

Larsen & Toubro Ltd.Q2 & H1 FY18 Earnings Conference Call

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Moderator:

Good day, ladies and gentlemen and welcome to the Q2 & H1 FY'18 Earnings Conference Call of Larsen & Toubro Limited. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arnob Mondal -Vice President, Corporate Accounts and Head, Investor Relations. Thank you and over to you, sir.

Arnob K. Mondal:

Thank you, Margaret. Good Evening, ladies and gentlemen. Sorry to occupy your time on a Saturday evening. We will keep it short. I do not think there are many complications in Q2FY18 numbers, so I do not anticipate that the call will go on for too long.

We will follow the usual format where my colleague, Manish Kayal will first make the presentation prepared on Q2FY18 results and he will hand it over to me on the last slide post which we will have the Q&A.

Before handing over to Manish, all of you would probably be aware that we had uploaded the presentation on our website at 4:30pm, so you had a full one hour to go through it. With that, I would like hand it over to Manish.

Manish Kayal:

Thank you, sir. Good Evening, everyone. I am Manish Kayal.

I will directly go to the Disclaimer Slide (Slide #2). I will consider it as read. However, I would like to highlight a few key points. As you all know that we may make some forward-looking statements on the call which may or may not materialize. There are some risks and uncertainties related to these forward-looking statements which could go in direction that we have not anticipated. It is in this backdrop that you should consider the comments that we make on this call.

Moving to the next slide, "Presentation Outline." As mentioned, this presentation is broken into four parts. I will take you through the first three and the fourth part of the presentation that is the environmental outlook will be highlighted by Mondal sir. We also have few tables in the annexure which I will request you to see.

Moving to the next Slide #4 on "Performance Highlights." This slide shows key operational metrics for Q2 and we believe that it was a strong quarter on various operational parameters despite challenging environment except for the order inflow. We will highlight these numbers in further detail on the next slide.

Next slide, "Key Financial Indicators" gives you an Overview of the Operational Parameters and Financial Parameters.



Q2 has seen order flow of Rs 287 bn, decline of 8% on YoY basis. This was mainly due to deferment and delays in ordering from our clients.

Our order book currently stands at Rs 2.6 trillion, 2% growth on YoY basis.

Revenue of Rs 264 bn, growth of 6% on YoY basis.

EBITDA at Rs 30 bn grew by 28% on YoY basis.

Recurring PAT at Rs 17 Bn grew by 63% on YoY basis.

The borrowings increased by Rs.88 Bn mainly due to the Financial Services business. Accordingly, our debt-equity ratio increased from 1.75% to 1.87%.

Net working capital is stable between 20% and 21% and we believe that this is in line with our expectation.

Moving to the next slide on Order Inflow and Order Book: As mentioned by our CFO in press meet, the subdued investment environment continues to impact order inflows. The order inflow growth declined in both domestic and international markets in the H1 period. In domestic market, the public sector still continues to drive capex. Private sector capex is yet to pick up. International order inflows in H1 was stable due to the decent wins in Hydrocarbon business.

Order Book: Out of the total order book, the international jobs contribute around 26% Vs 29% that we have seen in the previous year. The large and diverse order book mitigate cyclical volatility that we are subject to due to our presence in various sectors.

Moving to the Next Slide #8 on Sales and Costs: The revenue grew by 6% in Q2 and by 8% in first half. Both the domestic and international markets contributed to the growth. Among the businesses, Water, Heavy Engineering and Services business witnessed higher growth.

Moving to the next line, MCO Expenses: In line execution and operational efficiencies contain the MCO charge.

The next line, "Financial Charge Opex:" This item represents the finance cost charged as operating expenses. This is due to our Financial Services business and the Finance Lease activity.

Next is the Staff Cost: The pay revision and scaling up of our headcount and growth in segments are the main reasons for the staff cost rise.



Next line on Sales and Admin: The increase is mainly because of the higher credit cost in our Financial Services business.

Moving to the Next Slide: Slide #9 EBITDA to PAT: EBITDA grew by 28% in Q2 and this reflects improved profitability. More color on business-specific markets will be presented in the respective segment slides.

The next line item, "Finance Cost:" The increase in that item is due to higher borrowings.

Other income as you all know that is mainly comprises treasury earnings.

Our share of loss from the JVs / Subsidiaries & Associates, which are consolidated under equity method, has reduced on Improved performance of the businesses.

Non-controlling Interest (NCI) which basically is minority interest as it was called previously. This has increased because of the equity sale dilution and the growth in profit of these businesses.

The Last Item is Exceptional Item: This is due to profit of sale of cutting tools business. Previous year we had profits on sale of General Insurance business.

Moving to the Next Slide - Segment Composition: This is the standard slide that we have presented over the past two few quarters. There is no material change in it. Suffice to say that there are nine externally reported segments and this slide shows the composition of each segment.

Moving to the Next Slide on Order Inflow and Order Book Break-up: This is mainly for reference purpose. I would like to highlight that revenues of Services business and other products businesses are grouped under order inflows as their sales arise from very short cycle order inflows. These businesses does not appear in order book. The international order book contributes to about 26% of the total order book.

Next Slide on Revenue Breakup: Again, this slide is for reference purpose. Here, the international revenue contributes to about 35% of revenue which was at a similar level last year as well.

Now, we move to the next slide giving Overview of Various Segments:

We will start with Infrastructure, moving to Slide #14: The revenue under this segment grew by 4% in Q2 and 10% in first half. The growth was lower mainly on account of GST transition and execution constraint that we have seen in a few projects. Vertical wise, Water and Transportation Infrastructure contributed to the revenue growth.



That was on the revenue part. Margins in this segment improved by job mix and other cost efficiencies.

