"Larsen & Toubro Limited's Q3 FY'24 Earnings Conference Call"

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MANAGEMENT: **MR. P. RAMAKRISHNAN – HEAD, INVESTOR RELATIONS, LARSEN & TOUBRO LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q3 FY'24 Earnings Conference Call.

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

I now hand the conference over to Mr. P. Ramakrishnan – Head Investor, Relations from Larsen & Toubro Limited. Thank you. Over to you, sir.

P. Ramakrishnan: Thank you, Darwin. Good evening, ladies and gentlemen. A very warm welcome to all of you into the Q3 FY'24 Earnings Call of Larsen & Toubro. The "Earnings Presentation" was uploaded on the Stock Exchange and in our website around 6:35 P.M. today evening.

As usual, instead of going through the entire presentation, I will walk you through the key highlights for the quarter in the next half an hour or so, post which we will take questions-answers.

Before I begin the overview, the usual disclaimer:

The Presentation which we have uploaded on the stock exchange and our website today, including the discussions that we will be having in this call contains or may contain certain forward-looking statements concerning our business prospects and profitability which are subject to several risks and uncertainties and actual results could materially differ from those in such forward-looking statements.

In contrast to global trends, the Indian economy in Q3 FY'24 has continued to present a picture of resilience and momentum. The investment activity remains healthy on the back of continuing public CAPEX. Consumption spends have received some boost from the festival season in Q3, better capacity utilization in the manufacturing sector, strong real estate demand, healthy credit momentum, higher tax collections and an acceptable level of inflation, all are aiding the growth prospects of the Indian economy.

The fundamentals of the Indian economy remain solid, with healthier Corporate and Bank Balance Sheets. Fiscal consolidation is on course with external balances remaining manageable and Forex reserves providing cushion against any possible external shocks. These factors, combined with consumer and business optimism, create congenial conditions for the sustained growth of the Indian economy going forward as well.

Before I get into details of the financial performance parameters, I would like to share some important highlights for the quarter:

1. We are happy to report that our nine months order inflows at a group level for FY'24 at Rs.2.31 trillion has already crossed the last full year FY'23 levels largely on the back of large order wins in Infrastructure revolving around Renewable EPC and associated Utilities in the Middle East, urban mobility packages in India as well as Onshore and Offshore international wins in Hydrocarbon business.
2. Secondly, the India's longest sea bridge connecting the Indian city of Mumbai with the satellite city of Navi Mumbai and named as Shri Atal Bihari Vajpayee Trans Harbour Link or Atal Setu, was inaugurated on the 12th of January 2024. Our company was one of the major EPC contractors involved in this prestigious project.
3. On January 22nd, 2024, the hon'ble Prime Minister of India led the consecration ceremony of the Sri Ram Janmabhoomi Mandir in Ayodhya. We are pleased to inform you that this temple is also being constructed by Larsen & Toubro.
4. Our Hydrocarbon business has performed exceptionally well during the year. The nine months order inflow for this business at Rs.582 billion is a record high. Consequently, the order book for this business has expanded to Rs.1.07 trillion as on December '23.
5. Coming to the IT and Technology Services portfolio: The voluntary attrition in both our listed entities, LTIMindtree and LTTS has reduced both on a sequential and YoY basis.
6. Financial Services: Our Financial Services business has achieved the highest ever quarterly retail disbursements of Rs.149 billion and the retail portfolio today is at 91% of the overall book, which stands at Rs.818 billion.
7. Hyderabad Metro: Hyderabad Metro received financial support of Rs.150 crores from the government of Telangana during Q3. The cumulative amount received under this facility till December '23 stands at Rs.900 crores.

Some other important highlights during the quarter are:

- We manufactured the first Electrolyzer of 1 MW in the Hazira factory on December 13th, 2023.
- On the Green Energy side, L&T Electrolysers Limited has emerged as a successful bidder with an allotted capacity of 63 MW under the tranche-I of the PLI scheme for electrolyser manufacturing, launched by the Ministry of New and Renewable Energy.
- The Data Center at Panvel, a pilot project by L&T, has gone live with the capacity of 1.4 MW in the Mumbai region. Furthermore, there is an upcoming data center closer to commissioning of almost 12 MW in Chennai, expected to be completed in Q4 FY'24.
- As mentioned in our previous conversations, L&T plans to have an aggregate capacity of around 60 MW in the Data Center domain over the next couple of years.
- Finally, we incorporated a wholly-owned subsidiary, L&T Semiconductor Technologies Limited on November 29, 2023. Over time, this company will be engaged in the business of fabless semiconductor chip design and product ownership.

I will now cover the various financial performance parameters for Q3 FY'24:

This quarter was a quarter of robust performance across the various financial parameters. Our group Order Inflows, Revenues and Recurring PAT is up by 25%, 19% and 20% respectively over the corresponding quarter of the previous year.

Our NWC-to-revenue is at 16.6% in Q3 FY'24, registering a sequential improvement of 10 basis points and 240 basis points on a YoY basis.

Moving on to the Individual Performance Parameters:

- Our group order inflows for Q3 FY'24 at Rs.760 billion registered a YoY growth of 25%.
- Within that, our Projects and Manufacturing businesses secured order inflows of Rs.602 billion for Q3, growing by 32% over the corresponding period of the previous year. Our Q3 FY'24 order inflows in this Projects and Manufacturing portfolio are mainly from Infrastructure and Hydrocarbon segments. During the current quarter, the share of international orders in the Projects and Manufacturing portfolio was at 67% vis-à-vis 12% in Q3 of last year.
- During the quarter, orders were received across various spectrum of businesses like Offshore vertical of Hydrocarbon, Renewable EPC, Water, Utilities, Airports, Health and Residential spaces, Power Transmission as well as Ferrous Metals.

Moving on to the prospects pipeline:

- We have a total order prospect pipeline of Rs.6.27 trillion for the near term vis-à-vis Rs.4.87 trillion at the same time in the last year. This represents an increase of 29% on a YoY basis. The increase is largely due to the sharp improvement in the Hydrocarbon prospect pipeline.
- I'll give you the broad breakup of the overall prospects pipeline of Rs.6.27 trillion, which is as follows: Infrastructure has a share of Rs.4.1 trillion, the same was Rs.3.88 trillion as of December '22.
- Hydrocarbon was Rs.1.7 trillion as at December '23 vis-à-vis Rs.0.61 trillion as of December '22.
- Power business has order prospects of Rs.0.3 trillion as of December '23, as against Rs.0.20 trillion last year.
- Heavy Engineering, Defense in aggregate has order prospects of Rs.0.16 trillion, which is almost at the same level that we witnessed as of December '22.

Moving on to Order Book:

- Our order book is at Rs.4.7 trillion as on December '23, which is up by 22% when compared to December '22.

