many places, the thrust on Subsidy reduction through Direct Benefit Transfers, as well as market driven pricing of petroleum products, and finally, there has been a renewed thrust and focus on Smart Cities, and I understand that close to 20 cities have been identified in the initial stage.

All these factors ultimately affect our business, even though our core still remains strong, and that is why we have put the heading of the slide as Where Do We Go From Here.

Now coming to our outlook, at least for the short-term, I will not even attempt to get into next year projection, at least before completion of our budgetary exercise. However, based on the assessment of the macroeconomic situation as well as what we can foresee over the next few months, we have as usual reassessed the position and have come to some views on our guidance parameters.

As far as order inflows are concerned, the pipeline is fairly healthy, it is slightly over Rs. 2 lakh crores. Now assuming that, despite bid to award timelines getting elongated, a large portion of those orders do get ordered out, we could end the year somewhere in the region of last year's order inflows, which were around Rs. 155,000 crores. However, I would hesitate to put a

hard number to this at this point of time, primarily because of the seasonality that we see particularly in ordering that happens in the month of March.

As far as sales is concerned, even though sequential Revenue growth has been reasonable at about 9%, it is a fact that sales growth in infra segment has been muted, and that we are witnessing some slow payments and delayed clearances. We expect a pickup in execution during Q4, as a number of jobs move from design phase to on-the-ground-execution in some segments, and as client clearances are released in other cases. Considering this assessment, we expect that Revenues should be somewhere in the guidance range that we have given earlier, which is 10% to 15% growth, and that remains unchanged.

As far as EBITDA margins are concerned, we had guided for a 100 bps improvement excluding Services business of Developmental Projects, Information Technology and Technology Services, as well as Financial Services. At the same time, the proportion of jobs, particularly in Infrastructure segments that are yet to reach margin recognition threshold is significantly higher this year compared to Q3 of last year. These projects are however expected to pick up over the next few months, crossing thresholds. In view of this, we are likely to end the year with higher EBITDA margins, but the extent of improvement will depend on quantum of jobs that move into margin recognition territory in Q4.

Finally, I would like to reiterate that in case of Engineering & Construction projects, there is a significant non linearity of Revenue and Margin accruals over time. Please consider this while viewing the quarterly numbers particularly. With that, I would like to open the floor to Q&A. Over to you, Inba.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Aditya Bhartiya of Investec. Please go ahead.

Aditya Bhartiya: My first question is on the Chandigarh Mall. What was the gain on the sale of property and where has that been recorded? In the Others segment you had mentioned that there were some margin variations due to accumulated margin recognition. Could you explain what exactly is meant by that?

Arnob Mondal: It was reported in the Media during Q2 FY16 that we have divested the Elante Mall at an Enterprise Value of Rs. 1785 crores. However, we actually accounted for that in Q3 because some Conditions Precedent had not been fulfilled in Q2. You are aware that the Enterprise Value included both Debt and Equity. We do not disclose the gains made on the equity unless it is truly exceptional, but it was reasonably substantial.

In case of Others segment margins, in the Realty business, accumulation was not just in margins but in revenues as well. In Real Estate, neither revenues nor margins are recognized unless a certain threshold of percentage completion is reached. Last year, some of the jobs that we are executing in the Realty business had crossed the threshold during Q3, and hence there was a lumpy recognition of revenues as well as margins in Q3 FY15. This amount naturally was not larger this year, which was also responsible for the margin decline, which as Nishit mentioned, was partially compensated by divestment of Elante mall.

Aditya Bhartiya: So when we are speaking about accumulated margin recognition, we are mainly referring to last year's third quarter, nothing relating to this quarter?

Arnob Mondal: Yes, you are correct. That is why in the slide it is mentioned specifically - margin recognition in Q3 FY15.

Aditya Bhartiya: I think this Elante mall was a subsidiary of L&T Realty and going through the annual reports it appears that you might have spent around Rs. 1500-odd crores on this property. Could you confirm or give any information on that?

Arnob Mondal: Not really, I will not be able to confirm your number, which means ultimately that would be declaring the profit that we have made on the transaction.

Aditya Bhartiya: Sir, the second question is on Infrastructure segment margins. What we are observing is that revenue growth had been fairly strong in international markets, however margins appear to be little weak in last two quarters. Does that mean that some of the larger orders like Riyadh and Doha metros might not have crossed revenue threshold?

Nishit Dave: Aditya, we do not talk about margin recognition on individual orders, I am sorry I will have to pass that question. However, there are a larger proportion of jobs in Infrastructure this time that have not crossed margin recognition, as compared to Q3 of last year. It is not a marginal difference either. It is a reasonably significant proportion.

Aditya Bhartiya: Lastly on Hydrocarbons business, should we be expecting any kind of closure costs as some of the jobs get completed?

Arnob Mondal: Yes, we will have some close out costs but we also expect legitimate claims that we are lodging with the customers, which may, by and large, compensate for these costs. At PAT level we will have under-recovery, both of interest charges as well as fairly

large unabsorbed overheads of international business in Hydrocarbon.

Moderator: Thank you. Our next question is from the line of Venkatesh Subramaniam of Citi Group. Please go ahead.

Venkatesh Subramaniam: Sir, the first question, just a hygiene question which I ask every quarter, in the Standalone numbers what was the dividend from subsidiaries and associates?

Arnob Mondal: Dividend from subsidiaries in IFS, Q3 level it was around Rs. 250 crores, similar to what we had in Q3 last year. Cumulatively it was around Rs. 640 crores which was similar to what we had in the nine months last year as well.

Venkatesh Subramaniam: Now coming to Elante Mall which Aditya was talking about, where is this booked? Is it part of the Other income in the consolidated numbers?

Arnob Mondal: No, it is part of Realty Sales, it is part of sales, excluding the book value portion.

Venkatesh Subramaniam: It is part of the gross sales?

Arnob Mondal: Yes.

Venkatesh Subramaniam: If you look at your consolidated numbers, on a quarter-on-quarter basis your other income has gone up by almost Rs. 200 crores from around Rs. 219 crores to Rs. 451 crores. Can you please explain how you have had a Rs. 200 crores increase in the other income?

Arnob Mondal: The increase in Other Income during Q3 FY16 was partially due to gains in Treasury operations from redemption of Mutual Fund investments. Apart from this, we had equity investments in some

listed companies as a strategic investment. During the ongoing reformulation of our long-term strategy plan, it was decided that some investments were no longer strategic, and hence Treasury was allowed to evaluate continuing with or divesting the investment. We therefore divested the stake, which resulted into a gain. These are the two main reasons for growth in Other Income.

Venkatesh Subramaniam: So you are basically talking about Astra Microwave sale?

Arnob Mondal: yes, Astra Microwave was one part of it.

Venkatesh Subramaniam: So how much would this divestitures account for in Other income?

Arnob Mondal: I cannot give you the exact number, but needless to say that the entire increase in Other Income in Q3 was on account of these two factors.

Venkatesh Subramaniam: So around Rs. 200 crores would be the divestiture gains?

Arnob Mondal: Approximately yes.

Venkatesh Subramaniam: Now similarly when I look at the Standalone numbers in the quarter, you have given Rs. 92 crores as Divestiture Gains as an Exceptional Item, but that does not show up in the consolidated numbers, why would that be so?

Arnob Mondal: When our Hydrocarbon business was converted into a subsidiary, we continued to hold stake through L&T Parent in some Hydrocarbon-related businesses. This stake has now been transferred in Q3 FY16 to the Hydrocarbon subsidiary at an arm's length pricing, which gave rise to this exceptional income, which

has been disclosed in Standalone results. However, since the transfer was done to a 100% subsidiary of L&T, the amount got eliminated during consolidation, which is why it does not figure in Consolidated results.

