Risk Management Framework

Being a global conglomerate operating in multiple geographies across a number of sectors spanning engineering, construction, manufacturing, technology, financial services, and much more, L&T is exposed to a diverse range of risks. Effective risk management is therefore integral to the Company's functioning and plays a critical role in achieving sustained growth, ensuring operational efficiency and safeguarding stakeholder interests. The Company's robust risk management framework proactively identifies, assesses and mitigates potential risks. The Chief Risk Officer facilitates institutionalisation of Enterprise Risk Management processes and regularly apprises the Board Risk Management Committee and Apex Risk Management Committee about these risks.

The key risks that L&T faces can broadly be classified as:

a) Operational risks
b) Tactical risks
c) Strategic risks

Operational Risks

L&T's projects are often large-scale, complex and involve multiple stakeholders, which increase operational risks such as project delays, cost overruns and supply chain disruptions.

Project Execution Risks

Workmen Shortages: Availability of skilled workmen and workforce attrition can impact construction schedules.

Regulatory Delays: Prolonged environmental and statutory approvals, land acquisition issues, and right-of-way availability can impact project timelines.

Supply Chain Disruptions: Delays in the delivery of key materials and equipment due to vendor issues, geopolitical constraints, or logistical bottlenecks can lead to cost escalations.

Design Changes/Approval delays: Frequent modifications in project design, delay in client approvals and rework due to client requirements can result in additional costs and extended deadlines.

The Company mitigates these risks by careful client and geography selection, leveraging advanced project management techniques, digitalisation and strategic partnerships with suppliers and subcontractors.

Quality and Safety Risks

Construction Quality

Construction quality risks refer to the potential issues in structural integrity, safety, workmanship and compliance with regulatory and client specifications. L&T's projects typically demonstrate attention to quality, safety and technical standards. L&T enforces strict quality control protocols, third-party audits and compliance with global engineering standards. The Company adheres to international standards and guidelines such as ISO 9001:2015.

Workplace Safety Risks

L&T is committed to Mission Zero Harm and relentlessly works towards enhancing the health and safety standards within the organisation as well as that of workers and subcontractors working on behalf of the Company at project sites or premises. This includes using continuous sensitisation, toolbox talks, providing protective gear and conducting special training in the safe handling of equipment and material. The Company adheres to international standards and guidelines such as ISO 45001:2018.

Supply Chain and Vendor Management Risks

L&T undertakes rigorous pre-qualification of vendors, has back-to-back operational and financial guarantee arrangements with subcontractors, does regular monitoring and ensures diversification of its supplier base.

Technology and Cybersecurity Risks

L&T has a robust Cyber Security Assurance Framework encompassing processes, standards and technology for managing cyber risks. These risks are monitored and mitigated at the level of individual businesses. Senior management has regular oversight through various councils and risk management committees. In addition, a Cyber Security Operations Centre has been established which monitors security alerts on 24x7 basis. All the necessary safeguards to maintain desired security and resiliency levels have been deployed within the organisation.

Legal and Contractual Risks

Given the complexity and long duration of projects, disagreements over contractual terms and project scope can arise. L&T proactively negotiates clear contractual terms and engages experts for risk assessment to minimise legal and contractual risks. Further, L&T endeavours to limit its total contractual liability on any project to a reasonable level.

Logistics and Infrastructure Challenges

Large-scale infrastructure projects require the movement of heavy equipment and materials across regions and countries. Challenges include port congestion and customs protocol delays, road conditions, inadequate transport infrastructure, weather and climate disruptions.

L&T incorporates risk-based logistics planning and leverages digital tracking tools to ensure smooth supply chain operations. An integrated logistics management portal has been developed to help businesses with their decision making.

Black Swan Events

L&T has a crisis management framework for responding to crisis situations such as natural calamities, geopolitical upheaval, local unrest, war, terrorist attacks and other emergency situations, and ensuring the safety and security of its employees, workforce, assets and operations globally.

Risks related to Manufacturing Operations

L&T's manufacturing facilities are critical to delivering high quality engineered products and ensuring timely project execution. These facilities, while enabling operational scale and efficiency, are also subject to risks related to supply chain, geopolitical tensions, natural disasters and regulatory compliance. The Company implements robust safety and sustainability protocols as well as maintains contingency plans to mitigate the impact of natural disasters, environmental events, or localised sociopolitical disruptions. Technology upgrades and digitalisation initiatives are being leveraged to enhance resilience, optimise throughput and ensure business continuity across all manufacturing locations.

