



## ***PRESS RELEASE***

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# **Chairman's Speech: 59<sup>th</sup> Annual General Meeting of L&T September 23, 2004**

I have great pleasure in extending to you a warm welcome to this 59<sup>th</sup> Annual General Meeting of your Company.

Five years ago, we set out with a vision to transform your Company into an Indian multinational, committed to customer satisfaction and enhancing shareholder value. The Company has made significant progress during the last few years in this direction. In our pursuit to become more focused, we successfully de-merged the cement business, and discontinued the packaging business. We are looking to divest glass container business shortly. We will now concentrate on our core businesses of Construction, Turnkey Project Execution, Heavy Engineering, Industrial Machinery, Electrical & Electronics, and, at the same time, accelerate our growth in IT, Engineering & Technology Services.

The Company has achieved an all round improvement in its performance. The Company, without the Cement Business, not only bridged the gap, but also exceeded the previous year's revenue figures. The Company registered a consolidated Revenue of about Rs. 11,300 crores as compared to Rs. 10,500 crores of last year (including Cement). On a like to like basis, the sales grew by 32% and the order booking by 22% over last year, while the order backlog stood at a healthy Rs. 17,131 crores.

The Group's international revenues grew by 19% and now is at around 20% of the Sales. In its efforts to further internationalise the business, your Company has set up offices in Kazakhstan, Nigeria and China. As you might be aware, your Company has already received orders in excess of Rs. 600 crores from China. On my recent visit, I found that there is an enormous value which your Company can derive by engaging with the Chinese industry.

Our major business segment, Engineering & Construction, reported revenues of Rs. 8252 crores, which translates into a growth of more than 34% over the previous year. The E&C segment booked orders valued at Rs. 11,656 crores, an increase of 23 % over the previous year. The order booking opportunities were available in Oil & Gas, Power, Metals & Mining and other infrastructure projects.

The most significant part about E&C financial performance was that the closing order backlog at Rs. 16,961 crores was almost twice the year's revenues.

In line with the strategic direction of migration towards hi-tech and high value added products, the Company has succeeded in entering the business of manufacture of Coal Gasifiers with technological alliance from Shell Global Solutions.

The performance of your Company was aided by multiple initiatives the Company had taken in the past so as to be well prepared for varying business scenarios. For example, our various technological alliances, provided us with competitive edge in the market. These relationships were further complemented by various in-house initiatives like e-Engineering for product design, Knowledge Management Systems for sharing Project Execution experiences, etc.

This all round performance was also facilitated by the domestic economic environment. The GDP grew by more than 8% in 2003-04. The interest rates were low. There was a renewed focus on infrastructure and improving the energy security in the country. That meant more investments in Power, Transportation and Hydrocarbon Sectors. Your Company has been well positioned to benefit from this upturn.

Members will be happy to note that the Company's rating for long term debt was upgraded from AA+ to AAA. The Company further reduced its usage of Net Working Capital to 22% of total revenue as against 27% in the previous year. The reduction in the Working Capital was well complemented by increased asset turnover ratio to 2.35 from 1.85. The other significant achievement has been that the net debt to equity ratio has further improved to 0.27:1 from 0.58:1 of last year. This improved debt equity position offers considerable flexibility to the Company for financing its future growth plans.

One of the noteworthy features of last year was the significant improvement in the performance of many Subsidiary and Associate companies. Your Company had made investment in certain infrastructure projects on Build-Own-Operate-

Transfer basis. The pioneering work which was done a few years ago has now started yielding results. Most of the Special Purpose Vehicles have turned around and become more profitable.

The net result of the various initiatives was 50.7% growth in PBT at Rs. 769 crores and 23% growth in PAT at Rs. 533 crores. This is in spite of substantial increase in the Corporate Tax liability, as the tax credits were fully absorbed in the previous year.

I am sure, members will be delighted with the results of the Company. The Board of Directors has recommended a dividend of Rs. 16 per share.