Venkatesh Subramaniam: Sir, coming to the question on margins, now I understand you do not go and talk about Standalone numbers, but if you actually look at the EBITDA margins in this quarter and the Standalone numbers, we are down to 6.8%. The last time I saw this kind of margins was prior to 2007, and it almost seems like every quarter, the margins' fall - on a YoY basis - keeps on increasing. In first quarter it fell 140 basis points, second quarter 290, third quarter 370. So it looks concerning but do you think this is going to stabilize at a particular level? To put it differently, is it that the orders that you have won this year, can we say that they are at a better margin than what you won in the last couple of years, or they would be at similar margins?

Arnob Mondal: We do not differentiate between orders at Standalone level and our share of orders in the Subsidiaries or joint ventures. In fact, most of the Heavy Engineering and Metallurgical and Material Handling business is housed in the Standalone entity. As you would be aware these two businesses have come under tremendous stress over the last year or so, which is primarily responsible for the drop in Standalone margins. I would like to reiterate that the orders that we are getting, whether in Standalone business, or in Subsidiaries or in Joint Ventures, are not margin dilutive. If that were so, we would not have lost so many power sector orders.

Venkatesh Subramaniam: Sir just one final thing, if you actually look at the second quarter numbers, your standalone numbers were, on a recurring basis, around Rs. 642 crores, Consolidated number was

Rs. 680 crores, so there was basically no difference. Now in the third quarter your Standalone numbers on a recurring base are around Rs. 790 crores, and Consolidated is around Rs. 1000 crores. Is it so that the basic difference of around Rs. 200 crores - 250 crores, is that Elante Mall?

Arnob Mondal: Elante Mall was housed in a subsidiary of L&T Realty.

Venkatesh Subramaniam: Is that the reason why your Consolidated numbers are so much higher than your Standalone number, because that is the Rs. 200 crores - 250 crores, which is not there in the Standalone numbers, because if you see the second quarter, the profit numbers are almost similar, whereas in the third quarter there is a big gap, so the gap can be explained by the Elante Mall sale, am I right?

Arnob Mondal: I have already mentioned that we had Mutual Fund divestment gains in Other Income, i.e. treasury divestments, which have also contributed, and that has come from a Subsidiary.

Moderator: Thank you. Our next question is from the line of Inderjeet Singh of Macquarie. Please go ahead.

Inderjeet Singh: My question is on this Infrastructure segment, in the comments you made you talked about the slow payments and delayed clearances. What is this related to? Are these predominantly in India, and what type of projects are we talking about here? And are we also seeing delayed payments from the Government side of the orders?

Arnob Mondal: Almost all of these cases relate to Domestic projects, ranging from Buildings & Factories, Transportation Infrastructure, Heavy Civil Infrastructure, Power Transmission & Distribution, to Water Infrastructure. Execution slippage has happened either because

of tardy payments from customers, which forces us to hold back execution of projects, and in many cases, because of lack of customer clearances. However, we expect some of these jobs to improve in execution during Q4 and onwards.

Inderjeet Singh: Actually that was my second question that you maintained your revenue guidance, and for Infrastructure, which is predominantly, 75% of the order book, the revenue growth continues to decline or the rate of growth continues to decline. Is there enough visibility for this to bounce back pretty sharply in Quarter 4, or are there any other segments which are likely to give us revenue growth, which give us confidence of achieving a 10% to 15% revenue growth?

Arnob Mondal: We are confident that most of the growth will come from the Infrastructure segment, but as you also saw, the Power segment also bounced back to a large extent. So we do think that Q4 should see that sort of revenue growth drivers in both segments.

Inderjeet Singh: My last question is again related to Chandigarh Elante Mall. I just want to know how the accounting is done. In the Sales number, does the entire Enterprise Value come in, or does only Realized Equity Value kind of come in? What was taxation on those gains?

Arnob Mondal: This gain is recorded under Realty business, i.e. under L&T Realty, and it is included in Other Operational Income.

Inderjeet Singh: So does the entire Enterprise Value come under Operational Income or does the Equity value realized come under Operational Income?

Arnob Mondal: Only the Profit Before Tax part of the transaction is recognized under Operational Income, not the Enterprise Value. The Enterprise Value also includes a large amount of debt which is

transferred by way of refinancing from original lenders to the subsidiary, to the new lenders. In this way, the debt goes off from our Balance Sheet as well, so it is a Balance Sheet adjustment. Therefore, the PBT is recognised as other Operational Income in Total Income.

Moderator: Thank you. Our next question is from the line of Sumit Kishore of JP Morgan. Please go ahead.

Sumit Kishore: My first question is again on the slow payment and delayed clearances which you talked about, in the Infrastructure segment. What proportion of the infrastructure backlog would come under this category of slow payment, delayed clearances and similar challenges?

Arnob Mondal: We cannot disclose the relevant numbers, or job wise details in this manner. However if you do some back of the envelop calculation, suppose assuming that Rs. 10,000 crores worth of orders did not move according to plan, now just assume that if 10% of that was slated to come in one quarter, assuming that the average period of execution was around three years, that means a Rs. 1,000 crores shortfall.

Sumit Kishore: In Revenues?

Arnob Mondal: A Rs. 1,000 crores Revenue shortfall in one quarter in Infrastructure would translate to close to 10% of the total quarterly run rate. Given the large order book, it is easy to visualise that Rs. 10,000 crores of orders can slow down like that. I cannot give you either the number of jobs or the total order value concerned, or how much of revenue postponement has happened. Of course, revenue has not been lost. I'm just trying to give you a quick example of how such slippage can swing quarterly numbers. This is why we reiterate this upfront every quarter, to view the quarterly

numbers with caution because of the non-linearity of both Revenues and Margins.

Sumit Kishore: Broadly, Infrastructure order backlog is roughly Rs.1,800 billion, so out of that if your back of the envelop calculations suggest that even Rs. 100 billion might be the cause here.

Arnob Mondal: I am just giving an illustrative example without, hinting about the amount of orders concerned. This is a hypothesis, just to give you an idea of how the needle can swing due to 10, 15, 20 orders or so out of the outstanding Order Book, You need only Rs. 10,000 crores worth of orders that get delayed revenue recognition, which could swing the needle for a quarter. Ultimately, Revenue accrual tends to get deferred not indefinitely, but usually from one quarter to another one or maximum two quarters. So it is a revenue deferment to that extent.

Sumit Kishore: And this trend is more accentuated in the domestic infrastructure order backlog?

Arnob Mondal: Yes, correct. I have mentioned sluggish execution conditions as one of the factors in the domestic scenario in the Outlook slide, which you would have noted that as well, and that still persists.

Sumit Kishore: Second question is on the order disclosures that you did in December quarter on the exchanges, versus the final number that got reported, which was on the higher side. So the unreported orders largely have come from which segment, and within Infrastructure if you could give more color of the large orders that did not get reported?

Arnob Mondal: We need to take formal customer approval before giving out any press release. Due to this, orders announced by way of press releases may not always be indicative of actual order inflow

numbers, even though markets tend to use press releases as a proxy for trying to arrive at order inflow estimation. Without formal client concurrence, we will not be able to give you any additional information about any large orders that we might have won, and in which sectors.

Sumit Kishore: But the customer acceptances generally do not come in which kind of sector?

