International Journal for Research in Engineering Application & Management (IJREAM)
ISSN : 2454-9150 Vol-09, Issue-01, Apr 2023

Financial Performance Analysis of Larsen & Toubro Limited

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ABSTRACT - Over the past few years, the Indian construction industry has significantly expanded and invested in the nation. The expansion of this industry is connected, both directly and indirectly, to the expansion of the Indian economy and of infrastructure. A quick snapshot of a company's financial health in a variety of important areas is provided by ratio analysis, a type of financial statement analysis. Ratios can also be used to identify regions where performance has progressively gotten better or worse over time, acting as a kind of trend analysis. The objective of this research is to examine the financial performance of Larsen & Toubro Ltd (L&T), a significant Indian multinational corporation specialized in manufacturing, engineering, and construction. This study's goal is to assess L&T's financial performance from 2018 through 2022, a five-year period. L&T's financial statements were examined using several financial ratios such as liquidity, profitability, efficiency, and solvency ratios. The study's findings show that L&T has consistently increased its revenues and net profits, maintaining a high financial performance throughout time. According to the liquidity ratios, L&T has enough short-term liquidity to cover its present obligations. According to the profitability statistics, L&T has kept up a strong profit margin and return on assets. The efficiency ratios show that L&T has been successful in effectively managing its assets to produce income. Additionally, according to the solvency ratios, L&T has a sound long-term financial position and has managed to keep its debt-to-equity ratio within a manageable range. Overall, the analysis finds that L&T has consistently produced solid financial results and is well-positioned to take advantage of potential future growth prospects.

Key Words - Financial Performance Analysis, Larsen & Toubro Ltd, Financial Ratios, Liquidity, Profitability, Solvency And Turnover.

I. INTRODUCTION

FINANCIAL PERFOMANCE:

Financial performance analysis is the process of evaluating a company's financial productivity and health using various financial ratios, metrics, and instruments. A company's balance sheet, income statement, and cash flow statement must all be examined in order to assess its performance during a certain time period.

Financial performance analysis aims to assist stakeholders, managers, and investors in comprehending a company's financial strengths and weaknesses, pinpointing opportunities for development, and enabling them to make well-informed choices on current and future business operations. Assessing the company's capacity to make a profit, fulfil its financial commitments, and add value for its shareholders is also helpful.

Profitability ratios, liquidity ratios, solvency ratios, efficiency ratios, and valuation ratios are a few of the regularly used financial performance analysis tools and measures. These ratios are computed by comparing various financial data from the financial statements of a company, including revenue, expenses, assets, liabilities, and equity.

In general, financial performance analysis is a crucial tool for managers, investors, and other stakeholders to evaluate a company's financial standing, make wise choices, and take the required steps to enhance its financial performance.

COMPANY PROFILE:

One of the top Indian multinational corporations, Larsen & Toubro Limited (L&T), operates a variety of engineering, manufacturing, and construction companies. Since its founding in 1938, the business has developed into a recognised international brand with operations in more than 30 nations. With a strong emphasis on innovation, technology, and sustainability, L&T has been able to keep its position as the industry leader.

Currently, L&T is a globally active corporation with operations in several nations, including the Middle East, Europe, and the United States. The company's four primary business segments are engineering and construction,

 DOI : 10.35291/2454-9150.2023.0079

electrical and electronics, machinery and industrial goods, and financial services.

L&T has a solid reputation for its engineering skills and has worked on a number of major projects, including the development of the Delhi Metro Rail Corporation, the building of India's longest railway tunnel, and the building of the country's first nuclear-powered submarine.

L&T is strongly committed to sustainability and corporate social responsibility and has carried out a number of projects in this area, including lowering greenhouse gas emissions, putting sustainable corporate practises in place, and encouraging renewable energy. The business has won numerous accolades and recognition for its sustainability initiatives.

This study's goal is to examine L&T's financial performance during the last five years. The profitability, liquidity, solvency, and efficiency of the company will be evaluated using a variety of financial ratios and metrics. The research will shed light on the company's financial situation and aid in comprehending its potential for the future.

