

# **Larsen & Toubro Limited (LTOUF) Q4 2024 Earnings Call Transcript**

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**Body**

Larsen & Toubro Limited (LTOUF)

Q4 2024 Results Conference Call

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Company Participants

Parameswaran Ramakrishnan - Head, IR

Shankar Raman - EVP, Whole-time Director & CFO

Conference Call Participants

Mohit Kumar - ICICI Securities

Renu Baid - IIFL Securities

Parikshit Kandpal - HDFC Securities

Aditya Bhartiya - Investec

Amit Anwani - Prabhudas Lilladher

Sumit Kishore - Axis Capital

Atul Tiwari - Citi

Aditya Mongia - Kotak

Jonas Bhutta - Birla Mutual Fund

Girish Achhipalia - Morgan Stanley

Presentation

Operator

Ladies and gentlemen, good day and welcome to the Larsen & Toubro Limited Q4 FY '24 Earnings Conference Call. [Operator Instructions]. Please note that this conference is being recorded.

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

Parameswaran Ramakrishnan

Thank you, Ryo. Good evening, ladies and gentlemen. A very warm welcome to all of you into the Q4, FY '24 earnings call of Larsen & Toubro Limited. We also have with us on the call today Mr. R. Shankar Raman, Old Time Director, President and Chief Financial Officer of the company.

The earnings presentation was uploaded on the stock exchange and on our website at around 6:40 PM. I hope you had a chance to have a quick look at the numbers. As per practice, instead of going through the entire presentation, I will first walk you through the important milestones and achievements for the year, followed by our progress in our strategic plan that ends in FY '26, a synopsis of our financial performance for Q4 and FY '24 and finally, the guidance for FY '25 in the next 30 minutes or so, post which, we will take the Q&A.

Before I begin the overview, the customary disclaimer from our side. The presentation which we have uploaded on the stock exchange and our website today, including the discussions we will have on the call, may contain certain forward-looking statements concerning L&T Group's business prospects and profitability, which are subject to several risks and uncertainties and actual results could materially differ from those in such forward-looking statements. I would request you to go through the detailed disclaimer, which is available in Slide 2 of our earnings presentation that we have uploaded.

Despite the global headwinds, the Indian economy continues to present a picture of resilience and momentum. The investment activity remains healthy on the back of continuing public CapEx and a selective recovery in private CapEx. Urban consumption spends has remained strong, whereas rural consumption is showing signs of recovery. The Y&C reflected in the various high-frequency economic indicators only reconfirms the country's growth momentum. The fundamentals of the Indian economy remain solid and with healthier corporate and bank balance sheets, fiscal consolidation, of course, external balances remaining eminently manageable and ForEx reserves providing cushion against external shocks. The near-term monitorable in India revolves around the election outcome as well as the onset and progress of the southwest monsoon and its consequent impact on agriculture output for the year.

First, let me share a few important milestones and achievements for the year. We are happy to report for the first time ever our group order inflows for the year has crossed INR3 trillion on the back of CapEx tailwinds in the primary geographies that we operate for the projects and manufacturing portfolio. That is India and GCC.

Secondly, during the year, we completed some landmark and prestigious projects, like the India's longest sea bridge named the Atal Setu, connecting the city of Mumbai with its satellite city, Navi Mumbai, India's first coastal road with an underground tunnel in the city of Mumbai, the Shree Ram Janam Bhumi Mandir in Ayodhya, Uttar Pradesh, the Aadi Shankara Statue called the Statue of Oneness in home Omkareshwar, Madhya Pradesh. India's first 3D printed office in Bangalore. All of this finally, we are very proud to have played a critical role in India's Moon mission, the Chandrayan 3 mission as well.

Our hydrocarbon business did exceptionally well and registered the highest ever order in flow during the year. The defense engineering business has now been renamed as L&T Precision Engineering and Systems with effect from 1st April, 2024. This is in line with the vision to pursue opportunities in emerging deep technology sectors like precision manufacturing and electronic systems in defense, aerospace, and other industries. Further during the year, the business also secured a major contract for supply of high-power radar to the Indian Air Force.

Some important developments in the green energy portfolio. L&T are successful manufacturer of our first alkaline electrolyzer of 1 megawatt in our Hazira campus on December 13th, 2023. L&T Electrolyzers Limited was also granted a maximum subsidy of INR444 crore for 300 megawatts under the Tranche 1 of the PLA scheme for electrolyzer manufacturing, launched by the Ministry of New and Renewable Energy.

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Further, L&T, Greentech -- L&T Energy Greentech Limited is also exploring options to acquire land in Gujarat and Odisha for manufacture of green hydrogen and its derivatives. During the year of FY '23, '24 L&T foraying into fabless semiconductor chip design by incorporating a 100% subsidiary by the name of L&T Semiconductor Technologies Limited. This was done in November '23. This company will be primarily engaged in the business of fabless semiconductor chip design and product ownership. On data centers, the Pilot Panvel Data Center in Navi Mumbai region has gone live with the capacity of 1.4 megawatts.

Secondly, in Kanchipuram near Chennai, the data center project is being constructed in two phases of 12 megawatt and 18 megawatts. Going forward, the company remains committed to investing in setting up modern and state-of-the-art data centers in the Bombay, Chennai and Bangalore regions. In the financial services business, the merger between L&T Finance Holdings and its subsidiaries, L&T Finance Limited, L&T Infrastructure Credit Limited, and L&T Mutual Fund Trustee was concluded during the year. This merger leads the creation of a simplified lending entity and will create internal synergies, superior governance, and unlock avenues for growth.

Further, L&T Finance Holdings Limited has been renamed as L&T Finance Limited. As on March 31st, 2024, the financial services business has achieved 94% retailization of its overall loan book.

In Hyderabad Metro, the monetization of the Larsen commercial property was concluded in Q2 of FY '24. The sale consideration of INR1,045 Crore and a gain of INR512 Crore has been booked during the year. As on March 31st, 2024, the Metro has received cumulative financial support of INR900 Crore from the government of Telangana. The company on April 10th, 2024 has concluded the sale of its 51% stake in L&T infrastructure development projects, limited L&T IDPL to an infrastructure fund managed by Adel Waste Alternative Asset Advisors Limited.

In the real development business, three new residential projects have been launched during the year, namely the Avinya Enclave in Chennai, The Gateway - Sewri in Mumbai, and Island Cove at Mahim. Finally, as all of you know, we successfully completed our first ever share buyback during the year.

Now let me move on to our progress in the current strategic plan, which ends on FY 26. As all of you know, the current start plan is a five-year roadmap for us commencing from the financial FY '22 and ending in FY '26. We have already completed three years in the current plan for the benefit of all our stakeholders. We have added a slide on our strategic plan progress as part of the earnings presentation. You may kindly go through the same.

Very briefly, the targets we had set for ourselves during this five-year period ending FY '26 were as follows: the group order inflows of INR3.4 trillion in FY '26 CAGR of 14% during the five-year period, a group revenue target of INR2.7 trillion in FY '26, a taker of 15% during this period, and a group return on equity target of 18%. Like I said, we have completed three years in this current strategic plan. During these three years, our group quarter inflows and revenue have grown at a CAGR of 20% and 18% respectively, while our ROE is 15% as on March '24.

The key achievements during these three years can be summarized as follows: We have achieved ahead of estimate growth in our projects and manufacturing portfolio, although our margin profile in this portfolio has been softer vis-a-vis our expectations, the same has been more than compensated by the phenomenal improvement in working capital ratios are thereby resulting in superior ROICs; Secondly, the merger of LTIMindtree was satisfactory concluded during this period; Third, we have successfully fast tracked the Retailization strategy in our financial services business. Like I said earlier, the retail lending is almost at 94% of the total book as on March 31st, 2024.

Next, the investment of L&T IDPL and the hydroelectric assets has been satisfactory concluded this is in line with our strategy to reduce our exposure to the concession's portfolio. Also, during this period, we incubated the green energy business, data centers, digital platforms like SuFin and EduTech and very recently announced our entry into the semiconductor chip design. Finally, we also returned cash to our shareholders by way of a share buyback in addition to a stepped-up dividend distribution.

We still have two years left in this current strategic plan. Amidst the CapEx tailwinds in India and GCC, we believe that, we are on track to achieve our order inflow and revenue target by FY '26. The ROE improvement trajectory for the next two years will be a combination of multiple factors. Broadly speaking, a combination of improved profitability and asset turns, reduced losses in Hyderabad Metro and return of cash to shareholders after setting aside funds for existing and newer business, which is always a lever available with us to improve the return on equity.

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Since we are on this topic of return ratios, I would request all of you to kindly go through the section on our journey of improvement in return ratios over the last five years. The same is covered as part of our earnings presentation. There are three slides in the earning deck on return ratios. The first slide covers the five-year journey of return ratios in the products and manufacturing portfolio. The second slide covers the journey of return ratios for various business parts rolling up to the Group level. And the third slide is on the improvement in the gross and net working capital ratios at a Group level. All these slides are self-explanatory. You may go through the same.