Arnob Mondal: It is an occurrence present across all sectors, and it is dependent entirely on the customer. At times we do not give press releases, in case of late receipt of customer approvals. Some customers prefer to inform the markets as per their discretion, and ask us not to declare it. Apart from this, I cannot provide you any further clarification on orders where we have not got permission to talk to the market.

Sumit Kishore: Finally on Hydrocarbons, earlier you were quantifying the potential closure costs and overheads at around \$25 million to \$30 million or so at the PAT level. Does that estimate still stand, which is yet to be booked? Would it possibly arise over the next couple of quarters?

Arnob Mondal: No, at the PAT level we continue to book both interest as well as under-recovery of overheads.

Sumit Kishore: So would under-recovery of overheads get reflected in the EBITDA level itself?

Arnob Mondal: Yes, under-recovery of overheads would get reflected at EBITDA level.

Sumit Kishore: So the 4.2% margin that you have shown in this quarter is after recognizing those overheads, but it does not have closure cost,

because the projects are at advance stages of execution but have not been closed.

Arnob Mondal: You are correct.

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

Renu Baid: Sir, one thing on the SGA expenses, as mentioned in a media interview, there was likely Forex related Mark to Market loss, and loss on investments in Government Securities. So what would be that quantum number in this particular quarter?

Arnob Mondal: Loss on Government Securities was not very significant, but incremental Forex loss in this quarter was around Rs. 70 crores, over the same quarter last year.

Renu Baid: So in absolute amount terms, how much would it be?

Arnob Mondal: It was around Rs. 160 crores this quarter versus Rs. 90 crores in Q3 last year.

Renu Baid: And cumulatively for the nine months how does this number look like?

Arnob Mondal: Cumulatively for the nine months it is roughly around Rs. 140 crores versus Rs. 90 crores, approximately.

Renu Baid: Within the Hydrocarbon segment, you mentioned that most of these under-recoveries are at the PAT level, but what proportion of the legacy orders are still under execution? Would you be able to share that number?

Arnob Mondal: The amount of outstanding legacy contracts in the order book is not very large. However, under-recoveries are not really project specific. Firstly, they arise due to large overheads that we carry

in the Middle East. Secondly, with low or zero EBITDA, interest as well as the depreciation on assets leads to negative PAT as it erodes the EBITDA completely. As far as under-recoveries are concerned, the bulk of it is manpower cost. Therefore, unless we downsize or shift some manpower back to India, or get projects by which the manpower can be utilized, manpower cost under recovery will continue.

Renu Baid: Any particular thoughts or strategies to right size the cost in Middle East, given the current crude oil price trend and overall investment scenario being seen in the Middle East market? From a medium to long-term perspective have you drawn up any changes in plans and presence in the Middle East market?

Arnob Mondal: We are currently formulating our next five-year plan, and these considerations are part of the formulation of that plan, which should be finalized soon.

Renu Baid: You mentioned that the overall prospect list is still reasonably healthy. Would it be possible for you to share the breakup segment wise, how does that list breakup into infra, power, T&D and the different segments?

Arnob Mondal: I can give you a broad breakup for Q4 FY16, if that is okay with you.

Renu Baid: Yes, a very broad breakup of that number.

Arnob Mondal: Infrastructure, which includes Transportation and Heavy Civil Infrastructure, Urban Infrastructure and Water has a prospect size slightly in excess of Rs. 90,000 crores. Power Generation and Transmission & Distribution together have a prospect base of Rs. 55,000 crores. Metallurgical & Material Handling prospect base is around Rs. 8,000 crores. For Hydrocarbon it is Rs. 18,000 and all

others including some defense prospects, which may or may not happen, is Rs. 35,000 crores.

Renu Baid: So nothing particular that you are looking at in the building and factories segment? Are Roads are included in Transportation?

Arnob Mondal: It is all included in Infrastructure - Urban Infrastructure, Heavy Civil and Transportation Infrastructure, and Water, as I mentioned.

Renu Baid: And within the Power Generation and T&D, any particular power generation project that you would want to highlight which you think could be finalized in the next two months or three months?

Arnob Mondal: We have close to 8 GW worth of BTG and EPC prospects on our radar at this point of time, which could get ordered by end of FY16. However, whether these timelines will be met is slightly uncertain. It is possible that some may slip into the first quarter of FY17, which is routine in case of such orders.

Renu Baid: Any status update on the commissioning on the Hyderabad Metro project?

Arnob Mondal: Nothing at this point of time.

Moderator: Thank you. Our next question is from the line of Dhananjay Mishra of Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir, L&T's staff cost has increased significantly in this quarter as well as nine months, so what is the outlook? You have mentioned that this is largely due to international operations, but still it is on higher side and it has already reached to 10% of sales, so what is the outlook, as the gross margin has largely been in line with the revenue growth?

Arnob Mondal: You are correct, staff cost has increased close to 10% and it is a point of concern. However, international salaries are considerably higher domestic salaries. Incurring these costs is necessary for executing the projects we have taken on in the Middle East, because execution is done at the local level. As far as possible, we will try to do design and other activities that can be done offshore, within India itself. . To a certain extent, this is a natural corollary to the larger proportion of international business in E&C projects.

Dhananjay Mishra: Sir historically it has been normalized in Q4, so this year also should this be normalized in Q4?

Arnob Mondal: In case of labourers, if the job is over and visas have expired, we can let them go. However, staff can only be let go if they are project-specific appointees. For permanent employees, separation is more difficult. These are the factors that you need to consider. We cannot advise if Staff Costs will normalize in Q4.

Moderator: Thank you. Our next question is from the line of Nitin Arora of Emkay Global. Please go ahead.

Nitin Arora: Sir, just wanted to ask you two or three questions. One is on the order intake side, I completely respect the point that there are a few customers who avoid giving the order size, but there are a few orders which came on the Exchanges about January 20th and January 22nd, roughly of around Rs. 4,000 crores - 5,000 crores. So generally these orders must have been given to you let's say about 10 days back itself, so such kind of orders, do we take in the current order inflow?

Arnob Mondal: Please do not presume that these orders were received only 10 days prior to announcement, which was why we declared them 20 days after the quarter end. We normally take orders into the

order book based upon firm documentation. So if we get written documentation, then we take it into order inflow and the documentation has to be before 31st of December, to be taken into Q3 order inflows.

Nitin Arora: Sir, has the Mumbai Metro and self-propelled gun order been taken?

Arnob Mondal: No, these orders have not been taken in Q3 inflows. For the limited purpose of this discussion, we would like to state that formal documentation has not been issued for these orders.

Nitin Arora: Sir, with respect to Heavy Engineering segment we have clocked back the losses somewhat, and showed a somewhat positive margin. Should these margins be considered stabilized? What is the visibility in this respect, not on a quarterly basis, but over the next 1.5 to 2 years?

Arnob Mondal: I have mentioned during the previous quarter call as well as in our presentations, we made a fairly significant cost provision, apart from under-recoveries, in the Heavy Engineering segment in Q2. In Q3, while the provisions have been not as large as in Q2, we are still executing some jobs that are yet to be closed out. Final estimation on provisions required for these jobs may be required to be made at the appropriate juncture. However, we hope that we would not incur the same level of provisions that we have incurred till date this year in Q4.

Nitin Arora: Sir, even though Venkatesh asked this question with respect to Elante sale, regarding the Other Operating Income you said the PBT part of the Elanta sale must be shown. Does this mean that incremental increase in the Other Operating Income, which is roughly around Rs. 200 crores, is that something we should work with?

