



A.M. Naik, group chairman of Larsen &amp; Toubro.

# How A.M. Naik, man with the Midas touch, transformed L&T

As Mint confers a Lifetime Achievement Award on Naik, outgoing group chairman of L&T, we take a look at his storied career

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It was November 2001. Anil Manibhai Naik, who had taken over as the CEO & MD of Larsen & Toubro a couple of years earlier, was in Chicago on work.

At 1.30 am, he got a call that set off alarm bells. "Naikji, you did not come to us, but we are coming to you," said Kumar Mangalam Birla, chairman, Aditya Birla Group. Both Kumar Birla and his father, Aditya Vikram Birla, had been trying to recruit Naik from L&T for many years. By picking up Reliance Industries Ltd's 10.5% stake in the company, Birla was looking to ultimately acquire L&T itself.

Ironically, Reliance had acquired the L&T shares as a white knight, when it swooped in to rescue the company from a hostile takeover by Manu Chhabria in the late 1980s. Chhabria, a flamboyant non-resident Indian who had made a fortune in West Asia through his electronics trading activity, had used his wealth to acquire high-profile listed entities in India, including Shaw Wallace and Dunlop.

What followed in the next few months was a battle of wits, in which Naik emerged triumphant, but no one lost. Naik, who took pride in the freedom that the company enjoyed by being independent and not part of any family group, decided to fight. Chartered accountant and corporate advisor S. Gurumurthy came to his aid. Meetings were held with then prime minister Atal Bihari Vajpayee, deputy prime minister LK Advani and defence minister George Fernandes. When the Birlas' stake (they were buying shares in the open market) crossed 16%, then finance minister Jaswant Singh asked them to stop buying.

Even as the battle raged publicly, Naik kept lines of communication open with the Birlas. This helped him understand that they were more interested in L&T's cement assets. He then came up with a plan. Naik offered the Birlas the cement business, and they, in turn, sold their stake to a trust that was set up for employees of L&T.

It was a win-win solution for all. The Birlas became the largest cement player in the country, while Naik was able to protect L&T's independence. Employees now had a financial stake in the company as well — a stake, which, alongside the holdings of financial institutions, ringfenced L&T from future takeovers.

That apart, by selling a non-core asset, L&T's debt profile improved and the com-

pany's performance improved substantially. The crisis thus established Naik's credentials as a shrewd business leader and laid the foundation for him to transform L&T into a world-class conglomerate.

"When L&T's history is written and re-written, nobody will ever forget that L&T existed because of Naik... This act of empowering employees will go down in the corporate history of India," Kumar Mangalam Birla is quoted as saying after the deal in the book *How Anil Naik built L&T's Remarkable Growth Trajectory*. The book is co-authored by R Gopalakrishnan, former vice-chairman of Hindustan

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Lever, and a former director at Tata Sons, with Pallavi Mody, a professor at SP Jain Institute of Management and Research. Naik, too, considers this his single biggest contribution to L&T over the 58 years he has been in the company.

In defining effective leadership, renowned author and father of modern management Peter Drucker said it was "not about making speeches or being liked; leadership is defined by results not attributes." That definition sums up Naik perfectly. After the trial by fire with the Birlas, Naik came into his own. A man known more for his actions and less for his eloquence, he then went on to transform L&T into a global powerhouse.

After a career spanning nearly six decades, the 80-year-old Naik is finally handing over the reins to S.N. Subrahmanyan, his chosen successor and the MD & CEO of L&T, this October.

## EXPONENTIAL GROWTH

L&T was set up as a partnership in 1938 by two enterprising Danes, Henning Holck-Larsen and Soren Kristian Toubro. It started out by importing machinery for Indian customers. World War II forced the company to reverse engineer and make machinery in India. Over time, L&T became a one-stop shop for capital goods, taking advantage of India's policy of import substitution. It had also ventured into and become a major player in the engineering and

construction space after it set up the Engineering Construction Company in 1944. When Naik took over as MD & CEO of L&T in 1999, it was a major player in the capital goods and engineering space.

But the growth since Naik took over speaks volumes about the abilities of the man. The conglomerate's turnover rose from Rs 7,402 crore in 1999 to Rs 110 trillion in 2017, when he gave up his executive responsibilities. And market capitalization catapulted from Rs 4,400 crore to L58 trillion.

Naik pretty much created the L&T of today as 92% of its current revenues come from businesses started by him. He achieved this by rejigging L&T's diverse portfolio, tapping new opportunities, keeping the company professionally managed, and making it future ready.

Today, as Naik prepares to take on a more ceremonial role as chairman emeritus, L&T's revenues have exceeded \$1 trillion and its market capitalization has crossed \$3 trillion. "This influence on the fortunes of L&T has been enormous. He has always urged us all to think big and think smart and the results are all there to see in our exponential growth," Subrahmanyan told *Mint*.

