"Larsen & Toubro Limited Q2 and H1 FY16 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen and Welcome to the Q2 and H1 FY16 Earnings Conference Call for Larsen & Toubro Limited. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Arnob Mondal – Vice President, Corporate Accounts, and Investor Relations. Thank you and over to you, sir.

Arnob Mondal: Thank you Malika. Good evening Ladies and Gentlemen. The format of this event, as usual, will be that my colleague, Mr. Nishit Dave, who is here with me, will make a presentation which will probably take around 20-25 minutes at best, and after that we will open the session to Q&A. I hope all of you have downloaded the presentation which was uploaded on our website at 3:30 this afternoon. Without any further ado I will now hand over to Nishit. Nishit?

Nishit Dave: Thank you sir. Good afternoon everybody. I hope all of you have the presentation in front of you. We will start with the slide number 2, the disclaimer slide. I hope you have gone through it in view of any forward-looking statements we might make during the course of this presentation and discussion.

Moving ahead, the structure of the presentation is, we will start with Performance Highlights for the group for the second quarter FY16 as well as the first half, followed by a Performance Summary for the group. After that we have Segmental Performance followed by which we would have the Outlook part which would be taken over by Mr. Mondal.

Now we will move to slide number 5, the highlights of performance for Q2 and H1 FY16. As you can see our Group Revenues have grown for the quarter by 11%. For the first half, they grew by 9%. EBITDA margins for the quarter grew by 5 basis points, for the first half they were down by 88 basis points. Profit After Tax for the second quarter FY16 was up by 16% while for the first half it was lower by 12%. Order inflows for the quarter were lower as compared to Q1 FY15 by 28% and for the first half as a whole lower by 25%. The order book position as of 30th September is 14% higher as compared to 30th September, 2014.

Now we will move to slide number 7 which is a snapshot of the Group level Order Inflow and the Order Book. Order inflows for the quarter as you can see were at Rs. 286 billion. which was lower by 28% as compared to the same quarter last year. Mainly the reason behind this was that investments in the domestic market have not yet gained momentum. To a large extent this is due to underutilized capacities in the Indian economy which are hampering fresh Capex and particularly, investments from the private sector.

On the other hand, international orders saw a strong growth during the second quarter mainly because of order wins we have received in the infrastructure segment. Despite this we are overall witnessing a general slowdown in the Middle Eastern Capex due to low oil prices. The order book as of 30th September as I said previously has grown by 14% to Rs 2.44 trillion as compared to a year ago. Presently, 65% of the backlog is domestic while 35% represents international orders.

On slide number 8, we have the group performance from Sales to Operating costs. As you would be able to see, revenues for Q2 FY16 grew by 11% to Rs. 233.9 billion which was on the back of progress in Infrastructure, Power, and Service businesses. International revenues, which for the quarter represented a third of the total, grew by 19%. For the first half, sales growth achieved was 9% at Rs. 436.45 billion with international sales growing by 27%.

Now in terms of costs, Manufacturing, Construction and Operating expenses grew by 11% which was in line with the operations for the quarter. Similarly for the first half of Fiscal '16 it grew by 10%. Staff costs have increased by 8% year-over-year for the second quarter, which is mainly due to an increase in headcount, a higher level of international operations and in addition to that, normal salary revisions. Sales, Administrative and Other Expenses which also have some non-linear elements within them grew by 15% for the quarter. This growth was due to higher business development expenditure in various segments of business and Warranty provisions for projects.

On slide number 9, we have a pictorial representation of the breakup of Sales and Costs. The figures in parenthesis in the pie chart show you the figures of the same period last year and it shows you how the various components of cost have behaved as a percentage of revenues during the quarter. Now please note that the quarterly margins reported are not necessarily indicative of long-term performance trends of the business.

On slide number 10, we move from EBITDA margins to Profit After Tax. The total EBITDA for Q2 grew by 11% to Rs.25.92 billion. Composite EBITDA margins were steady during Q2. Interest expenses incurred during the Q2 were higher by 20% which was mainly due to increase in average levels of borrowings including, increase because of operationalization of three Road SPVs. Apart from that, higher provisioning for Retirement Liability was also there because of the drop in G-Sec rates. Depreciation charge increased by 26% due to revisions done in accordance with the Companies Act 2013, and apart from that, also because of the operationalization of Road SPVs. Other income, which mainly comprises of treasury gains, grew by moderate 2%. Profit after tax for the quarter grew by 16% to Rs 9.96 billion.

On page number 11 we have the Group Balance Sheet. The main item to note here is, the gross debt to equity is quite stable for the group at 2.33x net worth. The net working capital intensity has reduced slightly on a sequential basis to 24% of sales. This number for Working Capital does not include the Financial Service business.

On slide number 12 we have the Group Cash Flows summary. Again the main aspect to note here is an improvement in working capital intensity or rather reduction in working capital intensity on a year-on-year basis and net cash from operations also becoming positive during the second quarter. Just a point to add over here, the detailed financial statements have also been given as annexure to this presentation, which you can look at later on.

Now we will move to the performance of key subsidiaries and various segments of the business. On slide number 14 we have the breakup of different businesses into various business segments with which I believe you would be quite familiar, so we will move on from here.

On slide number 15 we have a Segmental breakup of Order Inflows and the Order Book. So as you would be able to see, there has been a reduction in the proportion of order inflows from the Power and Hydrocarbon businesses, which is due to lack of major domestic orders in both the sectors during this period. Infrastructure ordering continues to be dominant, and it has seen growth in the international orders during the quarter. Similarly in case of the power sector, we also received an international order during this period. In terms of the order book backlog, again Infrastructure continues to be overwhelmingly the largest part, the largest segment.

On slide number 16 we have a breakup of revenues into segments and geography. Infrastructure again contributes 43% of revenues during the first half followed by various other sectors. In terms of domestic and international breakup, 32% of revenues came from the international market, 58% was from the domestic market during H1.

On slide number 17 we have the Infrastructure segment. Revenues in the segment have grown due to execution which was in line with expectations. International revenues have grown significantly on the basis of execution progress in international order wins, which we had achieved in the previous years. Margins in this business were lower in Q2 primarily due to the job mix status, you can say the state of execution at which various jobs are, that is higher proportion of revenues coming from projects that have not yet crossed the margin recognition threshold.

Moving on to the Power segment on slide number 18. The Power segment continues to see a high level of competitive intensity among various private and public sector, equipment suppliers and contractors. This competition is for fresh ordering from various state utilities and public sector units for thermal power projects. Revenues for the quarter grew by 21% on the back of execution progress on a stronger opening order book position. There was a margin variation during the quarter which was primarily due to the mix of various jobs executed during the period.

On slide number 19 we have the Metallurgical and Material Handling segment or MMH. The MMH segment still continues to suffer from low sectoral investments which has resulted into a reduced order book position. This in turn has led to revenue decline and a lower utilization rate, plus cost overruns have also resulted into a squeeze on the margins in the business.

On slide number 20 we have the Heavy Engineering segment. Again this is a segment, especially in the Process Plant business, which has felt the adverse impact of a challenging ordering environment in a market that has been reeling from a drop in oil prices, a muted global economic growth environment, and excess capacities globally. This has also affected the potential profitability from prospective project orders. Declining revenues, which are arising out of a depleted order book position, have also in turn affected margins negatively along with some cost provisioning that has been done.

On slide number 21 we have the Electrical and Automation business or the E&A segment. This segment is also witnessing a depressed industrial demand due to sparse industrial Capex in view of excess capacities that we are seeing generally in the Indian economy. The revenue performance for the quarter has been flat. However margin stability has been maintained due to efficient operations and control on costs.

On slide number 22 we have the Hydrocarbon segment. This segment has seen a moderate growth in revenues for the quarter. L&T's challenged legacy projects in the Middle East are now nearing the completion of execution. However Capex in the Middle East is also undergoing a curtailment due to the prevalent low crude prices. Now because of the overall lower level of operations in the international segment, we have also witnessed under recovery of overheads, and again this is in the backdrop of a diminished set of opportunities and a challenging operating environment. At the same time we have also been focusing on organizational and leadership strengthening.