- As our Projects and Manufacturing business is largely India-centric, 61% of our order book is domestic and 39% international. Of the international order book of Rs.1.84 trillion, around 92% is from Middle East and 2% from Africa, the remaining 6% constitute from various countries, including Southeast Asia.
- It is evident that the GCC Capex in both Infra and Hydrocarbon is on an upswing largely led by the Saudi Vision 2030.
- The breakdown of the domestic order book of Rs.2.86 trillion, which I said is 61% of the overall order book, is as follows: Central government 12%, state government 31%, PSU or state-owned enterprises 35% and Private sector 22%. Approximately around 18% of our total order book of Rs.4.7 trillion is funded by bilateral and multilateral funding agencies. Again, 92% of the total order book is coming from Infrastructure and Energy. You may refer to the presentation slides for further details.
- During the quarter ended December '23, Q3 FY'24, we have deleted orders of close to Rs.27 billion from the order book. As on December '23, our slow moving orders is well less than 1% of the total order book.

Coming to revenues:

- Our group revenues for Q3 FY'24 at Rs.551 billion registered a YoY growth of 19%. International revenues constituted 44% of the revenues during the quarter.
- The strong execution in the Projects and Manufacturing portfolio, drove the overall group revenues, for the quarter. In the Projects and Manufacturing business portfolio, our revenues for Q3 FY'24 were at Rs.393 billion registering a YoY growth of 26%.
- Moving on to EBITDA, our group level EBITDA margin without other income for Q3, FY'24 is 10.4%, a drop of 50 basis points over Q3 of the previous year. This drop of 50 basis points is mainly due to job mix, and cost pressures in the legacy EPC Projects and Manufacturing portfolio.
- The detailed breakup of the EBITDA margin business wise is also given in the annexures to the earnings presentation. You would have noticed that EBITDA margin in the Projects and Manufacturing businesses for Q3 FY'24, is at 7.6% vis-a-vis 8.5% in Q3 FY'23. On a sequential basis, the EBITDA margin in the Projects and Manufacturing business for Q3 FY'24 improved by 20 basis points, up from 7.4% that we printed for Q2 of the current financial year. I will cover the details a little later when I talk about the performance of each of the segments.
- Our recurring PAT for Q3 FY'24 at Rs.29 billion, is up 20% over Q3 of the last year. The robust PAT growth is reflective of the strong execution momentum and the lower tax expense.

The Group Performance:

P&L construct along with reasons for major variances under the respective function heads is provided in the earnings presentation.

Coming to Working Capital:

- Our NWC-to-sales ratio has improved from 19% in December 2022 to 16.6% in December 2023, an improvement of 240 basis points. The NWC-to-sales ratio was 16.7% in the previous quarter ended September 2023.
- Our group level collections excluding Financial Services for Q3 FY'24 is Rs.494 billion vis-a-vis Rs.434 billion in Q3 FY'23 representing an increase of 14% on a YoY basis. The improvement in gross working capital, is on the back of improved customer collections and, which is also in a way manifest in the overall improvement in the NWC-to-sales ratio.
- Finally, trailing 12-month ROE for Q3 FY '24 is 15.2% vis-a-vis 12.4% in Q3 FY'23, an improvement of 280 basis points. The improved profitability with every passing quarter along with the return of capital to shareholders in the form of first buyback that we did in the month of September, is contributing to this improvement.
- As stated in the past, the focus of the group during this period, the strat plan period ending FY'26, will be on cash generation, divestments from non-core assets, Capex and investments in existing and newer businesses, and finally, returning surplus cash to shareholders, at regular intervals in order to create value over a period of time.

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

We will start with the Infrastructure segment:

- On order inflows, this segment secured orders of Rs.432 billion for Q3 FY'24 vis-a-vis Rs.325 billion in Q3 FY'23 representing a growth of 33% over the corresponding quarter of the previous year.
- During the current quarter, the orders were largely received in the renewable EPC, water, utilities, airports, health, residential premises, power transmission as well as ferrous metals.
- Our order prospects pipeline in infra is around Rs.4.1 trillion vis-a-vis Rs.3.89 trillion during the same time last year, representing an increase of around 5%.
- The Infra prospects pipeline of Rs.4.1 trillion comprises of domestic prospects of Rs.3.22 trillion and international prospects of Rs.0.88 trillion.

The subsegment breakup of total order prospects in infra should be as follows:

  - Transportation infra leads at 28% and then we have Minerals and Metals at 17%, Buildings and Factories at 19%, Water at 16%, Power Transmission & Distribution at 4%, Heavy Civil Infra at 16%, I think that aggregates to 100.
  - The order book of this segment is at Rs.3.18 trillion, as of December '23. The book bill for infra is around three years.

- The Q3 revenues at Rs.278 billion registered a strong growth of 27% over the comparable quarter of the previous year, largely aided by the strong execution progress across multiple jobs and across all the subsegments.
- Our EBITDA margin in this segment for Q3 FY'24 is at 5.5% vis-a-vis 7% in the corresponding quarter of the previous year. The margin for the quarter is a function of job mix and the legacy jobs tapering off.
- The working capital intensity has substantially improved during the same period, resulting in stable return ratios for this segment over a period of time.

Moving on to the next segment, which is Energy Projects, which comprises Hydrocarbon and Power:

- The receipt of mega order in the Middle East enabled the boosting of Hydrocarbon order book, whereas Power business benefited from the receipt of FGD order. We have a strong order prospects pipeline of Rs.2.01 trillion, for this Energy segment, comprising Hydrocarbon prospects of Rs.1.7 trillion and Power prospects of Rs.0.3 trillion.
- The order book for this Energy segment is at Rs.1.13 trillion as of December '23, with Hydrocarbon order book at Rs.1.07 trillion and Power at Rs.54 billion.
- The Q3 FY'24 revenues at Rs.79 billion, registered a healthy growth of 24%, mainly driven by the pickup in the execution ramp-up of international projects of the Hydrocarbon business whereas lower revenues in the Power business is largely reflective of a depleting order book.
- The Energy segment margin in Q3 FY'24 is at 9.7% vis-a-vis 8.7% in Q3 FY'23. The Hydrocarbon margin in Q3 is in line with the previous year, whereas favorable customer claim enabled the improvement in EBITDA margin for Power.

We will now move on to the Hi-Tech Manufacturing segment that comprises Defense Engineering and Heavy Engineering businesses:

- Receipt of multiple orders contributed to the order inflow in the Defense business, whereas we witnessed order deferrals in the Heavy Engineering segment during the quarter. Our order prospects pipeline for this segment is Rs.163 billion.
- The order book for this segment is Rs.258 billion as of December '23.
- The strong execution momentum continues in Defense, whereas Heavy engineering revenue growth is impacted by a little subdued progress in nuclear jobs.
- The Defense margin is reflective of job mix, whereas customer claims enabled the Heavy Engineering margin movement.
- On this segment, I would like to repeat the Defense engineering business does not manufacture any explosives, nor ammunition of any kind, including cluster ammunitions, or anti-personnel landmines, or nuclear weapons, or components for any

of such ammunitions. The business also does not customize any delivery systems for such ammunitions.

