Larsen & Toubro, founded in 1938, is the largest engineering and construction organisation in India.

Background

Larsen & Toubro (L&T), headquartered in Mumbai (Maharashtra) is a technology-driven engineering and construction organisation and one of the largest companies in India’s private sector. It has further interests in manufacturing, services and Information Technology. The evolution of the company into the country’s largest engineering and construction organisations is among the more remarkable success stories in Indian industry. It was founded in 1938 by two Danish engineers, Henning Holck-Larsen and Soren Kristian Toubro - both of whom were strongly committed to developing India’s engineering talent and enabling it to meet the demands of industry. Beginning with the import of machinery from Europe, L&T rapidly took on engineering and construction assignments of increasing sophistication. Today, the company sets engineering benchmarks in terms of scale and complexity.

A strong, customer-focussed approach and the constant quest for top-class quality have enabled the company to attain and sustain leadership in its major lines of business. It has established an international presence, with a global spread of offices. A thrust on international business across the last few years has seen overseas earnings growing to 18 per cent of total revenue. With factories and offices located around the country, further supplemented by a comprehensive marketing and distribution network, L&T enjoys an image and equity in virtually every district of India. Its signature of excellence is evident on several projects:

- World’s largest coal gasifier made in India and exported to China
- India’s first indigenous hydrocracker reactor
- Oil and gas platform projects executed to global benchmarks
- World’s largest Continuous Catalyst Regeneration reactor
- Simultaneous execution of clean fuel projects at eight refineries around India
- World’s biggest Fluid Catalytic Cracking regenerator
- World’s longest product splitter
- Asia’s highest viaduct – built for the Konkan Railway

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- World’s longest gas pipeline
- World’s longest coal conveyor
- Building an international class football stadium in 260 days

The company’s shareholding is fairly diverse. The largest stake of 37.14 per cent is held by the domestic banks, financial institutions, mutual funds and insurance companies. The foreign institutional investors hold a stake of 18.05 per cent while 3.62 per cent of the shares are held by custodians, against which Depository Receipts have been issued. Corporate bodies hold a 3 per cent stake, L&T Employees Welfare Foundation holds 13.37 per cent and the individual public shareholding amounts to 24.82 per cent.

**Products and brands**

The company’s business can be primarily divided into the following segments:

**Engineering & Construction – Projects (EPC):** L&T’s engineering and construction track record consists of successful implementation of turnkey projects in major core and infrastructure sectors of the Indian industry. L&T has integrated its strengths in process technology, basic and detailed engineering, equipment fabrication, procurement, project management, erection and construction and commissioning, to offer single-point responsibility under stringent delivery schedules. It is the only Indian EPC company pre-qualified for executing large, process-intensive projects for oil and gas, refinery, petrochemical and fertiliser sectors.

**Heavy Engineering:** L&T is acknowledged as one of the top five fabrication companies in the world, with engineering and manufacturing capabilities that are among the most sought after in industry. Operating at the higher end of the technological spectrum, L&T has led the way in introducing new processes, products and materials in manufacturing. It has the logistics capabilities of fabricating and supplying over-dimensional equipment to tight delivery schedules.

**Shipbuilding:** Shipbuilding represents a new thrust for L&T in the high technology manufacturing space and is in line with its strategic growth objectives. L&T is developing a shipyard capable of constructing vessels of up to 150 metres in length and displacement of 20000 tonnes at its heavy engineering complex at Hazira near Surat on India’s west coast. The focus will be on construction of commercial vessels, warships for the navy and the coast guard.

**Construction:** The Engineering Construction & Contracts (ECC) division of L&T is India’s largest construction organisation. Its leading edge capabilities cover every discipline of construction – civil, mechanical, electrical and instrumentation. L&T has also expanded its focus to the Middle East, South East Asia, Russia, CIS, Mauritius, African and SAARC countries. It also has keen interest in the markets of Indian Ocean rim countries, Africa and Latin America.