On slide number 23 we have the IT & TS segment or Information Technology and Technology Services segment. We have seen continued robust growth in revenues, again aided by a favorable currency movement which has also seen margin improvement. Growth is being witnessed in almost all end market segments except in the case of energy and utility sectors.

On slide number 24 we have the Others segment which is a composite of quite a few diverse business areas. This segment has seen a 13% growth in revenues on the back of improved performance in some of its components such as Realty development, Valves business, and Industrial Machineries business. Margin performance has been flat on quarter-on-quarter basis and these margins have been mainly contributed by the Realty business.

On slide number 25 we have the Developmental Projects segment which is IDPL and Power Development Ltd.. The development project segment has seen an improvement in revenues and EBITDA margins from Nabha Power and the operationalization of three Road SPVs. The Nabha power project was not fully operational during most of H1 FY15, that is the previous year, while now both of its units of 700 megawatts each are operational. The previous year's revenues and EBITDA also included a lumpy amount of Rs 13.5 billion from the divestment of Dhamra port as well as a small contribution from the operations of Dhamra port.

On slide number 26 we have the Developmental Business portfolio outlining the various classes of assets that we have over there, and you would be quite familiar with this part of the business.

So I will move on to the next slide which has the performance of L&T Finance Holding. L&T Finance Holding continues to see a steady growth in disbursement, its areas of focus for business growth are in some of the Business to Consumer segments, SME Finance, and selective operational projects in Highways and Renewable Energy. The business also continues to make provisions in excess of RBI norms and the gross NPA percentage has been stable on a sequential basis. The mutual fund business in L&T Finance Holdings has now achieved a total average AUM of Rs 242.8 billion of which the equity assets are 40%.

And now I will hand over the presentation to Mr. Mondal for discussion of the business outlook and other aspects.

Arnob Mondal: Thank you Nishit. I always feel challenged when I come to the issue of explaining this complicated looking picture here so I will not explain each and every item except to again reiterate the broad themes. The broad theme here is that, as far as L&T is concerned, we think we have an economic moat, to quote a phrase coined by Warrant Buffet, which mainly consists of financial strength, execution capability, talent management systems, our robust order book and our track record. On the other hand the external factors that impinge on the fortunes of the company are broadly divided into near factors and slightly more distant factors. The near factors are the inner circle which has things like government infrastructure spends, external funding, fiscal position, bank funding, industrial Capex and so on. The outer circle broadly contains the macroeconomic factors which affect us - they may not be directly felt but they affect us for sure.

Just before handing over the session for the Q&A, I would like to make a few points. I also noticed how the stock reacted to the results and our articulation today but I think the markets were expecting a muted order inflow performance which turned out to be correct. I would, however, like to highlight that as far as L&T is concerned we have a very large robust order book of Rs 2.44 lakh crores. We also have many irons in the fire at this point in time. We also see a very large prospect base and hence we do not want to run after orders just for the sake of building up an order inflow number, which if we had done that, we would probably come to regret it three years down the line when we would see the final execution of those orders. And of course as Nishit mentioned there has been fairly high competitive intensity, particularly in the power sector where around 10 Gigawatt of BTG and EPC orders have been bid out, which we have not won, but those are conscious pricing decisions. So at this point of time the order book gives us a bit of comfort that we do not have to live from quarter-to-quarter. At this point of time the focus is also on execution of the orders, and I think all of you know that the execution environment in India is not very robust. It happens in starts and stops. For example, in some cases after we get orders, we have to wait quite a while before we get a final notice to proceed. One of the points which I would like to focus on is that the execution that we are doing is also with an eye to ensuring that our cash flows are healthy. So for example there is no point just executing and piling up outstandings with the hope of getting our money back ultimately in the distant future.

The third point which we are looking at today are our cost structures in individual businesses and the possibility of reallocation of resources to make the functioning more optimal without increasing costs.

Finally the last thing that I thought I should mention is that by the end of this year we hope to see the end of those challenged legacy hydrocarbon projects which are now drawing to a close. One final caveat, in fact this can be also part of the disclaimer side itself, is that our business is such that quarterly results are not really amenable to a

90 day review. I have said it over and over again, however markets do tend to look at 90 day performances and that is something which we cannot avoid. And based upon our outlook, as Mr. Shankar Raman enunciated during the media meet, we think that by the end of the year our order inflows should grow anywhere between 5% to 7% and revenues may grow anywhere between 10% to 15%, 15% at the upper band and 10% at the lower band.

With that I would like to hand it over to Q&A.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Arnob, our revised order flow guidance still requires 30% to 35% growth in H2, so is L&T the lowest bidder in some large contracts other than Mumbai Metro as well? Anything that you can share on this?

Arnob Mondal: Normally we do not talk about individual projects until we receive the LOI in hand and secondly until we receive a customer approval to talk about that, so I will not really be able to talk about any specific projects. But yes we are L1 in some, but on the other hand the guidance is more based upon the prospect base which is fairly healthy at around Rs 370,000 crores today that we see till the end of the year.

Aditya Bhartia: And which are the main sectors which are contributing to this prospect base?

Arnob Mondal: Our infrastructure Segment, which constitutes transportation infrastructure, urban infrastructure, water, smart world and communication is around Rs 155,000 crores. Power generation prospects in all forms whether they be coal fired power plants or gas based or hydel or renewable energy or nuclear, is another Rs 60,000 crores. PT&D is approximately Rs 30,000 crores, Minerals, metals and material handling would be to the extent of around Rs.25,000 crores to 26,000 crores. Hydrocarbon is slightly more than Rs.40,000 crores and all of the other businesses together total another Rs.50,000 crores. This is a very broad breakup of where we see the prospects coming from. However, here again I would like to stress that very often at the end of a year, we see prospects slipping over to the next year. So while we hope that much of this will actually get ordered out, we have seen slippages in the past as far as timing of the orders are concerned.

Aditya Bhartia: And sir order inflows in metals and heavy engineering segments have stayed muted in the last few quarters, could this mean that overhead absorption will remain weak in these sectors and therefore margins could continue to remain under pressure?

Arnob Mondal: As far as these two are concerned, yes margins will continue to remain under pressure in both of these sectors

Aditya Bhartia: And sir if you could throw some light on the Middle East markets, how you are seeing the order flow scenario, execution pace as well as competitor intensity in these markets?

Arnob Mondal: As far as execution is concerned, we have not seen much of an issue as far as Middle East is concerned. In fact the large projects that we had got earlier, whether it be Riyadh Metro or Doha Metro or the expressway projects or the Transmission and Distribution projects, are pretty much going on schedule, as a result of which international revenues this quarter have also increased, and for the half year as well.

Aditya Bhartia: And regarding some of the media articles which indicated that scope of a few projects could be reduced, is there any discussion on that front?

Arnob Mondal: I think you are referring to the Riyadh Metro. Many people have also asked about this after a Bloomberg report mentioned the Riyadh Metro project. Yes there has been talk about the scope being reduced and we in talks with the customer at the consortium level. At the same time they also have to move a bit carefully because change in scope cannot be unilateral since contracts have already been signed. So it is under discussion.

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

Renu Baid: Sir first question, wanted to understand, you did mention across segments that we have created warranty provisions or provisions for cost overruns, so on a company wide basis what would be the total cost provision that we have created in this particular quarter and predominantly which sectors will they be attributable to?

Arnob Mondal: See, these cost provisions are mainly on account of potential warranties that may arise after we hand over a project which would cover defect liability periods and these are based on estimated numbers. So I will not be able to give you the exact number but suffice to say that most of the selling, admin and other expenses increase has been on account of these non linear provisions whether they be warranty or defect liability provisions, whether they be some foreseeable loss provisions or whether they be provision for debts and NPAs in case of financial services. These are non-linear in nature and most of the increase has been on account of this.

