



Larsen & Toubro Limited
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Earnings Conference Call

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Larsen & Toubro Limited's Q2/H1FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation. Should you need any assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mondal. Thank you and over to you, sir.

Arnob Mondal: Thank you, Zaid. Good Evening, Ladies and Gentlemen. We will start with the presentation and then open the session to question-and-answers. I hope all participants on the call have downloaded the presentation from our website uploaded about 45-minutes ago.

I will be walking you through the presentation. We will first go to the Disclaimer Slide #2. I will take it as read, but I would like to highlight a few things. Firstly, as all of you know we make some forward-looking statements which may or may not materialize. Secondly, there are some risks and uncertainties related to these forward-looking statements which could go in direction that we have not anticipated. We may also revise any forward-looking statements retroactively if any changes happen. And again, while this is not a disclaimer, I would urge you to consider that quarterly / half-yearly numbers in our sort of business are not a reflection of longer term trends or indicators of full year results, and should not be attempted to be either interpolated or extrapolated into the full year numbers. I say this every time, but still for a good order I am repeating it again.

We go to Slide #3 which gives the Presentation Outline. As you will see, it is broken up into Four parts – Performance Highlights, Performance Summary, Segment / Key Subsidiaries and finally the Outlook.

We now move to Slide #5 on Performance Highlights: This quarter has been good for L&T on all important parameters. In a volatile environment, we have managed to bag fresh orders in excess of Rs.31,000 crores, representing an growth of 11% over Q2 FY16. Order book has grown by 4% over Q2 FY16 and

currently stands at Rs.2,51,800 crores. Revenues have grown by 8% even in this difficult environment and it could have been significantly higher if the execution bumps in Domestic jobs were not witnessed. EBITDA has grown in line with revenues but there is a difference in EBITDA between different segments which I will explain subsequently. The operational efficiencies has contributed to the bottom line and it was aided by treasury operations including lower interest charge. PAT has witnessed significant growth of 41% YoY.

We move to Slide #7 which deal with the group level order inflow and order book. The healthy order inflow growth this quarter has been led by Domestic order inflows. It is too early to gauge whether this represents resurgence in the overall investment momentum but the Domestic capex seems to be reasonably strong in selective areas. International order inflows have mainly been contributed by Hydrocarbon segment. As a result of all these, today we have a very large order book of over Rs.2,50,000 crores which is more than 2x trailing 12-months revenues and this provides us with a good measure of confidence and comfort going forward.

We will now move to Slide #8: This slide deals with the Group Performance. Revenue growth has been at 8% on YoY basis. This could have been better had the execution blips were not witnessed in Domestic jobs. I would like to reiterate that as I do every quarter, our revenues are not amenable to interpolation or extrapolation on a quarterly basis. So I request you again to go by full year numbers rather than one quarter numbers on this. Manufacturing, Construction and Operating expenses (MCO) has increased by 9% this quarter which is in line with revenue growth though a tad higher than what we would have liked it to be. This quarter we have also taken inventory write-down in shipbuilding of over Rs.100 crores which is reflected in MCO charge. While Sales have grown by 8%, staff cost have grown by only 3% this quarter, as we have rationalized our manpower in different businesses over the last few years and this is reflected in the modest growth in staff cost. Selling & General Admin. expenses (SGA) tends to be a bit lumpy due to the existence of some non-linear items like provision for doubtful debt, provision

for NPAs in Financial Services business, provisions for warranty / rectification cost, as well as foreseeable loss provisions. This year the bulk of the variation has come from provision for NPAs in Financial Services business as well as the exchange rate variation where we had substantial gains last year.

We will now move to Slide #9: This is on Profitability Summary. Since the Sales in this quarter have grown by 8% and the operating expenses have also grown by 8%, the EBITDA turns out to be flat at 9.2% for the quarter and for the half year as a whole has grown by 20 basis points.

As we had anticipated at the beginning of this year, both Heavy Engineering and Hydrocarbon businesses have registered meaningful improvement in their profitability and along with Services business, EBITDA has registered stable growth in spite of a bit of dip in the EBITDA margins of Infrastructure segment which I will cover subsequently. This year we have registered lower interest charge and this is because during the latter part of FY16 we had refinanced loans.

Other income growth is due to income from treasury operations mainly by way of income from mutual funds. Under IND AS, as you would be aware, we are consolidating the net profits and losses of Subsidiaries / JVs which are treated as non-consolidatable entities on Equity Method basis. The breakup is given as an annexure to this presentation. Mitsubishi JVs for power equipment manufacturing have contributed decent profits but the IDPL concessions and the forging unit have contributed losses to the overall P&L. We also have an exceptional income in excess of Rs.400 crores and this is because our efforts to divest our General Insurance business has materialized in Q2 this year.

In Standalone results we have a fairly significant exceptional income item. This is due to Under IND AS wherein profits arising from IPOs of L&T Infotech and L&T Technology Services have been directly credited to reserves in the Consolidated Balance Sheet without routing it through the Consolidated P&L whereas as far as Standalone P&L, it is shown as exceptional income. Under IND AS, when we sell part of a stake it is treated as change in shareholding

between non-controlling interest and majority shareholders. So all the gains have to be taken directly to the reserves in Consolidated Balance Sheet unlike General Insurance where the entire business was divested and the gains were booked as exceptional gains in Consolidated P&L.

We now move to Slide #10: This is the first time that we have published our Consolidated Balance Sheet under IND AS. As you would have seen in the published results, the format has changed significantly. We have tried to simplify and summarize entire Balance Sheet into a more understandable and simple format. This slide is mainly for information purposes but there are two key points to note – One is our current investments are now at a level of around Rs.9,750 crores and the increase is mainly due to the inflow of cash from the IPO of L&T Infotech and L&T Technology Services. Our net working capital excluding items of corporate working capital have also shown a bit of an improvement and now net working capital for business stands at 22% of trailing 12-months sales as against 23.5% in Q1FY17 which is an improvement of a couple of percentage points.

We will now move to the next Slide #11: We have published last year full year's results restated under IND AS and we will just give you a brief outline as far as this is concerned mainly on the reconciliation items. This particular slide contains a bridge of how the net profits have moved under iGAAP to IND AS for the full year FY16. These numbers have been audited by our joint auditors Deloitte as well as Sharp & Tannan.

IGAAP reported PAT for FY16 has reduced by over 800 crores under IND AS. I will touch upon the major items that constitute this reduction. Provision for ECL is not significant at an annual level for FY16 though Q1 was significant. This is primarily due to the large Q4 prudential provisions made under iGAAP by Financial Services last year whereas most of these was accounted in the opening balance sheet in Q1 under IND AS. Similarly, the change in the accounting treatment of performance linked reward for staff on the basis of Constructive Obligation has led to a difference of just Rs.42 crores.

As far as the sale of investments is concerned, most of the profits on sale of investment under iGAAP which were booked in the P&L of FY16, have been accounted through MTM valuation gains in the opening balance sheet under IND AS. Hence the consequent reversal of Rs.147 crores gains in this particular profit bridge. The reduction on account of gains from sale of stakes in a subsidiary represents the profits that we had booked on sale of L&T Finance Holdings shares. This amount of Rs.264 crores has been reduced from the reported PAT under IND AS since such profits are directly credited to reserves under IND AS. One point to note is that these profits were reported as an exceptional profit till last year and hence there is no impact on the recurring PAT. The increase in interest is due to Effective Interest Rate method, primarily on account of Foreign Currency Convertible Bonds and other borrowings where Effective Interest Rate is higher than the coupon. The other large item is the increase in borrowing cost due to Fair Valuation of Long-term Liabilities and this relates to the present value of negative grants payable on Road SPV. Since the initial recognition of the liability is at a lower value than the aggregate of gross amount of future payable streams, the difference between actual payment and the discounted value recorded initially is booked as a borrowing cost.

I will move to Slide #12 and this deals with Other Comprehensive Income (OCI). Items of other comprehensive income do not form part of the PAT and basically represents item directly booked to reserves under the new standards. I will briefly touch on each of them: #1, the changes arising out of actuarial valuation of retirement benefit plans is something that goes directly to reserves through the OCI and the thinking of IASB whose principles are embedded in IFRS is that this item which is purely due to external volatility and market borrowing rates should not distort normal operating results.

The second point is on debt Instruments. Under IND AS debt instruments also have to undergo MTM valuation and the difference is parked in reserves till the investments are sold at which point of time the entire cumulative difference will flow to the main P&L.

