

Management Discussion

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Thank you, Sagar. Good evening, ladies and gentlemen. A warm welcome to all of you to the Q1FY27 earnings call of L&T. The earnings presentation was uploaded on to the stock exchange and on our website around 6:25 PM. Hope you had a chance to have a quick look at the numbers. I will first walk you through the important highlights for Q1FY27 in the next 20 to 25 minutes or so. Post which, we will be taking the Q&A. Kindly note that when the Q&A session starts, I will also have with me our Deputy Managing Director and President, Mr. Subramanian Sarma.

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

India's economic growth remains resilient, supported by healthy domestic demand and continued expansion in manufacturing and service activity, with high-frequency indicators remaining in the expansion -- expansionary territory despite some moderation in momentum. The headline CPI increased from 3.4% in March 2026 to 4.4% in June 2026, largely driven by food and fuel inflation, with underlying price pressures having firmed modestly. While domestic macroeconomic fundamentals remain supportive, developments in global energy markets and geopolitical conditions continue to influence growth, inflation and currency dynamics.

Global growth is expected to remain moderate in the near term, reflecting softer growth in the US, weak domestic demand in China, and persistent inflationary pressures in parts of Europe. Middle East growth is expected to moderate amid geopolitical uncertainty and energy market disruptions, although government-led infrastructure spending, energy investments, and economic diversification programs will continue to provide support.

The key investment themes include infrastructure and industrial development in Saudi Arabia, logistics, renewables, and data center investments in the UAE, and LNG, that is liquefied natural gas, petrochemicals, and energy infrastructure expansion in Qatar. In the near term, the Middle East region continues to navigate logistical and trade disruptions arising from the incomplete normalization of traffic through the Strait of Hormuz, increasing reliance on ports along the Gulf of Oman and the Red Sea corridor.

Having covered the macroeconomic landscape, let me now turn on to a few developments and achievements for Larsen & Toubro. The Offshore Wind business secured an ultra mega order under TenneT North Sea HVDC Offshore Wind program, taking the cumulative offshore wind transmission capacity secured over the past three quarters to approximately 8 gigawatts, reinforcing L&T's growing presence in the Europe energy transition infrastructure. The order further strengthens L&T's position as a global partner of choice for large-scale renewable energy transmission infrastructure and underscores its capability to deliver complex technology-intensive offshore projects.

The divestment of Nabha Power was completed on 25th June 2026, in line with our strategy to exit the concessions portfolio. The company signed an agreement with Hyderabad Metro Rail Limited, a

fully state-owned enterprise of the government of Telangana, to divest its entire stake in L&T Metro Rail Hyderabad Limited. The estimated completion date for this transaction has been revised to 30th September 2026.

The company entered a strategic collaboration with the French company, Exail, to deliver an advanced Unmanned Mine Counter-Measure Suite for the Indian Navy's mine countermeasure vessels program.

L&T Vyoma, which is the data center business for Larsen & Toubro, entered into a strategic partnership with Fortanix Incorporated, a US-headquartered global leader in data and AI security and a pioneer in confidential computing, to jointly deliver sovereign secure Software-as-a-Service offerings for enterprises and government organizations in India.

L&T Electronic Products & Systems business entered into a strategic partnership with EVR Motors to jointly develop and manufacture next-generation EV traction motors in India, combining indigenous manufacturing with advanced propulsion technology to support electric mobility, localization and the government Make in India initiatives.

L&T also secured a Baa1 long-term issuer rating with a stable outlook from Moody's Ratings, two notches above the sovereign, reflecting strong capacity to meet financial commitments and a low level of credit risk.

Before moving on to the financial parameters, I wish to reiterate that effective 1st April 2026, pursuant to the company's Lakshya 2031 strategic plan, the Group has realigned its portfolio to enhance strategic focus, improved capital allocation, and enhance operational agility. As a result, reporting segments are now classified as: Infrastructure Projects has been renamed as Infrastructure and Utilities. Energy projects has been renamed as Energy Conventional. The Renewables business and Offshore Wind business previously reported under the Infrastructure Projects and Energy Projects, respectively, have been regrouped under the newly formed Energy Green segment. High-Tech Manufacturing has been renamed as Manufacturing and Products and now includes Construction Equipment and Industrial Product design and development businesses, which were previously reported under the Other segment.

IT and Technology Services has been renamed as Technology Platforms and Services. The Realty business has been now classified as a separate reportable segment, which was previously included in the Other segment. Also, our Projects & Manufacturing segment has now been reclassified as Projects, Products and Manufacturing to better reflect the breadth of activities within the segment, including our forays into electrolyzer and electronics manufacturing.

In terms of exclusions, the only material change to the reporting structure is the segregation of the realty business out of the Projects and Manufacturing segment that we used to report earlier.

I now move on to the Group performance. The order inflows remained positive momentum during the quarter, driven by strong international ordering activity, including large offshore wind awards in Europe and sustained private sector investment-led demand in the domestic market, particularly in the Metals and Minerals and the Buildings and Factories businesses.

Reflecting this momentum, the Group order inflows at INR1,080 billion, registering 14% Y-on-Y growth. Within this, the projects, products and manufacturing, that is PP&M portfolio, recorded order inflows of INR860 billion, also up by 14% Y-on-Y basis.

In terms of the geographic mix, international order inflows grew 27% Y-on-Y, while domestic order inflows remained broadly stable with a 1% growth. As a result, the contribution of international

orders to the PP&M portfolio increased to 55% compared with 49% in the corresponding quarter of the previous year.

Turning on to the prospects pipeline. The opportunity pipeline for the balance nine months of the current fiscal FY27 remains healthy at approximately INR15 trillion compared with INR14.81 trillion at the same time last year.

The broad composition of the overall prospects pipeline is as follows: Infrastructure and Utilities have a share of INR7.82 trillion as compared to INR6.85 trillion last year. Energy-Conventional, the order prospects are at INR4.37 trillion vis-a-vis INR5.19 trillion last year. Energy Green, INR2.43 trillion as of June '26 as compared to INR2.46 trillion last June 2025. Manufacturing and Products, the order prospects is INR0.46 trillion as compared to INR0.30 trillion last year.

Moving on to the order book. The total order book stood at INR7.79 trillion as of June '26, up by 27% as compared to the June '25 level.

In terms of portfolio composition, approximately 45% of our total order book is from Infrastructure and Utilities, 28% from Energy Conventional, 19% from Energy Green.

In terms of geographic mix, 48% of the order book is domestic, while 52% is international, reflecting the increasing share of international orders secured over recent times.

The total domestic order book, excluding Realty, stood at INR3.54 trillion, with the customer mix tilting towards the private sector over the past 12 months. The share of private sector orders increased to 40% from 27% as of June '25, driven by major order wins in the CarbonLite solutions, Residential, Commercial Buildings and Factories, and the Metals and Minerals businesses, along with select awards in heavy civil infrastructure.

Within the public sector portfolio, the combined share of central and state governments declined to 30% of the domestic order book, comprising 9% from central government and 21% from state governments as compared to 39% a year ago. The PSU exposure also moderated to 30% from 34% last year.

Of the international order book of INR4.07 trillion, the Middle East accounts for 71% of the portfolio, underpinned by our long-standing presence in the region. The Europe contributes 14%, reflecting the growth in our Offshore Wind business over the past few quarters. The balance 15% is distributed across other international markets, including Central Asia, ASEAN and the SAARC regions, providing further geographic diversification to our infrastructure and utilities and the energy green segments.

