

# 'This life is reserved for L&T'

This is the irascible **A M Naik's** eighth year at the helm of India's most valuable engineering and construction company, Larsen and Toubro. In a freewheeling interview, Naik talks about the journey taken so far, and the one ahead, in a three-hour conversation with **Satish John**. Excerpts:

**L&T's core businesses have hit a sweet spot?**  
All my businesses are core. What was not core we sold. And the so called non-core businesses we have, will go eventually. But all the new verticals that we are forming are in the core businesses.

L&T will have 12 verticals, including engineering & construction, power and hydrocarbons, electricals, machinery business, industrial products, heavy engineering, technology and ship building. Thus nine of the verticals are mature businesses. Two are part of our mid-term and long-term strategy.

We have not given L&T Finance a status of a vertical yet. This business is a five year play which could turn out to be very important. Beyond 2011-12, these 12 verticals could go to 14 or 15, and then we will stop.

**About 3-4 years ago there was a cover story in Businessworld that said L&T would be India's GE? Is it a fair surmise?**

I don't think they said that. They only said that my style of working was like Jack Welch (legendary GE Chairman).

We have a GE type character - a conglomerate style of doing business. We are engineering driven after we sold our cement business. We (GE and L&T) don't have anything much in common except electrical switchgears.

**GE also has finance...**  
Our finance business is puny. We pushed our finance related businesses only in the last three years. One company does financing and debt, and the other invests in infrastructure projects by picking up equity. It is currently doing more than 20 projects. We have investment in Bangalore airport. We have investment in Kakinada port, several roads and properties.

**Like Welch, you personally pitch for business from big clients?**

**“Please find out whether Infosys does any Indian work. Forget about doing defence work. They are so focused on making 26% PAT. I think some days ago, they said they will now focus on India and China. So far their revenue in India was less than 1.5%. So, India doesn't benefit with its own people. This is really my anger!”**

I have done roadshows with 20 customers because L&T wants to become a Rs 50,000 crore (\$2 billion) company in 5 to 6 years. If you want to bag huge projects in the private sector they go by faith and not tenders. Like the Delhi airport did not go for competitive bidding. It was their belief that only L&T could deliver. (The day after the interview, L&T also bagged GVK's second Mumbai airport project.)

Otherwise you bring a multinational not used to working in India. In Hyderabad, Grandhi Mallikarjuna Rao (founder chairman of GMR Group) experienced it. We were only constructing there, the rest of the work was done by a multinational. They ran away or whatever. The promoters obviously didn't want to repeat it again and so we got the order in Delhi.

We are bidding for huge power projects. In the next 5 years we want to develop turnkey projects of 8 mw to 10,000 mw. That's why we have the Mitsubishi joint venture for a super critical boiler plant. Our turbine joint venture is a toss up between Toshiba and Mitsubishi. (A week after the interview Mitsubishi was finalised.)

**L&T fabrication experience may come in handy for ship building.**

We are already doing naval ships and advanced ships. We have orders for 12 ships, without any foreign collaboration. As soon as I get my act together in three months in a new shipyard, I'll get orders for building 20 ships.

**Aren't you looking for a ship building joint venture with a Japanese or Korean company?**

Not at all. Why should I give my precious equity to someone unless I need the technology? Like in supercritical boilers or our proposed turbine venture. Otherwise I am not in favour of giving equity - the most prized possession — to anyone.

**“One Chinese engineer creates 20 jobs only because of the country's manufacturing prowess. An Indian engineer sells his man hours and fails to create any job for his fellow Indians.”**

**Would Mitsubishi have come without any equity stake?**

They would have come with a smaller equity, but we said you come with 49%. The power ministry and the NTPC felt that the supercritical boiler and turbine technology was so advanced, that they wanted me to have a “proper joint venture”. But we still retain 51% and the casting vote.