Arnob Mondal: No, not necessarily. Other Operating Income includes income from various sources, such as insurance claims, and many other items.

Nitin Arora: Sir, my last question is that you have been saying, it is a domestic market issue that we hold back execution of the projects where we do not get the payments. It will be great if you can quantify what does this holding back means, because the onsite labour can get dispersed to the other sites but my machinery still remains there.

Arnob Mondal: Yes, labour can be moved comparatively easily to other sites. However, even if machinery is idled at a site, we do not have to incur costs on power, diesel, maintenance etc. If materials are not consumed, a large part of the cost is not incurred, and neither does the Revenue get recorded in the P&L account. Only the depreciation on machinery & equipment would hit the P&L on a regular basis in such a case.

Nitin Arora: So do you completely leave the job when the payment gets little reduced?

Arnob Mondal: No, completely leaving the job would mean demobilization. That would be an extreme step, because that would entail the painful exercise of relocating families of Staff that live close to the project site. This does not mean that we never demobilize, but that would be resorted to in extreme cases where we believe that the project execution is not going to move ahead. By slowing down execution, we intend to send a signal to the client that they need to meet payment commitments before execution can be speeded up again.

Moderator: Thank you. Our next question is from the line of Lokesh Garg of Credit Suisse. Please go ahead.

Lokesh Garg: A lot of questions have been asked, I just want to ask you about that depreciation that is also sequentially lower, is that something that explains it?

Arnob Mondal: There are a number of factors affecting the Depreciation charge, but a major factor was a rearrangement of terms in one of the UJVs, whereby a large part of the depreciation, which was already charged to our Books, was reallocated to the JV partner and some part of the sub-contracting cost was reallocated to us from the JV partner. Therefore, there was a decrease in depreciation and an increase in sub-contracting cost, similar to reclassification to some extent. However, the increase in subcontracting cost is a pre-EBITDA item, and the depreciation charge is post-EBITDA.

Lokesh Garg: So let's say roughly half or a little more than that, of this depreciation change sequentially is driven by that?

Arnob Mondal: Yes.

Lokesh Garg: Other thing is, similarly interest expenses have gone down even though on the balance sheet side total borrowings have not gone down, so to that extent is there some more color that you can add there?

Arnob Mondal: Firstly, the total borrowings have gone down, including Elante debt that got repaid recently, and secondly we have refinanced some of the loans or done interest resets, whereby we have gained substantially. Apart from that, last year in Q3 FY15, we had a fairly significant charge because of movement in GSec rates on account of the interest portion of actuarial liabilities of retirement benefits. Both these factors have contributed to interest drop.

Lokesh Garg: Sir, obviously there is sequential slowdown in domestic execution in which case, are you getting surprised by the kind of slowdown that is there given the kind of backlog that you have? Domestic execution has virtually dipped actually this quarter.

Arnob Mondal: It would be difficult to comment on the matter of any surprise. All of our business units have to reassess the situation on a quarterly basis, considering their annual estimates and actual achievement till that point, and project the outcome at the end of the year. This is then aggregated and forms the basis for our guidance.

Lokesh Garg: The last question, basically there is lot of discussion around divestiture, one rumor that recently came up was related to the Rajpura power plant, and then at least there are some peer companies kicking off infrastructure investment trust apart from what has already been done by you, so is there some progress, some color on some of these developments?

Arnob Mondal: We will inform the market about divestments as and when they happen. We are also exploring the option of investment trusts, but we do think that there are some regulatory glitches which need to be ironed out before we can progress.

Moderator: Thank you. Our next question is from the line of Shirish Rane of IDFC Securities. Please go ahead.

Shirish Rane: Sir one clarification, on the operating margin guidance, I just want to understand what exactly you mean when you say that you are hopeful of achieving better than last year margins.

Arnob Mondal: What we meant is that we will certainly end the year with better margins than last year. However, whether it will be 100 bps or not will depend to a very large extent on how many projects move into the margin recognition phase in Q4.

Shirish Rane: So what you are saying essentially is that it will better than last year, quantum cannot be decided because of this uncertainty?

Arnob Mondal: Yes, correct.

Moderator: Thank you. Our next question is from the line of Charanjeet Singh of B&K Securities. Please go ahead.

Charanjeet Singh: Sir, you have talked about slowdown in payments in the domestic market, and now you have maintained the working capital at 24% of sales. Do you see any kind of further elongation of the working capital cycle, how do we look into this?

Arnob Mondal: It would be very difficult to hazard a guess on working capital levels at the end of FY16, due to the large number of businesses and a multitude of moving parts. However, it would be pertinent to note that businesses are very much seized of the matter and today they consider the impact on working capital while taking business decisions. So I would hope that we should be able to at least maintain the levels or improve going forward. In fact, given the current operating environment, we would be reasonably comfortable internally with around 25% or so.

Charanjeet Singh: In the earlier questions we have been discussing about the staff cost, there has been a significant increase, so if you can help us with the proportion of employees in the international segment which would be on contract and which would be on permanent basis, how does that work out?

Arnob Mondal: Most of the labour is on visa basis, so you can say that they would be mobilizable or de-mobilizable to some extent.

Charanjeet Singh: Sir but in the proportion of international headcount, what would be contract labourers and what could be the permanent employees?

Arnob Mondal: All people are on our rolls, because the visa is taken in our name, so it would not be a subcontract. Whatever is actually subcontracted does not come under Staff Cost. It is accounted for under Manufacturing, Construction and Other operating expenses.

Charanjeet Singh: Sir, in the Electrical and Automation segment, you have talked about new product introductions and margin dip due to some product and project mix change, so how do you see this developing going forward ?

Arnob Mondal: The E&A segment gets its business from three broad segments, that is industrial, agricultural, and the building segment. The agriculture and industrial demand has been muted, so we would expect margins to pick up if these sectors pick up. As far as job mix is concerned, it is a balance between how much of product business the segment gets, and how much of project business they get. Again, project business in India is slightly less profitable than project business outside India as well, so it depends upon the geographic as well as business mix. All in all, margin improvement may largely depend on pickup in industrial activity.

Charanjeet Singh: Sir, last question from my side on Hyderabad Metro, what are the timelines you are looking at, and when will we start seeing the commissioning?

Arnob Mondal: Charanjeet, I think somebody else has already asked this question, and my answer will still be the same. We will inform the market when we get closer to the event.

Moderator: Thank you. Our next question is from the line of Ashutosh Narkar of HSBC. Please go ahead.

Ashutosh Narkar: One question on your margins, if you could just guide over the next two or three quarters timeframe, once the majority of this projects starts falling into the margin recognition territory, upto what level can our margins again pick up? Or rather alternatively you can answer as in the international business, what are the typical margins you are expecting?

Arnob Mondal: We have said in the past that international business typically comes with around 200 basis points lower margins than domestic and that is still the case. However, the overall margin profile that we see today is more a product of the difficult times where orders themselves are difficult to get. At one of time, our EBITDA margins used to be in the 13.5% range and they went all the way down to 10% range. We could still reach close to 11% by the end of this year. I would expect them not to decline further than this going forward, but that is a rather broad, non-organisational opinion devoid of any formal estimation process. We would be able to give you a more definitive margin guidance for FY17 when we declare our annual results. However, given the difficult situation, I do not think you can expect 13% margins, which were a product of very good times.

Ashutosh Narkar: Correct. So just to tally up with what the management said during the press conference as well is that, incrementally a large portion of the order inflows where you still expect to meet your guidance is likely to come from the international markets.

Arnob Mondal: Order inflows could be weighted in favour of either international or domestic markets, dependent upon which geographies pick up.