Renu Baid: And specifically within the heavy engineering segment, if you look at sequentially though sales have remained flattish we have seen loss increasing from Rs 4 crores to almost 140 crores. So within this Rs 140 crores what is the kind of cost overrun provisions which you think would be one time in nature provided in this particular quarter?

Arnob Mondal: See Renu I cannot give you the bifurcation between under recovery and cost provision, the total fall in the segment is on account of both.

Renu Baid: No, I just wanted to understand whether any particular cost element is a onetime item and which might not be recurring?

Arnob Mondal: There are one time costs. A large part of this is one time because cost provisions are done on a project by project basis and these are foreseeable losses which we provide for.

Renu Baid: So probably for the full year we expect the performance might not be as bad as the first half?

Arnob Mondal: I will not conjecture on that at this point of time and we do not give guidance on bottom-line of individual segments Renu.

Renu Baid: Sir second, you did share very broadly with respect to the prospect list within infrastructure and power, but if you look sequentially there has been a substantial cut down in this prospect list apart from the projects which have been awarded. Within the framework of cuts and our order inflow guidance have we seen some of these prospects deteriorating or getting off the pipeline?

Arnob Mondal: To put it in perspective, if you recollect in the beginning of the year the prospect base was Rs 630,000 crores for the full year. Now we are talking nearly Rs. 370,000 crores in the remaining half. So it is not as if it has been cut down substantially. Yes there have been projects which have been dropped, on the other hand some have also got added.

Renu Baid: But qualitative within the infrastructure vertical which particular sectors are we seeing some traction with respect to project award activities, any key large projects in pipeline that one can expect for the next 6 to 12 months?

Arnob Mondal: Within infrastructure, Roads is a clear area where there is a fair bit of pipeline, both EPC as well as BOT even though we will not bid for BOT. We, however, do hope to get EPC orders from BOT players. The other part is Railways in the form of Dedicated Freight Corridors, where there are a number of orders in the pipeline. Then you have metro rail prospects which are also there. Those orders there are not very large but collectively they amount to a reasonably good basket. Plus as far as urban infrastructure is concerned we still see fairly good prospects comprising things like affordable housing and hospitals and communication systems by way of long distance communication networks and IT and office spaces. Water prospects are also fairly robust still.

Renu Baid: And sir one last book keeping question, at the consolidated level we have booked other exceptional items with respect to profit on the sale of our associate company. So what could be the tax component in the sale consideration?

Arnob Mondal: There is no tax component and it is not an associate company. We sold a stake in L&T Finance Holdings which is a subsidiary company as well as a strategic stake that we had held for quite a few years in a vendor company. Both of these were long-term capital gains and hence there was no income tax component on these.

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

Ashutosh Narkar: Two questions, one on your execution and working capital. We have seen infrastructure execution remain pretty much healthy at around 11% but margins come down. Now can we fairly assume that this is purely because of job mix and as you move into the second half of this year as the revenue recognition comes up, there is a potential chance you can again bump up to around 11% and to that context is our EBITDA margin guidance still the same or we are cutting that down as well?

Arnob Mondal: Fair question Ashutosh. While I will not be able to ascribe any numbers here for EBITDA margins of individual segments, you are right that it is primarily due to the fact that some projects have started execution and have not reached margin recognition stage. We do expect a fairly good proportion of these to start recognizing the margins in the third quarter and fourth quarters.

Ashutosh Narkar: So we are maintaining our EBITDA margin outlook or guidance which we have given?

Arnob Mondal: Yes, we are maintaining our EBITDA margin guidance of 100 basis points improvement excluding services business.

Ashutosh Narkar: And my second question is especially on the Middle East contracts. Now we have seen some of the Chinese construction companies actually witness delay in payments from government agencies especially in Saudi Arabia and a couple of other regions. Is that something which we are also experiencing and is the 24% of working capital to sales under threat over the next, say, two quarters or three quarters time?

Arnob Mondal: There are two broad things - one is payment hold back in the Middle East and the other is working capital trajectory. As far as holding back of payments in Middle East projects are concerned, till now we have not faced any stress on that front. As far as working capital is concerned it is extremely difficult to give a target on working capital because it is an outcome of so many things including execution. So I do not think we will be able to give you any target but we think that we have passed the trough, that's about it.

Ashutosh Narkar: And in the hydrocarbon segment you have talked about investment in leadership, if you can broaden that.

Arnob Mondal: Actually we have appointed a Managing Director of hydrocarbon business who has vast experience in hydrocarbon and he has also been appointed as a non-Executive Director on the Board of L&T. We do think that he will be able to start contributing to the fortunes of this business in future.

Moderator: Thank you. Our next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Inderjeetsingh Bhatia: Hi Arnob, Inder here. My first question is on the balance sheet. If I look at the consolidated numbers there is kind of lot of movement in the number of other long-term liabilities kind of expanding very significantly from end of the fiscal year and the debt has also gone up significantly when our working capital is actually holding up or only improving. Again in that context also the interest costs have gone up and there is mention of some pension liabilities, if you just kind of throw some light on these numbers and movements and this interest cost.

Arnob Mondal: As far as interest cost is concerned the major increase is because G-Sec rates fell from 8.72% to 7.82% as a result of which the liability on account of retirement benefits on the interest front increased. This is because we do a present value discounting of future liabilities and if the discount rate itself falls the total liability increases, and we provide for the differential every quarter.

Inderjeetsingh Bhatia: Can you just quantify that?

Arnob Mondal: It was around Rs 50 crores in Q2 approximately . The other increase in Interest cost is because of three Road SPVs which became operational - you would be aware that the three projects were Samakhiali-Gandhidham, Krishnagiri-Walajahpet, Beawar-Pali-Pindwara and till they became operational the interest costs were being capitalized. Now they are hitting the P&L. So that by and large accounts for the entire increase.

Inderjeetsingh Bhatia: Can the interest cost increase on these three road projects, is it for the full quarter that has come through or is it just part of the quarter?

Arnob Mondal: Full quarter.

Inderjeetsingh Bhatia: And if you can just talk about the balance sheet items, debt, and this long-term liabilities, other long-term liabilities?

Arnob Mondal: The major part was Beawar-Pali-Pindwara Road SPV which got classified under Deferred Payment Liabilities.

Inderjeetsingh Bhatia: So is that the entire long-term liability?

Arnob Mondal: Yes, major part.

Inderjeetsingh Bhatia: My second question is again on this whole execution and the infrastructure margin profile. If I look at from, again I am sorry to harp on a sequential basis, but infrastructure revenues as such did not change dramatically from Q1 to Q2 and yet margins fell and we expect that some of these will go into revenue recognition. So I am just curious whether these projects are actually that close to the margin booking phase that you are confident that in the next half you will be able to recoup potentially some bit of this margin loss?

Arnob Mondal: I will not be able to give you the exact numbers which is an aggregation of a number of projects, including projects that we got last year, a major part of which were in Infrastructure, particularly the orders that we got in Q4 last year which totaled close to Rs.48,000 crores. All of those have gone into what we call cost jobs particularly in Q2, since in the first quarter some of those did not even start execution because they were waiting for Notices to proceed and other clearances and right of way. Many of those jobs have gone into cost jobs in Q2, and when will they reach margin definition threshold, I cannot even hazard a guess. But because some of those are not very long cycle jobs, it is expected that by Q4 some of them will get into margin recognition phase.

Inderjeetsingh Bhatia: Last question from my side is, if I look at consolidated P&L for last few years and given that that is how we are looking the company, we had not had any significant earnings growth for many years now. So in terms of the top management and the Board's focus, how are we looking at changing that scenario that how do we see things over the next two, three years, what are the broad areas that the management is working towards to see that as a company we come back to an earnings growth kind of area.

Arnob Mondal: We have just kicked off our next five year strategic plan exercise which will be ready by the end of this fiscal and we will probably give you a directional idea at that point of time. But suffice to say that the focus does seem to be on profitable growth at this point of time and that seems to be the overarching focus.

