

A Study on Financial Performance Analysis of Larsen and Toubro Limited

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ABSTRACT

Finance refers to the core part of a business that handles money management, budgeting, spending, investing, and controlling resources for development and stability of the business. The goal of this research is to conduct a financial analysis of an enterprise with the aid of Ratio Analysis and Analysis of the Comparative Balance Sheets. This study is based on secondary data obtained from annual reports and other financial statements and official documents over a period from 2019-2020 to 2023-2024. The study analyzes major financial ratios which enables stakeholders to understand the firm's financial and operational performance. The results of this analysis are intended to support the different users of the firm such as management, investors, and stakeholders in understanding the actual financial results and determining effective strategies to enhance future financial performance.

Keywords: Finance, Financial Performance, Ratio Analysis, Profitability, Liquidity, Solvency, Financial Management.

INTRODUCTION

Finance is essential for every business to manage funds, investments, and resources efficiently. Analysing financial performance helps in understanding a company's profitability, liquidity, and solvency, ensuring better decision-making. This study focuses on evaluating the financial performance of an organization using Ratio Analysis and Comparative Balance Sheet. By analysing secondary data from annual reports, the study aims to provide insights into the company's financial health, helping management and stakeholders make informed decisions.

STATEMENT OF THE PROBLEM

The profitability of a business reflects its efficiency in generating profits, and this study focuses on analyzing the profitability performance of Larsen & Toubro Ltd. to assess its financial effectiveness. The study aims to analyze the relationship between various financial ratios over the years to identify profitability trends and understand the factors influencing the company's profit performance.

OBJECTIVES OF THE STUDY

- ❖ To examine the liquidity, solvency, profitability and turnover position of the company using ratio analysis.
- ❖ To analyse the relationships between financial variables and understand their impact on the company's performance.

RESEARCH METHODOLOGY

The study combined both analytical and descriptive in terms of research design. Mostly, the study uses secondary data.

TOOLS AND TECHNIQUES USED

Financial tool

- ❖ Ratio analysis

LIMITATIONS OF THE STUDY

- ❖ The company's financial performance is heavily influenced by macroeconomic condition, which can be unpredictable.
- ❖ This study is limited by access to only publicly available financial data.

REVIEW OF LITERATURE

Rohit Jain, Dr. S Prasanna Kumar (2023)¹ has done a study on “*Financial Performance Analysis of Larsen & Toubro Limited*” The study analyses the financial performance of Larsen & Toubro Ltd. (L&T) from 2018 to 2022, focusing on key financial ratios. It highlights L&T's consistent revenue and profit growth, strong liquidity to meet short-term obligations, and solid profitability with a stable return on assets. Efficiency ratios indicate effective asset management, while solvency ratios confirm a sound long-term financial position with a controlled debt-to-equity ratio. Overall, the study concludes that L&T has maintained strong financial performance and is well-positioned for future growth.

Mr. S. Muruganantham, Mr. Poovarasan.C (2021)² has explored the topic on “*A Study on Financial Performance of Larsen and Turbo*” This study examines the financial performance of Larsen & Toubro Ltd. (L&T) from 2011 to 2014, focusing on financial management and corporate finance. It highlights L&T's role in Engineering, Procurement, and Construction (EPC) services across multiple sectors and its global presence through joint ventures. The research analyses financial statements to assess the company's financial soundness and its impact on future financial planning. The findings aim to help L&T improve its financial position and decision-making.

DATA ANALYSIS AND INTERPRETATION

Table 1: Current Ratio

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2019 - 2020	182689.89	144729.21	1.26
2020 - 2021	194966.83	137408.01	1.42
2021 - 2022	208181.17	159433.53	1.31
2022 - 2023	222204.32	162065.99	1.37
2023 - 2024	218079.87	176600.73	1.23
AVERAGE			1.32

Source : Computed from the financial statement of Larsen and Toubro Ltd.

Interpretation: Table 1 shows the current ratio for the period 2019-20 to 2023-24. The ideal ratio is 2:1. The company has maintained an average of 1.32 during this period, this lower ratio indicates a need for improved asset management or liability reduction to enhance financial stability.

