

'We will have to bank on govt-led projects'

Weathering the challenges posed by the pandemic, L&T saw its revenue stream reverting to the pre-Covid level in the December quarter. In an interview with Shubhra Tandon, CEO & managing director SN Subrahmanyan says the outlook remains bright given the Centre's push for infrastructure creation. Edited excerpts:

What is the outlook for 2021 given the current situation?

With the start of the vaccination process, there is renewed confidence that the pandemic will come to an end, and this has given businesses a much-needed energy boost. There are definite signs of recovery of the economy and, more pertinently for L&T, the gov-

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ernment's efforts to fast-track several laterally funded infrastructure projects mean things are going to get better for business. The turnaround in industrial and economic activity is already being reflected in the government's growing GST collections. As a company, the



revenue stream in Q3FY21 marked a return to pre-Covid levels. We expect a sharp pick-up in the finalisation of projects in the current year, largely on account of proposals pending in the power transmission and distribution, water, metro rail, roads and elevated corridor spaces. Our order book at some ₹3.5 lakh crore — mainly from the government sector — is at a record high. That too signals speedier project finalisation by clients in the infrastructure sector.

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Reviving capex: 'We will have to bank on govt-led projects'

What is the outlook for private capex? Are you seeing signs of a revival?

We do not expect the private sector to loosen the purse strings in the infrastructure space for another 6-12 months. A very significant improvement in ground realities, the liquidity situation, and business sentiment is

imperative if private players are to feel confident enough to re-enter the fray. Until they do, we will have to bank entirely on government-led initiatives and projects.

Even before the pandemic, India's capital goods industry had underperformed the larger market for almost 10 years. What would you attribute this to and where do you see the industry headed in the next 3-5 years?

It is true that the capital goods industry as an asset class has underperformed over the last few years vis-a-vis the market indices, with such companies being assigned lower PE multiples. This is in part attributable to lower margins, higher working capital and the higher leverage of the sector, as the top line has grown reasonably. However, the underlying factor at work has been delayed project execution and substantial cost escalations caused by structural bottlenecks in the system, which go against strict contractual obligations. Going forward, the infrastructure and capital goods industry will be the forerunner of economic development and that's only to be expected given the strong multiplier effect the sector has on investment and growth. A supportive and stable regulatory environment coupled with the availability of reasonably priced credit and equitable contracts would be the prime catalysts in this process.

What could we expect from you on the sale of assets and rightsizing of non-core businesses in 2021?

As we have said in the past, we will aggressively pursue our strategy of focusing on our core segments and exiting from businesses that are non-core for us. The strategic divestment of our electrical and automation business was part of this strategy. Looking ahead, we want to reduce our stake in the Infrastructure Development Projects (IDPL), sell Nabha Power and exit the Hyderabad Metro Rail project, though the last would require financial restructuring and other measures. These moves would not only add huge

value to our balance sheet but also enable us to concentrate on new opportunities in businesses such as L&T GeoStructure, Smart World and Communication, Mindtree, L&T NxT and other platforms that are expected to contribute substantially to our revenues by FY26.

L&T has bagged quite a few large orders from the government this year. Is this sustainable given that government finances are stretched?

We witnessed an encouraging order inflow of ₹73,233 crore for the quarter ending December 31, 2020, reflecting an increase of 76% over the corresponding quarter of the previous year. While several of these orders were from the Centre, state governments and PSUs, the projects are to a large extent being laterally funded by institutions like JICA, World Bank, and IMF and hence do not overstrain the government's resources. With the government intent on fast-tracking infrastructure development to boost economic growth, we are extremely optimistic of this trend continuing in the future.