Moving to the next slide on Power: Power segment revenue declined by 4% in Q2 and by 1% in the first half. Power sector as you all know is going through challenging times which is also impacting us as we do EPC along with power equipment manufacturing. On the margin front, the job mix led the improvement in Q2 margins.

We also have JVs with Mitsubishi where we do power equipment manufacturing and those are consolidated at the PAT level under equity method. These are our high margin manufacturing businesses which are not consolidated line-by-line but profits from this business are included at the PAT level and hence are not reflected in the above numbers. You can see our share of P&L in these businesses on Slide #30, share in profit and loss of JVs and associates.

Moving to the Next Slide on Heavy Engineering Segment: This segment witnessed good revenue growth of 55% in Q2 mainly due to the Defence business. The international revenue share actually declined because of lower order book and PPN business which is basically the Process Plant and Nuclear business. Margin has seen a minor improvement from 14.6% to 15.4% this quarter and this is mainly influenced by job execution phase. We have one other business which is part of this segment and which is not consolidated line-by-line i.e. our Special Steels and Forgings business. It is still facing low capacity utilization and you can see our share of profit & loss in this business on the Slide #30.

Moving to the next slide on Electrical and Automation Segment: The revenue here grew by 15% and would like to highlight that the net revenues are adjusted for the excise duty which was there last year and which has now subsumed in GST w.e.f. 1st July 2017.

Business wise, the revenue growth was enabled by uptick in MPS, Switchboards, and Control & Automation segment. On the margin front, the Electrical Standard Products business and improved performance in Projects business in the GCC market led to margin improvement.

Moving to the next slide of Hydrocarbon segment: As conveyed earlier, FY17 saw closure of all the Middle East legacy jobs and we also saw turnaround of the business. The revenue grew by better execution of the international jobs and margin improvement was due to the efficient execution of jobs and cost optimization.

I will now move to the Developmental Project segment (Slide #19): Would like to first convey which all businesses are included in this segment. We include Power Development, Hyderabad Metro and Kattupalli Port. Kattupalli Port is under divestment process and hopefully the process should be completed this year. Our



other developments projects such as Road Concession portfolio and the Kudgi Transmission Line are being consolidated at a PAT level as we have a partner there, CPPIB. On the financial performance, the favorable Supreme Court judgment actually benefited us on both revenue and margin front in the developmental business.

Moving to the next slide, IT & Technology: As you all know that these two businesses are separately listed, LTI and L&T Technology Services and this slide is basically for reference purpose. The detail presentation is also available on their respective websites. I will share some major takeaways from the results.

On L&T Infotech which is now rebranded as LTI, the BFS, Energy & Utilities, CPG, Retail & Pharma verticals led revenue growth. They are focusing more on digital offering which now forms about 32% of the total revenue and is growing well.

On our other business, Technology Services, Transportation and Telecom and Hi Tech vertical led revenue growth of 8% in Q2.

Both the companies are focusing on stability of earnings while managing their growth.

The next slide is on "Others segment" which is basically residuary segment wherein we have businesses like MMH which is Metallurgical and Material Handling, IPM which is Industrial Products and Machinery, Realty and Shipbuilding. Revenues which declined by 12% in Q2 and by 7% in H1 was affected by lower offtake in Realty and Valves business. Realty business had the major impact because of the introduction of RERA, delayed approvals by the respective authorities and demonetization. Shipbuilding, MMH and Construction and Mining Machinery business contributed to margin recovery.

Next Slide is on L&T Finance Holdings: Again, this is separately listed. We are presenting the I-GAAP numbers here because this is what they have reported in the financial results. However, for consolidation purpose, we have considered IndAS financials.

The Lending business witnessed disbursement growth of 81% and the Asset Management business witnessed AUM growth of 61%. The portfolio rationalization steps taken six quarters back is yielding results. The focus is on getting higher ROE. This is being attained through growth and focus businesses and improved asset quality. They have a detailed presentation uploaded on their website and would request you to see that.

With that I end the presentation from my part and hand over the call to Mr. Mondal sir.



Arnob K. Mondal:

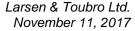
Thank you, Manish. As usual, I will just briefly touch upon the "Environment" as well as the "Outlook." Here again we have broadly divided into three parts - Order Inflows, Revenues and Margins.

As far as order inflows are concerned, quite a bit has already been said by Mr. Shankar Raman and Manish also touched upon it. Strong public sector outlay is still there, private sector is very-very muted. We have seen aggressive competition in some select areas. Middle East opportunity basket has shrunk to some extent; however, the prospect base is decent and satisfactory. In the beginning of the year when we had drawn up our budgets, we had envisaged a slowdown in Middle East which is playing out and we had estimated that domestic investment momentum would pick up. While it is there to some extent, the extent of pick-up in domestic market has not been as strong as we thought it would be and we have seen quite a few deferments of orders moving from one quarter to another. In fact, a number of orders that we thought would get ordered out by end of September, actually slipped into the next quarter. So while we are L1 in a decent quantity of bids.

Now coming to the outlook for the year as a whole, in the beginning of the year we had guided for order inflow growth of 12-14% on Rs.1,45,000 crores base. Seeing a progress that has happened in the 1H of the year, we feel that reaching that elevated level maybe a bit difficult and our view right now is that by the end of the year we should at least touch last year's level and maybe exhibit a small marginal growth. But it is unlikely that we will see 14% growth unless of course Q4 sees a plethora of orders getting finalized. But one of the reasons why we always say that there is an inherent unpredictability in estimating the extent of order inflows that can flow into our kitty.