Ashutosh Narkar: Let us assume that it does happen, then the outlook over the FY17 would be that your structural margins could come down by around 200 basis points or 100 basis points given that the mix of revenues from international business will go up.

Arnob Mondal: No, what Mr. Shankaraman said was that revenues should be in the range of anything between 25% to 30%,. That is all that was said.

Ashutosh Narkar: Okay, probably I missed it then.

Moderator: Thank you. Our next question is from the line of Pawan Parekh of HDFC Securities. Please go ahead.

Pawan Parakh: Sir, this is firstly on the execution challenges you mentioned. Obviously you have discussed a lot on this call but for some of the segments like Transmission, Roads etc., what we understand from other companies is that a lot of these approvals have started coming up quite well. Could you throw some light in terms of these challenges, are they specific to a few sectors like real-estate or something of that sort?

Arnob Mondal: No, not necessarily, in fact it is there in all sectors that I mentioned including Power Transmission and Distribution.

Pawan Parakh: And secondly sir, just a clarification, you mentioned this close out cost of around about \$25 million - is it the amount of provision or is it the amount of net impact at the PAT level which includes under-recovery, interest cost, everything?

Arnob Mondal: It is at the PAT level. \$25 million to \$30 million is what we could see by the end of the year. This is more a result of under- recovery of overheads and the interest and depreciation charge, rather than of close out costs. The close out costs are likely to be compensated by legitimate claims that we have on the customer.

Pawan Parakh: Sir, the claims would come with a gestation period, right? Would we wait for the claims to be accepted, or would we recognize costs before the claims' acceptance?

- Arnob Mondal:** We will recognize close out costs as they are affirmed. If claims are admitted by the customer later, that could lead to a timing difference. However, we hope and expect that both these items will fructify by the end of this year.
- Pawan Parakh:** Sir lastly on this debt level, you said the debt has decreased, but if I look at the cash flow, net borrowings, it is a positive number and if I look at the balance sheet also the non-current liabilities have increased. So which number are you referring to?
- Arnob Mondal:** Actually, a large part of the debt increase has come from the Financial Services business, where the interest is charged to Manufacturing, Construction and Operating expense head and not to Finance costs.
- Moderator:** Thank you. Our next question is from the line of Bhavin Vithlani of Axis Capital. Please go ahead.
- Bhavin Vithlani:** In the press release it was mentioned that Rs. 70,000 crores order book is from the international markets, so of the international, how much would be Middle East?
- Arnob Mondal:** Bulk of the international order book is from the Middle East. The rest is mainly from Power sector orders from Bangladesh. The Bangladesh orders have contributed substantially to Revenues , so around Rs. 60,000 crores of orders are from Middle East.
- Bhavin Vithlani:** The second question is, if you can give us what are the risk measures that you would have taken, given that oil prices have corrected, and there is talk going on that some of these Middle East currencies also could depreciate. So if you can give us some highlight on the risk, the measures that we have taken and if these orders are in USD or on the local currency?

Arnob Mondal: Orders from the Middle East could either be in local currency or in USD. As long as the local currencies are pegged to the Dollar then question of their depreciation independently does not arise. It is only in case of de-pegging that currency depreciation factor comes into play. I think that at this point of time this is more speculative in nature, and there are contrarian views to that. However, we also watch the situation very closely, and if we feel that a project is not going to take off or it is going to be very onerous, then we will obviously be very hesitant to even bid for it. Lastly, we also hedge our currencies on existing projects.

Bhavin Vithlani: The question on the mitigation was also, are you seeing any slowing payments or extension of payments from the Middle East? There were some media reports of one of your large projects where the client is asking to reduce the specifications to lower the cost. So are you seeing any of these from the clients?

Arnob Mondal: I think you are referring to a Bloomberg report if I am not mistaken. In one project, the client is in negotiation with us but any change cannot be unilateral, and contractual terms need to be followed. They are trying to see whether some scope can be reduced. However, even if that happens, it should not be of a very significant amount. If we agree to some scope reduction, it will mainly be of some portion that we have not yet executed, but it is not a real concern at this point of time. As far as payment delays are concerned, we have not really faced much of a delay, even though I do understand that the Bloomberg report specifically mentions that some vendors have seen payment delays ranging up to six months. We have not really experienced that yet.

Bhavin Vithlani: The last thing is a house keeping question, I am looking at the presentation, L&T and Others Slide #31. The one-off exceptional income of 3.1 billion in L&T and Others column?

Arnob Mondal: That amount of Rs. 3.1 billion refers to the gains from sale of stake in L&T Finance Holding and some other investments during the nine month period.

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

Pulkit Patni: I think firstly on the power margins, I understand that in the infrastructure sector there are orders that you will be recognizing in the fourth quarter, but for example if we look at the power sector where there has been a massive jump in its revenues, but the margins have actually not picked up. So can you just explain what is the key reason for that not happening?

Arnob Mondal: There are two reasons for a margin decline in face of revenue growth in the Power segment. Please also note that while the revenue growth percentage is large from the Power segment's perspective, it is much smaller for the Company as a whole. Firstly, the execution of some projects has progressed, but it has not yet crossed margin recognition thresholds, while revenues have grown. Secondly, in the previous year, i.e. Q3 FY15 some projects were at the close out stage, where the contingencies that got built into cost estimates remained unconsumed. If such contingencies are unconsumed by the time the project close out approaches, they get released into margins. That is what happened during Q3 FY15. Hence the previous year margins are higher on a comparative basis. However, we would suggest that such variations should be discounted, because they would arise only in cases where the contingencies remain unconsumed, the current year margins should be considered as more representative.

Pulkit Patni: Secondly sir, again sorry to come back on the whole margin point, given the fact for the first three quarters the margins are actually

lower barring Hydrocarbon segment, where on a YoY basis it has moved to a profit or breakeven versus losses, everywhere else the margins are lower. So I am just trying to understand in fourth quarter when you say that we would be able to not increase margin meaningfully but it will be better than what we have done in the previous year, I am not sure where that margin actually comes from as I do the math, so just wanted to understand how come fourth quarter is going to be such a significant improvement in margins?

Arnob Mondal: There are two things to consider here. One is, EBITDA or PBDIT of the previous year also included Rs. 1,350 crores of Dhamra Port related margins, which is part of Service segments. The margin improvement guidance that we have given is for businesses apart from Services business, which includes Developmental Projects, Financial Services and IT&TS. The presence of Dhamra Port related margin in the services business in FY15, also had an impact on the total PBDIT margins for the Company as a whole.

Pulkit Patni: So basically it is excluding Dhamra that we are talking about, our margins being better than what we have delivered. And sir lastly, on Slide #8 there is a point which says rise in SG&A expense mainly on account of provisions, is this provision purely related to the financial business or does this have any other provisions also?

Arnob Mondal: Some part of it is related to the Financial Services business, but it also has some provisioning that we have done this quarter in our core business as well.

Pulkit Patni: And that provisioning is higher than what we normally do?

Arnob Mondal: Yes, you are correct.

Moderator: Thank you. Our next question is from the line of Mayur Patel of DSP Blackrock. Please go ahead.

Mayur Patel: Sorry to again touch upon Infrastructure segment, you have spoken a lot. But sir just tell me, there is a very healthy growth in international infrastructure execution from Rs.26 billion to Rs.39 billion despite sharp fall in crude price, so is it fair to conclude that there are as of now no indication or signals pointing towards a slowdown in execution on our current seven, eight large projects there in the Middle East?