Inderjeetsingh Bhatia: Would you be able to share some broad things that we are kind of looking at, is it lot of focus is on selling assets or how do we kind of get there in terms of profitable growth?

Arnob Mondal:: Asset divestment is a part and parcel of that strategy, yes that I can say upfront, whether it be developmental assets, or whether it be portfolio rebalancing.

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

Sumit Kishore: My first question is to better understand the issues and challenges towards execution in domestic infrastructure business. Now for the past three quarters we have seen a sluggishness in your growth (-3.5%) in fourth quarter and the first half it is barely 2%, 3%. So is there a quantum of a slow moving order backlog that we should know about?

Arnob Mondal: You would be aware that we declare the quantum of slow moving projects at the end of Q4. Out of those slow moving orders, those that we feel will not move will be knocked off from the order backlog at the end of Q4, so I will not be able to give you either granularity or numbers on that account. But suffice to say that it is not a major cause for concern at this point of time. As far as the execution environment is concerned, it has not yet really picked up in a way where we can start pressing our foot down on the accelerator.

Particularly in Buildings and Factories we do not want to add to the unsold inventory of builders where we will get our money only after the builder ultimately sells his inventory to customers. So that has slowed down perceptibly.

Sumit Kishore: Buildings and factories is one pocket, is there any other pocket within infrastructure that we should know about?

Arnob Mondal: Within infrastructure no. Rather it seems to be chugging along, if I may use that expression.

Sumit Kishore: Okay, so it is only building and factories.

Arnob Mondal: For working capital reasons we are cautious on that.

Sumit Kishore: To conserve cash?

Arnob Mondal: Yes.

Sumit Kishore: And could you give some qualitative color on the margin pressure in infra, is it more led by domestic or overseas? I understand in both the places there are projects at early stages of execution.

Arnob Mondal: I do not know what you mean by margin pressure, but the projects are being executed in line with what we have expected even though once in a while we do come across some projects where the margins are below what we had expected. Once in a while we also come across some project where even six months down the line, or eight months down the line we realize that we may be heading for a loss at which point of time we provide for the foreseeable loss upfront. So those incidents will happen, particularly when we manage 500 to 600 projects at any point of time, but by and large it is going according to what is planned.

Sumit Kishore: In infrastructure?

Arnob Mondal: In infrastructure.

Sumit Kishore: And in the Rs 3.7 lakh crores prospects that you gave, how much is overseas?

Arnob Mondal: Overseas is a fairly large number and is actually close to Rs 1 lakh crores.

Sumit Kishore: Rs. 1 lakh crores out of 3.7 lakh crores is overseas?

Arnob Mondal: Yes and comprising transportation infra, some urban infra, some power generation, some T&D and some Mid & Downstream hydrocarbon.

Sumit Kishore: And finally, was there any income booked on the sale of Elante in this quarter?

Arnob Mondal: No, even though I know it was announced in the media but that has not been booked in Q2. It will surely get booked in Q3.

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

Venkatesh Balasubramaniam: The first question, I am sorry again I am going back to the infrastructure margin question. When you say job mix deterioration what exactly are you meaning? That you are currently executing lower margin orders and that is why the margins have come down on a year-over-year basis? Is that what you mean?

Arnob Mondal: I did not mention the word deterioration. All I mentioned was the word job mix, and deterioration is not part of that. It is just that a larger proportion of jobs have yet to reach margin recognition threshold than was the case last year. We call them cost jobs. So the proportion of cost jobs is higher this quarter compared to Q2 of last year.

Venkatesh Balasubramaniam: The reason I was asking this is something like this, if you look at your consolidated numbers and you look at the infra segment, in the first quarter your infra margins are up 100 basis points, in the second quarter they are down 180 basis points. Now if in the second quarter you have not reached the margin thresholds and the cost jobs are high then it should have been high in the first quarter also.

Arnob Mondal: Venkatesh I think I answered this question earlier. I said that in Q4 last year we got around Rs. 48,000 crores worth of orders, a major part of which was in infra and I mentioned that most of those have started execution in the second quarter.

Venkatesh Balasubramaniam: Sir one just housekeeping question, can you please share what was the dividend from subsidiaries in the second quarter?

Arnob Mondal: Dividend from subsidiaries was around Rs. 180 crores

Venkatesh Balasubramaniam: Now if you see the other income in the standalone results it looks like they have come down a little bit on a quarter-on-quarter basis, I think in the first quarter it was Rs. 553 crores, in this quarter it has come down by around 50 crores, last year second quarter it was almost Rs. 600 crores. So is there any reason why this other income besides the dividends has come down because the dividends are more or less at the same level.

Arnob Mondal: No, no dividends are not at the same level, dividends came down from Rs. 270 crores to 180 crores.

Venkatesh Balasubramaniam: Okay, 270 crores was the dividend in the second quarter last year?

Arnob Mondal: Yes, correct.

Moderator: Thank you. Our next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: Arnob, on the HED could you quantify what was the provision?

Arnob Mondal: I will not be able to give you that level of granularity in information Bhavin. Sorry to disappoint you.

Bhavin Vithlani: So on a normalized basis what could be margins on the HED division, because we have been reporting lower margins in the last couple of quarters?

Arnob Mondal: We do not give the sort of segment wise margin guidance that you are asking for.

Bhavin Vithlani: No, the reason to ask is like significant negative EBITDA level.

Arnob Mondal: I understand what you are saying. Most of it is coming from Process Plant and Nuclear equipment business which will continue to have under recovery. But again I would urge you not to go only by Q2 numbers.

Bhavin Vithlani: Second is, in the MMH division we had a significant order win last year, so do we expect that by second half we should see improvement in the MMH execution?

Arnob Mondal: I do not know what you mean by significant, but yes we did have some order wins in Q4 as well as in Q1. So MMH could probably see some improvement from Q4 onwards, but whether that will last or not will depend upon whether we continue to get orders in that segment, because there is under recovery there as well.

Bhavin Vithlani: The last thing is, if you could confirm there were some media reports on some sale by Seawoods and some transaction with Adani which you also made, so if you can throw more light on these.

Arnob Mondal: We will tell you as and when any deal materializes, but at this point of time I will not be able to give you further details on those. We are in talks with quite a few people, not only one single customer. Even for Elante Mall we were in talks with two different people and it ultimately fructified with one person.

Bhavin Vithlani: Last question, what was the traffic growth on continuing projects in IDPL?

Arnob Mondal: Growth in continuing projects in IDPL was approximately around 7%.

Moderator: Thank you. Our next question is from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: Just wanted to ask you that this in our order intake this time ex-services, have we accounted for the Mumbai Metro and one order which was announced in the guns part which was in the media article, have we recognized that in this quarter?

Arnob Mondal: No, we have not recognized any of them.

Nitin Arora: When you gave the prospects of Rs. 1 lakh crores overseas order, largely this is in Africa or this is more tilted towards again Middle East part?

Arnob Mondal: More tilted towards Middle East.

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

Pulkit Patni: Sir I think since a lot of people have already asked it but I just want to know the purpose, see if you look at infrastructure margins they have come down, we have seen hydrocarbon margin in the past being in pressure and now it is the heavy engineering business. So basically the purpose as I understand, is it under recovery or is it Middle Eastern orders as we execute or face more cost challenges? If you could elaborate a little bit it would give more comfort to estimate whether one could see continuing losses in these or is it just the moment you start executing more orders our margins could actually improve, if you could just elaborate on that a little bit more.

Arnob Mondal: Sure Pulkit. I will first start with Hydrocarbon. The dip in margins was clearly on account of two factors, one was Middle East challenging orders and the other part is under recovery - both were contributing to losses of Hydrocarbon. Now as far as Heavy Engineering is concerned, it is combination of some under recovery as well as cost overruns but not so much Middle East per se. These are for equipment manufacture which is done at our workshops within India and some part of it is done in our Heavy Engineering workshop in Oman but most of it is India centric. So that is not because of Middle East projects per se and in fact a number of prospects that they get are from other countries whether it be Middle East or Europe or even USA or even some other parts of the world. So it is not because of project execution in the Middle East that Heavy Engineering fortunes have dipped.