**Electrical & Electronics:** L&T is a major international manufacturer of a wide range of electrical and electronic products and systems. In the electrical segment, the Company holds leadership position in low tension switchgear in India, and is rapidly establishing itself in international markets. Its products are widely sold in markets in Europe and Australia. Recently, L&T set up a new manufacturing base for high-end air circuit breakers in China. It joined hands with Saudi Arabia’s reputed house of Kanoo to offer a range of high-end intelligent electrical systems to Saudi Arabian market. L&T also manufactures custom-engineered switchboards for industrial sectors like power, refineries, petrochemical and cement. In the electronic segment, L&T offers a wide range of
L&T’s contribution in making “Made in India” global

L&T has a goal to become an Indian multinational and its aggressive global strategy is keeping in line with this. Its revenues from exports now amount to 18 per cent of its total revenues, which is a testimonial of its ever-increasing global footprint. The company has selected countries and regions with the maximum congruence to its strengths and the most favourable logistics. The Middle East and China have been identified as prime centers for expansion for manufacturing and projects businesses.

The surge in the Middle East economy opens up a range of possibilities for many of L&T’s key businesses. Many economies in the region are consciously reducing their dependence on oil and gas and diversifying into petroleum and other industries. Extensive opportunities also exist in the power and infrastructure sectors. L&T intends to ramp up its presence in these markets through a slew of new projects and business initiatives that will add breadth and depth to the existing association with the industry and infrastructure of the GCC countries and other states in the region. L&T is setting up a Modular Fabrication Yard in Oman that will build equipment for offshore applications and for the hydrocarbon sector.

L&T already supplies to China a range of critical equipment like reactors for major petrochemical projects. It is in the process of completing supply of coal gasifiers for fertiliser, methanol and coal liquefaction projects. The number of refineries and downstream projects planned in the oil sector in China over the next 5-10 years will provide more challenging opportunities for supply of high-tech equipment by L&T. Soon, L&T will have advanced manufacturing facilities for high end switchgear and for industrial valves in China.

meters and provides complete control and automation systems for industries. Medical equipment and systems manufactured by it include advanced ultrasound scanners and patient monitoring systems.

Information Technology: Larsen & Toubro Infotech Limited, a 100 per cent subsidiary of L&T, offers comprehensive, end-to-end software solutions and services with a focus on Manufacturing, BFSI and Communications & Embedded Systems. It provides a cost cutting partnership in the realm of offshore outsourcing, application integration and package implementation.

Machinery & Industrial Products: L&T manufactures, markets and provides service support for critical construction and mining machinery – surface miners, hydraulic excavators, aggregate crushers, loader backhoes and vibratory compactors.

Financial Analysis

The company has been exhibiting strong performance year after year. Gross sales have witnessed a CAGR of more than 14 per cent between 2001 and 2005, while net profits have increased at a CAGR of 33 per cent. Exports, which were roughly USD 610 million in 2005, witnessed a CAGR of 40 per cent during this period.

Operating margin has seen a marginal fall mainly because of the increase in the input costs and in 2005 was at 8.3 per cent. The decreased dependency on long term debt has lead to an improvement in the net margin. Net margin has grown from 3.42 per cent in 2001 to 5.16 per cent in 2005. Reduced financial expenses have resulted in substantial increase in the return on net worth as well as capital employed.
The company has collaborated with several international engineering companies to be able to further provide impetus to the solutions provided to its clients globally. These include

- L&T Chiyoda, a joint venture with Chiyoda Corporation of Japan that provides IT-enabled design and engineering services to the hydrocarbon sector in India

- L&T-Sargent & Lundy, a joint venture with Sargent & Lundy LLC, USA to cater to the engineering needs of the power sector in India and abroad

- L&T Ramboll Consulting Engineers Ltd., a joint venture company formed in association with Ramboll A/S of Denmark, to provide engineering as well as project consulting services for the transportation infrastructure sector

- Joint venture with Voith Paper, Germany that has now become a preferred process supplier for several companies in the Indian paper industry. Voith brought to the venture its technologically superior solutions in the paper industry.

Besides these, the company also sought to capitalise on its capabilities in the areas of project management, fabrication and construction through several ventures with local partners in several focus countries.

- L&T (Oman) LLC, a venture with Zubair Corporation, Oman, is currently one of the largest engineering and construction organisations in Oman that provides civil, mechanical and engineering services

- L&T Qatar LLC, a joint venture with a local company called Al-Jazeera International Trading Co., and L&T Saudi Arabia LLC, another joint venture, provide similar solutions in the petrochemicals, infrastructure, buildings, factories, power and gas sectors

- Larsen & Toubro (Saudi Arabia) LLC (L&T-Saudi), a joint venture with a Saudi entrepreneur, is engaged in the business of providing turnkey solutions in civil, mechanical and electrical engineering in projects in the petrochemicals, infrastructure, buildings, factories, power transmission and distribution and telecommunication sectors in Saudi Arabia.