The next item is on the Foreign Currency Translation Reserve (FCTR). The FCTR is used to park the changes arising out of consolidation of entities whose functional currency is other than INR. For example, if you have a subsidiary in say Oman where the functional currency is Omani Rial, the MTM arising out of this consolidation is directly taken to reserves and it will only appear in the main P&L if the underlying business itself is sold.

The fourth and last item is Off-Balance Sheet Hedges. These Off-Balance Sheet Hedges are like say forward contracts on orders having foreign currency exposures that are yet to be executed. These hedges have to undergo MTM valuation. This MTM valuation difference is parked in reserves till such time the underlying does not appear on the balance sheet. The differences will flow to the P&L once underlying moves to the balance sheet.

Now, move to the next slide #13 which deals with the Group Cash Flow: This quarter witnessed robust operational cash flow of close to Rs.3,000 crores in this year, mainly in Q2 FY17. Out of the total, over Rs.2,000 crores have been contributed by reduction in net working capital. This is in line which refers to progressively reduced net working capital through tighter control, upfront business decisions and pulling back execution if necessary in case working capital balloons in some projects. I think we had talked about this before that we do not want to keep on notching up sales by financing customers.

The operating cash flow has more than adequately covered our CAPEX outflows for 1HFY17. As I mentioned earlier, we have become parsimonious with CAPEX.

There is one other major item of inflow this year and that is through the issuance of share capital and this represents the proceeds that L&T got from the IPO of L&T Infotech and L&T Technology Services.

I will now move to the next category "Segment" and "Key Subsidiaries" starting from Slide #15 on Segment Composition. The only change is due to General Insurance which was shown under Financial Services. Suffice to say

that we have nine externally reportable segments and this is a composition of each segment.

I will now move to the next slide #16 which deals with the segmental breakup of orders in H1. This slide is mainly for reference purposes and shows that the Infrastructure segment still accounts for a bulk of order inflows as well as unexecuted order book. As pointed out earlier, please note that revenues of Services business and other products businesses are grouped under order inflows as their sales arise from very short cycle order inflows.

Slide #17 deals with the revenue breakup and this slide too is mainly for reference purposes.

I now move to Slide #18 which deals with the Infrastructure segment which is also our largest reportable segment. Revenue growth in Infra in this quarter has been muted. There are some overall readings that can be derived from the sales numbers and I will summarize these point wise: Firstly, while prolonged monsoon this year have impeded execution to some extent this quarter, the execution environment itself is still not very robust though it has not deteriorated either; however, there were 30-40 odd projects where revenues were muted mainly due to client side issues. A large part was due to clients not providing workfront in time and in many other cases we consciously held back execution due to tardiness in payments. This is in line with our overall aim of not ramping up execution while letting working capital pile up. In some cases, customer delays in approving designs as well as delays in milestone inspections and certifications contributed to lower execution. In some cases, heavy rain and flood situation and in some projects we encountered unexpected soil conditions which also led to execution delays. Actually, we have done a detailed analysis of revenues in each project and this indicates that in a smooth execution environment if everything went according to plan, these 30-40 jobs could have yielded additional revenues anything between Rs.800 crores to Rs.900 crores which has got pushed back. Jobs in the Middle East are however progressing satisfactorily and according to schedule.

Margins in the Infrastructure segment have suffered this quarter and there are number of associated issues around this. A major part of the margin decline was primarily due to cost overruns on extended stay in a number of projects due to lack of readiness by clients. Our estimate is that the margins have suffered to the extent of close to Rs.200 crores on this account itself. While we will be raising claims on clients for cost, we can only account for these claims when they are received or formally admitted by clients, and the meantime the extra cost would get accounted in P&L and to that extent it is timing mismatch. In some cases, as mentioned earlier, heavy rains, flood situation and unexpected soil conditions have also taken a toll on margins. In the beginning of the year, we had also indicated that the current year could see a bit of a dip in Infra margins since some of the large projects crossed margin definition threshold in the last year. Small margin drop this year holds true and while we view the Q2 margin drop as a temporary blip or postponement of margins we do estimate that margin should see an improvement in H2 since a number of jobs are slated to cross margin recognition thresholds in Q4 this year as well. If execution plays out in line with what we envisage and factoring the current stop-start stop-start environment in our calculation, we believe 50 bps margin improvement guidance for FY17 is achievable.

Now, we move to Slide #19 which deals with the Power segment. Here the robust revenue growth is due to strong execution progress on projects like Chhabra, Malwa, Khargone and Bangladesh jobs. Bangladesh have mainly contributed to the International sales growth. As far as margins are concerned, you will see that the margins appear to be rather thin and this is primarily because Mitsubishi Hitachi Power System JV (MHPS JVs) are consolidated under equity method and since ours is an integrated business model comprising of both design, EPC as well as manufacturing, we look at overall margins. However, under IND AS standard, the profits are accounted and disclosed in different parts of the P&L. In this part, only the EPC margins are reflected whereas the manufacturing margins are reflected as our share of PAT from MHPS JV.

I will now move to the next slide #20 on Heavy Engineering. Here, there has been a strong revenue growth and this has been contributed by both Process Plant and Nuclear businesses as well as Defence & Aerospace. The margin improvement has primarily been achieved through operational efficiencies in the current year. Margins are now back to what they should be like at over 14%.

We will now move to the next slide #21 which deals with the Electrical and Automation segment: This business to a large extent comes from industrial sector, agriculture sector and buildings. Unfortunately, the muted industrial activity is affecting this segment because that is the largest part of it. In fact, growth in Electrical Standard Product business has more than been offset by decline in Projects business as well as Metering in Projects business. However, if you see margins have improved a bit. This is primarily due to improved realizations and favorable product mix in the Electrical Standard Product business.

We now move to Hydrocarbon sector. Here you would see that revenues have grown very strongly and for the half year as a whole revenues have gone up by 33%, in fact, now the International revenues are slightly more than Domestic revenue, and is clearly led by strong execution of the higher order book that we have today. We have also seen a diminishing impact of legacy projects in the Middle East as we had mentioned in earlier quarter. Those are now being closed out. You will have seen that this business has registered a turnaround in the bottom line and the Q2 margin increase has primarily come through operational improvements as well as some claims that were settled for old jobs in the Middle East.

We now move to Slide #23 which deals with the Information Technology and Technology Services segment. As you know, both these companies are listed and there is a detailed presentation which is available on the respective website apart from the earnings call that they themselves have done. The revenue growth has been contributed by Insurance, Auto and Aero for L&T Infotech and by Industrial products, Telecom vertical for L&T Technology

Services. The margin improvement overall has been due to higher offsite mix as well as improved utilization and operational excellence measures. The current focus is on growth strategies and Digital solutions.

We now move to Slide #24 which deals with other segment and this is primarily a residuary segment. Obviously, all of you would be aware that it comprises of businesses like Construction and Mining Equipment business, Metallurgical & Material Handling business (MMH), Valves business, Realty business, Shipbuilding and all these are put under "Other" segment. Here the weak industrial demand and low capacity utilization continues to challenge the business environment. You would have seen that there is a dip of 11% for this quarter and 13% for the half year as a whole and the revenue has mainly been impacted by lower offtake in Construction and Mining Equipment's as well as shipbuilding. Revenues going down due to delayed Defence ordering and in case of Realty we are at the end stage execution on current Realty projects. Margins have also been adversely affected by inventory write-down in shipbuilding, which is over Rs.200 crores for H1FY17. There were also some cost overruns and under recoveries in MMH segment also.

We now go to Slide #25 dealing with Developmental Project segment. This mainly constitutes Hyderabad Metro, Kattupalli Container Port under operator agreement now, Power Plant under Nabha Power Limited, etc. Q2 revenues have declined mainly on account of lower portion of externally ordered construction jobs in Hyderabad Metro. This is under IND AS when we order out our own construction to external parties which are not eliminated, these also appear as construction revenues and are then capitalized under intangible assets. However, Nabha have registered increased revenues due to higher Plant Load Factor (PLF) and the overall margin improvement that you see is primarily arising from Nabha Power plant higher PLF as well as from Kattupalli Port.

The Next Slide #26 is just a slide for information of our Development Projects business portfolio. Today, we have 21 SPVs covering 15 Roads and Bridges, of which 13 are operational, 2 power plants are which Nabha is operational, 1 is

Hydel Power plant under construction, 2 ports; 1 Kattupalli and a small port in Haldia, Hyderabad Metro which is under construction and transmission line which has just got operational.

