"Larsen & Toubro Limited Analyst Conference Call"

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Arnob Mondal: Good evening ladies and gentlemen. A very warm welcome to this Analyst Meet. I can see that hall is pretty much full, but I think you can occupy some of the front row seats since a few are empty. The format of this meeting will be that I will make a small presentation. I do not need to introduce the Whole Time Directors, all of you know who they are, particularly Mr. Naik. After the presentation, we will open the floor to a question and answer session. With that I will start the presentation.

This is a standard disclaimer because we land up making some forward looking statements. The presentation outline is broken into four parts. Group performance highlights, Summary, Segment, and finally just one single side on outlook. As far as group performance highlights are concerned, all of you would have already seen the advertisement. The revenues in Q4 have grown by 18% and for the year as a whole by 12%. EBITDA has grown by 35% for the quarter and 10% for the year as a whole. Profit after tax has grown by 19% for the quarter and 7% for the year as a whole. Order inflows have declined by 9% for the quarter and 12% for the year as whole, but the size of the order inflows itself was enough to increase the order book by 7%.

Coming to the Group performance summary, as far as order inflows are concerned all of you would recollect that it has been a very challenging year for players like us particularly in infrastructure, where investment has dried up particularly in the domestic market. However the international market has made up for that to some extent. As you can see, international inflows have grown by 32%. However in the domestic market we were impacted by loss of bids in Power as well as a continued slowdown in Metals and Heavy engineering sectors. As far as international market is concerned, despite oil prices falling sharply and staying low for some time before bouncing back to $50 a barrel, we still saw fair bit of investments being made in both Hydrocarbon as well as socially relevant infrastructure. In Hydrocarbon we are also seeing some prospect even today, and as you would have noticed, we have now touched Rs. 2,50,000 crores as our order book which gives us a multiyear forward revenue visibility. In Q4, net revenues have gone up by 18%, which brings a full year average to 12% growth. As you might recollect, and I have mentioned this earlier as well, we had a huge order inflow of Rs.48,000 crores in Q4 FY15, i.e. the previous year. A lot of those jobs progressed to a meaningful execution phase in Q4 FY16, which has also led to the bump up in revenues for this quarter. International revenues have grown strongly by 23%, even though domestic revenues have gone up by around 16%. International revenues have gone up because some of the orders booked in the previous couple of years are now meaningfully contributing to revenues in the international market. The Manufacturing, Construction and Operating expenses are by and large in line with the level of operations, without much deviation. The Staff cost increase is primarily due to our manpower augmentation for execution of international projects, including some labor that we have taken on our rolls in international markets to execute the large order book that we have currently. Sales and Admin expenses have gone up marginally to 13% for the year as a whole. This rise is mainly on account of provisions, including the provisions for NPAs in Financial Services, as well as the provisions of all subsidiaries that get consolidated.

The next slide is just for reference, giving a brief idea of how cost elements stack up. If you take cost of Materials and Subcontracting together, they account for around 60% of the total revenues. The percentage numbers that are shown there are percentage to revenues.

The EBITDA for the quarter, as you would notice, has gone up by 35%, and for the year as a whole by 10%. The quarterly margins have pulled up full year numbers. To reiterate what we always keep on saying, our quarterly performance numbers are not subject to interpolation, due to the very nature of our business. The main drivers of margin uptick were a number of projects crossing the margin recognition threshold and the orders received in Q4 FY16 entering very active phases of execution. Also, as all of you would have also noticed, for the last one year we have been very fortunate in having rather low commodity prices, particularly steel and to some extent cement. In case of fixed price contracts, we typically do a cost rationalization during the course of execution, depending upon how much we expect the remaining cost in each project to be incurred. All these factors together have contributed to the increase in margin that you see. The depreciation for the quarter has gone up 40% for the quarter, even though for the full year is just 5%. There are two main reasons for this. Firstly, we took an impairment charge on a road asset, PNG Tollways. At a consolidated level, we took an impediment of slightly over Rs. 160 crores. Secondly, three road assets also got commissioned during the year which were not there fully in the previous year. Some of those were there for some part of the previous year, and they have obviously contributed a larger amount to depreciation in the current year and particularly in Q4. These two factors today together have pushed up the depreciation charge for the quarter by 40% year-on-year and for the full year by 10%. Other income mainly comprise treasury gains.

As far as the Balance Sheet is concerned, presented here for reference, we have managed to cap working capital to 24% of sales versus 25% of sales at the end of last year. We have been talking about this, and to some extent this has come as a cost of execution because if any customer delays payments, we typically slow down execution with an intent to control working capital. We only resort to demobilization at a very extreme stage and those cases are very rare.

As far as the Cash Flow is concerned, we have generated close to Rs. 7,400 crores of net cash flow from operations for the full year. There are two points to note here. First, that our net cash flow from operations has been more than enough to fund investment in fixed assets of Rs. 5,000 crores, including all subsidiaries, without having to scramble for money.

You will also notice that the net borrowings, excluding Financial Services has also come down from the previous year. We had borrowed Rs. 4,800 crores last year. This year, we borrowed around Rs. 1,700 crores.

The next slide describes our Business Segments, with which you would be familiar. I will not elaborate on this.

The Segmental breakup of orders, this slide gives a break up of order inflows and order book. Obviously it will not come as a surprise to you to see that Infrastructure once more has accounted for bulk of order inflows at 62% of the total order inflows and 75% of the order book outstanding at year end. We do not take services as part of the order book.

Revenue break up: Infrastructure accounts for 47%, and you can see that the other segments have a decent performance, barring MMH and Heavy Engineering, , which as you would be aware, are going through a bit of a difficult time. As far as geographical breakup is concerned, 32% of our revenues have come from international markets and 68% from domestic markets.

Coming to the Infrastructure segment, incidentally, the revenues shown here are net revenues, which means that they do not include inter-unit and intercompany order inflows. For example the orders that the Realty business gives to Infrastructure are not included here. These are pure external customer revenues. Now here the revenues have shown a smart growth in Q4 as I had mentioned earlier, primarily because of number of projects coming into the thick of execution. For the year as a whole it has grown by 12%. Revenue growth has mainly been driven by Transportation Infra, Heavy Civil, and Water businesses within this particular segment. I had also mentioned the reasons why margins has increased, so I will not repeat that.

The Power segment has shown a sharp improvement over the previous year. All of you may recollect that the previous year was a very difficult year for Power primarily because the business had a depleted opening order book position and therefore a drop in Revenues. However, it won a number of orders during FY15, especially in the second half. The surge in the current year revenues at 47%, reflects execution progress of the coal as well as gas projects that we got in the previous years.

