"Larsen & Toubro Limited

Q3 FY '25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Larsen & Toubro Limited Q3 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

Today, we have with us on the call, Mr. Subramanian Sarma, Whole-Time Director and President of the Energy Division; and Mr. P. Ramakrishnan, Head, Investor Relations of Larsen & Toubro Limited. I now hand the conference over to Mr. P. Ramakrishnan. Thank you and over to you sir.

P. Ramakrishnan: Thank you, Sagar. Good evening, ladies and gentlemen. This is P.R., P. Ramakrishnan. A very warm welcome to all of you into the Q3 FY '25 earnings call of Larsen & Toubro. The earnings presentation was uploaded on the stock exchange and on our website around 6:30 PM. Hope you have had a chance to have a quick review of the same. As usual, instead of going through the entire presentation, I will summarize the highlights for the quarter, followed by the financial performance summary in the next 30 minutes or so. And post which, myself and Mr. Subramanian Sarma, we will take the questions. Before I begin the overview, a brief disclaimer. The presentation that we have uploaded on the stock exchange and our website today, including the discussions we may have on the call today, may contain certain forward-looking statements concerning the group's performance, business prospects and profitability.

This would be subject to several risks and uncertainties, and the actual results could materially differ from those in such forward-looking statements. I would request you to go through the detailed disclaimer, which is available in Slide 2 of the earnings presentation that we have uploaded just now.

The growth momentum of the Indian economy has waned a bit in the recent quarters. The urban consumption has tapered off as the excess savings from the pandemic have been exhausted, formal sector wages have slowed down and the consumption lending norms have also been tightened. Rural consumption, on the other hand, has continued at a healthy clip on the back of robust agricultural activity. Public investments have also slowed down due to the recent Central and State elections in the country, whereas private investments have been episodic at best. Nevertheless, the recent pick-up in the various high-frequency economic indicators suggest that the slowdown in economic activity has possibly bottomed out and could recover on the back of improved government spends in the near-term. Moving on to the international landscape. The global situation continues to be marked by military conflicts, the changes in the political landscape across several countries and trade wars, which is threatening to reignite inflation and minimal policy choices available to central banks. Similarly, the government across countries with elevated debt to GDP ratios are finding it difficult to impact fiscal impulses at will.

On the positive side, though, the cease fire between Hamas and Israel is expected to bring the much-needed stability in the GCC region. The GCC region led by Saudi Arabia is continuing to strengthen its physical and digital infrastructure besides monetizing its oil and gas assets. Coincidentally, multiple GCC countries are also embarking upon the energy transition journey with utmost seriousness.

Having covered the macro landscape, let me share a few important highlights of the company for the quarter. The company posted or reported the highest ever order inflow in the history. This was received during the quarter for Rs 1.16 trillion. The growth of 53% on a Y-on-Y basis was backed by a strong ordering momentum in the Infrastructure, Hydrocarbon, CarbonLite Solutions and Precision Engineering & Systems businesses. Despite the lacklustre economic activity in India in Q3, we have secured Rs 987 billion, which is 64% Y-on-Y basis of orders in the Projects & Manufacturing business portfolio during Q3 with the domestic and international contributing about 48% and 52% respectively.

Moving on, L&T Energy Green Tech Limited has won 90,000 MTPA green hydrogen capacity in the tranche 2 of the green hydrogen production PLI at an average incentive of Rs 11.11 per kg of hydrogen. This incentive to be distributed over a period of 3 years will aggregate to a total benefit of around Rs 300 crores.

LTIMindtree recorded its highest ever deal wins in Q3 FY '25 at USD 1.68 billion. Similarly, LTTS, L&T Technology Services, also witnessed its highest ever large deal bookings during the quarter, aided by 8 large deals across segments, which includes 1 USD 500 million deal, 2 USD 35 million deal, 2 USD 25 million deal and 3 USD 10 million deals.

LTTS signed a definitive agreement on November 11, 2024 to acquire a 100% stake in Silicon Valley-based Intelliswift and its subsidiaries for a consideration of USD 110 million. The objective of this acquisition was to deepen the company's offerings across software product development, platform engineering, digital integration, data and AI. Intelliswift has 25-plus Fortune 500 logos, including 5 of the top ER&D spenders in software and technology. And it is also associated with 4 of the top 5 hyperscalers. This acquisition got fully closed this month.

Moving on to Financial Services. L&T Finance Limited achieved a portfolio retailization of 97% in Q3 FY '25, a milestone this business had achieved way ahead of its Lakshya 2026 targets.

Lastly, the Data Centre business has entered into a strategic business partnership with E2E Networks, an Indian cloud and AI cloud provider, towards the adoption of Gen AI solutions in India to foster a fundamental shift in the way accelerated computing on cloud is used by Indian corporates.

Further, an investment agreement was signed on November 5, 2024 for the acquisition of 21% stake in E2E Networks, of which 15% stake has been acquired through a preferential allotment of equity share on December 4 for an aggregate consideration of Rs 10.79 billion. The secondary acquisition of 6% is expected to be completed before May 30, 2025.

Now let me now cover the various financial performance parameters for Q3 FY '25. This quarter was a quarter of robust performance across the various financial parameters. Our group order inflows for Q3 registered a Y-on-Y growth of 53%. On the back of a strong ordering momentum, our order book is at Rs 5.64 trillion on December '24. This has registered a growth of 20% on a Y-on-Y basis.

Aided by a strong execution momentum from several businesses within the Projects & Manufacturing portfolio, our group revenues for the quarter registered a growth of 17% on a Y-on-Y basis. Our margins of the Projects & Manufacturing portfolio at 7.6% is in line with the corresponding period of the previous year. Our Net Working Capital to revenue is at 12.7% as on 31 December, '24, this improvement of almost 390 basis points on a Y-on-Y basis. Our Return on Equity on a trailing 12-month basis as on December '24 is at 16.1%, improving by 90 basis points on a Y-on-Y basis.