Coming to Revenues: I think this quarter has seen a bit muted revenues growth primarily due to the effect of GST transition as in around 13- 14 projects there was still some execution bottlenecks. However, domestic execution is still doing reasonably well even though we do see sporadic delays in payments as well as in clearances from customers. But GST transition that we saw is tapering off already, things are getting much more streamlined. The problem that we faced initially was difficulty in billing to customers wherever rates have changed and obviously we cannot invoice, so we will have to slow down execution, else our working capital would have ballooned beyond acceptable limits. We still think that working capital is well under control. At this point of time, it is hovering between 20-21% which is pretty much in line with what we thought it would be. However, industrial offtake is still very soft as far as revenues are concerned and we are still waiting a pickup in that area.

Margins are subject to quarterly volatility like revenues to a large extent. However, what we are seeing is that margins are moving along expected lines and this year as Manish pointed out, our EBITDA margins in this quarter increased by 28%. We think we





should be able to maintain our guidance of 25 bps improvement for the year as a whole excluding services business. Commodity prices of course, some of them have been inching up, particularly steel, however we do have a fairly large portion of our order book which has commodity inflation pass-through clauses.

I touched upon revenues and what I also like to maintain is that in the beginning of the year we had given a guidance of 12% growth over FY17 and considering the progress that we have made by the end of H1 of 8% growth, we think that we are still within fairly good striking distance of maintaining our guidance. So the revenue guidance remains unchanged at this point of time.

With that, I would like to hand it over to Q&A. Over to you, Margaret.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session.

The first question is from the line of Manish Agarwal from Sanford C. Bernstein. Please

go ahead.

Manish Agarwal: Firstly, on the order inflow, if you can give us an update on the progress on the order

pipeline especially domestic market of transportation and defence?

Arnob K. Mondal: We do not give a detail sector-by-sector, but suffice to say that the prospect base is

decent for the remaining part of the year and hopefully the prospects that we have sighted, major part of those will get ordered out. We have around Rs.2 lakh crores of prospects in Infrastructure segment, around Rs.1 lakh crore of prospects in power (generation and T&D taken together). Hydrocarbon is not very high, maybe around Rs.30,000-40,000 crores. These are the major areas where we have prospects, but at

this point of time we do not want to give out the detailed breakup for each businesses.

Manish Agarwal: Sir, Switchgear business, road assets as well as Nabha given that the issue has been

resolved now, I am referring to the InvIT, what is the progress there.

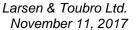
Arnob K. Mondal: InvIT, we are prospecting with investors at this point of time, still sounding out

investors on their appetite.

As far as Electrical and Automation business is concerned, at this point of time those are speculative rumors, we do not comment on speculative rumors, so I will not be

able to give you any answer to that question. $% \left\{ \left\{ 1\right\} \right\} =\left\{ 1\right\} =\left\{ 1\right\}$

As far as Nabha is concerned, while the major part of the disputes have got resolved, there are still a couple of more disputes which are pending at the Supreme Court level. So we are waiting for resolution of that. Hopefully by the end of this year, those will also get resolved. We won five disputes bundled together which we were contesting in the Supreme Court. That judgment came out in our favor.





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

go ahead.

Aditya Bhartia: Just wanted to understand on Nabha side. We used to have at least until the last year

fairly high receivables for Nabha as well. Have we already started receiving money against that or do you expect that the kind of debt recouped over the next couple of

months?

Arnob K. Mondal: No, we are due to get that money back. The Supreme Court order says that the power

utility PSPCL with whom we have 100% PPA, has to pay that within three months, we will have to wait till the three months expire, after which the interest will start

accruing.

Aditya Bhartia: But we will be getting everything that was there on the debtor side?

Arnob K. Mondal: Barring a small amount which we have already provided for which was basically testing

and liasoning charges a very small portion of the debtors.

Aditya Bhartia: This particular quarter, international infrastructure revenues which had been growing

at a fairly brisk space in the last few quarters has shown a bit of tepid growth. Is it because both the metro projects have already kind of ramped up to the full extent and it is only hydrocarbon wherein we saw increase this quarter? What really is

happening on the Doha Metro side - are we seeing any issues over there?

Arnob K. Mondal: We had anticipated that Middle East Infra projects would not grow very fast and that

I think you would have also noticed that in the first quarter our domestic revenues grew considerably higher than international revenues. International revenues, the trend has continued, I cannot pinpoint any specific project as such, it is not that revenues have not grown at all, but execution is going on as usual, nothing very strong. Both the Riyadh Metro and Doha Metro were already in the thick of execution. So it is

unrealistic to expect a further bump up in revenues from projects like that.

Aditya Bhartia: But there are no issues in Qatar project that we are facing?

Arnob K. Mondal: Not really, even though payment problems are there in some projects mainly in Saudi,

but that is the nature of any infrastructure project execution.

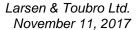
Aditya Bhartia: Last question is on working capital. While it has remained within around 21%-odd kind

of a range, it has increased a bit this particular quarter. Has GST contributed anything

to it or would you basically treat it as a normal thing?

Arnob K. Mondal: This is normal. In the beginning of the year we also said that, last year if you recollect,

we had brought it down between 300-400 basis points, and we exceeded our expectations, and we also said that to some extent execution has got impeded





because our sharp focus on working capital. So we said that ultimately it is a balance between Balance Sheet and P&L. So at the same time we took a decision that we would not actively pursue a further reduction. Anything between 20-21% should be acceptable but we are not likely to go beyond that. So we are maintaining that.

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 the margin side. If I look at your E&C business ex of all services side, we have seen almost close to 100 basis points margin improvement in the first half compared to first half last year. Any particular reason why we are still holding on to 25 basis points margin improvement there because that would imply that you have actually no improvement going into second half while you still had write-offs happening in Shipbuilding last year?

