"Larsen & Toubro Limited Q1 FY17 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen and Welcome to the Larsen & Toubro Limited Q1 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing '*' (star) and then '0' (zero) on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arnob Mondal. Thank you and over to you, sir.

Arnob Mondal: Thank you, Mallika. Good evening, Ladies and Gentlemen. Welcome to the Q1 FY17 earnings call. We will start with the presentation first, after which we will open the session to question-and-answers. The presentation was ready for download on our website from 5 pm onwards and I presume that all of you have downloaded that, because I will be walking you through the presentation initially.

We will first go to the disclaimer slide. I will take it as read, but I would just like to highlight a few things. Firstly, as you all know we may make some forward-looking statements which may or may not materialize. Secondly, there are risks and uncertainties related to these forward-looking statements which could go in directions that we have not anticipated. We may also revise any forward-looking statements retroactively if any changes happen. And again, while this is not a disclaimer, I would urge you to consider that quarterly numbers in our sort of business are not a reflection of longer term trends or indicators of full year results, and should not be attempted to be either interpolated or extrapolated into the full year numbers. I say this every time, but still for good order I am repeating it again.

Now we will go the performance highlights slide on slide #5. It is pertinent to point out here that this quarter, the financials we have reported is a first time adoption of the new IND AS accounting standards, and the previous year numbers for Q1 FY16 have also been recast according to the new accounting standards. Though SEBI has given extended time lines and an exemption for this quarter from audit or limited review of this quarter result, but we thought that we should get the numbers limited reviewed by the auditors, particularly on two counts. Number one, it validates our own assumptions and two, it gives much more credibility, particularly when two large Audit firms like Deloitte and Sharp & Tannan do a limited review and give an unqualified report.

We also held an interactive session on IND AS on 28th of June where we explained the underlying principles that would affect our numbers, and that conference call was attended by around over 90 people. I presume that most of the participant's on this call are reasonably aware of the underlying changes. However, I will highlight any major changes at a later point in time.

All of you can see that there has been an all-round improvement on all key parameters. Order Inflows have grown by 14%, Order Book has grown to Rs. 257,000 crores representing an increase of 8% over Q1 previous year. Revenues have grown by 9.1%, EBITDA has grown by 16% and PAT has grown by 46% over Q1 previous year. We will discuss each parameter in detail subsequently.

Now we will move to the next slide which deals with Order Inflow and Order Book. Here, as we had discussed on 28th of June in the IND AS conference call on principles underlying IND AS, we have included our proportionate share in orders of JVs and subsidiaries that are to be consolidated using the equity method, primarily because their results are incorporated in to the PAT, even though line by line revenues and costs will not be consolidated.

As you can see Order Inflows for the quarter have grown by 14%, where the growth has mainly come from international orders and Hydrocarbon, Water and Heavy Civil verticals, last of which bagged a fairly significant order in the State of Telangana for construction of a barrage. Talking about the Hydrocarbon international order, which has been reported in the media as well, it has been given by Saudi Aramco. I would like to emphasise that Saudi Aramco has done a lot of due diligence in selecting us as what they call an LTA vendor for their offshore activities, which stands for "Long Term Agreement". After a very long due diligence, they finally prequalified four LTA vendors, which means that all these four vendors are the only vendors who will be prequalified to bid for some important offshore jobs. On the back of that, we have managed to garner significant order from Saudi Aramco in this quarter.

In the domestic market, Capex is still fairly muted, and investments are taking place at a measured pace. Private sector capex is muted and is not expected to revive in a hurry. However, our large Order Book provides multi-year visibility, which means we do not have to chase orders on a quarter-to-quarter basis. It gives us the wherewithal to pick and choose and that is why we are sticking to our policy of not diluting margins for the sake of getting orders.

Just another thing I would like to mention briefly is the order pipeline for the remaining nine months, which is still fairly healthy. The total pipeline is around Rs. 425,000 crores as we see it today. Some of these prospects may get ordered out, some may get shifted to the next year. On the other hand, some prospect which is not here may be included, and we will definitely lose some, but we also believe we will win our fair share of orders.

We will now move to the next slide which deals with Sales and Costs. Revenues have grown by 9%, which is by and large in line with our expectations and this growth has been driven by Infra, Power and Services. In that you would also be able see that the proportion of international revenues has gone up in this quarter compared to Q1 previous year, it contributes 35% compared to 32%. This growth was mainly, again, powered by Infrastructure, Bangladesh power plant projects as well as Information Technology and Technology Services verticals.

MCO charge is in line with level of operations and there is nothing unusual there. This time we have also indicated the Finance cost of Financial Services and Finance Lease Activity separately, because this is treated as pre-EBITDA expenses and part of operating expenses. As far as Staff Cost is concerned, our level of international operations and Revenues have increased, and we have been augmenting manpower in line with this, and that has also resulted in 9% increase in staff costs.

Secondly, earlier we used to include the staff cost of information technology and technology services under Other Manufacturing, Construction and Operating expenses. This time we have, based upon audit recommendations, regrouped it under Staff Cost.

As far as Sales and Admin expenses are concerned, we internally look at it in three broad categories. Number one is your normal sales and admin expenses like rent, rates and taxes, salary, conveyance, etc. Then we also have an element of exchange loss, fortunately this time around it is fairly low. We also have some non-linear items like NPA provisions in Financial Services, provision for Doubtful Debts and other recoveries in the core business. We also provide for foreseeable losses, so there could be a write back of provisions in some quarter. This year in the SGA expenses, the main increase has been due to provisions which we have taken on account of NPAs in Financial Services, the provisions which we have taken on Expected Credit Loss model under IND AS and other provisions, Provisions for Doubtful Debts and other recoverables, as well as difference in foreseeable loss provisions or provision write back. These three together account for almost entire difference. As far as Exchange losses or gains are concerned, last year there was an exchange gain of around Rs. 70 crores and this year there is an exchange gain of around Rs. 20 crores, so that has led to swing of around Rs. 50 crores.

We will move to the next slide which deals with Profitability. As you can see, the EBITDA margins have gone up by around 50 basis points overall. The margin improvement has mainly been driven by two things. Firstly, it has been driven by benign commodity prices in Infrastructure segment, and resource optimization in Services business, predominantly in Information Technology and Technology Services where utilizations have improved.

Other income, as you would see has shown some increase, mainly from Treasury gains. I must also mention that in the standalone numbers, there is close to a Rs. 100 crores reduction in dividend, mainly from L&T Infotech which is now a listed company.

There are two other line items, Share in Profits or Losses in Joint Ventures and Associates, which we have given in an annexure separately at the end of this Presentation. There are also adjustments for share of Profit & Loss in JVs, which have been given as annexure.

The next slide deals with adjustments to Q1 FY16 numbers under IND AS, as compared to original reporting under I-GAAP. This is necessary to be explained for the purpose of comparison with Q1 FY16 numbers.

This slide is a reconciliation of Net Profit After Tax in Q1 FY16. As you would see in the table, the Net Profit After Tax was Rs. 606 crores, or Rs. 6.06 billion which we have now reported Rs. 4.19 billion. I will briefly touch upon the adjustments, I will not go into every single adjustment in detail since we already covered that in a two hours' session on 28th of June.

First item you can see is Provision for Expected Credit Loss. This is a new introduction where we provide for both losses on account of likely delay that will happen from collection of receivables, as well as losses that would arise from credit loss itself. We have chosen a matrix based approach, wherein we have analyzed last four year's empirical data to be able to determine probabilities of credit losses that could be and assigned them to future loses. As a result we have worked out Rs. 169 crores as additional loss provision under this model. Further, we have also charged close to Rs. 1,000 crores to the opening reserves for FY16, which relate to the earlier periods as well. For clarification, the charge in Q1 FY17 is not much different from the charge in Q1 FY16 as far as Expected Credit Loss is concerned. The additional provision that I talked about was over and above the Expected Credit Loss.

The next item is Provision for Employee Benefits based on Constructive Obligations. We follow a practice of giving performance linked rewards or PLRs to executives in the Company. Under Indian GAAP, the accounting for PLR was done on the basis of definite liability, as and when the reward for each employee was determined and communicated accordingly. Typically this used to happen in Q2 and partially in Q3. So what you would see then was a big charge appearing in Q2 and some tail end charge happening in Q3.

Now under IND AS, it is said that even though it is not statutorily payable, it is a constructive obligation, and you are supposed to accrue the expected amount that you will ultimately pay. This has led to around Rs. 100 crores additional charge in Q1 FY16. However, presuming that the full year charge is Rs.400 crores, previously it was accounted for in just one quarter. Instead of that, we are spreading it out evenly over all quarters. So Q1 of FY16 has Rs.100 crores additional charge on this account under IND AS, which of course will get compensated due to a lower charge in subsequent quarters.

The next part is Gain on Fair Valuations of investments. I have already dealt with this and the investments that we are carrying in Treasury, most of the fair valuation has already gone to opening reserves. The quarterly number is adjusted on a mark-to-mark basis and that has led to an increase of Rs. 62 crores in Q1 of last year.