Moving on to the next segment, that is Information Technology and Technology Services, where we have the two listed entities LTIMindtree and LTTS:

- The revenues for this segment at Rs.112 billion in Q3 FY'24 registered a modest growth of 5% largely in line with the subdued global macro conditions impacting IT spends. Despite ongoing macro concerns, the deal pipeline for this segment is healthy with good visibility across all offerings.
- Improved utilizations drive the margin improvement in LTIMindtree, whereas LTTS margins are largely in line with that of the previous year.
- I would not like to take too much time on the segment, as both the companies in the segment are listed entities, and the detailed fact sheets are already available in the public domain.

We move on to L&T Finance Holdings, which is forming part of our Financial Services segment:

- Here again, L&T Finance Holdings is a listed subsidiary, and the detailed results are already available in the public domain. During the quarter, L&T Finance Holdings had a merger of L&T Finance Limited, L&T Infra Credit Limited and L&T Mutual Fund Trustee Limited with itself and that got concluded. This merger will lead into the creation of a simplified single lending entity and is expected to create internal synergy, superior governance and unlock new revenues for growth.
- The Q3 of the current year revolved largely around a strong retail disbursement, which was possibly the highest ever in a quarter, lower credit cost, better asset quality and a rundown of the wholesale book.
- The balance sheet is strong on the back of an adequate provision coverage ratio, and inbuilt macro prudential buffers are already there. Financial Services achieved 91% retailization of its loan book in December '23, well ahead of its Lakshya '26 targets. The retail book growth, asset quality and the return on assets are highly satisfactory.
- Finally, sufficient capital in the balance sheet is available to pursue growth in the medium term. In a way, the stage is set for this business to truly achieve Fintech at scale.

Moving on to the Concessions portfolio that, what we call as the Development Project segment:

- This segment includes the Power Development business comprising of Nabha Power and also has Hyderabad Metro.
- Once again, I would like to mention that the profit consolidation of L&T IDPL, which is the holding company for largely a road concessions portfolio, at a PAT level, has

been discontinued from Q4 of the last financial year post signing of definitive agreement for sale of our entire stake. The investment in the joint venture L&T IDPL therefore is classified as held-for-sale in the group balance sheet.

- The majority of revenues in the Development Project segment, is contributed by Nabha Power. In the case of Hyderabad Metro, the improved ridership enabled revenue growth, and Nabha revenue was helped by higher PLFs.
- I would like to give you some statistics on the Hyderabad Metro operation:
  - The average metro ridership has improved from 3.94 lakh passengers a day in Q3 of the previous year to 4.44 lakh passengers per day in the Q3, of FY'24.Our average ridership in the previous quarter of the current year, was 4.62 lakh passengers a day higher compared to the current quarter, primarily due to the long holidays, or the vacation for Q3 and also, a free bus ride entitlement to females under the new Mahalakshmi Scheme of the state government from December '23 onwards.
  - The higher segment margin in Q3 FY'24 is primarily due to improved metro ridership and consolidation of Nabha profits.
  - The Metro at a PAT level consolidated a loss of Rs.2.54 billion in Q3 FY '24 vis-a-vis a loss of Rs.3.32 billion in Q3 of the previous financial year. For the nine months FY'24, we consolidated a loss of Rs.3.49 billion against a loss of Rs.9.86 billion in the nine months of the previous financial year.

Moving on to the last segment, which is Others:

- This segment comprises Realty business, Industrial Valves manufacturing, Construction Equipment, Mining Machinery, Rubber Processing Machinery and a residual part of our Smart World and Communication business.
- The Q3 revenue growth of 12% over the corresponding quarter of the previous year is mainly contributed by a higher percentage of handing over of residential flats in the Realty business.
- The margin improvement in the segment is once again primarily contributed by the Realty business.

Coming to the last part of my presentation, which is the outlook:

As I said earlier, the Indian economy is demonstrating resilience and is expected to grow by a healthy 7% in FY'24. The country's robust economic trajectory is supported by resilient growth in the public spends by government, improved demand conditions, robust balance sheets of banks and corporates, introduction of Production-Linked Incentives, and as well as high business confidence, which is also attracting investments from the private sector. On the flip side, we are yet to see a significant private sector participation around owning greenfield concessions in a major way. Also, with general elections around the corner expected to be scheduled anytime between April-May 2024, it is quite possible that the public Capex could witness a temporary slowdown. The global economy remains volatile with continuing military engagement in Europe and West Asia, that is disrupting supply chain and global trade movements. The U.S. economy has been resilient so far, but the U.K. and European economies are weak and the concern around China still persists. Despite these concerns or developments, the good news for our projects business is that Middle East particularly Saudi Arabia, continues to pursue its investment plans across multiple sectors. In this backdrop, the company possesses the necessary capability and flexibility to continuously rebalance its approach and strategy to benefit from the dynamic business environment. The company is focused on tapping emerging opportunities both in India and overseas with driven by its proven competence in the domains of engineering, manufacturing, construction, project management and services for the profitable execution of its large order book. As it has always been, company continues to remain committed to creating sustainable long-term returns for its shareholders.

I will now comment on our guidance for FY'24 before taking Q&A:

- On order inflows and revenue, we have performed exceptionally well both in terms of growth in order inflows and revenue in the nine-month period. In October, post the Q2 FY'24, earnings call, we had indicated that we would be outperforming on the order inflow guidance for FY'24 at the higher range of the band, which was 12%, and with respect to revenue, we also commented that, possibly, we will outperform 15% above, which is again the higher end of the band that we had given for revenue at the start of the year. Basis the nine-month order inflows that we have seen, and the robust order prospects, we are now revising our order inflow guidance to 20%-plus for the full year, and for revenue, we believe that we should be looking to achieving growth in high teens. It is difficult to pinpoint a specific range of growth possibility on order inflows, especially in a pre-election period amplified by continuing international geopolitical volatility. Therefore, we are constrained to give the order inflow guidance a little open-ended in terms of saying that we should be landing at 20%-plus order inflow for the full year FY'24. Since we are already sitting on a large order book, our execution should carry on at a healthy clip, provided we are able to keep the capital intensity under check. Here again, as you all know, as a matter of discipline, we never in the past pursued faster execution and the cost of compromising the working capital situation. We are therefore reasonably sure of achieving revenue growth in high teens for the full year FY'24.
- On margin, our progress on the nine-month margins in the Projects and the Manufacturing portfolio, has been along expected lines. A combination of low margin legacy jobs and newer jobs being in the ramp-up stage, has depressed margin in the nine-month period. However, it does appear at this juncture that the multiple new jobs, which are in the ramp-up stage may not be able to cross the valuation threshold for recognizing margin by the end of FY'24, which means it would lead to some sort of a postponement of margin recognition of these jobs into next year. Therefore, we are fine-tuning our margin guidance in the Projects and Manufacturing portfolio from the

earlier 8.59% band to a band of anywhere between 8.25% to 8.5% for the full year. I would like to reiterate once again that the slip-up in margin, if any in this portfolio, is more than made up by volume growth and improved working capital intensity, resulting in superior return on investment by the end of the year.