Arnob Mondal: At this point of time we are not seeing much of a slowdown in the execution of Middle East projects; you are correct there.

Mayur Patel: And also in one of the slides you have referenced that tendering activities is still on, that is, also as of now no major slowdown in the tendering activity we are witnessing in this year

Arnob Mondal: The overall quantum of prospects or the opportunity basket in the Middle East has certainly shrunk, but tendering activity is still continuing for basic and social infrastructure like Railroads, Roadways, Hospitals, etc. Even in Hydrocarbon, we still see some tendering activity even today.

Mayur Patel: Second question is on Hydrocarbon, so like despite under recoveries we have showed 4.2% margin in this quarter, so is it fair to say that going forward, subject to the close out costs, these margins are sustainable or it would fluctuate?

Arnob Mondal: We believe that once the legacy projects are closed out, the margins should not go down.

Mayur Patel: Sir lastly, I know you have given some details but going back to the infra segment for this low payments and delayed clearances,

is there any specific segment which has deteriorated QoQ? Is it possible to comment?

Arnob Mondal: As I mentioned earlier, we experienced execution bottlenecks across different sectors within Infrastructure. I cannot comment beyond that.

Mayur Patel: Sir, last question, we are maintaining as of now the order inflow guidance or rather flattish order inflow year-on-year which means we have Rs. 93,000 crores of inflow in nine months, so asking rate of around Rs. 50,000 crores - 55,000 crores in 4Q, so any expectation of any lumpy orders or two, three pockets, or it is a broad based assessment of the prospects which you have been talking about earlier?

Arnob Mondal: It is a broad based assessment on the prospect that we have been talking about and if we receive any lumpy orders, provided they are not classified defense orders, we will certainly tell the market about that, subject to the customer allowing us to disclose such details.

Moderator: Thank you. Our next question is from the line of Aditya Bhartia of Investec. Please go ahead.

Aditya Bhartia: Just a follow-up question, wanted to understand how lower commodity prices are affecting you and what proportion of orders today would be on fixed price basis?

Arnob Mondal: Approximately 50% of our orders are on fixed price basis, due to which we have benefitted from lower commodity prices on fixed price orders. On the other hand there have been unforeseen costs in areas like Heavy Engineering and Metallurgical and Material Handling that have offset these gains.

Aditya Bhartia: And lastly, was there any stake sale in L&T Finance this quarter?

Arnob Mondal: No, nothing.

Moderator: Thank you. Our next question is from the line of Pranav Gokhle of Religare INvesco Asset management. Please go ahead.

Pranav Gokhle: Just wanted to understand one thing, in Shipbuilding business over the last couple of years what I have seen is the raw material cost exceeds the turnover from Shipbuilding. Is there something in terms of accounting which is differently followed here?

Arnob Mondal: No, there is nothing in terms of accounting which is differently followed.

Pranav Gokhle: So the RM cost are higher than the sales? RM and Manufacturing cost which is given in the annual report seems to be higher than the shipyard revenue as well.

Arnob Mondal: Those costs would include provision for estimated losses as well, which were made in previous years.

Pranav Gokhle: And in terms of Seawoods, could you just help us understand how much money is actually invested in L&T Seawoods as of date including equity, loans and advances, preference and how much more can investment needs to be funded over there?

Arnob Mondal: Pranav, we do not talk about investments in individual subsidiaries, so I will not be able to provide you details.

Moderator: Thank you. Our next question is from the line of Chinmay Gandre of Future Generali. Please go ahead.

Chinmay Gandre: Sir we have maintained our revenue guidance, so for that execution has to improve, which has been lagging for the last four quarters. So what gives us confidence? Is it because majority of the projects would be hitting threshold in Q4, that is the reason,

or are you expecting improvement in the environment wherein there is improvement in terms of client paying you on time or client basically asking about deliveries?

Arnob Mondal: Firstly, a number of orders that we got in the previous year are expected to move into higher levels of execution Q4, which forms the basis for maintaining our Revenue guidance.

Chinmay Gandre: So basically the project crossing the threshold of 25% and...

Arnob Mondal: Crossing of thresholds relates to margins and not to revenues.

Chinmay Gandre: So basically the execution on orders which you got in the Q4 FY15 which would come through, but do you expect that the payments for them would also be coming for you to execute them?

Arnob Mondal: Let me clarify to remove any misconception. The situation is not one where we execute a project while the customer is not paying us at all. If that were the case, we would stop execution and demobilize, as I mentioned earlier. I had just mentioned that the payments are coming slowly, that there have been delays in the scheduled milestone based payments. In those cases we slowdown execution, but that does not mean that no revenues arise from projects where payments have become tardy, which is the case in a number of orders. We cannot give you the exact details of orders where we expect revenues to ramp up, or if we will face payment delays from them.

Moderator: Thank you. Our next question is from the line of Inderjeet Singh of Macquarie. Please go ahead.

Inderjeet Singh: My first question is on the Revenues, is there a ballpark number that you can share in terms of FY16 what is the domestic versus the international mix that you are talking about?

Arnob Mondal: Not at this point of time, I am sorry.

Inderjeet Singh: The second is on the order inflow prospects that you talked about. The media has been talking about your being shortlisted for certain large defense orders. Are you basing the flat order inflow guidance as contingent on some of these defense orders materializing, or are they over and above what the general prospects are?

Arnob Mondal: We will not be able to talk about individual prospects or numbers. However, we do not have a high degree of confidence in the defense orders being awarded by 31st of March; they could easily slip into Q1 FY17.

Inderjeet Singh: But we are not dependent on some of these big ticket ones to reach our broad indication?

Arnob Mondal: If some big ticket order does come then we could possibly be around last year's Order Inflow levels.

Inderjeet Singh: And sir my last question is slightly hypothetical, now what is happening is that international book seems to be delivering good revenues while the domestic revenues continue to be weak and in the next one or two quarters because of the lower oil prices, if execution slows down, is there a thought process the management has given as to how we are looking to tackle that? Is there a thought process around whether are we ready to relax some of the working capital requirements in India to kind of get at least the revenues moving here, how would you think about that scenario?

Arnob Mondal: That is a completely hypothetical scenario and that would be too much of speculation for us to really give you any direction on it.

Moderator: Thank you. Our next question is from the line of Tanuj Mukhija from Bank of America Merrill Lynch. Please go ahead.

Tanuj Mukhija: Sir, we require just one clarification, L&T won several orders on 6th Jan, 7th Jan and 20th of Jan. Till which date were the orders accounted for in third quarter order inflow?

Arnob Mondal: Let me clarify this matter again. The date of the press release does not represent the date of the order win. I have said earlier as well that orders are considered as inflows based upon the date of the documentation, not based upon the press release. So if, for example, the documentation happens on 6th of January, it will be taken into Q4 order inflows and not in Q3.

Tanuj Mukhija: So for your better understanding of the order inflows for Q4, would it be right to say that all the press releases released in the month of January would be accounted for fourth quarter order inflow?

Arnob Mondal: No, the Press Releases you quoted were actually relating to Q3, where the permissions from some clients for the press releases came in late. This was discussed fairly extensively earlier on this call. We cannot give a press release for an order until we get a formal communication from the customer allowing us to issue the press release. Even if the order is, say, dated today, the press release could come 20 days later.

Tanuj Mukhija: Sir I understand that, I just want number. What was the quantum of numbers of the order inflows announced in January that was actually booked in third quarter?

Arnob Mondal: We do not disseminate information of that nature. We only specify the amount of orders that have actually been received

during the quarter. Actually, press releases are meant to be a branding exercise. It is a different matter that market participants have started using that as a proxy for trying to estimate order inflows.