You will notice that the international revenues for year has grown from Rs. 4.4 billion to Rs. 18.7 billion, close to Rs. 1,900 crores, and this is primarily because of the gas projects that we are executing in Bangladesh. Here again margins have dipped a bit and to some extent this is also because some large projects are yet to reach margin recognition threshold.

MMH is a sector where the revenues have declined considerably for the year as a whole by 25%, and this again is due to the slow replenishment of the order book, in a sector that is stressed. The Metallurgical segment in particular has been stressed tremendously. This business also suffers from under recoveries of fixed overheads because of alower level of operations.

Heavy Engineering segment has also been going through difficult times. The Process Plant and Nuclear business has gone through a phase of depleted order books, and here again the revenues have gone down for the year as a whole by 11%. The decline in margins is due to two factors; that is under recovery as well as some cost provisions that we have made in the current year.

Electrical and Automation is primarily dependent on industrial demand, building electricals and agriculture. Sluggish industrial and agricultural demand has taken a toll on its growth. Revenues have registered a 3% decrease for the year as a whole, which is also due to delayed clearances and tight liquidity conditions affecting revenues. Most of you would be aware that we sell switchgears through a network of stockists who are already in the SME sector and that sector is still facing liquidity constraints. Price realization and competition is also affecting margins in this. So there has been a small dip margin for the year as a whole from 14.8% to 13.9%.

Hydrocarbon sector is a sector where we have guided that it would surely improve this year, and it has. Revenues have gone up by 20%, primarily due to execution in some projects in international markets. We have by and large closed out most of the legacy projects in the Middle East, as a result of which the margins have gone into positive territory from a big negative 15.4% in the previous year. In fact, to some extent, the improvement in Hydrocarbon margins has compensated for the absence of Dhamra Port stake sale income of around Rs.1,100 crores that was booked in FY15. So the quality of earnings as well is considerably better this year. Action is also been taken to reduce under-recoveries and improve profitability, which you will hopefully see in the coming years.

IT and Technology Services: Revenue growth has been mainly contributed by BFSI, Auto and Aero sectors, Industrial Products and Process Engineering sectors, taking both Infotech and Technology Services together. Our focus has mainly been on client mining, rather than chasing client acquisition. There has been a bit of an improvement in margins, which is primarily led by operational efficiencies.

The "Others" segment is an agglomeration of a number of smaller businesses. The Revenue growth here for the quarter of 22%, and for the year of 5% as a whole has been contributed primarily by Construction and Mining Equipment, Valves, and Realty businesses. Margins have however declined due to lower realizations in Construction and Mining Equipment business as well as cost provisions and delayed deliveries in Shipbuilding. Here we would also like to point out that out of some commercial ship orders that we had got earlier, three orders have been cancelled, for which we have gone into arbitration. We will have to await the eventual outcome of this arbitration.

Developmental Projects segment: in the previous year there was a one-off item, Dhamra divestment gain, apart from Dhamra operational revenues and margins as part of regular business. So if you strip out the Dhamra effect, on like-to-like revenues there has been a growth primarily due to commissioning of new road concessions and increase in road traffic. Normal road traffic for existing concession increased by between 7%-8%, which was further augmented by revenues coming from new Road SPVs that were commissioned during the year or in the later part of the previous year. Nabha Power has achieved a higher PLF in the current year, which has also led to an increase in revenues. Here the EBITDA drop from Rs. 2,150 crores to Rs. 1,370 crores is mainly due to previous year divestment gains from Dhamra Port.

Concessions business: this slide is again for reference. I will not take you through every one of these, as all of you are fully aware of what this constitutes.

As far as Finance Holdings is concerned they have also done fairly well, and there has been a strong growth in the loan book by 22%. This has been led mainly by disbursements to B2C in the Retail Finance segment and thrust on operational projects in Wholesale Finance segment. Investment Management AUMs have shown a smart growth of 15%, which has been mainly led by equity inflows. Finance Holdings is currently focusing on three important aspects. The first one is asset quality and maintaining NIMS, the next is ROE improvement over the next few years, and finally it is also undertaking a business portfolio rationalization in the current year.

As far as the outlook is concerned, I will ask Mr. Naik to give a color on the guidance going forward and after that we will open the floor for Q&A. Over to Mr. Naik.

A. M. Naik: Thank you very much. I think we will go in the format of question and answer, and that will answer everything instead of giving another talk on outlook. I am sure you all been waiting for asking what you have in mind. So with that can I please request whoever wants to ask question to get up, take the mike, give the name of your organization and we will move forward. So I am opening the session now for all of you to ask the questions.

Lokesh Garg: Hi sir this Lokesh from Credit Suisse. I wanted to ask a question on execution primarily focused on the Infra segment. Now for last four quarters starting from Q4 FY15 you have been facing a lot of stress in domestic infra execution. Somehow this quarter seems to have delivered very well on that count. So wanted to ask you what has changed and can we expect that to sustain going forward in terms of momentum as well.

A. M. Naik: Mr. Subrahmanyan is the head of the entire Infrastructure division. So I will request him to answer that.

S.N. Subrahmanyan: There are two parts to infrastructure. One is the real estate part that we do towards the residential buildings and institutional buildings, commercial buildings so on and so forth. That has been seen fair amount of stress because of the inability to attract customers into the huge amount of properties that have come up, and may be the inability of the promoters also put in equity and thereby draw down the proportionate debt. So that sector has been witnessing some amount of strain, and towards that we have also reacted by either going slow or even withdrawing from some of the projects that were responsible for some working capital issues. On the regular infrastructure side, which is what we call as Roads and Railways, Water projects, and Power Transmission & Distribution, I think these have seen traction, the projects have got elongated. Some of the projects have seen budget allocations by the Government, which are proportionate to the number of years for the projects. In earlier years if you did faster execution, the Government would take money from some other budget and put it into the project, but today you will find that the Government is following the budget strictly. Allocation of funds is becoming difficult, may be because of the tightening money situation within the Governmental sectors itself. So therefore if you tend to do the project beyond what is required, beyond the speed that is necessary for a particular year, you are not getting paid. So therefore we tend to be cautious enough to do the project within what is required from that clear point of view. We do hope a good monsoon and a fairly better environment as we foresee will improve the situation.

Lokesh Garg: Should we expect the domestic execution momentum to continue going forward and then it will link to guidance as well then?

S.N. Subrahmanyan: I remain cautiously optimistic on this.