With respect to additional details on the order book, 8% of the total order book is funded by our bilateral and multilateral agencies, primarily covering the company's exposure to projects from state and local authorities and PSUs. In addition, as of June 2026, slow-moving orders constituted less than 1% of the overall order book. During the quarter, orders were -- aggregating INR2.5 billion were deleted from the order book. Further details are available in the accompanying presentation.

Turning on to revenues. The performance during the quarter reflected the execution stage of the order book across both domestic and international markets, as well as supply chain and logistic constraints -- constraints affecting select projects in the Middle East.

As indicated during the Q4FY26 earnings call, the revenue growth in Q1 was expected to be relatively subdued, primarily due to disruptions arising from the ongoing conflict. Reflecting these factors, the Group revenues for Q1FY27 stood at INR679 billion, registering a 7% Y-on-Y growth with international revenues accounting for 51% of the total Group revenues. The revenues from the

PP&M business stood at INR462 billion, up 2% Y-on-Y.

Moving on to EBITDA margin. Our Group-level EBITDA margin, excluding other income for Q1FY27 is 9% as compared to 9.9% in the Q1 of last year. The decline in EBITDA margin is mainly reflective of lower execution in the PP&M business, ForEx variation in the IT company -- IT subsidiaries, and higher ECL or credit provisions.

Our PP&M manufacture -- PP&M business EBITDA margin for Q1FY27 was at 7% and declined by 20 basis points compared to the corresponding quarter of the previous year. The decline in margin was mainly attributed to lower execution and higher ECL provisioning.

Our Group PAT for Q1FY27 at INR41 billion is up by 14% Y-on-Y basis. The increase in PAT is largely reflective of improved performance of the services business and higher treasury income aided by improved working capital levels of the PP&M portfolio.

The Group performance, along with the P&L construct and the reasons for major variances under the respective function heads, is provided in the earnings presentation.

Turning on to working capital. Our focus on working capital efficiency continued to yield positive results during the quarter. While net working capital reflected the expected utilization of customer advances and settlement of vendor dues during the quarter, the gross working capital efficiency improved further.

In terms of numbers, the NWC-to-sales ratio improved significantly to 4.9% in June 2026 from 10.1% in June 2025. As anticipated, the ratio was marginally higher than 4.1% that we reported for March '26. The GWC-to-sales ratio improved further to 51.1% from 53.9% in March 2026, driven by continued focus on working capital efficiency.

Our Group-level collections, excluding the Financial Services segment for Q1FY27 stood at INR658 billion as compared to INR603 billion in Q1 of previous year. The cash flow from operations, excluding Financial Services, remained healthy at INR43 billion during the quarter. Our Group cash flows, excluding the Financial Services business has been provided in the annexures alongside reported cash flows at the group level to enhance the clarity on the overall cash flow movement.

Finally, the trailing 12-month ROE for Q1FY27 stood at 16.1% vis-a-vis 17% in Q1FY26. As this metric is measured on a trailing 12-month basis, it continues to reflect the impact of the one-time Labor Code provision recognized in Q3 previous year, which reduced the ROE by almost 100 basis points. Excluding this impact, the underlying ROE remains broadly stable year-on-year.

Very briefly, I will now comment on the performance of each business segment as per the new segment definition before we give our final comments on the outlook. We begin with the Infrastructure & Utilities segment. The order inflows for the segment more than doubled year-on-year to INR444 billion in Q1FY27. Major domestic orders secured during the quarter included Ferrous plant projects in the Metals and Minerals business and residential buildings and factories business. International order wins were led by substations and transmission line projects in the power transmission and distribution business, along with select orders in the transportation infrastructure vertical.

Notably, the Metals & Minerals business secured its largest ever domestic metal sector order during the quarter from a leading iron and steel company. Private sector orders accounted for nearly 77% of domestic order inflows in Q1FY27 compared with 52% in Q1FY26, reflecting the continued strength of private capex. The segment order book stood at INR3.51 trillion as of June 2026, providing strong revenue visibility with an average execution cycle of approximately 29 months.

As I mentioned earlier, the Infrastructure and Utilities pipeline for the remaining nine months is approximately INR7.82 trillion. The pipeline comprises of domestic order prospects of INR5.47 trillion and international prospects of INR2.35 trillion. The subsegment breakup of the total order prospects is as follows. Transportation Infra having a share of 24%, Heavy Civil Infrastructure 22%, Power Transmission & Distribution at 17%, Buildings and Factories at 15%, Water & Effluent Treatment at 12%, and Metals & Minerals at 10%.

The revenue for the quarter declined by 3% year-on-year basis, primarily reflecting the early-stage execution of certain large projects within the order book. The EBITDA margin for the segment stood at 5.1% in Q1 current year as compared with 5.5% in Q1 previous year. The moderation in margin was largely driven by a change in revenue mix and higher ECL provisions.

Moving on to the Energy - Conventional segment, which comprises the Hydrocarbon and CarbonLite Solutions businesses. The order inflows for the segment stood at INR31 billion in Q1FY27 compared with INR314 billion in Q1 last year. The decline was primarily attributable to the deferment of certain anticipated order awards during the quarter, coupled with the high base effect of the previous year, which included the benefit of ultra-mega thermal BTG orders in the CarbonLite Solutions business.

The order book of the Energy - Conventional segment at INR2.22 trillion as of June '26, with the Hydrocarbon order book at INR1.59 trillion and CarbonLite Solution at INR0.62 trillion. The Energy - Conventional segment continues to see a healthy opportunity pipeline, led predominantly by hydrocarbon opportunities across international markets, while CarbonLite solution prospects remain largely domestic in nature.

The order prospects pipeline for the remaining nine months of the current financial year stands at approximately INR4.37 trillion, comprising hydrocarbon prospects of INR3.67 trillion and CarbonLite solution prospects of INR0.70 trillion.

The Q1FY27 revenues for the segment stood at INR142 billion, reflecting a growth of 14% growth and underscoring execution progress on a larger order book. The CarbonLite Solutions business, in particular, continued to gain traction as execution on ultra-mega orders gathered space. The Energy - Conventional margin was at 7.6% and is largely in line with the previous year, which was 7.5%.

Moving on to the next segment, Energy - Green. The segment comprises a relatively mature solar business with a strong presence across GCC markets, complemented by the newer growth platforms in offshore wind and onshore wind. The Energy - Green segment witnessed strong ordering momentum during the quarter, driven by significant wins in the offshore wind business in Europe, supported by the receipt of ultra-mega orders for HVDC platforms in the offshore wind business. Reflecting this momentum, order inflows for the segment at INR330 billion in Q1 current year, registering a strong growth of 58% Y-on-Y.

The order book in this segment was at INR1,467 billion, comprising of solar projects of INR740 billion, offshore wind projects of INR568 billion, and onshore Wind projects of INR158 billion. The prospect pipeline for this segment is INR2.42 trillion, comprising of Solar EPC prospects of INR1.80 trillion, offshore wind prospects of INR0.40 trillion, and onshore wind prospects of INR0.22 trillion.