II. STATEMENT OF PROBLEM

Larsen and Toubro, although being one of India's premier engineering and construction firms, has struggled to maintain consistent financial performance in recent years. The business has battled rising debt, slowing revenue growth, and erratic profit margins. To help Larsen and Toubro improve its financial performance and set itself up for long-term success, the challenge is to pinpoint the underlying causes of these problems and offer remedies. Thus, this study will focus on the Financial Performance for the past five years and find out its strength and weakness with the help of ratios.

III. REVIEW OF LITERATURE

Financial performance is critical in any firm, including the construction industry. Understanding the financial health of Indian construction enterprises has drawn more attention in recent years. The main conclusions from recent studies on the financial performance of Indian construction companies are summed up in this overview of the literature review.

One of the studies used the DuPont model to analyse the financial performance of Indian construction firms. According to the study, the most important factors influencing financial success were profitability measures such return on assets (ROA), return on equity (ROE), and net profit margin (NPM). The study also showed that businesses might improve financial performance by focusing on increasing asset turnover and lowering operating costs. **(Bhavani et al 2021)**

Another study looked into the effect of financial leverage on the financial performance of Indian construction enterprises in a separate study. The study's findings, which suggest that excessive debt might have a detrimental effect on financial performance, showed that businesses with significant financial leverage typically had worse profitability ratios. The report also emphasised the significance of effective cash flow and working capital management in raising financial performance. **(Singh and Verma 2020)**

A study examined how macroeconomic variables affected the financial performance of Indian construction firms. The study discovered that interest rates, inflation, and GDP growth were important predictors of financial performance. The study also emphasised the significance of regional and revenue source diversification as a means of reducing the effects of economic changes on financial performance. **(Al-Muwallad et alstudy 2021)**

Another study looked at the connection between corporate governance and financial success in Indian construction enterprises in a different study. According to the study, businesses with superior corporate governance tend to fare financially better. The study also emphasised the significance of openness, responsibility, and moral conduct in raising financial performance. **(Ali and Ganesan 2018)**

The financial performance of 25 construction companies listed on the Bombay Stock Exchange (BSE) from 2013 to 2018 was examined in a study. According to the survey, the financial performance of construction enterprises has increased over time, with an average return on equity (ROE) of 13.9% in 2018 compared to 10.2% in 2013. The survey also discovered that bigger businesses typically outperform smaller businesses financially. This was attributed by the study to the economies of scale that bigger businesses benefit from. **(Reddy and Prakash 2019)**

A sample of 12 publicly traded companies to assess the financial performance of construction companies in India from 2015 to 2019. According to the study, India's construction industry has been expanding steadily, on average at a rate of 5.5% over the course of the investigation. Yet, the study also discovered that the industry's success has been erratic, with some years indicating a sizable fall in profits. The report ascribed this reduction to a number of issues, including delays in project completion, a shortage of competent workers, and a rise in input costs. **(Rajapathirana 2021)**

The financial performance of Indian construction enterprises has fluctuated recently, according to a study. The study examined the 2014–2019 financial statements of 14 construction firms listed on the National Stock Exchange (NSE). The analysis discovered that these businesses' profitability had declined over time and that they had trouble producing positive cash flows. The report gave a number of explanations for this performance drop, including regulatory concerns, fierce rivalry, and a shortage of skilled workers. **(Khan and Jha 2021)**

In research published, used financial ratios to examine L&T's financial performance. A robust financial situation with excellent profitability, liquidity, and solvency ratios was discovered by the analysis for L&T. The company had a high

DOI : 10.35291/2454-9150.2023.0079

ISSN : 2454-9150 Vol-09, Issue-01, Apr 2023

return on equity (ROE), which showed that it was producing sizeable profits for its shareholders, according to the report. **(R. Bhaskaran and R. Sukumaran 2014)**

Another study used the DuPont model to examine the financial performance of L&T. According to the analysis, the company had a high return on assets (ROA), demonstrating that it was making good use of its assets to produce profits. Also, the investigation discovered that L&T had a high operating margin, demonstrating that it was making a sizable profit from its business activities. **(J. Anitha 2016)**