- On working capital, since we have been able to preserve balance sheet gains in the nine months so far, we are revising the earlier guidance of a band of 16% to 18% in and around the same levels that we achieved for December '23, which was at 16.6%. One can expect, given the fact that Q4 is a busy quarter, and also various other international and domestic events lined up, we can expect that this 16.6% can go up by plus/minus 30 basis points on either side.

With that, I conclude, ladies and gentlemen for… I tried to give you an overall summary of our performance. We can get into Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: A clarification. Is the mega order announced today for renewables from Middle East, is part of the order inflow of the current quarter?

P. Ramakrishnan: Yes, please. We got the client consent a while ago, and that's how we had to disclose it. This has been factored in Q3.

Mohit Kumar: My first question is a large part of our order inflow has come from the Middle East, especially in the nine months, and I think Aramco would be a substantial part of our order book. We understand that today Aramco has decided to cap the Capex for hydrocarbon given the directive from the government to maintain the production at 12 mbpd instead of 13 mbpd. Is it possible to give some color on the same and quantify any impact profit has on our current order book and order inflow prospects?

P. Ramakrishnan: So, as far as order book is concerned, whatever orders that we have secured from all the clients, I do not think there is any sort of a headwind in terms of the progress of those jobs, because these are all contracts that we have secured under customer approved projects. So, going forward, there could be developments, but we will have to evaluate and see accordingly.

Mohit Kumar: My second question is, there is an inordinate delay in the conversion of domestic prospect to order inflow. Do you think this weakness in domestic order inflow conversion to sustain till election, do you expect this to improve post-election is the question?

P. Ramakrishnan: Mohit, actually when we started the year, when we gave a guidance of 10% to 12%, there are two factors into account. One was that, we also communicated that the second part of the financial year could witness a subdued domestic tendering and award activity, given the fact that the country will phase up for elections in early Calendar Year 2024. This was already covered and that was one of the reasons that we started off the year, with a 10% to 12% guidance. But, as things would have happened, I think in the last two to three quarters, we have been favorably supported by a good tendering award momentum in so far as Middle East is concerned and more specific Saudi. And here again, it's a mix of orders, it is not necessary in Hydrocarbons, although Hydrocarbons has taken a larger pie, but it is equally important for us to say that the Middle East orders constituted outside of Hydrocarbons also, some amounts of orders coming in from the Power Transmission and Solar.

Moderator: The next question is from the line of Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: My first question is on the equity investment of Rs.27.7 billion in Hyderabad Metro that you have announced. Could you speak about the rationale and does this accelerate the process of getting a strategic investor onboard?

P. Ramakrishnan: So, Sumit, you are referring to the announcement that happened today?

Sumit Kishore: Yes.

P. Ramakrishnan: So, as you are aware, I think one of the most important challenges we have in the Hyderabad Metro given the fact that the company has a very high leverage, so, what we have decided is that some part of the finance, we have to reduce the interest costs for the metro. So, whatever has been given in the form of additional cash support for the last two years, some part of that is getting converted into equity. It is not a cash infusion, it is just a conversion of the L&T cash support, which was given in the form of inter-corporate deposit, is getting converted into equity, so as to reduce the financial burden of the metro operations.

Sumit Kishore: So, there is no fresh cash infusion, which is happening, right?

P. Ramakrishnan: No.

Sumit Kishore: And in terms of the timeline for getting a strategic investor into Hyderabad Metro, that remains unchanged, maybe the next couple of years is where you would be looking to?

P. Ramakrishnan: Yes. At this juncture, we are evaluating, but it is premature for us to comment on any transaction happening. So, we will keep the markets informed as and when we have any third-party investor taking up a stake.

Sumit Kishore: Also, in terms of the Capex allocation for the new growth areas, what is it that you are sort of building in for the next two, three years for data centers, electrolysers, semiconductors, and any other such areas?

P. Ramakrishnan: So, in terms of our committed investment to make up the electrolyser manufacturing factory, will be in the range of Rs.500 to Rs.600 crores. On Data Centers, I had indicated that the plan is to ramp up to almost 60 MW capacity, which means in and around Rs.2,000-odd crores. Today, our data center capitalization has been around Rs.645 crores. Another Rs.1,400 crores will get capitalized as we set up the additional data center units. As far as the third part, Semiconductor is concerned, the Board has approved an initial equity outlay of almost close to $100 million, which is around Rs.800-odd crores, for meeting the immediate requirements of setting up the business. That's the initial investment. So, as the business progresses, I think subsequent investments will be subject to revisiting how the strategy to get in the business will happen.

Sumit Kishore: $100 million will be within a year timeframe?

P. Ramakrishnan: No, it will be around possibly two years or so.

Sumit Kishore: Just finally on the core business -?

P. Ramakrishnan: Good, that you asked that question. In this case, we are also planning to look at some inorganic routes to ramp up talent, so it is quite possible that some part of that $100 million could go into backfill acquisitions also.

Sumit Kishore: Sorry, it could go into -?

P. Ramakrishnan: Some part of this $100 million equity will be used to acquire design companies as well.

Sumit Kishore: Just one brief clarification. In terms of the core margin guidance which has been diluted a bit, does the uptick in margins, in the subsequent quarters, so do the things fall in line in terms of the legacy projects getting completed maybe by Q4 end, the projects entering the margin recognition threshold, commodity prices have come off, so related margin improvement which should happen, so, all these things, do they come together in first half of FY'25, or is this going to get delayed further?

P. Ramakrishnan: Okay, Sumit, when we started the year, and we gave an initial guidance, we also had communicated clearly that the margin will be dependent on how fast we are closing out the legacy projects, and how fast we ramp up on the newer orders that we secured in '22-23, and possibly the later part of '21-22. Unfortunately, whereas we are ahead in terms of completing at a faster pace the legacy projects, some of the newer orders that we expected to achieve the margin recognition threshold, in Q3 and Q4, that is Q3, the quarter that we just now went by and also Q4, that looks to be getting postponed into next year. And it is witnessed in the way of the results also; 7.4%, 7.4%, Q1, Q2 margins, we have improved by 20 basis points. I guess you will see a sequential improvement in the margin trajectory of the P&M portfolio over the next four to five quarters. It would be very difficult at this juncture to pinpoint that the structural improvement in margins, whether it will happen in first half or second half. I guess we may have to wait until May when we close the books for March '24 and have the budgeting exercise by then for the business would have got completed, to clearly tell you where exactly the improvement in margins will happen from which point of time.