In my tenure I have never done any 50:50 joint venture. When we formed L&T Dredging International, we secured 51% for L&T and gave 49% to our Belgian partner. The reason - it's a matter of time before foreign partners want control. They enter through the JV door; hire people through L&T or other Indian companies and create a good structure.

Then in three years, they say we can't bring new technology unless you give us a majority.

**Then why a JV for dredging?**

The Belgium company is a dredging operator. *Us mein technology kya hain?* It is for leveraging

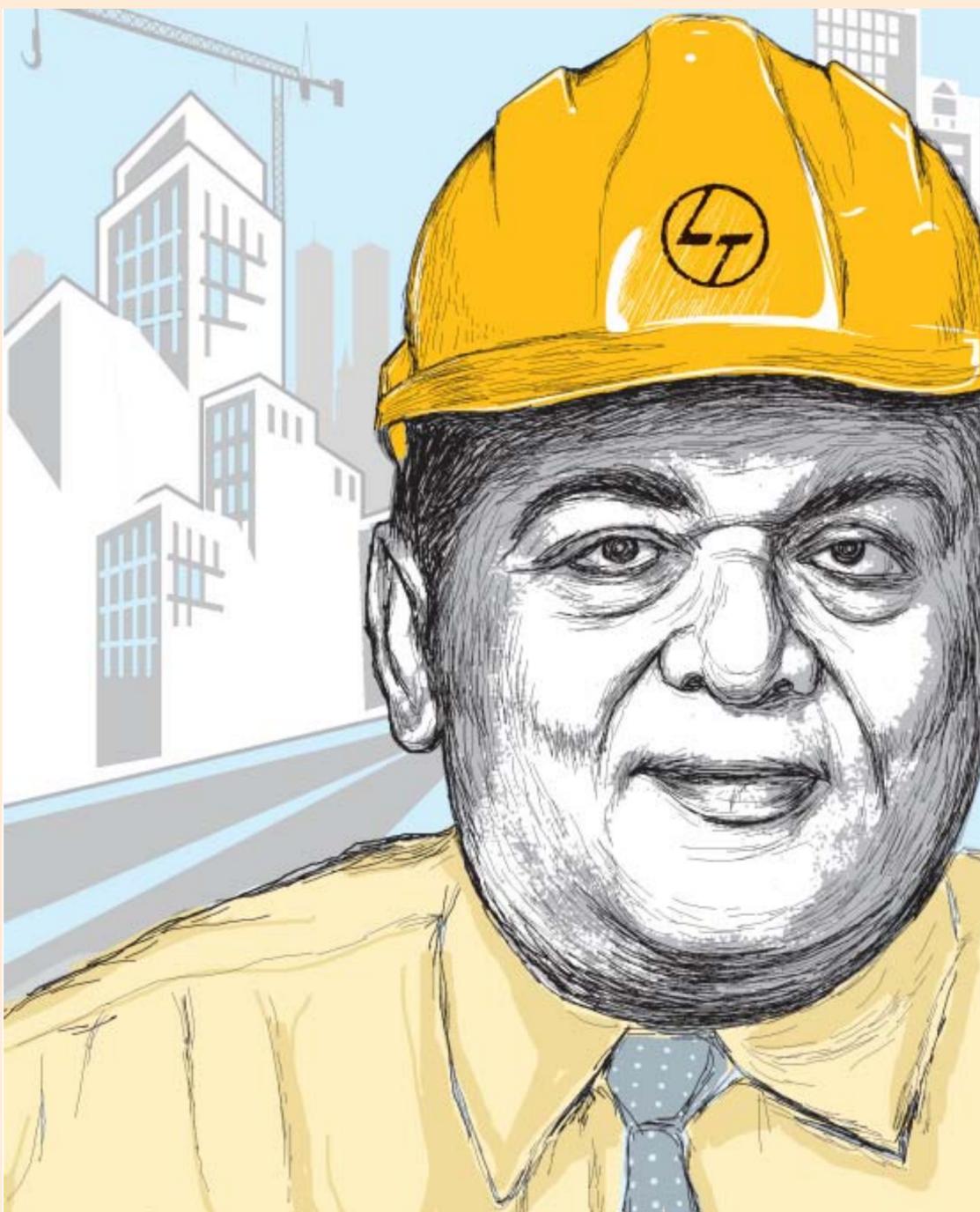


Illustration : Shailesh Warang

**“The least that the politicians must do is stop cutting ribbons in the outsourcing industry.... After being irresponsible, the IT industry wants to complain India's infrastructure is bad.”**

our ports business. Secondly, in my own port this dredger will be busy. Thus, one dredger will be kept busy. For doing outside work we need more dredgers. Our biggest problem is that we don't have enough dredgers for delivery.

**Reliance and L&T are driving market sentiment today?**

It's all hype. There are no fundamentals in that sense for investors to give 45-50 multiples. Almost all stocks are trading at those forward multiples. The market has discounted the current year's performance and perhaps even next year's performance for many midcap companies.

**So is it time for L&T to list abroad?**

I am against listing abroad. Today the whole world wants to come here, so why should I go there? The price-earnings multiple we get here is much more. Secondly, you don't get the price for the brand value of L&T. Very few know about us in the US. They'll compare us with GE and Bechtel, and say we are a small company. Companies like Infosys went there purely because of labour arbitrage.

**They are respected in the US?**

But does Infosys have the technology? Can they do what L&T can? Can they build India's defence, build ships, missile launchers, nuclear plants, satellites or radars? No.

L&T is one among eight companies in the world who can.