Tactical Risks

Market and Industry Risks

- **Economic and Policy Risks:** L&T's core EPC business is dependent on infrastructure investments by governments and private entities. Economic slowdowns, budget constraints, or shifts in government priorities can lead to delays or cancellations of major projects. Additionally, periods of high inflation and rising interest rates can reduce capital spending, affecting the Company's order inflows and revenue visibility.
- **Competition and Pricing Pressure:** L&T faces competition from both domestic players in India and international firms abroad. Competitive bidding, particularly in government tenders, exerts pressure on margin, and aggressive pricing strategies by competitors can impact L&T's ability to secure projects.
- **Slowdown in Key End-Markets:** Sectors like oil & gas, power, real estate and infrastructure are sensitive to macroeconomic cycles, oil prices and countries' fiscal health, impacting order book growth.
- **Adequacy of Credit Facilities:** Construction projects in India, Middle East, Africa and other Asian countries are bank guarantee (BG)-intensive, as BGs (bid, performance, advance payment, material, retention) are to be issued to clients during the project tenure. L&T ensures availability of adequate bank credit lines and bond facilities from financial institutions to meet these requirements. The Company's strong credit worthiness is reflected via AAA Domestic Credit Rating (from CRISIL and India Ratings), and BBB+ International Credit Rating (from S&P and Fitch) – which is two levels above India's sovereign rating.

L&T maintains a balanced mix of projects across sectors, geographies and clients to reduce over-reliance on any single market or funding source. Further, L&T strategically bids for projects funded by global multilateral institutions which are less susceptible to local in-country fiscal constraints. To manage competition risk, L&T is focused on long term relationships with clients, superior design and execution and timely completion of projects. Additionally, L&T collaborates with global EPC, technology firms, key suppliers and local partners to strengthen bid competitiveness and optimise costs.

Geopolitical/Country Risk

L&T mitigates geopolitical and country risks through comprehensive country risk assessments during the bidding stage, diversification of business lines across geographies, and working primarily with sovereign or creditworthy clients. Further, L&T closely monitors geopolitical developments and incorporates risk mitigation strategies such as contract structuring, hedging mechanisms, and contingency planning to safeguard project viability and financial exposure.

Sanctions and Regulatory Risks

L&T continuously monitors sanctions related developments and ensures strict adherence to international compliance norms. L&T has a strong internal control framework in place and a robust process of carrying out due diligence of counterparties, countries, sanctions and end-use of products manufactured.

Workforce and Talent Management Risks

L&T develops workforce and talent through a blend of internal capability building, local talent integration, robust HR processes and a culture of continuous learning. L&T invests in upskilling programmes and leadership development to retain talent and bridge skill gaps. The Company provides training to thousands of young workers each year at its nine Construction Skill Training Institutes (CSTIs) and its five sub-centres. Further, L&T has developed a Central Workmen Mobilisation Cell to centrally collate workmen requirements and coordinate with sourcing centres to deploy workers where needed.

Strategic Risks

Energy Transition

Energy Transition is transforming industries across the world. This shift impacts businesses at the operational level by increasing the demand for 'green specifications' in tenders, building codes and other regulatory frameworks. It also presents new opportunities, such as EPC projects for Solar Energy, Pumped Hydro Storage & Battery Storage projects, and emerging sectors like Green Hydrogen production / Electrolyser manufacturing. Additionally, there are increased opportunities in transmission & distribution due to the need for grid reconfiguration and evacuation requirements for renewable energy sources.

L&T has identified significant business opportunities linked to energy transition, especially in the decarbonisation of the energy sector. By leveraging these opportunities, L&T aims to align its business strategies with decarbonisation trends while managing the risks associated with new technologies.

Climate Change

Climate change heightens the frequency and intensity of physical risks, thus posing execution challenges. These risks manifest as acute events — extreme weather, heavy precipitation — and chronic impacts — higher temperatures, rising sea levels. Increasingly, extreme weather events can disrupt project timelines, while gradual shifts such as rising temperatures and sea levels pose challenges to long-term business sustainability.

For dealing with periods of extremely high temperature or flood conditions, measures are taken to optimise the work-rest cycle, early warning systems, shelters for the workforce, and awareness sessions and advisories to apprise the workforce of risks, reporting of issues, and preventive measures to be taken.

Investment Risk

L&T actively considers investing in emerging sectors that have synergies with its EPC projects and Services competencies. Investments are continually evaluated and made in growth related opportunities, some of which have the risk of long gestation periods. The Company works towards ensuring adequate returns on existing and new investments in infrastructure, construction projects and the services businesses as a guiding principle as part of its Lakshya plan.

Operating Risks of Subsidiaries

L&T's operations span across multiple geographies through a network of domestic and international subsidiaries engaged in engineering, construction, manufacturing, technology and services. The Company manages operating risks of unlisted subsidiaries through central oversight, periodic performance evaluations and ensuring strategic alignment with Group-wide objectives. L&T's senior management is present on the Boards and Committees of the listed subsidiaries, which have adopted suitable policies to mitigate their operational, tactical and strategic risks.