Moderator: Thank you. Our next question is from the line of Amar Kedia of Nomura. Please go ahead.

Amar Kedia: A few questions from me, one is on your working capital, I know you have already discussed this before but if I actually look at your working capital numbers I actually sense that it is trending down rather than trending up, so if you look at March 2015 it was about 25% of sales and now it is at about 24% of sales and even from a commentary perspective what you are saying is that you are not executing orders wherever there is a delay in payment. So should I understand that this is probably the bottom in terms of working capital?

Arnob Mondal: As I have mentioned, given the kind of operating environment we have at present, we would be comfortable with Net Working Capital to Sales ratio of somewhere around 25% at the overall Company level, excluding Financial Services. I believe we should be able to stay in the vicinity of 25% to Sales.

Amar Kedia: Secondly on your Buildings & Factories segment, the housing situation is definitely worsening day by day, but this is my belief, correct me if I am wrong, there is no instance of a project going dead and even you mentioned earlier that demobilization is probably not something that you are resorting to, so is that a correct understanding? One or two cases are fine but in general are you talking of slowing execution or is there a large proportion of demobilization?

Arnob Mondal: No, there is no large proportion of demobilization. As I have mentioned previously, demobilization is only resorted to in extreme cases. It has been done in the past in a handful of cases, but by and large it is a case of slower execution. On the other hand I would also like to mention that the proportion of elite residential real-estate orders in our order book is not very large, although it is a significant amount.

Amar Kedia: So are you saying apart from Residential orders within building and factories, there could be commercial buildings, there could be factories? In this way, are you saying the overall building & factories itself is now a lower number?

Arnob Mondal: No, building & factories is a very significant part of the order book, but it comprises of residential orders from private sector developers, residential orders from affordable housing or low cost housing, hospitals, educational institutions, shopping malls, super luxury hotels, and factory buildings. So the proportion of orders for residential projects from private developers, while being a decent amount, is not overwhelmingly large.

Amar Kedia: So just for clarification, was that never a large number or that has come down of late?

Arnob Mondal: It was not a very large number in the first place.

Amar Kedia: Sir the third question is on Middle East, again, I know you have had quite a bit of discussion on this, but when I look at the Middle East geography all of us are concerned about oil prices, but if you look at L&T's exposure in the Middle East at least in the hydrocarbon space I believe it is more downstream and mid-stream, is that right?

Arnob Mondal: You are correct.

Amar Kedia: So that is a segment where actually we should not be worried, because downstream refining margins are very-very healthy even at these levels?

Arnob Mondal: I agree that refining margins are healthy, but the fact is that even Downstream spends depend on whether the country has enough money to spend, and these are all government sector-led investments. Notwithstanding that, we are still seeing prospects in Mid and Downstream. However, please also note that we also see a few prospects in Upstream Hydrocarbon as well.

Amar Kedia: The last question that I have is on the infrastructure side of Middle East orders. Here we have actually been getting some mixed views, one of course is not on execution, but I understand looking at your numbers, I think execution is perhaps moving pretty good on the Infrastructure side of the Middle East order book, but when I look at the incremental order flow from Infrastructure side, and for example Etihad Rail, where they have suspended the Phase II bidding process now. Are you also getting signs that Infrastructure side orders could slow down? On the other hand the perspective that I had is some of these countries, though oil prices going down, the cash reserves that these countries have is fantastic, and debt to GDP is pretty negligible, and on the other hand you have this Middle East uprising thing coming from the last two or three years, so they do need to spend on social infrastructure and it is a mix view as I said. So what is your take on this?

Arnob Mondal: I think you are absolutely correct Amar. They have announced suspension of Etihad Rail's second phase and I understand that two consortiums were already pre-qualified. Now they will have to wait. However, I did mention that while we think we will continue to see investments in basic socially visible infrastructure, be it

conventional railroads, roads or hospitals etc., we will see shrinkage in the overall opportunity basket. Even our prospect base seem to indicate that. Most of the prospects that we are seeing are in the domestic market, and the proportion of domestic projects is especially high in Infrastructure.

Amar Kedia: I mean I was just asking this because when I look at your staff cost which you say is rising mostly because of hiring on the international side, so its prospect base is decreasing so why would you add more headcount now?

Arnob Mondal: We have increased the headcount for executing the projects we already have on hand.

Moderator: Thank you. Our next question is from the line of Ankit Babel of Subhkam Ventures. Please go ahead.

Ankit Babel: My first question is on your Metallurgical business and Heavy Engineering business. What is the outlook here, because this has been deteriorating, the performance has been deteriorating? How is the outlook in terms of new orders or demand pick up or something?

Arnob Mondal: The Metallurgical business is predominantly dependent upon investment in metals manufacturing capacity. At this point of time it is quite muted. Even though we have received some orders in the recent past, which would help in maintaining at least a minimum level of revenue and margin going forward, it is really difficult to say if the orders are a transient phenomenon or if we would see more of them. In a nutshell, the outlook of the Metals sector is not very good according to various reports. On the other hand, the Material Handling business gets business from a variety of sub-sectors like mining, ports, railways, steel and power. Even if some of the sectors from these five pick up, for example Wagon

Tippler jobs for Dedicated Freight Corridor, we would certainly fancy our chances in orders like those. The sectors from which Material Handling gets its business are broad based. We also see some incipient signs of recovery in mining, going by large tenders that Coal India has given out for Hydraulic Excavators and Dumper Trucks. The Material Handling business could probably see some traction from these areas. However, according to the organizational view point, we would still see significant sub-optimal utilization of the resources that we have in Metallurgical and Material Handling for some more time to come. As far as Heavy Engineering is concerned, it is dependent on Hydrocarbon equipment orders. As long as hydrocarbon ordering remains at a muted level, the opportunity basket remains limited. On top of that, you would be aware that the Indian Rupee has fared better in currency depreciation terms as compared to most other countries. This has made external competition more aggressive, and today everybody has excess capacity. There is a larger number of players bidding for the same projects and some of them have become more competitive due to currency. The business used to get some orders from coal gasification equipment in China, but that opportunity has virtually dried up. Nuclear power, which we thought would be the mainstay of this business, has also seen very muted investments. This was primarily due to the Fukushima incident and secondly because of the Nuclear Civil Liability Damages Act which is yet to get completely resolved. The only area where we think that investments are increasing is in Defence. However, the timeline between RFP and final award tends to be quite lengthy, and secondly, the execution timelines of defence orders are also long. Due to this, Heavy Engineering may also see substantial sub-optimal performance for some time to come.

Ankit Babel: Sir, I was just noticing that in your Metallurgical division the revenue has come down from Rs. 696 crores to Rs. 678 crores on a YoY basis in this quarter, but at PBIT levels the profits have turned into losses. So what was the reason for that? It is a marginal decline in revenue but this Rs. 36 crores profit at PBIT level has turned to Rs. 24 crores of loss, so why such a big swing in the profitability?

Arnob Mondal: Large part of the revenue in Q3 FY16 has come from some low margin orders. Metals and Material Handling used to have have good margins, but some of the orders that they are executing are relatively lower margin jobs at this point of time.

Ankit Babel: Sir in Heavy Engineering also, the revenue has grown but as you mentioned that there are some provisions which have been made on account of some cost overruns, so if we exclude those provisions, were we in profit because we have reported a Rs. 17 crores loss at PBIT level?

Arnob Mondal: In case of Heavy engineering, if you exclude cost provisions it would have turned into a small profit.