In a study, the author analyzed the financial performance of L&T using a range of financial ratios. The study found that the company had a strong financial position, with high profitability, liquidity, and solvency ratios. The study also found that L&T had a high dividend payout ratio, indicating that it was returning a significant portion of its profits to shareholders. **(N. Jothi 2018)**

In conclusion, research reveals that a number of variables, such as profitability ratios, financial leverage, macroeconomic variables, and corporate governance procedures, might affect the financial performance of Indian construction enterprises. Financial performance can also be improved through effective working capital management, cash flow management, and regional and income source diversification. In recent years, the financial performance of Indian construction enterprises has varied, with some years exhibiting notable drops in profitability. This drop has been attributed to elements including project completion delays, a shortage of skilled workers, and fierce competition. Conversely, some studies contend that because of economies of scale, larger businesses perform better financially.

IV. OBJECTIVES OF THE STUDY:

- To critically evaluate the various financial ratios of Larsen & Toubro Ltd. over a period of five years.
- To shed light on the company's financial stability.
- To convey the study's important findings and provide appropriate recommendations for the company's continued successful survival.

V. RESEARCH METHODOLOGY:

The methodology for analysing financial performance in this study includes several steps.

- Firstly, data must be gathered from various sources such as financial statements or annual reports.
- Secondly, the collected data should be analysed to identify patterns, trends, and relationships.
- Thirdly, the results should be interpreted to address the research question, which may involve benchmarking against industry standards or historical data.
- Based on the analysis, conclusions can be drawn, and recommendations can be made.
- Finally, the findings should be communicated to relevant stakeholders such as investors, management, or regulatory authorities.

The research is carried out utilising both an analytical and descriptive research design. Secondary data are mostly used in the study. The secondary data was gathered from Larsen & Toubro Ltd.'s annual reports, the internet, websites, journals, and articles. The study spans a five-year period from the fiscal years 2017–18 to 2021–22. Ratio analysis is a tool for evaluating a company's financial performance. For the purpose of analysis, the data has been gathered and presented as tables and graphs. Based on the results, conclusions have been reached and recommendations have been made.

TOOLS FOR ANALYSING:

I. Liquidity ratio
- Current ratio
- Quick ratio

II. Profitability ratio
- Net profit ratio
- Return on net worth
- Earnings per share

III. Solvency ratio
- Debt equity ratio

IV. Turnover ratio
- Inventory turnover ratio
- Fixed Assets turnover ratio

VI. RESULTS AND DISCUSSION:

I. CURRENT RATIO

A current ratio indicates that a firm's current assets surpass its current liabilities, meaning that the company ought to be capable to pay off its short-term debts using its existing assets. This may mean that the business is better positioned to deal with unforeseen financial commitments due to its strong liquidity position.

Current ratio = Current Assets/Current Liabilities

Table no.1 – CURRENT RATIO

Year	Current Ratio	Current Assets(in cr.)	Current Liabilities(in cr.)
2018	1.32	79,570.07	60,357.83
2019	1.30	91,059.17	70,259.35
2020	1.18	95,635.11	81,380.28
2021	1.46	103,631.79	70,889.17
2022	1.39	122,017.86	87,567.48

 DOI : 10.35291/2454-9150.2023.0079

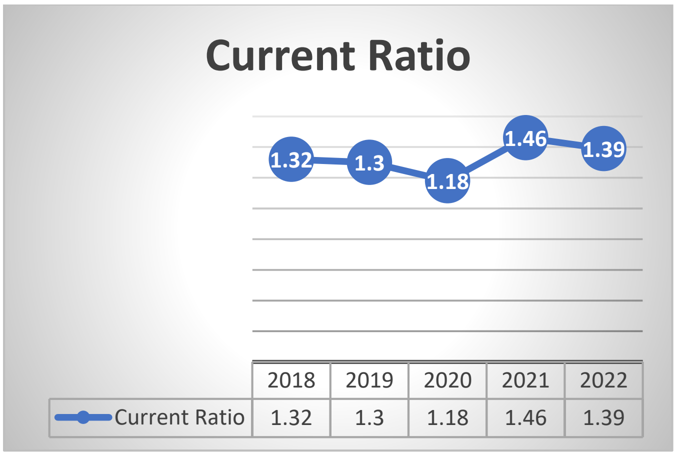

Fig no.1 – CURRENT RATIO

Interpretation:

