

Ratio Analysis of Larsen & Toubro Ltd. For The Year 2020 – 2024

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ABSTRACT

Larsen & Toubro Ltd was founded in the year 1938 and it was legally incorporated in the year 1946. Initially company were in India to promote the interests of the Danish dairy equipment. The primary objective of this study is to find s out the firm's liquidity and profitability position by using ratio analysis tool. Ratio analyses helps to find the sensibility of a company's profitability while considering outstanding debts and fixed cost deployment. This study is prediction upon the secondary data extracted from the annual report of the Larsen & Toubro Ltd . It aims to analyze the liquidity and profitability ratio The financial statement of Wipro limited are collected over a period of 5 years from 2020-2024. The monetary function of the agency changed into satisfactory.

KEY WORDS: Financial performance, Ratio analysis, Profitability ratio.

INTRODUCTION

Larsen & Toubro Limited (L&T) is a prominent Indian multinational conglomerate founded in 1938 by Danish engineers Henning Holck-Larsen and Søren Kristian Toubro. With a highly diverse portfolio that includes EPC (Engineering, Procurement, and Construction) Projects, Hi-Tech Manufacturing, and Services, L&T is acknowledged as the biggest engineering and construction corporation in India and works across key, high-impact areas. The corporation is a bellwether for India's industrial and engineering skills since it is a major player in vital industries including infrastructure, hydrocarbons, electricity, defense, and information technology. L&T stands out for its broad worldwide reach in more than 50 countries and its integrated, end-to-end capabilities, which take projects from the first "design to delivery" stage. As a result, it has played a crucial and historic role in nation-building and India's overall industrial and economic growth.

STATEMENT OF THE PROBLEM

The effectiveness of monetary overall performance involves making choices within side the business enterprise the use of a ratio. Evaluation device to understand profitability and liquidity position and to decide whether or not the company is in a function to fulfill their responsibilities well and on time. The paper is to investigate its overall monetary performance.

OBJECTIVES OF THE STUDY

- To study the liquidity position of Larsen & Toubro Ltd.
- To determine the overall efficiency of Larsen & Toubro Ltd by using profitability ratios.
- To study the solvency ratio of Larsen & Toubro Ltd.

RESEARCH METHODOLOGY

The study is about financial performance so it deals with the secondary data. The data has been collected from annual report of the company. The study covers the period of five years ranges from 2020-2024. The study employs analytical research design.

Tools and techniques

Ratio analysis is used in this study for analyzing the financial statement of Larsen & Toubro Ltd.

LIMITATIONS OF STUDY

- The study is based on the data obtained from the annual report of concern.
- It does not reflect the current position of the concern.

REVIEW LITERATURE

- **Dr. Mrs. Vijayalakshmi, J.Nandhini, P.V. Nivashini and G. Pavithra (2019)**, this study is mainly done to analyze the financial performance of Ashok Leyland Limited for the period of 2014-2018. It is based on the secondary data collected from the annual report of the company.
- **Anil Kumar Goyal (2020)**, A study on financial performance analysis of Bharat Petroleum Corporation India" The author uses profitability, liquidity and solvency ratio for analysis of the company's financial performance. The study covers the period of study from 2004-2005 to 2011-2012. It is concluded that the company was unable to even touch the ideal quick ratio during the period of study which may create problem to the short-term liquidity.

ANALYSIS AND INTERPRETATION

A) LIQUIDITY RATIO

To study the liquidity position of a company, several liquidity ratios are commonly analyzed. These ratios provide insights into the company's ability to meet its short-term financial obligations and manage its working capital efficiently. Current ratio is calculated.

1. CURRENT RATIO

The current ratio is a liquidity ratio that measures whether a firm has enough resources to meet its short-term obligations. It compares a firm's current assets to its current liabilities.

Current Ratio = Current Asset / Current Liabilities

Table No.1

Table Showing Larsen & Toubro Ltd Current Ratio(Rs.In crores)

YEAR	CURRENT ASSET	CURRENT LIABILITIES	RATIO
2020	1,94,967	1,37,408	1.41
2021	2,08,181	1,59,434	1.30
2022	2,22,204	1,62,066	1.37
2023	2,18,080	1,76,601	1.23
2024	2,45,342	2,01,971	1.21

INTERPRETATION

The current ratio highest in the year 2022 as 1.37 & it is fluctuation in the following five years. From 1.41(2020) it dropped down to 1.30 (2021), it raised to 1.37(2022) and it dropped to 1.23(2023) and it again dropped to 1.21(2024).

A) PROFITABILITY RATIO**PROFITABILITY POSITION ANALYSIS**

Several critical ratios are frequently used to evaluate a company's financial performance while conducting a profitability position analysis of it. The ability of the company to turn a profit from its activities and how well it uses its resources are both revealed by these ratios. The following ratios are used in this study to analyse the profitability position of Larsen & Toubro Ltd.