The next item is Increase in Borrowing Cost of Rs 12 crores in Q1 FY16 pursuant to application of Effective Interest Rate method. A major part of this relates to our foreign currency convertible bonds. We had explained how against a minimal interest charge in the previous year there will be a larger charge in this year.

The next item is Reclassification of net actuarial gain on Employee Defined Benefit Obligations to Other Comprehensive Income. As and when we do the actual evaluation of retirement benefits on defined plans, we charge the increase or decrease to the P&L and that has been reclassified to Other Comprehensive Income. Last year there was a gain which has now been reclassified to Other Comprehensive Income of the previous year. We will share details of Other Comprehensive Income of the previous year in the subsequent slide.

Borrowing Cost on initial fair valuation of Long-term Financial Liability primarily deals with deferred payment liabilities of SPVs of Concessions business, where we have to recognize the present value of all future negative grants cumulatively. The difference between what we have recognized as the initial liability on present value and what we actually pay gets charged off to interest on an annual basis, and hence on a quarterly basis as well, and this item represents that. Of course, deferred and current taxes in respect of the above adjustments are consequential effects.

So this is how the Net Profit After Tax has moved from Rs. 606 crores to Rs. 419 crores in Q1 FY16 under I-GAAP to IND AS, of which the major items are Expected Credit Loss and Performance Linked Rewards.

One brief commentary that I would like to place on board is on Expected Credit Loss. Since we have adopted this method and it deals with Expected Credit Loss on both delay in collection of receivables as well as actual credit losses, at some point of time an equilibrium will be reached and thereafter, if the quality of receivables improves in terms of time buckets, that could actually lead to a write back provision. So if working capital on that front improves, you could expect to see a reduction in the provision or even a write-back in some quarter.

Now we will go to the next slide which deals with Other Comprehensive Income. This actually is a new disclosure requirement and these items always have been disclosed by companies following IFRS. It is just in India that it's being adopted for the first time. This actually details changes in equity as reflected in the Balance Sheet. These are basically just movements in part of Reserves, and are also shown below the normal Profit & Loss account. If you really look at the new disclosure norms for the Balance Sheet from a distance, the reasons that a balance sheet get affected is mainly on two counts - number one is the undistributed part of retained earnings that flows through the P&L and get added to the reserves. Second, there are certain other direct debits and credits that go to the Reserves. Now the new norms specify that these direct debits and credits to Reserves must be disclosed as a separate line item below the Profit & Loss account, and this is exactly what this particular table represents.

There are four components here, of which the first component will not come back to the P&L, but in respect of the other three components, depending up on certain events they could come back to the P&L account. The first component is Retirement Benefit Plans. The actuarial changes arising out of re-measurement of Defined Benefit Plans for employees, which was earlier part of the P&L is now reflected in OCI, but that is a relatively small number.

The Mark-to-Market changes in Debt and Debt Investments is something which is new, and since we are revaluing debt investments at every quarter, the difference is taken directly to Reserves, and that is what you see as a Rs. 15 crores change there in the Mark-to-Market of debt instruments.

The next item is changes in Foreign Currency Translation reserves. When we have foreign currency operations, take the example of a foreign subsidiary which has assets and liabilities in Dollars. During consolidation of foreign subsidiaries, all the items of assets and liabilities are revalued, and the difference was traditionally classified under Foreign Currency Translation Reserve. This new treatment is not different, with the only change that this movement in Foreign Currency Translation Reserve is to be reflected under Other Comprehensive Income as well.

As far as MTM of Off-Balance Sheet Hedges are concerned, these primarily deal with forward contracts, the underlying of which have not yet come on the balance sheet. I will try to explain this through an example. Suppose we have a contract for say export of $100 worth of goods and that is a one-year timeline and we take a one year forward cover, at this point of time the value of the dollar may be Rs. 60 and a one year forward may be Rs. 70. Now at the end of the quarter, we see the dollar value have moved to Rs. 75, so the underlying forward contract also has to be revalued. It is an off-balance sheet item and its revaluation will be put under Reserves. This movement in Reserves is what is getting reflected under OCI**.** Once the export obligation is fulfilled and the debtors come on to the balance sheet, thereafter the charge will go to the normal P&L, mark-to-market forex variation will go to the P&L.

Among the items listed here, the second, third and fourth items could, at some point of time, move back to the P&L depending upon events. I mentioned, for example, mark-to-market of investments in debt instruments. Suppose we sell the debt instrument before maturity at a gain, its accounting treatment at that point would be debit to OCI and credit to P&L. So there will be a reverse movement from OCI to P&L. This new accounting methodology may take some time to get used to, but I am sure that eventually analysts and investors will start to understand it better.

We will now move to the next slide which deals with Segment Composition. Segment composition is not much different, but there has been one change that MMH, which we used to report as a separate reportable segment, has now been classified under Others segment, because it has fallen below the 10% threshold of sales, assets and profits. Apart from that, Heavy Engineering continues to be a voluntary segment disclosure, so apart from that everything else is the same.

We will move to the next slide which is Segmental Breakup of Orders. As I had mentioned earlier, the growth in order inflows this quarter had mainly come from the Heavy Civil vertical where we got an order from Telangana for constructing a barrage, in Water Infrastructure projects, in Hydrocarbons because of the Saudi Aramco order, and Information Technology and Technology Services. The slow moving order book position is negligible, so we would not touch upon that. And I have also mentioned that we have included the proportionate share of orders from JVs and subsidiaries which are consolidated under the equity method.

We will now move to the next slide which deals with the Revenue Breakup. The slide itself is explanatory but I would just like to add few things. As mentioned earlier, the Revenue does not include some of the joint ventures and subsidiaries which are consolidated under the equity method. The major ones among these are the Mitsubishi-Hitachi Power System JVs, i.e. Boiler and Turbine JVs, IDPL SPVs which are the road SPVs, and the Forgings JV because Nuclear Power Corporation with 26% stake has participative rights, due to which we cannot claim that we control the entire operating and financial decisions of the company independently, and hence it is not consolidated. Apart from that, there are other smaller subsidiaries like 50:50 joint ventures that are not consolidated either.

As mentioned earlier, the revenue growth has mainly come from Infrastructure, Power and Services business. The Geographical breakup is 35% international versus 65% domestic, which is in line with our expectation and is also in line with what we had projected earlier.

We now move to the next slide which deals with the Infrastructure Segment. Revenue has grown by 9%, and barring Buildings and Factories, which is more or less flat, all verticals have grown reasonably well and contributed to the revenue growth. You can also make out that international revenues have grown from Rs. 2,500 crores to Rs. 3,000 crores and that is primarily on the back of the progress in the Riyadh and Doha Metro jobs. Margins here have improved by 30 basis points and that has again mainly come on the back of benign commodity prices, mainly steel and cement, in the current year versus Q1 last year.

We will move to the Power Segment on slide #17. This segment has seen a smart growth in revenues, which has basically resulted from greater execution progress in domestic and international jobs. You would have also noticed that international revenues have grown three fold, and this is from the two Bangladesh gas fired power plant jobs that we are currently executing. In fact, all the jobs, be it Chhabra, Malwa, Khargone, or the Bangladesh jobs, all have contributed to the revenue growth. Margin are better here due to execution progress on account of some jobs have crossing margin recognition threshold, as a result of which you would see a fairly significant bump up in margins.

We will now move to the Heavy Engineering segment on Slide #18. Here, the order inflows and revenue growth have been quite muted, which is primarily on account of relatively low opening order book in the Process Plant and Nuclear equipment business. In fact, PPN business order inflows are still muted and order inflow growth has mainly come from Defense orders. As far as margins are concerned, there has been a significant increase primarily because we have avoided some cost provisions that we took last year in Q1, mainly on account of delayed deliveries, which we have managed to avoid in this particular quarter.

We will now move to the next slide, which is Electrical and Automation segment. The revenues have de-grown by 3%. This is due to combination of two factors. We have seen a reasonably good growth in Standard Product Sales, which have grown above the industry average. However, Project business, primarily in Customized Switchboards sales, has registered a de-growth, as well as some Metering and Protection System sales, which together have pulled Revenues down. Margin improvement has been achieved through a better product mix in Standard Products sales, as well as improved profitability of the Medium Voltage Switchgear operations of TAMCO Malaysia, in addition to cost control measures that the business vertical has undertaken. The profitability seems to be coming back to more realistic margin levels that this business should get, and hopefully this business will be able to sustain or even improve margins going forward.

We will now move to the next slide which deals with Hydrocarbon segment. Here the revenues are flat with just 1% growth and the flat revenues are again due to the muted opening Order Book position. The Order Book has now increased, but that is on the back of orders which we got recently, which are yet to contribute to revenues. As all of you would know, we have been very selective in bidding in the last two years, primarily because of the bad experience we had in Hydrocarbon in previous years. We have lost orders both in domestic and international markets as a result of selectivity. However, the recent order win augurs well for the future, particularly for FY18. One thing I would like to point out here is that the last of the challenging Middle East legacy projects, which we were suffering from, is now being closed out. We have taken a provision in this quarter for estimated losses that could arise from close out of this particular project. So now we are beyond the overhang of these legacy projects, and the profitability for this business is expected to improve in the balance part of the year.