On revenues, the segment's performance during the quarter was impacted by supply chain disruptions in the GCC region, which affected execution in the solar business. The segment revenue for Q1FY27 stood at INR56 billion, registering a decline of 11% Y-on-Y, while margins remained largely stable compared to the corresponding period of the previous year.

Moving on to the Manufacturing & Products segment, which comprises Heavy Engineering, Precision

Engineering & Systems, Electronic Products & Systems, Electrolyzer Manufacturing, Construction Equipment, and Industrial Product and Design and Development. The segment order book -- order inflow during the quarter was aided by receipt of multiple refinery equipment packages in the Heavy Engineering business. The order book of this segment at INR424 billion as on June '26, with the PES order book at INR207 billion, Heavy Engineering order book at INR87 billion, Electronic Products & Systems order book at -- order book which is currently includes the defense-related electronic product system at INR66 billion and the construction equipment and IPDD order book of INR47 billion.

Our order prospects pipeline for the remaining nine months in this segment is around INR460 billion, comprising of INR368 billion of Precision Engineering and Electronics prospects, and remaining INR92 billion is from the Heavy Engineering business. The segment revenue at INR45 billion registered a growth of 9% Y-on-Y. The segment revenue growth is reflective of strong execution momentum in the Precision Engineering & Systems and the Construction Equipment businesses. The segment margins were lower on a Y-on-Y basis, largely reflecting the sales mix across the businesses.

Moving on to the next segment, which is the Technology Platforms & Services. This comprises of the two listed entities, LTM and L&T Technology Services, as well as the newly incubated businesses of digital platforms, data centers, and semiconductor design, as well as the residual portion of the Smart World & Communications portfolio.

The segment revenue stood at INR146 billion for Q1FY27, registering a growth of 15% Y-on-Y, led by the growth in both LTM and LTTS. The decline in segment margin was primarily due to salary hikes and forex variations in LTM. I will not dwell too much on this segment as both the companies in the segment are listed entities and the detailed fact sheets are already available in the public domain.

We move on to L&T Finance Limited. Here again, the detailed results are available in the public domain. But on a summary basis, the Q1 current year witnessed a robust growth in the retail disbursements and improved collection efficiency, as well as asset quality. The ROA remained healthy at 2.48% for Q1FY27.

Moving on to the Realty segment, which is now being reported as a separate segment following its segregation of the erstwhile projects and manufacturing portfolio. The order inflows for Q1FY27, which mainly represents L&T's share of presales, stood at INR13 billion, registering a strong Y-on-Y growth of 32%. During the quarter, the business further strengthened its presence in the NCR market through the acquisition of a 20-acre land parcel in Gurugram. The segment order book representing unrecognized revenue stood at INR173 billion as of June 2026.

During the quarter, L&T Realty launched two projects in the Mumbai Metropolitan region with a potential GSV of INR50 billion revenue for the quarter -- for INR50 billion. The revenue for the quarter more than doubled year-on-year to INR10.1 billion, driven by a higher handover of residential units in the MMR region. The segment margins moderated during the quarter, primarily due to a change in sales mix with a higher proportion of JDA-led projects contributing to the revenue.

Moving on to Development Projects segment. The performance of this segment for Q1 comprises the operations of Nabha Power up to the date of its divestment that is June 25, 2026. L&T Metro Rail Hyderabad Limited till April 30, 2026, in line with the terms of the share purchase agreement with HMRL, that being the buyer. And it also -- the segment performance also includes the green energy business focused on building a portfolio of large-scale integrated green hydrogen and derivative projects, including green ammonia and green methanol. The business is presently in the investment

and scale-up phase. Going forward, the financial performance of the segment will primarily reflect the green energy development portfolio.

Before I conclude, I would like to highlight the financial year has commenced against the backdrop of heightened geopolitical uncertainty and economic volatility. Sustaining growth in such an environment requires a careful balance between pursuing opportunities and maintaining disciplined risk management. Our diversified presence across sectors and geography, coupled with a strong focus on cash flow generation and prudent capital allocation, has enabled us to navigate these evolving conditions effectively.

The performance for the quarter reflects the resilience of our portfolio and the strength of our diversified business model in an increasingly dynamic operating environment. This balanced approach enhances resilience and positions us well to deliver sustainable growth across market cycles.

Against this backdrop and supported by the strength of our order book and healthy prospects pipeline and the continued focus on execution, I will now turn on to our guidance for FY27. On order inflows, our order inflow recorded a strong 14% year on growth in Q1 despite project deferments during the quarter. Looking ahead, our prospects pipeline for the remaining nine months remains healthy at INR15 trillion, providing strong visibility for the rest of the year.

While the awarding activity in the Middle East witnessed some temporary slowdown, tendering and bidding momentum continues to remain robust, and we expect project awards to pick up from Q2. Importantly, we have not seen any project cancellations across the opportunities that we are actively pursuing and bidding for.

In India, we see continuing investment momentum from both private sector and public sector enterprises. Given the strength of our opportunity pipeline and the underlying market dynamics, we remain confident of achieving our order inflow growth guidance of 10% to 12% band for the current year.

On revenues, during the Q4FY26 earnings call, we had indicated for the first half FY27, and Q1 in particular, could be relatively subdued given the conflict in the Middle East. While the operating environment remains dynamic, our teams are actively pursuing alternate supply chain solutions and execution strategies to manage these challenges. Considering the rapidly evolving situation, we believe it's prudent to wait for greater clarity before reassessing the full-year outlook. For now, we remain committed to our FY27 growth guidance of 10% to 12% -- revenue growth guidance.

Coming on to margin. In line with our revenue growth guidance, we continue to target a margin of around 7.8% for FY27 with respect to the PPM portfolio.

Lastly, on working capital, we continue to witness strong collection momentum with no delays in customer receipts across Middle East despite the ongoing conflict, and robust collections also from other geographies, including our parent geography of India. Factoring in the expected utilization of customer advances and increased vendor payments as execution accelerates in H2, we are maintaining our FY27 working capital guidance of around 10%.

With this, I complete the first part of our presentation. We can now get into Q&A.

Questions & Answers

Operator

Thank you very much. We will now begin with the question-and-answer session. [Operator Instructions] Your first question comes from the line of Mohit Kumar with ICICI Securities. Please go ahead.

Mohit Kumar - Analyst, ICICI Securities

Yeah, good evening, sir, and thanks for the opportunity. My first question is on the Middle East. What would have been the impact of the revenue as per your assessment in the first quarter? And do you think that there will be a need to make a provision on the projects due to cost escalation if this continue for a slightly longer time? And have the things improved in terms of execution compared to last quarter, as we talk?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So thank you, Mohit. Okay. Just to once again reiterate, we also have with us Mr. Subramanian Sarma, our Deputy Managing Director and President, to take the questions. But I will take this first. So, two parts to it. So in so far as cost is concerned, as you are aware that L&T is engaged in the Middle East across select customers and select sectors and the customers are virtually the country's sector specialists, so -- and the order book that we have, we have multiple projects with them.

There are only certain sectors, I would say, where some amount of execution momentum has slowed down. But otherwise, for major part of the order execution momentum, as I elaborated specifically while explaining the Hydrocarbon, the Energy - Conventional performance, the momentum has continued. I don't think it has impacted that much in the first quarter, barring for certain projects, especially the projects that we are executing in Qatar, which fortunately for us at early stage, the major part of the execution is actually -- the fabrication is happening in Oman for those projects. So we have not had that kind of a situation in Q1.