Lokesh Garg: And the next question relates to Middle East execution, while for the first nine months of this fiscal year, Middle East execution was very strong on a Y-o-Y growth basis, Q4 seems to be little bit of slackening in terms of Y-o-Y growth and more could have been expected from there. Is that reflective of anything more fundamental or is that part of execution schedule?

S.N. Subrahmanyan: Middle East has got two parts – the infrastructure part I will answer, while the Hydrocarbon part my colleague Mr. Sarma can answer. The infrastructure part has grown reasonably well. We do not see any slackening there. Two of the biggest projects which we have there, which is Riyadh Metro and Doha Metro are going fairly well. In fact for Doha Metro the good news is that just one week back we completed the entire civil work of the tunnels and now the civil works of the stations etc. would start. In Riyadh also we are about 40% into the project now, and it is going at the speed that is required to be taken forward. The other infrastructure projects that we have there, like the roads, power transmission & distribution projects, and water projects are all progressing as per expectation. I do not see it accelerating beyond what is required, but where it is progressing satisfactorily. May be Mr. Sarma could add on the Hydrocarbon projects.

Subramanian Sarma: In the Hydrocarbon sector there is a bit of mix bag. Definitely as the oil prices were low, today there is slowdown in capital expenditure, but that is mostly on large mega projects which are over $1 billion - $1.5 billion. The space where we are operating, which is medium size projects, we have not seen any significant reduction, the momentum will continue. In fact the gas projects where we hold much stronger position in the Middle East, they will continue to remain a priority for most of the governments in Middle East because there is a genuine shortage of gas. They want to build up more gas capacity, develop more gas reservoirs. We have seen some good activities in offshore projects, particularly in the Kingdom of Saudi Arabia where we are well placed. So overall I would say in the segments where we are operating and considering our offering, I do not see a big significant change in our momentum, but yes, for large projects there could be some slowdowns.

Bhavin Vithlani: This is Bhavin from Axis Capital. Could you give us your guidance for the fiscal year 16-17 Order inflows, execution and margins?

A. M. Naik: I think situation is appearing to be slightly better than last year. We think many projects are now showing up on the surface and therefore we feel that the order intake should increase by 15% over last year. The hurdles for execution that have been there, which Mr. Subrahmanyam partly explained, the projects are getting into advanced stage and we think that the revenues will grow by 12%-15%. We also have improved our capabilities, skills and competence for execution over the last several months. We have undertaken a major cost reduction program and rationalization of many structural disparities and we think margin therefore should improve by 50 basis points. Last year, we had a margin of 10.8% and we think that can become 11.3%. Now we cannot say accurately up to the last 0.1% but it will be in that range. It could be 70 basis point or it could be 40, so that is where we are,roughly 50 basis points. So all round next year appears to us to be somewhat better than last year.

Bhavin Vithlani: My second question is on capital employment. Over the years we have seen substantial increase in capital employed in development projects. Could you highlight your strategy going forward because we have seen bits and pieces of asset monetization? So could you highlight a longer term thought process on capital employed in each of these businesses?

A. M. Naik: Our idea is to minimize or reduce the capital employed. IDPL is going through major restructuring towards that end. I cannot tell you the details now, because it is at an advanced stage of negotiation. The market not being really good, we are looking to sell our power plant, which is in Power Development business, and we are at advanced stage of negotiation for selling the General Insurance business. All of these obviously to minimize the capital intensity. We had already invested in advance of getting defense orders for the future more than 3 years ago, that is Shipbuilding, and suffered for it because the previous Government did not act on privatization. However, that is nearly over.. We are not going to need more than may be Rs. 100 crores here and there, and that is a normal capital expenditure in a company like L&T. In our Forge Shop we are trying our level best to restructure so as to minimize losses.

The central point is wherever there is a high capital intensity business, either sell it if it is not core and not important, or bring a partner, preferably financial, or at least minimize the likely impact on returns to the extent possible operationally and through cost reduction. So in short, we are going towards the direction of making the balance sheet as much asset light as possible.

Bhavin Vithlani: My question is on the Power sector, and after the new emission norms if you could highlight the way forward and specifically when I read some literature on MHPS's website, it has been highlighted your technology or emission levels from your boilers are significantly lower as against the competition. So does this give you a technology edge going forward, and do you see orders in the power sector reviving as you get market share?

A. M. Naik: Once all the bidders have acceptable levels of technology, market share becomes a function of the lowest price. One competitor has crashed the market by reducing the price by 20%, and they are losing money. They will lose money tremendously, and I am in fact surprised that why the minority shareholders are not questioning this. Their market cap, which was slightly higher than that of L&T a few years ago, has eroded tremendously and is much smaller today. That is the value that has gone out of shareholders' wealth all because of this irrational policy. It is not being questioned as the Government is the majority shareholder. Otherwise any other private sector Chairman possible would have lost the job. So the competitive landscape is uneven. However, we have gone and educated the authorities as much as possible to not let price dumping happen. There are primarily four bidders for power projects on offer. Obviously there will be enough competition among the four bidders, which will give benefit to customers. So I hope that the things may improve and we will see a level playing field in terms of competitiveness. Last year we did not get a single coal based power plant order because of the competitor having dumped 20% lower, so most of the orders went to them. This year we have started well. The price we have opened now, about a week ago, places us very well for 3 boilers of Rs. 4,000 crores. We also in an advanced stage of hopefully closing a power plant order, three boilers and three turbines, and that will be worth

Rs. 6000 crores. So I think this year perhaps may be slightly better than last year. But the challenge is competition with 22,000 MW manufacturing capacity in the country, while the orders being placed are only 6000-7000 MW. So the capacity is 3-3.5x more than the ordering that is taking place. We are in for a long haul of a very severe competitiveness and low pricing. We at Larsen & Toubro are not falling for it. You can see we allowed all the orders to be lost. We have started working harder and more intensely with Mitsubishi for exports. We have succeeded quite a bit in boilers and in the mills. We still have to succeed on the turbine. We are taking the matter up with them so that we do not have to go into domestic distress pricing. We think things will improve. As far as the emission is concerned, that norms will have to be followed by all, obviously our boiler is more efficient but not good enough to the extent that you can avoid installation of Sulphur recovery equipment. So that equipment will have to be added by everyone.

Nitin Arora: This is Nitin Arora from Emkay Global. My question was that you guided for a very strong order inflow next year now which is around 15% on that base. Can you elaborate a little bit, which sectors are you looking that Capex to happen in the country and also if you can quantify how much is Defence is a part of your order inflow and how much Middle East is your part in that order inflow?