**On defence equipment? You are still awaiting Raksha Udyog Ratna (RuR)?**

That is the Leftist doing. We are the only company without the RuR. We are already working with the defence - aligned to India's national and defence research laboratories. We used to come up to prototype, and lost money throughout the late 80s and 90s. We were doing it as L&T is committed to building India and India's defence.

Even as the government talks about privatisation, the RuR is not forthcoming. The defence ministry is very clear that while RuR is getting delayed let the defence programmes go to whoever has done prototypes.

**Can't L&T take advantage through the Offset Agreement?**

All this is big talk. There has to be a lot of push from the government to get these foreign MNCs, who get the defence orders to comply with the Offset clause. In the end, for whatever reason, it invariably gets converted into counter trade. Offsets become counter trade and companies export oil, tea and commodities from here.

Some are trying to convert Offset to IT engineering outsourcing. Why include that? Even if you have not sold, how can you convert jobs that you do at \$100 an hour. The government has already diluted it by including outsourcing. This is how they have taken Infosys, Wipro and TCS in

the RuR. I can understand if they were working for India's defence programme! Except for TCS, which does defence-related work because it acquired CMC, who else does it? Forget defence, Infosys is so focused on making 26% profits, their India revenue is less than 1.5%. So India doesn't benefit with its own people. This makes me angry. Now they say they are looking at India and China, forced by their profitability issue. Not because they have any love for our country!

Who is fighting the MNCs — Schneider, Siemens, ABB, GE? We beat them hollow with our own products.

L&T is the pride of India. Others may make more money than us. At least (the) stock market is recognising us. Secondly, L&T is No. 1 in whatever it does — other than the power sector, where BHEL started 50 years ago at the cost of L&T.

**Why at the cost of L&T?**

In 1981 and 1984, we were not given a licence. I asked for the last time in 1989, and it was denied. Today the country is dependent on others, and everything is coming from China.