But going forward, in segments like renewables and all, which is forming part of the Energy - Green segment, supply chain challenges have happened, and there are intermittent supply chain disruptions are happening. The company is ensuring that we are trying to find out alternate routes. While we are doing this, we also keep -- we are ensuring that the client is informed of our next actions. And because of this kind of force majeure situation, we are in close touch with the clients in so far whenever there is a change in the project scope in terms of the execution momentum.

So for Q1, especially for hydrocarbons, we are not seeing that kind of a challenge. But going forward, if the conflict continues to persist, there can be implications there, but we are working very closely with clients.

In so far as the extended timeline is concerned, it will obviously have some amount of cost implications, but we are in touch with the clients, and the clients are appreciative enough. It's not only with Larsen & Toubro, it is also with other contractors. They know the issue. And hopefully, some of -- major part of these cost increases because of time extension and supply chain disruption will get compensated at a later stage.

Mohit Kumar - Analyst, ICICI Securities

Understood. My second question is, of course, the war is still ongoing. How is the conversations

progressing on finalization of the Middle East prospects, especially the large hydrocarbons? Do you think that the increased risk to this prospect list may shift to the next calendar year?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Yeah, this is Sarma here. Let me chip in. No, I think the prospect list still holds good and many of the projects are progressing as per the plan. And very soon, you will see some announcements coming from our side with respect to new awards in the Middle East.

Mohit Kumar - Analyst, ICICI Securities

Is there any risk that some of the prospects would shift to, or do you think that most of the prospects will get finalized as you envisage?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

No, I'm not expecting much delay in the finalization of award.

Mohit Kumar - Analyst, ICICI Securities

Understood, sir. Thank you, and all the best. Thank you.

Operator

Thank you. Your next question comes from the line of Atul Tiwari with JP Morgan. Please go ahead.

Atul Tiwari - Analyst, JP Morgan

Yes, sir, thanks a lot, and congrats on a pretty good set of numbers in a challenging environment. Sir, my question is on -- would you be able to share any color on the progress of AMCA RFP and -- as well as the remotely piloted aircraft bidding process for which I think you have a JV with General Atomics.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So Atul, I think what we -- I think this question came up during our May call as well. I don't think we have anything more to say what we stated in the previous call. So the bidding process is on. I think we don't have anything further to state at this juncture.

Atul Tiwari - Analyst, JP Morgan

Okay, for both of them, there is no further update?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Yes, yes, yes.

Atul Tiwari - Analyst, JP Morgan

Okay, thank you.

Operator

Thank you. Your next question comes from the line of Mohit Pandey with Citi. Please go ahead.

Mohit Pandey - Analyst, Citi

Yeah, good evening, sir. Sir, my first question is on the margins. Sir, while we have highlighted

robust collections and cash flow improvement and working capital guidance has been maintained, we have also mentioned margin impact due to ECL provisions. So just if you could help reconcile -- so are the ECL provisions not linked to receivables in this case, or how to read this? Yeah, that would be question number one.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Okay. So Mohit, it is like this that what happens is ECL provisions are basis the aging of the receivables. As you are aware, we have been mentioning even in the previous year, there has been some amount of collection shortfall that we have been witnessing in the Water & Effluent Treatment business.

So because of the delays and in some projects which -- where we are about to get completed those legacy projects which are getting completion, mostly coming from this -- from India-related projects. So the revised, what to say, aging analysis typically creates a little bump up in the ECL provisions in first quarter. But this is not something, I don't think, is going to happen in the balance three quarters of the year.

So specifically, if you talk about sector-wise, it is to do with the water and effluent treatment and in some select projects in the Infrastructure segment in India -- for projects in India.

Mohit Pandey - Analyst, Citi

Understood, sir. That's very clear. Sir, second question is on the prospect pie. So across the board, we have seen companies, and I assume including us, take price hikes, which has also helped with the order inflow numbers for some companies. So when we get the prospect pie of INR15 trillion, have we factored in price hike that we might need to take to factor in input cost pressures, or yeah, yeah, how to read that? Yeah.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So when I talked about that INR15.07 trillion of order prospects, it is basis the current pricing, okay? Current pricing of those prospects.

Mohit Pandey - Analyst, Citi

Okay, sir. Okay, okay. So, possibly there could be some upside, possibly if there are -- okay. Sorry, sir. Yeah.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Any time I talk about prospects pipeline is basis the current prospect the way they are currently priced today. It is not that what we took as a prospect pipeline in the month of, say, June '25, it is still coming as prospects or something which happened in December '25. They always get reset or revised. This is the current way we would like to see if you were to quote it tomorrow, say. So it is basis that this is the number that looks like.

Mohit Pandey - Analyst, Citi

Okay, sir. And last question, basically on margins again. So, while we have 9.9% going to 9%. There is, I think, Slide number 31, which suggests an increase in EBITDA margin in the segmental breakup. So is that to do with the other income, which has seen a sharp increase?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

No, no. So the 9% that you see, if you see in the next slide, the other income comes there. So this EBITDA margin is before other income.

Mohit Pandey - Analyst, Citi

Yeah. But on Slide 31, the segmental breakup shows the overall margins going from 11.2% to 11.5%, right? So that is where my confusion was, basically.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So what happens -- wherever other income is getting posted in the subsidiaries which are executing the projects in the segment slide, that other income features in the respective margin trajectory. So when I'm commenting upon each of the segments, the EBITDA margin, when I'm giving the commentary, it includes the segment's other income there.

But in the -- when I talk about the overall financial construct, that goes at 9%, 9.9%, the slide which you -- starting with top line and ending with EBITDA and the second slide starting with EBITDA and ending with PAT. That is 9% is without the other income. They are not exactly comparable because when we talk about margins, we are referring to margins for the segment at the PPM level, whereas the 9%, 9.9% is at the overall group level, which includes the IT company margins, the financial services net contribution and net interest margin, everything.

Mohit Pandey - Analyst, Citi

Understood, sir. That's it from my side, and wish you all the best. Thank you.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Thank you.

Operator

Thank you. Your next question comes from the line of Amit Anwani with PL Capital. Please go ahead.

Amit Anwani - Analyst, PL Capital

Hi, sir. Thanks for the opportunity. So first question pertains to -- you've highlighted about the water-related impact on execution. I recollect, I think in 4Q, we were talking about the water project getting improved and probably the clearances are now getting better and the collection can improve. So what went wrong with respect to the Waters business? And what is the kind of order book collections, which is there? Any update on this side?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Okay. So, like, what -- last time when we spoke about, we spoke about last year, the impact on execution on water was because of the fund outlays around the JJ emission orders. I wish to tell you that the JJ emission order, since then, from the current year, has revived. But it takes some time now before the execution starts, whereas the credit provisioning is based in the aging metrics.

So, as I mentioned earlier, this is sort of a Q1 effect over with the execution momentum continuing in the -- improving from now onwards because collections have started coming in. Some of these

reversals of credit provisions will happen as we progress bill and collect.

Amit Anwani - Analyst, PL Capital

Right. The second question on the order inflows. One, on the European win. So are we -- what is the nature of this order, the timelines, and the margins, working capital?