Arnob K. Mondal:

The fact is that margin recognition I have mentioned it time and time again, and will reiterate it once again that margins tends to be very lumpy from quarter-to-quarter. In fact, large part of the margin bump up actually happened in this quarter if you see from 7.1% to 7.5% in the Infra segment. It grew by a substantial amount. That is just because of the stage of job execution, for example, power sector margins grew substantially because some international projects getting into revenue recognition phase. That is a very short-term transient set of numbers. So I still urge you to consider full year 25 basis points improvement, which seems to be on track. At this point of time, I do not think we would like to project anything rosier than that.

Inderjeet Bhatia:

Second question is on the order book quality. Are there any kind of slow-moving orders now? The reason I am asking this is that even if you do not have growth in order inflows this year, we might still have end of I think some growth in order backlog. Is the quality of order book now very pristine, will that give us confidence in revenue growth into next year?

Arnob K. Mondal:

We think there is a quality of the order book now whatever we have reported is of good quality.

Inderjeet Bhatia:

So those slow-moving orders at this point of time?

Arnob K. Mondal:

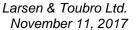
Practically nothing.

Moderator:

Thank you. The next question is from the line of Sumit Kishore from J.P. Morgan. Please go ahead.

Sumit Kishore:

My first question is a follow up on the last one. In your comments you mentioned that there are 13-14 projects which have execution bottlenecks and the commentary on infrastructure segment execution either delays in clearances, work front availability,





right of way issues have been bit sticky for some time. So what is the proportion of these 13-14 projects in Infra which is 74% of the total order backlog?

Arnob K. Mondal:

We do not look at it as a proportion, but the fact is that in this quarter, we would have lost some revenues on this because of these execution impediments if you can call it that. But you would also recollect that may be around a year to year and a half back in one quarter, I mentioned that there are over 40 projects which were like this. So to that extent, I think the execution environment is better. When you manage hundreds of projects at any point of time, it is not surprising that 13-14 projects will have certain bottlenecks.

Sumit Kishore: While we fully understand that quarterly margin should not be extrapolated, but

> infrastructure segment was very wide variation, so others this MMH and CMB have contributed to be a steep margin recovery. Is there something that is more sustainable

that you would like to highlight?

Arnob K. Mondal: I think the current margins are more sustainable. Last year Q2 also had a Shipbuilding

> inventory write-off. So to that extent, that would also have contributed to the increase, but in the current quarter, there is no write-off such on Shipbuilding or

anything like that. So this would probably be a bit more sustainable.

Sumit Kishore: On Nabha, the resumption of revenue recognition with respect to disputed items, has

that been specifically for September quarter or there is some prior period item as well

which you would like to highlight?

Arnob K. Mondal: Major part is the prior period item, infact, very roughly speaking, out of around Rs.350

> crores of revenues that we recognized on those disputed items, around Rs.250 crores was relating to prior periods when we had stopped accruing the revenues because that matter gone into a Supreme Court. So the Supreme Court upheld that, yes, our revenue recognition was correct, so we have again resumed that and obviously for the

three quarters that we had not recognized it, we reinstated those revenues.

Sumit Kishore: As per the Supreme Court order, what is the total amount that you are likely to get

within a 3 month period?

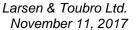
Arnob K. Mondal: Would be around Rs.1,000 crores approximately.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Deutsche bank.

Please go ahead.

Abhishek Puri: A couple of things; one, from the previous quarter of Nabha Power, Rs.250 crores is

the revenue. Is there a cost component attached to it or this will flow into PBT?





Arnob K. Mondal: Actually, it is around Rs.350 crores with Rs.100 crores is normal revenue which would

have accrued in Q2, that does not pertain to any arrears as such. So that Rs.250 crores

has gone to PBT.

Abhishek Puri: Secondly, in terms of the realty segment, I was reading somewhere that you soft

launched the second and third phase of the Powai facility. What is the status there - have we received all clearances there or are we starting any construction work now?

Arnob K. Mondal: We have got the clearances. We will start the work subsequently now, not yet started.

Abhishek Puri: Lastly on the Infra segment, if you can give us at least some indication on how the

projects are moving at least the big ones, the Mumbai Coastal Road, the Defence

Projects and the MTHL bid which recently opened?

Arnob K. Mondal: The MTHL bid that recently opened where we are L1 in a couple of packages there.

That seems to be coming through obviously. The other ones, I would not like to comment on how they are moving because infrastructure projects by their very nature can see a huge elongation of prospect to bid timeline and we have been disappointed on so many occasions on so many projects that I would not hazard a guess on the timelines for those large projects. But you are correct they are still on the anvil, no

doubt about it.

Abhishek Puri: Let me put it the other way; how much is the L1 pipeline for you?

Arnob K. Mondal: At the end of September, we are L1 slightly more than Rs.20,000 crores of orders

which we did not get Letter of Intent / Letter of Award so we could not take it into

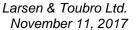
our order inflow.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from

Citi Research. Please go ahead.

V Balasubramaniam: You already explained why that order inflow guidance has been brought down. I am

sorry I am asking you this question again because of two things - one is obviously the scale of the reduction is quite unlike which you have ever done before from 12-14% to staying flattish to slightly higher, this kind of reduction I do not think it is ever done before. Now the second aspect also obviously there is a change at the top level with Mr. Naik large being in September. That is why I am asking this question. Is this reduction in order inflow guidance because from the start of the year to today the environment has not been that good or your competition has been more aggressive or there is a change in thought process in terms of how you are bidding. Do you think that now the focus will be slightly more on EBITDA margins rather than just order inflow growth or is it like there is a change in the way you are thinking about how do you want to guide, I think there are certain managements who would prefer guiding slightly more conservatively going into the year, so what exactly or is it just business





related which has made the change and there is no change in the approach to giving the order inflow guidance?