I will now cover the various financial performance parameters for Q4 FY '24. This quarter, Q4 FY '24 is a quarter of robust performance across the various financial parameters. Our Group revenues and recurring PAT for Q4 FY '24 is up by 15% and 8%, respectively, whereas order inflows have declined by 5% over the corresponding quarter of the previous year. Our NWC to revenue at 12% in Q4 FY '24 registers a sequential improvement of 46 basis points and 410 basis points on a Y-on-Y basis.

Moving on to individual performance parameters. Our Group order inflows for Q4 FY '24 at INR721 billion registered a Y-on-Y de-growth of 5%. Within that, our projects and manufacturing business portfolio, secured order inflows of INR560 billion for Q4, are declining by 8% over the corresponding period of the previous year. Our Q4 current year order inflows in the projects and manufacturing portfolio are mainly from infrastructure, hydrocarbon and defense or precision engineering.

During the current quarter, our share of international orders in the projects and manufacturing portfolio is at 27% vis-à-vis 43% in Q4 of the previous year. Further during the quarter, orders were received across various spectrum of businesses like the electrification system works for the Mumbai Ahmedabad high-speed rail project in the Infrastructure segment, a major onshore project in Middle East and a couple of large onshore and offshore packages in India as part of the hydrocarbons business. A major contract for supply of high-power radar for the Indian Air Force under precision engineering and systems business. A bridge order in Assam, a international metro order in Indonesia, and a hospital order in Oman, again in the infrastructure segment.

Now moving on to the prospects pipeline as of March '24, for FY '24, '25, we have an aggregate prospect pipeline of INR12.1 trillion as compared to INR9.7 trillion at the same time last year. This represent an increase of 24% on a Y-on-Y basis. The increase is largely due to the improvement in the infrastructure and hydrocarbon prospects pipeline. The broad breakup of this overall prospect pipeline of INR12.1 trillion is as follows. Infrastructure share is that INR7.25 trillion vis-a-vis INR6.5 trillion last year. The share of hydrocarbons in the current order prospects pipeline is at INR3.87 trillion vis-a-vis INR2.44 trillion last year. Power INR0.5 trillion almost unchanged like last year, heavy engineering and precision engineering and systems INR0.35 trillion vis-a-vis INR0.25 trillion last year. The green energy business, there is a total order prospects of INR0.10 trillion vis-a-vis, INR0.04 trillion last year.

Moving on to the order book. Our order book is at INR4.63 million as of March '24, up by 20% vis-a-vis March '23 last year. As the projects and manufacturing business is largely India-centric, 62% of this order book is domestic and the balance 38% international. Out of the International order book of INR1.81 trillion, around 92% comes from Middle East and 2% is from Africa. The remaining 6% is from various countries, that includes Southeast Asia as well. As is evident, the GCC CapEx for both infra and hydrocarbon is on an upswing led by energy transition-related investments and incremental opportunities in the hydrocarbon sector. The breakdown of the domestic order book of INR2.95 trillion, which I said 62% of the order law overall order book, the composition is as follows, central government 14%, state government 28%, public sector corporation or state-owned enterprises 36%, and private sector 22%.

Approximately around 19% of our total order book of INR4.676 trillion is funded by bilateral and multilateral funding institutions. Against this order book, 90% of this total order book comprises of infrastructure and energy. You can refer to the presentation slides for the further details.

During Q4 FY '24, we have deleted orders of INR2 billion from the other book. Further for the year FY '24, as a total, the total orders that have got deleted for the full year is INR57 billion from the order book. As on March '24, our slow-moving orders is well below 1% of the total order book.

Now, coming to revenues, the group revenues for Q4 FY '24 at INR671 billion registered a YoY growth of 15%. International revenues constituted 44% of revenues during the quarter. The strong execution momentum in infrastructure, precision engineering systems and reality within the projects and manufacturing portfolio drove the overall group revenues for the quarter. The revenue for projects and manufacturing business for Q4 FY '24 is INR510 billion up by 18% over the corresponding quarter of the previous year.

Moving on to EBITDA margin, our group-level EBITDA margin without other income for Q4 FY '24 is 10.8% at drop of 90 basis points over Q4 of the previous year. This drop of 90 basis points is mainly due to higher SG&A costs. The higher SG&A expense in Q4 is reflective of linear expenses, attributed to execution ramp-up, higher credit costs in the financial services segment and a relatively lower effects gain.

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Further, the previous year had the benefit of consolidation of the full year profits of Nabha that we accrued in Q4. The detail breakup of EBITDA margin business-wise, including other income is given in the annex to the earnings presentation. You would have noticed that EBITDA margin in the projects and manufacturing business for Q4 FY '24 is at 9.6% vis-a-vis 9.2% in Q4 FY '23. I will cover the details a little later when I talk about the performance of each of the segment.

Our recurring PAT for Q4 FY '24 is at INR43 billion up by 8% over Q4 of last year. This PAT growth is reflective of improved activity levels and lower PAT expenses. Our reported PAT for Q4 FY '24 at INR44 billion is up by 10% over the corresponding quarter of the previous year. The exceptional items that is net of tax for the quarter includes again on the divestment of stake in L&T Transportation Infrastructure Limited of INR0.61 billion, and a reversal of impairment of investment in L&T IDPL of INR0.33 billion. The group performance P&L construct, along with the reasons for major variances under the respective function heads is provided in the earnings presentation. You may kindly go through the same for further details.

Coming to working capital, our NWC to sales ratio has improved from 16.1% in March '23 to 12% in March '24, an improvement of 410 basis points. For reference, our NWC to sales ratio was 16.6% in December '23. Our group-level collections, which excludes the financial services business for Q4 FY '24 is INR603 billion vis-à-vis INR540 million in Q4 FY '23, registering an increase of 12% on a Y-on-Y basis. The improvement in gross working capital on the back of improved customer collections is actually flowing into the overall improvement in the NWC to sales ratio. I would request you to go through the cash flow statement as part of the annexures to the earnings presentation.

Our cash flow from operations for Q4 FY '24 at INR162.7 billion and for FY '24 full year at INR235.8 billion has registered an increase of 64% and 27%, respectively, over the corresponding periods of the previous year. Finally, the trailing 12-month ROE for Q4 FY '24 is 14.9% vis-à-vis 12.2% in the Q4 of the previous year. That is an improvement of around 270 basis points. Improved profitability with every passing quarter along with return of capital to shareholders in the form of the first-ever buyback is contributed to this increase or improvement.

Very briefly, I will now comment on the performance of each business segment, before we give our final comments on our outlook for FY '25. First is the Infrastructure segment. Coming to order inflows, this segment secured orders of INR313 billion for Q4 FY '24, vis-à-vis INR412 billion in Q4 FY '23, representing a decline of 24% over the corresponding quarter of the previous year. During the current quarter, the orders were largely received in transportation infra, buildings and factories and the power transmission, renewable and distribution verticals. Our order prospects pipeline in Infrastructure for FY '25 is around INR7.25 trillion vis-à-vis INR6.51 trillion during the same time last year, representing an increase of 11%. This infra prospects pipeline of INR7.25 trillion comprises of domestic prospects of INR5.39 trillion and international prospects of INR1.86 trillion.

The sub-segment breakup of this prospects pipeline in the Infrastructure segment is as follows: Water constitutes, 21%; Power Transmission, renewables and distribution comprises 21%; Transportation infra, 20%; Buildings and factories, 14%; Heavy civil infra 17%; And finally, Minerals and Metals at 7%. The order book of this segment is at INR3.12 trillion as of March '24. The book build for this segment is around three years.

The Q4 revenues at INR380 billion registered a strong growth of 22% over the comparable quarter of the previous year, largely aided by a strong execution progress across multiple jobs from the opening order book. Our EBITDA margin in this segment for Q4 FY '24 is at 7.9% vis-a-vis 7.5% in the corresponding quarter of the previous year. The margin improvement is primarily explained by targeted jobs crossing the revenue recognition threshold. On a full-year basis though, the margin drop of 80 basis points from 7% in FY '23 to 6.2% in FY '24 is largely attributed to time overrun rising out of delayed clearances and logistical constraints in existing jobs coupled with fast-track completion of legacy jobs is more than getting compensated by the improved NWC ratio from 18.2% last year to 12.5% in the current year.

Moving on to the next segment, which is energy projects that comprises of hydrocarbon and power, receipt of multiple domestic and a major international order, during the quarter facilitate the hydrocarbon book. We have a strong order prospects pipeline of INR4.36 trillion for this segment for FY '25 comprising of hydrocarbon prospects of INR3.86 trillion and cover prospects of INR0.5 trillion. The order book for this energy segment is at INR1.18 trillion as on March '24 with the hydrocarbon order book at INR1.13 trillion and power at INR50 billion.

The Q4 FY '24 revenues at INR82 billion registers a growth of 4%, mainly driven by the pickup execution ramp-up in the international projects of the hydrocarbon business. The lower revenues in power segments is reflective of a lower order book. The energy segment margin in Q4 FY '24 is at 11.4% vis-a-vis 10.4% in Q4 FY '23. Hydrocarbon margin in Q4 is aided by job mix, coupled with a favorable claim settlement. The power margins are largely in line without a previous year, although the previous year had the benefit of execution cost savings upon a particular closure of a job.