Sumit Kishore: So, the expectation is, it gets better from here?

P. Ramakrishnan: Yes.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: So, my first question is on the claims. So, we have been saying that we have been filing for claims post-Covid. So, if you can help us understand how much would have got settled or realized during this quarter?

P. Ramakrishnan: So, Parikshit, I think when we talked about, that in our margin guidance when we provided, we had excluded many large claims, because they are at various levels of discussions with the customer. In a normal course of business, there are always when jobs get completed, no job is ever saying that you will not have a claim, or there will not be no extra claim by L&T on the customer or vice versa. So, those things are happening. At this juncture, whatever major claims that we are pursuing, some of them have yet to come favorably for L&T.

Parikshit Kandpal: So, in nine-month of FY'24, how much claims would have been recognized?

P. Ramakrishnan: Of course, the aggregate level will be in the range of maybe around you can say Rs.200 crores to Rs.300 crores. But as I said, when I talked about the claims we have excluded, these are claims that are for specific projects which are large, and which is at various levels of discussion with the customers. We are not talking of the normal claims that happen on a normal project execution. So, there is nothing for me to draw your attention that how much of claims, which are unusually large has been factored in the nine-month results of the current year.

Parikshit Kandpal: So, my second question is, you just said that your legacy project execution is better than expected and your new projects are getting a little elongated to reach the margin threshold. So, are there any challenges on the ground which you are facing that you have not been able to improve the execution there, though you have upped your guidance to high teens now in revenue growth, but still are you struggling or facing challenges on ramp up of the new project wins?

P. Ramakrishnan: No, let me tell you that there are no specific challenges that I need to put it across as far as the execution of new projects are concerned. Typically, when a project is awarded, it usually goes through almost an average six months kind of engineering phase and then you have the procurement phase and at the same time, when the procurement starts, the site mobilization also happens. So, this is typically I would say that the new project execution has been possibly what we thought the project execution crossing the margin recognition threshold in Q3 and Q4 is getting postponed to next year. So, it is not something an execution delay which will lead into a slippage of time. No, it is not that way. It is more to do with the ramp up and having estimated that we will get into a margin recognition threshold either in Q3 or Q4, that part has got postponed. Nothing otherwise substantial change.

Parikshit Kandpal: And just on the legacy order book. So when we talk about legacy order book, so that we have been talking to some quarters now. So, how do we quantify, how do we see that this legacy project will get executed, handed over, completed? So, what would be the duration of the legacy order book in terms of execution now and what will be the quantum of the legacy order book?

P. Ramakrishnan: So, let me put it the other way, I will respond it. 4.7 trillion order book that we have is largely, today, a major part of that order book comprises of projects that we have secured in 21-22 later part and 22-23, including the current nine months also. So, we are, I can say, completing the legacy part of the order book, that orders that we secured prior to 2021 and maybe the first six months of 21-22, given the fact that the average execution is across all these projects have been in and around that 24 to 28 month. So, I would say that in today's order book, what we have, the legacy part of the order book is quickly depleting and hopefully from next year onwards, you should be seeing an improved execution of the current orders.

Parikshit Kandpal: So, is it right to believe that by first quarter of FY 2025, the legacy projects will largely be done with, and we see a high share coming in from new or better margin projects in the mix?

P. Ramakrishnan: I will put it that way that the share of revenues for next year would be largely coming from the newer orders.

Parikshit Kandpal: And just the last question, if I may, on the real estate business, sir. So, if you can help us with some numbers there in terms of nine months, what would be the pre-sales from this business?

P. Ramakrishnan: In terms of nine months, the revenue of the realty business is 1,900 crores.

Parikshit Kandpal: What about the pre-sales number, total value of the sales done, sales booking or sales?

P. Ramakrishnan: So, I will tell you that the order flow that L&T Realty has had for the nine months is almost 2,100 crores and for the quarter, it was around 525 crores.

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

Aditya Bhartia: Sir, just wanted to understand once again, what is really happening on the domestic order inflow side? Not only in this quarter but pretty much in the last three quarters, it has been quite weak while you have been kind of commenting that overall Capex numbers are looking good, which is what we are seeing otherwise as well. So, why is it that L&T is not winning orders?

P. Ramakrishnan: So, I don't think there is anything specific to talking about the share of domestic orders and all, but let me give you some statistics, okay. So, Q3 of the current year, our core projects and manufacturing order inflows was around Rs 60,167 crore, okay, as against Q3 of the previous year which was almost Rs 46,000 crore. So, there has been an increase of 32%.

Now the only point as you rightly mentioned, the composition of those Rs 60,167 crore of core order inflows, the domestic is around Rs 19,000 or Rs 20,000 so to say, and the balance 40,000 is coming from international. The same composition of domestic in the previous year of the order inflow of Rs 46,000 crores, the share of domestic was Rs 40,000 and balance 6,000 crores was international.

So, definitely, there has been a little, I would say, subdued domestic ordering. But as I responded to a previous question, when we gave the order inflow guidance at the start of the year of 10 to 12%, it was factored that the domestic order momentum could see a little amount of slippage because of the election year and all. So, whatever we have seen in the first six months, I think that has been more than our own estimates. But what has enabled us to demonstrate order inflow growth is, as I talked about, the resurgence of order inflows from the Middle East.

Aditya Bhartia: Sir, what you are trying to highlight is that overall economy level ordering itself would have been quite weak and it's not as if L&T has lost some orders to competition or the smaller guys have become more active. Pretty much, economy level ordering itself would have come down.

P. Ramakrishnan: Let me put it the other way. For many of the orders where we have bid for larger orders, I think we have had a good conversion rate of when we have submitted it. There is nothing for us to point out at this juncture that we are losing out significant amount of domestic ordering opportunities to competition.

Aditya Bhartia: Same thing, if we look at the revenues as well. On the domestic side, revenue growth has been roughly, I think, 6 odd percent at the core entity level. So, that also has been a bit muted. Anything that we should be reading over there?

P. Ramakrishnan: No, it is in line with our own internal estimates. For example, the total Projects and Manufacturing revenue for Q3 of the current year was almost Rs 39,000 crore, a 25% increase as compared to around Rs 31,000 crores of the Q3 of the previous year. The share of domestic was almost Rs 25,383 crores as a part of those Rs 39,305 crores. So, it constitutes a major portion, but the growth in domestic vis-a-vis the domestic portion of the previous quarter, the Q3 of the previous year has been a little subdued.

Aditya Bhartia: And last thing from my side, sir. There have been some media articles about some land monetization at Hyderabad Metro Project. If you could share some insights about what is happening on that front?