From the above data it is observed that the current ratio of the company was highest in the year 2021 and has declined a little bit in the year 2022, The company's current ratio has shown fluctuations over the past five years, indicating a changing liquidity position. but the current ratio is above 1 which indicates that it can pay of its short-term debts using it existing assets.

II. QUICK RATIO

The quick ratio, as opposed to the current ratio, is a more conservative evaluation of a company's ability to pay its short-term loans. The quick ratio does not include inventory since it can be challenging to quickly turn inventory into cash. So, this indicates that whether the current assets are easily convertible into liquid cash.

Quick Ratio = Liquid Assets/Current Liabilities

Table no.2 – QUICK RATIO

Year	Quick Ratio	Liquid Assets(In cr.)	Current Liabilities(In cr.)
2018	1.28	77,070.03	60,357.83
2019	1.25	87,709.93	70,259.35
2020	1.14	92,865.21	81,380.28
2021	1.42	100,773.23	70,889.17
2022	1.36	118,885.35	87,567.48

Fig no.2 – QUICK RATIO

Interpretation:

The table indicates that L&T's quick ratio has shown variations throughout the five-year duration. The company has kept an exceptional quick ratio more than 1 for the last five years, which shows that it has a strong ability to satisfy its obligations and it indicates the current assets are easily convertible into liquid cash. As a result, it indicates that the company has a high level of solvency. On the other hand, the rise in current liabilities implies that the company might be experiencing financial strain.

III. NET PROFIT RATIO

The Net Profit ratio reveals the proportion of a company's income that is turned into profits after all costs have been met. A solid and sustainable business can be identified by a continuous or rising net profit ratio, while a dropping ratio may suggest financial difficulty.

Net Profit Ratio =Net Profit/Sales Turnover *100

Table no.3 – NET PROFIT RATIO

Year	Net Profit Ratio (%)	Net Profit (In cr.)	Sales Turnover (In cr.)
2018	7.23	5,387.30	74,462.55
2019	9.10	7,491.39	82,287.42
2020	8.10	6,679.21	82,383.65
2021	15.46	11,336.97	73,315.59
2022	7.80	7,879.45	101,000.41

 DOI : 10.35291/2454-9150.2023.0079

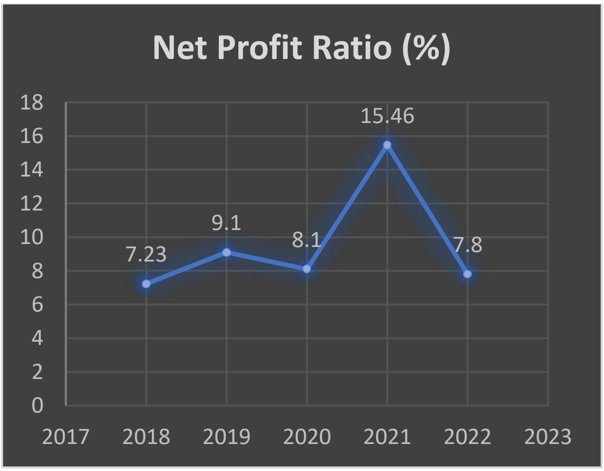

Fig no.3 – NET PROFIT RATIO

Interpretation:

In the last five years, L&T's profitability has fluctuated. The net profit increased significantly to 15.46% in 2021, however it decreased to 7.80% in 2022. The company's net profit has also varied over the years. It increased from 5,387.30 crores in 2018 to 11,336.97 crores in 2021, but decreased to 7,879.45 crores in 2022. This shows that despite difficulties including growing input costs, delays in project execution, and competition pressures, L&T has been able to retain a respectable level of profitability.