A. M. Naik: Defence orders every year have been Rs. 1,500-2,000 crores. We think including shipbuilding, Defence may come to Rs. 15,000-17,000 crores in FY 17, could be Rs. 1,000 crores more with bit of luck, could be Rs. 1,000 crores less but that is the range. So I think we will have about Rs. 10,000-11,000 crores more from Defence orders compared to the past. As far as Infrastructure is concerned, it will keep its dominant position in the new order intake. As far as Middle East is concerned some of the projects are deferred and some are delayed. We still think that due to demographical pressure and growing expectations from people, even though some of the capex in highways and major infrastructure may take place, the market is good enough for us to get around Rs. 15,000 crores orders from Middle East. It could be couple of thousand crores more if we're lucky, but I do not think it will be less. The Hydrocarbon sector, which has not contributed much in the past, and where we have made huge amount of losses as all of you know, is turning around this year, and we will become profitable. We have estimated order intake to be Rs. 15,000 crores, which is around Rs. 5,000-6,000 crores higher than than last year. We may perhaps be signing up Rs. 8,000 crores in Q1 or by July-August. . The possibility of getting another Rs.7-8,000 crores of orders is very high. So on the whole, I think Infrastructure maintaining its momentum, Power doing better, Hydrocarbon doing better, Nuclear, Mr. Modi is going to the US and we hope that at that time further progress takes place on some of the power plants they we are taking about, that is on the nuclear reactor from Westinghouse. Also, our indigenous nuclear power program is moving ahead with two power plant this year. I think the Defense and Nuclear sectors will offer higher levels of orders than what was ordered last year. All of this gives us fairly good confidence that 15% growth is possible.

Nitin Arora: Sir just one more question on the Infrastructure segment, we have not seen much of the bids submitted by L&T in the Hybrid Annuity mode, I understand that we do not want to put the money which entails more of equity requirement. But is there any joint venture being done, so that any other player can bid the project and you can get an EPC work out of it?

A. M. Naik: We are doing projects for Hybrid Annuity developers already, and a few developers are bidding. However, in Hybrid Annuity projects, we have not seen a strong momentum of many bidders running after it because it does not offer traffic upside, and the second thing is the problems of right of way etc. still remain. All said and done, we have about 20% of the market share of all the roads which have been ordered. We do not participate in bids for more than half the roads, because the projects are very small, Rs. 300 crores-400 crores. We do not participate, unless it is Rs. 700-800 crores or 1000 crores and so on. I think we have got 35%-40% of what we tried, and there is a good prospect in Middle East for highways particularly in Kuwait as well, so we are bidding for that.

Venkatesh: Last year Infrastructure segment revenue growth and revenue growth were on the weaker side in the first three quarters, and they were very strong in the fourth quarter as execution picked up. So do you expect a similar repeat of what happened last year this year or do you think it will be more even across quarters?

A. M. Naik: First of all, unlike process industries, or consumer durables or FMCG where production is uniform or products are standardised, quarterly performance is more predictable and uniform. For a company majorly engaged in projects business, quarterly performance can change significantly due to a large project entering or completing execution. This is true for all E&C companies globally. Delivery times for such projects is nearly 3 years, and sometimes it can be 4 or, 5 years. The industry does not treat different kinds of businesses differently. Quarterly result is not at all an indication for long term performance of our kind of business. The quarters in which we cross margin recognition thresholds for such projects and recognize profits will show very good contribution. On the other hand, when we start execution of new orders and execution progresses, but does not reach the threshold, Sales is recognized but not the inherent margin. So those quarters may look weak. The correct period on which to judge our type of business is on a full year or two year cycle basis, be it any project business whether infrastructure, power, hydrocarbons, or metals and minerals .

Venkatesh: Sir I very much appreciate that but if you go by the logic that FY15 Q4 saw bunching up of order inflows. So it was expected that it would take 2 to 3 quarters before which execution will pick up. Now that the execution has already picked up in the 4th quarter should not that momentum continue for the next two quarters?

A. M. Naik: It will continue, but then in which quarter the margin realization will be reckoned, that you cannot judge from that because larger projects will typically take longer to cross the margin recognition threshold, which is not visible from just the Revenue growth figures.

Venkatesh: Sir my second question is on the Hyderabad metro. When do you expect Phase–I to get commissioned, and when would you actually start recognizing the numbers in your profit but in loss statement? Now are there any plans by which you have to ring-fenced the consolidated number from the impact of Hyderabad Metro in the initial phases at least till traffic picks up?

A. M. Naik: Well we have done already 10 or 11 KM of the Hyderabad Metro which is ready. But as per the concession, the moment we start operating it, the due date starts. In other words, we want the Government to give us in writing that Phase-I will be recognized by itself and not as the start of the entire project. Phase-II will be by itself and similarly Phase-III, as we complete each one of them. They are not agreeing to this yet, and consequently we are also constrained, but generally speaking, sometime this year perhaps we may reach an understanding and later this year we may commence the commissioning of phases.

Venkatesh: And Sir second part of the question, when that get commissioned it is going to have a big impact in terms of capital cost, the depreciation and the interest cost which will pull down the consolidated numbers?

A. M. Naik: The Hyderabad Metro balance sheet will be consolidated with the L&T balance sheet, and to the extent the interest cost and depreciation we provide, it will be part of Phase-I just like any other IDPL projects or just as any power projects or other development projects are treated.

Nitin Bhasin: This is Nitin from Ambit. Three questions, first one is related to L&T metro only, with the L&T IDPL possibly going under restructuring what will you do with L&T Metro? Is L&T Metro part of the restructuring or you taking it out and keeping it as a separate subsidiary?

Shankar Raman: See restructuring of IDPL has got something to do with the commissioned projects and we are trying to find a platform that can take all commissioned projects, so that IDPL will remain a development arm. Hyderabad Metro is under commissioning. It is under construction. So any restructuring that was spoken about today evening has nothing to do with Hyderabad Metro.

Nitin Bhasin: So then transmission lines in the Kudgi project, would that also be out of it?

Shankar Raman: It depends on critical mass, we have 13 road projects, we have one transmission line, we have one metro. So we will have to see where the investors' appetite is strong. So theoretically speaking every commission project has a possibility of moving on to a platform which will have either financial investor or strategic investors.

Nitin Bhasin: And second it was in terms of two years back in your analyst meet, you would say that the international revenue will be roughly about 20%-25% that this part of element today we see, it is closer to 32%. Should you have think with now the orders for along with Mitsubishi chasing for exports of turbines, etc., more Saudi Arabia investment, Kuwait as you mentioned you will have Middle East rising as a share in terms of revenues from here?

A. M. Naik: 25 is becoming 30.

Nitin Bhasin: So it is already 30-32, on an expanded base next year, 30-32-33?

