COMPANIES P2

FOCUS ON CAPITAL FORMATION TO CREATE JOBS: L&T CEO

'Focus on capital formation to create jobs'

Larsen & Toubro (L&T), India's bellwether engineering, construction, and manufacturing company, last month reported more than twofold increase in net profit. In conversation with **Jyoti Mukul** and **Aditi Divekar,** its Chief Executive Officer and Managing Director **S N SUBRAHMANYAN** shares the company's expectations across business verticals and the attempts at cost management. Edited excerpts:

How far has L&T been able to recover to pre-pandemic growth levels? Do you see growth sustaining in the quarters to come?

In the first quarter of 2021-22 (FY22), India was impacted by the second Covid wave. Both the proliferation of infections and fatalities were significantly higher than the first wave. Despite the challenges, our group order inflows and revenues have registered a growth of 13 per cent and 38 per cent, respectively. Our profit after tax (PAT) for the quarter is 4x the PAT in the corresponding quarter of the previous year.

With the second wave on the wane and lockdown restrictions being progressively eased, there are definite signs of pick-up in economic activity.

The government with its fiscal ammunition and the Reserve Bank of India with its accommodative monetary policy remain committed to support growth revival.

We remain committed to our guidance of up to a low to mid-teens growth in order inflows and revenues for FY22. Despite input cost pressures, our core business margins will remain at the same levels as last year's.

We are conscious of our capital employed in businesses and will efficiently manage the ratios. We do believe normalcy returns from the second quarter onwards.

How do you see project execution for FY22?

Our group order book at ₹3.23 trillion is near record high levels in the history of the company. A large and diversified order book provides multi-year revenue visibility. Around 80 per cent of our order book is domestic, the rest international. A predominant portion of our domestic order book is from public space (central government/state government/public sector undertakings, or PSUs). In challenging times like these, it is good to carry government risk on the balance sheet.

Q&A

S N SUBRAHMANYAN
MD & CEO, L&T

What will be the key drivers for the company's growth?

Focusing on capital formation is the best way to create employment opportunities during these times when household balance sheets are possibly at their weakest. We see capital expenditure (capex) opportunities across the Centre, states, and PSUs.

The current government is seized by the fact that investment spends can drive economic revival and we do believe that the government will broadly achieve its targets laid down in the National Infrastructure Pipeline.

In the Budget, the finance minister did mention relaxing fiscal consolidation targets for a few years to spend more towards economic recovery. Many of the state and PSU capex programmes are being financed by multilateral agencies in India today. Our prospect pipeline for the nine months of FY22 is around ₹9 trillion. This is 45 per cent higher than last year's.

What is the major reason for 67 per cent increase in manufacturing, construction, and operating (MCO) expense?

MCO expense variation is largely reflective of an increase in activity levels in our ex-services and concession businesses. Our ex-services and concession revenues have grown 57 per cent over the comparable quarter of the previous year. It is also a function of cost versus realisable sales value jobs in the quarter. We are a conservative company and we do not recognise margins on jobs till they cross the 25-per cent threshold. Lastly, increased input costs during the quarter also contributed to MCO variation. We remain confident of maintaining our margins through better overhead recovery during the year.

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How do you plan to maintain margins in FY22, given the increase in prices of steel and cement?

We will maintain our ex-services and concession margins at the same level as last year's. There has been a sharp rise in prices of steel, cement, and other commodities in recent months. We have formed a taskforce to see how best to ameliorate the situation. We have taken measures to redesign, thereby reducing steel and increasing cement. We have initiated several conversations with steel, cement, aluminium, and other companies to see how we can get better prices because we give them fairly huge orders every year.

We have taken efforts to tell our clients to prequalify other vendors to see how we can get reduced prices.

How are you foreseeing growth in the private sector orders vis-à-vis pre-Covid years?

Currently, the private sector - as a percentage of the domestic order book - is around 15 per cent. We mentally bucket private capex into three parts - industrial capex, real estate, and public-private partnership (PPP).

With pick-up in ferrous and non-ferrous prices, we hear many private companies announcing their capex plans.Real estate is a mixed bag, with residential real estate in the low to mid-ticket housing segment looking up, whereas commercial real estate is looking weak currently. Some emerging new areas are data centres, warehouses, and parks. Although the balance sheets of many private players have healed somewhat, we are not sure of the revival of PPP capex. Hybrid annuity roads may continue. But PPP looks tentative in the medium term. In a world still battling the aftermath of the pandemic and scientists predicting a possible third wave, we look ahead with optimism.

Read full interview on www.business-standard.com