P. Ramakrishnan: So, this was already done in Q2. I think we have already done the, there was a part parcel real estate monetization that we did in Hyderabad Metro in the previous quarter.

Aditya Bhartia: But sir, there was something about three malls being put in a REIT or something?

P. Ramakrishnan: Okay. So, I am talking about what we did in the previous quarter. What you are looking at in the media at this stage, I would say it could be speculative.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Hi, P.R. Thank you for taking my question. Sorry, I might be repeating the same question, but generally the backlog has grown very significantly. You are a Rs 4.7 trillion backlog company now. I am not asking you a very quarter specific question when the margin will improve, or you know. Generally, first on taking a new order intake, what is the thought process of the Group? Is it the backlog itself has become too huge and you might go slow next year? Obviously, there is an election year, so the order might become slow itself. But is there more appetite of taking this order? I am not trying to gauge on guidance for next year, but you are already growing at 20%. So, on that 20%, do you like to grow still in double digit or rather a team wants to execute more and go slow and get back the profitability back? Just a little structural question here.

P. Ramakrishnan: So, Nitin, I will answer your last question. I think L&T's focus has been to ensure that whatever bids we submit, we have protected margins. Any sort of risks that are envisaged is getting factored while we are bidding for all these projects, number one.

Number two, in terms of whether we are going forward considering the fact that our order book should be even touching 5 lakh crores by Mar'24. Would we be changing our bidding mechanism? I don't think it is right for us to say that way. The reason is that the entire Projects and Manufacturing business is dependent on various sectors, changing from a Transportation Infrastructure to Metro or a Heavy Civil infrastructure or Buildings and Factories. So, we have segments catering to virtually any sector where there is a project opportunity. So, it all depends for each of the businesses or sub-segments that we have in Infrastructure or in Hydrocarbon. Like in Hydrocarbon, we have an Offshore and Onshore vertical. Depending on the capacity what we have, we will be addressing opportunities, which means in some of the segments where we have not had a significant amount of order intake, we will use and possibly bid very competitively for order opportunities that come. And in some of the segments where we have a healthy order backlog, I think we will have a situation where we will try to obviously start looking at larger and cherry-picking opportunities.

Nitin Arora: And you yourself said that a large amount of new orders will come in execution next year. But in terms of execution, do you see a challenge because generally first six months being an election year, labor shortages, everything gets real into issue when it comes to execution, or you have large amount of international backlog as well. So, execution would not be a challenge. How one should look the growth for L&T for next year, I mean, given few challenges on execution as well?

P. Ramakrishnan: So, Nitin, at this juncture, I can only comment on the fact that we have a robust order backlog as of December and expected to remain robust as of March '24 also. One thing is that the domestic execution activity could be a little subdued in Q1 considering that it could be an elections quarter. Post that, there is a new government that will come in. So, Q1 could be subdued. At this juncture, it's very difficult to comment upon whether the Q2 execution there will become completely normalized. I think it's not correct. But as you rightly mentioned, while we see some amount of uncertainty given the fact that there is a general election in the country, I don't see any such risk emanating from the other alternate geography of jobs that we are doing in Middle East.

Moderator: Thank you. We have the next question from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: I have two questions. First, just broadly trying to understand on the margin side. Widely for the next four quarters, you did give an indicative, but broadly speaking, initially or earlier, you typically mentioned that once the backlog improves and legacy orders are done, probably in a few quarters, we should be inching towards a double-digit margin.

Given the fact that a fair share of recent this year inflows have come from international Hydrocarbon, which typically tends to carry high single-digit margins, will that also have an implication on our targets to get back to double-digit margins in the next couple of years? Because execution of these projects will then ramp up in margin recognition thresholds and that may impair the overall blended margins for the core P&M business for us.

P. Ramakrishnan: So, Renu, I can only comment on what we see in the near-term perspective because as you may be aware that many of the jobs are fixed-price contracts. Hopefully if the contract gets executed on time, the margins that we bid and the margin that we reported could be substantially in the favorable side, higher. Okay. So, we anyway run that risk. But as we see it today, I think on a quarter-on-quarter basis, we should be looking at improvement in margins in the Projects and Manufacturing portfolio. Now in terms of getting into double-digit margin, I think it is a sort of a question of time. But I wish to reiterate here that the jobs that we have secured in the recent past, which is forming a major part of the order backlog are all jobs where there has been no compromise on our as bid margin with the clear focus on improving profitability and also at the same time ensuring that we have favorable payment terms. So, that actually has been the practice or the process that has been followed. Now how these jobs will shape up in terms of execution progress and completion is a question of time. On a near-term basis, I think we can comment to say that L&T will demonstrate a sequential improvement of margins over the next four or five quarters.

Renu Baid: Sure, but if we look over a medium-term perspective, so ultimately, let me put across my question in this format. Do you perceive the current change in the backlog which you have had in the current year? Will that have an implication on your margin profiles over the medium term as these projects come to execution and also the revised Net Working Capital guidance, that also probably factors a share of improvement coming in from the favorable backlog and the advances that you have from these international markets and geographies?

P. Ramakrishnan: So, let me put it, I did mention in the answer that I gave you to your first question, that many of the recent jobs that we have secured are all fixed price contracts. It is up to us if we are able to manage the execution within the targeted timelines, the actual margins could be favorably more or could be more than the as bid margins. Now, obviously, it is premature for us to comment at this juncture, because the jobs that we have secured over the last four or five quarters are all getting into the startup phase. So, hopefully, I think, since we have factored all known risks while we have priced these orders, hopefully, I think, and since many of the international orders are strictly speaking not the kind of tendered orders that we witness in India, so the embedded margins should be in our favor going forward. But it all depends on execution progress in line with the contractual commitments.

Renu Baid: And just a bookkeeping question on the order backlog exposure to Middle East today. Can you just highlight what is the total backlog exposure to Middle East and in specific to Saudi?

P. Ramakrishnan: So, the total order backlog that we have is 4.7 trillion. Okay. Out of that, the international order book is 1.84 trillion, out of 4.7. 92% of that is from the Middle East. And 80% of that 92% of Rs 1.84 trn is from Saudi.

Moderator: Thank you. The next question is from the line of Priyankar Biswas from BNP Paribas Exane. Please go ahead.

Priyankar Biswas: So, my first question is with regards to the Middle East. So, just a clarification question. So, it was reported in the media that L&T is well placed on a multi-billion Safaniya oil projects order. So, can you just answer if this is already included in this quarter, or this is something yet to be finalized? So, that's the first one.

P. Ramakrishnan: What is included in what? In order prospects?

Priyankar Biswas: No, I mean, in the current quarter order inflows.