We will now move to the next slide, IT and Technology Services. As all of you would be aware, L&T Infotech has got listed and they have declared their results yesterday. They have shown a smart improvement in profits. If you take the segment as a whole, which constitutes of both L&T Infotech and its subsidiaries as well as L&T Technology Services and its subsidiaries, the revenue growth has mainly been contributed by Insurance, Auto and Aero, Transportation, and Industrial Products sectors within this particular group of businesses. Incidentally, I would also like to point out that we have clubbed these two businesses together for reporting under a separate segment, and in this process intra-segment revenues, i.e. if Infotech has transactions with Technology Services or vice versa, they will get eliminated at the time of reporting. The focus that both these businesses presently have is more on client mining as compared to client acquisition. The margin here has improved due to better manpower utilization, favorable currency movement, as well as operational excellence measures that we have undertaken.

We will now move to the next slide which deals with Other Segment. This segment now constitutes mainly Metallurgical & Material Handling, Construction, Mining & Industrial Product Machinery, Realty, Shipbuilding and Welding products. Now there are a number of factors which have led to the contraction in revenues in this segment:

Number one, weak industrial demand has taken a toll on offtake in case of Construction & Mining machinery businesses as well as in Industrial Valves business. Shipbuilding revenues have tapered off to some extent on near completion of commercial ships orders. I would also like to point out that some commercial shipbuilding contracts are under arbitration, as the customer wanted to cancel them and we have gone in for arbitration. The Powai Realty project is in advanced stage of execution in the first phase and hence revenues have recorded a negative growth as well. Q1 FY16 also had revenues from CSJ Infrastructure, which was subsequently divested and hence on a Q1-to-Q1 basis there is a revenue drop. We are still awaiting some permissions for launch of the next phase in both Powai as well as Parel Realty projects. Margins here have declined primarily due to Realty revenue contraction. We also provided for a potential inventory write down in case of Shipbuilding. We hope that we would be able to sell this inventory at a reasonable value. However, at this point of time, we have taken a write down, which has affected the segment and the entire quarterly results significantly.

We will now move to the next part which is Developmental Project segment. Since IDPL is no longer being reported as far as revenues and costs are concerned, revenues and EBITDA margins also do not appear here for IDPL. Here our revenue growth has been mainly realized through higher PLF in the Nabha Power Project. In Q1 FY 17 it was close to 90% compared to 65% last year. One of the reasons is that Punjab State Power Corporation Limited (PSPCL) procures power on merit order basis, and since this was relatively economically priced power, the off-take improved. This segment also includes the Kattupalli Container Port, and Revenues include what we get from the operator. This time around, under IND AS we have also accrued Hyderabad Metro external customer revenues, which have also been recognized as revenues. Of course, the cost has also been capitalized under intangibles. The increase in EBITDA margin is primarily because of the operating income that we get from Kattupalli Port, which is what has swung the needle somewhat.

We now go to the next slide, Slide 21, which deals with Concessions Business Portfolio. I will not read every part of this, as this slide is only for reference. Even though IDPL and its SPVs are being consolidated under Equity method, and only their share of profit & loss is being consolidated.

The next slide deals with L&T Finance Holdings, and here we have reported the I-GAAP numbers because that is what they have also reported. As you see, they had a calibrated growth in focused businesses of Rural, Housing Finance, and Wholesale Lending. As a result, their Loan Book has increased by 17%. It has now gone up to close to Rs. 50,000 crores. Growth in Investment Management business's Assets Under Management has been led by equity inflows into their mutual funds. Entire focus for L&T Finance Holdings is now on ROE improvement, business portfolio rationalization and building centers of excellence. When we talk about business portfolio rationalization, the portfolio is getting reorganized and skewed towards sectors that yield better returns, as a conscious decision.

We will now move to the last slide in the presentation, which is the Outlook slide, before the Annexures. Here I will not delve on everything and would just like to touch upon a few points. Number one, the macro factors, as I had mentioned earlier, are still affecting investment momentum. Private sector capex is yet to come back. Many players still need to deleverage their balance sheet. Public Sector spending is still leading the investment momentum. However, likely passage of the GST Bill and implementation of the 7th Pay Commission recommendations could spur some consumption. Here again we are still cautiously optimistic and our guidance on order inflows, revenues and EBITDA margins, excluding services business, remains unchanged.

With that, I will open the session to question-and-answers.

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

Aditya Bhartia: Sir, could you please tell us the quantum of the two provisions which come under IND AS i.e. provision for expected credit loss and provision for constructive obligations in respect of employees for first quarter FY17.

Arnob Mondal: The PLR under constructive obligation is roughly around Rs. 100 crores, this is pretty much the same as last year. There has been a very small change there so it has not swung the needle. Even Expected Credit Loss is by and large in line with what was there in Q1 last year.

Aditya Bhartia: And sir, would you expect it to, especially provision for expected credit loss, would you expect it to sustain at the current run rate or should it be coming down progressively as we move ahead in the year?

Arnob Mondal: It is difficult to answer this question in a definitive manner, but from a directional point of view, we think that it should progressively come down based upon our focus on increasing collections.

Aditya Bhartia: But it is not a case that in Q1 we basically have recognized a large chunk of debtors which were appearing to be doubtful and therefore from now onwards expected credit loss would be much lower, that's not true?

Arnob Mondal: If the actual outstanding against a particular ageing bucket comes down due to recovery, or if we provide for an old debt, it would reduce the amount of ECL provisioning needed for that age bucket, but that would be an indirect or derivative impact, and not a conscious decision.

Aditya Bhartia: And my second question is on the Others segment wherein we have seen the segment basically swinging into losses, you indicated that there have been some write-offs in the shipbuilding business and it would be better if you could kind of slightly more elaborate on that, how much could be that loss and do you think that particular write-off is done away with as far as L&T is concerned or there is some more which might be coming in the next few quarters?

Arnob Mondal: See, we have taken close to Rs. 100 crores provision on the inventory write-down. But as I mentioned, there are five ships under arbitration. So any future profit or loss arising from that will only depend upon the arbitration outcome. Hence, I would not be able to give you any idea at this point of time.

Aditya Bhartia: Sir, just to get a better clarify, when we say that we have taken Rs. 100 crores provision, does it kind of assume the worst case scenario as far as arbitration is concerned?

Arnob Mondal: No, this is not for the ships in arbitration, these are for ships which were not in arbitration.

Aditya Bhartia: And in respect of shifts that are in arbitration, they continue to appear at the carrying value?

Arnob Mondal: Carrying cost, yes.

Aditya Bhartia: And lastly sir, how should we think about the real-estate development business? Are revenues over there likely to drop significantly in the near term until we get permissions for the second phase?

Arnob Mondal: I guess you will have to wait and see whether we get permissions or not. If we get permissions, which we are expecting soon, then the second phase of Powai could start, the second phase of Parel could start and Bangalore will start kicking in at some point of time.

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

Renu Baid: Sir, wanted to understand one thing, though in the Others segment you have highlighted shipbuilding and other provisions that you have done, what could be the likely impact because of losses or cost overruns in MMH segment under-recoveries, any color that you would like to share for understanding?

Arnob Mondal: In MMH, by and large bottom-line is pretty much the same.

Renu Baid: Because even if we look at the standalone segmental numbers just for understanding, even there the EBIT has been negative, about Rs. 3 crores of loss. So is it entirely because of the MMH or how would that be?

Arnob Mondal: Negative part is mainly due to MMH, you are correct to that extent, but that was there in Q1 last year as well.

Renu Baid: So that still continues?

Arnob Mondal: Yes.

Renu Baid: Not much improvement or recovery is seen?

Arnob Mondal: Not much improvement or recovery is seen there primarily due to underutilization.

Renu Baid: And sir, wanted to understand one thing, though at the end of the IND AS transition conference call which you had done, you mentioned a 50 bps increase in overall margins for the Company from F16 to F17. But would it be possible to share a little more granularity with respect to the standalone or the consol numbers, because I guess we have not come up with FY16 numbers, P&L in this quarter post IND AS.

Arnob Mondal: See, pre-IND AS it was approximately around 10.8% which under IND AS would come down to, normally come down to around 10% and major part of this is that the profitable, high EBITDA MHPS joint ventures are no longer forming part of consolidated EBITDA, but are going straight to PAT, which was a major reason for the drop. However, one basic change that has also happened is that now the EBITDA is being reported after deduction of Corporate Overheads, which eats another 50 basis points on the margin. So you could say 9.5% would be a reasonable base to work with initially. So it was 10.8%, it came down to 9.5% under IND AS mainly because of the MHPS joint ventures and after deduction of corporate overheads, which is just a reclassification for reporting EBITDA margins after deduction of corporate overheads, which we were not deducting earlier. So 9.5% is a base that we could consider.

Renu Baid: And what would be the absolute value of these overheads in last full financial year 2016?

Arnob Mondal: Approximately Rs. 500 crores, if you take 50 basis points on a Rs. 100,000 turnover it comes to Rs. 500 crores.