We will now move on to the third segment, which is the high-tech manufacturing segment, which comprises of the heavy engineering fabrication business and the precision engineering and systems business. The receipt of a major order during the quarter avoid the order book of the Precision Engineering and systems, whereas heavy engineering business benefited from the receipt of a significant order from a key oil and gas customer in the Middle East. The order book of this segment at INR320 billion as of March 24th.

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The other prospects pipeline for this segment in FY '25 is around INR346 billion. The strong execution momentum drove revenues in the precision engineering and systems business, whereas heavy engineering revenue was impacted due to a lower opening order book consequent upon certain order difference. The margins of the segment reflect the stages of execution of the various jobs. Since, we are on this particular segment, I would once again reiterate that the precision engineering systems business does not manufacture any explosives nor ammunition of any kind, including cluster ammunitions or anti-personal landmines or nuclear weapons or components for such munitions. The business also does not customize any delivery systems for such munitions.

Moving on to the next segment, that is the IT and technologies services, which comprises of two listed entities, LTIMindtree and L&T Technology Services. The revenues for this segment at INR112 billion in Q4, FY '24 registers modest growth of 3% attributed to the subdued global macro conditions that is impacting IT spend. Despite the ongoing macroeconomic concerns, the deal pipeline for this segment is healthy with a good visibility across the various subsegments. The margin for this segment is largely in line with that of the previous year. I will not dwell too much on this as both the companies in the segment are listed entities and the detailed fact sheets are already available in the public domain.

We now move on to financial services segment. Like I said, L&T Finance Holdings has been renamed as LL&T Finance Limited. Here again, the detailed results are available in public domain. But to summarize, Q4 of the current tier for L&T Finance revolved around strong retail disbursements, which was the highest ever in a quarter, improved profitability and better asset quality. The balance sheet is strong on the back of adequate provision coverage ratios and inbuilt macro Prudential Buffers. Financial services has achieved 94% of its utilization of its loan book well ahead of its luxury 26 targets. The retail book growth, asset quality and the return on asset are all highly satisfactory.

The business is building itself on the five pillars of growth. That is enhancing customer acquisition, sharpening credit underwriting implementing futuristic digital architecture, a higher brand visibility and finally, capability building. I would like to conclude that there is sufficient capital in the balance sheet to pursue growth in the near and medium term.

On moving on to the concessions of the development projects segment. This segment includes the power development business comprising of Nabha Power and Hyderabad Metro. The company on April 10th, 2024 concluded the sale of its stake in L&T IDPL. Therefore, as on March 31st, 2024, the investment in L&T IDPL is classified as held for sale. The majority of revenues in the development project segment are contributed by Nabha Power. The improved ridership facilitate the revenue growth and margin improvement in Hyderabad Metro. Some statistics on the ridership for Hyderabad Metro, the average metro ridership improved from 4.08 lakh passengers a day in Q4 FY '23 to 4.41 lakh passengers per day in Q4 FY '24. Our average ridership in Q3 FY '24 was 4.44 lakh passengers a day that is slightly lower when it is compared to the current quarter, mainly due to the free bus entitlement to ladies under the new Mahalakshmi scheme of the State Government from December '23 onwards.

The Nabha margin in Q4 was largely in line. However, please note the previous Q4 of FY '23 include the consolidation of the full year FY '23 profit of Nabha Power. The metro at PAT level, we consolidated loss of INR 2.11 billion in Q4 FY '24 vis-a-vis a loss of INR3.35 billion in Q4 FY '23. For FY '24, in metro, we have consolidated loss of INR5.6 billion, primarily due to the gains on the commercial property monetization, as compared to overall loss of INR13.21 billion in FY '23.

Moving on to Others segment. This segment comprises Realty, Industrial Walls, Construction Equipment and Mining Machinery that includes rubber processing machinery and some residual port of the Smart World and Communication business. The Q4 revenue growth of 27% over the corresponding quarter of the previous year is mainly contributed by the higher handover of residential flats in the Realty business. The margin improvement in this segment, again, is primarily contributed by the Realty business.

Coming to the last part of my presentation, which is the outlook. India's economic growth continues to display resilience, despite the global geopolitical turbulence. Domestic activity has exhibited strong performance on the back of robust domestic demand. Better capacity utilization in the manufacturing sector, buoyancy in the auto and real estate, a healthier corporate balance sheets, a strong credit momentum, high tax collections and acceptable levels of inflation are aiding the growth prospects of the Indian economy. The country's growth momentum is likely to continue in the medium-term backed by the sustained strength in domestic demand, easing on inflationary process, focused fiscal spending by the government and a strong manufacturing revival, through new age greenfield investments and brownfield expansion across sectors. A combination of public and private CapEx spending is expected to propel the country's growth in the years to come.

On the global front, the U.S. economy has shown persistence so far, but inflation levels have led to the postpone of the rate cut decision by the Federal Reserve. Further, the U.S. presidential elections in -- is expected to contribute to the economic volatility. Elsewhere, the UK and Europe economies are still fragile and concerns around growth in China could further dampen the economic revitalization. The Middle East region is also feeling the impact of conflict in West Asia. Spread of the conflict and disruptions in the Red Sea could have an adverse economic impact in the region. Besides continued investments in oil and gas, structural reforms in these countries remain critical to boosting growth in the medium-term by way of diversification into clean energy and other industrial sectors such as mineral processing.

The headwinds from geopolitical tension, volatility in international financial markets, geoeconomic fragmentation, continuing sea route, trade disruption and extreme weather events post this to the outlook. Nevertheless, India due to structural reforms, strengthening physical and digital infrastructure as well as upbeat business and consumer confidence is in a relatively superior position to withstand these multiple challenges.

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In this backdrop, the company, L&T, will continue to focus on profitable execution of its record-high order book as well as position itself for tapping into emerging opportunities. A high order book, a relatively strong balance sheet, a well-diversified business portfolio and proven execution capabilities enables the company to steer through the current volatile business environment. The company, as always, remains committed to maximizing sustainable value to all its stakeholders.

Finally, I would like to comment on our guidance for FY '25 before we take Q&A. On order inflows, our guidance is around 10% growth over in FY '25 over FY '24. This factors in domestic softness in tendering and awarding in H1 FY '25. Due to the ongoing elections in India and the formation of a new government. We also recognize that we have a large base to build our growth plans on.

Having said that, the other prospects of INR12 trillion for FY '25 gives us confidence to pursue the ordering flow guidance for this year FY '25. On revenue guidance is 15% growth over FY '24 given large order book at this juncture; we believe our execution should carry on at a healthy clip without diluting our capital usage efficiency. A combination of a large order book and a normal payment environment in India and GCC gives us confidence around the revenue guidance of 15% growth. On the margins for the projects and manufacturing portfolio, the guidance for FY '25 is largely in or around the number that we posted or reported for FY '24, which is around 8.25%.

Here I would like to give a little more explanation for this margin guidance, which is a combination of the following factors. The First one being the portfolio mix. The domestic vis-a-vis International Jobs in the order book, which is the International Order Book currently has a share of 38% of the total order book. As you may be aware, international projects have significantly better working capital terms, while the margin profile tends to be a little lower when compared to domestic orders.

Further in the infrastructure segment, over the last couple of years, we have received multiple large renewable project orders. These renewable project orders give us a good revenue boost, but come with superior capital working capital terms. But the flip side being that these jobs have lower embedded margins. The second point is on the EPC business risk. As you're aware, most domestic jobs are bid on competitive basis and the lowest bidder is awarded the contract. The quality and cost-based selection criteria or the QCBS is yet to evolve in India. In such a bidding environment, there is always a likelihood of the cost of execution exceeding estimates, although partially reimbursable by clients at a later date.

Additionally, in infrastructure projects, time delays are inevitable given the large number of clearances that are involved. The third point is on client claims, whereas the payments from clients have improved over time, claim acceptance and settlements from the clients are witnessing delays. This impacts the margin. Last, the EPC business is cyclic in nature. It does appear that we are in the middle of an upcycle where the growth has preceded, again, a preceded our own plans. In order to improve our preparedness to deliver, investments and resources and capability building are required, which could impact margin in the near term, but followed by benefits in the medium term.

Having explained the margin profile, let me also reiterate once again that the modest margins in this portfolio will be made up through volume growth and improved working capital intensity, thereby resulting in higher return on invested capital. Our guidance on working capital, we did quite well in FY '24, a combination of improving revenues, higher customer collections, and customer advances led to this improvement. For FY '25, we are guiding the NWC to revenue at 15%.

Before I conclude, I just want to give you an update that has been recently filed in the stock exchange, maybe half an hour back. I would like to confirm to you that L&T Larsen & Toubro Limited has been given by SNP global ratings while it's letter dated today, it has assigned BBB plus -- credit rating, which is two notches above the sovereign credit rating. The detailed filing is there in that stock exchange.

Thank you, ladies and gentlemen, for this patient hearing. We will now begin the Q&A. We have covered in the last almost 45 minutes, a lot of ground on the performance for the year and the guidance as well for FY '25. In order to make best use of the available time, I would request you to restrict your questions on strategy and outlook. This will be answered by Mr. Shankar Raman. Any further bookkeeping related queries can be addressed by the IR team. That's myself and Harish later on. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions]. First question is from the line of Mohit Kumar from ICIC Securities. Please go ahead.