The next slide #27 deals with L&T Finance Holdings. This year we are reporting the iGAAP numbers here because this is what they have reported in their statements. However, for consolidation purpose, we have considered IND AS financials. The Return on Equity in Q2 stands at 11.72% as against 9.84% in Q2 of the previous year. As you would be aware, they have restructured their business whereby they are defocusing on some businesses with a view to ramp up focus businesses. As mentioned earlier, we have given the important parameters under Indian GAAP primarily because they are still publishing their results under Indian GAAP. There has been an ROE improvement in Q2 this year versus Q2 of last year which is their major aim. In fact, loans and advances in focus business grew by 24% versus 31% decline in defocus businesses. So, the overall growth in loans and advances came in at 18%.

I now come to the last slide that deals with Environment and the Outlook: While the large part of the slide has been prepared in a lighter vein and should relieve some of the tedium involved in reading numbers, the factors listed here are very real, I will enlarge on just a few factors instead of quantifying on every single matter. Firstly, the much talked about "Demonetization" which is on the upper left hand side of it. I think everybody is aware that the cash liquidity of around Rs.14 lakhs crores has been sucked out of the system is taking time to replenish it. While we hardly deal in cash, the ecosystem that is functioning deals in cash and these are mainly stockists and unorganized sector labor, we pay our subcontractors by cheque but they also tend to make their payments in cash. So to some extent, yes, we will get affected but our sense is that part of the informal sector will move to organized sector over the long-term which is good for everybody including organized sector players like us. Infact, the organized sector tends to be much more rigid as far as compliance and accountability to the nation is concerned. But the net upshot is that yes, it may impede a bit of execution progress in Q3; however, it is likely to stabilize thereafter.

There is one thing that I think all of us have noticed is that global and local events have roiled markets in the recent past and I read yesterday that the last 8 to 10 sessions have wiped out the entire gains of 2016 of the Indian stock market. Number of these are of course oil price fall, US growth versus China slowdown, Brexit, the surgical strikes, US elections, demonetization, and fear of Fed rate hikes post US election driving US bond yields up. However, our job is to ensure that our business fundamentals and financial positions remain intact and we are focusing on that.

I have also listed some sectors where we are seeing investment momentum and these are Roads, Railways, Water Projects, Power Transmission and Distribution and finally the Defence sector which is likely to start sooner or later even though to some extent it remains like a mirage, it keeps on shifting from quarter-to-quarter, but we do think that this year we will see an inflection point being reached.

There have also been a number of commentaries by the sell side and general chatter in the markets on whether L&T will get affected by demonetization due to our exposure to real estate. I would like to clarify a few things here: #1, I think some people are mixing up our exposure to real estate with that of our Buildings and Factories segment. Buildings and Factories constitute high end residential real estate from private developers, Affordable Housing projects which are mainly from urban authorities, IT office space, other office buildings, hospitals, educational institutions, super luxury hotels, shopping malls and factory buildings. While the aggregate order book of the buildings and factories business is a fairly significant, the exposure to relatively high end residential real estate from private developers which is very different from the Affordable Housing segment is just around 6% of the order book. Yes, demonetization may affect the real estate sector but it should not be a body blow to our fortunes going forward.

Now, coming to our Guidance: Considering all the factors that we are seeing today and based upon our internal projections at this stage, our guidance on all three parameters remain unchanged. For the sake of good form, I will

reiterate these parameters: One, order inflow growth was guided at 15% this year and we think that is an achievable target today. We have guided for revenue growth of between 12% to 15% and we think it is achievable. As I had mentioned earlier, EBITDA margin increase of around 50 basis points on businesses excluding Services business is something that we think we will achieve by the end of this year.

With that I now hand over the session to the moderator for Q&A. Thank you.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin with the Question and Answer Session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Arnob, what was the Q2 revenues of Realty development business which you include in the other segment and how do you see this panning out over the next few quarters?

Arnob Mondal: Unfortunately, we do not give that sub-component wise details; however, what has happened is that the executable buildings in our Powai Real Estate have sort of tapered off because almost everything is booked and you would be aware that we handed over 400 flats for fit-outs in July. So to some extent it has tapered off and affected the revenues. Once we get permissions for the second phase, I think you will again start to see a buildup of revenues.

Aditya Bhartia: So is it fair to assume that in second half of this fiscal it could remain a bit tepid?

Arnob Mondal: I would not be able to guide on subcomponents of different segments but Realty we should see some pick up overall, whether it would be Powai or Parel or Seawoods or some other projects, we do think that second half should see a decent revenue growth.

Aditya Bhartia: How do you think that toll collection which has got suspended uncertain NHAI projects, how that is likely to impact us?

- Arnob Mondal:** That will impact us to some extent; however, we will obviously ask for compensation. Whether that will come and when that will come is anybody's guess at this point of time.
- Aditya Bhartia:** As of now we will have to record all costs, interest expense, everything but toll revenues maybe a bit lower?
- Arnob Mondal:** Yes, till such time the toll revenues are suspended.
- Aditya Bhartia:** There appears to be some order cancellation in the Domestic business in second quarter. If possible if you could highlight which are these orders and whether they are any slow moving orders that you still see in the backlog?
- Arnob Mondal:** Hardly any more slow moving orders and there again we do not give individual orders that we have knocked off but the quantum is not very large.
- Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** First, wanted to understand, you did mention Infra about 30-40-projects which are moving slightly slower. Can you highlight which particular sub-segments most of these projects were aligned to or were they broadly spread across all categories?
- Arnob Mondal:** They were spread across Transportation, Infra, Heavy Civil, Buildings and Factories. So it is not particular to any segment.
- Renu Baid:** Specially after the demonetization thing coming in, do you think the projects that we have from the real estate sector, where they are partly residential, commercial, that execution on those projects could be a bit softer because of cash constraint or liquidity issues with customers?
- Arnob Mondal:** It could be but there again at this particular point of time it is a mere speculation. I think we will have to wait and see how it pans out.
- Renu Baid:** Our revenue guidance very well takes care of some of the short-term hiccups as well which could come up in the second half?

Arnob Mondal: Yes, you are correct; however, Renu, I would like to reiterate once again as I said earlier that the high end residential buildings part constitute only 6% of our total order book and that is where the markets are speculating that problem may arise.

Renu Baid: On the Shipbuilding side, as in last two quarters if we see, almost Rs.100 crores provisions have come through. Do you think that this is broadly done or some incremental inventory write-downs can be seen because probably we thought after 1Q everything is broadly done but 2Q again there has been some write-down coming in?

Arnob Mondal: At the end of Q1, we provided based upon some estimate of realizable value of the ships standing in inventory. Now that we are actually talking to some customers, we get a better understanding of what the realizable value could be and we have tried to foresee those losses and write down the inventory accordingly. So going forward, we do not think that there should be any future losses. In fact, there were a number of ships under arbitration as well where we are now coming to a settlement. So all that should by and large even out going forward.

Renu Baid: In the standalone business if we see on the exceptional item we have mentioned that it is profit from gain on sale of stake in two entities, but there is also loss from one of the subs. So can you highlight loss on sale or divestment of which of the subsidiary have come on the books of standalone?

Arnob Mondal: No, that would be our investment in General Insurance in standalone business. Losses eroded the value of that investment. So that is the impairment of the investment that is appearing there.

Renu Baid: Otherwise, nothing much there?

Arnob Mondal: Nothing much there.

Renu Baid: On the FOREX, you did mention in SG&A that there was some FOREX element also versus last year. So can you highlight what was the value?

- Arnob Mondal:** Last year it was in excess of Rs.90 crores and this year in H1 practically nothing.
- Renu Baid:** So that has probably helped in terms of numbers as well?
- Arnob Mondal:** SG&A expenses have gone up, last year it was FOREX gain.
- Renu Baid:** Correct, so then to that extent, obviously, it has impacted the numbers I would say, not helped?
- Arnob Mondal:** It has impacted the numbers, correct.
- Renu Baid:** On the Hydrocarbon, you did mention that discussion after close out with some of the clients have started and we have started seeing some probably claim settlement coming through. So any number which you would like to mention to the extent of provision write-back if it would have been done in this quarter?
- Arnob Mondal:** Not a provision write-back, these are on a couple of closed projects, small projects where we got some claims, not very large, but encouraging at least something came through after having taken losses in the previous year.
- Renu Baid:** Probably you think in the second half, as most of the discussions with the customers will reach a much advanced stage, one can see better probability of the write-backs coming in?
- Arnob Mondal:** Renu, that is completely unpredictable, customer may take hard stand that he will not pay anything.
- Renu Baid:** Sir, on the Defence space, the orders on which you are well placed. I know you did mention there is not much clear visibility on that side, but your guess that probably in second half we could see a couple of more orders materializing?
- Arnob Mondal:** There is a one large order that is tracked artilleries order where we are very well placed but that has to go through "Cabinet Committee of Security" clearance before the order is actually given. So knowing the government,

timelines can be very uncertain. We hope it will come in Q3. If not in Q3, then early Q4.