Renu Baid: So broadly on the same lines then?

Arnob Mondal: Corporate overheads have not increased, they have gone down marginally, and they are likely to go down marginally this year.

Renu Baid: And my last question is, last year we had initiated steps to cut down on specially the staff expenses in the overseas market, but I think this quarter's growth number of 9% includes the increase in consol level post the ITTS consolidation of staff expenses, right?

Arnob Mondal: Please understand that what we said was that we will try to right-size manpower in businesses where we are suffering under-utilization, which is mainly Hydrocarbon, Heavy Engineering, and MMH. However, Infrastructure is continuing to get more business from overseas, so there they will add more manpower. The Infrastructure business is also adding workers on its payroll, because we are taking visas under our own names instead of contractors. So in international operations manpower has increased due to increased level of activities, not just because we have reclassified Financial Services, IT and Technology Services manpower under staff cost. That has also undoubtedly lead to an increase, but even excluding that, there is also an increase because of increased level of internationalization per se.

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

Ashutosh Narkar: If you could help us reconcile the Q1 FY17 numbers with IndAS and I-GAAP, that would be really helpful. That is one. And the second question is, in this quarter we have not disclosed any numbers on the cash flows or balance sheet or the working capital levels, if you could give that. And finally, on your credit cost which you have given, can you split that up into two parts, one is for the financial business, the other one for the core operations. And how much of that could potentially remain consistent over the next few quarters' time?

Arnob Mondal: You have asked so many questions, I am losing track. What was your first question, IND AS versus I-GAAP FY17? We have not done I-GAAP under FY17, we have converted to IND AS completely. There is no point revisiting what it would have been under I-GAAP in any case, Ashutosh. I will have to disappoint you because the entire preparation of the financials has been done under IND AS in this quarter. So I will not be able to give you that number. I do not have it myself.

Ashutosh Narkar: No problem. But if you could give us on the provisions which you have taken during the quarter, just like what you had given out for Q1FY16, that would help us bridge that gap to a significant extent.

Arnob Mondal: It is by and large similar.

Ashutosh Narkar: So we can assume that the Rs. 100 crores for the employees and another close to around Rs. 200 crores for the credit losses, that would be a fair assumption?

Arnob Mondal: It is not Rs. 200 crores, it is less than that. It will be closer to Rs. 150 crores actually.

Ashutosh Narkar: So Rs. 250 crores is that differential which we would have otherwise gained under the old accounting norms?

Arnob Mondal: Yes, you could say that. These would be two items, whether there are any other items or not, we have not done that detailed reconciliation.

Ashutosh Narkar: The other one was on working capital and on your balance sheet numbers, if you would like to share some details on that one.

Arnob Mondal: Working capital under IND AS is by and large similar to what it was on 31st March reclassified, it is around 23.5%.

Ashutosh Narkar: And we have not seen any improvement in working capital as such as yet?

Arnob Mondal: No, pretty much static, same level.

Ashutosh Narkar: And then finally just on the balance sheet numbers or the cash flow numbers, is there something which we have not kind of disclosed or we would kind of give it out separately?

Arnob Mondal: We will give you the first IND AS compliant balance sheet in September.

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

Sumit Kishore: My first question is, on the FY16 IndAS financials, by when would you be giving us the full year numbers or how do we look at the revenue, EBITDA and EPS for FY16 as a whole, when do we get those numbers?

Arnob Mondal: See, I would not be able to give you EPS numbers but I talked about the Revenue numbers. It would be around Rs. 100,000 crores approximately and you will get the full year numbers in Q4 as a comparative. See, as and when every quarter passes, we are getting that particular quarter audited and then moving to the next quarter. So when we declare Q4 numbers we will also declare full year FY16 IND AS numbers. Till then you will have to make a principle based interpolation.

Sumit Kishore: My second question is, you used to give that metrics on the P&L in the appendix earlier which used to provide us a reference point on the core business which was classified as L&T and Others earlier. Would it be possible to give the revenue for the core business as well as the EBITDA for the core business in 1Q FY17 and 1Q FY16, so that we could at least keep that reference point because I believe even for guiders that used to serve as the reference point on margins?

Arnob Mondal: You know about the segmental numbers, you just subtract those Services segment in IT&TS, Developmental Projects, and Financial Services from the total revenue, you will get that.

Sumit Kishore: But there used to be some eliminations on the revenue and EBITDA in the earlier quarters.

Arnob Mondal: Yes, between that there is not much elimination.

Sumit Kishore: And finally, was Mumbai Metro a part of the order inflows?

Arnob Mondal: See, we have been giving multiple press releases, so we specifically do not talk about which order we got in which quarter. If you ask me about Mumbai Metro, I can answer that, but the fact is that somebody else will ask about some other quarter or some other specific order. So I will have to pass that question.

Sumit Kishore: The reason for asking it was that possibly as compared to previous quarters the undisclosed orders in 1Q seem to be a much smaller number.

Arnob Mondal: Because we got client permission to give press releases, you know our policies right? Fortunately we got client permission.

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

Venkatesh Balasubramaniam: Sir, you said this quarter the expected credit loss would be around Rs. 150 crores or so. This Rs. 100 crores inventory write-down, would it be part of this credit loss?

Arnob Mondal: No, that is under Schedule M, Manufacturing, Construction and Operating (MCO) expenses.

Venkatesh Balasubramaniam: Now this other thing, under your five year plan you have a target of taking up your ROEs from 12% to 18% levels. Now this 18% ROE target which you have, is that under IND AS or it was under your old accounting, I-GAAP?

Arnob Mondal: I think we will stick to Q1 numbers, Venkatesh, please.

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

Inderjeet Singh: Arnob, Inderjeet here. My first question is again on this ECL thing, you said that there are two parts to ECL improving, one is obviously the collection efficiency and working capital decreasing which is obvious. But is the second thing which is related to more ageing of the bucket, can you just elaborate it at this point as to how this exactly will play out or kind of at least a broad direction to that?

Arnob Mondal: I explained all that, and my colleagues, Vaishali and Vikash explained all that in the call earlier, but I will briefly touch upon it. Firstly, there are two parts to the expected credit loss, one is, we have to provide for expected delay in collections, it is almost like bringing down the receivables to an NPV basis that we discount the receivables based upon our borrowing costs. Now what happens is that the longer a receivable takes to collect, it moves into further and further delay time buckets. For example, suppose a debt is in the six to 12 months' category, it will be discounted to present value today. Now the moment it moves from the six to 12 months into 12 to 24 months, the provision increases there. So the discounting will again happen there. So more and more the receivables age, incremental provision on account of expected delay in collections is actually factored in to the accounts as an expected credit loss. P&L account debit to provision for expected credit losses, that is, the delay part. Now as far as the actual credit losses part is concerned, what we did is that we examined the last four years' empirical data to try to get a fix on what the historical credit losses have been. Mind you, these are only credit losses and these are not on account of performance issues, not account of delayed delivery where liquidated damages happen, etc. Based upon past historical data, we have projected future losses using the same numbers and we also recalibrate it periodically. At this point of time the current thinking is that we will recalibrate it once a year. Now that also adds to the expected credit loss, that is how the model works. Now if we collect the entire outstandings from say, the long delayed bucket 12 to 24 months or 24 to 36 months, the total quantity of receivables in those buckets will shrink and hence the cumulative provision will also shrink, and hence I will get a write-back on account of the delay. Similarly, if we have provided for some credit loss and we recover something, the bucket also reduces there. This provisioning is not on an individual invoice to invoice basis, but on a portfolio basis. So if quality of receivables improves, if collection efforts are better, then expected credit loss will actually go down in that case.

Inderjeet Singh: Is it a safe assumption that we are still in very early stages and these kind of buckets are still stabilizing and as time passes we would have provided more and more, because at some point of time collections will happen, actually we will also start to see some kind of write backs happen or do you think that more or less our receivables are now fairly addressed in these kind of buckets. So I am asking, are the buckets in the later stages like more than 12 months or more than 18 months, are they still very large at this point of time?

Arnob Mondal: See, there are two forces at play here, one is absolute quantum of increase in receivables, as and when our sales grow our absolute quantum of receivables also goes up. So some part of that incremental amount will also start contributing to an additional provision. An opposing force is a positive force where the collections happen faster, we get a write-back. So whether it will be a net write-back or not at some point of time is anybody's guess. But if my ageing remains the same and if my absolute quantum increases, then the provision will continue, but probably at a much lower level. I think the bulk of it is by and large behind us.

Inderjeet Singh: My second question is on this EBITDA margins, now you did indicate that on the E&C side if last year margins in I-GAAP were around 10.8%, in IND AS it would be closer to 9.5%, is it a safe assumption that on a reported margin basis the gap should also be closer to around 100 basis points?

Arnob Mondal: I did not get your question, Inder.

Inderjeet Singh: So I am just trying to, given that you only have some indication on the top-line under I-GAAP in FY16, I am trying to understand what would be the IndAS EBITDA margin for consolidated FY16 numbers. So is it a safe assumption that that also would be lower by 100-odd basis points?