As far as infrastructure is concerned, it is not because of execution issues in the Middle East, I mentioned that these were because of proportion of cost jobs being higher in this particular quarter and that's about it.

Pulkit Patni: That is very clear, that is something I wanted to know. The second thing is on the revenue guidance cut, I remember in the first quarter we were told that the second half will look better in terms of execution, also when we have such a comfortable order book. I am just trying to understand why execution or revenue growth is something that could be impacted? And on a relative basis, in a scenario where say execution issues gets solved, do you think that we can ever grow over 12% to 15% or is this a business where the growth is going to be constrained in that limit irrespective of how big the order book we have?

Arnob Mondal: We think it is a product of current difficult times. That's about it.

Pulkit Patni: So as things improve we have capacity and flexibility that with this kind of order book we could also grow revenues by 20%?

Arnob Mondal: I would not ascribe any number to it but yes it should improve, if execution conditions improve, it will certainly improve.

Moderator: Thank you. Our next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Sir actually you have talked about a large part of prospects which are coming from the international markets. However if you look at specially Middle East, the commentary on the budget deficits and all those things are pretty negative and they are also talking about maybe slowing down on existing project execution itself. So how do you get comfortable on such a large prospect base, are these tendered out or has the financing has been tied up on these prospects? What is our comfort on these prospects sir?

Arnob Mondal: While it is true that there are some signs of curtailment of ordering in the Middle East, we need to look at what has by and large been curtailed. Number one, all fancy buildings have been curtailed; and number two, most of the upstream projects which basically add to oil production capacity have by and large been cut. On the other hand they also realize that they will have to continue to build out what we call social infrastructure, i.e, infra that is very visible on the social front such as metro rails which are mainly for the common man, or whether they be roads which again are used by the common man, or whether there be conventional railways connecting different parts of the Middle East, or whether they be water projects. These are very standard infrastructure which they will by and large have to do. The prospect pipeline may not be as robust as it was earlier but it is certainly there. Secondly, as far as hydrocarbon is concerned, paradoxically the oil price fall could lead to a slight bump up in mid & downstream capex primarily because the countries there realize that they cannot keep on pumping out crude oil and exporting it all over the world any longer. So they will try to exploit the mid & downstream potential further instead of just exporting crude. That is why we see decent prospects in mid & downstream particularly. Of course, for T&D we still see robust prospects in the Middle East and they continue to get ordered out. In case of T&D, while individual order sizes are not very large, they cumulatively aggregate to a fairly good amount.

Charanjit Singh: Sir and on the domestic market prospects if you look at specifically you had given a very good breakup, so there is roads and other transportation and infra projects but what we have seen is specifically in the road sector there are lot of new players who have come in, there are existing players who were actually in the CDR now they are again in the bidding pipeline specifically for EPC projects and even in the Mumbai Metro there has been fair bit of participation from lots of contractors. So how do you see the scenario coming in the future prospect because the market pie is small and definitely the participants continue to be large in number?

Arnob Mondal: Actually in terms of roads the market pie has increased but you are correct. The number of competitors have also increased. But as far as the orders that we target are concerned, we probably would be happy with anything between 10% to 20% win on those. I would also like to point out that competition has been there in every sector; it is not as if we are suddenly facing additional competition.

Charanjit Singh: But in terms of what could be those larger projects where you are getting so much comfort specifically in DFCC what is the kind of size of the project which you are targeting right now?

Arnob Mondal: I will not be able to give you the exact numbers, but project sizes there are reasonably large, which I think everybody is aware of. We are looking at around Rs. 14,000 crores of Dedicated Freight Corridor prospects.

Moderator: Thank you. Our next question is from the line of Sanjeev Panda from Sharekhan Limited. Please go ahead.

Sanjeev Panda: Sir during the presentation you said that IT got a currency benefit also, could you please help us to understand how much was contributed in IT performance?

Arnob Mondal: We will start giving out those numbers when Infotech is listed, at this point of time I will have to disappoint you; I will not be able to give the breakup.

Sanjeev Panda: The next is about Hydrocarbon, what is the status of our legacy projects and how much of that has been over and probably if you can help us to understand the fresh orders that are there and when we can move into the profit territory?

Arnob Mondal: See we are still looking at an overall loss of anything between $25 to $30 million dollars in the Hydrocarbon segment and hopefully we will turn profitable next year.

Sanjeev Panda: And our legacy projects like are all done, I mean how much of that is left out, any qualitative?

Arnob Mondal: As I mentioned earlier, we think we should be able to close out these legacy projects by the end of this year. A large chunk of the expected loss is mainly on account of under recovery of overhead. Even if we incur some close out costs on the legacy projects we think that the claims that we will get from the customers will by and large neutralize those losses.

Moderator: Thank you. Our next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Just one very quick one on the buildings and factory segment, could you provide some more depth or color in terms of the real-estate sector, so we have been hearing some pretty negative news flow in the media with regard to the situation of the real-estate sector in our country. So just wanted to understand with regard to your current portfolio whether you are seeing slowdown in execution and if so if you could quantify or give some numbers around it?

Arnob Mondal: I think I have already answered that question. I mentioned that we have consciously slowed down execution in some of those projects that we are executing where payments are getting delayed. We cannot just demobilize from a project because it takes a lot to mobilize including men, material and sub contracted labour, so it is not easy to demobilize. On the other had if a customer does not pay on time we also slow down, so that is what is happening by and large in the real-estate sector. However, affordable housing seems to be picking up here and there.

Utsav Mehta: Would it be possible to give some number around that in terms of what proportion of the B&F portfolio that would be in terms of slow moving or slow execution projects??

Arnob Mondal: All the projects are moving, they are not non-moving. Within B&F, in the real-estate sector how do you categorize a project as slow moving? If every project is moving and we are getting payments even though such payments maybe slightly delayed, we are slowing down execution; we do not categorize that as a slow moving project. I would also not be able to give you a granular level breakup beyond this.

Moderator: Thank you. Our next question is from the line of Harish Bihani from Kotak Securities. Please go ahead.

Harish Bihani: Sir if we look at the Heavy Engineering and MMH segment, if you look at the revenues in FY15 they had declined given that you had a weak order inflow and backlog the previous year. Now in both the segments you had a good order inflow growth and a backlog growth last year, despite that we are seeing a 30% kind of decline in revenue so if you can explain this a little better, obviously there will be certain projects which will be moving slow but the kind of sharp decline in revenue is something that we wanted to understand better.

Arnob Mondal: As far as MMH is concerned, most of the orders that we got were at the very end of Q4 last year, so those have not yet started contributing to revenues in a meaningful manner. Firstly, this business requires a much larger level of order inflows to sustain itself, but we did get some orders in Q4 which will get into execution maybe in Q3 and Q4. So that is one of the reasons where in spite of a decent order inflow in Q4 last year you have seen a revenue decline in Q1 and Q2 as far as MMH is concerned. As far as Heavy Engineering is concerned, the problem that we are facing is the duration mismatch in the two broad segments which is Process Plant Equipment and Defense & Aerospace. In Defense and Aerospace business, we actually got fairly decent orders last year but these are relatively long duration orders. Defense & Aerospace orders, by their very nature tend to take more time for execution so that is why you have not seen revenue or margin contribution from those orders in the first couple of quarters this year. On the other hand, Process Plant and Nuclear equipment hardly got any orders last year; rather the order inflows were not commensurate with our expectations and that is why their revenues have dipped.

Harish Bihani: Yes sir. Sir and secondly on the Heavy Engineering losses that we are booking now, if you can explain better which particular segment is it process plant equipment or defense and aerospace where certain specific projects have faced issues, how do we look at it better?

Arnob Mondal: It is process plant and nuclear business.