Renu Baid: But should probably come in FY17 itself?

Arnob Mondal: That order should come.

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

Ashutosh Narkar: Two questions: One is on your Infrastructure and Power segment on the margins front. Now you highlighted that quarterly margins might not be the right way to look at it. So would it be fair to assume that some of the projects which you have executed during the quarter, these margins could potentially come back. So effectively chances of H2 margin bump up being very high. That is one. Second question was on your working capital. I do not know whether I heard you correctly when you were arguing about improvement in working capital, but you said that some portion of the money raised by the subsidiaries, that has also kind of improved the working capital. Was that correct?

Arnob Mondal: No, what I said was that, improve the current investment position that was related to IPO, nothing to do with working capital.

Ashutosh Narkar: So the question on working capital is, is this improvement we are seeing primarily to do with the improvement in order inflows we have seen or customers have started giving out some more advances or is it purely on the ground management of our vendors?

Arnob Mondal: Actually, it is more on the customer outstanding front, even though sales have gone up by 8%, the total customer outstanding has come down in absolute terms, not by a very large amount, Rs.500-600 crores, both the portion which lies under financial assets as well as the customer outstanding which lies in the non-financial assets or other current assets.

- Ashutosh Narkar:** Sorry, I did not get you. So you are basically saying is that you manage customers much efficiently or you collected better?
- Arnob Mondal:** The number of days have come down from 135-days to 129-days of sale.
- Ashutosh Narkar:** On the margin front, would it be fair to assume that Q3 numbers would have a significant bump up in margins?
- Arnob Mondal:** I would not be so sure about Q3 because the large number of projects are due to come into margin recognition threshold in Q4.
- Ashutosh Narkar:** On the Domestic front, we are yet to kind of see any meaningful improvement apart from the few projects which you highlighted, is there any sense you are getting that the new order inflow which potentially can improve the execution or so?
- Arnob Mondal:** Very difficult to gauge at this point of time and that is why we gave only the yearly guidance. It is not that Domestic revenues have fallen, they have grown, but International revenues have grown at a faster pace.
- Moderator:** Thank you. The next question is from the line of Sujit Jain from YES Securities. Please go ahead.
- Sujit Jain:** On the shipbuilding, newspaper reports of two ships of 20 million each canceling the order. So would that mean that probably there could be some more losses to be written off? If arbitration gives a favorable verdict, could some of this Rs.100 crores be written back last quarter and Rs.100 crores this quarter?
- Arnob Mondal:** The arbitration is for the ships which were canceled at the last moment. Infact, a couple of ships were canceled after the customer took part in the free trials as well post which we gave a formal notice saying that free trials are over and they are ready to take delivery, after that they send a cancellation notice and those are under arbitration. What we are trying to do is that we are now reaching an out of arbitration settlement with the customer and we think that whether it be the inventory write-down that we

have taken on the ships not under arbitration or the other ships that are under arbitration, as a whole together there will be no further losses going forward,

Sujit Jain: Which means there is no further cancellation for the remaining 8 ships, total 10 ships were ordered, right?

Arnob Mondal: Ten ships were ordered, out of which three were delivered, five were in arbitration and two are lying in inventory.

Sujit Jain: In Real Estate if one looks at the last year net profit about Rs.660 crores under iGAAP came from real estate 14-15% now if we look at numbers are muted and you spoke about second phase permissions in Powai project. Where exactly the permissions are stuck?

Arnob Mondal: Ultimately, permissions are stuck with BMC. So we will have to wait for that.

Sujit Jain: This performance in Hydrocarbon. What kind of guidance you can give in terms of margins if not exactly but the 4.7% margin that we have seen in the first half?

Arnob Mondal: I think Hydrocarbon will only improve going forward, primarily because if you recollect in Q1 we took close to Rs.100 crores of foreseeable loss provision on old contracts. Now, we don't think there are any more losses coming. So it will improve going forward and what we have guided is that at a PAT level it was negative last year, this year it should be positive by a decent amount.

Sujit Jain: One question on Heavy Engineering margins. Could that be maintained at 14-15%?

Arnob Mondal: This seem to be more normal margins because there is a very high technological element that goes into heavy engineering business. So obviously the margin should be high; however, if they run up against cost overruns and delayed deliveries which could entail liquidated damages, then margins could fall but we do not budget for that sort of negative eventuality.

- Moderator:** Thank you. The next question is from the line of Inderjeet Bhatia from Macquarie. Please go ahead.
- Inderjeet Bhatia:** My first question is on ECL. Now if I look at the Q2, our ECL position has kind of come down and if I also kind of read it along with working capital improving, is it possible that if working capital stays here, our ECL on a full year basis might actually be not very different from what we had last year?
- Arnob Mondal:** Very difficult to say since ECL also depends on the quality of receivables. To elaborate, if I keep on collecting outstandings which are less than six months old and my old outstandings are not collected, the old outstandings will move from one-time bucket to another. So, you will end up with higher provisions, whereas if I collect my old outstandings, our provisions against those get released.
- Inderjeet Bhatia:** But again looking at last year numbers is it not a safe assumption that typically Q4 when you collect most of your money, that is when ECL provisions actually get written back because there is no provisions that we have made in FY16. So from that perspective, a similar kind of trend can play out this year if we collect more in Q4?
- Arnob Mondal:** I would not hazard a guess because Q4 collection, yes, higher collections do happen but whether those will be for current outstandings which do not attract ECL or for our old outstandings which attract ECL is anybody's guess.
- Inderjeet Bhatia:** My second question is on the margins that we were kind of talking about 50 basis points improvement ex-Services. But what is that absolute number because we do not have that information right now. So what was FY16 EBITDA margin ex-Services?
- Arnob Mondal:** FY16 EBITDA margin ex-Services was 9.5% after deducting corporate overheads, that led to another 50 basis points reduction because under iGAAP we are not deducting corporate overheads, but under IND AS we are deducting corporate overheads.
- Inderjeet Bhatia:** So 10% is without that?

Arnob Mondal: Yes.

Inderjeet Bhatia: These includes the ECL charges respective to that segment?

Arnob Mondal: Yes, correct.

Inderjeet Bhatia: Last question is on this working capital again. I know quarterly variations are difficult to predict, but over the next couple of quarters, do we expect to sustain at this 22% kind of a level? And something related this whole liquidity crunch, if that makes you support some of your vendors or customers, would you prefer to kind of miss on revenues or would you want to kind of miss on the working capital, so what is the preference for the company?

Arnob Mondal: You answered the question that working capital numbers are notoriously difficult to predict especially in the short-term. Particularly, as far as demonetization is concerned, the effects of that are completely gray at this point of time, whether we will support vendors or whether we will see a further hardness from customers in paying us is very difficult to predict and that will all depend upon the business situation, the business heads will have to take a decision at a business vertical level. So it is not possible for us to give you a sense on how working capital will move on account of these external factors in the short-term.

Inderjeet Bhatia: But what is the bigger priority for the company, revenues or maintaining working capital?

Arnob Mondal: Revenues are important but at the same time vendors are in a way our business partners, more than customers to that extent, if the vendors fail, then our execution gets impeded very badly. Both are important.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

V Balasubramaniam: When you are giving revenue guidance, you are giving it on consolidated revenues. So FY16, your restated IND AS revenues is Rs 1019 billion. So you

are saying that you think your guidance is 12% to 15% growth on this Rs 1019 billion. Am I correct?

Arnob Mondal: You are correct.

V Balasubramaniam: Now, when you come to margins, you actually give a slide in Annexure-I which is basically gives you that the Developmental Subsidiary, Financial Services, ITTS and then L&T and others. So when you are giving your margin guidance, are you giving a margin guidance on that EBITDA divided by revenue from operations for L&T and others or something else?

Arnob Mondal: Yes, that is L&T and others part that we are talking about.

V Balasubramaniam: So for that, what exactly is your guidance if you could repeat it and what was the number for the last year?

Arnob Mondal: Number for the last year was 9.5% and we have guided for 50 basis points improvement in that.

V Balasubramaniam: The second question is again going back to that Slide #31 & #32. For example, can you please explain when I am looking at this Slide Annexure-II, I look at IDPL and subsidiaries Share in Profits of JV, first half of FY17 losses of around Rs.2.94 billion, and then when I look at developmental projects Rs.1.5 billion is the loss in Annexure-I. So could you just reconcile what exactly am I looking at in Slide #31 and what exactly am I looking at in Slide #32, what is the difference?

