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SUPER LARGE: L&T | S.N. SUBRAHMANYAN

HITTING THE REFRESH BUTTON AT L&T



IN FILE: S.N. Subrahmanyam, then deputy managing director of Larsen & Toubro (L&T) and seen as a likely successor of chairman and managing director A.M. Naik, got an unexpected order from his boss: "Go to U.S. and Europe and learn about IT," Sekharipuram Narayanan Subrahmanyam, fondly called SNS, was heading L&T's largest business—infrastructure. "I am a civil engineer. Until then, IT had no role in my work and life," he says. Subrahmanyam spent a year in the U.S. and Europe and met IT experts and CEOs and CXOs of several

S.N. Subrahmanyam is increasing the share of services—financial & IT—in order to increase the margins of the conglomerate.

BY P.B. JAYAKUMAR

Fortune 500 companies. "He was also managing the infrastructure business over phone and mail," says Naik. After returning to India, he rushed to Naik and explained how IT could catapult L&T to new heights. "Implement it in engineering & construction," was Naik's answer. In next two years, he and his team digitised over

13,000 assets in material supply chain, workman management, recruitment, quality management, predictive maintenance, safety apps, material pilferages, project progress, etc. L&T does 800-1,000 projects at a time, directly employing two lakh, apart from another three lakh labourers. "I could implement one of the largest digital

programmes in this space in the world and in a way we became an IT company doing infrastructure work," says Subrahmanyam, who has been managing director and CEO since July 1, 2017; he took charge as chairman and managing director on October 1. When he took over as managing director and CEO, Subrahmanyam

HOW THE COMPANY FARED

Net Sales (FY20)
₹1,62,340.7 cr
3-Year CAGR
8.02%
P/E
₹10.471 cr
3-Year CAGR
3.1%
3-Year Average TSR*
44.6%
Average ROCE**
11.53%

* Total shareholder return
** Return on capital employed

WHY HE MATTERS

- Focused on simplifying organisational structure, shedding non-core assets and exiting low-profit businesses.
- Increased share of services to expand margins.



L&T'S FINANCIAL SERVICES IS UNDERGOING A TRANSFORMATION FROM WHOLESALE LENDING TO RETAIL LENDING

had a tough task at hand, primarily because of diverse business profile of L&T. He stunned analysts despite Covid. Consolidated revenues grew 52.5% from ₹1.2 lakh crore in FY18 to ₹1.83 lakh crore in FY23. L&T is sitting on its highest ever order book—₹4.13 lakh crore in Q1 FY24.

To keep up the momentum, when Covid was receding, L&T launched Lakshya 2026 in April 2022, with plans to double turnover to ₹2.7 lakh crore and order inflow to ₹3.4 lakh crore by 2026, a CAGR of 15% and 14%, respectively. The second target has been achieved. L&T is on track to meet the first as well. "We may end up between ₹2 lakh crore and ₹2.15 lakh crore this financial year. We could even exceed Lakshya 2026 due to our order book position now," says Subrahmanyan. Prabhudas Lilladher analysts estimate revenues will grow to ₹2.07 lakh crore in FY24 and ₹2.33 lakh crore in FY25.

In last five years, Subrahmanyan has focused on simplifying organisational structure, shedding non-core assets and exiting low-profit businesses. L&T sold its electrical & automa-

tion vertical to Schneider Electric for ₹14,000 crore in 2018. Two years later, it sold its small marine automation business, Serwowatch Systems in UK, to Rolls-Royce for an undisclosed amount. It also sold 100% stake in a 99 MW hydroelectric power plant in Uttarakhand to ReNew Power for ₹985 crore. L&T divested its entire 51% stake in L&T Infrastructure Development Projects—its concessions business in roads, bridges, ports and urban infrastructure—in 2022 to a portfolio company of an infrastructure fund managed by Edelweiss.

There's more on the anvil, says Subrahmanyan. The company is looking to sell construction equipment business and taking a serious look at the future of EPC power business. It is in discussions with partner Mitsubishi to decide the fate of two joint ventures for boilers and generators. It may also scout for buyers for non-core assets like industrial valves or rubber processing machinery. It will also discard and restructure some less profitable businesses. L&T has stopped bidding for projects in minerals & metals and material handling

businesses. In power transmission, it has stopped taking up projects in industrial electrification and small sub-stations, a major focus area earlier.

International business, which accounted for 38% revenues in FY23, is also getting a revamp. Earlier, L&T was trying to tap Middle East markets across all businesses. Now, focus has been restricted to hydrocarbons, power transmission and to some extent water. In Africa, L&T will operate only in hydrocarbon and power transmission. Subrahmanyan says big growth areas will be defence and aerospace, water, IT and green energy.

Margin improvement is a big focus area and that is why L&T is growing its IT & technology services and financial services businesses. Margins from infrastructure business, which is 73% of order book, are only 5-6%. L&T had acquired a 61% stake in Mindtree in 2019 and merged it with LTI last year to create LTI-Mindtree, the fifth largest IT firm by market capitalisation and sixth largest in terms of revenue in India. It also owns L&T Technology Services (LTTS), which generated revenues of

₹8,223 crore in FY23, and is the face for IT and related engineering technology in engineering research and development services. LTTS, the largest in that space in India and among top ten globally, is aiming to become a \$1.5 billion company by 2025.

L&T's financial services business is also undergoing a transformation from wholesale to retail lending. The company is aiming for 35% CAGR in retail loans from 2023 to 2026. L&T Finance Holding (LTFH) had sold its mutual fund business two years ago to HSBC Asset Management (India) for \$425 million. In 2019, the wealth management business, with over ₹24,000 crore assets, was sold to IIFL Wealth. LTFH is in now the process of merging some subsidiaries like L&T Finance and Infra Credit for a focused structure. "By 2025 or 2026, 50% profits may come from services, from 35% at present, and the rest from E&C and our main engineering and other businesses like energy, hitech manufacturing and hydrocarbon," says Subrahmanyan.

Subrahmanyan started his professional journey with L&T in 1984. He says he is fond of reading, watching films and learning new technologies when he gets time off work. Naik, who spotted Subrahmanyan a decade ago, says Subrahmanyan as a 'very intelligent and hardworking person with commitment' and adds that "L&T's future is safe in his hands." ■