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Mohit Kumar

Congratulations on a very, very good order info. My first question is on the GCC tenders. I think last year, Middle East surprised us. How do you think about the Middle East opportunity in FY '25 compared to FY '24? And do we think there is a more headwind compared to the last year?

Shankar Raman

Difficult to predict today very clearly as to where the situation will be 12 months forward. Our belief is that the investment in Middle East will continue. Unlike the previous years, the investment in Middle East is more broad-based. It's not only hydrocarbon, it's also into infrastructure building and developing Middle East as a destination for very tourism, be it religious tourism, be it medical tourism, be it just entertainment and otherwise. Between the infrastructure they need to build and the energy that they need to generate for the infrastructure and also the downstream investments that they do in petrochemical and related areas would see continued trust. What could change perhaps is prioritization of investment. We need to see as to which are those which are fancy investments, which are those which are must have investments. And to that extent, we have factored that into our guidance.

On the back of a 30% growth in order inflows, we are guiding about 10%. Not only because of the disruption that we are expecting in the domestic markets because of elections and new government formation-related issues, but also because of the fact that, Western Asia is geopolitically very sensitive. We have U.S. elections coming in. We do not know how the relationship between U.S. and Israel will form out? How the equation between Iran and U.S. will form out? There are too many players in that. Considering all that, we have as compared to almost INR180,000 crores of orders that we have booked in the current year for Middle East, we are looking at a reduced level of maybe INR150,000 crores going forward from Middle East. The overall investment, I don't expect it to lose steam, but there could be prioritization.

Mohit Kumar

Understood, sir. My second question is on the working capital. This particular fiscal year, there is a drastic decline. Is it, to do something to do with job mix? Is it temporary? Where do you see this number in medium-term?

Shankar Raman

See, when it was sticky around 24%, 25%, 26%, we were worried because the margins that we are generating was not sufficient to generate returns. We do believe that, the working capital going forward has moved for good from those 24%, 25%, 26%. Whether they will stay at 12% or move in band of 10% to 15%, we'll have to wait and watch. But my guess is that, a lot of those legacy outstandings, which we went after very aggressively and collected successfully has led to the decline in the working capital. I do not know whether you remember, but in 2007, 2008 et cetera, we used to report working capital at 7%. I think it's very, very dynamic in relation to the type of projects and the terms, under which we sign those contracts.

My belief is, we should be able to work around 15%. If 12% is not sustainable, so be it. But I don't expect it to go in north of 20%. At the moment, we would be quite okay. We'll accept if we get about 15% working capital increase. And that's the reason why we have even guided around 15% towards working capital intensity.

In terms of efficiency, I think, it is well drilled down into the organization that you have to spend out of cash that we collect. It's a transformation that we have achieved in the organization. It has taken us about three, four years of effort to make the sites believe that, they'll have to collect to survive and they just can't make phone calls to get cash from the headquarters. I think this cultural shift has happened. And so, my belief is that this will sustain going forward.

Operator

The next question is from Renu Baid from IIFL Securities. Please go ahead.

Renu Baid

Hi. Good evening, sir. My first question is, while in the margins, you have broadly guided for flat margins in fiscal '25 for all the reasons of mix and backlog, et cetera. But does that also mean that, now given hydrocarbon and Middle East has been over part of the backlog, not just '25, but from a medium-term perspective two to three years, margins could be in the similar range, sub-10% level versus the historical levels that we've enjoyed of 10% plus?

Shankar Raman

Renu for a EPC business 10% margin is outstanding according to me. You can look at all the global peers, they nowhere are near these levels. So, I will any day happily take if the business is going to generate a 10% margin on a consistent level. The needle mover has been the construction business that we have been operating. And in infrastructure business, unfortunately there are several levers that play, which influences the margin.

Our own belief is that we should be able to have a plan to improve the current margins of construction business -- infrastructure business, which is about 6.2% to about 7% level. Whether it happens in one shot or whether it happens over two years in stages, we'll have to wait and watch. But we do think that the margin improvement would be largely driven by the improvement that we see in construction business rather than in the hydrocarbon business.

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Renu Baid

Sure. And the margin guidance excludes claim settlement for these large mega projects which we have been completing or commissioning in the recent times.

Parameswaran Ramakrishnan

We have realized the hardware Renu, that it's difficult to predict the customer's response in terms of the claim settlement, they go through extensive discussions. It also has something to do with the budgets that they have had for getting the projects approved. So, the processes involved are unfortunately little time drawn. So, my guess is that as and when these happens, we could report some improvement in margins, but hard to predict a timeline. But at the moment, the margin guidance excludes anything which is of significantly deviant nature.

Renu Baid

Got it. So secondly on the Hyderabad Metro, while the ridership and overall performance has improved, where are we in terms of unlocking value in this asset and bringing private equity investor? You think it could be on cards in the next 12 months, 18 months or could be beyond the current track plan?

Parameswaran Ramakrishnan

We are actually, as they say, we need to dress the bride up. We need to get the fundamentals a little better organized in Hyderabad Metro, I think that traffic is punching below its weight. The traffic has potential to go up to 5.5 lakh crore or 6 lakh crow or thereabouts in that range. And so, to an extent about a 100,000 people more than what currently are using Metro should use. But we should also realize that there's something transformational from Hyderabad. Hyderabad never has had a metro. The only way people used to travel apart from their cars is auto or buses. And these modes of transport are often subject to some political maneuvers by the current government has announced free passage to women and travelers.

So that's taken about 40,000 odd people from our traffic from Hyderabad Metro. So, we need to wait and watch as to how these dynamics play out. But my sense is that Hyderabad Metro has potential for improved ridership. It obviously has pending work in terms of getting government grants completed in terms of the INR3000 crore that they granted. And we've just drawn about INR900 crore out of that. The balance INR2,100 crore has to be drawn. And thirdly, I think the monetization has just started. As you might possibly know, 18.5 million square feet is available as real estate.

Not all of them is monetizable on day one, but in cases, the monetization will happen and the fact that the government has agreed to monetization is blown out by the fact that during FY '24 we did monetize and report some gains out of that monetization. So that effort has to continue. My own assessment is will take a good one or two years for us to get the project into attractive zone.

Investors will invest in this project if they see potential to earn about 12% on a consistent basis. In my opinion, at least 18 months to 24 months away from such an event.

Renu Baid

And lastly, if I can ask quickly, while the rest of the diver's process has progressed well, is the divestment of the thermal project Nabha still on cards or given the outlook of thermal assets today, we may retain it slightly longer than initially planned?

Shankar Raman

The good news, it's not hurting us holding. Of course, the returns will be better if the assets get unlocked. We don't want to throw the baby with the bath water. We just want to make sure that the unlocking that we do as and when we do is done with appropriate valuation. We are waiting. My own belief is, I think coal is still in the relevant scheme of things in India. I don't think we can do it with coal completely. So, there will be some consolidation of coal assets and Nabha will be an asset worth acquiring by such of those sponsors because it's a performing plant, almost 85% PLF, 25 years concession agreement, steady payment terms, the whole supply chain is well established now, and the unit is generating 4,000 crows of revenue and 400 crows of profit on a year to year basis.

According to me, anybody who has a coal portfolio will be better off having this asset. So, we'll wait for the right bidder and then choose as and when it happens, but at least it doesn't hurt us in terms of loss being generated on a year tier, et cetera. So, Nabha is available for monetization, but at the right price.

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Operator

The next question is from Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal

My first question is on the 1.8 trillion orders -- the orders that you highlighted earlier. So, are all these orders like financially closed? Has the notice to proceed given is there any slow-moving orders in this? If you can give some more color on this part of the order book?

Shankar Raman

These orders are well and truly moving. I think none of those are subjected to uncertainties of the kind that you're alluding to. These are orders, just one. So, I think the progress of the orders over the next 24 months, 36 months will determine the final outcome on these projects. And most of these are funded by the Saudi PAF, which is, as you know, pretty cash rich. And the solar projects that we do are financially closed, whatever that we are embarking on. We have close to 18 gigawatts of solar orders in Middle East. Not all of that is part of your 1,80,000 crore that I speak about, but some of which has happened in the earlier years, and some of which in the current year, most of them are financially closed. And the proof of the pudding is that we've been able to collect our dues as in when we bill. So, I would like to believe that they're in good place.

Parikshit Kandpal

Just a second question on the order info growth of 10%. So, if you can help us understand how are you looking for the growth in export orders in the domestic orders? Some color on that will help given we have such a strong inflow of INR1.6 trillion for FY '24. So just wanted some more color of that.

Shankar Raman

I know we speak about prospect of about INR12,00,000 crores in terms of orders. Roughly ballpark, I am speaking, about IND7,00,000 crores could be domestic international orders and about INR5,00,000 crores would be international orders. Now our IND180,000 crores that we won in the current year out of the INR3,00,000 crores of orders could possibly be based on our current estimate around INR1,50,000 crores. To some extent if you just compare period-to-period. We have factored in some decline in the international orders, but that gets compensated by this step-up in the domestic orders. We do believe that the economy is benefited by the investment-first approach and the tax collections bear testimony to this policy of investment first. I guess post elections when the new government comes in, they will pursue with this policy. If this happens, the relative decline that we have presumed in our next year budget for order inflow could get compensated by the domestic orders. Consequently, we think that, overall growth of 10% can be met.