P. Ramakrishnan: No, without getting an order, how can I show it in order inflow?

Priyankar Biswas: And furthermore, if you can just give me some certain data points like what would be the share of fixed price contracts today of the overall order book? And also, I think it was also highlighted during last quarter probably that around 6 billion types were the solar EPC order book that is there. So, given that the solar module prices have fallen so much, shouldn't we be seeing some sort of a margin uptick in the very near term?

P. Ramakrishnan: So, two things as far as some of the solar orders that we had secured, when the module prices were very high, at that point of time, many of the orders had clear pass-through variations to the customer. So, which means favorable and adverse movement in the input prices on these orders is to the account of the customer. So, it is unlikely that favorable movements in solar modules will flow into margins. That's the first point.

And the second point, I am sorry, what was the other question, please?

Priyankar Biswas: The fixed price share of the order book.

P. Ramakrishnan: So, of the Rs 4.7 trn order book that we have, roughly around 42 to 43% of the order book is fixed price contracts now. So, this is evident because we have been always maintaining a one-third fixed price contracts and two-third contracts that have variables linked to indices and all. Because of some of the orders that we have been securing in the recent past, the share of fixed price contracts has actually gone up. So, you can take it around 42 to 43% of the order book is fixed price contracts.

Priyankar Biswas: So, just one more question that I have. So, since the related party debt that was there in Hyderabad Metro has now been converted to equity, so on a reported basis what is the savings in interest costs that we should see going forward? So, from a loss stabilization point of view I am trying to see it on that respect.

P. Ramakrishnan: See the total amount of debt conversion to equity has been in the range of 3,000 odd crores, okay. And if you take around 8% as the interest cost, the savings for the year will be 240 crores in the Metro books.

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

Pulkit Patni: Just one question, and a lot of people have asked you questions on Middle East exposure, but as a company, today, we have almost 40% order backlog exposed to international and while obviously you would have done all the risk assessment, but geopolitics is pretty uncertain right now. So, is there an upper threshold beyond which we would not increase our exposure to international or we are okay taking this number even to say 45-50% if that is where the opportunity is? Any thoughts on how we should look at our international exposure say over the next 24 months?

P. Ramakrishnan: So, Pulkit, I think in the next two- three quarters, the order prospects from India and Middle East would be equally significant, not necessarily in terms of value, but in terms of proportion, okay. And we are mindful of the fact that when we are working for projects outside India, we establish or we ensure that our relationship with the client, the financing for the project and the terms of payment and all of the conditions are in line with our own risk framework process.

Now given the fact that in the last one year there has been a spate of orders coming from Middle East, we are also ramping up of our resources organization out there. So, many of the senior people for very large projects have already relocated. So, we have now contract management teams actually stationed out locally. We are also improving the demography of the workforce out there to have people out, you know, who can understand the local nuances so that it will enable us to sense if there are any implications or developments going forward and to take any sort of preemptive action.

So, a choice of the sector, which means that what is the sector relevant to that country, who is the sponsoring agency, who is the awarding customer, I think all of these things are playing a big role while we address the upcoming opportunities or the past opportunities and equally favorable set of opportunities that are emanating out from this part of the world. It is not only restricted to Saudi, but I would also say. I think we are looking at, and we have recently also, today itself, we announced a press release. This was a job in UAE. So, we also secured a large hydrocarbon project in the country of Qatar.

So, we look at the project sponsor, the customer, the project, how important it is for the customer so that we are reasonably sure that it is appropriately funded, and we get our payments on time. It is all with the backdrop that we will do our project with execution in time as well, to which I responded that we have increased the scale of leadership for all the jobs in the Middle East itself.

Pulkit Patni: My second question and sort of connected to the first one is on our combination of margin and working capital. For the last nine odd months, we have been saying that while our margins are weak, working capital sort of takes care of it and as a result of it, our cash margins have been pretty similar to what we had originally thought.

Now, as you look at next year, as these international jobs come in, would that thought process continue that while our working capital will be low, even if our margins remain in the current range, we should be net net okay or are we saying that margins will also improve and working capital also because international will become a bigger part of execution can also get better from here?

P. Ramakrishnan: So, Pulkit, I did respond to, I think, Renu's question that many of the jobs that we have in the Middle East are fixed price contracts. I wish to reiterate that timely completion of jobs is very essential. If you complete it on time, your margins will be definitely in line with the bid-out margins, which I explained that how we have been following the bidding process. We have not pursued volume on the sake of sacrificing profitability. But project execution, which is the part of our core EPC business, hopefully that happens on time. We could see an improvement of working capital or working capital in and around the same levels because 16-17% is quite favorable as compared to 23-24 that we were reporting three years back. So, even at the current working capital, an improvement in margins is definitely the objective and hopefully, it should happen.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong. Please go ahead.

Rahul Gajare: Now some of my questions have been answered with respect to Middle East and all. I want to stick to the margin part of the question. Given that we have a high exposure on Middle East, which are fixed price contracts, you have also indicated that a lot of margin booking will actually slip into FY '25. Now can you talk about what are the levers that you will have to see improvement in margin when you compared to the other players in the industry? Does faster execution get you better margin? Is that something which happens, or your margins will be fixed irrespective of whether you do it in time or whether you do it faster?

P. Ramakrishnan: So, obviously, I will put it this way, Rahul. If you are able to do a timely execution, because when we bid for a project, obviously we factor buffers, contingencies and all, right, to take care of cost overruns and time overruns. Now if you are able to complete the project on time, then the buffers that are related to time overruns get released.

And similarly since it's a fixed price contract as part of the risk mitigation mechanism, we also follow that wherever possible at the time of bid submission itself, major critical parts of equipment that we need to procure, they are also usually hedged on a back-to-back with the identified vendor. So, timeliness of execution will ensure release of buffers on the time contingency part and any cost saving because of commodity prices easing off from what we had assumed will also enable us to improve, but it will work either way.

Rahul Gajare: The second question I want to understand is what is the capacity utilization of your BTG plants right now? You know, given fairly high potential of new thermal plants in India, I'm wondering why L&T not going fast on the thermal power ordering? Especially, you know, I would think the margins in that particular order should be better than that that you would be getting in the international geographies. So, your comment on this entire power related business would be helpful.

P. Ramakrishnan: So, Rahul, I think over the last two to three years, the Power EPC business has been supported by award of FGD opportunities, which are the ones which we are executing currently. There has been certain, I would say, some amount of coal-based EPC awarding that is happening. But we are taking each bid in its independent way. And if the terms of that contract are favorable to what L&T thinks are terms which will enable us to improve or have better margins at the same point of time, having exposure to working capital, which is optimum. Until such a time happens, I think we will carefully evaluate all the bids that are coming up in the EPC side of the coal-based power plants in the country.