**How do you manage to complete you projects on time even as MNCs and software companies poach your youngsters?**

**“Four out of 10 Indians go abroad after using India's highly subsidised educational system. 90% don't come back. Of those left, four out of five go into outsourcing. Consequently, they are only working to give advantage to US. Advantage Europe, Advantage Japan. They are designing the product here and taking it to China and manufacture it there.”**

You are touching my boiling point. I took full control of L&T only seven years ago. I spent the first three years in reorganising and restructuring L&T — the getting ready kind of thing. In 2003, I demerged cement. The L&T stock was valued at Rs 4,000 crore including cement, which was later demerged. Today it is Rs 1,45,000 crore, without cement - a 32 times appreciation. The Sensex then was at 2,500. It has gone up eight times, L&T has gone up 31 times. So I have outperformed the Sensex 3.5 to 4 times.

If you compare other companies' performance versus the Sensex, you won't even find five like mine. Secondly, many of these companies are very focused. Bharti Airtel in telecom, Tata Steel in steel, Reliance in petrochemicals and refineries and Reliance ADA group in energy and telecom. Not a single company in our sector in the whole world will enjoy a market capitalisation appreciation — now \$27 billion — like us.

**You can now use your equity for acquisitions?**

We don't want to make any major acquisition outside India. I don't want to make acquisitions for the heck of it. L&T is deeply focused in building India. I would rather acquire two more companies in India. Why should I put my talent in

building America. I'll acquire a technology company if there are opportunities.

**ABB Lummus was one foreign engineering company, according to investment banking circles...**

Why should I put \$3 billion in any company which has no role to play in India? Talent drain is India's biggest problem. Previously the drain was because the talent was hired to go abroad. Now it is due to the outsourcing industry within India. Four out of ten Indians go abroad after using India's highly subsidised education system and 90% don't come back. Of these, four out of five go into outsourcing. Consequently they are only working to give advantage to the US, Europe and Japan. They are designing the product here and taking it to China to manufacture. China's 52% GDP accrues from manufacturing. India shows only 17%. China's manufacturing has spread into the second and third tier districts. India is shining only in 12 cities. One Chinese engineer creates 20 jobs only because of the country's manufacturing prowess. An Indian engineer sells his man hours and fails to create any job for his fellow Indians.

It was alright when the Indian economy was closed and there weren't enough jobs for everyone. But today, there are no nurses in hospitals, or no proper hospitality staff in hotels.

We may have to put 15-20% activities in the Gulf and Malaysia. But we do not want to fritter away our energy by fighting German construction companies in Germany.

**Why Gulf?**

My people have to become smart. That's where they face the whole world. So when MNCs come and attack me in this country, my boys at least have a better benchmark, understanding and a better quality feeling. Therefore we can remain up-to-date to defend our turf.

In manufacturing, I have no geographical restriction. If it is made in India, I can export anywhere in the world. I am also not counting my IT business which is now exporting Rs 1,500 crore. It is one among ten companies. So when I grumble about the outsourcing industry sucking away India's talent it is because I want the powers-that-be to realise that outsourcing beyond a point is not in our interest. My complaint is that these companies sign up civil engineers, mechanical engineers, electrical engineers. Why can they pay better salaries? Because L&T works at 7-8% PAT, they work at 26% PAT. I cannot overcharge the nation. They charge it because of the cost advantage gives them enough leverage and gives their employees double and they still end up making 26% PAT. I doubt if they will last for long.

Five years from now, China will emerge. As its manufacturing matures, China will use its non-engineering talent selectively, and use their 10,000 English teachers to create a rapid workforce to compete against us.

**L&T also has some outfits in China?**

I don't have IT-only four manufacturing plants. According to me, the Chinese are the most unreasonable competitors in the world. Everyone knows that China's currency is 35% undervalued. And we are champions of free economy. So we allow our rupee to float so the rupee has appreciated and tens and thousands of people are out of jobs. Small people are crying.

**“The Offset Agreement is just big, big talk. There has to be a lot of push from the government to get these foreign MNCs, who get the defence orders to comply with the Offset clause. Do you know in the end, for whatever reason, it invariably gets converted into counter trade. Offsets become counter trade and companies export from here oil, tea and commodities.”**

L&T's five units are put up for sale because of the appreciating rupee and Chinese

competition. Now, if China believes in competition and if they float their currency I am very confident that I can fight back. The moment their currency *hava* is over, there would be any number of people who'll say India is a far better destination.