And second, amid the Middle East conversions probably slightly delayed, are we looking for pipeline in European markets? Any country, any specific areas we can think of apart from this mega order which you have won?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Okay. This is Sarma here. This European order is an extension of what we had already announced last year, the two contracts. We had, at that time, told you that we are looking at signing a framework agreement for total 12 gigawatts. And then last year, we had secured four. And now again, this quarter, we have secured additional four. So it is an extension of that.

And hopefully, if everything goes well, we'll have to wait and see. Maybe if they go ahead with additional two, then it may materialize sometime in the future. But that is something which I cannot be very sure about it. But today, we have almost close to 8 gigawatts of offshore wind, and adding up to almost close to INR57,000 crores, INR60,000 crores of order book.

And this will get executed over four to five years period. I mean, that's the timeline of this. These are long projects, and it requires a considerable amount of effort in procurement and fabrication, and then installation. So the four to five years is the timeline. And the margin will be better than what we have normally in our EPC business in the Middle East, but it's too early to commit on the exact numbers. But hopefully, it should deliver better results.

Now we will continue to pursue offshore wind prospects in the region in Europe and also in other parts of the world because that is the model and that is the business we want to grow. But other than that, specific offshore wind, we are -- our -- other rest of our EPC business will be still mostly centered around India, Middle East, and maybe some selected business in CIS countries. That's how -- we have no plans to diversify in terms of geography for EPC business, except for the wind -- offshore wind farm business.

Now talking about the prospects line, I think I mentioned earlier to previous question that we are not seeing any significant delay. There could be a month here and there. But our order pipeline from the Middle East for the businesses we are present there, which is primarily hydrocarbon and renewables, looks quite healthy.

Amit Anwani - Analyst, PL Capital

Right. And sir, domestic market, wanted to understand the inflows, have the conversion rates impacted amid what is happening and probably that could have impact on the government finances also. Anything you sense that probably the domestic pipeline, which you have highlighted, could be at risk of some deferments or some curtailments, and the conversion rates can also be impacted?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

I mean, we have delivered very good order inflow in the quarter one better than what anybody had expected. And overall guidance given by TR is still very much consistent with what we had indicated earlier. I don't know why you keep getting doubts about the domestic market. It will continue to go

as we have planned.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So, Amit, it is like this. I did tell that the share of domestic prospects that is the 15.07%, it is almost 50% is domestic. And the most important thing over the last two years that we are looking at is a major share slowly of domestic orders is also getting into private sector, largely led by residential, commercial real estate, then other industrial sectors and last but not the least, power.

So a combination of these three is still -- those kind of prospects are still going on strong for us in so far as domestic visibility of order inflow is concerned. I think it is getting more balanced in terms of both public and private.

Amit Anwani - Analyst, PL Capital

Understood, sir. Sir, lastly, how the Nabha Power is accounted in P&L? That's it.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

The Nabha Power results are accounted as a subsidiary until the date of its sale, okay? And thereafter, we have taken into effect the sales consideration minus the total value that is lying in the consolidated statements. So it is a marginal gain that we have accrued on the sale because of the fact is Nabha has been consolidated as a profit all these years. So the carrying value in the consolidated statement is beyond the total investment that we made.

And we have not had a major change in terms of additional consideration over and above this carrying value. So marginal gain on the divestment, but because of the tax related, there is a tax outflow of almost INR110-odd crores, which we have booked in the P&L. The tax arising out of the capital gains of the transaction.

Amit Anwani - Analyst, PL Capital

Thank you, sir. Thank you so much.

Operator

Thank you. Your next question comes from the line of Renu Baid Pugalia with IIFL Capital. Please go ahead.

Renu Baid Pugalia - Analyst, IIFL Capital

Yeah. Hi, good evening, team. Just two -- couple of questions -- quick questions. One on the Hydrocarbon. We did mention that we did not get materially impacted because quite a few sites, including Qatar, were in the early design engineering phase and fabrication was still continuing at Oman. So in your view, based on the project timelines, when do we hit the milestones of supply starting from Oman?

And do you think if the current conflicts continue to persist, like Qatar, a couple of other projects which are due for the project milestone in terms of design and supplies could get impacted?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

See, the offshore large number -- yeah, the large mega projects in offshore, they will be ready for dispatch from our Oman yard sometime -- scheduled to be ready for dispatch sometime in first

quarter of next year, calendar year. [Speech Overlap] January..

Renu Baid Pugalia - Analyst, IIFL Capital

So at least we have three Quarters of cool-off period if those conflicts arise there.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Yeah, yeah, yeah. If the conflict extends to next year, then yes, then it will become a problem for us. But until that time, for the offshore, we should not.

On the onshore projects, I mean, like we are overcoming that month by month. It's not that nothing is affected, we have logistics issues, but we are managing that, as PR said, and making sure that the projects sites are not impacted because of the disruption because you are managing alternative routes.

Renu Baid Pugalia - Analyst, IIFL Capital

Right. And more than the Hydrocarbon, specifically, if you look at renewable or solar projects that we have seen supply chain disruptions in the region.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Correct. Correct.

Renu Baid Pugalia - Analyst, IIFL Capital

These are also short-cycle projects. So how do we look not just on the revenue execution timelines, but the profit margins that these projects were carrying? Do we see that getting materially eroded? And I'm sure that would have already been a part of the guidance, but do we see a material erosion and probability of any provisions arising from that?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

No, I think material erosion is unlikely because if that scenario happens, then we will not bring. The only reason why we will have material erosion in the margin is that we incur the cost -- exorbitant cost of bringing the material, which we are not doing. I mean, as PR mentioned earlier that whatever we are bringing, we are doing it in consultation with customer, and there is a kind of a general understanding and agreement that cost will be compensated.

I mean, if there is no agreement on that, then we will not incur that cost. And in that case, some revenue impact will happen. And therefore, the project timeline might get extended, and we'll have to recover that cost at a later stage.

Renu Baid Pugalia - Analyst, IIFL Capital

Got it. Thank you so much, and best wishes, team. Thank you.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Thanks.

Operator

Thank you. The next question comes from the line of Sumit Kishore with Axis Capital. Please go

ahead.

Sumit Kishore - Analyst, Axis Capital

Thanks for the opportunity. My question is in relation to other income, which is up almost 75% to INR23.7 billion on a year-on-year basis. Even on a quarter-on-quarter basis, there is a steep increase from INR15.8 billion. So how much of this -- is there any item that we should know about? Or is this the new recurring other income level that we should be sort of factoring in with the cash and cash equivalent position that you have?

And in the PP&M EBITDA of INR32.11 billion, how much is the other income component in case you were to attribute to that in the way you report your segmental EBITDAs? That's my first question.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Okay. So Sumit, it is like this. The other income is primarily on account of the higher cash generation that we have, okay? This is all on account of the Group surplus, which is across all the entities, be it Larsen & Toubro parent, be it LTM, LTTS, even L&T Finance and also the other unlisted subsidiaries that we have within India and outside India, okay? So a major part of this is arising out of that.

And yes, pending their spend, as you may be aware, I did articulate during our May call about the L31 Lakshya plan. Some part of this cash also will get into newer investments as they shape up. They are all at initial stages.

