

LARSEN & TOUBRO DRAWING A NEW BLUEPRINT FOR GROWTH

India's largest engineering conglomerate, Larsen & Toubro, is drawing up a blueprint for the next phase of growth, which will see the company consolidate its strengths in areas such as defence, aerospace, power and nuclear energy. A report by **R. Nagesh**.



Larsen & Toubro (L&T), the US\$ 8.5 billion technology-driven engineering, manufacturing and construction conglomerate, is one of India's largest private sector companies and also ranks among the global top-five manufacturing companies in the heavy engineering sector. The company has a strong international presence, with a manufacturing footprint in eight countries and collaborations with global majors.

Set up in India in 1938 by two Danish engineers – Henning Hock Larsen and Soren Kristian Toubro – L&T has over the last seven decades been closely involved with major projects across India. These include ports, power plants, transmission lines, oil and gas facilities, refineries, fertiliser plants, bridges, highways, roads and nuclear plants.

A M Naik, chairman and managing

director, L&T, says that the company is now drawing up a blueprint for its Vision 2015, which should be ready by March 2010 and which lays down the directions for future growth and for streamlining its businesses. L&T had drawn up similar five-year plans twice in the past, enabling it to transform from a largely engineering, procurement and construction (EPC) company into a more focussed, value-added engineering behemoth.

Now the company is gradually looking to divest its non-core businesses and focus on a set of core operations. Naik says L&T will enhance its presence in three crucial sectors: defence, aerospace and nuclear power. Traditionally, these are areas dominated by public sector companies and international defence players. L&T is also focussing on infrastructure, power and information and engineering services.

In power, for instance, the L&T chief says that over the next five years, the company expects to build a capacity of 5,000 MW of thermal power and 2,000 MW of hydro power. At present, it has a thermal power capacity of 1,320 MW and hydro power capacity of 300 MW.

Information technology and integrated engineering services are other areas of its business that are set to expand rapidly. "These are two core businesses that we plan to invest in and grow over the next few years," explains Naik.

L&T's flagship engineering & construction (E&C) division delivers EPC solutions in the oil and gas, petrochemicals, power and water sectors. The division has consolidated its presence internationally and is now a major EPC player in the Middle East and South-east Asia.

The company recently won four EPC orders in Qatar, the UAE and Oman for



A M Naik,
chairman and managing director, L&T

a total of US\$ 217.45 million, for the construction of electrical sub-stations for several utilities in the region.

And despite last year's global financial crisis, L&T has been witnessing remarkable growth. Its orders grew by 47 per cent for the quarter ended September 30, 2009, over the corresponding quarter of the previous year; the company had orders worth US\$ 17.5 billion at the end of the second quarter of fiscal 2009-10.

L&T's profit after tax (US\$ 121.8 million) shot up by 23.5 per cent during the quarter, though sales (US\$ 1.7 billion) grew at a modest 6 per cent.

The E&C division saw a healthy growth in order inflow at US\$ 3.65 billion, a record rise of 63 per cent. This follows the accelerated investments in the infrastructure sector in India, especially in hydrocarbons and power.

ONE-STOP SOLUTION FOR NUCLEAR PLANTS

IT is positioning itself as a one-stop solution for nuclear power plants in India and abroad. Larsen & Toubro (L&T) has been closely associated with India's nuclear programme since the 1960s. It also helped build the nuclear submarine launched by India recently.

L&T began by supplying critical components to nuclear plants and later built the main reactor at Rajasthan. The company has been associated with 15 of the 17 nuclear reactors in India. With a global revival in the nuclear power sector, L&T sees tremendous opportunities for growth. The Department of Atomic Energy (DAE) envisages investments of more than US\$ 40 billion in nuclear technology in India over the coming decade.

M V Kotwal, senior executive vice-president, heavy engineering, L&T, notes that globally about US\$ 320 billion is expected to be invested in nuclear plants over the next 10 years. "The major export markets for us include the US and Europe," he points out. "China and Russia are also emerging as significant markets."

Over the years, L&T has established strategic ties with global majors in the sector, including Canada's Atomic Energy Commission, Westinghouse Electric Company and GE-Hitachi Nuclear Energy (both American companies) and Atomstroyexport of Russia. It also has a working relationship with Areva of France.