I now move on to the individual performance parameters. As said earlier, our group order inflows for Q3 FY '25 at Rs 1,160 billion registered a Y-on-Y growth of 53%.Within the group order inflows, our Projects & Manufacturing businesses secured order inflows of Rs 987 billion for Q3, reporting a robust growth of 64% over the corresponding period of the previous year. Our Q3 order inflows in the P&M portfolio are mainly from Infrastructure, CarbonLite Solutions, Hydrocarbon and the Precision Engineering & Systems businesses. During the current quarter, the share of international orders in the P&M portfolio is at 52% vis-a-vis 67% in Q3 of last year.

Moving on to the order prospects pipeline. We have a total order prospects pipeline of Rs 5.51 trillion for the remaining 3 months of FY '25 vis-a-vis Rs 6.27 trillion at the same time last year. This represents a drop of 12% when compared to December '23 order prospects pipeline. This decrease is primarily due to the fall in the Hydrocarbon and CarbonLite prospects. The broad break-up of the overall prospects pipeline for the remaining 3 months would be as follows. The share of Infrastructure is Rs 4.00 trillion vis-a-vis INR4.01 trillion last year. The Hydrocarbon prospects pipeline is at Rs 1.44 trillion as at December '24 when compared to Rs 1.71 trillion as at December '23. The Heavy Engineering and the Precision Engineering & Systems business, which caters to what we call the Hi-Tech Manufacturing segment, the order prospects pipeline is at Rs 0.06 trillion vis-a-vis Rs 0.16 trillion last year.

Moving on to the order book. Our order book is at Rs 5.64 trillion as on December '24, which is up 20% vis-a-vis December '23 last year. As the Projects & Manufacturing business is largely India-centric, 58% of this order book is domestic and 42% international. Of the international order book of Rs 2.37 trillion, around 84% is from Middle East and 3% from Africa and the remaining 13% comprised from other countries of the world. Like I said earlier, the various countries in the Middle East are continuing to focus on investments in Oil and Gas, Infrastructure, Industrialization and Energy Transition. The breakdown of the domestic order book of Rs 3.27 trillion, which I said is 58% of the overall order book as of December, comprises of:

- Central Government order - 15%,
- State Government orders - 26%,
- Public Sector Corporations or State-Owned Enterprises - 39%.

- Private Sector – 20%

Approximately around 15% of the total order book of Rs 5.64 trillion is funded by bilateral and multilateral funding agencies. Once again, that 90% of this total order book comprises orders from Infrastructure and Energy. You may refer to the presentation slides for further details. During the 9-month period FY '25, we have deleted orders of Rs 6 billion from the order book. There has been no deletion of orders from the order book in the current quarter, which is Q3 FY '25. As of December '24, our slow-moving orders is around 0.5% of the order book.

Coming to revenues. Our Group Revenues for Q3 FY '25 at Rs 647 billion registered a strong Y-on-Y growth of 17%. International revenues constituted 51% of the revenues during the quarter. The strong execution momentum in Infrastructure, Hydrocarbon and the Precision Engineering & Systems businesses within the P&M portfolio drove the overall group revenues for the quarter. Within the group revenues, the revenues for the Projects & Manufacturing business for Q3 FY '25 is Rs 473 billion, up by 20% over the corresponding quarter of the previous year.

Moving on to EBITDA margin. Our group level EBITDA margin without other income for Q3 FY '25 is 9.7% vis-a-vis 10.4% in Q3 of the previous year. This EBITDA margin variance is mainly due to the revenue mix favouring the Projects & Manufacturing segment and also lower operating margin in the ITTS segment. The detailed break-up of the EBITDA margin business-wise including other income is given in the annexures to the earnings presentation. You would also notice that the EBITDA margin in the Projects & Manufacturing portfolio for Q3 FY '25 is at 7.6%, in line with the corresponding quarter of the previous year. I will cover the details a little later when I will talk about the performance of each of the segments.

Our consolidated PAT for Q3 FY '25 at Rs 33.6 billion is up 14% over Q3 of the previous year. This PAT growth is reflective of increased activity levels and improved treasury operations. The primary reason behind group PAT growth of 14% despite group revenues growing at 17% for the quarter is the lower operating leverage in the IT&TS portfolio and slightly higher credit costs in our Financial Services business.

The group performance P&L construct along with the reasons for major variances under the respective function heads is provided in the earnings presentation. You may go through the same for further details.

Coming to Working Capital. Our Net Working Capital to sales ratio has improved from 16.6% in December '23 to 12.7% in December '24, mainly due to an improvement in the Gross Working Capital to Sales ratio backed by strong customer collections during the quarter. Our group level collections, excluding the Financial Services segment for Q3 FY '25 is Rs 591 billion vis-a-vis Rs 494 billion in Q3 FY '24, registering an increase of 20% on a Y-on-Y basis.

You may also like to go through the cash flow statement as part of annexures to the earnings presentation. Finally, the trailing 12-month return on equity for Q3 FY '25 is 16.1% vis-a-vis 15.2% in Q3 FY '24, an improvement of 90 basis points for the year. Very briefly, I will now comment on the performance of each business segment before we give our final comments on our outlook for the remaining period of current year.

First, Infrastructure. Coming to order inflows, this segment secured orders for Rs 491 billion for Q3 FY '25, registering a robust growth of 14% on a Y-on-Y basis. International orders constitute 74% of the total order inflows. During the current quarter, the orders were mainly received in Renewables, Power Transmission & Distribution, Water, Buildings & Factories and Minerals & Metals sectors. Our order prospects pipeline in Infrastructure segment for the remaining 3 months is around Rs 4 trillion vis-a-vis Rs 4.01 trillion during the same time last year. This Infra prospects pipeline of Rs 4 trillion comprises of domestic prospects of Rs 3.15 trillion and international prospects of Rs 0.85 trillion. The sub-segment break-up of the total order prospects in Infra would be as follows. Transportation Infra share is 35%, Heavy Civil Infrastructure at 18%, Water also at 18%, Buildings & Factories at 14%, Minerals & Metals at 6%, Power Transmission & Distribution at 6% and Renewables at 3%. The order book for this segment is at Rs 3.61 trillion as on December '24. The book bill for Infra is around 3 years. The Q3 revenues at Rs 321 billion registered a healthy growth of 15% over the comparable quarter of the previous year, largely aided by execution across multiple jobs from a large opening order book. Our EBITDA margin in this segment for Q3 FY '25 is at 5.5%, in line with the corresponding quarter of the previous year.