IV. RETURN ON NET WORTH

The return on net worth (RONW) of a company is determined by dividing its net worth by net profit after taxes. The importance of RONW is found in its capacity to shed light on a company's capacity to make money from its investments. A high RONW shows that the business is making good use of the money invested by its shareholders, whereas a low RONW reveals that the business may not be making the best use of its resources to make money.

RONW =Net income/Net Worth *100

Table no.4 – RETURN ON NET WORTH

Year	RONW (%)	Net Income (In cr.)	Net Worth (In cr.)
2018	10.11	5,387.30	49,021.05
2019	15.00	7,491.39	50,048.42
2020	12.82	6,679.21	52,175.35
2021	18.79	11,336.97	60,413.54
2022	11.75	7,879.45	67,114.05

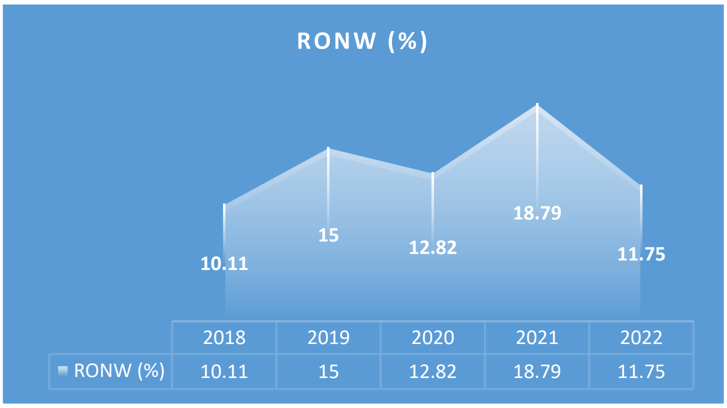

Fig no.4 - RETURN ON NET WORTH

Interpretation:

L&T's return on net worth (RONW) has been consistently above 10%, showing that the business has been producing positive returns for its shareholders. But there was a significant drop in the RONW in 2022 as it is facing a lot of challenges such as rising input costs, delays in project execution, and competitive pressures.

V. EARNINGS PER SHARE

Earnings per share (EPS), which generally displays how much money is produced per share of stock, is a popular indicator used by investors to evaluate a company's financial performance. A greater EPS represents a better level of firm profitability, which is often seen favourably by investors.

Table no.5 – EARNIGS PER SHARE

Year	2018	2019	2020	2021	2022
EPS	38.44	53.41	47.58	80.72	56.08

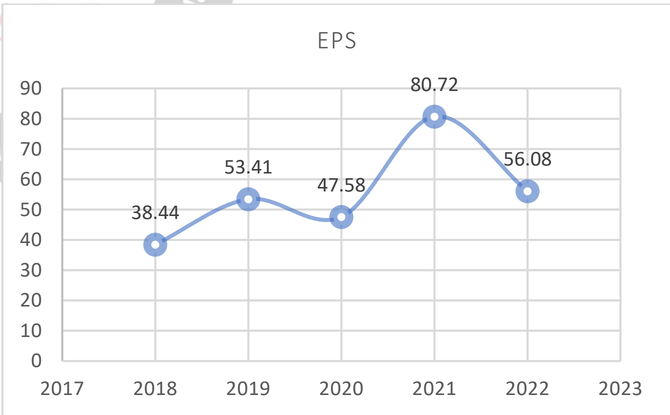

Fig no.5 – EARNING PER SHARE

Interpretation:

From the above data we can infer that L&T's EPS have been fluctuating over the years. But the EPS of the company has been positive, so it represents better level of profitability for the company and This would attract more investors in the following years as the business focuses on its long-term activities by increasing their investments, which would result in a significant profit for the investors in the following years.

 DOI : 10.35291/2454-9150.2023.0079

VI. DEBT EQUITY RATIO

The Debt-to-equity ratio is derived by dividing the total debt by the total equity. A high Debt-to-equity ratio means that a firm has more debt than equity, which could put it at greater risk of financial loss if it is unable to pay its debt commitments. A low Debt-to-equity ratio, on the other hand, denotes a company's reliance on equity financing and more conservative financial management.