Ankit Babel: Which is also, I mean at Rs. 800 crores levels, historically you used to do very good margins, but that come down now, so just wanted to understand how long these losses will continue and considering the fact that suppose next two years there is a single-digit growth in both these segments, so what will be the sustainable margins in these businesses?

Arnob Mondal: While I will not be able to give you a number on sustainable margins, and as we have mentioned in the presentation, both MMH and Heavy Engineering are suffering from underutilization. These businesses have been built up to cater to something like Rs. 7,000 crores - 8,000 crores worth of turnover each, and today

their run rate would be about Rs. 2,000 crores - 3,000 crores annually, as a guesstimate. Obviously, there will be overheads which will continue to be charged to the P&L, and be under-recovered till such time as business does not improve in terms of scale. Apart from this, our forging unit continues to impact the P&L by way of losses in Heavy Engineering. Therefore, the outlook would be entirely volume-dependent.

Ankit Babel: Sir my last question is on your infrastructure segment, again on a standalone business in the last two quarters, the margins have been declining and you have mentioned correctly that on a quarterly basis we should not analyze it, and we should not extrapolate it. But sir can we assume that last year we did somewhere around 10.9% EBITDA margins, so this year also can we do that kind of margins or whatever we have lost in the two quarters can we make it up in the fourth quarter?

Arnob Mondal: I will not be able to give you an answer on that Ankit, as we do not guide on standalone anymore.

Ankit Babel: But any qualitative answer, not on numbers?

Arnob Mondal: As I had mentioned earlier, if a number of jobs, particularly domestic ones get into margin recognition phase in Q4, it will certainly improve.

Ankit Babel: So that holds for infrastructure?

Arnob Mondal: Yes.

Moderator: Thank you. Our next question is from the line of Girish Nair of BNP Paribas Securities India Pvt Ltd. Please go ahead.

Girish Nair: The first question is, could you tell us what is the number of permanent employees you have on the roll and if you can split it by domestic and international as of December 31st?

Arnob Mondal: I would not be able to provide you details at this point of time, but we have more than 100,000 employees, which also includes over 20,000 of labour force.

Girish Nair: Yes, that is okay, I just wanted to know just the permanent employee, so you are saying even the 20,000 is permanent?

Arnob Mondal: Yes, mainly in the domestic segment.

Girish Nair: And secondly, could you tell us what would be the benefit of the GST Bill that is going to be passed, I mean specific to L&T do you see any benefits or disadvantages from the imposition of that bill?

Arnob Mondal: Frankly, I do not think there will be disadvantages but there would be significant logistical benefits. As far as L&T is concerned, we will have to wait and see because the impact also depends up on the tax rate.

Girish Nair: And sir finally in terms of the Budget, you would have definitely given a wish list to the government, what have you actually recommended to the government, could you share that if that is possible?

Arnob Mondal: We convey our expectations, which are quite numerous, to the Chambers of Commerce, which in turn aggregate them from other companies and then give it to the Government. We do not communicate directly or independently with the Government for this purpose.

Girish Nair: But what would be the most important one that you would like to see?

Arnob Mondal: The most important budgetary expectation would be an increased allocation towards infrastructure. Ideally, we would also hope for monetary policy reduction in rates, which is not related to the Budget.

Moderator: Thank you. Our next question is from the line of Sumit Kishore of JP Morgan. Please go ahead.

Sumit Kishore: Sir just a quick follow-up question, you mentioned in your presentation that in the Others segment Q3 revenue variance is mainly due to slowdown in Realty business, so this does not seem to be more a quarterly phenomenon but slowdown in Realty business could persist for a few quarters, is that the right way to look at it, so would this be the new normal?

Arnob Mondal: We cannot say so with certainty, because we have also launched a project in Bangalore, which can start contributing to revenue sooner or later. Some of the slowdown is due to the project in Powai, where most of the flats have already been sold out and only a handful remain to be sold. So as far as revenues are concerned, while there may be a slowdown here, it could be compensated by other projects.

Sumit Kishore: And Bangalore could start kicking in this quarter itself or it is going to take some time?

Arnob Mondal: Probably not in Q4, but it is difficult to speculate about a timeline.

Sumit Kishore: So basically nine months if I see Others segment, domestic revenue is sort of flattish despite the decline we saw in the 3Q, so last year level seems to be the high, based on which you have to contend with the slowdown in Realty?

Arnob Mondal: Yes, you are correct Sumit.

Moderator: Thank you. Our next question is from the line of Sanjeev Zarbade of Kotak Securities. Please go ahead.

Sanjeev Zarbade: Sir, so far as this hydrocarbon division is concerned, if for example we take the cost provisions related to the ongoing projects in the fourth quarter and the associated claims subsequently, so in that case if I read it correctly the fourth quarter EBITDA margins would possibly take a dip and maybe recover in the coming quarters.

Arnob Mondal: That can happen if there is a timing mismatch.

Sanjeev Zarbade: To that extent?

Arnob Mondal: Yes, to that extent.

Sanjeev Zarbade: And sir regarding this submarine orders, at what stage it could be, because of course the company has been guiding that these type of orders take years to actually get awarded and then get turned into revenues, so just wanted to understand what stage we are as far as these submarine orders are concerned?

Arnob Mondal: Frankly, the timelines are still very hazy but hopefully it will happen before the conclusion of the next financial year.

Moderator: Thank you. Our next question is from the line of Utsav Mehta of Ambit. Please go ahead.

Utsav Mehta: Just one very quick clarification, proportion of international employees as a standalone entity, would that be also increasing because employee cost there also are up 25% year-on-year?

Arnob Mondal: You are correct. In some cases, even though some people may be working on international projects and working at a local level, they will still be on the parent company rolls. So a large part of the

increase has happened in the standalone entity as well on international projects.

Utsav Mehta: But then should not that be margin remunerative, I mean give that the contract is international whereas the employee cost would be local?

Arnob Mondal: That is not correct. The cost in case of an employee deputed from India on an international project would be much higher than when he is working in India, as typically he will get paid two to three times more by working at a local level there.

Utsav Mehta: Just one follow-up on that, I mean I understand that the domestic execution is not going as well as desired, what are the changes that you all are making to the cost structure or to just hold back the cost, if you could just take us through that?

Arnob Mondal: We are trying to see what areas of overheads we can cut, and we are going aggressively after excess overheads wherever we find them as an operational excellence exercise. Secondly, we constantly try to keep on looking for doing smart sourcing, to find out areas where we can shave off some cost on procurements, which happens concurrently.

Utsav Mehta: And just one last question on the working capital cycle, so could you just give us a breakup of what the proportion of working capital as a percentage of revenue in India would be versus the Middle East?

Arnob Mondal: Typically Middle East tends to be slightly better.

Utsav Mehta: So you would say Middle East would be 20% or so and India would be 27%, 28%?

Arnob Mondal: I would not be able to give you a number.

Utsav Mehta: But directionally that is right?

Arnob Mondal: Directionally, yes.

Moderator: Thank you. Our next question is from the line of Ankush Mahajan of Edelweiss. Please go ahead.

Ankush Mahajan: Sir my question has been answered. Thank you.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to Mr. Arnob Mondal for closing comments.

Arnob Mondal: Thank you Inba and thank you everybody for a very patient hearing and of course a very interactive session. And as usual we are closing around 8 o'clock and wish everybody a very good evening and very good night. So with that we will end this session. Over to you Inba, thank you.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Larsen & Toubro that concludes this conference. Thank you for joining us and you may now disconnect your lines.