Arnob Mondal: Slide #31 you are looking at the profits of all developmental projects, whether they are consolidated or not. That includes Nabha, it includes Kattupalli Port, it includes whatever the small effects are there for Hyderabad Metro whereas Annexure-II which is on Slide #32, these are only the non-consolidated entities where they get consolidated only at PAT level. So this is our share in profit & loss of Subsidiaries and Associates.

V Balasubramaniam: So this would basically be all the Roads subsidiaries of L&T IDPL, correct?

Arnob Mondal: Correct.

V Balasubramaniam: Similarly, this MHPS JV would be part of L&T and others at the profit level at Rs 0.59 billion?

Arnob Mondal: Yes, you are correct.

V Balasubramaniam: Sir, is it possible for you to share in the second quarter what was the dividend from subsidiaries which are booked in the standalone numbers?

Arnob Mondal: Dividend from subsidiaries in the second quarter has gone down by close to Rs.40 crores primarily because of the Infotech, but total dividend was Rs.138 crores versus Rs.181 crores previous year.

V Balasubramaniam: I think there was a question in the beginning which said that you had some order cancellations. Is this something which was mentioned in Mr. Shankar Raman press conference?

Arnob Mondal: Actually, it is a very rough derivation. Opening order book plus order inflows, less sales should actual to closing order book, but there again you have a number of things which creep in like scope changes, scope reduction, exchange rate variation, commodity price variation, etc. So all these get adjusted there. So it is not a very strict arithmetical derivation that you can straightaway come to.

V Balasubramaniam: Is it possible for you to share what is the quantum of cancellations you might have taken in the second quarter?

Arnob Mondal: Incidentally, we take our share of Power JV orders as well which does not come under revenue. That is included in order inflow but we included because it contributes to the PAT. This time for example, we got Ghatampur Boiler order that has come into order inflow. But obviously similarly earlier Boiler orders will not be in the order book, only our share will be in the order book but they will not contribute to revenue, they will only be consolidated at PAT level. So that reconciliation is not an exact science, it could be off by quite a bit here and there.

V Balasubramaniam: So that is why I was asking, could you give us the quantum if there has been any cancellation?

Arnob Mondal: Not significant, that is what I said earlier.

V Balasubramaniam: First half your order inflows have grown around 12%, second half you still maintain 15% kind of order inflow guidance. Is it possible for you to give us a qualitative feel in terms of what are the big ticket sectors or orders that you are looking out for in the second half that we could be tracking?

Arnob Mondal: These could be very-very unpredictable. So I will just be giving very-very back-of-the-envelope numbers like the Landing Platform Dock orders could be anything between Rs.10,000 crores to 12,000 crores according to media report, Mumbai Trans Harbor Bridge, some large tunnel orders, naval ship orders like corvette orders, one or two power plant orders, etc. Whether they actually fructify in 2HFY17 or not, it remains to be seen. But to some extent, to meet our order inflow guidance, we need to bag some large orders.

V Balasubramaniam: The Vajra Gun order has still not been booked?

Arnob Mondal: No, that is not booked, hopefully will come in end of Q3 or early Q4.

V Balasubramaniam: What about the Mumbai Metro order, has it already got booked this year?

Arnob Mondal: Mumbai Metro order has got booked.

Moderator: Thank you. The next question is from the line of Charanjit Singh from Batliwala & Karani Securities. Please go ahead.

Charanjit Singh: Since Hydrocarbon segment is critical for our margin improvement guidance, sir if you can help us kind of sustainable margins in Hydrocarbon segment and what are the kind of claim settlement amount during the quarter?

Arnob Mondal: Claim settlement amount was there but since these are very confidential, I will not be able to disclose them, but Hydrocarbon orders earlier they used to get anything between 10-11% I presume that in a normalized situation it should go back there. Also provided that under-recoveries are also made up

because they have also done a lot of operational excellence measures, they have downsized fairly significant amount in terms of number of people, they have rationalized their cost, so hopefully they will move towards that 10-11% or so.

Charanjit Singh: If we look at Heavy Engineering, earlier the issue was underutilization in this particular segment and we were having around 30% kind of utilization level. So what is the kind of utilization level right now and how is it expected to be going forward?

Arnob Mondal: We never mentioned 30% utilization level, all I had said was that there was a under recovery at that point of time. However, currently they are managing the situation much better by rationalizing their costs, rationalized their manpower, Defense has started contributing, etc.

Charanjit Singh: If we look at the Realty business, there were some other projects apart from the Powai, Bangalore and Chennai also where we are expecting to get some of the approvals. Is there any update because I think by December, we were expecting some approvals to come through?

Arnob Mondal: Bangalore project has already been launched and a significant number of flats have already been booked but the revenues of that will happen after they meet both revenue and margin recognition criteria. I will not speculate on when that could be, even though the flats have been booked, and we are proceeding with execution, it should happen over a period of time. Chennai is yet to happen.

Charanjit Singh: But any color on Chennai like what stage it is in?

Arnob Mondal: As far as we are concerned, Realty business is a long-haul business. I cannot give you update on a quarterly basis.

Charanjit Singh: The last question is on the current demonetization thing you have actually given quite a good insight in the beginning of the presentation. But we are hearing that there is a lot of issue with the manpower availability and construction in some of the projects is kind of slowing down. So in the recent

past have you seen any major impact like this coming through or can happen going forward in Q3 and Q4?

Arnob Mondal: Labor availability, yes, it has impacted to some extent already, but we are also trying to overcome it, like Mr. S.N. Subrahmanyam in the press meet, he clearly said that in some cases we are also providing food to labors at site so that they do not have to hunt around for currency to buy their foods. So we are doing steps to try and alleviate the situation. How it will pan out over Q3 I am not sure at this point of time. It is early days yet. I do not think anybody sure on the exact outcome.

Moderator: Thank you. The next question is from Nitin Arora from Aviva Life Insurance. Please go ahead.

Nitin Arora: Sir, my first question is that when you said that 6% of your order book is the High End Residential, should I assume that this number is actually your private side as a part of your order book?

Arnob Mondal: No, Buildings and Factories have a large part of private sector, whether it be hospitals, or super luxury hotels, even some educational institutions, all that is also private, it is not just High End Residential Real Estate. The reason why I mentioned High End Residential Real Estate is that over the last one week I have been inundated with queries on that particular part of Buildings and Factories.

Nitin Arora: But sir, as a ballpark number in percentage, how much would be your Private Residential in your order book?

Arnob Mondal: Private Residential is this, the other parts are mainly commercial.

Nitin Arora: Sir, with respect to your guidance, people ask this question but just one thing, this guidance which you have maintained, you are not factoring any impact from the demonetization part as you rightly mentioned, it is difficult to predict not even for you, for other corporates as well?

- Arnob Mondal:** Difficult to predict at this point of time. If at the end of Q3 we feel that we will not be able to meet our guidance we will tell the market, it would not be right for us to hold it back till the year end either, at the end of Q3, we should get some idea. So we will decide whether to revise our guidance at the end of Q3 or not.
- Nitin Arora:** Because L&T must be having lot of current accounts across India, so the cash collection support, are you able to give it to these subcontractors?
- Arnob Mondal:** We pay subcontractors by cheque mainly or bank transfers.
- Nitin Arora:** No sir, but subcontractors must be paying in cash, I am saying just to support the subcontractors because of your large current accounts in the system, is it something you have been able to or planning to do so?
- Arnob Mondal:** Somebody else asked this question, whether we will be supporting our vendors, subcontractors are also vendors, we said that at this point of time it is too early to say that, in any case since we pay subcontractors by cheque or bank transfer, they also have current accounts.
- Nitin Arora:** In the Annexure-I when you show the table you said your consolidated margins are 9.5%, you have deducted the corporate overheads in that?
- Arnob Mondal:** Yes, correct.
- Nitin Arora:** With respect to your Hydrocarbon, we have been talking about lot of attritions in Middle East, can you quantify a number to it that this margin expansion how much would be actually happening from the project level per se...I do not want exact numbers, from the execution-led and how much do you think is largely due to the people going out of the business? Is there any write-back you have seen in terms of providing let us say higher provision in the last year which you might be seeing a write-back in the Hydrocarbon if any?
- Arnob Mondal:** #1, I will have to disappoint you on the numbers, I will not be able to give you those numbers, that level of granular detail as far as increase in profitability

is concerned; #2, write-back provision is concerned, we have not written back provisions but as I mentioned we did get some small claims in a couple of cases which straightaway added to the bottom line as well. Quantifying would not be possible due to elements of client confidentiality involved.