Arnob K. Mondal: Venkatesh, I have elaborated on the reasons for the change in guidance and I think

you should rest assured that it is not because of post 30th, September. Mr. Naik is still the Chairman of the Board of L&T and obviously he is larger than life figure and has a very heavy weight in the company. So I think these two issues need to be delinked at

least in your mind.

V Balasubramaniam: The other one is just a data question which we ask. What is the subsidiary dividend in

this quarter in the standalone number? I think last year second quarter this was Rs. 138

crores.

Arnob K. Mondal: This year it is Rs.300 crores.

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

Renu Baid: A couple of questions; first, you did mention that overall order prospect list is slightly

reduced this year. But on the LPD side, are we still hopeful that it could be concluded

by March or probably it is just now slipping to next financial year?

Arnob K. Mondal: We are always hopeful, but we have been disappointed time-and-time again.

Renu Baid: This time again looks like it will be slipping mostly into the next because we have not

heard anything much on the project yet?

Arnob K. Mondal: We are hopeful.

Renu Baid: Any update in terms of where has the order reach in terms of timelines?

Arnob K. Mondal: No, I do not think we can give updates like that...we do not get updates like that

either.

Renu Baid: Second is media article suggests that Schneider Electric has entered into definitive

agreement for the E&A business of L&T. Any comments on this side?

Arnob K. Mondal: I have already commented on this Renu, whichever way you ask the question my

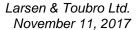
answer will still be the same that we do not comment on speculative media rumors.

Renu Baid: Overall, can you just give an idea with respect to the other divestment that you are

planning including Kattupalli port and others?

Arnob K. Mondal: Kattupalli port, we are still awaiting final from the state government, Tamil Nadu,

Manish said that we hope to get sometime this year, I think everybody knows that





Tamil Nadu has been going through a bit of political situation so that will obviously have some effect on the timeline, still we are waiting the final approval, so it is on the cards definitely.

The other one is InvIT, I have already mentioned that we are in discussion with investors to get an idea about their appetite. So these two are on the cards. Kattupalli port of course is much more definitive. InvIT is the prospecting level at this point of time.

Renu Baid: Can you just mention in Others improvement, what could be the contribution here

from Hyderabad Metro job work?

Arnob K. Mondal: Hyderabad Metro does not contribute any margins; it only contributes to top line.

Renu Baid: The margin improvement here anything specific that you would like to comment?

Arnob K. Mondal: We mentioned that it mainly came from MMH, construction equipment and others as

well as last year we had that inventory write-off building. So these are the three main

factors.

Moderator: Thank you. The next question is from the line of Charanjit Singh from B&K Securities.

Please go ahead.

Charanjit Singh: If we see at the government level, there have been major announcements and also a

lot of changes in the ministers to driver certain larger infrastructure category like roads, railways, if you can give us some color how do you see the changes in terms of

further order inflow from the government side?

Arnob K. Mondal: You raised a very valid point, Charanjit and something which I should have covered in

my environment segment. Thank you for giving me this opportunity. You are correct that the government has announced some major changes particularly Bharatmala and plans for Railways, these two. But in our prospect base until we have a line of sight

into a specific project approaching tendering stage, we cannot really take it as a prospect as such. While it is nice to hear very large numbers, trillions of rupees and stuff like that which the government will spend, until they translate into actual RFPs,

I do not think we can really take a view on that, but it does seem that the investment

climate is set to improve going forward and they are probably banking on the fact that GST could lead to an uptick in revenues which would enable them to spend more on

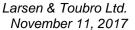
Infra. Yes, you are correct, next year it may be completely a different situation, but

at this point of time that is crystal ball gazing. But there is a definite positive

environment on that front.

Charanjit Singh: Sir, on the prospect list, as per earlier indications, we have made quite a lot of

defence project and again there has been a change of ministers, do you think that





could lead to some series in the finalization or we could see everything now getting postponed to FY19, how we should look at the timeline of that big pipeline?

Arnob K. Mondal:

Defence, I never hazard a guess on timelines because we have seen many an instance where prospects have got deferred from quarter-after-quarter and year-after-year; however, one thing which you should notice is that three defence orders mainly on the navy side, diving support vessels, survey vessels and anti-submarine warfare corbels got ordered out after the new minister assume charge. I do not know whether that is a portent of things to come, but at least, we are hopeful the things will move. Hopefully, public sectors defence PSUs will not get overly aggressive as they seem to have become in those three bids. I do not know whether it is because they want to protect that territory from private sector or not, but hopefully some element of rationality will come in.

Charanjit Singh:

Last question maybe on the Hydrocarbon space. We have seen a very good uptick in the margin. I understand that it would be quarterly thing but what is the kind of normalized margins we should take for Hydrocarbon segment?

Arnob K. Mondal:

I think if you take the half-yearly margins that would be a bit more normal. You yourselves very rightly pointed out that, yes, quarterly volatility will be there because of our margin recognition norms, but it does seem as if the things have turned around better for this particular vertical.

Moderator:

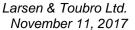
Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram:

In last concall, you were pretty much confident on your order pipeline which you had at least prospectively looking at around Rs.6 lakh crores and that included around Rs.3 lakh crores from Infra and Rs.1.60,000 crores from Power and Power T&D and Rs.80,000 crores from Hydrocarbon, but you seem to be a bit lowered and you are telling Infrastructure is Rs.2 lakh crores, Power and Power T&D is Rs.1 lakh crore and Hydrocarbon is Rs.30,000 crores. So is there something which has changed from last quarter to this quarter in terms of....?

Arnob K. Mondal:

No, it is just that update of the prospect list has happened because the timeline now is much shorter. There is a big difference between a nine-month timeline and a six month timeline, correct? On top of that lot of orders have got ordered out, we won around Rs.30,000 crores of orders and we have lost quite a few bids, you are aware of some of the bids that we have lost, the number of international bids we have lost as well and some prospects would have got dropped, some would have got deferred to next year, but since that window of our line of sight now is only six months, obviously, the prospect base has to shrink.