As things pan out, the ratios could change, depending on the current development because as we could see today, how things move out in terms of West Asia and how things move out in terms of India, et cetera, we'll have to wait and watch. Big events are at play. U.S. election is a major event that will have an implication on the West Asian geopolitical developments, so is Indian elections. At the moment, our best-case estimate would be that, a 10% growth given that three, four months will go away in the current year just by getting the government reelected and repositioned. Followed by some monsoon months, we do think that the action would be in the second half of the year. Hence, the guidance is on a very large base of INR3,00,000 crores or 10% increase. But my sense is that, there would be a decline in international orders and could get compensated by domestic orders.

Parikshit Kandpal

Just on the real estate piece, I mean, we are on a super cycle on real estate, but very limited information shared by L&T. I just wanted, and this has been a big value creator for a lot of companies in the real estate space. Just wanted to understand on real estate, if you can help us what was the pre-sales or the new sales booking for FY '24? And any sense directionally on FY '26, what potentially growth you're looking at, because this could be a big value driver for L&T?

Shankar Raman

You're right. I think it's a good value driver. It's always good to have some cards up your sleeve for overall value accretion. I do think that this is one of those. For FY '24, we have booked fresh orders worth about INR4,500 crores, close to about 2,000 apartments we have been able to sell, largely from residential even though we are also developing 15 million square feet of commercial area. Part of the commercial area is for our own expansion and use and part is for divestment and sale on development. You might have heard or read about the fact that we have tied up with Capital Land for the commercial real estate which is meant for third-party use. On construction completion and OC being received, these real estates would be monetized. The idea is to unlock that capital and recycle in the real estate business. On residential, I think the demand has arrived and the demand for high-end apartments have also derived very well.

Today, we find that in markets like Mumbai, Bangalore, maybe a bit in Chennai and bit Hyderabad, a bit in NCR region in Delhi, as well as in Pune. These are markets where, we are seeing a lot of traction for residential apartments. We have projects in Mumbai, Bangalore, Chennai and NCR Delhi. We don't yet have in Pune. But we think that based on the nearly INR3000 crores worth of revenues that we have earned in FY '24, we should be heading towards growth, both in terms of fresh order booking, as well as sales.

I must hazen to add that the sales and real estate businesses on account of apartments hand over and not on the basis of work in progress in terms of construction progress. So, the apartments handing over has got a big issue to be resolved, which is approvals by the local authorities and occupational certificate being given. It's a very bureaucratic area. So, we find it often a challenge to make sure that the pace of approvals are in sync with the pace in which we are able to complete the projects.

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But our guess is that we will be able to improve on our sales realization of INR3000 crores for FY '25 -- FY '24 and FY '25. And profits are actually a consequential flow through. So, we do believe that both in terms of order inflow and in terms of sales and consequently in terms of cash flow and profits, real estate will do well. Whether we are ready to list these entities, we'll have to wait and watch because I think we are very conscious about our reputation. Minute we list, we have to make sure that it is repeatable and sustainable business model. We'll have to wait and watch as to how these progresses, but I do believe this is a gem available to be unlocked in the portfolio.

Parikshit Kandpal

But new order bookings by FY '26, any sense how this 4,500 could move like in next two, three years? Can it touch a 10,000 number internally? I mean, any numbers you're targeting?

Parameswaran Ramakrishnan

Difficult to put a number of that magnitude, because all this booking will have to come from projects that we are executing. And today, there are finite projects that we are executing. The difficulty in projecting as say, in order booking number is that we don't sell until we get the clearances. I think we are very conscious of the fact that we have a reputation to protect. So, unlike many players in the real estate entity, we just don't book and then cancel later. So, my sense is it'll all depend on the land parcel. It'll then depend on whether it is a slum rehabilitation project or a clean piece of land. It'll also depends on the approval process that are involved. So, my guess is that you can at the moment take it as a growth area. But whether it reach 10,000 by FY '26, hard to predict. We will not resist if it is going to get there, but we possibly might need luck to be there.

Parikshit Kandpal

And this the last question on this entire UMPP revival. So, any plans relook at undertaking CapEx cater to the upcoming bid or the capacity edition?

Parameswaran Ramakrishnan

Which is that revival?

Parikshit Kandpal

UMPPs, the power plants?

Parameswaran Ramakrishnan

Ultra-mega power plants. Okay. At the moment, I think, we have not retained our focus on coal-based power plants for a couple of reasons. One is obviously, I think we think the oil and gas and the green energy has a better future. so, we are putting our bids there. And secondly, the terms under which these contracts are available for ultra-mega are not necessarily very EPC friendly. If I take those orders for sake of order booking, you'll question me on my working capital. Efficiency and margins are, I think there from, so I need to balance the opportunities that are available in UMPP area and in the rest of the area. My own belief is I think we are far away from taking coal away from the equation of energy generation. Coal will continue to exist, the choice whether we would like to be there or we'd like to be in some futuristic areas. We are chosen to be in futuristic areas. So, to that extent, even if UMPP revises, I think we would not necessarily rush into that space once written, twice shy.

Operator

[Operator Instructions]. We take the next question from a Aditya Bhartiya from Investec. Please go ahead.

Aditya Bhartiya

Just to kind of confirm, when you're speaking about power sector, it means that we are largely going to stay away from ordering. And which kind of gets reflected in your prospect pipeline that you also spoke about being only around INR0.5 trillion for the power sector. Is that understanding correct?

Shankar Raman

You are right.

Aditya Bhartiya

Second question on the, are order in slow growth that is being built into for FY '25, we are expecting a decline in international orders, which means that despite elections in which can potentially impact H1, we are building in almost let's say 13%, 14% kind of growth in the domestic business. Even in FY '24, we estimate that overall in the economy is likely to have remained strong. It's possible that L&T lost out some large orders maybe because of competition. So, what are we really seeing as changing in FY '25?

Shankar Raman

We do believe that the system has realized that successful completion of a project is equally important as finding the right price for the project. We used to be very L1 based in our approach for some of these projects. As the project scope enlarges, I think it is important that the quality-based cost selection process that the government has accepted should start playing out because today whether a person is capable of delivering or not, he's free to bid for projects and upset the considerations. I think the government has also realized that it is paying a price by the delays that keep in, my own belief is 25% to 30% of the infrastructure cost that the country is incurring is on account of project delays.

By backing the wrong heart, if India is going to move towards Atmanirbhar, and if India is going to, let's say, take advantage of the US, China relationship, which means that there is an alternate source of manufacturing apart from Taiwan, apart from Korea, et cetera, then India has everything going for it. So, one of the prerequisites I would believe if the new government seriously looks at economic development of the country would be to make manufacturing competitive. And if this has to happen, then it is important that the cost of infrastructure that we develop is competitive because if infrastructure cost is uncompetitive, then the rest of the things falls off.

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My belief is that, the selection criteria will take into account the projects that we completed. Now, largely, if you see in the last six months or so, many of the marquee projects that the country has launched involved L&T standing there and completing the project. My own belief is that, there could be some selection criteria that will come in play, which will help us get a little more market share, than what we had done in the past.

Secondly, we ourselves, because the bandwidth is getting stretched, L&T need to make sure its resources are deployed for the right project and not get locked up in smaller projects. We will also get to be more selective and look at larger projects. When we look at larger projects in terms of order inflow, the spike takes care of the percentage growth that we are speaking about. It matters to me that, I win lesser number of jobs but each job being of a larger value, as compared to the past where we had to compete with every Tom, Dick and Harry. In a way, we are trying to run ahead of competition and create a niche for ourselves in this entire area of construction and project development. The investments that we are doing, which is all seen in terms of some portion of our margins getting compromised in the current term is also on account of creating this competency.

Let me give you an example. In the area of water and effluent treatment, we have invested money in creating a completely global standard lab, by employing doctorates and PhDs, who have worked on water technology for many years. Now all of this is to ensure that, the water project that we undertake has the benefit of their insights in terms of the quality of the water, the extent of corrosion, the type of pipes that we need to use and the geography that it needs to take. Given all of this, unless I invest upfront in these technology and labs, it would not be possible for me to be quoting appropriately whenever that order comes. A company which has none of these will land up quoting for it on a standard basis and they will land up losing money for the government and for themselves in the long run. My belief is that, the lead that I would establish in the domestic infrastructure could happen because of the open scale of the projects and the technology that we would bring to play.

Aditya Bhartiya

That's very, very helpful. Just one follow-up over here. L&T has always enjoyed this reputation of undertaking these complex projects and executing them well ahead of time and with great quality. So, nothing really changes over there. Main thing that we are speaking about changing is the selection criteria. Is there any particular vertical or segment wherein we are anticipating these changes from the government side?