A. M. Naik: It will remain that way because we want to do balancing between domestic and international. Suppose the domestic opportunities do not grow so much, then we have to get more international, because Middle East is getting somewhat saturated we are now going ahead in seven countries in Africa, and have opened a business there. We have also started in Far East. If the domestic business is very lucrative or a lot of business is coming from there, we will selectively bid internationally to improve the margin. But our idea is we should remain somewhere between 30-32-35 at best and 65-70 domestic.

Nitin Bhasin: And like earlier Middle East was about 85%-90% of our international revenues, so we should also take this from this comment that over the next 2-3 years you will have a diversified Middle East?

A. M. Naik: It would not be 80-90%, it might be more like 65-70%.

Nitin Bhasin: Sir the third question was about the defense business. Last year also you were pretty hopeful about good orders in defense and this year also the commentary is similarly. So what gives you the confidence that this government actually is looking to give out this Rs. 15,000–20,000 crores of orders?

A. M. Naik: Delays of three months or nine months are not alarming in Defense ordering. Regarding the speed at which it is moving, the process is complex, with multiple steps, and the Government is being extremely careful. The bureaucracy is being very cautious at each step due to the numerous scams that have come to light in the recent past, particularly in Defence procurement. Therefore, even after you become L1, negotiations on contracts, verification, all of that takes months on end. Some of the projects that we are reckoning in this year have passed through that stage. Though our confidence level is somewhat higher than last year.

Nitin Bhasin: So even if they become orders they will become revenues about 3 years down the road?

A. M. Naik: 18 months from there.

Nitin Bhasin: And Sir because in the Defense Procurement Policy there was another clause which said that companies will have to become strategic partners, and market grapevine suggest that as L&T has invested in multiple defense segment would not want that sort of a clause to go through. So if you were asked to become a chosen partner for one technology or one particular service what would that be, would it be Ships, Navy, what would that be?

A. M. Naik: I don't think I want to comment on this now because it is under discussion. There are committees working on it. We are telling them what we want, likewise they have asked everyone, but generally speaking L&T is not present in the aeronautical industry. L&T is very much involved in Navy-related projects and equipment, and to quite an extent in weapon systems, missiles, missile launchers, equipment for the Army like field guns, and electronics such as battlefield management system and so on. We are still discussing how many of these areas will be considered strategic by the Government. But we are very hopeful that a company like Larsen & Toubro, which is rated very highly universally by every Ministry in the Government will be generally be acceptable as a strategic partner in the sector of our presence.

Ramesh Bhojwani: Sir Ramesh Bhojwani from Mevacoy Limited, couple of months back there was in the press that L&T Infotech which has filed the paper with SEBI for going public took it back on the grounds that the Q4 results once added will give the correct picture about the L&T Infotech and the same paper will be refiled with SEBI for IPO?

A. M. Naik: They have refiled and got it back, therefore there are no more DRHP papers pending right now with SEBI but whatever modifications we wanted to make in our DRHP application have been made, and it is back with us. So we are moving ahead.

Ankush Mahajan: Sir this Ankush Mahajan from Edelweiss. How much the equity we need for road projects and Hyderabad Metro and source about it?

A. M. Naik: We have not bid for any new road concessions in the last two years, but projects which we have won two years ago or earlier are half way done, and balance work needs to be completed. Including Hyderabad metro, we require Rs. 2,000 crores, of which Rs. 800-1,000 crores may be on roads, Rs. 1,000 crores will be on Metro. All of this will come from within IDPL's resources, and L&T will not put fresh money.

Pulkit Patni: Pulkit Patni from Goldman Sachs, Sir my question is on your Middle East contract, in a scenario where there is a depreciation of any of those currencies because their deficits, do we get impacted in any manner?

A. M. Naik: Whenever we are working in the Middle East, all currencies are linked to the US Dollar, so we only get impacted through Dollar appreciation or depreciation. However, in IT, information technology, in some countries like in South Africa where the currency has depreciated, we get impacted but that value is $10-15 million. So in an overall context it does not make much difference.

Pulkit Patni: So till the time the US dollar peg remains we do not get impacted in Middle East that is what you mean.

A. M. Naik: We do not get impacted by individual currency movement because it is pegged to dollars, it is does not take place.

Harish Bihani: Hi Sir Harish Bihani from Kotak, wanted to understand the margin guidance of 50bps improvement better, also some part of Fiscal Year 16 better. MMH segment where revenue has gone down by about 11%, margin has completely collapsed in that particular segment. Also in

Heavy Engineering, we have seen a sharp decline in margin, so if you could please explain the reasons for a decline?

A. M. Naik: If I understood what you are saying, you're asking about reliability of the guidance?

Harish Bihani: No, Just wanted to understand what has exactly happened there.

A. M. Naik: In Heavy Engineering we had a 6 months' strike earlier, but we did not want to succumb to that because that can create repeated problems in future. We have arrived at a very amicable settlement after 6 months of strike. The notorious union people there have all been sacked, 4-5 of them, and the new union leadership which has come in are very co-operative in terms of increasing production, improving productivity, cost reduction and so on. However; due to that 6 months' closure the overhead recovery, which should talk place by working to the fullest capacity of the company or factory, did not take place. Partly in Powai, labor productive activity is not up to the mark because they have all now become old workers, but they are retiring. 25-30 keeps retiring every few months. Consequently, we made a loss of Rs. 250 crores roughly. The strike is gone so people are working very enthusiastically. Secondly there are likely to be more Defence and Nuclear related orders in the later part of the year. Nuclear perhaps even will come with some materials, and we are very selective now in taking the orders for our Process Plant business, which means heavy equipment for Hydrocarbon. Taking all that into account, our revised working for this year is slightly positive rather than negative, now that gives you a swing of Rs. 250 crores, from negative to marginally positive. The second thing which you said Hydrocarbon, it made a loss of around Rs. 250 crores last year. It is likely to make a profit of nearly Rs. 150 crores, so it is a swing of roughly Rs. 400 crores. Likewise, if you go division-by-division or business-by-business, we have done a complete detailed analysis that we come to the current year with a better capacity utilization, better quality of orders and better momentum in execution, as they have all had orders inflows, we think that 50 basis points guidance is very reliable.

Harish Bihani: Just to clarify on the Hydrocarbon side the higher provisioning which was required is more or less done in this particular year?

A. M. Naik: All over, including FY 17 because of which it is Rs. 145 crores of profit expectation in Hydrocarbon, otherwise it would have been much more, but with this year provisioning it is over.