Renjith Sivaram: PGCIL has told that the ordering activity will be bit muted for the next two years. So

should we worry much about that?

Arnob K. Mondal: In any case, the large part of the ordering already shifted to state utilities and even

without PGCIL saying that it was very evident that ordering from their side had gone down. Fortunately, we have a fairly good hedge against domestic volatility by way of our international exposure where anything between 40% to 60% of our order inflow has come from the Middle East. So I think we are well diversified on a geographic level as far as T&D is concerned to see some stability in order inflows even if PGCIL reduces

the extent of ordering that it has been doing traditionally.

Renjith Sivaram: Sir, this Namami Gange, they are planning to go the HAM way. So will we look at it if

we have to put some money into it because we had taken some decision that we would not be putting much equities into the project, so if they are going the hybrid annuity

model, will we look at participating or we will be away from that?

Arnob K. Mondal: HAM projects still involved equity investment, correct? The government in roads of

course they are funding 40% of the cost and the remaining 60% is supposed to be funded by private sector, so people will lever up their equity investments and similar thing I presume will happen in Namami Gange if it happens but our considered position which we have also been articulating for the last couple of years is that unless we can circulate the equity that we have invested, we are not really inclined to invest any more equity into any sort of developmental projects, whether it be BOT or HAM, so that still holds good. Until we can circulate our equity capital, I do not think we will

really consider bidding for HAM Projects.

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

Please go ahead.

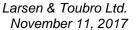
Pulkit Patni: Sir, first on order inflow. So the peak order inflow we had was in 2015 about Rs.1.55

lakh crores. Now what I am trying to understand is that was the time when international was doing very well despite what was happening in the domestic arena. Now that our international prospects do not look that good and even domestic things are not picking up. Should we assume that this is where the order inflows are likely to be plus/minus 5% here and there, but even for say today 2018, 2019 should we expect the order inflow around this range or do you think it could be a much higher number

and if yes, what would be the key driver for that?

Arnob K. Mondal: Firstly, we do not give any sort of guidance apart from one year because our

assessment is always based on our bottom up assessment, project-by-project. I think we have talked about that on a number of occasions. So we will not be able to give you an outlook on that basis. However, from a macro point of view, I think the prospects should be right. Ultimately, it is a call that you are taking on India. So my call may be very different from yours Pulkit, but the fact is that we are fairly





positive that FY'19 should be better than FY'18 in as far as investment momentum in the country is concerned. So beyond that I cannot give you any further color because we have not done any prospect-by-prospect enumeration.

Pulkit Patni: So even if there is not much growth in GCC countries say next year just based on India

order inflow we think we could actually grow around book?

Arnob K. Mondal: If you go by our strategic plan that seems to be our view at this point of time.

Pulkit Patni: Secondly, again on execution, I think very similar question; we have got a pretty big

order book that we can execute today and since you answered somebody else's question that most of this order book now is clean. What is the kind of execution issues that we are facing if we take out the GST aspect? I am trying to understand is when do we think this execution rate which has been in the mid-to-high single digit number

could actually go to a double-digit number?

Arnob K. Mondal: We have guided for a 12% growth in revenue this year in spite of GST transition,

correct?

Pulkit Patni: I am talking about which is the infrastructure and segments which are the core

segments is what I wanted to refer to?

Arnob K. Mondal: We will not give guidance on individual segments, Pulkit, sorry, primarily because

these are all forward-looking statements. Manish, right in the beginning showed a disclaimer slide. In any case, we give forward-looking statements but to give it in such

granularity is I think asking for too much in terms of projections.

Pulkit Patni: No-no, sir, what I am simply trying to understand is what needs to change for the

execution to go up from here, just simply that much?

Arnob K. Mondal: I do not know where you got the idea that we are struck on a high single-digit growth.

When we have guided for a 12% growth, that itself I think is a decent growth number if it were any other country in the world that we are shouting about it from the roof top. People see 4% growth outside India. Here 12% we are looking at... I do not know

whether that satisfies you or not. But to our mind, that is a decent growth rate.

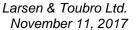
Moderator: Thank you. The next question is from the line of Bhavin Vithlani from Axis Capital.

Please go ahead.

Bhavin Vithlani: My question is on the execution. So we have 8% growth and we are guiding for 12%.

You highlighted execution challenges in Middle East. Situation on India is changing, that implies an accelerated growth in domestic market in the second half. So could you imply what are the on-ground changes and the improvement that you are seeing

that leads to believe an acceleration and the execution in the second half?





Arnob K. Mondal: I think one factor I have already answered that we are already seeing the GST part of

it getting smoothened out now. Secondly, I think it is just a steady graduated baby

steps of improvement. That is about it.

Bhavin Vithlani: We have been seeing marked improvement in the IDPL performance versus what it

was last year and if we see QoQ. So if you could give us some color what has been the traffic growth that has been driving, any other changes related to financing or improvement in the balance sheet, that has been done on the IDPL side, that has been

driving the improvement in the performance?

Arnob K. Mondal: We did some refinancing in some projects which has led to some improvement. As far

as growth is concerned, it has been decent... if you take half-yearly numbers growth has been around 7% and some part of it is may be 7.5%, of which around 2.5% would

be on inflation and the rest would be on traffic, very broad numbers.

Bhavin Vithlani: On the Nabha, just to say that Rs.250 crores number that you said, we need to adjust

that in the 3.77 Bn EBIT to get recurring EBIT for the quarter. Would that be a fair

assessment?

Arnob K. Mondal: Recurring EBIT I think you should take around Rs.50-60 crores or so per quarter.