Financial Risks

The process of managing the Company's financial exposures is governed by the Risk Management Framework and Policy approved by the Company's Audit Committee under the guidance of the Board. Financial risks in each business portfolio are collated, measured and managed by the Corporate Treasury.

Calendar year 2024 was marked by significant political transitions, with elections reshaping the global geopolitical landscape. Inflation pressures eased, prompting central banks to pivot towards rate cuts amid slowing growth and rising uncertainty.

In calendar year 2025, the spotlight is firmly on policy decisions from newly elected governments and the potential ripple effects across trade, defence, climate and technology sectors. Global real GDP growth in 2025 could slow to sub-3% levels driven by 'trade wars' and knock-on effects. Policy uncertainty tends to weigh heavily on corporate confidence. This, in turn, could lead to cuts in capital expenditure which could then undermine growth prospects.

In the US, the political shift has seen renewed protectionist trade measures, most notably through announcement of a significant increase in tariffs. The US tariff strategy represents a potential reversal of the post-World War II global economic framework. In the near term, US-China trade flows are expected to be the most impacted. For other trading partners, any prolonged uncertainty could substantially affect trade volumes. If these higher tariffs get implemented, there could be an unintended consequence of stagflation.

The pressure on European NATO members to boost defence autonomy is expected to trigger increased military expenditure, in both the EU and UK. This shift could provide a much needed growth catalyst for Europe, offsetting weakness in traditional sectors like automotive and manufacturing, which have been squeezed by softening demand and rising competition from China.

The Chinese economy continues to face headwinds. While the economy may avoid a sharp slowdown in the near term due to policy support, monetary easing and measures to boost consumption, real GDP growth could slip below 4% in the second half of the year.

GCC economies have displayed resilience despite regional geopolitical tensions. The region remains committed to economic diversification, clean energy and industrialisation strategies. However, if crude oil prices were to consistently trade below USD 55 per barrel, the region could witness significant growth headwinds.

In India, real GDP growth is projected between 6.25-6.50% for FY 2025-26. Government of India aims to balance fiscal discipline – by targeting a 4.4% deficit – while continuing with growth-friendly measures, namely, continued capital expenditure at 3.1% of GDP and personal income tax cuts to support consumption. CPI inflation is expected to average around 4% for FY 2025-26.

Foreign Exchange and Commodity Price Risks

The businesses of the Company are exposed to fluctuations in foreign exchange rates and commodity prices. Additionally, it has exposures to foreign currency denominated financial assets and liabilities. Net foreign exchange risk on revenues, costs, assets and liabilities are managed through a combination of forward and option contracts wherein the counterparties are regulated banking entities. The financial risks involving commodity prices are managed through a combination of price variation clauses embedded in customer contracts, hedges in financial markets and pass-through price arrangements. In the case of contracts with price variation clauses, the Company may run a basis risk between the actual price of the commodity and the reference indices.

The disclosure of commodity exposures, as required under clause 9(n) of Part C, Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, in the format specified vide Chapter VI-E of SEBI Master Circular No. SEBI/HO/CFD/PoD2/CIR/P/0155 dated November 11, 2024, is given below:

SR NO	COMMODITY NAME	EXPOSURE IN INR TOWARDS THE PARTICULAR COMMODITY (₹ CRORE)	EXPOSURE IN QUANTITY TERMS TOWARDS THE PARTICULAR COMMODITY (TN)	% OF SUCH EXPOSURE HEDGED THROUGH COMMODITY DERIVATIVES				
				DOMESTIC MARKET		INTERNATIONAL MARKET		TOTAL
				OTC	EXCHANGE	OTC	EXCHANGE	
1	Aluminium - Buy	3,023.88	1,41,891	-	-	78.74	-	78.74
2	Aluminium - Sell	(9.62)	(440)	-	-	100.00	-	100.00
3	Zinc - Buy	72.21	2,939	-	-	100.00	-	100.00
4	Copper - Buy	3,003.41	37,227	-	-	70.80	-	70.80
5	Copper - Sell	(83.20)	(1,001)	-	-	100.00	-	100.00
6	Lead - Buy	70.45	3,265	-	-	100.00	-	100.00
7	Coking coal - Buy	20.83	12,029	-	-	-	-	-
8	Iron ore - Buy	18.75	22,721	-	-	86.05	-	86.05
9	Steel - Buy	21,840.16	32,24,865	-	-	-	-	-
10	Cement - Buy	4,506.86	68,68,041	-	-	-	-	-
11	Nickel - Buy	131.40	953	-	-	68.63	-	68.63
12	Thermal Coal - Buy	2.75	2,673	-	-	-	-	-
	Total exposure	**32,597.88**	**1,03,15,160.80**					

Liquidity and Interest Rate Risks

The Company constantly monitors the liquidity levels, economic and capital market conditions and maintains access to sources of liquidity through a combination of approved banking lines, trade finance and capital markets. The Company deploys its surplus funds in short-term investments, in line with the Board-approved Treasury Policy. The Company dynamically manages interest rate risks through a mix of fund-raising, investment products and derivatives across maturity profiles within the Risk Management Framework.