So at the current trajectory, this is the yields that we have done because we believe that our yields also have been ahead of in terms of typically markets the way they earn surpluses, we have been at least 1.5% to 2% more. And consequently, you get that additional kicker, but it would be unfair for me to say this is a new norm, because as we start investing into the Green Energy segment that I voiced over when I took the development project segment and some of the other investments like data center business and all, so some amount of drop-down will happen, okay? But for the next one or two quarters, this seems to be a reasonable assumption one can take.

Number two is -- the other part is insofar as the subsidiaries, which are overseas, to the extent their other income because that cash is not coming back to the parent in any form, and hence, it is specifically related to that business or where the project is getting executed, that part of other income is featuring in our PPM EBITDA.

Sumit Kishore - Analyst, Axis Capital

Right, right. I'm just wondering, I mean, given your operating cash flow, the Q1 is a relatively smaller quarter, but your operating cash flow on a full-year basis is certainly going to lead to an increase in cash even after the capex commitment that you do under Lakshya. So directionally, is the other income still going to become significantly larger versus where we ended up in the previous year? So, what could you quantify your capex for the Lakshya plan this year, year one?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So the Lakshya plan capex for the current year would be -- of course, I did mention about different businesses having different models, which we will pursue. Hopefully in Q2, I think we will be able to finalize and let you know. So it will be a little, I would say, ahead of time if I have to put a number for that.

But taking into account the treasury income that we have overall at the entire Group level, so the

overall treasury income is in the range of almost, if you say, roughly around 70% of the other income could be lying in L&T standalone, which means it does not feature in the PPM EBITDA. Almost 20% could be coming from the other listed entities. Again, that goes directly into their performance. The balance 10% to 15% will be possibly the treasury income that is featuring in the PPM margins.

Sumit Kishore - Analyst, Axis Capital

Got it. Just one small bookkeeping question on depreciation. Depreciation for the quarter is INR10.3 billion, down from INR11.7 billion at the end of Q4 FY26. Sequentially, why has the depreciation come down?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So it is a question of any particular plant and machinery getting commissioned in the latter part of last year, we will have the full share of the quarter, okay? And consequently, some of the older plants and equipment, possibly, have also run down. So it has got nothing specifically for us to say why depreciation is down.

And secondly, Nabha -- sorry, one more aspect is Nabha -- the Metro part, which is almost INR75 crores per quarter, where depreciation is also not included because Metro is -- I mean, we have not consolidated Metro from May onwards.

Sumit Kishore - Analyst, Axis Capital

I think, yeah, that explains. Yeah. Okay. Thank you so much.

Operator

Thank you. Your next question comes from the line of Aditya Bhartia with Investec. Please go ahead.

Aditya Bhartia - Analyst, Investec

Hi, good evening, sir. You mentioned that [Speech Overlap]

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Aditya, [Indecipherable]

Aditya Bhartia - Analyst, Investec

Hi, good evening, sir. Sir, you mentioned that there have been certain cost escalations and you are in discussions with customers and with clients on how to kind of recoup that. Just wanted to understand how does the accounting work? Do we get a proper kind of an arrangement with the customer that they are going to repay us for the increased cost only then we are going ahead, and therefore, there are no provisions that are required? Or is it that there is a kind of a rough understanding, we make certain provisions, they may get reversed or they may stay the way they are? Just wanted to understand on that aspect.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

No, no. Actually, like what you said, I mean, if we are having prior consultation with customer and there is an agreement that they will reimburse us the cost, and then there is a formalization of that, then it gets captured in our accounting. But if there is no agreement, then we cannot. I mean, then we will recognize only when the agreement happens.

And like I said, we are trying to avoid incurring additional costs as much as possible by deferring the project if there is no agreement.

Aditya Bhartia - Analyst, Investec

Understood, sir. So, from that perspective, it's fair to assume that results are correctly reflecting the impact of the war as well as costs that have gone up for various raw materials?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Yeah, so far, yeah, whatever we have incurred so far. Yes.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Aditya, let me tell you and for the benefit of all, I mean, just to -- see, at the end of the day, the revenues and margins are basis not actual cost that we incur, it also includes the future costs that we are expected to complete the job. Basis that, the percentage completion is being determined.

And so when we are doing this, it is not only current procurements. We also know what are the future procurement basis the current prices to the extent the purchase orders have been placed to vendor, okay? So all these discussions in this kind of environment happens with very active discussions with the client. And if the client says, okay, you can decide not to take this item at this juncture because they can afford to take a three months delay or six months delay in the project. So we don't take that now in the hope that the projects will come.

The prices will come down in the future. But wherever there are procurements which are required as per the critical part of the project, those kind of procurements are happening. Some prices are in line with our own estimates. If there are some additional prices, discussions are on with the client to ensure that the client is aware that Larsen & Toubro is placing at this price, given the peculiarity of the -- given the situation.

So some amount of pass-throughs will happen. Some amount may not happen, but that is something which you need to evaluate every period.

Aditya Bhartia - Analyst, Investec

Understood, sir. Understood. Sir, my second question is that in Q1, you earlier kind of indicated that we also had some inventory which was lying at the site, especially for projects like renewables. And if this war or this dispute keeps getting prolonged, then could it mean that Q2 could be a little more challenging than Q1? How does it work on the supply chain side? Or is it that given the time has passed, we have figured out how alternate routes can be worked around, and rather we should start seeing things easing out?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Yeah. So I think I had said that in the beginning of the crisis, we normally have about three months of inventory. I think most of it has been now consumed as expected. But now what we are doing is that, like you said, we have figured out alternative routes. So we know how to get the material to the site, but then there is a cost.

And like, again, we are repeating, but if there is an agreement with the customer that they are willing to reimburse us the additional cost, then we bring the material. Otherwise, we are delaying the

progress, but we continue to do other construction activities. It's not that everything is held up because of the material. So there are other activities we keep progressing in those.

And in many cases -- most of the cases, we are quite successful in having alignment with the customer and -- month by month. So at least we have a month of work in front of us. So far, most of our sites have at least a month of work in front of us. And during -- within that period, we will again have a consultation with the customer and see whether we need to bring additional material.

Aditya Bhartia - Analyst, Investec

Sure, sir. Sure. Understood. Thank you so much.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

It's very dynamically managed. I mean, I don't think we can say that exact number. But month by month, we will take a stock and see how the situation is, and in consultation with customers, we'll make a call.

Aditya Bhartia - Analyst, Investec

Sure, sir. That's helpful. Thank you.

Operator

[Operator Instructions] Your next question comes from Priyankar Biswas from JM Financial. Please go ahead.

Priyankar Biswas - Analyst, JM Financial

Yeah, good evening, sir, and I would say resilient performance under the circumstances. So my first question to you is regarding the prospects. So what we have seen from various media sources is that probably L&T is well placed on a multibillion-dollar Micron award and also probably on a Kuwait oil and gas award of close to \$1 billion. So, just clarifying whether this is already booked into this quarter, or is it part of the prospects for the next nine months?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

It is part of the prospects.

Priyankar Biswas - Analyst, JM Financial

So nothing has been booked so far in this couple of things?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

You asked the question. I answered. It is part of the prospect.

Priyankar Biswas - Analyst, JM Financial

Okay, okay. And if you can share like you said, about prospects of INR15 trillion. So in that, what is the exact domestic breakup? And within that in the domestic, what is your assessment of a private sector share?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Okay. So, the -- out of INR15.07 trillion, the domestic order prospect is INR7.45 trillion, which is

49%. And the share of private sector will be around 45%.