Arnob Mondal: Yes, I told you, the numbers that I talked about was FY16 only and not FY17.

Inderjeet Singh: Yes, but those were for E&C I would assume?

Arnob Mondal: Those are for businesses excluding services business.

Moderator: Thank you. Our next question is from the line of Mr. Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: I just have one question, in this quarter just because of IND AS your last quarter's profits are reportedly down by 20%, so from around Rs. 700 crores they are down by 20%.

Arnob Mondal: Rs. 600 crores to Rs. 400 crores approximately.

Ankit Babel: No, I am taking about the standalone figure sir, Rs. 700 crores which was there last year is down by Rs. 137 crores, so it is around 20%.

Arnob Mondal: I will not be able to give you any analysis of the standalone numbers, we have moved to consolidated reporting, I think we need to stick with that Ankit.

Ankit Babel: Even in consolidated, it has fallen to a great extent. Just wanted to understand, at PAT level can the full year difference also could be like 10% - 15% or would it be in the range of 0% to 5% or 5% to 10%, what is the percentage?

Arnob Mondal: You will have to make your own projections there, I cannot help you there. See, I have explained the principles, so that is what right upfront I said that you will have to make a principle based projection if you want to build it into your model.

Moderator: Thank you. Our next question is from the line of Mr. Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: I just wanted to understand the cash flow from operations and capex for this quarter.

Arnob Mondal: We will get back to you in later quarters on this, we are still grappling with that.

Nishant Chandra: So directionally if I deduct the net cash from operations against the investment in fixed assets, it is the positive number or negative number?

Arnob Mondal: I will not be able to give you that, we are still grappling with the numbers on cash flow at this point of time.

Nishant Chandra: And just from a reporting construct perspective, should I just take this as a one-off that we did not have those in annexure or is it going to be a systemic change in reporting?

Arnob Mondal: At some point of time Q4 will try to report cash flow and balance sheet as well.

Nishant Chandra: But Q4 is too late, right. I mean, is there a plan to move in Q2, because I understand this quarter is more like an IND AS migration.

Arnob Mondal: It is a huge cataclysmic sort of change. When we publish the results we have got to restate the numbers for 160 legal entities, so it is a massive change. In fact, we hardly had any preparation time for quality analysis this time, literally worked nights just to do some quality analysis. So we will see whether we have the time and wherewithal to do that but that will depend upon a lot of our systems getting stabilized.

Nishant Chandra: No, the only reason why I am asking for this is this is one thing which we track closely, so without this it is tough for us to just get a directional sense on how to interpret the business is one important metric.

Arnob Mondal: I understand that Nishant, but I cannot give you any commitment at this point of time. We will try our best and let's see.

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

Bhavin Vithlani: Just on the credit cost, it was about 80 basis points last year in the first quarter. On the full year basis also would be in the similar ballpark?

Arnob Mondal: Honestly, do not know, but here again you will have to do your projections, I will not be able to help you on that, Bhavin.

Bhavin Vithlani: And the second question is, I mean as you highlighted, there was a drop in the revenues and profits from the real estate, could you give us directionally out of that how much of the decline in the profits of the Others business was due to real estate?

Arnob Mondal: Actually, there was a decline in almost all components of Others, so I would not like to give you such a granular level idea. Since the Shipbuilding write down was such a large thing, we have specifically enumerated that.

Bhavin Vithlani: Another question is, RSR mentioned in the press meet that over and above the credit cost and some write downs on the inventory in Shipbuilding, there were some provisions over and above that. If my understanding is correct, what was the quantum of the other provisions?

Arnob Mondal: It was around Rs. 180 crores.

Bhavin Vithlani: Rs. 180 crores is over and above the Rs. 150 crores credit cost and Rs. 100 crores of inventory write down, does that understand correct?

Arnob Mondal: Yes. Bhavin, Rs. 180 crores was a differential, in some cases foreseeable losses or reduction in the provision write back.

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

Charanjit Singh: Sir, if I look at your staff cost has been up, so how do you see this number stabilizing at the current level or do we see a further increase on a regular basis in this number?

Arnob Mondal: Charanjit, we do not give guidance for individual cost components.

Charanjit Singh: Yes, but in terms of manpower additions we are seeing any significant further additions in the international markets, what is the kind of scale up which you are looking at?

Arnob Mondal: Revenues will grow, manpower will also grow. In businesses like information technology and technology services, their raw material is manpower.

Charanjit Singh: And sir, if we look at the tax rate specifically, this quarter was pretty high. So any reason for that specific, or…?

Arnob Mondal: There is no specific reason; it is an aggregation of 160 entity thing. And various factors could affect, difference in 80-IA deduction or some exempt income and this time the dividend was less, so obviously the dividend which is tax free in the hands of the parent, if that is less the tax rate goes up. So there could be a number of whole bunch of other reasons, but for that each company will have to be analyzed separately.

Charanjit Singh: And, sir if I look at the execution front, then the domestic execution is still suffering. So any particular segments where you are seeing this slower execution or you see that maybe the pickup can start happening in the second half as certain projects might see some kind of issues getting resolved?

Arnob Mondal: I do not know, you built in some supposition and premises into your question that the domestic execution is suffering, but we grew by 5% in the domestic market.

Charanjit Singh: Yes, but because the entire growth in the infra space was driven mainly by the growth which came in the international market, so can it be better than 5%, that is what the question is.

Arnob Mondal: Here again Charanjit you are asking for granular level projections details which we do not give. It is not that there was no growth in the domestic in infra segment either, there was some growth, correct.

Charanjit Singh: Yes. So that is what, my question is like can that improve going forward as we look at your order backlog and various execution issues on the ground, do you see like that improving from this 4% levels?

Arnob Mondal: Charanjit, anyway in which you ask your question, my answer will still be the same. We do not give granular level projection like this.

Moderator: Thank you. Our next question is from the line of Mr. Tanuj Mukhija from Bank of America Merrill Lynch. Please go ahead.

Tanuj Mukhija: Most of your global peers, say South Korean companies and Middle East players are facing payment challenges, especially in Saudi Arabia. Are you facing any working capital and payment issues in Middle East?

Arnob Mondal: No, no we are not.

Tanuj Mukhija: And secondly, order inflows from the Middle East continues to grow, so what is your outlook for Middle East geography? And if you can provide us country wise outlook, that would be highly appreciated.

Arnob Mondal: See, when you say Order inflows from Middle East continue to grow, to a large extent it has grown on the back of one very large order which, as I mentioned, we got from Saudi Arabia. So whether it will grow in absolute terms for the entire company for the full year as a whole, I honestly do not know. But just to give you a colour, countries like Saudi Arabia, Kuwait and Qatar seem to still are ordering out fairly significant amounts of capex. But countries like UAE and Oman for example have pulled back to some extent. So it is a bit of a mix bag.

Tanuj Mukhija: And lastly, your domestic order inflow continues to be weak, so can you provide colour on that, is L&T losing market share to new entrants?

Arnob Mondal: We win some we lose some, but we are still maintaining overall market share. It is not that we are losing market share to new entrants per se. Also while it does seem that the pace of investment momentum has not picked up, the quality of orders that we get are better than we used to get in the past. Most of the enablers are in place when we get the order.

Tanuj Mukhija: And your thoughts on the competition intensity and domestic infrastructure segment?

Arnob Mondal: This is pretty much the same.

Tanuj Mukhija: As compared to the last two years?

Arnob Mondal: Yes.

Tanuj Mukhija: Thank you. Our next question is from the line of Mr. Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala: I just wanted to check, on the domestic side what order pipeline, if you can give both domestic and international, what order pipeline are you seeing and what are the major orders there, if possible.

Arnob Mondal: While I will not be able to give you that level of detail at this point of time, approximately 25% of the order prospect base is international and 75% domestic.

Ankit Fitkariwala: And what is the total size?

Arnob Mondal: I mentioned, around Rs. 425,000 crores.

Ankit Fitkariwala: And this is over the next 12 months, is it?

Arnob Mondal: For the next nine months.

Moderator: Thank you. Our next question is from the line of Mr. Gaurav Sanghavi from Bajaj Allianz Life Insurance. Please go ahead.

Gaurav Sanghavi: Sir, my question is related to this expected credit loss provisioning which we have done, Rs. 169 crores for the last year. So that number is you mentioned same for this quarter, right?

Arnob Mondal: I did not mention same as this quarter, it is almost, yes.

Gaurav Sanghavi: So when you say Rs. 169 crores provisioning for the Q1 FY16, we have kind of provided entire provisioning for FY16 or we will see some incremental provisioning as we reconcile the quarter….

Arnob Mondal: The expected credit loss, a large part of it is time based. And what we are doing is that we are providing for losses which we expect to incur in the future and every quarter we do that recalibration.

Gaurav Sanghavi: So as per the predefined metrics, every quarter there would be…?

Arnob Mondal: As per predefined metrics and not on individual debts. Individual debt, mind you, you cannot escape from providing for individual debts that you think are going bad, that you have to do over and above expected credit loss, over and above the portfolio basis that we adopt. And it is not incurred loss, it is expected.