Moving on to the next segment, that is Energy Projects. This comprises of Hydrocarbon and CarbonLite Solutions. The receipt of 2 ultra-super critical thermal power plant orders helped the CarbonLite Solutions order book, whereas Hydrocarbon benefited from the receipt of a mega international onshore order. We have a strong order prospects pipeline of Rs 1.44 trillion for this Energy segment for the balance 3 months comprising of entirely Hydrocarbon prospects. The order book of this Energy segment is at Rs 1.46 trillion as of December '24 with the Hydrocarbon order book at Rs 1.19 trillion and CarbonLite Solutions at Rs 0.27 trillion. The Q3 FY '25 revenues for the segment at Rs 111 billion registers a strong growth of 41%, driven mainly by the execution ramp-up in domestic and international projects of Hydrocarbon, whereas lower revenues in CarbonLite Solutions are reflective of a depleting opening order book. The Energy segment margin in Q3 FY '25 is at 8.3% vis-a-vis 9.7% in Q3 FY '24. The negative variation in Hydrocarbon margin over the previous year is largely reflective of the stage of execution of the various jobs in the portfolio, whereas CarbonLite Solutions margin improved due to a favourable claims settlement.

We will now move on to Hi-Tech Manufacturing segment, which comprises of the Precision Engineering & Systems and the Heavy Engineering businesses. The Precision Engineering & Systems business benefits from the receipt of the K9 Vajra repeat order and multiple international orders helps the Heavy Engineering order book. The order book for this segment at Rs 418 billion as of December '24. The order prospects pipeline for the remaining 3 months in this segment is around Rs 65 billion for the next 3 months. The strong execution momentum continues in the Precision Engineering & Systems, whereas muted revenues in Heavy Engineering is reflective of jobs in the early stages of its progress. The execution cost savings in Heavy Engineering business aids segment margin improvement at the overall segment level.

Moving on to the next segment, which is the IT and the Technology Services portfolio. This comprises of the 2 listed subsidiaries, which is LTIMindtree and LTTS. The revenues of this segment at Rs 121 billion in Q3 FY '25 registered a modest growth of 8%, largely reflective of the present market conditions. Despite the ongoing macroeconomic concerns and as I mentioned earlier, both these companies recorded very strong deal wins in the quarter.

The segment margin decline during the quarter is mainly due to wage hikes and forex losses in both these companies. I will not dwell too much on this segment as both the companies in this segment are listed entities and the detailed fact sheets are already available in the public domain.

Next, we move on to L&T Finance. Here again, the detailed results are available in the public domain, but very briefly I will summarize. The Q3 reward around healthy credit calibrated growth in the disbursements. The credit cost during the quarter was largely in check despite the ongoing headwinds in the micro finance portfolio and the balance sheet is strong on the back of built-in macro prudential buffers.

The company expects credit cost in rural group and the micro finance loans to peak in Q4 FY '25 and some normalization from Q1 FY '26 onwards. The Financial Services business had achieved 97% retailization of its loan book in December '24, well ahead of the Lakshya '26 targets. The return on assets remained healthy at 2.27% despite the sectoral headwinds. And finally, adequate capital in the balance sheet is available to pursue growth in the medium-term.

Moving on to the Development Projects segment. This segment includes the Power Development business, comprising of Nabha Power and Hyderabad Metro. Most of the revenues in this segment are contributed by Nabha Power. A combination of improved PLF and higher energy charges in the Nabha Power drives the segment revenue growth. At this juncture, let me give you some ridership statistics on the Hyderabad Metro. The average metro ridership was 4.32 lakh passengers a day in Q1 FY '25, 4.68 lakh passengers per day in Q2 FY '25 and remains around 4.45 lakh passengers a day in Q3 FY '25. The sequential decline in ridership was mainly due to the festive season holidays during the quarter. Our ridership in Q3 FY '24 was 4.44 lakh passengers a day. So on a Y-on-Y basis, it's largely the same. The metro at a PAT level posted a loss of Rs 2.03 billion in Q3 FY '25 as against a loss of Rs 2.54 billion in Q3 of the previous year. The improvement is largely on account of lower interest costs consequent upon reduction in debt.

Moving on to the Others segment. This segment comprises Realty, Construction Equipment & Machinery, Rubber Processing Machinery and Industrial Valves and to some extent the residual portion of the Smart World & Communications business. The Q3 revenue at 9% growth over the corresponding quarter of the previous year was mainly contributed by a higher handover of residential units in the Realty business and improved sales in the Industrial Machinery and the Products business. The segment margin improvement is mainly due to a favourable revenue mix in Industrial Machinery & Products business.