Debt to Equity ratio =Total Debt/Equity

Table no.6 – DEBT EQUITY RATIO

Year	Debt Equity Ratio	Total Debt (In cr.)	Equity (In cr.)
2018	0.20	9,777.93	49,021.05
2019	0.24	11,989.69	50,048.42
2020	0.49	25,785.30	52,175.35
2021	0.39	23,808.71	60,413.54
2022	0.30	20,298.29	67,114.05

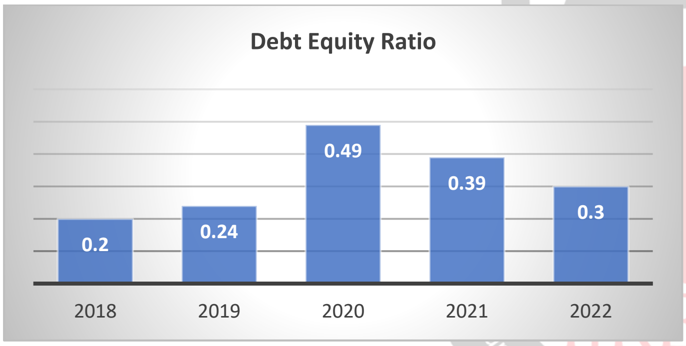

Fig no.6 – DEBT EQUITY RATIO

Interpretation:

For the past five years, L&T has maintained a positive debt-to-equity (D/E) ratio. Since L&T has been able to efficiently manage its debt levels, the company's debt to equity ratio has remained below 1. Due to the company's high cash flow creation, it has been possible for it to efficiently manage its debt levels and engage in growth possibilities while still maintaining its financial stability

VII. INVENTORY TURNOVER RATIO

Inventory turnover ratio is a financial measure that determines how frequently a company's inventory is sold and replaced over a specified time period. It is computed by dividing the average inventory value during the course of the period by the average cost price of the items sold. A high Inventory turnover ratio shows that a firm is effectively managing its inventory and converting it into sales. It suggests that the business is selling its goods rapidly and is not keeping surplus stock that might go out of date or become obsolete.

Table no.7 – INVENTORY TURNOVER RATIO

Year	2018	2019	2020	2021	2022
Inventory Turnover ratio	29.84	24.57	29.74	25.65	32.24

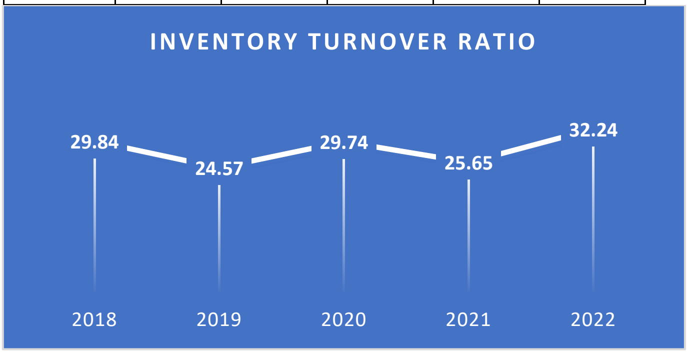

Fig no.7 – INVENTORY TURNOVER RATIO

Interpretation:

According to the data, the company's inventory turnover ratio has changed over the years, with the highest ratio in 2022 at 32.24 and the lowest ratio in 2019 at 24.57. The company is effective at controlling its inventory and moving its stock since the inventory turnover ratio has generally been high. Also, the company's inventory turnover ratio has continuously above 5, showing that its inventory has been managed well.

VIII. FIXED ASSETS TURNOVER RATIO

The Fixed Asset Turnover Ratio analyses how effectively a business uses its fixed assets to generate money. A company's net sales are divided by its fixed assets to arrive at this ratio. The importance of the Fixed asset turnover ratio is found in its capacity to reveal information about the operational effectiveness and asset usage of a company. A high Fixed asset turnover ratio suggests that a business is utilising its fixed assets to produce income successfully, whereas a low ratio could indicate that the business is not using its fixed assets effectively.

