

We are targeting to close this fiscal at last year's levels: L&T chief SN Subrahmanyam

SURESH P IYENGAR
THOMAS K THOMAS

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Despite facing a partial shutdown of operations for nearly 5 months due to the pandemic, the country's largest infrastructure company Larsen & Toubro

surprised everyone with a 5 per cent increase in profit and the order book hitting a record ₹3.31-lakh crore.

BusinessLine spoke to SN Subrahmanyam, CEO and Managing Director, L&T, to understand how the company achieved growth and plans for the future.

L&T's third-quarter number has surprised analysts given that the company was coming from a difficult first and second quarter. How did you manage to drive growth?

At the end of January-February 2020, we knew that we had everything to deliver good results this year. But then we did not expect the pandemic to hit us. By July-August there was despondency and a feeling of worry as this is a large organisation with a presence in EPC, manufacturing, and IT services. I was aware that IT services could adapt to the work from home and work from anywhere concept faster than other businesses. We understood that unless we do not work a way out we are in serious trouble. We charted out measures to be taken including how to reduce cost, take care of people as there were no projects to work on and no clients to meet. Amazingly everybody in the organisation pitched in and adapted to the situation very fast.

Many of them willingly agreed to give away their incentives and increments. I received an e-mail from so many people to even cut

their salary for five months to a year. This gave courage to top management to implement cost-saving measures to conserve ourselves. Naturally, many costs including travel, normal office expenses, and air conditioning got cut automatically.

At the site level also travel and housing costs had come down. What was more challenging was that we had 2,70,000-2,80,000 labourers working for us at the site and about 70,000 to 80,000 people left home for Holi. We still had 1,70,000-1,80,000 people at the work site. Certain people started migrating to their home towns and the strength came down to 70,000.

When the unlock started we knew that if we do not restart work we will be in trouble. We set up a task force headed by me personally for mobilising people back to work and got 1,80,000 labourers back to our site and factories. It may be one of the largest ever mobilisation done by any organisation in India. In fact, our HR people traveled to the nook and corner of villages in Chhatisgarh, Jharkhand, Bihar, West Bengal and Odisha to mobilise workers.

There was a lot of pressure on us to bring down the targets as we had not worked for five months, but I said that let us keep the budget and let us try to achieve it.

You also had to cut off tied with your Chinese partners. How have you managed this?

Following China's aggression at the border and the Prime Minister's call for Atmanirbhar we had worked on terminating orders given to Chinese companies. We could have done many of these orders in India but due to the economy of scale, we had placed it with Chinese entities. We have recalibrated and started manufacturing some of these things in India.

Are you happy with the government's support?

The government came out with many schemes and eased cash flows by redressing pending disputes. Cash flow from governments became a lot easier. This eased working capital requirements. The government also pushed projects on the ground. The projects that were not moving for long were pushed out and we were the beneficiary of it bagging orders worth ₹73,000 crore.

What has been the potential loss incurred by L&T due to the pandemic?

We ended the quarter with a three per cent shortfall. We had to go a little bit slower this quarter as the cement

and steel prices surged. Steel prices have gone up from ₹36 a kg to ₹66 a kg while cement prices increased ₹275 a bag to ₹365 a bag. So we went a bit slow resulting in a shortfall of ₹600-700 crore. Otherwise, our sales would have caught with that of last December quarter. In nine months, there is a shortfall in sales is about 13 per cent compared to last year and to a large extent, we hope that we will catch up in the March quarter.

Our revenue would have been 10 per cent higher if the pandemic has not hit us. So you can say we are about 20-23 per cent short. We target to close this fiscal at the last year level or slightly above despite having lost five months this year.

Large part of your orders are from the government sector. Do you see any revival in private sector investment?

I believe the private sector will not be active for some time as everybody is going through a capex reduction. There has been some capex from steel and cement companies. Also some relocation of factories and retail growth. I believe from September onwards there will be some private sector investments.

Steel companies justify the price increase by saying that they are 5 per cent lower than the landing price. Then there are also costs related to logistics... Is that a way to compare? Something is being sold in

America at X price and I am selling it at 5 per cent lower. Is that the way you want to compete in the world? You have to see what is a fair price here. What was at ₹33 per kg why has it jumped to ₹66?

What was the reason to go up at a time when there was no industrial activity in India? In terms of logistics also, what has changed so much to push the price up? It's no a brainer on what has happened.

L&T has undertaken two asset sale deal. What's the status of other assets that are to be sold?

As far as L&T Infrastructure Development Projects is concerned we are in talks with Canadian pension fund to bring down our stake to less than 11 per cent.

It will happen this year. We also want to sell Nabha Power and we have been talking to various parties. We are not getting value because there are many power plans available.

But the plant is making profits, so I am not in a desperate situation to sell it. If we get a good offer, I will move out of it. Third asset is Hyderabad metro and we want to come out of that project.

But new investors will come in only once we make the project profitable and that will happen when the traffic increases.

This will take 2-3 years but some restructuring of finance will happen during the year to strengthen the project.

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