Bhavin Vithlani: Last bit on the Hydrocarbon. If you could highlight a bit and is there further scope of

margin, can we see double digit going forward?

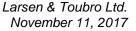
Arnob K. Mondal: I think I will not be able to guide you on margins, but something definitely happened

in your mind. Firstly, we have gone past that hump of those challenging legacy projects; 8 or 9 projects that we had that we say is difficult, those are largely behind us. Secondly, we have tightened our risk management processes. We have also done some bit of rightsizing. What has happened is that in some cases, for example, Saudi Aramco they qualified us as one of the four or five long-term association vendors which automatically limits competition in offshore projects. We have been bidding very cautiously whatever in the last couple of years for whatever projects that we are doing and even before bidding we are doing a very thorough assessment of the prebid parameters and seeing how the cost has stalked up, we are trying to factor in all contingencies, we are taking care of contract management, we are taking care of our working capital norms and operational excellence measures across the group and particularly in Hydrocarbon have been implemented to a large extent. So all these factors are responsible for Hydrocarbon showing a clear turnaround over the last six quarters as you mentioned, we have seen a steady improvement. But I do not think I

would like to talk about double-digit margins in this business. I would like to believe

which I think all of us are aware is just that maybe you have not itemized everything

it when I see it.





Moderator: Thank you. The next question is from the line of Shirish Rane from IDFC Securities.

Please go ahead.

Ashish: This is Ashish. First question is on the Hyderabad Metro Project. What is the status of

commissioning of the first phase of the project? If you could indicate what is the

capital cost that will get commissioned to begin with?

Arnob K. Mondal: If and when we announce the commissioning, we will give out the data point. It is too

premature for us to give out the data points like that at this point of time. Sorry to

disappoint you, but that is the way it is.

Ashish: But is it like very near because when we read the news article, it is going to happen

within the Month?

Arnob K. Mondal: You will have to wait till some formal announcement happens.

Ashish: Any material forex loss or gain impact in this quarter that you would want to highlight?

Arnob K. Mondal: This quarter we had FOREX gain of around Rs.135 crores compared to something

negligible which was there in Q2 of last year.

Ashish: This would be netted off from the other expense?

Arnob K. Mondal: Yes, sales and admin expense, of course all that was eaten up because of higher credit

cost in financial services.

Ashish: Is there any cancellation of order from the order book because when I do the math it

seems like...?

Arnob K. Mondal: Around Rs.6500 crores approximately.

Ashish: Which is this order?

Arnob K. Mondal: No, these are the number of orders. If you recollect, from last year onwards, we

started doing assessment of our order book every half year, earlier we used to do it

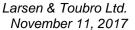
on a yearly basis, so we have done that exercise once again at the end of H1.

Moderator: Thank you. The next question is from the line of Nitin Arora from Aviva Life Insurance.

Please go ahead.

Nitin Arora: First question was to the NHAI notification. When we look at the project level, the

L&T is paying everything to the bankers despite the dispute all the debt repayments on time. Because what we knew that is arrangement of what the notification has come





about has already been settled. So if you can throw some light because we saw in the next say the notification was withdrawn, what is the status right now on that part?

Arnob K. Mondal:

I think NHAI was probably a bit too premature in putting up a notification without asking for representations. It was because of PNG Tollway Road asset that we had terminated. But still they held us as a concessioner under default. We had terminated it under force majeure of conditions because they were unable to provide law and order for many years. We kept on tolling for many years, but ultimately, when we realized that the solution is not going to get resolved in spite of state support agreement that they had. We served a notice of termination to them under force majeure order and then that was disputed ultimately. They took over that project. They were supposed to take up on 1st of April but then they asked us to keep on managing it for a few months. Ultimately in July 2016 we handed over the project to them. So the project has been handed over to them already. For some reasons they have held us a concessioner under default. So we have made the representations. We will wait and see, I do not know about the other companies, but as far as the way I look at it is their notification talk about debarring, they were intending to devour us from EPC projects till 31st of March, 2018 which is four, five months away and for BOT projects till 31st of March, 2019, that was what it was about. We have given our representation and we are hopeful of a positive outcome on this.

Nitin Arora: EPC, HAM and BOT any which way we are not bidding?

Arnob K. Mondal: EPC we are bidding.

Nitin Arora: My second question was related to Hydrocarbon. I do not want exact number or so,

but do you see because of the reason which you highlighted that has already been playing out and all, but do you see a further scope here that given the order intake remains there, then do you see a further scope there of improvement in margin, do

you think that it should be sustainable here?

Arnob K. Mondal: Nitin, I have already answered that I would not hazard a guess on firstly, on individual

segment wise margins and secondly on quantum of margins.

Moderator: Thank you. The next question is from the line of Mayur Patel from DSP BlackRock.

Please go ahead.

Mayur Patel: Just had two questions; one, on the execution side. The international side, can you

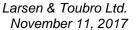
just help us that how is the execution going on especially in Qatar, what proportion

of our international order book is from Qatar?

Arnob K. Mondal: Qatar maybe Rs.14,000 crores overall group as a whole. After that political isolation

happened, obviously to some extent, there has been a bit of disruption in terms of

logistics because all construction material was coming to Saudi Arabia which is only





land route available and after that it started coming through the sea routes. Fortunately, the Qatar government has been very proactive and has been reimbursing as far extra cost involved there. So while the bit of the lead time have gone up, the execution is going on fairly well and they are also paying fairly well.

Mayur Patel:

On this GST related, what we understand from multiple contractors about in the government projects the contractors have been deliberately slowing down the execution because of the lack of clarity on the treatment of GST and revision of the contracts. So has things resolved or anything which you can comment on this aspect?