Harish Bihani: So is there a couple of specific projects, how do we Look at that?

Arnob Mondal: There are some projects which have incurred cost over runs but I will not be able to give project specific information particularly since at any point of time we manage 500-600 projects, so it is something for which we will not be able to give you details. But there have been some projects where we have had cost overruns in addition to under recovery.

Harish Bihani: Sir again, people have asked this question earlier too on the infra segment where we have a robust order backlog, but if you look at the domestic revenue growth it is pretty subdued. Now obviously buildings & factories have slowed down but has it slowed down so materially, because I am assuming that other segments say for example Power T&D, metro and roads would have been contributing with a decent kind of growth. So is the decline so substantial that it is negating the growth in the other segments, how do we look at it?

Arnob Mondal: No it is not that it has suddenly declined dramatically, it is more or less flat compared to the others. When I say we have seen execution blips, it is that revenues are flat, we are not talking about a 15% de-growth or stuff like that; we are talking about flat revenues compared to reasonable growth in other segments.

Harish Bihani: But the overall growth in the last three, four quarters has been in the range of 2% to 5% for the domestic market in this particular segment despite a very robust kind of a backlog even assuming a four year cycle and if you look at 2014 we had a 25% plus order backlog growth, again in 2015 we had a robust order backlog growth. So even assuming a longer gestation cycle that movement from a backlog to revenue is taking a lot of time.

Arnob Mondal: Yes, that's because of longer duration of projects that we have got. I had also mentioned and I will again reiterate it that execution conditions are not very conducive to blockbuster growth, even though we do have an order backlog which is certainly being executed but not at the pace at which we would have liked it to be. That's about it.

Beyond that I cannot get into further details of each project or each business.

Harish Bihani: Sir last question is on the power segment, if you can share in terms of Giga Watt, what Giga Watt of prospects are there where we have already price tenders or tenders are out and where we have bidd for and which should open in the second half of this particular fiscal year or say in one year from today?

Arnob Mondal: I would not be able to give detailed information on which projects we have already bid for, but the fact is that we are looking at approximately 10 Giga Watt worth of orders that we can target over the next six to 12 months. These are for coal fired power plants.

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

Madanagopal Ramu: Good evening sir. My questions are answered. Thanks.

Moderator: Thank you. Our next question is from the line of Dhirendra Tiwari from Antique Stockbroking. Please go ahead.

Deepak Narnolia: Sir Deepak. Sir I have a question about your guidance. You have maintained your revenue and EBITDA margin guidance which effectively means that in the second half of the year you would be making somewhere around 20% of growth in revenues and a 14% kind of margin. So my question is, was this quarter a surprise for you and if it was a surprise what gives you confidence that in the second half you will see significant improvement?

Arnob Mondal: I will talk about revenues first. It is not that we have maintained our guidance. We had initially guided for 15% revenue growth and now we have sought to moderate that to 10% to 15% and we are already at 11% in Q2.

Deepak Narnolia: But effectively that means a 14% kind of EBITDA margin in the second half of the year?

Arnob Mondal: It is revenue that I referred to, not EBITDA. I answered your question on revenue.

Deepak Narnolia: On revenues, so you are expecting a 10% kind of growth?

Arnob Mondal: I did not say we are expecting a 10% growth Deepak, I said we have given a guidance of 10% to 15% and that would depend upon whether execution conditions continue to be difficult or whether they improve, that's about it.

Deepak Narnolia: So this quarter had witnessed a negative surprise for you?

Arnob Mondal: This quarter was 11%.

Deepak Narnolia: So it is in line it the expectation?

Arnob Mondal: Yes, correct. I do not know when you joined the call, but the fact is that I very clearly said that the we had moderated the guidance to 10% to 15%, I also said that some part of the revenues are likely to be more back ended because of the large order inflows that we got in Q4 last year considering that our reported order inflow numbers were close to Rs. 48,000 crores in Q4 last year. Obviously most of these projects will start contributing to revenues in Q3 and Q4, some even beyond that. As far as margins are concerned, I will not be able to give you any more color apart from whatever I have said. I have also said earlier on a number of occasions that in our type of business, both revenues and margins are not amenable to a 90-day review.

Deepak Narnolia: Why I am asking sir, this quarter you have seen certain cost over runs, so despite that you are maintaining your EBITDA margin while we have cut your revenue guidance, so that's why I as asking you this question.

Arnob Mondal: Yes there have been some cost over runs but on the other hand we do think that we would be able to meet our budgets as far as EBITDA margins are concerned. The EBITDA margins that I am referring to exclude services business.

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

Ashutosh Narkar: Just a question on your ship building and defense segment, in the beginning of the year or probably second half of last year, you have been arguing that this ship building will kind of revive based on defense orders. Now we hear that the government is looking at more government-to-government contracts rather than giving it out into the open market. Has that kind of changed our outlook on this segment and does that mean that the time taken for breaking even on this business will take longer now?

Arnob Mondal: Right from the beginning I have been saying that defense orders are not going to come in a hurry. What I have been saying is that the first large order that we could get could come maybe at the end of this fiscal and for those to contribute to revenues and margins will take around two years after that. Defense orders by their very nature are very long cycle and the way some media reports appeared a few months back, an impression was created that submarine orders of Rs. 50,000 crores would get ordered out shortly. That is not the case. It may happen some time in FY17 if we are lucky. These are the sort of timelines involved. Defense ordering takes an enormously long period of time before actual orders are released.

Ashutosh Narkar: We understand that in case of the landing platform docks and the anti-submarine warfare ships, all of the technical evaluation is already done and that the financial bids are already submitted by all the three players in the private sector. Is there anything else which is left in terms of requirements which has to be fulfilled before the contract actually gets awarded?

Arnob Mondal: No, firstly they will have to do the bid opening, then the bid evaluation and then the document verification process. Their procedures are complicated and lengthy, so just even bid opening will not necessarily lead to letter of intent.

Ashutosh Narkar: So then it is fair to assume that even the landing platform docks and the anti-submarine ships would not come through this year?

Arnob Mondal: What I mentioned is that if we are lucky, it could happen with this fiscal and if not, it could slip over into early next fiscal. At least one of these could happen if we are lucky.

Moderator: Thank you. Our next question is from the line of Naveen Jain from JM Financial. Please go ahead.

Naveen Jain: Just a couple of questions actually, small clarifications. This Heavy Engineering couple of projects where we had some cost provisioning this quarter, can we assume that is it completely done or can there be some more losses in the coming quarters?

Arnob Mondal: That will depend upon how execution pans out in individual projects. If we can foresee losses, then we would have a duty to provide for it upfront which we have done to the extent that we can foresee. That is why we call it foreseeable losses even though the projects may end a few years down the line. If we anticipate a loss in this quarter we provide for that loss upfront for the entire duration of the project. So what was foreseen has provided for but I cannot give you any guarantee that there would not be any further cost overruns or foreseeable losses going forward. In fact, every year we provide for something on foreseeable losses - typically on one-off projects here and there.

Naveen Jain: And secondly, this infra segment the margins got impacted because of certain projects which had not crossed the revenue recognition threshold, so is it possible to quantify what proportion of revenues were relating to….

Arnob Mondal: Sorry, I will have to disappoint you there Naveen.

Moderator: Thank you. Our next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Sir on the consolidated balance sheet, the net debt if I calculate it has gone up by almost Rs. 5,000 crores from the end of last fiscal despite we making decent cash flow. So just wanted to understand how.

Arnob Mondal: Yes, debt also includes that of Financial Services and Hyderabad Metro. We have also issued some debentures in the standalone company.

Moderator: Thank you. Our next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: My questions have been answered. Thank you.

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

Akshay Soni: Three questions from my side. One, if you can quantify what is the mobilization advance that you have received for the quarter and has it gone up or down?

Arnob Mondal: I will not be able to give you numbers on mobilization advance.

Akshay Soni: Would you be able to say whether it has gone up or down even if you cannot quantify it?