Coming to the last part of my presentation, the revised the outlook for the current year FY '25 taking into account how we see Q4. Despite the initial hiccups, the Indian economy is poised for steady growth with projections indicating a GDP growth of 6.5% to 6.8% for the fiscal year FY '25. The rural consumption has remained encouraging, supported by strong agricultural performance due to a favourable monsoon. The services sector continued to be a key driver of growth. There are initial signs of a pick-up in government spending post the centre and various state elections, which will give the necessary impetus to the Infrastructure capex spend in the near-term. As the country strives to achieve the vision of a Vikasit Bharat by 2047, the government is expected to maintain its strong commitment to infrastructure investment, recognizing it as a key driver of broader economic growth. The forthcoming union budget is likely to strike the balance between policy continuity and fiscal discipline. The country would still be one of the fastest-growing economies in the world, although the pace and sustainability of the growth trend would be shaped on how the country navigates challenges around global and financial market volatility, potential implications of intensified trade wars, domestic inflationary impulses, the compulsions around the coalition-led government and finally a trade-off between social spends and pursuing long-term development goals. The global economy at the current juncture is at a crossroad, whereas policy changes by the U.S.A. could result in another growth of tariff costs. On the other hand, the cease fire between Hamas and Israel should improve the situation in the GCC region. The European economies continue to move sideways, while questions over the Chinese economy further clouds the growth picture and put global economies towards fragmentation and localization. Further, we expect multiple countries to enhance their business outlays in an uncertain world. The consequences due to climate change is getting serious attention and is leading to substantial investment outlays into cleaner technologies. Lastly, Artificial Intelligence and all its attributes and variants is gaining faster acceptance and adoption across the world. On a positive note, the GCC region led by Saudi Arabia will continue to strengthen its physical and its digital infrastructure apart from monetizing its oil and gas assets. Coincidentally, multiple GCC countries have also embarked upon the energy expansion transition journey with relatively large investment outlays.

In this economic backdrop, the company will continue to pursue its objective of a volume-led profitable and return accretive growth. The company has robust order prospects for the near-term and is confident of maintaining its growth momentum by leveraging the emerging opportunities and maximizing shareholder value on a sustainable basis.

Before we conclude, let me cover the guidance that we had given on the various parameters for the year FY '25.

First, order inflows. You would recall that we had given a guidance of 10% growth in order inflows for the year. For 9 months FY '25, our order inflows at Rs 2,670 billion is up by 16% over the corresponding period of the previous year. And looking at a strong prospects pipeline of INR5.51 trillion for Q4, we believe that we would be surpassing the 10% guidance on order inflows for FY '25. With India capex expected to pick-up in Q4 and since the international prospects pipeline also remains healthy, we feel confident of exceeding the guidance on order inflows. As we speak, we seem to be well placed in orders in the Projects & Manufacturing segment of almost Rs 500 billion.

Coming to revenues, we had guided for a 15% growth in revenues for FY '25. Since our group revenues for 9 months FY '25 has reported a growth of 18% and our order book remains strong, we do believe that there are potential upsides to the revenue guidance of 15% for the full year FY '25.

Moving on to the EBITDA margin. Our guidance on EBITDA margin for the Projects & Manufacturing remains -- businesses remained at 8.2% that we guided at the start of the financial year. This 8.2% is for the full year FY '25.

On Net Working Capital, we had earlier guided the NWC to revenue of 15% in March '25. Since our NWC to revenue is at 12.7% as of December, we believe that our NWC to revenue should be around the same levels that we have printed for as of December '24.

Lastly, as you are aware, our free cash flow generation has been robust in the last couple of years and we are also stepping up our capital allocation into newer business areas like green energy, data centres and semiconductor design. We do expect some of these investments to start contributing to group returns in the next Lakshya plan of the company, which will start from FY '27 and end at FY '31.

With this, I conclude. Thank you, ladies and gentlemen, for the patient hearing. We will now begin the Q&A. My request to all the people who want to ask questions, in case if you have any big book-keeping questions, please feel free to connect to me or Harish, my colleague, afterwards. We have with us also my senior colleague, Mr. Subramanian Sarma, who is the President and Head of the Energy business. Over to you.

Moderator: Our first question comes from Mohit Kumar from ICICI Securities.

Mohit Kumar: Sir, I think you mentioned that in Projects & Manufacturing, you are favourably placed in the Rs 500 billion order. Does it mean that you are L1 in those orders? Is that the right understanding?

P. Ramakrishnan: I said we are well placed. It is just to give the comfort that while we get into Q4, since you all know that a 10% guidance for the full year also means that we need to print almost Rs 650 billion of orders in Q4. So just to give the comfort that we seemingly are on track because we are well placed in 4, 5 very large orders. But since the orders are large, there can be always a slippage into subsequent quarters or not closing of the contract itself.

Mohit Kumar: Understood, sir. My second question is, sir, have we included the order for 5.2 GW, 19 gigawatt hour solar plus project in this quarter? And is it possible to lay out the scope and difference of responsibility between you and Power China? Is it possible to give a color on the size of the project?

P. Ramakrishnan: So you are referring to the renewables press release

Mohit Kumar: Yes. Where you are preferred EPC contractor for the Middle East 5 gigawatts, 19 gigawatt hour...

P. Ramakrishnan: So it is a ultra-mega order and that has been taken in the order inflow for Q3. We received the client clearance some time in January and we have released the press release recently. I would say, it is quite a very complex order and one of the largest renewable investments that UAE is embarked upon. I mean, it's a prestigious order inflow for us.

Mohit Kumar: And what is the difference of responsibility between you and Power China?

Subramanian Sarma: Power China is a separate contract. The total generation capacity and storage capacity is split into 2 contracts. And those 2 contracts are independent contracts. What we announced is related to our part and similar scope is being done by Power China. So they are independent contracts mutually exclusive and directly with the customer. We have no relationship with Power China on this contract.

Mohit Kumar: Understood, sir. And absolutely clear, sir. My last question, sir, is the development of green hydrogen project, which you have won in the last quarter, is it contingent on finding the market for green hydrogen in the advanced listed developed markets? Is that right understanding?

Subramanian Sarma: Yes, yes. I mean, we applied for this. What we announced was this PLI scheme. And under that PLI scheme, we have successfully secured the Rs 300 crores incentive, which is subject to setting up that capacity. I mean, if you set-up the full capacity, then we'll be entitled for that full incentive. Otherwise, it will get discounted based on the capacity we set-up within that timeline.

Now of course, our decision will also depend upon how the market evolves and the economics related to that investment decision. We are very actively pursuing many opportunities within India as well as outside. And we are quite confident that some of those will materialize. Now to what extent and when is something a little bit uncertain now, but we are very hopeful.

Moderator: The next question comes from Amit Anwani from PL Capital.