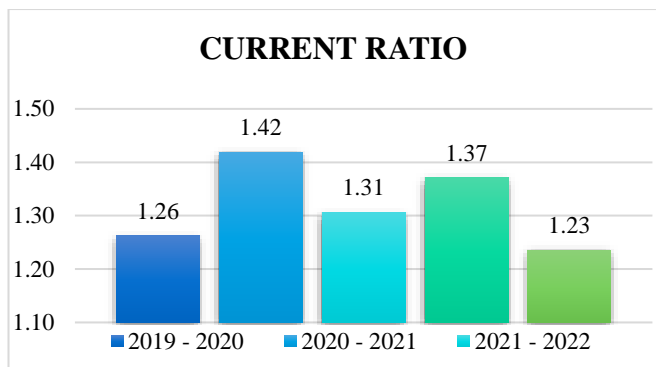


Table 2: Proprietary Ratio

YEAR	SHAREHOLDER'S FUNDS	TOTAL ASSETS	PROPRIETARY RATIO
2019 - 2020	68127.25	308140.13	0.22
2020 - 2021	76992.19	311273.71	0.25
2021 - 2022	82623.31	320048.92	0.26
2022 - 2023	89325.95	330352.31	0.27
2023 - 2024	86359.24	339627.24	0.25
AVERAGE			0.25

Source : Computed from the financial statement of Larsen and Toubro Ltd.

Interpretation: Table 2 shows proprietary the ratio for the period 2019-20 to 2023-24. The average proprietary ratio is 0.25 increasing from 0.22 to 0.27 before stabilizing at 0.25. This indicates a gradual strengthening of equity funding and reduced debt reliance. This reflects strong financial stability and capital management.

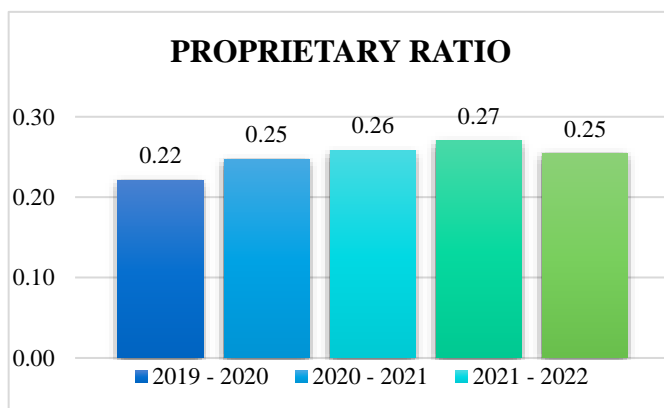
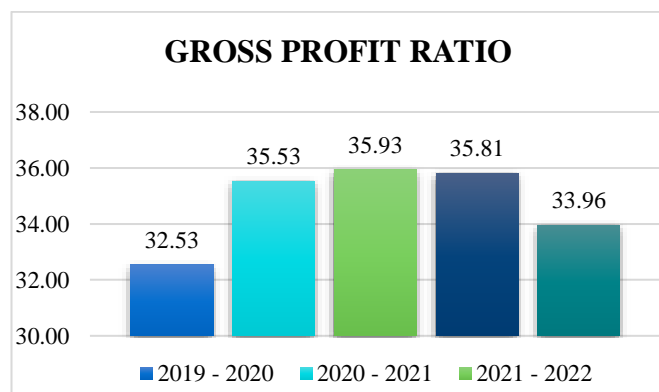


Table 3: Gross Profit Ratio

YEAR	GROSS PROFIT	NET SALES	GROSS PROFIT RATIO
2019 - 2020	46945.38	144308.05	32.53
2020 - 2021	47775.85	134476.75	35.53
2021 - 2022	55933.95	155672.46	35.93
2022 - 2023	65046.15	181661.42	35.81
2023 - 2024	75084.09	221112.91	33.96
AVERAGE			34.75

Source : Computed from the financial statement of Larsen and Toubro Ltd.

Interpretation: Table 3 shows the gross profit ratio for the period 2019-20 to 2023-24. The average gross profit ratio is 34.75. The ratio reflects stable financial performance, which points to strong revenue generation and efficient cost control over time.