Shankar Raman

Yes. I think, if you look at what the government is trying to promote, it is promoting in a very broad manner inclusivity, which means what? It wants to take projects and employment prospects to different corners of the country. Now before it does that, it has to make sure that, the people there have access to education, have access to basic sanitation, water, electricity, et cetera, and it also enables them to, actually be engaged in the local industry. My own sense is in sectors like roads, it may not make much difference because you'll have enough number of contractors available locally who can just get a road done. The government today, whether it is state or central, doesn't seem to worry much about the quality being L&T quality, because I think they have yearly budgets to take care of maintenance, repairs, et cetera, et cetera. So, we are sort of really defocused from those normal roads, and we are getting into a little more sophisticated area.

Now, if you see express waste that get developed, if you see the railroad that gets developed, be dedicated or high-speed rail, now these are areas which have huge economic significance to the country. So, my own sense is that selectivity will come where technology is at play and not necessarily in areas like road. For example, if it comes to distribution of scarce resources and let me again go back to water. I think today, country is not necessarily comfortably placed in water even in a normal way of speaking. I think, we are water-stressed in many areas and much of this reason is also because of leakage, pilferage, et cetera. So, we need to have a distribution system, which is full proof, both in terms of quality of transmission of water, as well as tracking the loss in transit.

So, we are combining technology in terms of our own water detection leakage technology, as well as robust distribution system. So, my sense is some of those which are funded by multinationals will be the first ones where quality-based selection will happen, followed by something that happens in the local -- central government followed by local state government. State government will be the last to join queue, because they have constituencies to please. So consequently, they can't be necessarily only quality-driven. They also have to take care of their own considerations. So multilaterally funded first, followed by central government programs, followed by state government programs, is where this selectivity will happen.

Operator

[Operator Instructions]. The next question is from Amit Anwani from Prabhudas Lilladher. Please go ahead.

Amit Anwani

Hi, good evening. Thanks for taking my question. My question is with respect to the new initiatives which we talked about, we have done one electrolyzer alkaline-based electrolyzer project Hazira, and we talked about the semiconductor fab lab. Wanted to understand the investments required here for capacity creation and any investment done so far. And when can these new initiatives, including data center can contribute meaningfully to the revenues over the next two, three years?

Parameswaran Ramakrishnan

See, the current electrolyzer that we manufactured and sort of put out in December '23 is undergoing several tests for their functionality. Because we need to make sure that we have a product which is global and standard. And this is the first time ever anybody in India has booked a technology, I mean, electrolyzer, based on alkaline technology. So, we are trying to do that. Now, there is an alternate technology called alternate technology and we are also trying to explore as to whether [Indiscernible] technology, how does it work, because end of the day, hydrogen as a source of fuel will catch on only if it is competitive. So, we have to bring the cost of electrolyzer down so that we bring the cost of hydrogen down.

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My own sense is that it'll take a year more for us to crack this code and be able to indigenize sufficiently the components of electrolyzer. The electrolyzer initially that we have made has fair bit of imported component. Those needs to be sourced indigenously for which we have to develop a supply chain. My assessment is during '24-'25, we will start manufacturing a few more electrolyzers. We already have an order on hand for an electrolyzer, which is under a work in progress. But we think that there will be many more to follow. But provided we track the cost competitiveness equation in silver as data center is concerned, I think, we've launched the Panvel data center, which is about two 80 laks. We're trying to find customers for those two megawatts of pilot data center. You might have heard or spoken to us earlier. We are also in the process of building a 30-megawatt data center in off Kanchipuram in Tamil Nadu. And the idea is that we should be able to get some customers, including hyperscalers to use these data centers. Our plans does include another 40 megawatts between Bangalore and Mumbai of additional data centers.

The plan is fairly large and the 32 megawatts of data centers that we are at the moment working on is possibly about 2,200 crows of outlet. The additional 40 megawatts that I spoke to you about will involve further outlay, but the utilization of these data centers and the type of clients that we get will also drive the extent to which we feature the construction of the data centers.

The specifications are very user based, user dependent. Hyperscalers would require it a certain specificity and others would require it a certain other specificity. We also are not looking at these as just co-location centers. We are looking to provide cloud services on top of this. The value add that we will get is only when you have hyperscalers working and the hyperscalers working out of our premises would mean that the features of the data center reconstruct appropriately meets the requirement.

The capital allocation will be well met by the cash flows that we have in the company. It is not expected to force us to borrow, to meet these capital expenditures, but would actually depend on the type of customers we sort of sign up with Electrolyzer, we want to increase the one-megawatt capacity to four-megawatt capacity because, each electrolyzer is a bulky equipment and we are not able to visualize somebody who wants to put electrolyzers of 10 megawatts, 20 megawatts doing it in multiples of one megawatt unit.

We are trying to do some nano version of these with increased capacity. So, it's work in progress and the amount we might be required to invest would depend on how these initiatives pan out. We invested about 25-hour crores for the current electrolyzer that we have put up. So, it's not very capital intensive, but it is not very efficient. So, we need to crack and improve on the efficiency and the sizing. Maybe a few months or a few quarters down the line. We'll be a little better placed to assist the capital requirement of this.

Amit Anwani

My next question is on Hyderabad Metro. You did highlighted that, at least 40,000 ridership got impacted because of the free women scheme. I think that, now would not be there for at least next two to three years. Is that going to delay our restructuring plan in Hyderabad Metro? Second thing, wanted to understand the INR2,500 crores interest-free loan, which we were supposed to get as a part of restructuring and refinancing, is that on track? Third, what kind of monetization amount we're expecting in FY '25? This year, I think it was about 1,050, so what could be the number next year we expected?

Shankar Raman

More women on the buses, we believe will get more men on the train. It's a bit of a gender divide, but can't be helped. Because I think the way I read it is the Telangana Government is not increasing the bus fleet. It is the same old bus which is ferrying all of them. Women crowding means no space for men. Men has to go and find alternate space, and I hope they find that in our metro. To that extent, the 40,000 going away could mean 40,000 more men coming into trains, time will tell.

Secondly, in terms of the balance, it is not INR2,500 crores, we almost have to get INR2,100 crores of money from the government. You know the government has changed. To that extent it does, and it is followed up immediately with the union election. At the moment, I think the entire machinery is on election mode. The environment is not conducive for us to sit down and talk commerce. We'll wait for this election to even to be over and we'll engage with the government. We are currently engaged with the bureaucracy, but in state governments nothing happens without the political bosses getting aligned to the bureaucracy. I guess, by August, September, we will have a better color of when we want to realize.

Our idea is to realize this as early as possible, because when the government passed the order last year, they meant to disburse this in three installments of INR1,000 crores each. In the first installment, they've done INR900 crores stop short. We have INR100 crores more to collect out of the first installment. The second year has commenced, so another INR1,000 crores is due. All going well, we should be able to get INR1,100 crores now and INR1,000 crores in the following year. And so far, as monetization is concerned, as I mentioned, 18.5 million square feet is available, not all of that is monetizable on day one. We have monetized up to about INR1,000 crores. We do think another INR1,000 crores is up for monetization. Again, with the government playing supportive role, we should be able to get this INR1,000 crores into our monetization program during FY '25. Hopefully it will be done for similar profit as we had done in the earlier case.

Operator

Next question is from Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore

Good evening. My compliments on very strong performance on orders, execution and working capital. My question is in relation to your core margin performance clubbed over a period of nine quarters. We look at nine quarter period together. We see that L&T's ability to predict or guide on core margins is below historical track record. With the benefit of hindsight, how do you view, what is it that you have not been able to foresee better, while over the last you two years plus?

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Parameswaran Ramakrishnan

We could not predict COVID. We could not predict Russia, Ukraine war. We could not predict Israel Amar. We could not predict Iran, Israel. We are not able to predict whether Trump will win or Biden will win. We are not even able to predict whether Modi will win or somebody else will win. There is so much uncertainty around our life. Now, I'm not even talking about the commodity price. I do not know whether your research put out that the steel price will go up to INR80,000 per metric tons. It moved up from INR30,000 to INR80,000.

Silver and copper and aluminum shot through the roof. So, with so much of uncertainty, unfortunately our business model is we sit today and look four years forward and say where the cost would be, where the revenue would be. And given that we deal with execution on the ground, which means that we have to mobilize resources, we have to get imports, all local supplies done, the supply chain has to work to our plan and the resource mobilization overall has to be in line.

We should get the clearances in time, the land right of way, land acquisition to be done in time. I think in hindsight, I really wonder how we got into this business with so much of uncertainty. And I also wonder how we have been able to be so consistent in our delivery over time. You might possibly say that margin prediction has moved up and down, but if you take our company's performance over the last 20 years, we run a portfolio of business which sort of self-compensates hardly has there been a cycle which is linear. We have had cycles of ups and downs, at least four economic cycles, very distinct.

I am able to recall in my 20 years here, given this, I do believe that we have reasonable expertise in trying to get the margins profile predicted out of the jobs that we have to execute going forward. There has always been a challenge of 100 basis points and as analyst, I think every basis point counts for you. But my sense is so long as we are within the band of 1% up down, I think we have done a reasonable job given the uncertainties that feature our daily lives.

Sumit Kishore

Sure. Just to clarify one point you had made earlier regarding 80 basis point likely core margin improvement over next two to three years as you go from 6.2% to 7%. Given that this is the largest segment, would you have a gauge that the extent of project and manufacturing margin improvement over the next two years should be offered similar magnitude?