Table no.8 – FIXED ASSETS TURNOVER RATIO

Year	2018	2019	2020	2021	2022
Fixed Assets Turnover ratio	7.62	6.56	6.71	5.47	6.54

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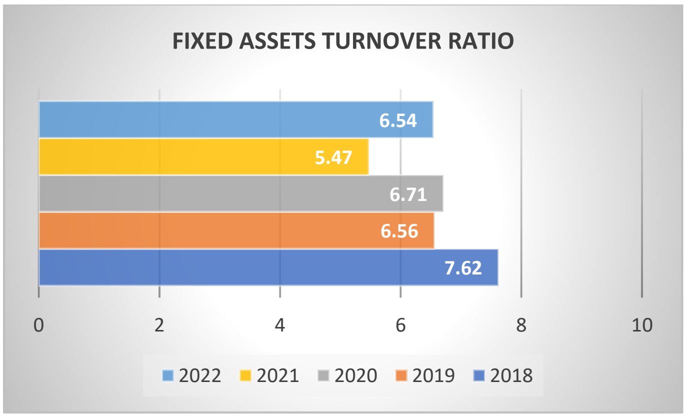

Fig no.8 – FIXED ASSETS TURNOVER RATIO

Interpretation:

According to the data, the company's Fixed Assets Turnover ratio was 7.62 in 2018, declined to 6.56 in 2019, improved significantly to 6.71 in 2020, decreased to 5.47 in 2021, and increased to 6.54 in 2022. The fluctuation in the Fixed assets turnover ratio indicates that the business management or operational procedures have evolved. But it constantly had a Fixed asset turnover ratio above 1, which demonstrates that it has been making good use of its assets to produce income.

VII. SUGGESTIONS

- The company can pay its short-term debts, and it has enough quick assets to cover its current liabilities, thus the company must keep this up.
- The company should strive to increase its Sales at a greater rate because it has a good earning capability by lowering its cost of sales.
- It is advised that the authorities make the required measures to ensure that the business operates efficiently in the competitive global marketplace. To do this, the business must take the appropriate measures to cut operating costs that are not necessary.
- The profitability of the company is fluctuating over the years and there was a significant drop in 2022. So, the company must take appropriate measures to control its expenses in the competitive world and increase its profit.
- Over the time period, the earnings per share have varied. A healthy EPS shows that the business is successful and increasing shareholder value. It is advised that the business keep concentrating on boosting its EPS and earnings in a way that benefits investors.
- The debt-to-equity ratio has consistently been less than 1, showing that the firm has been able to manage its debt levels efficiently, which indicates that shareholders are generally more interested to invest in this company. The company must maintain this level of investor interest.

VIII. CONCLUSION

L&T's financial performance over the past five years has been great, with consistent revenue growth, liquidity, good profitability, a strong return on equity, and efficient debt management. Because of its track record of good financial performance, Larsen and Toubro has been able to hold onto its position as the leader in the Indian construction sector.

L&T has displayed steady financial growth over the years, with consistent increases in revenue and profits. In the fiscal year 2020-21, L&T reported a revenue of INR 118,463 crore and a net profit of INR 4,985 crore, demonstrating the company's financial stability. The company has a favorable debt-to-equity ratio and has consistently maintained good financial discipline. L&T's strong balance sheet and financial stability have enabled the company to navigate challenging economic conditions successfully in the past. However, L&T is not immune to market risks and macroeconomic factors that can impact its performance.

The company's stock has historically performed well, showing consistent long-term growth. However, like any other stock, its performance can be affected by various factors, including market conditions and company-specific developments.

L&T's management has demonstrated a commitment to long-term growth through strategic investments and partnerships, with a track record of delivering strong results. The company has a diversified revenue base, which helps mitigate risks associated with any one sector.

The company's commitment to returning value to shareholders through dividends has aided in the rise of its stock price. As compared to benchmark indexes, the company's financial performance has consistently outperformed that of its counterparts in the industry. Overall, L&T is well-positioned for future development because to its diverse business portfolio and outstanding execution skills.

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