Table 4: Net Profit Ratio

YEAR	NET PROFIT AFTER TAX	NET SALES	NET PROFIT RATIO
2019 - 2020	10167.75	144308.05	7.05
2020 - 2021	4668.96	134476.75	3.47
2021 - 2022	10291.05	155672.46	6.61
2022 - 2023	12624.87	181661.42	6.95
2023 - 2024	15569.72	221112.91	7.04
AVERAGE			6.22

Source : Computed from the financial statement of Larsen and Toubro Ltd.

Interpretation: Table 4.shows the net profit ratio for the period 2019-20 to 2023-24. The average net profit ratio is 6.22, reflects the company's efficiency in converting sales into actual profit. The overall trend suggests stable profitability, with room for improvement in cost management and revenue optimization.

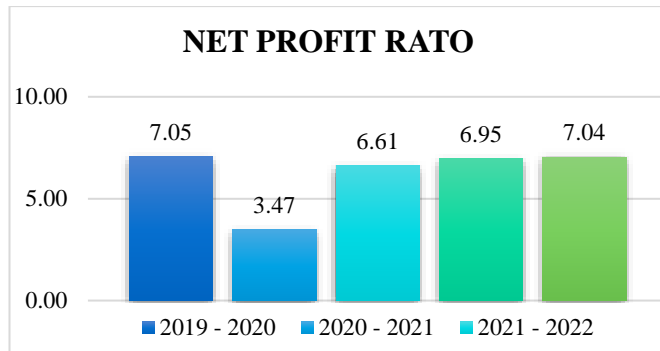
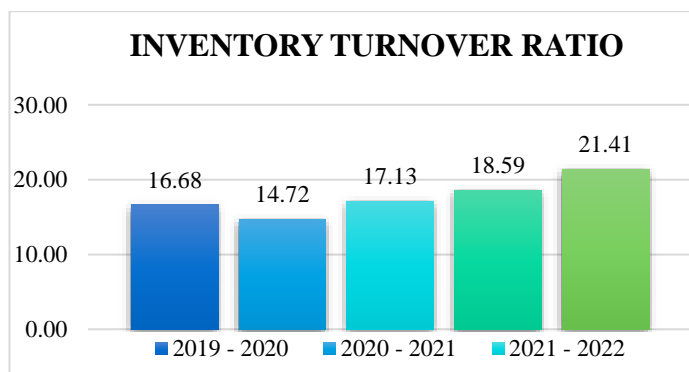


Table 5: Inventory Turnover Ratio

YEAR	COST OF GOODS SOLD	AVERAGE INVENTORY	INVENTORY TURNOVER RATIO
2019 - 2020	95873.88	5746.65	16.68
2020 - 2021	85143.95	5783.59	14.72
2021 - 2022	100745.61	5881.93	17.13
2022 - 2023	118719.05	6386.05	18.59
2023 - 2024	143943.98	6724.49	21.41
AVERAGE			17.71

Source : Computed from the financial statement of Larsen and Toubro Ltd.

Interpretation: Table 4.1.13 shows the inventory turnover ratio for the period 2019-20 to 2023-24. The average net profit ratio is 17.71. This ratio represents efficient inventory management. A rising trend suggests improved stock utilization and sales efficiency, reducing holding costs and potential obsolescence.



FINDINGS

- ❖ The current ratio is consistently below the ideal 2:1, indicating a need for better asset management or liability reduction.
- ❖ The proprietary ratio shows gradual growth, reflecting strong equity funding and reduced debt dependency.
- ❖ The gross profit ratio remains stable, indicating efficient cost control and strong revenue generation.
- ❖ The net profit ratio shows moderate profitability, suggesting a need for better cost management to improve overall profits.
- ❖ The inventory turnover ratio has shown a rising trend, reflecting efficient inventory management and faster stock movement.

CONCLUSION

The Company maintains a strong yet evolving financial position, supported by a diversified portfolio, robust capital management, and stable profitability. The company has strengthened its equity base and reduced debt reliance, ensuring long-term stability. However, liquidity management remains a challenge, with room for improvement in cash flow management. While profitability is stable, optimizing operational efficiencies is necessary for sustained growth. Despite these concerns, L&T is well-positioned for future growth, but addressing liquidity and efficiency issues will be essential for maintaining market leadership and long-term financial health.

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