Parameswaran Ramakrishnan

See, the improvement in projects and manufacturing would depend on the type of orders that we get. For example, if we are able to get large orders in the precision engineering and systems area, typically these are very high entry barriers. High on technology, low on competition and margins would be pretty good. Now, if you're able to get some large orders that we've been targeting for the last few years, and for whatever reason government has not been able to make up its mind between public sector ordering and private sector ordering. If government really wants to push Atma Nirbhar and reduce dependence on imports for some of these precision engineering and systems orders, then we could see the improvement in margins in the manufacturing portfolio as well.

The improvement in margins in the infrastructure segment, essentially the construction and project management has to come not necessarily from client giving us better prices, but us doing the work in a more efficient way. We have to figure out a way to crash time overalls. We also have to figure out a way to make sure that the cost estimation is very realistic and we have back-to-back arrangements with our supply chain. The productivity of workforce is the only uncertain element in this because every year as you possibly might have heard earlier, almost 400,000 people, workers, we employ sourced from all over the country. And there is at least three times these 400,000 churns. So, we need to operate on a pool of 10 to 12 lack people to make sure that we are able to deliver our projects on time.

Now, every person comes with this unique advantages, disadvantages, skill sets, et cetera, to achieve the consistency that we desire. If margins have to be on track with the expected trajectory would require for enormous automation, and that is -- happen overnight. We are doing our best to make sure that we invest in automation reduce the inside construction as much as possible and make sure that we deliver more consistently on our projects and productivity. It's a journey that we have undertaken. We do realize that we want to create sustainable value as a company, which today is about $25 billion, $27 billion if you want to become $50 billion, $100 billion company and continue to be as valuable, it is important that we are able to get larger level of automation and reduce the uncertainty in our execution. So, it's an effort. We are cognizant of that and I think we are at it and hopefully over the next few years you will progressively see the improvements.

Operator

The next question is from Atul Tiwari from Citi. Please go ahead.

Atul Tiwari

My question is on a thermal power opportunity, and you alluded to it, but what exactly keeping L&T away from this opportunity? Because you have both the EPC as well as the BTG manufacturing capability and, and the government is talking about 80 gigawatt so of water over the next few years, which could be pretty substantially.

Shankar Raman

The terms of trade and thermal so far as the experience go has not been very contractor friendly. It is the thermal capacity is largely being added by PSU today. Private sector is not really investing and such of those private sectors which is invested in thermal capacity is in random NZLT. Given that PSU is your client, there is a bit of an unevenness in commercial relationship. You can define only that many terms that you can foresee in a contract.

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Let me contrast it with the experience that we have with Middle Eastern contracts. Now, they're also inconceivable to have everything predicted upfront. But as the project gets implemented, we definitely says, a certain amount of support that the sponsor provides to make sure that the project gets time on gets completed on time. Unfortunately, in Indian conditions, there is no penalty for delay, but there is penalty for decision making by private sector enterprises. They are scared about taking commercial calls, which is just outside the four walls of the contract that we sign up with, but project business does not work exactly on the printed contract lines because there are dynamics that are at play and which makes us deviate from the contractual situation. If the client is interested in completing the project and he is going to be evaluate it for completing the project in time, which is not the case with our Public Sector Enterprises, then they will do everything to make sure the contract completes.

Here we find the situation that let me see how you complete or I will see when you complete seems to be the attitude. That doesn't work with us. I think we have become a large company and we have investors who expect us to become even bigger. That can happen only if we climb the right ladders. Coal based power plant with PSU as a customer, does not at the moment seem to be the ladder we can climb. There has been considerable improvement because it has now got reduced to a situation where in many of these projects there is single bidder and the government system does not support single bidders.

They badly require somebody like L&T just to make sure that there is a second bidder. We don't want to be dragged into this situation. We want to be participating in a bid, if we have a right chance to win and we have all the interest in executing. We are going to just be counted for just numbers' sake. That's not our interest. Considering all this and considering the alternate opportunity, see end of the day, I also have limited resources and limited bandwidth. I need to deploy my resources and bandwidth, in areas which I think will produce value for my investors. That can happen only if I follow not on emotive grounds but on rational grounds on which projects I bid for. And that actually eliminates, I wouldn't call eliminate, it reduces the coal-based power plant much lower than the priority.

Operator

Thank you. The next question is from Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia

Thank you for the opportunity. As in two parts to my question, the first one being, when you say 10% growth against the INR12 trillion pipeline, it kind of assumes that your hit rate will be more than 20%. Could you give us a sense of segments where you think you would be able to do this kind of hit rate or even better? That's the first part. The second part is again, just relying on domestic order inflows to grow next year. Are there certain large-sized programs such as petchem that you are relying upon? Some more color would be useful. Those are the questions. Thank you.

Shankar Raman

See, this pipeline in a way is an aggregation of opportunities that we see today. We find that roughly about IND7,00,000 crores out of the INR12,00,000 crores come from Indian opportunities and INR5,00,000 crores from international opportunities. In Indian opportunities predominantly, it comes from infrastructure space. Areas like water, which we think requires substantial investment, area like the civil projects where a fair bit of large projects in urban transportation, the bridges, infrastructure in the borders, et cetera are involved. We'll get government allocation because of the preferences, whether it is political preference or security preference, the preferences exist.

The standard growth momentum in areas like our buildings, factories area, in our power transmission distribution, those are, or any of the industrial CapEx, they remain encouraging, but could change between no one timeline and another timeline. So, our sense is that given a 20% to 25%-win rate, if you are able to actually participate in bids worth INR7 lakh crores in the domestic order. We should be able to clock in somewhere between INR1.5 lakh to INR1.8 lakh crores, which is what we are seeing in the year that we have just reported. We are close to INR1.5 lakh crores of domestic orders, and that would possibly become 1.7, 1.8 maybe 15% growth.

On international, we have deliberately reduced the target. We don't know. It is not that we will let go of opportunities, but we do think that considering Saudi, which is a very large component of our international market, has gone on to some investment prioritization more and not necessarily slow growth more, but they just want to prioritize the investment to the purpose that they cater to. So, given that we have said instead of 1.8 lakh crores, we will possibly target about 1.5 lakh crores in the current year, but these are not cast in stones. I think we'll have to keep watching this space and see whether the bids play out accordingly. Our own belief overall, given the 3 lakh crores large base that we have set for ourselves at the end of FY '24, 3 lakh 30 could be something that we will reach but in say whether, how much optimistic, how much of international, which sector, et cetera. We will keep talking to you as we go along the quarterly conversations.

Aditya Mongia

If I may just -- three years back the hit rate was about 15% on an overall basis, which we expect to go to kind of 20% plus. So, I'm just trying to kind of get a sense whether the certain sectors competitive positioning has improved or let's say the competition by itself has kind of scaled down for us to be confident of a 20% to 25% hit rate on the overall basis in domestic.

Parameswaran Ramakrishnan

See, I think the competition, exists at the lower end of the project spectrum. I think, you yourself would've sort of seen that the kind of projects now they're bidding, participating, and executing are far more complex, both engineering wise and scale wise. I mean, just take the most apparent example of Trans Harbour, 21 kilometers across the sea or coastal road, the kind of challenges, technical challenges that we have, the considerable amount of tunneling that we are doing for Metro or for Coastal Road. This obviously reduces the number of people who are competing. The eligibility is lower. Not to say that, there won't be any competition. There will be competition, because the sponsors would like competition for better price discovery.

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But instead of 10, 12, 14 people competing, we are increasingly looking at projects where four or five people compete. So, we have given ourselves, and that is demonstrated in the last year, we are win rate has almost been 23% in what we are doing. So, we are thinking upwards of 20% is what we will continue to win going forward at the opportunities. But as I mentioned earlier in some other context, all these are best estimates as we see now. This is something that we have to keep on watching, because we are in business only if investments are being made. And investments will be made only if funds are available and there is a policy prescription which is supportive.

So, these two are beyond our control. To some extent, we have to depend on what cards gets dealt on the table and then pick it up from there and move it forward.

Operator

The next question is from Jonas Bhutta from Birla Mutual Fund. Please go ahead.

Jonas Bhutta

Two questions, which are largely more confirmatory nature. If we see order inflows for fiscal '24 for the core P&M business, which is about INR2.4 trillion or 50% split between domestic and exports, this is like 1.2. Against the INR1.2 trillion international orders, you're saying that we will probably clock closer to 90,000 because the 1,80000 numbers that you quoted includes the services bit? The reason I ask this is then we are actually ask the ask rate on the domestic side is almost a 40%, 50% jump in terms of order intake. So that's a more confirmatory the first question.

Shankar Raman

It's about 30% and not 50%. And secondly, you're right, the 1 lakh 50 that we spoke about does include the services and no doubt about that. And the services business, as you know, is currently going through some sectorial headwinds. We don't expect runaway growth in the services for the year. But these are bets and assessments we are making now. We think that if the government were to return, I mean, unfortunately I'm getting drawn into political anticipation. But if the current government gets quoted back, I expect continuity in policy. And that would mean that the investments that were held back in the last six months or so will get unleashed.