Moderator: Thank you. The next question is from the line of Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni: You were talking about this Rs.800-900 crores that could have come from those 30-40 projects, just wanted to understand because I am sure you guys would have done the analysis. In terms of what out of that if it is as an example because of the clients' inability or it is something that will change or if it is because you are holding back than it might be something that will continue, just trying to understand how much of this domestic project hiccup is something that is continuing and how much is something that is just this quarter and then we just move away from that?

Arnob Mondal: Major part of that is client related as well. Whether it improves or not? I am not in a position to speculate on that, Akshay.

Akshay Soni: Also, just in terms of the total pipeline if you could tell us what the pipeline is looking like at this moment for the next six months and how much if it is outside versus India today?

Arnob Mondal: I am a bit hesitant to talk about the pipeline because the numbers are very large, but to give an idea, when we have done the prospect enumeration, the aggregate comes to something like Rs.4.5 lakh crores, of which around 22% is International and the balance is Domestic.

Akshay Soni: I know that you already spoke about the environment. Basically, on execution there has not been significant changes what you have said and what RSR also said in the domestic side, but he mentioned specifically that there has been a hardening in domestic decision making...though of course both you and he said that you will have to see whether it continues but he specifically said that

there was hardening. Is this quarter a sign or is this just a one-off where we could have seen some domestic orders get bunched up?

Arnob Mondal: The reason why RSR said that is we landed up with 36% growth in order inflows in domestic versus 30% degrowth in International. That seems to indicate that decisions are happening but whether it is a precursor of a trend, I honestly do not know.

Akshay Soni: It is a function of the numbers rather than anything that you have noticed in decision making while talking to clients?

Arnob Mondal: You cannot move from Rs.17,000 crores to Rs.24,000 crores in Q2 last year versus Q2 this year without larger number of projects getting signed off.

Akshay Soni: It is not a few large orders that is bunched up, right, from order size perspective we would have not just seen bunching up in this quarter, right, just off-hand, I am not looking for exact numbers?

Arnob Mondal: Sinusoidal curve sort of bunching up and getting deferred happens every now and then, whether we are in the midst of peak in that sign curve or not is I honestly do not know. The award decision can be so unpredictable that I would not like to draw hard conclusions from that.

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

Lokesh Garg: Just wanted to ask you more specifically, is there a number for ECL in Q2 numbers as well that we are seeing just like you suggested a number of something like Rs.1.5 billion in Q1?

Arnob Mondal: It is around Rs.90 crores in ECL for Q2 approximately.

Lokesh Garg: Other thing that I wanted to ask you which is just a terminology sort of a question, you have mentioned in the balance sheet corporate working capital. What do you mean by that, should we not just add it up to the normal working capital of business?

Arnob Mondal: No, there are things like deferred tax assets then when we do a short-term intercorporate deposits to associate companies or subsidiaries which do not get consolidated, so part of the other current assets at a corporate level.

Lokesh Garg: The other question relates to this Infrastructure segment wherein margins have disappointed and as you said this is the biggest part of our business and some part of margin having got hit is related to slower execution of projects and continuous delays that have been happening in start of certain projects. Now, is that impact then limited to just this quarter or has the projects now when you had won them probably they were at whatever x percent margin, now they are x-200 basis points margins because of just virtue of delays in execution?

Arnob Mondal: I also mentioned that we keep on seeing this stop/start, stop/start environment in execution. It just happens at a number of projects, it got bunched up in Q3.

Lokesh Garg: I am not referring to bunching issue, I am referring to the delay issue. Should delay meaning that projects have got delayed so basically delay causes costs and thus the projects are now at a naturally lower profitability levels versus when they were won?

Arnob Mondal: Yes, but we do take into account large part of this when we do our budgeting for margins.

Lokesh Garg: So you are saying that within your guidance you have included all such effects?

Arnob Mondal: Yes.

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

Pulkit Patni: 14,000 people that RSR mentioned have been let go. Could you highlight what sub-sectors they were catering to? Secondly, is the impact of that fully visible in numbers? Thirdly, is this exercise ongoing so could we see further

rationalization going forward in terms of our staff cost, just elaborating on that would be helpful?

Arnob Mondal: RSR answered all these three questions in the press meet, but I will just briefly reiterate what he refers; firstly, it is not limited to any particular segment or sector. This is a ground level zero-based exercise that we have been doing over the last one year, trying to see whether there is any redundancy or whether jobs can be combined or whether some form of automation can be done and people can let go. Mind you, even though we do let people go, at the same time we also separate bottom performers, but again we add lateral recruits whom we think will turn out to be top performers. So what he was talking about is the total separation part on a gross level, it is across sectors and there is no specific thing. Everybody including corporate departments have been going through this for the last year or so. This is an ongoing process, in a sense that you would be aware that we are also looking at digitization within the group as a whole. So that could also lead to some manpower reduction going forward, but I will not hazard a guess on any numbers that could arise from that.

Pulkit Patni: The reason I ask that question is that you had outlined the strategy of ROE improvement over the next few years. I just wanted to understand that was this part of it or was it only through asset sales that we were targeting that improvement, so I just wanted to basically understand as a company, is there a focus on streamlining the cost structure so that we reach that ROE, that was my question?

Arnob Mondal: It is in this part of that as well, in fact, if you take Financial Services, one of the major focus areas in their pipeline was downsizing of manpower and to defocus on certain segments and to focus more on certain segments as part of the ROE improvement plan.

Moderator: Thank you. The next question is from the line of Madanagopal Ramu from Sundaram Mutual Fund. Please go ahead.

Madanagopal Ramu: You have mentioned in the Hydrocarbon there was a claim settlement in this quarter, can you quantify it?

Arnob Mondal: Couple of claim settlements were there. We will not be able to quantify as it was not very significant in terms of amount but significant in terms of principal, and for reasons of client confidentiality we will not be able to give the details.

Moderator: Thank you. The next question is from the line of Debashish Mazumdar from Edelweiss. Please go ahead.

Ankush: Hi, Arnob! This is Ankush. I am repeating my question once again that out of this 30-40 projects, the number of projects comprise from the High End Real Estate, any specific reason that customers are delaying this project, their balance sheet is not supporting it or lenders are not financing?

Arnob Mondal: Ankush, I will not be able to give you project wise details, we do not get into that level of granularity.

Ankush: Another thing is that can we expect that Infra division growth will be aligned to the overall guidance?

Arnob Mondal: We do not guide for individual sectoral growth.

Moderator: Thank you. The next question is from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.

C Narayanan: On the Slide #10 & #13, when you mentioned net working capital to sales, do you mean excluding corporate working capital?

Arnob Mondal: Yes, we exclude corporate working capital and this is based upon trailing 12-month sales.

C Narayanan: The second point to that thing was if we look at the increase or decrease there has been about Rs.1,400 crores of improvement in the net working capital both if we add networking capital as well as corporate working capital but on Slide #13 your working capital cash flows shows actually reduction or

consumption of working capital by about Rs.63 crores. So did not understand that part, how should we read this?

Arnob Mondal: The cash is not part of that as far as cash flow is concerned, cash is only at the last line, for example, we report all the subsidiary companies cash and bank on their balance sheets as part of their working capital as far as our balance sheet is concerned, but in cash flow that does not come under the operating part, that is only at the last line.

C Narayanan: In Slide #10 this includes cash is what we have to understand?

Arnob Mondal: It includes cash at the subsidiary and associate company levels that are getting consolidated, not as a parent, the parent cash is routed under corporate working capital. As long as our treasury does not have access to the cash lying in subsidiaries, we treat it as business working capital. At the parent company level since that is controlled by treasury the business is not burdened with that as a part of working capital, it is bit of a refinement, but that is our internal norm of reporting.

Moderator: Thank you. The next question is from the line of Puneet Garg from Axis Capital. Please proceed.

Bhavin: Hi, Arnob! This is Bhavin here. A few housekeeping questions; we have seen a significant increase in other income. Is it a sustainable number that we should look for?

Arnob Mondal: Honestly do not know, except for the fact that sometime in Q2 particularly in Technology Services we got a large chunk of cash at the end of the quarter, so presumably that will also lead to a decent increase, at the same time we may use it to extinguish some debt, and so interest charge may come down.

Bhavin: Actually that was the next question because we have seen current investments increasing significantly but the debt level excluding the Financial Services and the developmental projects more or less remaining constant. So can we expect decrease in debt levels and interest costs?