- L&T-ECC Construction, a joint venture with local partners in Malaysia, focuses mainly on construction projects in Malaysia

- L&T International FZE, another wholly owned subsidiary incorporated in Sharjah, imports and hires equipment, besides also providing project consultancy

- Zubair Kilpatrick LLC is another JV that seeks to focus on MEP services, facilities management and electrical and instrumentation works.

L&T has also entered into alliances with several international companies to strengthen its manufacturing portfolio, especially its mining and construction equipment. It now manufactures a wider range of products besides also being involved in the marketing and servicing of certain products of their international counterparts.

- L&T Komatsu Ltd., a joint venture with Komatsu Asia & Pacific Pte. Ltd., Singapore, manufactures hydraulic excavators and other such components

- L&T John Deere Pvt. Ltd., a joint venture with Deere & Co., USA, is involved in the manufacture and sale of tractors. However, L&T divested its stake in the latter as part of its strategy to exit non-core businesses

- L&T-Case Equipment Pvt. Ltd., a joint venture with CNH America LLC manufactures earthmoving and construction machinery
Another key area that has given its international strategy a thrust is its global sourcing policy. With a steady rise in material costs, the company has placed sourcing teams in China, Europe and Russia.

The talent pool at L&T has also played a major role in developing its global strategy. Its resource base of experienced people gives it the ability to offer integrated solutions in the market. It also selects and trains its managers in a manner that will help them take on the global challenges and help them function more effectively in today’s globalised era. L&T’s strategy of establishing offices and factories across several countries has led to the creation of a distribution network that complements its operations. Also, alliances with several other global leaders give it the access to the latest in technology as well as the strength to execute even larger turnkey projects, thereby adding to its expertise levels.

Several other small initiatives have helped it boost its global expansion. For instance, each business division of the company has a cell that it dedicated to coming up with initiatives to boost exports. It also has several agents abroad to boost its exports. The company regularly participates in several international exhibitions, besides also initiating direct mail campaigns and market surveys. It also expands the reach of some of its new products through the synergy with existing products.

Factors fuelling L&T’s global initiatives

Several factors have contributed to the global expansion of L&T. Several years of expertise and wide range of products and services have served as the necessary pillars for L&T to embark determinedly on a global expansion strategy. In fact one of the key factors for its global success has been the fact that it has been able to integrate its strengths across several areas like engineering, construction, procurement and process technology to be able to provide a ‘single point responsibility under stringent delivery schedules’.

L&T has also set itself a vision of becoming an Indian multinational and hence all its initiatives rally around this vision. Hence, the company constantly comes up with measures that would help it inch closer to this goal. An endeavour in this effort has been the ‘LAKSHYA’ programme, which is the strategic plan that the company has laid out for 2005-10. Through this it will seek to diversify its portfolio, growth targets for each business and compete effectively in the wake of global challenges.

Future Plans

L&T continues to surge ahead in its quest for becoming a global player. It has set itself a target of earning 25 per cent of its revenues from its international operations by 2009-10. It is also actively pursuing business opportunities in China, Middle East and Africa as it sees immense potential in these regions. It seeks to utilise China as a hub for the sourcing of cost-effective components and materials. Towards this regard, it has opened up
offices in Beijing and Shanghai. It also sees the Middle East as a region that offers a number of opportunities, given the fact that oil prices continue to rise and consequently, the investment of these countries in infrastructure, power, hydrocarbons etc. It already has several subsidiaries and joint ventures in this region and is planning to establish an engineering centre here.

The company is also investing in its manpower resources and is seeking to attract, retain and develop the skills of the same. It has initiated steps to identify and groom global managers who would be well trained and better equipped to deal with the global challenges.

Globalisation at a glance

- A presence in over 30 countries either through wholly owned subsidiaries or joint ventures or alliances in Asia, America, Middle East etc.
- An experience of executing several projects across various countries in Asia, Middle East, Africa etc.
- Nearly 18 per cent revenues are from international operations
- Most of the ventures are joint ventures prominent among which are – L&T Sargent&Lundy, L&T Oman LLC, Audco India Ltd. etc.
- Company strongly driven by its global vision to become an Indian Multinational. Programme ‘LAKSHYA’ which outlines a strategic plan for 2005-10 will assist in this