Amit Anwani: My first question is on the execution which was stellar this time. We can see the domestic Infrastructure business revenue was kind of moderate -- seen a moderate growth. So any challenges you faced this quarter with respect to project execution in domestic market in any of the projects which are there?

P. Ramakrishnan: No. So let me answer that, Amit. The execution, especially of the projects in the domestic sector with respect to Infrastructure segment, I think it is continuing as per plan. There have been some isolated cases where we had to bring down the execution because of delayed payments. But otherwise, the execution momentum is in line with our budgets that we have done and in line with our guidance itself.

Amit Anwani: Yes. Second question on the prospects in the Energy business. You said the Rs 1.44 trillion pertains to only Hydrocarbon and there is I think, I guess, no thermal order prospects which we are accounting now. Is it that the prospects have kind of deteriorated in the market or we have been selective and now not taking orders in thermal in upcoming quarters?

Subramanian Sarma: No, I think the Rs 1.44 trillion has got several components. One is thermal power plant in India. Then we have hydrocarbon projects both in India as well as in West Asia. And then we also have some gas to power opportunities. I think between the 3, we believe that we have a very good bid slate and we should be able to secure a reasonable size of that prospect.

Now thermal power plant in India, we have made a strategy to bid for BTG that is Boiler Turbine Group and we'll continue to pursue those. And yes, to some extent, we'll be selective from a point of view of our manufacturing capacity and our ability to execute those jobs and provided, of course, the location and the situation conditions are favourable for us to execute in an efficient manner.

P. Ramakrishnan: So Amit, just to add to what Mr. Subramanian Sarma told, the order prospects that I have articulated in the call, they are all for what we believe are tenders which are going to come, which are addressable, not necessarily the orders which could be orders that is getting tenders could be larger, but it's all what we call the addressable L&T universe for the 3 months. So to that extent, some of the opportunities may be coming in the next year, but not in the next 3 months or so.

Amit Anwani: Just to clarify, the order we just won in Mumbai are only catering to BTG which we won in 3Q?

Subramanian Sarma: Yes. What we have printed or what we have disclosed in Q3 FY '25 relates to the BTG orders of NTPC.

Moderator: The next question comes from Aditya Bhartia from Investec.

Aditya Bhartia: Sir, my first question is on the status of the submarine tender that we wanted to participate in. There have been some media articles around that. So if you could just clarify about what's really happening over there?

Subramanian Sarma: Okay. So there are media reports on this matter in the public domain. We cannot comment further as the matters pertaining to the bid are subject to an NDA. We have also sort out some clarification with the customer. But unfortunately, I'm not in a position to comment further on this particular matter because of non-disclosure agreement compliance.

Aditya Bhartia: Sure, sir. Understood. So my second question is on margins in the Infra vertical. It has been a while since margins have been hovering around this range and we have not really seen a big expansion. Do you think this is a new normal wherein we are looking at lower working capital, but that also kind of entails lower margins? Nothing wrong with the strategy, just trying to understand if this should be seen as a new normal.

P. Ramakrishnan: Okay. So the Infrastructure margin have been a little softer in the last 2 to 3 years. We do expect with the slow depletion of the orders that we had taken prior to FY '22, '23, all of them tapering on the last stages of execution. The new set of orders, which are large orders, subject to the fact that if we are able to complete them on schedule, we do expect some improvement in margins.

But having said this, as a projects company, we have been -- we give guidance only for the particular year under revenue. So in the month of May, after the internal budgets which we will be closing out in the next 1 month or so, I think we'll have a better visibility to comment as to how the margin trajectory for FY '26 pans out across the Projects & Manufacturing portfolio.

Having said this, as you rightly mentioned, despite the fall in margins, the overall return on the investments, each of these businesses, each of the businesses under the Projects & Manufacturing portfolio, they have actually improved on the back of timely billing and faster collections.

Aditya Bhartia: Sure, sir. And my last question is just wanted to understand if we are looking to get into some more stuff on the semiconductor side, maybe a foundry or maybe a display fab for electronics. Are we kind of thinking in that direction also or would we be restricted to fabless?

P. Ramakrishnan: So you have taken 2 questions on this. So the first point is as far as semiconductor is concerned, the current approach is to build-up the semiconductor design, build-up a good set of products, which will obviously will have to be get manufactured through other fabs, before even exploring to decide whether we want to go on to investment in fab itself.

The only thing I can talk about at the current juncture, our foray is in the semiconductor design. And I think it will pan out in the next 2 to 3 years when we build-up the various products under IP-led design. And basis the success that we have, we will explore whether we go into the fab manner, but that is not in the near-term.

Aditya Bhartia: Sure, sir. And something else like display fab?

P. Ramakrishnan: At this juncture, I mean, there are various aspects we are looking at, but very difficult to comment on the progress or what is the final set will happen. Mr. Sarma, you would like to add on this electronics part?

Subramanian Sarma: No, I think like you said, it will evolve. I mean, these are all new arenas we are exploring. And we believe that long-term potential is quite good in this sector. That's why we are entering into this. But we'll keep the options open. And as it evolves, we will implement appropriate strategies, bit too premature to sort of articulate on the exact plan because we are still exploring that.

Moderator: The next question comes from Sumit Kishore from Axis Capital.

Sumit Kishore: So in case of Hydrocarbons, the stage of execution of projects has been the culprit in terms of margin dip for the 9-month period. So when can we expect the stage of execution given the execution itself is growing at a very swift pace? When does that cross the margin recognition thresholds? And the second part of this question is on the Infra side where you could give us some qualitative color on how the margin improvements that we have seen in the 9-month period.

How is it sort of driven by domestic/overseas because higher overseas in the mix might be depressing your headline margin? And how is domestic behaving in that margin mix?

P. Ramakrishnan: So two parts to it. One is on the Hydrocarbon margins and the second is on the Infra margins. So as far as Hydrocarbon margin is concerned, I want to tell you that cumulative 9 months or you take Q3, the margin accretion depends on the stage of completion of each of the businesses. The Hydrocarbon margin is in line with our internal whatever benchmarks. And there are some large projects which will possibly cross the margin recognition thresholds in the near-term. Some of that could be in Q4 and some of that could be slipping into Q1.