- Arnob Mondal:** We need some amount of financial leverage to boost up ROEs to some extent and at the parent company level typically our leverage range is between 0.3 to 0.4x to Equity. So I do not see that going down significantly because if we repay the large amount of debt, ROEs could take a bit of a hit, and the debt is well within manageable limits.
- Bhavin:** Because over time the yield on the other income would be lower than the interest cost?
- Arnob Mondal:** Not necessarily.
- Bhavin:** You highlighted that about 6% of the order book is from the Luxury Residential, and if I am not mistaken you mentioned there are Mass Housing also and the Commercial also. So is it possible to share what exactly is Mass Housing and are these like Government Projects, so we will not see an impact of execution?
- Arnob Mondal:** I mentioned Affordable Housing not Mass Housing. Affordable Housing is different from Mass Housing. So there could be some private sector orders there as well.
- Bhavin:** This would be almost on a dollar value basis equivalent to the Luxury Residential?
- Arnob Mondal:** We do not give that level of breakup of our order book and that too sub-sub-sector wise, but it is certainly less than the Luxury Housing because it has been picking up only in recent times. As far as prospects are concerned, there is fairly good prospect base as far as Affordable Housing is concerned but it has picked up only in the last 1 or 2 years.
- Bhavin:** Could you help us with the definition of Affordable, are these like in the Tier-2, Tier-3 cities, low ticket value?
- Arnob Mondal:** Typically in Mumbai it would be something less than Rs.1 crore, in other cities it would be less than Rs.50 lakhs, mainly more for the middle income group.

- Bhavin:** This could be private, not government?
- Arnob Mondal:** Some part of it could be private.
- Bhavin:** In your Realty segment which was the sale from the Powai and all, can we expect that second half improvement in the revenue bookings and the earnings so that the overall margin level normalizes?
- Arnob Mondal:** I think the second half for Realty according to their projections is fairly decent.
- Moderator:** Thank you. The next question is from the line of Gaurav Sanghvi from Bajaj Allianz Life Insurance. Please proceed.
- Gaurav Sanghvi:** Sir just would like to understand on the Infra segment and overall execution. If we look at execution from the International business side seems to be pretty strong, so the issue is more seems to be from domestic side and you mentioned some of the projects about that. So what is your sense... is there any improvement in the client readiness or still they are facing with the payment issue, if you can just help us?
- Arnob Mondal:** I do not know whether you were there right from the beginning but I mentioned that while things have not deteriorated they have not improved dramatically on the ground either.
- Gaurav Sanghvi:** So this execution is kind of on hold purely because of the payment issue?
- Arnob Mondal:** I never said execution is on hold, what I said is that execution #1 happens in a start stop, start stop manner across the segment, even government customers if they do not have the budget, they do not pay you on time even if you are legally due for that payment. So what we are doing is that we are slowing down execution if payments do not come through that is one part of the reason obviously. Obviously unless we are pushed to an extreme we would not demobilize either, but we slow down execution, we do not want to notch up sales and to finance the customers.

- Gaurav Sanghvi:** So from the International business side, is it right to presume that there are no major execution issues?
- Arnob Mondal:** Execution internationally appears to be a bit better in the sense that we are not plagued by issues like work front not available, regular delays in giving design approvals, delays in certification of milestone work completed, they are less in International business.
- Gaurav Sanghvi:** So when you discuss with majority of the clients, when do you think this execution is expected to improve?
- Arnob Mondal:** We think we have bottomed out but I think at this point of time everybody is just guessing, we have to see a real improvement on the ground and that obviously is driven by a number of macro factors including the fiscal position of the government, whether they have substantial revenue increase, whether they have got money to pay on time, whether they have got budget constraints.
- Gaurav Sanghvi:** The second question is from the reconciliation of equity, if I just look at there is one line item of reversal of dividend in DDT of Rs.2039 crores. Can you help us to understand that what is that amount?
- Arnob Mondal:** Earlier what used to happen was that at the year-end we used to pass an entry for proposed dividend under iGAAP. Now on the balance sheet that dividend used to be shown as a current provision for dividend under current liabilities and provisions, hence it used to be reduced from the net worth, because it was an appropriation of profit. Under IND AS standards you account for dividend and DDT only when it is paid and it will be debited directly to reserves. So that is what that adjustment is all about.
- Gaurav Sanghvi:** This provisioning for expected credit loss of Rs.1100 crores, which is like opening balance which is directly moved?
- Arnob Mondal:** FY16 Opening balance plus the net movement for the full year FY16.
- Gaurav Sanghvi:** Can you give a breakup if possible?

- Arnob Mondal:** I had mentioned last year that close to Rs.1,000 crores was debited to opening balance as on 1st of April 2015.
- Moderator:** Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please proceed.
- Sumit Kishore:** My first question is on overseas execution particularly Middle East. While the numbers have been strong there, could you give us some qualitative color on big ticket Middle East orders getting executed and how are they fairing?
- Arnob Mondal:** If you are referring to the metro jobs both of them are progressing satisfactorily.
- Sumit Kishore:** The Kuwait oil and gas order?
- Arnob Mondal:** That is also progressing satisfactorily.
- Sumit Kishore:** As far as this Ghatampur order is concerned the size was around Rs.3800-3900 crores, in Power segment I see you have reported fresh orders of about Rs.2100 crores. So what quantum was booked in Power?
- Arnob Mondal:** We book our share that is 51% because that was backed by the Boiler JV, so what we have shown in order inflows is not the full order value which went to the Boiler JV but our 51% share there, plus there will be some other smaller orders here and there.
- Sumit Kishore:** We have been reading in the media on L&T Seawoods 1 mn. sq.ft. of retail space getting transacted for a certain amount. Is it true or is it going to be booked in this fiscal, what is the progress there?
- Arnob Mondal:** Sumit, we do not comment on speculative media report, if something major happens we will let you know then.
- Sumit Kishore:** But the plan is to do Phase-I of Seawoods this year?
- Arnob Mondal:** Obviously we will try to sell as much as possible, most of Phase-1 is constructed now.

- Sumit Kishore:** On Hyderabad Metro if you could give us some color on execution progress when is the first phase going to be get commissioned more from our perspective of calculating additional interest cost in depreciation that will come in at what point of time?
- Arnob Mondal:** That decision has not yet been taken, so I will have to disappoint you on that front by not being able to give you any expected timeline.
- Sumit Kishore:** The project cost remains same as the stated number?
- Arnob Mondal:** Yes, correct.
- Moderator:** Thank you. The next question is from the line of Prashant Tiwari from Religare Capital Markets. Please proceed.
- Prashant Tiwari:** On working capital, when you say 22% working capital, you are taking sales of L&T and others, right?
- Arnob Mondal:** Trailing 12-month sales of L&T and others.
- Prashant Tiwari:** On Slide #13 in the first half changes in working capital that includes what other items other than the net working capital... it is just a cash difference or are there anything else?
- Arnob Mondal:** Basically, the cash difference.
- Prashant Tiwari:** So Rs.200 crores or so you have reduced the Rs.290 crores of working capital and other than that cash difference is coming only, right?
- Arnob Mondal:** I do not have the exact reconciliation, but the difference is due to the cash element.
- Prashant Tiwari:** Sir, when you talk about 22% working capital what has been the highest number that we have touched in the history?
- Arnob Mondal:** We touched 35% but that was many years back, in recent years I think the highest that we have seen was 26.5%.

- Prashant Tiwari:** What would you say would be a good number like a lower limit can be touched like 19-18% or something?
- Arnob Mondal:** No, we are targeting to come down to maximum of 18% by end of FY21.
- Prashant Tiwari:** So there would be like 1% equalized calibration across the years may be?
- Arnob Mondal:** That is what we aspire to do.
- Moderator:** Thank you. The next question is from the line of Harish Biyani from Kotak Securities. Please proceed.
- Harish Biyani:** Sir, I have a request in case we can restart sharing the cash flow and balance sheet for the core E&C business as we used to do earlier, that will be very helpful.
- Arnob Mondal:** I will have to see whether we can do that.
- Harish Biyani:** Yes, because finally we are trying to value the business on the cash flow generated in the E&C business, is getting very difficult as you rightly point in one of the slides, it is such a complex environment and the company too is pretty complex. So it will make our life a little more easier.
- Arnob Mondal:** The balance sheet does that to a large extent.
- Harish Biyani:** Sure sir, but I think the earlier breakup was very-very helpful?
- Arnob Mondal:** In this particular balance sheet as I have mentioned not only have we tried to simplify the immense amount of detail that is published but we have also tried to give some value add by giving developmental assets separately, finance lease receivable separately, all that.
- Harish Biyani:** Sir, again on that working capital I did not understand because the operating cash which is there in the business will not include the cash part which is there. So again if we had the numbers you would have been able to delve a little more deeper on the E&C business but the E&C business from 24% last quarter to 22% which is not reflected in the first half numbers because the

other services business would not consume much cash if my understanding is correct, so how do we understand that... changes in working capital should ideally not have that cash element or operating cash should not that cash element?