Harish Bihani: The next question is to Mr. Subrahmanyan and Mr. Sarma. In terms of understanding the Middle East market better. Obviously in the last one year given the oil prices whatever it was and what it is right now, there has been a lot of debate that L&T 's revenue as well as margins both are going to collapse completely. How do we understand this better, when do we really start thinking that some issues might crop up how do you really think about it? Also in terms of a working capital with the higher execution that we have seen in the infra segment both domestic as well as overseas is not that the working capital should have come down slightly in the fourth quarter and for the full year?

S.N. Subrahmanyan: It is a very long and complicated question you have asked. Let me try to understand where to start.

A. M. Naik: Some of it has been answered repeatedly and you are asking repeat of it. But I do not mind giving one more time to you.

S.N. Subrahmanyan: So I will answer with Middle East first. Yeah, Middle East with the way it is, speculation is bound to be there. Now on the Infrastructure side some of the speculation comes about because of the fall in oil prices. One is already is worried whether the projects are getting funded whether you are getting paid on time, whether the projects have been taken forward etc. As the Chairman pointed out in the earlier part of the question the kind of projects that we are doing in Middle East for the

Infrastructure side is the projects that result in social harmony and that result in development of the country and provide employment to the people. And it is very much required in Middle East regardless of the situation.

A. M. Naik: By the way there have been lots of agitations by the people in some of these countries, and to pacify them to satisfy them, a lot of projects have been undertaken which will not be stopped.

S.N. Subrahmanyan: Because the projects that we are undertaking in the infrastructure side is predominately metros, roads, power transmission distribution and may be a select waste water treatment facilities.

A. M. Naik: All of these transmission line projects, roads etc. link villages. This is aimed at improving the quality of life and everything else that goes with it that the people are demanding, apart from rural housing, in which we are not participating because of cutthroat pricing.

S.N. Subrahmanyan: So as you can see these projects are funded and these will be taken forward. The next question comes, to have we the capability to deliver the projects on time with quality to make the required margins? As much as we can see today Riyadh Metro is about 45% done. We continue to be fairly confident. In Doha Metro the most critical part, which was the tunneling is over as of last week, ten days back. And therefore from our point of view the critical stage of one of the projects Doha is done. Riyadh as we see today, 45% completed, seems to be going fairly well. The road projects are traditional projects which we have been doing for the last six to seven years.

Power Transmission is a business which has been there for a very long time. We did have a setback two, three years back, but as we see it today, we have overcome many of the setbacks, projects are going on well. Some of the projects that we have are very critical from the country point of view because some of the major projects that we are doing for transmission, cabling and substations are for the Qatar FIFA 2020 games. Therefore a lot of emphasis is placed by the Sultanate, by the Government of Qatar to ensure that these projects are done on time, and it is funded very well and that our requests in terms of change orders etc. have been taken care of to that extent. So we feel at the moment reasonably confident that projects in our backlog seems to be going forward positively and the necessary margins that we have committed would be there.

The second part of your question was on working capital. Major reasons of working capital increase are two. One is on the real estate projects that we are doing for other developers like residential buildings and certain commercial buildings have gone through a lot of problems, and are still going through some problems, because the capital in the market has gone away, liquidity in the market is away. There is lot of unsold stock.

The developers are not able to get the money to fund these projects. And on top of it there is the National Green Tribunal and CC clearances, and so many other issues that are coming up in terms of Right of Ways and going ahead with the projects fast enough. It is also a fact that over the last few years beyond this our profile of projects have moved away from private more in to Government. When you move into Governmental kind of projects you have retentions. You have pre-acceptance, post-acceptance money hold ups.

You have stage payments and once we enter into a contract we cannot change it, because the Government normally forbids changing of contracts due to various procedural and CVC guidelines that they have. Therefore you see the working capital as having gone up due to the reason that some of these monies are not contractually due to us. That is an issue that we have to tackle. We have been even taking it up in various forums and suggest to the Government that where it is really due can we give a bank guarantee and take it up.

We even try to securitise some of the bank guarantees because this is clean and clear, but as such working capital has gone up. We do hope that again with the change of profile when the private sector comes back into play, if the momentum in the market improves, then the Government will also dilute some of these conditions to make it more liquidi, and then the working capital would come down to that extent.

We have budgeted for a slightly lower working capital and we seem to be on trend towards that.

A. M. Naik: I think in addition to that, as I mentioned in the beginning the various developers have a severe financial credibility problem. In fact, banks are taking a lot of action because they are not willing to write it off as an NPA. We have around Rs. 5,000 crores to Rs. 7,000 crores outstanding, which possibly is going to take some time before we realise it. This is part and parcel of the business risk. Nobody thought that those five, seven groups will come under such a severe pressure. We are a most sought after constructor, contractor, project manager. All the five or six will depend on Larsen & Toubro.

Obviously those monies are held up. Some people have gone in for financial restructuring, some have gone in for the next step also, like Bhushan Steel or some other companies, and we are working hard on day-to-day basis to see how we can liquidate the receivables. We are buying all the steel from Bhushan and we have been able to bring down our outstanding by Rs. 150 crores out of Rs. 700 crores in last one year, but that is the only way out. Like constantly doing something innovative, creative, adjustable, and I think that has been done. With these efforts, in addition to what he said, partially working capital is being brought down.

Rajesh Jogdand: Sir, I am Rajesh from Sykes & Ray Equities India Limited. My question is, you said you intend to sell your General Insurance business. Sir why so, you are a relatively new entrant in to this field so what is the reason? Is it applicable to your mutual fund business also?

A. M. Naik: The reason is L&T in too many businesses are there. We have 125 subsidiaries with some 20 joint ventures, 82 businesses in 21 companies and there is probably no company in the world with this kind of diversity which does not have similarity of businesses with one other. So it is a part and parcel of ongoing restructuring of what is our core, and at best we will keep adjacency to the core. General Insurance dos not fit in to it. Now therefore as we are moving forward, many such kinds of business restructuring will continue.

Nishant Chandra: This is Nishant from Temasek. I wanted to understand how the management team is looking at it with a three or five-year outlook in terms of the construct of the company, and the way I was looking at it was L&T Group excluding Financial Services, IT and Development Business. So if you let us say fast forward three to five years what are you looking at in terms of growth, margins and balance sheet in terms of working capital or asset intensity? And what are your enablers and impediments as you look at executing this?

A. M. Naik: I think this is something a question which could be answered over the next few days. You are asking me to tell you what is my strategic plan for the next five years. The company has been working on it for last 11 to 12 months. We have appointed Bain and McKinsey. From tomorrow we have a three days' board meeting, final board meeting in addition to the number of board meeting that have been done or held in the last 12 months.