## SIMPLE BEGINNINGS

Born into a family of teachers, Naik got his early education at Navsari in south Gujarat and graduated in mechanical engineering from Birla Vishwakarma Maha Vidyalaya in Anand. It was his dream to work in L&T, but the first time he applied, his application was not even considered as he was not an

ITian. His second attempt, more than a year later, did not go too well either as the interviewer found him "overconfident" and "arrogant" (he blames his poor communication skills in English for this impression). Naik was offered a lower-level job as a junior engineer, with a lower salary. He nevertheless took it and joined L&T in 1965. The rest, as they say, is history.

Naik, who calls himself a karmayogi (someone wedded to work), put in punishing hours. A 16-hour day was the norm. It gave him immense pleasure to tell the world that for the first 21 years of his stint, he never took a day off (when he retired, he cashed leave salary worth ₹32 crore).

By 25, he was the youngest manager in the company's history and had 800 people reporting to him. In 1989, he became a member of the Board. Ten years later, he was appointed as the first professional MD & CEO of the company. In 2003, he became the executive chairman of the Board, a post he held till 2017. He then continued as group chairman with non-executive responsibilities.

"In India, we are told that there are two types of managers—a professional manager and entrepreneurs. Professional managers play safe and are risk averse, while entrepreneurs, by virtue of their ownership, take more risks. Naik showed us that there is a third category of managers—a professional entrepreneurial managers," said R Gopalakrishnan. "This is a rare tribe and Naik is among the first in India," he added.

## THINKING BIG

Ending off the takeover by the Birlas was not the end but the beginning of Naik's efforts to transform L&T. He understood that L&T's poor market valuation made it an easy acquisition target. In 1998-99, the company's market cap, at ₹4,400 crore, was far lower than its revenues (₹7,402 crore). "If you want an independent professional company, you have to make it valuable; you have to make it so expensive that people will stay away from you," he had said then. This, according to him, would be a second ring-fence around the company.

Naik rejigged L&T's diverse portfolio, tapped new opportunities, kept the company professionally managed, while making it future ready.

Naik began by rationalizing L&T's portfolio. At one point, it was in 152 different lines of business. They were classified into four buckets: core, non-core, growth to sell and sell right-away. He closed many businesses and started new ones in line with India's emerging economic needs. He re-introduced meritocracy in the company. Seniority had begun to take priority when Indians took over the management from the Danes in the late 1970s, resulting in the loss of good talent. Non-performers were eased out. The organization was pushed to become more entrepreneurial. He benchmarked L&T's operations with the best in the world.

Naik also realized that a lot of resources were spent on small, unremunerative projects. He pushed the team to accept lesser but more challenging mega projects that gave better returns. He started Project Lakshya, where the top 300 L&T employees came together to decide what the company should do to become an Indian multinational and be ready for the future. They drafted five-year plans and bid projects were chosen for implementation in line with this vision. The company entered the defence business through this exercise when India opened the sector to private sector participation. Today, apart from defence, L&T offers advanced solutions in sectors such as power, hydrocarbons, infrastructure and engineering services.

The entry into information technology (IT) services formed a critical part of Lakshya-III (2016-21) and today, these businesses are propelling the group's services business. L&T's IT services arm is the sixth largest in India (after L&T Infotech Ltd acquired Mindtree Ltd in 2019), generating revenue of ₹14,406 crore in 2021-22 and a profit of ₹2,260 crore. L&T Technology Services Ltd, which offers advanced engineering and technology services for transportation, healthcare, telecommunications, plant engineering and industrial products, registered revenue of ₹5,873 crore and a profit of ₹918 crore in 2021-22.

Over time, the markets started noticing these measures and the results they delivered. Project Blue Chip—the name Naik had given to his goal to get the market to offer L&T its due valuation—succeeded.

If there is one fault that critics find in Naik's long career, it is that he stayed on for a little too long—they believe he should have handed over the reins when he turned 65. But Gurumurthy, who has worked closely with Naik, including in succession planning, says his energy transcends his age. "Believe me, I have worked with him for more than 20 years now." Many within L&T agree.

Nonetheless, there were a few misses. One was his inability to acquire the scam-hit Satyam Computers. L&T was very keen and had accumulated Satyam shares in the market, but it was outbid by the Mahindra group in the government-initiated auction in 2008. A decade later, Naik capitalized on the Mindtree opportunity, orchestrating a hostile takeover. Mindtree's founders put up a stiff resistance but Naik stood his ground.

"For me, he has been an extraordinary role model. The way he approaches an issue, the manner in which he studies and analyses it from all possible angles, the process by which he arrives at probable solutions and takes the final decision are all worthy of emulation," said Subrahmanyan.

Naik will now shift his focus entirely to philanthropy. He has pledged 75% of his income to charity and has been building schools and hospitals, in Mumbai and at Navsari. After starting work on a multi-specialty hospital in Navsari, in 2021, he said: "In a large country like India, we cannot depend on the government for all assistance. It is our individual responsibility to do whatever we can to help those less fortunate than ourselves."

If his track record in the corporate world is anything to go by, the world of philanthropy will have much to celebrate.



"It's the right award for the right man," union minister for road transport and highways Nitin Gadkari said in a video message felicitating Mr Naik. He recalled how L&T was a key contractor when he worked in Maharashtra building the Mumbai-Pune expressway and other showpiece infrastructure projects.