Arnob K. Mondal:

As far as GST is concerned, I think I mentioned unlike a private sector customer where CFO or the procurement head can in once stroke of a pen sign off on a change in rates and taxes because the contract has taxes and duties as applicable. In case of government contracts, it has to go through a process. So obviously, our invoicing to a large extent does get stuck so that we have seen happening. But once invoice under new GST regime gets cleared under a new rate, obviously, thereafter things will go much more smoothly. Initial few months which have seen bit of transition pain on that account. It is mainly because of our inability to invoice due to change in rates. There is a delay in certifying our invoices.

Mayur Patel:

This will clearly be a factor for accelerated execution from the fundamental factors in the second half?

Arnob K. Mondal:

Yes, but this has already started improving. GST happened from 1st of July. For the last three months, these issues have been sorted out now.

Mayur Patel:

On this Bharatmala, while we do not know the timings and when the opportunity will start kicking off, but is it fair to say that the size of the opportunity is so large that the way road sector has seen high competition and in this scheme it should benign, what is your personal thought on this?

Arnob K. Mondal:

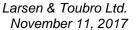
It is a happy situation like in a problem of plenty, obviously, competition will become much less aggressive but that would be a very happy situation, but I do not think we can take a call on that, we will have to wait and see whether RFPs that are issued and how many people jump into the fray.

Moderator:

Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia:

I just wanted your thoughts on the consolidated ex-service businesses of L&T. We only have access to the P&L which suggest to us that from a cash profit perspective, that business is doing fairly fine, but interest cost continues to grow on YOY basis. Now considering the current environment wherein working capital is now broadly stabilizing and there have been not much of investments happening beyond into other





entities of L&T, how soon can this number start declining? The core E&C business of L&T generate good amount of cash till it continues to show an increase in interest cost year-after-year.

Arnob K. Mondal:

No, let me clarify one thing; the interest cost that you see is an aggregation of the parent company interest cost as well as all subsidiaries barring financial services, developmental projects and IT and technology services, for example, my Shipbuilding debt is sitting there, only the JVs which do not get consolidated, there we do not do a line-by-line consolidation of interest either. But wherever I have debt, I consolidate my interest and obviously if my total net worth grows, my debt will also grow, otherwise I do not get any benefit from the ROE front by lowering my leverage. If I keep my leverage at the same level, it is still a sure increase in interest cost in absolute terms.

Aditya Mongia:

Just to kind of simplify it for us, the other income obviously is not rising. So essentially you are investing more and more somewhere, whether it is working capital or whether it is somewhere else which is what I just thought I clarify from you that even if the execution does not grow as much from here on, this E&C business should still see generating good amount of cash for you and that should start reflecting in your debt levels for that business specifically coming down?

Arnob K. Mondal:

Since we operate on a centralized treasury basis, all the debt is taken at the parent company level, not at a business level barring subsidiaries. The capital structuring decision is done centrally, not at a business level. So I think these two need to be delinked. Anyway, you can take it offline if you wish to.

Aditya Mongia:

Second thing is on Hyderabad Metro. As and when it starts operations, is it fair to assume that there would be cash losses to start with?

Arnob K. Mondal:

I think we will give you some indication when we are closer to commissioning.

Aditya Mongia:

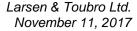
The change in order inflow guidance that you are suggesting. Just want to get a sense whether does it have to do a lot with the LPD orders being there in the opportunity side earlier and not being there over the next six months basis?

Arnob K. Mondal:

No, LPD order is still there. I did not specifically mention it. It is because the range of opportunity is much smaller, it is six months now instead of one year, and the ordering decision seems to have slipped into the next year. So next year I suspect that you will again find a large prospect base.

Moderator:

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





Sumit Kishore: Just a quick follow-up. Over the last several years before FY'17, the consolidated tax

rate usually used to be between 30% and 34%, in FY'17 the tax rate fell to 23%-odd and now I find that in first half and second quarter in particular tax rate was 21%. I know it is a very different animal to predict, but what is it that we should be looking

at?

Arnob K. Mondal: When you are consolidating 150 subsidiaries plus you will have say dividend from

mutual fund, you may have a wide variation in one quarter compared to another or you may have capital gains which is tax-free in one quarter. So there is no hard and

fast thumb rule which you can really apply here on a quarterly basis at least.

Sumit Kishore: For the full year it was 23% last year and in second half of last year it was just about

14-15%. So I am just wondering is something changed between FY'17 and last several

years how tax rate is?

Arnob K. Mondal: Firstly, I think you should take a yearly call, not a half-yearly call.

Sumit Kishore: But should be closer to 30% then on a consolidated basis for the full year?

Arnob K. Mondal: I would not hazard a guess on that front.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from

City Research. Please go ahead.

V Balasubramaniam: You said you are L1 in Rs.20,000 crores. This include the Mumbai Trans Harbour Link

routes, right?

Arnob K. Mondal: I think so.

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

go ahead,

Aditya Bhartia: Just one question on realty revenues. How should we be looking at them - from Powai

Phase-II project would we start seeing accrual of revenues in the next few months?

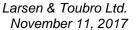
Arnob K. Mondal: No, that is still some way off. Revenue recognition norms and realty are a bit different

from other EPC projects that we execute.

Aditya Bhartia: Possibly this year we will see realty revenues dipping and from next year we should

again be on the upside?

Arnob K. Mondal: I cannot give you guidance or outlook on any individual segment.





Moderator: Thank you. As there are no questions from the participants, I now hand the conference

over to Mr. Arnob Mondal for closing comments.

Arnob K. Mondal: Thank you, Margaret. Thank you, ladies and gentlemen for a patient hearing on a

Saturday afternoon. With that, we come to the end of this earnings call. Thank you

and good night.

Moderator: Thank you. On behalf of Larsen & Toubro Limited that concludes this conference.

Thank you for joining us and you may now disconnect your line.