They want to come here rather than China. Or, at least, have one leg here and one leg there. But India cannot fight Chinese competition. Who has created this? Our own government!

**L&T is doing well in spite of these troubles?**

The Securities and Exchange Board of India chairman says if you pinch L&T's Naik, you'll find an L&T overcoat. Kumar Mangalam Birla took me to his grandfather B K Birlaji and introduced me by saying: 'I've never seen a man who's so committed and loyal to his company.' In my career of 40 years I've received many offers, but I always tell them that this life is reserved for L&T, may be if I am reborn and return as a human being, I could consider then.

**So what are the challenges?**

Talent is the only one for now. And China. The government said you should put one more boiler and turbine plant. The supercritical Mitsubishi boiler plant is the world's number one. On the other hand (*Naik whistles*) 4,000 mw is imported. So before I am born, I am being killed. This is our nation.

The least that the politicians can do is stop cutting ribbons in the outsourcing industry. There are more than 75,000 engineers working on design in India for foreign companies. They are the

**“In Holland they are going to create 5,000 acres of extra land by reclaiming the sea. Extending the Rotterdam Port, means filling up 300 million cubic metres. Even the most powerful dredger would take years. It is a mind-boggling project to convert 60 feet of water into land. The entire gulf is expanding into the sea — Dubai, Abu Dhabi, Bahrain and Singapore. They are very ambitious countries but small in the land they own. Thus the only choice before Mumbai is to expand into the sea.”**

brains, and there are 150,000 other engineers working in the IT industry who are non-computer science engineers. Then the Bangalore Club complains that infrastructure there is cracking. *Arrey tumko kisne bola tha* 100,000 engineers *leke aao* Bangalore mein. Secondly, who asked you to recruit civil engineers? There are no civil engineers available to build infrastructure!

**You also have an IT subsidiary...**

Because, in 1999, when I took over we lost 8,500 engineers to the IT industry. And by the time I was thinking whether to enter IT or not I lost another 800. So I decided to defend L&T so that when my other engineers want to join other IT industries, they can seek a transfer as long as they work in core L&T for three years.

**Will you make L&T a holding company?**

Right now we are deeply involved in creating verticals or virtual companies. We have formed a separate board for that. Currently there are six divisional boards eventually there will be 12 vertical boards.

**Will they be filled up by young people in L&T?**

Well young people do not exist in L&T, because they left when L&T became a seniority driven company. Not any more. So I am putting so much effort now that *isme kaun hain star usko phataphat par lao*. *Agle teen saal mein* they have to become the backbone of L&T.

We've just launched the programme. Our internal processes training and development, encouragement and empowerment must be such that ordinary people can do extraordinary things.

**“I haven't decided yet on Ultratech stake sale (L&T holds 11% in the company). Because I am waiting for peak value. But yes it's on the cards.”**

**So your succession planning has begun?**

I want to call it steep deep diving into level four and five to see what's in store before we recruit laterally. Otherwise succession planning is an on-going process. Now we want to be systematic-take inventory of future talent.

**How are you protecting L&T as a possible takeover target?**

The most important thing is the spirit of L&T. It will live on as long as the old generation is there. The new generation does not have the same sense of belonging. We have a programme. Employee to L&Tite. My strong message when I speak every week or ten days is on only two things. We build India - please align with us to build our powerful nation.

Secondly, your main job is to convert employees to L&Tites, so that the future of the company is secure. One is by consistent performance. Second is to resist any moves. As long as L&T continues to perform, the financial institutions' understanding is that they will back the management. We are still paying back the loans.

**What about the Ultratech stake? (L&T still owns 11% of the Birla cement company)**

I haven't decided yet. Because I am waiting for peak value. But yes it's on the cards.