Priyankar Biswas - Analyst, JM Financial

Okay, sir, that's broadly from my side.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Thank you.

Operator

Thank you. Your next question comes from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati - Analyst, HSBC

Yeah, thank you so much. Is it possible to quantify the impact of ECL provision and the losses booked in the Hyderabad Metro for Q1?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So Hyderabad Metro, we took INR0.38 billion loss for the month of April, INR38 crores. And insofar ECL provisions, which are higher is in the range of INR2.5 billion.

Puneet Gulati - Analyst, HSBC

And lastly, you also talked about some delay in ordering of conventional energy orders. Can you talk about what those orders pertain to?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

The delay in conventional is for current quarter, no, Q1, no?

Puneet Gulati - Analyst, HSBC

Yeah, yeah.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So okay, I mean, we thought in our estimates for Q1 that could come, but that has not come yet. So let's see. Subsequent quarters, we should be getting -- we are well placed.

Puneet Gulati - Analyst, HSBC

Okay, this is domestic?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Yeah.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Both. Domestic and international, both.

Puneet Gulati - Analyst, HSBC

Okay, that's all from my side. Thank you so much.

Operator

Thank you. Your next question comes from Amit Mahawar with UBS. Please go ahead.

Amit Mahawar - Analyst, UBS

Yeah. Hi, PR and Sarma. Sir, first of all, in quarter one, we saw a lot of -- some of your peers reporting significant cost increase. So very, very commendable performance from L&T. Sir, I just want to understand, in the current scheme of things, when we look at a large order beyond Middle East, how will the labor mobilization happen in terms of availability in the region where you're taking new orders, because this is the largest execution we have in the European region. So any color on that? And what percentage of our order book currently under negotiation in terms of cost escalation, et cetera for logistics, et cetera?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

So coming to the European contract, I mean, this is a offshore wind HVDC platform. Most of it will get built in our yard in Kattupalli in Chennai, okay? So what we will require in Europe is very small numbers. We're talking about maybe -- for mostly for hookups and some pre-commissioning, commissioning. And for that, we already have lined up subcontractors who can provide those services.

They are European contractors, and we are quite actively present there. So we don't expect any large-scale mobilization for the European contract from this region. As such, the numbers are small, and that will be done through the local contractors in Europe.

I think for second question...

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Labor. With respect to labor.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

I think I will answer that. Second one was about what is the quantum of contracts which are under negotiation. I think that is -- I mean, like all the -- more or less negotiation is happening, and all the projects happening in the region. So -- but quantum is very difficult to put a number to it, because like I said, we are assessing and evaluating it month by month, so...

Amit Mahawar - Analyst, UBS

Got it. Got it, sir. And sir, can I sneak in one small question? Vis-a-vis 2010, '12 period when L&T had a major shipment from our fabrication yards to Middle East, it seems our local fabrication has increased. The share of what we send from India to Middle East in fabrication has gone down. Is my understanding correct? And hence, the risk to that extent goes down for us vis-a-vis say 10, 12 years ago? Thank you.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

No, no. I mean, 2010, '12 is a very long back. I mean things have -- a lot of things have changed since then. The volume of contracts, the size of contracts have significantly grown. And we have a major yard in Sohar also, which is very busy, and it supplies and caters to the Middle East market.

But also, we are having good amount of shipment from our Hazira yard in Surat for Middle East. I mean, these are the two yards which supply quite significantly to Middle East. And Kattupalli, of course, is for the other markets.

Amit Mahawar - Analyst, UBS

Sure, sure. Thank you very much, and good luck, sir.

Operator

Your next question comes from the line of Parikshit Kandpal with HDFC Securities. Please go ahead.

Parikshit Kandpal - Analyst, HDFC Securities

Yeah, hi sir. Yeah, PR, Sarma, congratulations on a great quarter. So my first question is what percentage of the order book is fixed price in nature? And as you said that almost entire order book in the region is under negotiation. So I'm looking at a more normalized situation where the growth would have been more normalized. So what kind of revenue -- I mean, or growth we could have missed because of these negotiations not going through?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

What was your first question? If we

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

How much is the fixed and variable?

Parikshit Kandpal - Analyst, HDFC Securities

My question is on fixed price and the variable price in the order book and [Speech Overlap]

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

You can say around 50% of the order book is fixed price.

Parikshit Kandpal - Analyst, HDFC Securities

And do we have to invoke the force measure across all these projects? Because [Speech Overlap]

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

No, no, no, no. I like that. I think PR very clearly mentioned that large number of our projects are going reasonably well. See, it depends on the -- what phase the project is, right? I mean like, out of the total order book, particularly in the conventional hydrocarbon space, now 70%, 80% of the projects are still in the engineering and procurement phase, and that is not impacted at all by the crisis in the region because engineering is done in India, procurement is done globally. They are getting manufactured.

We are not at the stage where we have to ship the material to the site, and some amount of work is happening in the site, that is not a big problem. Only those projects which are in the peak construction are beyond that stage. Those are the ones which are affected. So it's not that 100% of our projects in the Middle East are under negotiation or impacted by that.

There may be a smaller fraction of that. And those which are in the peak construction or beyond that

stage, I think that is what we are negotiating with the customer. And there also, it is not that all activities are impacted. There's a lot of civil work and other work, which is not dependent on the imported material because you have to also understand that over a period of last six, seven years, these countries have also developed a lot of local capabilities.

So a lot of sourcing like cables and materials, civil material, building materials, a lot of material we source locally, and that is not impacted. That is just getting produced and delivered to the site. So you have to see it in that context. Yeah..

Parikshit Kandpal - Analyst, HDFC Securities

The related question was, I mean, we have seen a strong growth in order inflows and order book last couple of years. Some of the revenue growth has not been catching up. So it's not translating into execution. So is it largely because of the issues that the client is not giving clearance on the cost side, and that's why there's [Speech Overlap] elongation?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

No, I think, see, the -- when you have large contracts, the duration of the contract is also longer. So they can't expect the revenue to run faster, except like solar, they are shorter duration projects. So that -- the revenue run rate is very high. But if you take some large offshore projects, I mean, these are like \$3 billion, \$4 billion, they are like four years project. So you can't expect the same revenue run rate in those projects. You have to factor that in.

And particularly ultra mega projects, you have to say that average duration of the project is about four years. I mean, the revenue will get burn in four years' time. So that nature of the project, it still slows down the revenue burn rate. That is A. And B, of course, now this crisis is only four months old. So it cannot be that everything can be attributed to that. But yes, there is some impact of that for sure.

Parikshit Kandpal - Analyst, HDFC Securities

Just on the commodity, the last question. On the commodity side, on fixed price, especially on the fixed price of the order book, so the bill of quantity, if I have to say, I mean, are we running -- so are we under-covered in terms of like commodity prices in case the client doesn't agree? So do you think that could have a substantial impact on the margin, especially on the PPM side on 7.8% we have, which we have guided this year, and the trajectory which we were building in slight improvement over the next few years, do you think that could be a threat if the client doesn't agree for this?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

No, I think -- see, if client doesn't agree, we will not incur that cost. I think I said that before. And we are perfectly entitled for compensation for the time and cost for overstay. So that will get captured. I don't expect that there will be any, what you call, erosion in the margin. We are pretty much on the trend what we had indicated earlier.