But as you are aware, we have given a full year margin guidance of the P&M portfolio at 8.2% and whereas 9 months cumulative is 7.6% because all the 3 quarters, the margins have been at

7.6%. So which means that the Q4 run rate for EBITDA margin is, of course, going to be very high. And that has been baked into our plan, execution momentum and the stage of progress.

So I think the Hydrocarbon margin optically dropping is an assumption that has been baked in our 9 months trajectory itself. So I don't think we have any cause to worry. As far as the Infra margins is concerned, we are having a good portfolio of a decent mix of renewable projects and overseas projects in the Middle East and also quite a large substantial order book in the domestic side. Whereas the international projects can have optically lower margins. But I wish to tell you, timely execution is enabling that we are able to print the margins that we have bid, whereas in domestic projects, as you know, there can be time and cost overruns for reasons possibly beyond our control. So in a way, both are offsetting each other. We do not necessarily conclude that a larger share of domestic project execution will be higher margins or a larger share of overseas projects can possibly drop the margins. So I think the mix is good and we should be on track to meet the margin guidance for the entire P&M portfolio at 8.2% for the full year.

Sumit Kishore: Sure. And once the Hydrocarbon projects cross the margin recognition threshold, next year will itself become favourable for Hydrocarbons. Is that the right understanding?

P Ramakrishnan: It can happen in subsequent quarters. So, Sumit, please understand, it's not that we are executing Hydrocarbon projects what we secured 1.5 years back. Some of those projects may have already crossed the margin recognition. Hydrocarbon business has also secured ultra-mega and mega orders in FY '24 and even in the current year. So all these jobs also will get into execution over a period of time.

Sumit Kishore: And the 4, 5 large contracts that you mentioned you are favourably placed are India contracts or overseas contracts?

P Ramakrishnan: I will just stay put here. I will say it is 4 or 5 large contracts. Let's not get into whether domestic or international. It is a decent mix of domestic and international orders.

Sumit Kishore: Sir, second question is on, L&T has picked up a significant stake in E2E Networks, so how are you thinking about the capital allocation, the future roadmap for E2E and the area it represents?

P. Ramakrishnan: So Sumit, it is a collaborative acquisition. So, we have taken 15% stake at almost Rs 1,080 crores. Another 6% stake is due for transfer in some time in May '25. With this, it is being considered from an accounting perspective as an associate. But essentially, from a business perspective, as I mentioned, it is a collaborative partnership where we will leverage E2E's scope of offerings on the AI side, especially on the cloud data centre, while we pitch our offerings, because as you may be aware, L&T is also investing into data centres and we get into the higher end or more margin-led, we have to blend the offerings into giving cloud data services for our data centre customers. So we will leverage that. And similarly, E2E also will leverage our data centre infrastructure to strengthen their scope of offerings. So that way it is a collaborative partnership with the strategic investment also.

Moderator: The next question comes from Priyankar Biswas from BNP Paribas.

Priyankar Biswas: So, my first question is on the domestic capex. So, what we are witnessing is that a lot of freebies and those things in the State Budgets particularly. So, can you please elaborate like what are the areas in the domestic capex where you specifically see traction, if you can break down from Central, State, CPSEs, like which areas we should see growth from?

P. Ramakrishnan: As I talked about the total order prospects of Rs 4 trillion of Infrastructure, a major part is coming out in domestic itself. So, we actually have a canvas of opportunities across various segments. Let me talk about the buildings, both led private sector and also at the central level. There are various opportunities for public health, which means I'm talking of hospitals.

There are opportunities on some large projects on the hydrogen side. And I also want to tell you that there is a major set of urban infrastructure connecting between 2 cities, not necessarily -- I'm not talking of railways, I'm talking of road networks, elevated corridors that are expected to get tendered out in the near-term.

So it's a combination of state and central-led projects, largely states, I would say. And the share of the government prospects would be almost 75%, whereas private sector prospects, which covers the typical real estate and other kind of data centres and so on, that is almost 25% of the overall prospect share.

Subramanian Sarma: I may just add in. So how...

P. Ramakrishnan: It does not tilt to any specific sector. I think it's a decent mix of energy, of urban infrastructure, of, I would say, also water-related investments that comes in and even metals, but that comes under the 25% share, private sector.

Priyankar Biswas: Sir, just adding on to this. So what is your outlook for that defense space? Because we see the prospect that you gave for Hi-Tech, it seems to be quite low. So aren't you really constructive on the defense capex? That's my question.

P. Ramakrishnan: So, we are very much constructive on the defense capex, Priyankar, but I am going as per the order prospects, what we believe is going to get tendered out in the next 3 months. So, that doesn't mean that defense prospects that are addressable defense prospects in the country is coming down. Incidentally, as I told you, in Q3, we had the benefit of a very large Vajra repeat order is almost Rs 6,500-odd crores.

So this year, we have always managed to get a print of Rs 12,000 crores of orders in the 9 months for the PES business, which is the defense part of the business. We don't see any immediate prospect for the next three months.

Subramanian Sarma: The defense orders generally takes time to conclude.

Priyankar Biswas: Okay. And sir, if I can squeeze just one more in. So, what I see is we have a healthy order book in the region. So going forward, I guess, the international share in the revenues will also rise up as we go into the subsequent quarters. So what should be the general direction you can give the margin and the working capital trajectory from here on?

P. Ramakrishnan: So Priyankar, I think I have answered this kind of a question for the previous people who had asked. Let me tell you the margins what we are giving is for the current year update, okay? As we get into next year, in the month of May, we will be giving you the outlook of margins of the P&M portfolio after we complete this year and the budgets for the next year.

Moderator: The next question comes from Atul Tiwari from JPMorgan.

Atul Tiwari: Just one question on the pace of execution in the Middle East. So lately, we have seen some top down reports about budget constraint in Saudi Arabia and some of the projects being deferred. So, for your projects, have you seen any discussion on the customers' part about delays in payment or anything of that sort?