1.NET PROFIT RATIO

Net profit ratio is establishing a relationship between net profit earned and revenue generated from operations. Net profit ratio is profitability ratio which is expressed as a percentage hence it is multiple by 100.

$$\text{Net Profit Ratio} = \text{Net Profit} / \text{Sales} * 100$$

Table No.2**Table Showing Larsen & Toubro Ltd Net Profit Ratio (Rs.In crores)**

YEAR	NET PROFIT	SALES	RATIO
2020	145,452	10,894	7.49
2021	135,979	12,921	9.50
2022	156,521	10,419	6.66
2023	183,341	12,531	6.83
2024	221,113	13,059	5.91

INTERPRETATION

The Net profit ratio highest in the year 2021 as 9.50 & it is fluctuation in the following five years. From 7.49(2020) it raised to 9.50 (2021), it decreased to 6.66(2022) and it increased to 6.83(2023) and it again dropped to 5.91(2023).

2.OPERATING PROFIT RATIO

$$\text{Operating Profit Ratio} = \text{Operating Profit} / \text{Sales} * 100$$

Table No.3**Table Showing Larsen & Toubro Ltd Operating Profit Ratio(Rs.In Crores)**

YEAR	OPERATING PROFIT	SALES	RATIO %
2020	16,329	145,452	11.22
2021	15,624	135,979	11.49
2022	18,217	156,521	11.63

2023	20,753	183,341	11.31
2024	23,494	221,113	10.63

INTERPRETATION

The Operating profit ratio highest in the year 2022 as 11.63 & it is fluctuation in the following five years. From 11.22(2020) it raised to 11.49 (2021),it raised to 11.63(2022) and it dropped to 11.31(2023) and it is decreased to 10.63(2024).

B) SOLVENCY RATIO

The following ratios are depending upon the solvency ratio

1.EQUITY RATIO

The debt equity ratio can be defined as a ratio between total debt and shareholder's fund. The debt equity ratio is used to calculate the leverage of an organization. An ideal debt equity ratio for an organization is 2:1

$$\text{Equity Ratio} = \text{Total Equity} / \text{Total Assets}$$

Table No.4

Table Showing Larsen & Toubro Ltd Current Ratio(Rs.In Crores)

YEAR	TOTAL EQUITY	TOTAL ASSETS	RATIO%
2020	66,723	308,140	0.21
2021	75,869	311,274	0.24
2022	82,408	320,067	0.26
2023	89,326	330,352	0.27
2024	86,359	340,136	0.25

INTERPRETATION

The debt equity ratio is highest in the year 2023 as 0.27 & it is fluctuation in the following five years. The debt equity profit ratio was 0.21(2020) it increased to 0.24(2021) it increased to 0.26(2022),it increased to 0.27(2023) and it decreased to 0.25(2024).

2.DEBT - TO - EQUITY RATIO

The interest coverage ratio is used to determine the solvency of an organization in the nearing times as well as how many times the profits earned by that very organization were capable of absorbing its interest related.

$$\text{Debt to Equity Ratio} = \text{Total Debt} / \text{Shareholder's Equity}$$

Table No.5**Table Showing Larsen & Toubro Ltd Current Ratio (Rs.In Crores)**

YEAR	TOTAL DEBT	SHAREHOLDER'S EQUITY	RATIO%
2020	1,41,007	60,413.54	2.33
2021	1,32,605	67,114.05	1.98
2022	1,23,468	71,527.95	1.73
2023	1,18,513	64,416.04	1.84
2024	1,14,040	71,895.84	1.59

INTERPRETATION

The debt equity ratio is highest in the year 2020 as 2.33 & it is fluctuation in the following five years. The interest coverage ratio was 2.33(2020) it decreased to 1.98(2021) it decreased to 1.73(2022), increased to 1.84(2023) and it decreased to 1.59(2024).

FINDINGS

- The current ratio was high in the period of 2020 as 1.41 and low in the period of 2024 as 1.21.
- Net profit ratio is high in the period of 2021 as 9.50 and low in the period of 5.91 as 2024.
- The Operating profit ratio highest in the year 2022 as 11.63 and low in the period 2024 as 10.63
- The Equity ratio was high in the year 2023 as 0.27 and low in the year 2020 as 0.21).
- The Debt-to-Equity ratio indicating high in the year of 2020 as 2.33 and 2024 as 1.59.

CONCLUSION

The ratio analysis of Larsen & Toubro Ltd provides valuable insights into the company's financial performance during the specific period. The analysis involved a thorough examination of various ratios and assess the company's ability. The study reveals the financial performance is satisfactory. Financial presentation is important for finding the strength of the business. Analyzing the above ratios, it reveals that Larsen & Toubro Ltd appears to be in strong financial position.

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WEBSITE

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