Financial Resources and Capital Allocation

The capital allocation philosophy of the Company is geared to support business initiatives for the profitable growth of the Company, while retaining liquidity to support short-term requirements of the Group. As a policy, the Company maintains cash buffers and has access to adequate banking lines to meet both opportunities and challenges.

In the financial year, the Company supported the capital expenditure required to execute projects awarded in the Projects and Manufacturing businesses and also investments in new areas, in line with the plan. Prospectively, the Company will continue to support the growth of L&T Realty and new businesses like green energy, data centers and semiconductor design.

In line with its stated strategy to monetise non-core assets, the Company concluded the divestment of its roads concessions business L&T IDPL which resulted in release of capital to the tune of ₹ 1,300 crore.

Low gearing levels (Gross Debt to Equity ratio at 0.31x) at the parent entity level and a healthy cash buffer allow enough flexibility to the Company to deal with normal business uncertainties.

The Company continues to see significant volume of large-value contracts in the Middle East, especially from Saudi Arabia, which require large local non-fund-based banking facilities. The Company is confident of tying up the required facilities during the year to address upcoming requirements.

Internal Controls and Safeguards

Corporate Governance and Internal Controls: Ensuring Business Integrity and Sustainability

Corporate governance is fundamental to the Company's ability to achieve sustainable growth and predictable outcomes. A key pillar of corporate governance is a robust internal controls framework, which ensures operational efficiency, safeguards assets, supports reliable financial reporting, and prevents frauds and errors. At the core of this framework is the globally recognised model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO framework is designed to help companies align their internal controls with the challenges they face due to changing internal and external factors. By adopting this framework, the Company ensures that its internal controls are aligned with its business needs, risk profile, and strategic objectives, enabling it to respond effectively to emerging challenges and maintain consistency in its operations.

Framework and Policies for Internal Controls

The Company's internal control framework is tailored to fit the size, complexity and nature of its business. The Board of Directors and management at all levels play a crucial role in setting the right principles for the organisation through their actions and directives. This leadership is reinforced by the Company's Code of Conduct (CoC), which promotes ethical values and corporate integrity. The CoC serves as a guide for employees, underscoring the importance of honesty and responsibility in business dealings. Furthermore, suppliers must confirm their adherence to a separate Code of Conduct to align with the Company's commitment to sustainable growth and the integration of Environmental, Social and Governance (ESG) principles in business operations.

The Company also maintains a Whistleblower / Vigil Mechanism, allowing employees and business partners to report concerns about unethical or illegal activities, misconduct, or fraud. This system ensures that concerns are raised and addressed without fear of retaliation, promoting a culture of transparency and accountability.

Internal Financial Controls

Internal financial controls (IFC), aligned with the Companies Act, 2013 are integral to the Company's control framework and operate at both entity and process levels. The responsibility for establishing, maintaining, and upgrading these controls lies with the executive management, assisted by internal control teams at both the corporate and business levels.

These teams are tasked with developing and refining processes and standard operating procedures to enhance operational efficiency. Teams share best practices across the organisation and ensure that internal controls are regularly updated in response to changing business conditions and external factors, such as new regulations or emerging risks. Additionally, the Company engages independent professional firms to periodically review the effectiveness of its control systems, with their recommendations being incorporated to strengthen existing practices.

Audit and Review Mechanisms

The effectiveness of internal controls is tested through regular audits conducted by the statutory auditors, the Company's Corporate Audit Services (CAS) department and also through third-party audits. The CAS is responsible for evaluating the design and operating effectiveness of internal controls across core business operations and support functions. The annual audit plan, which is reviewed by the Audit Committee, ensures comprehensive coverage of all areas. Significant audit findings, along with periodic progress on corrective actions, are presented to the Audit Committee on a quarterly basis.

The Company follows a three-line model to ensure that its internal controls remain effective. The first line of defence involves business heads, process owners and support functions who are responsible for the design and operation of internal controls. The second line is the Corporate Internal Control department, which monitors and improves the effectiveness of these controls. The third line is the Corporate Audit Services, which conducts independent internal audits and provides assurance on the effectiveness of the controls.