P. Ramakrishnan: You're referring to only Middle East?

Atul Tiwari: Yes, only Saudi Arabia.

P. Ramakrishnan: Yes. I mean, no, we have not seen actually. In fact, we continue to see a good pipeline. There have been some slowdown in maybe non-priority projects. And I think there is some amount of reprioritization of capital allocation. But in the sectors we are in, which is oil and gas and carbon capture and petrochemicals, I mean, those continue to remain the top priority. And we have a pretty large presence in gas development, which is the highest priority for the Kingdom. So we are not seeing slowdown. In fact, we are not seeing any slowdown in payments. I mean, I was going to comment on the previous question that the difference in the international and domestic is that the payments are much more prompter and working capital is generally better compared to domestic, but we are not seeing any slowdown on those.

Moderator: The next question comes from Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: Congratulations on strong performance. Sir, my first question is on the CarbonLite business. Here, we see that order inflow for the segment is about Rs 234 billion. Does that include entire 4 gigawatt of ultra-mega plants that you book or there is some portion that's not included in that?

P. Ramakrishnan: It includes everything.

Shrinidhi Karlekar: Right. So sir, in that case, is that right that ordering per megawatt is about INR5.5 crores, which looks quite aggressive?

Subramanian Sarma: No, I don't think sir your calculation is right. It is higher than that. When the results have been declared, I think it was...

P. Ramakrishnan: It is in the public domain.

Subramanian Sarma: It is upwards of 6 -- even I don't remember the exact number, but you can check that.

P. Ramakrishnan: This is for the 2 projects?

Subramanian Sarma: This is only for 4 gigawatts, yes.

Shrinidhi Karlekar: 4 gigawatt and the order inflow is Rs 23,000 crores, right, in that segment? So some of the portion that Boiler JV is...

P. Ramakrishnan: But this is only the BTG, right? I mean, this is only for BTG. You have to see this. This is not full EPC. Normally, maybe you're used to entire EPC because the balance of the plant is still not included in this.

Shrinidhi Karlekar: Right. So it's just the BTG part, right?

P. Ramakrishnan: Correct, correct.

Shrinidhi Karlekar: Okay, understood. And sir, in the same order, how should one think about the EBITDA that will be captured in the consolidated business considering -- I'm presuming that some of the EBITDA will be captured in the JVs as well?

P. Ramakrishnan: These orders have been procured by Larsen & Toubro Limited as the BTG EPC contractor and in-sourced to the Boiler and the combined JVs. And large part of the margin will come to the group level only. So, it will accrue only later now these jobs that's just been awarded. So it will take some time for it to reach the threshold.

Shrinidhi Karlekar: Understood. And sir, one question on the Middle East. Would it be possible to comment on what are typical retention money clauses are there in the oil and gas order that the company is winning?

Subramanian Sarma: Typically, I think the retention is not much. I mean, I think we have been negotiating all our commercial terms in such a manner that we maintain either neutral or slightly positive cash flow across the Board and we have been quite successful in doing that. But sometimes you have maybe 2.5%, 5% of the contract linked to certain milestone / end milestones. But overall, the cash flow situation is pretty good. I mean, I think most of them, we are running at positive cash flow.

P. Ramakrishnan: Basis the contracts that we have got. Shrinidhi, I want to tell you that as and when the projects get complete we don't expect in the balance sheet there will be a large amount of retention, which is not the case like in any other segment, possibly in India or any other country. So the payment terms are favourable.

Shrinidhi Karlekar: Right. At the start they are definitely favourable. They're also favourable at the end as well, right?

P. Ramakrishnan: Yes, generally.

Subramanian Sarma: I mean, across the project timeline.

Moderator: The next question comes from Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Congratulations on a good quarter. So earlier in the call, you mentioned there are some slow-moving orders where there was execution issue because of collection. So, in which segment are you facing these challenges? And how much would have been the revenue impact of this?

P. Ramakrishnan: Okay. So in the Infrastructure segment, because of the funds that had been stopped for some time with respect to water projects funded under the Jal Jeevan mission there were some amount of stoppages. But now we expect the fund flow momentum to start. I think it has already started from December onwards and we'd expect a revival in momentum to happen.

It would be very difficult to compute how much -- because of delay in payments, how much of revenues we have lost. That won't be -- it won't be an accurate answer to put it across like that.

Parikshit Kandpal: And sir, in this quarter, were there any one-offs in the EBITDA line because we have seen decline in margins both sequential as well as Y-o-Y. So, I know you touched upon some NPAs and something on IT. So, if you can give some more color like why there was a drop?

P. Ramakrishnan: So, there is no one-off in the entire P&M portfolio as far as Q3 margins are concerned. It is normally as what is in any project part of the business. In terms of stages of execution, we have not had any one-offs.

Parikshit Kandpal: So what explains the decline in the EBITDA margins Q-on-Q and Y-o-Y?

P. Ramakrishnan: No. On a Y-on-Y basis at the P&M level, we have kept it at 7.6%, okay at the group level, I think I did cover -- when you talked about the EBITDA margin at a group level, the drop is because of 2 reasons. The one is the revenue growth is tilted, the composition of revenue is tilted towards a lower margin P&M portfolio as compared to in the previous year, a higher margin IT&TS portfolio. So that is one. That is contributing to almost 30 basis points in the drop for the group operating margin. And the second one is the operating leverage of the IT&TS company that is in terms of their margins has come down. That had another 40 basis point impact. Am I clear, Parikshit?

So the fall in the EBITDA margin at the group level is for 2 reasons:a larger share of revenue growth coming from a lower margin trajectory of the P&M portfolio, which is almost 30 basis points, and the lower margin in the IT&TS portfolio, which is attributing the 40 basis points.

Subramanian Sarma: Basically, the growth rate of IT&TS has been less than the core business and their margins also come down.