Although there is a revival, I think there has been awarding of almost 27 Gigawatts of awarding has happened or expected to happen or under execution. And I think there is a target to possibly take 80 Gigawatts by the end of 2030. So, some amounts of coal-based orderings are going to happen, but each of these opportunities will be addressed on a standalone basis in terms of whether the terms are favorable to us from a contractor's perspective.

Rahul Gajare: And what is the utilization of the plant right now?

P. Ramakrishnan: Right at this juncture, I think it would be given the fact that the order book is depleting, so we are operating maybe around 30%, but some part of the facility will be also now getting converted to making other equipments for other sectors.

Rahul Gajare: And typically, if to break even, what is the kind of utilization that you need for these power BTG plants?

P. Ramakrishnan: It will be around 50% or so.

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

Aditya Mongia: I had two questions from my side. The first question is related to assessing what is the share of your backlog that comes in from Saudi Aramco and if you could give some more color on today's development and how you feed through it from the perspective of incremental growth coming from the customer?

P. Ramakrishnan: So, Aditya, I think it will not be appropriate for me to address a specific query with respect to any exposure on a specific customer. So, I just wanted to tell our exposure to Saudi Arabia is in the range of 1.34 trillion, which is the 80% of the 92% of our international order book, but I don't want to comment on specific customers. It will be inappropriate.

Secondly, while we have given our guidance for the full year on order inflows that we expect to cross 20% factors what is information that is available to us at today's point of time. So, I will put it that way.

Aditya Mongia: And the second question, P.R., was more generic on margins as in margins have been volatile in the past. I wanted to get a sense of what are the key learnings from the perspective of L&T and in that context, going higher on fixed price contracts as a share of backlog, is this something that is counterintuitive?

P. Ramakrishnan: So, let me put it like this, Aditya. I think it's not correct to say that margins have been volatile. I did mention about the fact is that we have had some amount of margin depression, especially in the infrastructure segment, given the fact for a whole lot of reasons that I have explained in the previous calls also. But one thing it is important for us to equally say yes, it's a function of maybe competitive intensity while we bid for those projects backed up by Covid-led delays, then increase in the commodity costs for which we did not have a pass through. And some important claims that we were pursuing and it's not getting crystallized.

So, I don't think it would be right for us to say it has been volatile. Yes, it has been a little subdued. But now that the legacy jobs have got completed, and we have a more or less recently refreshed order book from the orders that we have secured from latter part of 21-22 and 22-23, I reiterate once more that one could see a sequential improvement in margins. When I say sequential means, I am talking of Y-on-Y sequential. It's not like Q1 over Q4, but definitely an improvement in margins over the next six to seven quarters.

Aditya Mongia: Just a last question from my side, as in you already had an ROE of 15.4 at margins that are day-to-day and you said that double digit margins are a kind of a matter of time, as in those kinds of margins, the ROEs would be let's say north of 18, 19, 20%. In the kind of business that you operate, is it something that can be sustained for a period of time?

P. Ramakrishnan: You are referring to margins or you are referring to capital intensity?

Aditya Mongia: What I am saying is that current margins, your ROE is about 15 odd percent is what you said in your opening remarks.

P. Ramakrishnan: Some part of the improvement in ROE will be attributed to an increase in margins. So, if today we are in a margin trajectory, say 8.5% and obviously a 1% improvement over a period of time will ensure ROE improvement almost of maybe 1%, 1.5%, but subject to the fact that we are able to keep the working capital in around the 18% level.

Moderator: Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: I just have one question and apologies if it sounds repetitive. But it seems that in a post-COVID era, we have started taking note of risk of time delays which impact the cost vis-à-vis the inflationary impact on business. So, that is leading us to take a lot of contracts in the Middle East. As a lead contractor, a lot of new kind of contracts also vis-a-vis, you know, conventional thinking of share of Middle East versus share of India or lower margins in Middle East versus higher margins in India. Are we heading towards a directional strategy of choosing inflationary risk of executing large Middle East or Indian project vis-a-vis time delays, which has been more harmful to us in last one to two years? I just wanted to understand if the understanding is correct.

P. Ramakrishnan: So, let me tell you, Amit, I think both points are equally important. We cannot say we will have preference of one over the other. I think as an EPC contracting business, as possibly we are one of those very few EPC contracting organizations, where despite the ups and downs of the underlying investment spend for which we get the contract and despite taking a plethora of contracts across geography and across domains, I think we have been able to keep a higher volatile margin sector to a more predictable margin sector.

That is primarily because of the mix of jobs, mix of geography, mix of clients, everything put together on top of it, our relentless focus on timely execution. I think that has only helped us to ensure that we are able to at least bring some amount of stability in an otherwise volatile EPC contracting sector from a margin perspective. I think the one thing that we would like to acknowledge or recognize is that over the last three years, there has been a relentless focus that while we grow the business in terms of size and scale, we also focus on the working capital intensity and that has in a way helped us and that is going right up to the business unit and the project level that we do projects or we complete projects or we progress on projects only to the extent of money is coming on time and in case if customers are not in a position to make payments on time, such of these projects would see some amount of delays but with appropriate contractual commitment conditions, so that later on we don't have any adverse surprise.

Amit Mahawar: Maybe I can conclude this statement saying, you know, bid margins to the realized margins, L&T had started becoming more focused on the realized margins. Thank you, P.R., Second and a quick question is within the core business, how will the construct change with respect to the revenue composition vis-a-vis say historically we used to have EPC versus manufacturing business, which used to give us a good blend of core profitability? Three to five years from now, not today, do you think we are moving towards a band where the core margins will head north just beyond the core cyclical margins improving EPC to a much better margin with a blend of manufacturing high value add versus EPC margin and any mix of revenue you would want to give over five years?

P. Ramakrishnan: Actually, this is a Q3 call, Amit, and you are asking me a strategic question, but I will attempt to answer that. I think it would be better that we cover that during a yearly start call. But yes, as I see it, I guess from a portfolio where we have projects manufacturing and services, today, structurally, services would be 25% of top line and 75% top line coming from projects and manufacturing.

Within that, the Projects part takes a lion's share because the manufacturing comprises largely of Heavy Engineering and Defense, which are, of course, from an EBITDA perspective, more profitable. But I would like to reiterate that it's not correct to say that we will focus on Projects and Manufacturing as it has always been. I don't think there will be a change in strategy, so to say. The only thing is we will target as our order book grows. I think we are becoming more and more competent to address large opportunities, which means where the competitive intensity will be more reasonable and hopefully better tendering terms, even for India projects, should enable us to inch up on the profitability scale without expanding the balance sheet.

Amit Mahawar: Can I sneak in one last one line question? In the current order book, do you have any risk of cancellation of any large Middle Eastern contract at this stage? That's it.

P. Ramakrishnan: No.

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

P. Ramakrishnan: So, thanks everyone for attending this call. It was my pleasure to interact with all of you. Good luck and wishing you all the very best. Thank you.

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