Gaurav Sanghavi: So if you look at this segmental number for the last year and this year, so if I just compare the June 15 segmental number for IndAS and the I-GAAP, so there is Rs. 153 crores difference for infrastructure segment. So this is on account of largely on account of credit loss provisioning?

Arnob Mondal: Which number are you looking at, Infrastructure segment?

Gaurav Sanghavi: Consolidated infrastructure segment, the number which we have reported June 15 IndAS versus the number which we reported in I-GAAP, so there is a Rs. 153 crores difference in EBIT. Is this largely on account of expected credit loss provisioning?

Arnob Mondal: No, I will not be able to give you whether it is expected, but a part of that will obviously be performance linked reward as well.

Gaurav Sanghavi: And the last question is on the Financial Services business, so in this quarter we have separately shown line item as a finance cost, so basically in the revenue side we are taking the interest income and the interest cost will come here. So effectively, EBITDA here would be net interest income?

Arnob Mondal: Yes, which we were doing earlier as well, it is just that we decided to show that separately.

Gaurav Sanghavi: So earlier it was part of other manufacturing?

Arnob Mondal: Yes, you are correct.

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

Girish Nair: I just wanted to understand, which projects in IDPL that you will be completing, or rather capitalizing in this year? If it's possible to give that.

Arnob Mondal: There are two road projects that are due to be completed, one Transmission project, and Hyderabad Metro. Hyderabad Metro obviously will take a bit more time, but as far as these other three projects are concerned, I do not have timelines on operationalization.

Girish Nair: But these are the three that you expect to be capitalized in FY17?

Arnob Mondal: No, I just said, please mark what I have said. I said I do not have timelines for the operationalization.

Girish Nair: And second question is, could you also just tell us what is the total number of employees that you have with the consolidated level, permanent as of this quarter and as of FY16?

Arnob Mondal: It is something like 110,000 employees, and it could be about, my guess is around 6,000 employee addition approximately.

Girish Nair: So FY16 it was 110,000 and another 6,000 got added this quarter?

Arnob Mondal: Yes, but it is a combination of labor and supervisorial management cadre.

Girish Nair: But this is permanent right?

Arnob Mondal: Yes, subcontracting is large outsourced labor.

Girish Nair: And thirdly, I wanted to understand, you talked about five ships being under arbitration, could you explain what this dispute is about and where is the arbitration which quarter if you could help us with that?

Arnob Mondal: The arbitration is in Singapore and this arose primarily because while there were delays on our side, but we have been given extended timelines, it is likely that because of the oil price fall the customer did not want to use these any longer, so they canceled it, even though they have not yet admitted this.

, These are all platform supply vessels for oil and gas sectors. We will have to wait till the outcome on the arbitration happens.

Moderator: Thank you. Our next question is from the line of Mr. Ashish Shah from Goldman Sachs. Please go ahead.

Pulkit Patni: Hi sir, this is Pulkit. Sir, again on the expected credit loss, this is purely related to business other than financial or does this also include anything to do with the financial business?

Arnob Mondal: It includes Financial Services as well, because they will have to convert to IND AS for incorporation of the results in the consolidated.

Pulkit Patni: So could you be able to give that split between what is related to Financial and what is related to the rest of the business?

Arnob Mondal: I will to be able to give you the split, but just as a pointer, a large part of the expected credit loss has gone into the opening reserve as on 1st of April, 2015, around close to Rs. 1,000 crores.

Pulkit Patni: But you would not be able to give the split between what is related to core and what is related to the financial business?

Arnob Mondal: No.

Pulkit Patni: And just again, to check on this, so if you are looking at a number of Rs. 169 crores in the opening balance, I mean as of first quarter 2016. So on an annualized basis this number would be almost about Rs. 800 crores - Rs. 900-odd crores, right?

Arnob Mondal: That is a plain 200 in 4 sort of estimation.

Pulkit Patni: No, what I am trying to understand is, if you were to look at how this number could flow through in the next few quarters, a sense on that would be really helpful.

Arnob Mondal: We are still doing quarter-by-quarter, but I suspect that it will not be too volatile.

Moderator: Thank you. Our next question is from the line of Mr. Shirish Rane from IDFC Securities Ltd. Please go ahead.

Shirish Rane: Sir, a couple of questions. One, in the developmental project what exactly is included, is it essentially the Nabha power plant, the Kattupalli power project, and is there anything else in that segment?

Arnob Mondal: Hyderabad Metro.

Shirish Rane: That's it?

Arnob Mondal: That is it, but at PAT level, obviously, IDPL also comes in.

Shirish Rane: No, because the revenue of the developmental segment…

Arnob Mondal: Shirish, I will just clarify one other thing. In the ad we also publish segment assets and segment liabilities, which included IDPL as well because it forms part of the segment at the PAT level.

Shirish Rane: So, when I look at the segmental revenues, will that also include the road revenues and everything else or that will not?

Arnob Mondal: No, it will not include the road revenues.

Shirish Rane: But in the segmental assets it will?

Arnob Mondal: Yes.

Shirish Rane: So, I am just trying to be doubly sure, you are saying that the revenue and EBIT which you show in divisional numbers will not have IDPL SPVs?

Arnob Mondal: Correct.

Shirish Rane: But the segmental assets and liabilities will have the IDPL assets and liabilities, correct?

Arnob Mondal: Correct. It will have the net number

Shirish Rane: Yes, I mean whatever the net assets from both of it.

Arnob Mondal: Yes, it will actually have investment included at book value.

Shirish Rane: In the capital employed essentially?

Arnob Mondal: Under equity method it is only the investment.

Shirish Rane: Okay, but that is included in the segmental assets?

Arnob Mondal: Investment less accumulated losses.

Shirish Rane: So equity minus accumulated losses is included in the net capital employed base of the division?

Arnob Mondal: Yes, correct.

Shirish Rane: The reason why I was asking is, if I look at the revenues reported during this quarter and I take the old fourth quarter numbers, the developmental segment revenues have not changed materially. So just to be clear on this, the Kattupalli revenue increase as well as the Nabha power revenue increase nullified the reduction of all the road revenues going out of developmental projects. Is the understanding correct?

Arnob Mondal: No, Hyderabad metro revenues have got included this quarter.

Shirish Rane: So Hyderabad metro should not be operational, I mean there was some revenue in Hyderabad metro?

Arnob Mondal: There is construction revenue. See Hyderabad metro, for example, when they are giving orders outside L&T that gets shown as construction revenues.

Shirish Rane: Sir, I did not follow.

Arnob Mondal: For example, suppose Hyderabad metro gives a contract for some work outside the L&T Group to some other vendor for building part of the project.

Under IndAS that is now shown as construction revenue, earlier it was not been grouped and was shown capitalized as Intangibles. This is new and was not part of previous financials.

Shirish Rane: So which is why the revenue does not fall much despite taking away the road revenues?

Arnob Mondal: You are correct, major part of the revenue compensation comes from Hyderabad metro.

Shirish Rane: Because that is where the whole confusion was, whether it is included, not included, because of the number it does not change materially. Sir, and the second question was on this hydrocarbon you said there has been some closure cost you have booked during this quarter. So two questions on that, what was the quantum and is it full and final, as in its like closed or there can be further provision on that account?

Arnob Mondal: See, I cannot give you the quantum, needless to mention that it was a significant amount. And as far as full and final close out cost is concerned, that will only happen when we hand over a project and get a final sign from the customer.

Shirish Rane: So that has not happened?

Arnob Mondal: That has not happened, but what we have done is that we have tried to estimate all the possible losses and factored that upfront on a conservative basis.

Shirish Rane: So to the best of our knowledge, we have factored in all possible losses as on 30th June and that is how that provision has been made basically?

Arnob Mondal: Yes, correct.

Shirish Rane: So whatever, if there is anything further happens or reduction, then accordingly the numbers would be recast again?

Arnob Mondal: Yes, but that would be incremental according to our estimate.

Shirish Rane: Sir and one last thing in the ECL, since it has been asked multiple times, just to clarify. Let's say we go in a second quarter or third quarter, there would be some write backs because you will actually get some receivables from some people where you would have provided for what you call ageing provision or time related provision, and this will be a running exercise, correct?

Arnob Mondal: Yes, correct. But whether it will be a reduction or not is anybody's guess, I will explain you why. Because our sales will also increase and that will add to receivables. So it will also undergo that metrics based provisioning.

Shirish Rane: No, so I am not concerned whether it reduces or not, but there will always be a running adjustment done where you would write-back something, you will provide for something and the net effect will be reflected in P&L.

Arnob Mondal: You are absolutely correct, Shirish.

Shirish Rane: So just that I wanted to confirm. Thank you very much for answering my questions.

Moderator: Thank you. Our next question is from the line of Mrs. Khadija Mantri from Dalal & Broacha. Please go ahead.

Khadija Mantri: Sir, my question is regarding the heavy engineering segment. You said that the reason for the margin increase is because last year you had taken some cost provisions and this year it was absent. So just wanted to know if these kind of margins are sustainable and whether we are seeing at improvement in execution as well as the quality of projects that we are having in the order book with respect to this particular segment?