P. Ramakrishnan: Our revenues for the quarter at the group level has grown by 17%, okay? Whereas I did say that in the IT&TS segment, the revenues have grown by 8%. So there is a relative rebalancing there. That's the reason for the drop in the EBITDA margin at the group.

Parikshit Kandpal: Okay. And sir, the other thing is you mentioned on the reducing losses in the metro and you attributed it to the loan repayment. So, did you receive any support from Telangana government? So what has been the quantum? Any change versus last quarter?

P. Ramakrishnan: So the last time we received was almost last year. So the cumulative support that we have received on the Rs 3,000 crores loan support, which was approved by the Government of Telangana, we have received Rs 900 crores odd in the last year. We do expect some things to come up in the near-term, the balance portion of Rs 2,100-odd crores. And the other part is that we also are looking at very, very aggressively a further amount of some transit-oriented development monetization. Hopefully, the approval should be coming up in the near-term, possibly even in Q4. Let us wait and watch. So, an aggregate of this Rs 2,100 crores of additional loan, the soft loans from the government and also TOD monetization will enable us to reduce the current debt levels. The third-party debt levels in the metro is almost Rs 12,600-odd crores. We do expect over a period of time that to come down to, say, Rs 9,000 crores or so, which will enable a further reduction in the interest cost.

Parikshit Kandpal: And sir, the last question on the real estate business, sir. So how much has been the new sales booking or pre-sales for 9 months and for third quarter FY '25?

P. Ramakrishnan: So, the total 9 months booking has been in the range of Rs 2,500 crores of order inflow and 9 months revenue for realty is almost Rs 1,500-odd crores.

Moderator: The next question comes from the line of Bharanidhar Vijayakumar: from Avendus Spark.

Bharanidhar Vijayakumar: Sir, can you tell out what proportion of order book is fixed price in nature at this point in time?

P. Ramakrishnan: 45% is fixed price, balance is variable.

Bharanidhar Vijayakumar: Okay. And some of these recent large orders both in renewables or in the hydrocarbon, or in the thermal side, they would all be on a cross-pass-through basis??

Subramanian Sarma: Most of the orders in hydrocarbon and also in thermal are fixed price.

Bharanidhar Vijayakumar: Okay, okay. That is why it increased.

Subramanian Sarma: Thermal may not have price adjustment, but I prefer a very selected commodities linked, while in hydrocarbon, it's all fixed price. Thermal we have some price adjustment for a particular component.

Bharanidhar Vijayakumar: Okay, okay. Got it. Just for clarity, on the EBITDA margin, our expectation for the full year FY '25 in the core business or in the P&M business that's 8.2% is what you mentioned, right?

P. Ramakrishnan: Correct, correct.

Bharanidhar Vijayakumar: My final question is on the Nabha Power. So what is the status of the asset monetization there?

P. Ramakrishnan: The asset is doing well, Bharani. So, the asset is doing fairly well. It gives us almost Rs 100 crores to Rs 110 crores of profits every quarter. And it is one of the best performing plants. But the point is it should be something which we believe should be a fair valuation. Then we can look at it. Otherwise, at this juncture, it is a part of our portfolio.

Bharanidhar Vijayakumar: Okay. No, because it will be good to get bids when it is doing well. Plus, we had the idea of monetizing it, that's why.

P. Ramakrishnan: Correct, correct. So we are not saying that we are not looking at options, but we are looking at valuations which we feel should be appropriate considering that it is one of the best performing plants in the country and having some sort of a clear visibility on earnings and profitability.

Moderator: The next question comes from Amit Mahawar from UBS.

Amit Mahawar: I have 2 quick questions for Mr. Sarma. Sir, on Middle East, particularly, we had a very strong ordering that we saw in the last 2 years. Incrementally, seemingly infra is more a bigger pipeline than Hydrocarbon for us where a lot of Chinese and non-Korean non-European competition comes for us. So, do we think the Returns on Capital Employed in incremental Middle Eastern orders might be -- I'm not saying not great, but relatively inferior to what we saw in the last 2 years? That's my first question, sir.

Subramanian Sarma: No, I think we have not seen much change in terms of bidding pipeline or in terms of competition. Yes, of course, sometimes in certain Infrastructure projects, or even Hydrocarbon projects we see Chinese, but we are also quite selective. And those which we are targeting, I think we believe that we have a fair competition and we are able to secure jobs with the levels what we would like to have. I mean, that's how it played out. I mean, the addressable market is quite large for everyone to have their share. So, I don't see that as a big issue.

Amit Mahawar: Sure. Very comforting. And second and last question is you know, when we speak to some of the Korean companies like Hyundai, Samsung and we talked to many people in the market, them taking 20%, 30% more orders in the Middle Eastern region on the current base that they're executing, you need man, money and material and man is the most critical part in that region, right, money material is easy to get.

Do you think L&T in '26 can bag 20%, 30% higher orders in the Middle East. Is it possible you have capacity to execute there in terms of the manpower availability because your execution run rate in '25 is very heavy, '26 even will be heavy with the book you have. So can we take 25%, 30% more orders in the Middle East in FY '26?

Subramanian Sarma: Amit, we will decide that as that will be part of our budget planning exercise now. And when we are completed with this and when we approach the first quarter, then we will share more details. But in principle, I think see, these 2 markets are becoming our important markets. So, we look at each and every opportunity available to us very seriously and critically evaluate our ability to execute. And we have also strategies in place like if there are constraints, we work continuously in overcoming those constraints, maybe like manpower you spoke about. We also have a great relationship with some of the large sub-contractors in our ultra-mega projects. One of the ultra-mega projects, we have a very good sub-contracting strategy and we are working with one of the largest construction contractors who have access to a large number of pools.

So we do a bit of a blend here, we follow a hybrid model. So, we generally see through these issues and work through those issues and prepare ourselves. But at the end of the day, I mean, we'll have to balance it and we'll have to be selective. And at the same time, chase those opportunities, which will provide us the required growth rate.

Moderator: Ladies and gentlemen, that will be the last question for today. I would now like to hand the conference over to Mr. P. Ramakrishnan for closing comments.

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

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