We will finalize the strategic plan on Saturday. Then it will go for implementation. But it is not available for any public knowledge, because we do not want all our strategies to be known to our own competitors. So it is enough for now to say that the management is giving enough attention to both long and short term performance targets.

However we are going to go forward after next week considering a lot of limitations and changes taking place at political, economic, and global level, and our own ability to be able to run 82 business to get 82 top class CEOs.

Charanjit Singh: This is Charanjit from B&K Securities. We have seen the Indian Government highlighting around 25,000 kilometers of road sector ordering. So what is your view in terms of the preparedness from NHAI or MOTH on these projects? Do we see that this kind of goal getting achieved?

S N Subrahmanyan: Yes, as the Chairman mentioned we have had a fair share of road jobs. And we do see this program of road development with Government of India going in two, three different directions. One is the regular EPC jobs from NHAI. Second are the border roads which are coming up. And third is the new company organization that has been formed, National Highways Development Corporation Limited for the Northeast side, and may be also the Sagarmala program. So we are bidding on this in a serious manner. There are many projects which are being conceptualized right now, and as and when these programs go forward we will have a fair share of appetite to go behind these projects. The Chairman clearly said we do have some filters and threshold criteria for selecting projects that will continue to get applied. But beyond that, we will definitely take a look into the packages of reasonable size where we believe our execution can play a role in us one winning the job and second executing it and taking it forward in terms of speed, scale, time and quality and see how to take it forward.

Charanjit: And sir, the other driver for growth in Capex is definitely the railways segment. And if you can highlight while that we understand from the Ministry that the tender sizes have increased from earlier may be Rs. 50 crores or Rs. 30 crores to Rs. 500 crores, but still they tend to be lower as compared to what is our permissible limit for average order size. So how do you see the Indian railways as an opportunity? And additionally the Metro projects which are coming up under the EPC basis moving forward in FY17?

A. M. Naik: Railway as a sector has many different kinds of prospects. One is the Dedicated Freight Corridor, where we have already secured Rs. 18,000 - Rs. 19,000 crores order over last two years. We still have Rs. 10,000 crores to Rs. 12,000 crores to be ordered in FY17. Hopefully we will be able to get substantial part of it as we have done so far. Our market share has been 75%, 80%. There are still Rs. 5,000 crores packages to come on the Eastern corridor and we are going to bid for it. Let us see what happens. Therefore, the ongoing projects of the Dedicated Freight Corridor themselves provide Rs. 17,000 crores to Rs. 18,000 crores opportunity.

Second opportunity isall the Metros across the nation. There are many Metro projects coming up. In moderate sized projects, we would prefer to take minimum Rs. 300-400 crore sized contracts. In Mumbai Metro 3 for example, nobody can get more than two packages, so we are recommended for two. But they add up to Rs. 5,000 plus crores. There are many projects like Lucknow Metro, Ahmedabad Metro, Kochi Metro that are going on, and others like Amritsar Metro and Kanpur Metro are being talked about. We will have to wait and see how many of them come up, but all of them provide good opportunity.

Third project was the Trans Gulf Railways, starting from Oman and going up to Saudi, which is halted right now. We had bid also partly in Abu Dhabi, partly in Oman. However, these projects have been halted because of the oil price. Once oil price stabilizes at a satisfactory level, leading to these projects resuming, the whole opportunity could be very big. The projects will encompass a few thousand kilometers, with the value in tens of billions of Dollars. I cannot tell you how much unless you do the survey of the whole route and see how much it is going to cost.

On a regular long range Railway projects that we are talking about for passenger and freight movement, we do not have too much involvement on that part of the business. I do not even see whether there are new lines being laid. They will strengthen the existing lines, and speed up the train. All of that will continue which they do normally departmentally or through petty contractors.

So Railway is more hyped to be a sector with great opportunities than what it is. The opportunities are actually in Metros, in Dedicated Freight Corridors, and hopefully internationally if the projects restart, but not so much on conventional long distance railways. Now tomorrow if PPP projects come up, and if people are willing to invest in port connectivity projects, or in connecting industrial towns in the Delhi Mumbai Industrial Corridor with the Freight Corridor, that could give rise to some opportunity for L&T. On the whole out of around Rs. 20,000 crores of orders for L&T's Transportation related business, Rs.7-8,000 crores may be from Railway projects.

Charanjit Singh: Sir, the last question is on the Smart City side. Sir, we want to understand whether it is going to be one prime bidder bidding for entire package or it is going to be multiple packages? For example Hyderabad city surveillance has been ordered out. So how does the ordering for Smart City will start happening where actually L&T as a prime bidder can have edge over may be OEMs like Cisco or HP who have only competency in particular segment?

S N Subrahmanyan: There are two parts to it. One is along the Delhi-Mumbai corridor various cities are being planned. You call it local area development. One of the biggest cities that is coming up it is a place called Dholera in Gujarat. We have got the contract and we are executing it. This includes well laid out roads, drains, water treatment plants, waste treatment facilities, bus stops, etc. That is one part.

Second is the Smart City program announced by the Government of India. Some of it announced, some of it on their own initiatives being done by some of the State Government which is to make the governance better which includes surveillance, which includes dial 100 programs, car park management, traffic management etc. Depending on the funds availability with the Municipalities of the State Government these projects are getting evolved. And therefore right now in Mumbai it is for a surveillance system. In Hyderabad has gone surveillance plus dial 100.

In Jaipur it went really smart but relatively smaller package. So we got to see how it evolves. So we are in dialogue with many municipalities, many state governments with many other consultants and wants to see how to package it. We would obviously like to put it all together make it big package. But let us see how it comes about.

Srinivas Rao: Sir, this is Srini from HDFC Mutual Fund. Sir, by 2020 what range of revenues and margins do you expect from Defense and Shipbuilding?

A. M. Naik: Well, Shipbuilding is also only Defense. We are not doing commercial ship building anymore. So let me broadly say Defense. Defense at the moment is 1.5%, 2% of the whole company. By 2020 we expect it to go up to 5-6%, because the L&T itself will keep growing at 10%, 12%, 15%. So on an increased revenue base of say Rs. 150,000 crores or whatever it will contribute Rs. 7,000 - 8,000 crores revenue. However, the order backlog will be more like Rs. 70,000 crores but it will take 6 to 7 years to complete.

Srinivas Rao: And profitability, sir?

A. M. Naik: I cannot comment on the profitability part. Let's say a submarine contract is placed. It will take 7 years to complete. However, it is certain that the competition in bidding for this project would be restricted, as it is a very complicated field, unlike roads where 20 players come and bid. In such projects, it would be at the most three players. Therefore, if we are able to execute well, which is a critical factor, the sector has a tendency to have better EBITDA margins. However, I cannot comment on the extent to which they can be better.