Arnob Mondal: As far as the cash flow is concerned it does not have any cash element okay; however, as far as our definition of net working capital is concerned, the entire cash which is sitting in subsidiaries is not available to the parent for treasury operations, correct, so that is classified as the working capital. As far as the standalone is concerned, because every penny of collection flows through treasury, businesses are not responsible for management of that treasury part. So that is why they are not burdened with the corporate level cash.

Harish Biyani: So I think we can take this once we have the numbers but finally a key question that we all have is that from fiscal year '16 or the first quarter '17 has not been material improvement in the E&C working capital in the second quarter?

Arnob Mondal: You can see that there is Rs.300 crores decrease in net working capital as far as business is concerned.

Harish Biyani: On the Infra margin decline which is there for 100 bps for the first half, is it largely because of Domestic projects or Overseas projects, qualitative comments would be very helpful?

Arnob Mondal: Mainly Domestic.

Harish Biyani: Sir once again if you can just help us explain how do you book the order inflow and revenue numbers in the Power segment in terms of the EPC being booked in consolidated and others being booked in the JV, that will be very helpful?

Arnob Mondal: As far as EPC is concerned anything that comes to the parent flows through the revenues, costs, EBITDA margin and PAT of parent that is the consolidated entity. In case of equity method, the entire result of the JV is consolidated only on a one-line item, not a line-by-line consolidation like a subsidiary which

is consolidated. So we book only one-line item which is your share of profit or loss in subsidiaries and JV companies.

Harish Biyani: That I understand, say, hypothetically you got EPC order of say Rs.1000 crores, it is equipment order and others BOP and other civil contract which is there, how much would be booked then in JVs and how much would be booked in the consolidated excluding that JV?

Arnob Mondal: Entire EPC order would be booked in the parent, entire revenues would be booked in the parent; however, what happens is that since we give another order to the JV we have to part with our margins to that particular JV, correct. So out of this Rs.1000 crores if I give say Rs.700 crores or Rs.800 crores to the Boiler and Turbine JVs, the Boiler and Turbine JVs will book Rs.800 crores when they execute that in their thing and they will book their margins. Even earlier inter-company revenues used to get eliminated, but not the margins. So difference between the iGAAP and IND AS is that the revenues have not gone down but the margins are now lying in the JV which has reduced the reported EBITDA margins. That is why you see such a thin margin because that is only the construction activity which the parent does.

Harish Biyani: Sir, quick two questions: MMH, any loss number for the first half and Shipbuilding last year in the consolidated there was a loss of Rs.320 crores odd, this year only inventory write down is somewhere around Rs.200 crores, excluding this inventory write down what would be the kind of loss numbers and given that orders are not coming through, is this all going to continue?

Arnob Mondal: If Shipbuilding orders do not come through losses will continue but we will see whether we can give that number at both MMH and Shipbuilding at the end of the year.

Moderator: Thank you. The next question is from the line of Inderjeet Bhatia from Macquarie. Please proceed.

Inderjeet Bhatia: On this Rs.400 crores of exceptional gain, is there a tax booked on it and if there is what is the quantum?

- Arnob Mondal:** No, there is no tax booked on that.
- Moderator:** Thank you. The next question is from the line of Salil Desai from Premji Invest. Please proceed.
- Salil Desai:** A follow up on this Infra sector margin. 30-40 projects there was some client side delays. So is it just a case of not being able to recognize margins on this because of them not crossing the threshold or is there an actual say a loss provision or a cost to completion provision that you have considered?
- Arnob Mondal:** It is a combination of both but a large part of it was due to cost overruns on extended stay which we will again claim back from the client.
- Salil Desai:** But which would happen I assuming say over a period of time right on completion of these projects or is it an ongoing exercise?
- Arnob Mondal:** If a project is towards the fag end of completion and we complete it in this quarter or we will book a claim in this quarter itself but if it is on early execution we will raise a claim on the customer later on, and if the customer approves in between will increase the contract value at that point of time, so the margins will come in then through that route.
- Salil Desai:** So these 30-40 projects are a mix of say some very new where you have not even crossed the threshold?
- Arnob Mondal:** For the revenue part, as far as margins are concerned there were not that many projects. My guess is that there would be around may be 25-odd projects affecting margins.
- Salil Desai:** Would you be able to share the cost to competition provisions?
- Arnob Mondal:** No, I would not be able to share that detail.
- Moderator:** Thank you. The next question is from the line of Amar Kedia from Nomura. Please proceed.

Amar Kedia: So again going back on this Infra sector, 30 to 40 projects where you have had execution hiccups during the quarter, from what it seems like that these problems are more continuing in nature for the past many quarters, right, what I am trying to understand is that what is so specific in this particular quarter that you have identified these projects along with Rs.800 to Rs.900 crores sum on the revenue side and similarly Rs.200 crores number on the margin side?

Arnob Mondal: Amar, it is only that the revenue growth this quarter was very muted, that is why we did, but every quarter you will find may be 20, 30, 40 projects like this, I mentioned that this sort of execution environment has been persisting for quite some time, it is just that this quarter we quantified it primarily because the revenue growth was muted and the margins fell. So we did a deeper dive and analyze the reasons why this happened.

Amar Kedia: Basically what you are saying is that the reasons are still the same, that has been bugging you for the past many quarters but just that you have done a deeper analysis this time?

Arnob Mondal: Absolutely correct. Actually if you look at it even in Q1 revenue increased by around 8-9% or so, this time it is around 6%, it is not that the revenues have suddenly fallen off a cliff, it is just that they have gone down marginally.

Amar Kedia: So there is no one off over here, it is more like a continuing problem?

Arnob Mondal: You are correct.

Amar Kedia: The second is that this particular quarter there was this NGT ban in Delhi and around area for a week or so for all construction activities. Of course from a full year perspective it will still not be too significant but at least for this Q3 it will be a decent number especially put together with the demonetization slowdown if at all does anything?

Arnob Mondal: Amar, those were only for construction projects in heart of the city, most of our projects that we execute are outside the city limits barring buildings which

we are doing in the heart of the city and that too what you are referring to is only in the City of Delhi.

Amar Kedia: Ok. The second is in one of your earlier comments you mentioned that the Construction Mining Equipment Business has gone down this quarter. Now this actually is not in sync with the comments that we have heard from some of the other companies like Tata Hitachi or even Cummins India where they have actually been talking of a very robust growth in these segments. So what are we missing here?

Arnob Mondal: Actually we also categorize our tyre making machinery under this sector and that is where we have seen a big dip, strictly speaking on Construction Mining, we call it Construction Equipment and others which we loosely term as Construction Mining but mainly this rubber processing machinery where we have seen a decline.

Amar Kedia: Would it be possible to split your domestic side Infra order backlog on a private and public basis. How much of the order would be from private sector customers' ballpark?

Arnob Mondal: Total order book would be around approximately 60% public and 40% private total, not on the Infra side, total.

Amar Kedia: Any idea only on the Domestic side?

Arnob Mondal: I will not be able to give you that number, sorry.

Amar Kedia: So in Delhi at least we have seen a significant order activity at least to consultants at this point of time for redevelopment orders and these orders are accumulating to the extent of almost Rs.50,000 crores as we speak. So do you see yourself participating in these orders going ahead and if so what would be the timeline, would you be building that in let us say next 6-months, 1-year, I am talking of mostly the government housing colony redevelopment orders something that companies like NBCC are doing?

Arnob Mondal: If we are able to get our margins, we will definitely participate, but if they are mass housing typically mass housing orders margins tend to be slightly on the thinner side, so we tend to get priced out there. But if there is any element of complexity, if there is element of pre-fab that we can capitalize on things like tunnel, then we will definitely bid for those but whether we get them or not is another thing altogether.

Moderator: Thank you. The next question is from the line of Rohit Joshi from Dion Global Solutions. Please proceed.

Rohit Joshi: I just want to know that in your commentary you have said Domestic projects were strong in some selective areas. Which were those areas I just want to know?

Arnob Mondal: These are mainly in Roads, Railways, Metro Rails, Power Transmission and Distribution and Water.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Mondal for closing comments. Over to you sir.

Arnob Mondal: Thank you Zaid, and thank you Ladies and gentlemen for a very patient hearing and fairly interactive one. Before signing off I would just like to reiterate once again that please do not view quarterly results as a benchmark for annual results because of the nature of our business. With that I would like to close the session.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Larsen & Toubro Limited that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.