Arnob Mondal: We think that this is sustainable, provided we do not delay execution again going forward, which we believe is a thing of the past for us.

Khadija Mantri: So you are suggesting a 15% kind of margin is sustainable?

Arnob Mondal: Historically Heavy engineering had margins in excess of 15% if you go back years back.

Khadija Mantri: So we are getting to that level again?

Arnob Mondal: Looks like.

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

Harish Bihani: Sir, again my question is on, when I am comparing 1Q FY16 numbers based on the entire sources what was reported earlier, you explained on the developmental projects, I am assuming that there could have been some revenue which we would have included of Hyderabad metro which is why the numbers have not fallen down in terms of the revenue which should have fallen down ideally. Now, if I compare something similar for the power segment and the hydrocarbon segment, the revenue which should have come down because we are moving the JV companies and just showing as a part of a profit, that is not getting reflected over here. So we just wanted to understand that better.

Arnob Mondal: As far as the power JVs are concerned, impact on revenue is less, because when we reported in IGAAP earlier we had eliminated the intercompany transactions even while reporting last year. So that was already being eliminated. See, if you take the boiler and turbine JVs, their maximum revenue came from intercompany transactions, what they were supplying to L&T parent. So that had already got eliminated in the power segment consolidated revenue that we reported last year. So when we took out the JVs, a very small amount of customer revenue got eliminated, not much. Hope you understood this, Harish?

Harish Bihani: Yes, got it sir.

Arnob Mondal: In heavy engineering very few companies like Sapura got eliminated, but in Hydrocarbon the bulk of the companies remains.

Harish Bihani: Secondly, again looking at the other segment, last year we did EBITDA of about Rs. 11.3 billion in the reality segment and we did a loss of about Rs. 3.28 billion in the ship building EBITDA loss versus Rs. 2 billion. Now is it possible to share what was for this particular quarter the realty revenue or the revenue in EBITDA numbers, just to kind of have a better understanding?

Arnob Mondal: Realty revenue was slightly above Rs. 400 crores. But EBITDA, it is too premature to give any breakup of EBITDA at this point of time.

Harish Bihani: Rs. 400 crores for this particular quarter?

Arnob Mondal: Yes, revenue.

Harish Bihani: Which means that the ship building and MMH large loss which would have been there would have kind of wiped out the entire profits?

Arnob Mondal: I think you will have to do your own projections on this.

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

Aditya Bhartia: Just a follow-up question, you spoke about Rs. 180 crores of provision differential, I could not get that, if you could explain it again.

Arnob Mondal: On a broad based buckets, we had NPAs of financial services where we had a differential with an increase in provision on foreseeable losses, write-back of provision and other credit losses. So the net differential came to around Rs. 180 crores.

Aditya Bhartia: The net increase you mean is Rs. 180 crores?

Arnob Mondal: Yes, correct.

Aditya Bhartia: And sir, in our segmental disclosures, heavy engineering in Q1 FY16, that is last year, has swung from losses that were reported under old accounting standards to profits under IndAS. So I am speaking about EBITDA disclosures.

Arnob Mondal: That is on account of elimination of forging business under IndAS.

Aditya Bhartia: And lastly sir, losses from IDPL road asset appeared to have risen in this quarter versus same quarter last year. So is it on account of some of the projects that were commissioned later in last year?

Arnob Mondal: Mainly that.

Aditya Bhartia: And this kind of Rs. 150 crores - Rs. 160-odd crores of losses is probably a more sustainable run rate going forward?

Arnob Mondal: Hopefully it will go down as traffic goes up.

Moderator: Thank you. Our next question is from the line of Mr. Salil Desai from Premji Invest. Please go ahead.

Salil Desai: Sir, just following upon the question Harish asked earlier on what was eliminated from 100% consolidation to single line, in the power JV is it possible to share what the EBITDA number was this quarter?

Arnob Mondal: We do not give out EBITDA numbers for that. We have shared PAT numbers.

Salil Desai: No, I understand. It's just that a comparable number because Q1 last year you would have given EBITDA number for the segment as a whole.

Arnob Mondal: No, I am sorry, I will not able to answer your question.

Salil Desai: And just one thing to clarify on this, so when you have an order flow this year that you reported for the power segment, that is effectively 51% of the total orders received by the segment….

Arnob Mondal: Only if the order is received by the JV then we take the proportionate share, if the order is received by parent L&T, if it is an EPC order then we will take 100%.

Moderator: Thank you. Our next question is from the line of Mr. Rakesh Roy from Majortrend Capital Private Limited. Please go ahead.

Rakesh Roy: Sir, my question is related to depreciation, depreciation for last year is flat, can you explain this one?

Arnob Mondal: Yes, because there will be some asset additions and some… there has not been much asset addition.

Rakesh Roy: And sir, any changes for addition in new accounting policy in depreciation also, sir?

Arnob Mondal: No.

Rakesh Roy: But then if you go for last year on Indian GAAP, it was Rs. 622 crores.

Arnob Mondal: No, but that includes all IDPL SPVs which are being consolidated on equity method.

Rakesh Roy: My second question is related to, how much excise duty is paid from this Q1?

Arnob Mondal: As per the new reporting standards excise duty will form part of expense.

Rakesh Roy: Sir, in which line item you have taken, this one?

Arnob Mondal: Manufacturing, construction and operating expenses (MCO).

Rakesh Roy: So how much for this quarter, sir, this Q1?

Arnob Mondal: Around Rs. 150 crores, approximately.

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

Akshay Soni: Just a couple of questions, one, you said that anything that Hyderabad metro gave out as construction orders were included in revenues for the developmental side?

Arnob Mondal: Yes.

Akshay Soni: Would there be any profits booked on it or is it a zero sum game?

Arnob Mondal: No profits are booked on this.

Akshay Soni: So basically it is just like equipment ordering pass through concept?

Arnob Mondal: Yes, correct.

Akshay Soni: And secondly, sorry, I know everyone is being asking on ECL, but just a couple of things on that. One, given that you took a Rs. 1,000 crores hit in the FY16 balance sheet, should I assume that the hit in the first quarter of 2017 is really only an ageing hit and hence it is more about continuation rather than, there is no one-off element in this right, because the one-off element has all gone into the balance sheet?

Arnob Mondal: Yes, you are correct.

Akshay Soni: So therefore, what you were saying is that there will be little volatility?

Arnob Mondal: Yes, correct. Except that as and when the receivables pie keeps on increasing the ECL provision is also likely to have an effect on larger provisions going forward.

Akshay Soni: Correct, basically what you are saying if your WC does not change in a significant manner then…

Arnob Mondal: No, but if you are talking about percentage of revenue, then the absolute amount will keep on increasing.

Akshay Soni: Yes, but as a function of your revenue there will be little change in ECL, right?

Arnob Mondal: Correct.

Akshay Soni: Because it will only because ageing impact that will keep coming through, so that is the easiest way to think about it if you are not going to see any change in working capital as percentage of revenue and any increase or decrease there would of course would swing through into this?

Arnob Mondal: It will be more incremental then one-offs.

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

Sumit Kishore: Sir, just a small follow-up. In Annexure-1 you have mentioned the share of profit or loss of JV/associates. Would the forging business be a part of others here as the major item?

Arnob Mondal: Yes, you are correct, the major item is that.

Sumit Kishore: So has the losses reduced in June 2016 versus June 2015 or is it…?

Arnob Mondal: It is not much different.

Sumit Kishore: That explains the part of the heavy engineering margin improvement is because of the forging unit being taken out of consol.

Arnob Mondal: Heavy engineering number is similar to last year.

Moderator: Thank you. Our next question is from the line of Mr. Nitin Arora from Aviva India. Please go ahead.

Nitin Arora: Sir, just one clarification. You said that the FY16 IndAS sales is Rs. 100,000 crores and on that we can assume a margin excluding financial services, IT and development is 9.5% as a base to work with?

Arnob Mondal: Yes.

Moderator: Thank you. Our next question is from the line of Mr. Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: Just one follow-up, what would be the PAT of the L&T and others, including eliminations line looking, what would that look like?

Arnob Mondal: So you will have to wait till we disclose that, I am sorry to disappoint you.

Nishant Chandra: And half yearly results or full year?

Arnob Mondal: At this point of time I am not going to give any firm commitments, we will see whether we can give it earlier.

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

Bhavin Vithlani: Just a follow-up on the Rs. 180 crores provision that you highlighted, the swing, if you could help us explain that, sorry I am not able to understand that.

Arnob Mondal: Sure. The non-linear provision that we have in our sales and admin expenses mainly comprise of NPA provisions in financial services, it comprises of foreseeable loses or foreseeable provision write-back. And it comprises of other provisions like provision for doubtful debts and other recoverable. Now Q1 FY17 compared to Q1 FY16, if you take the difference, the difference was Rs. 180 crores more.

Bhavin Vithlani: So the provision increased by Rs. 180 crores and this does not include the Rs. 150 crores of credit cost and the Rs. 100 crores of inventory write-off?