Arnob Mondal: We only give numbers on net working capital which has shown an improvement as % of sales.

Akshay Soni: Secondly, what are the indicators that we can look out for as far as improvement in execution conditions is concerned? Is it really real-estate prices inventories or should we be looking out for something else?

Arnob Mondal: I think it is just revenue accruals that you need to look out for in Q3 and Q4. Apart from that every project would have its own set of peculiarities and hence I will not be able to globalize the issues and give you an answer on a macro level.

Akshay Soni: I was talking more in general terms in terms of if we are to see, let's say, an uptrend in real-estate prices or a downtrend in inventories, would that be a good indicator for your business on buildings and factories in terms of it potentially starting to execute faster?

Arnob Mondal: Yes, that could be a good lead indicator. On the other hand there are a whole lot of other businesses where we have also seen execution blips. For example, if some person files some petition in a Green

Tribunal and gets a stay on some project that we are executing, obviously till that stay is vacated, maybe six months down the line, revenue accruals from that project will stop completely. So these sort of execution blips are there across the board, not just real-estate.

Akshay Soni: And given that you have said in infra, especially in real-estate you are holding back a bit on execution and where the customers are paying slowly, would it not also increase your cost levels because you are not demobilizing completely right, so there is manpower, there is equipment sitting at the site and could that potentially be a drag for some time to come if that does not change?

Arnob Mondal: Fair question. Now I would like to deal with that on three cost components: one is material cost, the other is subcontracting cost, and the third is other overheads. What you are probably referring to is overheads but a large bulk of the costs would be materials and subcontracting which would by and large be within our control. It is just that mobilization of our own employee staff, and obviously we cannot just pull out people who have moved to near the site with families. So to some extent that does impact cost, but we factor those by and large in our cost estimates. But yes some overheads could increase. On the other hand we also see that, at times, we save on commodities. I also think that is well known that commodity prices have been relatively benign. So on fixed price contracts we gain. So while there could be pluses and minuses, the bulk of the cost would not be affected by slight elongation of the timelines.

Akshay Soni: It would be MCO, understood. And could you also tell me what the total fixed price contracts are as a percentage right now, still around the 40%?

Arnob Mondal: It is around 50% approximately.

Akshay Soni: Fixed price is now around 50% of total backlog?

Arnob Mondal: Approximately.

Akshay Soni: That seems a pretty big step up sir from the 40% that we have been discussing over the last few quarters

Arnob Mondal: Yes it is a bit of a step up but it again varies. One large contract on variable pricing can swing the needle again.

Akshay Soni: But question basically was that over the last year or so you have now seen a step up of 10% points or a little more in fixed price. On that, given the drop in material prices, would you would still see gains or would you have factored that in your bids assuming falling material prices. I know it is a little complicated, just give me an idea directionally if you can.

Arnob Mondal: I will not be able to give you even a direction, because that would require an onerous exercise of ascertaining, on an individual project basis and for the entire backlog, whether businesses have factored in lower estimated commodity prices upfront or not while bidding.

Akshay Soni: And last housekeeping question, on this standalone business was there any Forex gain loss and how did it compare with last quarter?

Arnob Mondal: In the Standalone business there was a bit of a loss, but nothing earth shattering. Are you talking about Q2?

Akshay Soni: Yes sir, Q2.

Arnob Mondal: In the Standalone business there was an exchange loss of around Rs. 30 crores on Q2 compared to around 10 crores gain last year Q2.

Moderator: Thank you. Our next question is from the line of Girish Nair from BNP Paribas Securities. Please go ahead.

Girish Nair: Firstly, I just wanted to know and understand this slowdown in orders a bit better. Is this the overall environment and not the company? Now as far as private Capex spending is concerned, I can understand it is because utilization levels in key sectors remain low because of low demand, so I guess spending will be low. But let's say if you take government Capex that was supposed to pick up significantly with the government expediting a lot of bottlenecks. Now could you give us some color on how government spending is trending. I mean what exactly are the difficulties in ordering? It would be great if you can give us some examples of what difficulties have delayed some of these projects.

Arnob Mondal: Most of the difficulties are now at the bureaucratic level rather than at political level

Girish Nair: And any particular examples if you can give, without naming that project to just to understand the problems better?

Arnob Mondal: I will not be able to give you any specific instance, but this is across the board.

Girish Nair: And if you look at the pipeline of Rs 370,000 crores out of which if we take the domestic part how much of that will be India Government related spending?

Arnob Mondal: Almost all of it, barring some parts of urban infra whether it be real estate or hospitals or office space, most of which would be private.

Girish Nair: And finally, if I were to just take a dip stick, would you be more positive on the order outlook today than you were last year?

Arnob Mondal: I think we are slightly more optimistic because at least we do see a push by the government to expedite matters.

Girish Nair: And what exactly do you think the government needs to do more to get things going?

Arnob Mondal: I think the intent from the political dispensation is there. They are trying their level best as well but ultimately organisational inertia seems to be coming in the way.

Moderator: Thank you. Our next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir you have cut your revenue from 15% to 10% -15% and order inflow guidance to 5%. So if the execution will not pick up, whether the order inflow guidance will decline further or it will remain intact at 5%?

Arnob Mondal: Actually execution and order inflow guidance are not related. Just to clarify, almost the entire revenue that we expect this year is slated to come from our opening order book, not from fresh orders that we are getting this year.

Shravan Shah: No, my question is whether if the revenue potential of the existing orders is not that much great, because you will be keeping…

Arnob Mondal: That does not affect fresh order inflows.

Shravan Shah: So you mean you are satisfied with the current order book, aggressiveness is not there in taking new orders, that is my question.

Arnob Mondal: I think I have answered all this earlier.

Moderator: Thank you. Our next question is from the line of Shankar AVSB from 7Avenues. Please go ahead.

Shankar AVSB: Most of the questions have got answered, one question on the order book. We have Rs 2.4 lakh crore as you mentioned as the order book size. How much time would it take for this to get into execution mode? Is it fair to say a two year timeframe?

Arnob Mondal: It is a series of projects which will start getting into execution but over a period of time, say the average is likely to be around 2.5 to 3 years.

Shankar AVSB: So it is fair to assume that around 75% of what is today's order book would go into execution starting mode in 3 years from now?

Arnob Mondal: No, we are talking about completion of the projects, when I say execution cycle. Suppose I get a road project today which I am due to complete in two years. Suppose I get a power plant today which I am due to complete in four years' time. I am talking about the average completion cycle of these projects. When we get an order, we typically start execution within 3 to 4 months. The sequence after getting an order is that the first thing we get is an LOI. After that a formal contract will be signed. Then the client will give a notice to proceed. That is when we will start execution, the first phase of which will be commencement of the design work.

Shankar AVSB: Okay, this is very-very clear. I have a second question related to this one on the order book. Is there any risk that some of the clients may decide to give the order away from L&T to a competition at the last minute?

Arnob Mondal: No, what we take into our order book is based upon written documentation not based upon whether we are the lowest bidder or not.

Shankar AVSB: So there is no risk that some of our plum projects may get taken away from us at the last minute?

Arnob Mondal: No, I mentioned written documentation.

Shankar AVSB: Because that was the one risk I was thinking that was in my mind.

Moderator: Thank you. Our next question is from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre: Sir just two quick questions. Actually firstly on the Middle East, I just wanted to quickly understand I think it was mentioned even in the press conference that re-evaluation of certain orders going on in the Middle East, Riyadh Metro is known. So how does it work? If there is extension of execution period from let's say four years to six years, so in that process since larger execution period might impact cost estimates too. So do you get a variation on account of that? That's number one. And number two is that in extreme scenario, which of course is not the case now, of cancellations even if these are smaller orders do you have any clauses which protect you from that, essentially advances that you could retain or is it only limited to maybe some site mobilization that you have done and cost gets reimbursed?