I am also glad to inform you that L&T has regained its position in the Bombay Stock Exchange 'Index of Thirty Companies'.

## **Looking Ahead**

The changed political scenario in the country has slowed down the pace of economic activity which I am sure is a temporary phenomenon. This sluggishness was more noticeable in the first quarter of 2004-05. The performance of your Company during April-June '04 is to be seen against this backdrop. The order book grew by 11% while the order backlog grew by 15%. At the same time the total revenues grew by 61% to touch Rs. 2742 crores, over the same period of last year.

Now, there are signs of political stability, equity markets are doing relatively better and the Infrastructure development remains the first priority of the government. However, there are some near term challenges due to increase in energy and commodity prices, as well as, interest rates.

Your Company competes globally on the basis of a twin strategy, of cost competitiveness and contemporary technology. The thrust on cost management continues with various programmes under Resource & Supply Chain Management, as well as, business process improvements. Simultaneously, the Company continues to proactively enter into strategic pre bid tie-ups with global players possessing the best mix of technology and competitiveness. Consortium approach is helping the Company to develop new capabilities, in the areas such as Deep Sea Exploration, Airports, Ports and Power Plants.

The Company has made substantial progress in the recent past in creating world class facilities and developing products which meet with the expectation of global customers. To take advantage of increased opportunities in the market

place, the Company has established another water front fabrication facility at Mangalore and is contemplating to create one more facility on the East Coast for 'Floating Production Systems' and other deep water related plant and equipment.

The Company is also expanding its Hazira facilities which will support its initiative to become a major player in the country's defence sector. Nuclear Power and Aerospace are other areas with significant potential.

While these steps will lead to increase in asset base, we have also identified asset-light knowledge businesses to balance our portfolio. Two businesses, e-Engineering Services and Embedded Systems have reached a size and potential that can now support accelerated expansion. These businesses have been integrated with Information Technology business so as to offer seamlessly coordinated offerings to global customers.

As you are aware, our current plan is coming to an end in March 2005. We have already commenced an exercise to prepare our Strategic Plan for the period 2005-2010. This exercise aims at reviewing the business portfolio, identifying gaps if any in terms of product/capability profile and overall repositioning L&T as a more focused and vibrant organization. The Plan also envisages assessing risk profile of individual businesses, as well as the organization as a whole. Our intent is to have a well balanced portfolio with about sixty per cent of the revenues from Construction and Projects Business and the rest from Manufacturing and Technology Services. In addition, the Company is in the process of setting up a Corporate Centre which will support the Company's initiatives to grow inorganically in core areas. This exercise is being undertaken with the help of an international strategy consulting firm with the objective to re-position L&T for the future.

Our desire to become a true Indian Multinational will demand from each employee a commitment to think, feel and behave in different ways. It will call for appreciation of new cultures and diverse geographies. Your Company will have to build its brand in new markets and form strategic alliances and partnerships. Therefore, the most critical area, which will help us to achieve our objectives for the year 2010, is Human Resource Development.

In the recent past, we have taken several steps in this direction, viz., identification of top talent and introduction of performance linked variable compensation, while simultaneously completing the task of role clarity and position classification. Additionally, we have launched fresh initiatives which would aim at attracting, developing and retaining the best and brightest of

talent. This will help us in creating value for our stake holders as well as leverage the power of our core values to make “L&T a most exciting place to work in”. There is no doubt that only excited, empowered and motivated employees will make L&T truly multinational.

With various initiatives on hand, your Company is well on its way to become an Indian Multinational engaged in Engineering & Technology-Oriented businesses over the next few years.

I wish to place on record the exemplary dedication and the hard work of our employees, which led to improved performance. The Company’s quest for value creation would not have been possible but for the support that my colleagues and I received from all the customers, business associates, shareholders and members of the board. I am grateful to them for their continued confidence in the management.

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*FN: Chairman’s statement2004*