Arnob Mondal: Inventory write-off is not in sales and admin expenses that is in manufacturing, construction and Operation (MCO). And the ECL is by and large pretty much similar, there is not much of a swing that I mentioned earlier.

Bhavin Vithlani: Right, yes. So this could be due to the hydrocarbon business or could be a part of financial services as well?

Arnob Mondal: No, large part of the swing is contributed by financial services business, see there was a foreseeable large write-back in the earlier quarter in Q1 of FY16 and other provisions as well.

Bhavin Vithlani: Second follow-up question is, is it possible to share what was the like-to-like traffic growth in our road businesses?

Arnob Mondal: That I would not have that data point for you, sorry.

Moderator: Thank you. Our next question is from the line of Mr. Vivek Sharma from ICICI Securities. Please go ahead.

Vivek Sharma: Sir, one, in the ECL you said this is over and above the provision for doubtful debts that we generally make.

Arnob Mondal: Yes, correct.

Vivek Sharma: So when there is a write-back, will it be plowed back from the doubtful debt provision from this point?

Arnob Mondal: There are two types of provisions, one is on expected loses and one is on incurred loss. The doubtful debt provision that we make is on incurred losses basis, whereas on expected incurred loss we make a provision where we think we will no longer get it back. So if we recover that amount there will be write backs.

Vivek Sharma: Sir, second question is, you have removed the three, I believe, power projects from your IDPL portfolio in this quarter, because I have just calculated the difference between your last presentation and this presentation.

Arnob Mondal: In that slide itself if you look at the heading of power, we have said excluding projects under DPR.

Vivek Sharma: So have we spent any money on that?

Arnob Mondal: Yes, some small money which we have spent.

Vivek Sharma: And one last question, finance charges for the financial business and leases, does it include the Nabha interest cost?

Arnob Mondal: Yes, it includes the Nabha interest cost because Nabha is a finance lease.

Vivek Sharma: So would you then segregate that amount between L&T Finance and Nabha?

Arnob Mondal: No, sorry we have given enough disclosure this time around.

Vivek Sharma: Will it be right if I just look at the L&T Financials, the reported numbers and subtract that, will it give me the Nabha number?

Arnob Mondal: Not necessarily, because L&T Finance numbers that they have reported is on the I-GAAP method.

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

Venkatesh Balasubramaniam: Just one more question on the ECL from a conceptual point of view. Will this ECL fluctuate across quarters? I mean, should it be higher in the first quarter or higher in the fourth quarter or is it just, it largely should be similar in size because it is just a function of how big the receivables are there in your balance sheet.

Arnob Mondal: I think you have answered your own question, Venkatesh.

Venkatesh Balasubramaniam: So it should be largely similar in size across quarters?

Arnob Mondal: Unlike revenue accruals in project business there is no seasonal volatility to this, there is no inherent inbuilt seasonal volatility.

Venkatesh Balasubramaniam: And lastly on the orders booking, is there a change in the way you are accounting for order inflows and order backlog now, is it like for example if you got order of say $100 earlier where you had a partner who had a 40% stake, so earlier you were accounting the entire 100 as a part of your order inflow and order backlog but now you are accounting for only 60. Is there a difference?

Arnob Mondal: Let me clarify this with an example of the UJV orders where we have a consortium. Wherever we do apply proportionate consolidation method we were only accounting for our share earlier and that has not changed in the new system. So for example Riyadh metro, we are accounting only for our share because there we are doing proportionate consolidation. But in case of a JV, we were doing line by line 100% consolidation and reducing the balance as minority interest.

Venkatesh Balasubramaniam: So there you were accounting for entire order earlier but now you are only accounting for the proportionate share?

Arnob Mondal: Correct.

Moderator: Thank you. Our next question is from the line of Mr. Kunal Sheth from Prabhudas Liladher. Please go ahead.

Kunal Sheth: Just one clarification. Just wanted to check, you have made some provisions additionally for ship building and hydrocarbon, so have we factored that in our guidance of 50 bps margin improvement for this year?

Arnob Mondal: Yes, we have factored that.

Kunal Sheth: So after providing for all this we are still maintaining about that 50 bps margin improvement for this year?

Arnob Mondal: Yes.

Moderator: Thank you. Our next question is from the line of Mr. Amar Kedia from Nomura. Please go ahead.

Amar Kedia: Two questions sir, one is, when you talk of FY16 ex-services margin of 9.5%, now obviously this should be without taking into consideration the ECL impact, is that right?

Arnob Mondal: Let me explain it again. We have reported 10.8% EBITDA margins last year under I-GAAP. After applying IndAS related changes it got reduced to 10%. And further applying the reporting standards of IndAS in which we allocate the corporate overheads due to which margins further reduces to 9.5%.

Amar Kedia: I mean, let me get this write. I thought this 10.8% is first coming to 10% because the more profitable businesses of power, they are going out, I mean basically the margin from the power JV that is going out and which is why it came down to 10%, and then the corporate overheads going down became 9.5%.

Arnob Mondal: Margins going down from 10.8% to 10% is not because of one single factor. Large part of it is due to the MHP JVs going out. But we have factored all IndAS adjustments while arriving at that number.

Amar Kedia: So broadly, the ECL impact is already captured in that 10.8% to 10% move?

Arnob Mondal: Correct.

Amar Kedia: The second thing is, again relating ECL itself. Now, I understand that you make provisions for doubtful and bad debts already and just as a concept, this was never on a basket basis but on individual project or you did individual customer basis, is that right?

Arnob Mondal: Correct.

Amar Kedia: So you will basically never see a situation where because you have now ECL coming in that the possibility of provisions on doubtful debts will go down because that was never the case anyways except for those specific orders?

Arnob Mondal: Let me give you an example. Suppose we do not collect a debt which is under dispute for a long period of time, a major part will have got provided under ECL. So if we provide for doubtful debt on an individual customer project basis, what will happen is that a large part of that has already got provided under ECL, so you will have an ECL write-back, you will have a provision case and ECL write-back there.

Amar Kedia: Yes, so the next impact will basically be nothing?

Arnob Mondal: Net impact will be relatively small.

Amar Kedia: Yes, that is exactly what my point was, but this will happen only for those specific cases, in general you will see an incremental impact of ECL coming in, at least in the beginning?

Arnob Mondal: Right, incremental impact of ECL will always be higher in the beginning during the transition phase.

Moderator: Thank you. Our next question is from the line of Mr. Chockalingam Narayanan from Deutsche Bank. Please go ahead.

Chockalingam Narayanan: The first question was on this Rs. 1,000 opening balance that is on a base of Rs. 26,300 crores as of FY15 or Rs. 30,000 crores of receivables as of FY16?

Arnob Mondal: Rs. 30,000 crores of receivables. But there will also be an element of the loan book of financial services.

Chockalingam Narayanan: And if I understood the answer to the earlier question, the 50 bps change effectively is basically Rs. 500 crores and you already provided for about Rs. 169-odd crores for last year in the first quarter?

Arnob Mondal: Correct, there are number of other additions to it, please understand that.

Chockalingam Narayanan: But effectively the entire bucket will be about Rs. 500 crores?

Arnob Mondal: Correct.

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

Amit Sinha: My questions have been answered. Thank you.

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

Akshay Soni: Just a follow-up question, what has been the impact on the backlog from the JVs that you are currently not accounting for in terms of 100%?

Arnob Mondal: We have removed the full amount and have considered the proportionate share in the backlog.

Akshay Soni: Would you be able to quantify that number?

Arnob Mondal: We will not be able to share that number as it will lead to reconciliation exercise every quarter.

Akshay Soni: Exactly, now we will no longer be able to do that exercise, so we will not really know how much of cancellations you have got in the backlog.

Arnob Mondal: Yes, but we always share any material number.

Akshay Soni: Yes, of course.

Arnob Mondal: Every year whatever we remove we tell you. Besides that, we also experience forex variations, tax variations, scope changes and commodity price variations which changes the backlog.

Akshay Soni: Correct, we were looking at the net impact earlier using those numbers which will now not be possible for us to calculate, so which is also why I was asking for that change that had happened this quarter

Arnob Mondal: We will see whether we can give you a way out.

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

Sanjeev Panda: Are we retaining our guidance or how do you think of the overall guidance perspective compared to what had been discussed in the previous quarter?

Arnob Mondal: No, I mentioned in my closing comments that we are retaining guidance on all parameters, order inflows, revenues and EBITDA margin, excluding services business on a restated base as well.

Sanjeev Panda: Including the working capital?

Arnob Mondal: We have not shared any guidance on Working capital but we will definitely try to reduce it.

Moderator: Thank you. Ladies and Gentlemen, that was the last question I would now like to hand the conference over to Mr. Mondal for his closing comments.

Arnob Mondal: Thank you, Ladies and Gentlemen for a very patient and interactive discussion. It is evident that IndAS and particularly ECL has evoked a lot of thoughts in your mind. I hope that we were able to give you some clarity. I think we have covered very extensively particularly trough the Q&A for which I thank all of you. And with that, I would like to bring this session to a close..

Moderator: Thank you very much, Members of the Management. Ladies and Gentlemen. On behalf of Larsen & Toubro Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.