Parikshit Kandpal - Analyst, HDFC Securities

Okay, sure, sir. Thanks, and wish you the best.

Operator

Thank you. Your next question comes from the line of Kartik Kohli with Kotak Institutional Equities. Please go ahead.

Kartik Kohli - Analyst, Kotak Institutional Equities

Hi, sir. Thanks for taking my question. I had a small one on the private sector prospects that you mentioned. Could you also mention what was the private sector prospects for the same period last year?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

On the domestic side, I did talk about when I responded to one question about the domestic order prospects. The share of private sector is 40%. Last year also because the thermal power sector prospects have already started revived and whatever real estate and other industrial like minerals and metals, those prospects also were there in last year's order prospects as well.

So it would be fair to assume it would have been in the range of 35% to 45%. I don't think we have seen a sharp increase in private sector only in the current year. It has been there from last year itself.

Kartik Kohli - Analyst, Kotak Institutional Equities

Noted, sir. Secondly, on the TenneT order that you received, wanted to just understand what is the broader order pipeline or prospects that you see over the next five to 10 years, because we're seeing multiple TSOs across Europe and UK planning to build capacity. Even TenneT would want to add at least two systems a year beyond 2031. So how do you fit in there, especially because you've taken Petrofac's place and you've partnered with Hitachi in this? So does that give you a certain right to win in this scenario, that you are one of the few select people already on the table and you get a benefit in that sense? Can you talk about more on that and the broader prospects that you see, especially for the offshore wind, HVDC connection in Europe and UK?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Yeah, so offshore wind is a very promising market. I mean, that is exactly the reason why we have been attempting to enter this market for the last two, three years, and we have been successful now on the TenneT job. But in addition to TenneT, we had been pursuing many other opportunities within Europe as well as in UK, and some in the far east also. Now we don't -- we are qualified on our own. I mean, we have built a good amount of capability in the offshore, and that's what is giving us entry into this offshore wind farm also.

And we will partner with either Hitachi or Siemens, who are the original equipment manufacturer for HVDC on case-by-case basis. And I think we can bring some competitive solutions. So we feel that we have a good chance, I mean, in securing some decent share.

But I think currently, our focus would be to build on what we have already secured because the order book is quite strong and we need to focus on delivery of those in the next four to six months unless TenneT themselves expand the scope. And then we'll aggressively pursue other markets, maybe a little bit later.

Kartik Kohli - Analyst, Kotak Institutional Equities

So just to follow up. So your capex that you have planned for modularization is essentially going into this direction, like essentially expanding capabilities so that you can supply in the Europe and UK markets?

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Correct. Correct. I mean TenneT job, I mean, 8 gigawatt out of 6 gigawatt will be done in Kattupalli. I mean, that's a massive amount of work running over at least three to four years. And we want to make sure that we have a very efficient operation there through automation and also reduce our dependence on the workforce -- mobilization of workforce. So I think most of the capital will go into these projects. And hopefully, we'll recover a good part of it through this project itself.

Kartik Kohli - Analyst, Kotak Institutional Equities

Got it, sir. Thank you so much. Have a good day.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Thank you.

Operator

Thank you. Your next question comes from the line of Vinod C. with PhillipCapital. Please go ahead.

Vinod Chari - Analyst, PhillipCapital

Yeah, hi. Good evening. Thank you for the opportunity. I had a question on this prospect pipeline. So the prospect pipeline for nine months is flat. So in order for our guidance, I think we are assuming a higher win rate. So what are the areas that we are assuming a higher win rate? And also, are we going to become more aggressive for a higher win rate?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So -- okay, we started the year with having a guidance on order inflows at 10% to 12% range. So basis that, we can easily find out that how much L&T has to secure on the PPM side, okay? What we are giving a comfort, okay, we have done reasonably well in Q1, having taken a good share of orders. But of course, one order in the form of TenneT itself gave up the ramp-up.

Now, at the current scale we are talking about, we are -- what we are trying to convey is the order prospects pipeline is a healthy pipeline, basis which we believe -- and when we talk about pipeline, we are only talking about addressable bidding opportunities. It's not the entire universe of opportunity we are putting it. Wherever the L&T has a good chance of -- we will be bidding for those projects. And this is the conversion rate. It is fair for us to assume that we are on track to possibly do 10% to 12% order inflow guidance to meet.

Now, whether we are being -- I think it would not be fair for us to conclude whether we are being aggressive or not. We are being realistic. We are aware of each of the business, what kind of order book they already have. And basis that -- basis the competitive intensity, the pricing, the terms of payment, everything put together is basis the risk management for each of the -- risk evaluation for each of the bid is being considered. So it is a thought of process.

What we gave the order prospects is to give us comfort that there are prospects despite all the

geopolitical issues that we see around us. The order prospect gives us a comfort that the guidance that we gave at the start of the year for order inflow looks to be still doable.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

And just to add to that, I mean, I think our -- we have a very strict discipline in how we bid. We never get over-aggressive just to win a job because margin focus, working capital focus is very, very strong. And there is no need for us to get desperate because overall, our Group order book is very, very healthy. I mean there are now very few EPC contracts in the world who have almost three years of order book in front of us. So there's no need for us to get desperate also.

Vinod Chari - Analyst, PhillipCapital

Sure. Just following up on that, on the order book question, we are like now almost at INR8 lakh crores in terms of the backlog. So, any internal estimate of a peak order book for optimal execution efficiency? At what point do we start becoming more inefficient in terms of backlog?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Vinod. Vinod, it depends on each segment.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Yeah,

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

This is at the overall company PPM level that each segment, it depends. Like Mr. Sarma just alluded, for offshore wind, the immediate -- I would target is to execute what we have got to make ourselves because that is the way we will put our credibility story, right? So it's a question of dynamic evaluation basis each of the business or how much of bandwidth competency, capability they have, basis that we will look at it.

Subramanian Sarma - Deputy Managing Director, President & Whole-Time Director, Larsen & Toubro Limited

Three, four years order book is a healthy order book -- very healthy order book. It gives a lot of stability. It allows us time to build capacity. We can build capability. So I think it's a good position to be in.

Vinod Chari - Analyst, PhillipCapital

Sure, sure. And Apart from offshore wind, what are the subsegments that we hit a ceiling in terms of an order book, that were peaked out probably?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Sorry, I didn't get you.

Vinod Chari - Analyst, PhillipCapital

So apart from offshore wind that you mentioned, are there any subsegments where we may have probably close to a peak in terms of the order backlog we get, any of the subsegment?

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

No. There is nothing. I mean, not like that. We still have enough leverage within us to quote for orders across sectors.

Vinod Chari - Analyst, PhillipCapital

Okay, thank you very much, and thanks and congratulations, PR, on your first quarter as a CFO.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

Thank you.

Operator

Thank you. Ladies and gentlemen, we will take that as the last question for today. I now hand the conference over to Mr. P. Ramakrishnan for closing comments.

Parameswaran Ramakrishnan - Chief Financial Officer, Senior Vice President - Corporate Accounts, Taxation, and Investor Relation, Larsen & Toubro Limited

So thank you, ladies and gentlemen, for this long call. I hope all your questions have been answered. And with this, we can close the call. Thank you. Good night.

Operator

[Operator Closing Remarks]