Kotwal expects L&T's revenues from the nuclear business to add up to almost US\$ 1.3 billion in financial year 2011-12 and about US\$ 2.15 billion by 2015-16. "We see huge potential for L&T in the nuclear sector," he remarks. Nuclear power capacity in India is expected to rise from 4,120 MW at present to 20,000 MW by 2020 and 63,000 MW by 2030, adds Kotwal.

L&T recently formed a joint venture company with state-owned Nuclear

Power Corporation of India Ltd (NPCIL) to produce special steels and ultra heavy forgings for the nuclear power industry.

The indigenous manufacture of forgings will close a critical gap in Indian industry's capability to produce equipment for nuclear, thermal power and hydrocarbon plants, enabling significant reduction in cycle times. Considering the thrust on infrastructure growth in India and the global nuclear renaissance, the potential for such forgings is expected to remain strong over the long-term.

"The establishment of the joint venture between NPCIL and L&T reflects our vision of steady progress for the growth of nuclear power in the country in a self-reliant manner," says Dr Anil Kakodkar, secretary, DAE, and chairman, Atomic Energy Commission. "The facility would contribute in closing the gap in the supply-chain for nuclear power reactors, wide spectrum of installations for nuclear fuel cycle and other infrastructure applications such as hydrocar-

bon and power. I am happy that this is a public-private partnership venture."

According to A M Naik, chairman and managing director, L&T: "This joint venture will place India amongst the few countries in the world capable of producing nuclear-grade heavy forgings. When combined with the established facilities at Hazira (in Gujarat), this venture will form part of a fully-integrated high-technology manufacturing complex."

Dr S K Jain, chairman and managing director, NPCIL, points out that the joint venture will be a major strategic step towards achieving the target of 20,000 MW of nuclear power by 2020 and 63,000 MW by 2032.

L&T also won a US\$ 180 million contract in December 2009 from NPCIL for the construction of the main plant and civil works of two reactors of the Kakrapar Atomic Power Project at Tapi in Gujarat. It is one of the single-largest construction orders in India's nuclear power sector.



L&T'S FOOTPRINT

Larsen & Toubro (L&T) has its footprint across a vast swathe of sectors. Its divisions include:

Engineering and construction division

- Hydrocarbon – upstream, midstream and downstream
- Oil and gas projects
- Petrochemical projects
- Pipelines and storage facilities
- Power – supercritical, coal and gas fired

Heavy engineering division

- Reactors and high pressure exchangers
- Refinery equipment
- Nuclear power plant equipment
- Aerospace and defence
- Reactors and coal gasifiers
- Shipbuilding – merchant and naval

Engineering, construction and contracts division

- Buildings and factories
- Roads and bridges
- Ports and harbours
- Airports
- Railways and mass rapid transport

- Nuclear and hydel power
- Metals and minerals
- Transmission and distribution
- Material handling and water systems

Electrical and electronics division

- Switchgear – low, medium voltage
- Automation systems

Machinery and industrial products division

- Industrial valves and welding products
- Rubber and plastic processing machinery
- Construction and mining equipment
- Earthmoving and road-building

Information technology services

- Information technology
- Engineering services

Financial Services

- Infrastructure financing

IT and integrated engineering services are two core businesses that we plan to invest in and grow over the next few years.

A M Naik,
chairman and managing director,
Larsen & Toubro

One of the fastest-growing segments within the E&C division is power. Ravi Uppal, managing director and ceo, L&T Power, notes that in the current fiscal, the company has won orders worth US\$ 3 billion. "In the next five years, L&T Power will be a leading player in the production and execution of thermal power projects," he adds.

Uppal points out that the company has invested more than US\$ 5 billion over the last two years in setting up boiler and super-critical manufacturing facilities at Hazira. It has entered into a partnership with Japan's Mitsubishi Heavy Industries (MHI) for the manufacture of boilers and super-critical units. L&T Power has the capacity to produce 4,000 MW of power plant equipment every year. In November 2009, it won a US\$ 1.5 billion order from Maharashtra State Power Generation Co Ltd for the manufacture of super-critical boiler turbine generator units.

Going forward, Uppal expects the power business to account for US\$ 5 billion of L&T's projected total revenues of more than US\$ 20 billion over the next five years. India's leading engineering conglomerate is all set to leverage its strengths to take advantage of the huge investments being made in the infrastructure sector over the coming years, even as it expands its global operations.