And secondly, depending on the type of majority, if there are points to be proved and established, the momentum will change. But these are – I mean, I don't know, these are political LED situations, but if you look at India, if you look at this being an economy, which is expected to become third largest by 2030, it's important we invest in infrastructure. And if India does believe in infrastructure investment, does believe in manufacturing investment, L&T is in pole position, the kind of technology that we have, the skill sets that we have India would need that because these opportunities are fleeting, right? And if you don't take advantage of these opportunities when they present themselves in a global context, then it'll become one year too late.

My sense is that if there's going to be continuity in policy, forget about each government continuity in policy, then India needs to know bug up. It set the pace so far in the last three, four years, and it has caught the world's attention. I don't expect US China relationship to improve from here, whether it is Biden or it is Trump, unfortunately, I think the choice is pretty predictable there. Overcomes, I think it's a question of degree of deterioration rather than completely changed style. India has a unique opportunity. I'm sure that the people at the helm of affairs are cognizant of this and if India needs to capture this opportunity, it has to pick pace in infrastructure development and projects development.

The projects could be in energy transition area, it could be in EV, it could be semiconductor, it could be in any other import substitute. It could be in pharma. But all of this would mean that, you should have port logistics, you have airport logistics, you have road connectivity, rail connectivity and you should have people working in different corners of the country with power at their homes, water at their homes, et cetera. Given the sheer potential, I do believe betting on India post-election does not seem to be a bad strategy. Time will tell whether we are successful, not successful, et cetera. But we do believe that, the growth that we are anticipating on the Indian side seems well-reasoned at the moment. But as I mentioned, I think every quarter we have an opportunity to exchange views. We will see if there is any changed circumstances and whether that's going to have any change in our plans.

Jonas Bhutta

The view is well appreciated over a two to five-year period. Just that current year will have just nine months operational from the government side and the ask rate of INR150,000 plus crores worth of inflows for us means at a country level even higher. This looks like a bit too kind of an aggressive assumption. That was my true sense on that. The second confirmatory question was again on margins. When we started F '24, we knew our order pipeline, we knew where largely the orders are going to come from, yet we started with a guidance of 9%. Within that, we had also clarified that, the claim settlement will not form a very large part, it's not an even more. Starting F '25 with an 8.25% margin guidance, again, what seems to have changed that? Because I can't wrap my head around.

We already knew the renewable pipeline that we had for bidding, the hydrocarbon pipeline that we knew for bidding and we may have one slightly higher than our expectation but this 8.25% margin and then even tempering expectations from a slightly longer-term perspective, so from an FY '26 perspective is also a bit confounding to me. I'm beating around the same bush, but would really appreciate what has changed.

Shankar Raman

I'll also beat the same bush to see whether clarity is good. But what we will see, when we predicted 9% or when we projected 9%, it has got nothing to do with fresh orders to be won, because much of the execution was out of the order book and we knew what is the order book. Couple of things that changed during the year. We never expected the military escalations to happen. If you recall 12 months ago, we were still talking about possibility of Russia-Ukraine war coming down and ceasefire being announced. We never expected a frozen war in Russia-Ukraine and little did we expect there's going to West Asia crises of the type that we are today seeing.

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Secondly, we never expected possibly the supply chain disruption to continue the way it has done during the year. Earlier it was COVID and later it was dispatch constraints at the various ports and airports. And now, it's a question of a lot of orders being placed on limited number of people who have finite capacities and their ability to supply within time. The most recent of it being that the Houthis are firing at anything that passes by. So, we have to take all the way around, so Africa and spend more money and more time in getting our supplies done.

Now, these were things that were not on our radar in April or May of '23 when we forecasted. Secondly, when we forecasted the order in-flow of about 10%, we never expected to end with 30%, and we never expected the order book, which had 28% from international to become a whopping 30%, 38% by the end of the year. The change mix of international orders to domestic orders have also got a role to play in that absolute percentage margin that you're speaking about.

Thirdly, neither you nor I did anticipate that we will have capital intensity reduced to the extent to which we have done in the current year. We never, I'm sure in your model you won't have predicted at 12% working capital, and we did not in our model. And as compared to 18% at the start of the year, 12% is a dream run. So, given so much of uncertainty that has featured our landscape, the margin decline from 9% to 8.25% over the period of 12 months in a way is understandable to me. We have realizing this progressively, revised our guidance down even though it might look like disappointing on the earlier guidance. We have tried to stay true and current to our assessment at every point in time.

Now, given the fact that we are at this stage, what is the green shoots that we are looking at, where the margins will expand from 8.25% to 9%. Now much of the cost that we have incurred in delivering towards our customer's requirement will get settled in due course. So even though we did not budget large amount of claims in '23, '24, there was a certain amount of claims we had taken and those claims have also got deferred. So, to that extent, changed mix, deferment of claim settlement. And thirdly, the input cost, which was earlier commodity later became fuel. Now it is logistics and supply labor cost. Given the fact that much of the jobs are now getting implemented in Middle East, the labor cost in Middle East is much higher than in India.

Secondly, there are local requirements saying 30% of local workforce have to be engaged, when you have large investments happening and all the global players participating in those investments. The 30% compulsion to source locally means all of us rushing to the same source of either labor contractors or subcontractors for components. Now that automatically skews the demand supply situation and we are required to pay the price for staying in the dispatch of the supply. So, given so much of uncertainty, which is what I was saying in the context of another question, 100 basis points, moving up and down is something that we need to possibly be prepared for.

The compensating factor that we are using, because end of the day, what are we committing ourselves? We are committing ourselves to value creation. The value creation is a function of both margins and capital employed. Now, we tend to focus exclusively on margins, forgetting the capital employed as improved.

And secondly, we also tend to forget that international businesses is 25%, is almost becoming 40%. Now 40% of international business might actually make the margins look softer, but if you look at return on invested capital, it is far better. It is not without reason. Over the last few years, we have moved the return on capital investment as well as ROE from the lower levels to where it is today. Today as we speak, the ROE is close to 15% and it was 9% three years ago, or four years ago. So, the efficiency of the business and the value it creates, I would urge all of you, unless to look at it a little more holistically and not just look at one element of value creation. If you look at it as to whether is the company creating value for shareholders? Does it do enough to have a buyback? Does it do enough to have stepped up student? Does it do enough to have a promising future? I think the company ticks all the box. Just a question of what we want to focus on.

Operator

Next question is from Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia

I just had one question. On private CapEx, how much of your prospect list is assuming that, and if you can answer one of the questions that was not probably clear to me, at least, if you have any large domestic orders that you expect to come through in the second half if you can qualitatively speak on those.

Shankar Raman

Domestic CapEx would be about 25% as we see today, very similar to the way it has played out in FY '24.

Girish Achhipalia

And what areas would them be? Steel sector building --

Shankar Raman

Steel are quite scattered. Actually, if you look at last year we won orders in the steel sector. We won some cement factories. We want some paint factories, we want some data centers. We want some commercial real estate. We want some hospitals quite scattered. And I think we would continue to see that play out because my sense is India is apart from few large players, is completely populated by small and medium sized enterprises. The private CapEx Ford, when government successfully announced BOT programs in several areas, including roads. So, if you recall, 5, 7, 8 years ago, everybody wanted to become a park plant sponsor. Everybody become, wanted to become a road owner. Everybody wanted to become a transmission line owner.

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Now, the private capital has realized that having government at the other end of the equation is a very uneven equation. And slowly and including us, we have pulled out of all the concession agreement because we think that private capital does not get the respect that it deserves in terms of return or in terms of terms of play. So, the private CapEx dipped when the BOT collapsed and the BOT was not just restricted to road, it was now becoming all-encompassing 5, 6, 7 years ago. And over time now, it has becomes low.

Secondly, all the power investment has ceased because all the power producers, the private capital who backed it, are all in NCLT in different forms because they ultimately will have to sell power. And power is a politically insensitive issue. So, given that you are going to have a product which is either price controlled or politically sensitive. My sense is, it will take quite some time for new set of private capital providers to forget the path and come and invest. The investment in private sector capital will be very opportunistic and situation dependent. Such of those industries where we are able to see return on their private capital invested will invest and like they have done in the past. Wholesale search in private CapEx, I don't expect. If the country wants to get its basic infrastructure in place, basic road network, rail network in place, basic urban infrastructure in place, world over, it has been done on public capital. It can't be any different in India.

The government has to take responsibility for this and get out of businesses which is suitable for private sector. For example, does government have any business to be in as many defense production areas? I don't think so. The question is reprioritization and reallocation of capital. It will happen. I am very confident over time India will emerge with the right equation. To that extent I think the private capital surge will happen in a phased manner and not happen in a wholesale manner. Our own guess is over the next few years, public sector led capital program will drive the growth. When I talk about public sector, it need not be funded out of union government budget or state government budget. But the program should be sufficient and robust for them to attract lenders of global standing.

Operator

That was the last question. I would now like to hand the conference over to Mr. P. Ramakrishnan for closing comments.

Parameswaran Ramakrishnan

Thank you, everyone, for attending this long call. It was our pleasure to interact with all of you. Good luck and wishing you all the very best. Thank you.

Operator

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

**Load-Date:** May 11, 2024

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