Sumit Kishore: Sir, this is Sumit Kishore from JP Morgan. My question is related to the realty business which is part of others. So this business over the last three years has seen a lot of growth and it appears in FY16 there was consolidation that growth has significantly moderated. So what is the outlook you have, have you saturated it now when you are looking to other cities and what is the road map for this business over the next three to four years?

A. M. Naik: We became active on the ground in the Realty business about four years ago, and this year we have made a profit of Rs. 700 crores. We are perhaps among the three highest earning real estate developers in this country, some of whom have been doing this for past few decades. Our brand, our honesty, trustworthiness play a major role in the confidence that the customer needs to invest in real estate. Also, the buildings are constructed by L&T ECC, which means very sturdy and high quality buildings. While currently there is a huge recession in real estate, and many developers have dropped the price by 20% or 25%, given lots of incentive for people to buy, neither have we dropped our prices by a single Rupee anywhere, nor have we liberalized any payment terms. In our Parel project for example we sell 20 to 25 units per month. Other developers around Parel, in a three, four kilometer radius together cannot sell 20. In Powai also because of L&T's credibility, brand we sell about 20 flats. Right now in Powai we have no inventory, zero. We have sold off everything, may be one odd flat here and there may come up for resale. We think that by August we will get six more towers cleared for all permissions and that is the time we will launch that.

So what you see and hear and read is a general situation in real estate being not so positive. We have a higher profitability in Realty, because we have our own land. Powai project is our own land. In Bangalore, now we have removed all the factories to other locations, so we have launched a project. Within a matter of one month we sold around 400 units. We think that this project is sterling project, a very good project.

In Chennai we are at advanced stage of launching. We have moved all the factories, but we have to get permission from the government for land use change from industry to residential or commercial. Once that gets going, it is also on our land, so it also should have a good profitability.

Other than these, we have two challenging projects. One in Andheri, one Seawoods, the first transit oriented project in the country. There we think that with certain negotiation going on right now this year the challenge will be somewhat mitigated.

On the whole not many people will know that we have 70 million square feet inventory for development, including 18 million square feet as a part of Hyderabad Metro in Hyderabad, because there half of the revenue has to come from real estate. Though I would say general situation is not so good, but For L&T it is above average. It is not that bullish as it was earlier, because everyone gets impacted, but possibly we are the least impacted.

Sumit Kishore: And you could do monetization in Seawood this year?

A. M. Naik: No, we are doing in parts. Now this year we are going to monetize the mall. It will be done before September.

Arnob Mondal: Nitin?

Nitin Bhasin: Sir, continuing with this Realty business, do you think the success that you have seen of your own land and the brand that you have built you will use this time and opportunity to enter in to other markets also to build realty business like North India or anywhere else?

A. M. Naik: We have four cities already; Mumbai, Chennai, Bangalore, Hyderabad. For now our plate is full and we do not want to run around everywhere, because the process of building relationships to get all permission from the Municipal Corporation and all kinds of authorities is extremely tedious. If we lose our focus we will perhaps not have as good a result as we already envisaged, with 70 million square feet which by the way is 15 years' worth of development inventory if we sell 4 million, 4.5 million every year, which itself is a huge challenge.

Nitin Bhasin: Sir, last question. A request which we have made to Arnob in the past also. In the couple of months the accounting standards will change to adoption of the new Indian Accounting standards. So Mr. Shankar Raman, so you must have done your some internal exercise. Can you share with the analyst community over here what would present year's numbers likely look like if they were to be reached at under IndAS? And next year what are the two or three key things in which you will be impacted the most in terms of consolidated numbers or standalone numbers?

Shankar Raman: See I think we will undertake an exercise to brief the investment community about the transition. But it is not something that we can cover in simple two, three statements. Fundamentally, from a revenue point of view, the only change that will happen is because of classification of certain subsidiaries as joint ventures. That is the fundamental change in revenue. Otherwise in terms of recognition of revenue nothing much changes. Some of the subsidiaries, where we have minority partners or joint venture partners with management participative rights, which as per the existing regime you are allowed to aggregate with the turnover and the costs and the profits line-by-line, will become joint ventures by definition. , Hence it will be taken as share of profits rather than revenue, costs and profits. So to that extent the profile of revenues will change. Nothing dramatic if you were restate the current numbers in to the IndAS and compare it going forward is going to change on that front. In terms of the other items of profit and loss account there are two major changes that will happen. One is the premium accounting for foreign exchange transactions when we hedge our exposures. The current Indian accounting standard talks about the premium being spread over the period of the contract, so there is certain linearity to the recognition. under the new IndAS you need to carry them into the balance sheet and bring them back to the P&L when the contract matures.

So to that extent businesses like Infotech, which has an ongoing hedging program and premium recognition, will have a different profile. It does not change the balance sheet risk at all. It only changes the timing of recognition. Ultimately if the contract is in money, the money will be captured but not quarterly, rather at the time when the contract matures.

The other thing that it will changes in terms of Concessions business. If you have bid with a premium payable to the Government, then your liabilities are getting created for the premium, and as the premium gets paid over the period of concession the charges get spread. Now under IndAS, the premium will have to be quantified every year and discounted to its present value, and the difference between the present value of the premium at the date of quantification and the wholesome premium will have to be charged off. So you can almost call it as amortization of the premium not necessarily in the context of cash payment but through the project.

Now sum total of all of these things does not vitiate given the inherent nature of L&T's consolidated balance sheet driven by project business where changes have not significantly suggested, does not vitiate any results. You will see proximity to the current numbers.

Whenever we sell stakes in subsidiaries and we are still in control, which means we are selling a portion of the stake. In standalone numbers these are recognized as profits. And so far under the Indian GAAP the difference between the sale proceeds and the book value of these investments, or carrying value of the investments was recognized as profits in the consolidated profit and loss account as well. Going forward whenever there is a change in shareholding but does not dilute the management control - if you sell 5% of a stake in a subsidiary etc.- it is to be taken to the reserves and not routed through profit and loss account. So the new accounting standard views this as exchange of shareholding between minority shareholders and the major shareholders, and until we give up the management control, which means that you go below the threshold you cannot recognize the profits on such exits. That is another change that is happening.

Arnob Mondal: Thank you. I think we will now bring it to a close. Thank you for a very interactive session.. The directors may not be able to spend as much time because they have got, as Mr. Nayak mentioned, three full days of board meeting starting from first thing tomorrow.