Arnob Mondal: Firstly it is all a matter of negotiation in a consultative manner, and the one project that has been reported is the Riyadh Metro. But on the other hand, I would again like to reiterate that nothing can be done unilaterally since these are signed contracts. Beyond that I will not be able to give you any further colour on what could happen if the contract duration gets extended by a year or two. Obviously that will be a matter of negotiation because we would also come up with the impact that it will have on us, so it is not possible to really quantify anything at this point of time. As far the second question is concerned, which is that if something gets cancelled, do we have protection in our contracts. If the cancellation is not for any fault on our part, we are safeguarded at least to the extent of whatever we have spent and something more, in all our contracts. So we will not be out of pocket.

Venugopal Garre: Secondly, again more for understanding, we have known for a while that in real estate, it has been a pretty slow phase in India and you have mentioned you did not want to take a risk. Can you comment on that?

Arnob Mondal: But mind you, real estate is still a fairly good contributor to revenues, even today.

Venugopal Garre: But is that because of your own projects?

Arnob Mondal: No, not because of our own projects. What we report is only external customer revenue, all the other inter-company and inter-segment transactions gets eliminated during consolidation.

Venugopal Garre: But having said that, even in a portion or for a certain couple of quarters where execution is going on for an year, year and half and then sales do not happen and that's where you take a call saying why should I keep executing because money is not coming through, you have to demobilize from the site, right?

Arnob Mondal: That is a very rare occasion Venu, very rare. It is not that we have not done it but it is a very rare occasion and then we are adequately safeguarded by our contracts in such eventualities.

Venugopal Garre: So when you just slow your execution let's say in certain projects what does it mean that they are just building a floor in a month instead of a week, is that what it is?

Arnob Mondal: It could also be because of required permissions. For example in Mumbai I understand that every builder requires stage wise permission. So bottlenecks could be because of permission delays, or it could be that they have a paucity of funds.

Venugopal Garre: Yes, the implicit question here was largely to understand does it impact your margins?

Arnob Mondal: To some extent it does but we did not assume sudden improvement in execution conditions when we gave out our guidance either.

Venugopal Garre: No, agreed this was known from the beginning of the year. And third small question if I may, Hyderabad Metro there would not be any commissioning this year right, FY16?

Arnob Mondal: I honestly do not know whether part of it will be commissioned or not, it is all a subject of negotiation at this point of time.

Moderator: Thank you. Our next question is from the line of Kunal Seth from Prabhudas Lilladher. Please go ahead.

Kunal Seth: Just on Hydrocarbons you said we may have $30 million of cost provisions that are pending, so will the claims will be of equivalent amount or will that be of different amount?

Arnob Mondal: No, I need to clarify this again. We do think that when we hand over these legacy projects to customers on completion, we may incur some close out costs. On the other hand we think that we have valid claims on those customers which should, by and large, negate the close out costs. However, we have a large establishment in the Middle East and today, apart from a large order from KOC, we do not have any substantial orders in the Middle East as far as Hydrocarbon is concerned. So we will have a fairly large amount of under-recovery from overheads, and that under-recovery may total between $25 million to $30 million by the end of the year.

Kunal Seth: I got that point, but all I was trying to understand is that the probable cost, so basically you are saying is that claims could be nearer to the cost you will incur?

Arnob Mondal: Correct, they could be neutralizing, even though there could be timing differences.

Kunal Seth: And on top of it there will be under recovery cost obviously because of lower volumes there?

Arnob Mondal: Yes, correct.

Kunal Seth: And on the prospect base which we were discussing of Rs 3.7 trillion, just a clarification. We were mentioning that Rs. 1 lakh crores overseas is a part of that, right?

Arnob Mondal: Yes, correct.

Moderator: Thank you. Our next question is from the line of Piyush Jain from Morningstar. Please go ahead.

Piyush Jain: My question is on the asset monetization, so in terms of the road projects how you are seeing the current environment at present in terms of REIT or Investment Trust? Like is it looking conducive for you to actually think about monetizing them in terms of a trust or anything like that or selling assets?

Arnob Mondal: We are not a great hurry to monetize because these are not distressed assets, so we will do it in opportunistic manner when conditions are right and when the legal and taxation framework is right. At this point of time it is still on the drawing board.

Piyush Jain: So the regulations which are coming are they actually encouraging or at present still sometime away? I am taking into account as your assets start operationalizing do you think that the regulation environment is improving in terms of that or it is still as it was sometime back?

Arnob Mondal: No, there is a clearly political will to improve the regulatory environment. That is very clear, otherwise they would not even have come up with a domestic investment trust concept.

Piyush Jain: So it is still not attractive for you at present?

Arnob Mondal: At this point of time we have not finalized anything and are examining it.

Piyush Jain: Sure. The second question is on the nuclear forging. Sometime back like when there was really an intent to set up lot of nuclear power plants and you had setup that facility, so is it still a very strategic part of L&T business because it has been not having good return on invested capital since the time because there have been a lot of external issues on that delays and power plants, order and all that. So do you think it still remains the strategic part for L&T?

Arnob Mondal: I will be able to answer that question maybe by the end of this fiscal when our Strategic Plan is finalized, but at this point of time we do not see much change because it is well known that the potential civil liability damages itself is sort of showstopper to any nuclear power plant coming up in India.

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

Aditya Bhartia: Just a clarification sir, sir when we mention that net working capital is 24% or 25% of revenues, does it exclude only financial services or it excludes services businesses as well?

Arnob Mondal: No, only financial services.

Aditya Bhartia: And sir this particular quarter our working capital has increased by around Rs 10 billion, would it be possible for you to share how much of the increase could have come in development projects because earlier we used to have that slide?

Arnob Mondal: No, I cannot give you those details at this point of time, sorry.

Moderator: Thank you. Our next question is from the line of Dhavan Shah from Indsec Securities. Please go ahead.

Dhavan Shah: Sir I have just one question, as you have tapered down the revenue guidance from 15% to between 10% -15% while the margin story remains intact for around 100 bps improvement, so I mean is that because of the changes in the project mix will drive the higher margin in H2, is that understanding correct?

Arnob Mondal: The very question of margin has many different moving parts as I am sure you will be aware. So I will not be able to give you a clear cut answer as to which parts will contribute to an increase and which parts will contribute to a decrease.

Dhavan Shah: And one question is, as we are like having a tight situation for order intake, so are we experiencing a situation where we bid for some of the contracts at lower margins as well?

Arnob Mondal: I do not know when you logged into the call, but my very first comment before handing over to the Q&A session was that we have a large order book, we have quite a few irons in the fire at this point of time, and we are not desperate to bid for orders at dilutive margins.

Moderator: Thank you. Our next question is from the line of Girish Nair from BNP Paribas Securities. Please go ahead.

Girish Nair: One follow-up question. If you see the Middle East, because of the budget deficit a lot of countries are rationalizing fuel subsidies which could lead to cost increases there. So would you anticipate that cost escalations will happen in many of the Middle East projects because of this phenomenon or is it insignificant?

Arnob Mondal: I did not get your question Girish, could you repeat please.

Girish Nair: I am saying that the fuel let's say diesel or petrol prices in the Middle East are sold at maybe lower than market price because of subsidization. So because of the pressure now, most of these countries would be raising their diesel and petrol prices. Fuel prices could lead to escalation in your transport, freight and operational expenditure during project execution. Is that something really significant which will drive margin pressures in Middle East?

Arnob Mondal: I do not know whether we have done that scenario planning or not, businesses may have done it but I have not seen any results of that. Diesel is mainly used in road projects, not so much in other projects.

Moderator: Thank you. As there are no further questions from the participant, I now hand the conference call over to Mr. Arnob Mondal for his closing comments.

Arnob Mondal: Thank you for a patient hearing and a very interactive session Ladies and Gentlemen. I think we have covered a lot of ground, in spite of the fact that a number of questions got repeated but I guess it is all a question of internalizing it properly. So with that I would like to close the session. Thank you.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Larsen & Toubro that concludes this conference call. Thank you for joining us and you may now disconnect your lines.