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ANALYSIS OF FINANCIAL PERFORMANCE OF LARSEN AND TOUBRO

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ABSTRACT :

This project focuses on evaluating the financial performance of Larsen & Toubro (L&T), a leading Indian multinational engaged in construction, engineering, and technology. The analysis utilizes several financial evaluation methods, such as ratio analysis and trend analysis, to assess financial metrics like profitability, liquidity, solvency, and efficiency, which will help determine L&T's growth path, financial soundness, and operational efficiency. The results of this project are designed to support stakeholders including investors, analysts, and management—in making well-informed decisions related to the company's financial strategies and investment opportunities. The primary aim is to provide a thorough insight into L&T's financial position and its capacity for sustaining growth in a competitive environment.

INTRODUCTION

This financial analysis project aims to evaluate the financial health, performance and value of Larsen and Toubro. Finance is the management of money, investments and other financial assets. It involves the creation, allocation and management of financial resources to achieve economic goals.
The main objective of this project is to analyse the financial performance of L&T using the past 5 years financial statements.
The financial statements include the balance sheet and profit and loss account of 2019-2020,2020-2021,2021-2022,2022-2023 and 2023-2024.

STATEMENT OF THE PROBLEM

This project's goal is to assess Larsen & Toubro's financial performance through an analysis of its financial statements, important financial statistics, and general financial well-being. The study will be undertaken over a set time period to discover trends, strengths, weaknesses, and areas for improvement. In order to give a comprehensive picture of L&T's financial situation and its capacity to sustain development and profitability in the face of shifting economic conditions, this study will compare the company's financial data with those of competitors, the industry, and the market.

OBJECTIVES

- ➢To evaluate the financial performance of L&T Ltd.
- ➢To analyse the financial performance using ratio analysis.
- ➢To find out the sales trend using trend analysis
- ➢To find out the working capital of the company.
- ➢To analyse and interpret the income statement, balance sheet.

SCOPE OF THE STUDY

The financial analysis of L&T Ltd represents a substantial undertaking, necessitating exploration of the company's fiscal health, strategic decisions, and market positioning. This comprehensive study aims to provide a holistic understanding of L&Ts' financial performance, delving into various dimensions, including but not limited to financial statements, liquidity, profitability, solvency and strategic initiatives.

RESEARCH METHODOLOGY

Research methodology is the systematic plan or approach that outlines how a research project will be conducted. It encompasses the methods and techniques used. Data is extracted from the following:

- ➢Profit and Loss account from the past 5 years.
- ➢Balance sheet

LIMITATIONS OF THE STUDY

Financial Information collected for the study is entirely secondary in nature. In such a case, it carries all the limitation inherent with secondary data and financial information.

Ratios are calculated jointly based on past result which may not be suited to implement the present business policies.

The study's utility may be compromised due to the inherent challenge of incorporating unforeseen regulatory changes, rendering the analysis less effective in providing accurate and timely insights.

REVIEW OF LITERATURE

- **Prakash & Sharma (2021**) conducted a comparative analysis of financial performance ratios of leading Indian infrastructure companies and found that L&T consistently outperformed its peers in terms of profitability and liquidity, largely due to its diversified project base and operational efficiency.

- **Sharma & Singh (2021)** investigated the role of **ESG factors** in improving the financial performance of infrastructure firms. They found that companies adopting sustainable practices and focusing on governance mechanisms tend to perform better in the long run by attracting socially-conscious investors and clients.
- **Mishra & Jain (2020**) analyzed how construction firms adapted to the challenges posed by COVID-19 and concluded that firms with strong digital capabilities, like L&T, were able to mitigate the impact better than others.

INDUSTRIAL OVERVIEW

L&T (Larsen & Toubro) is a multinational conglomerate based in India, engaged in technology, engineering, construction, manufacturing, and financial services, operating in more than 30 countries and recognized for its EPC projects, advanced manufacturing, and varied business holdings.

Key Areas of Operation:

Engineering, Construction, and Projects: L&T plays a significant role in infrastructure and construction, managing large-scale projects such as metro systems, airports, and high-speed rail networks.

Heavy Engineering: They design and produce custom equipment and essential piping for several process industries, including fertilizer, chemicals, refineries, petrochemicals, and oil & gas, as well as sectors such as thermal and nuclear power and aerospace.

Hi-Tech Manufacturing: L&T boasts a robust presence in high-tech manufacturing, concentrating on specialized equipment and systems for various sectors

.**Financial Services:** Additionally, L&T has a financial services division that provides a wide range of products and services.

Other Sectors: L&T is also active in shipbuilding, aerospace, electrical automation, mining, and metallurgy.

ANALYSIS AND INTERPRETATION

1. CURRENT RATIO

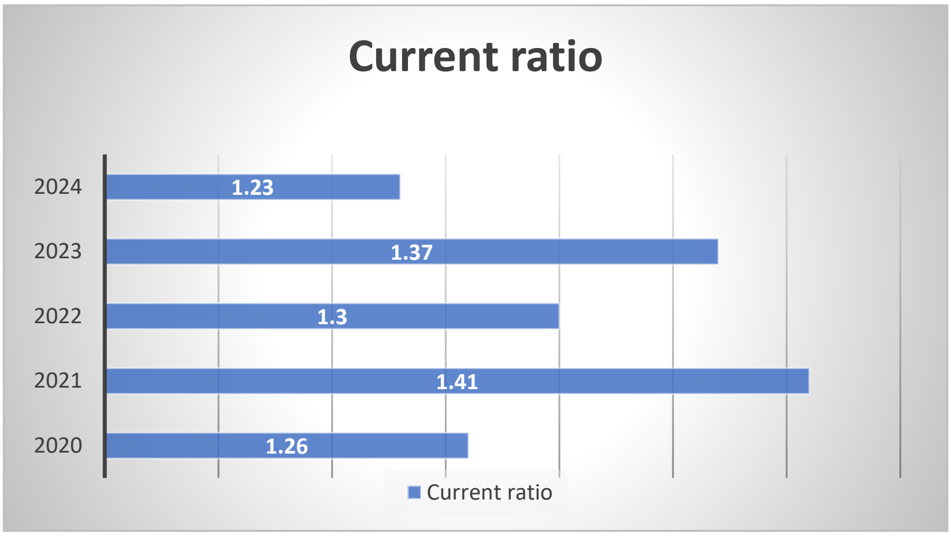
CURRENT RATIO = CURRENT ASSETS / CURRENT LIABILITIES

FISCAL YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2020	182689.89	144729.21	1.26
2021	194966.83	137408.01	1.41
2022	208181.17	159433.53	1.30
2023	222204.32	162065.99	1.37
2024	218079.87	176600.73	1.23

INTERPRETATION

The current ratio is almost similar for every year with a slight deviation.

A current ratio above 1 generally Implies that there are more current assets than current liabilities which is a good sign of the company. The highest current ratio is in the year 2021 which is 1.41 and the lowest is 1.23 in 2024.



INFERENCE

The highest ratio is in the year 2021 which is 1.41 which shows a strong liquidity position whereas the lowest is in the year 2023 which shows a lower liquidity position during the period

2. NET PROFIT RATIO

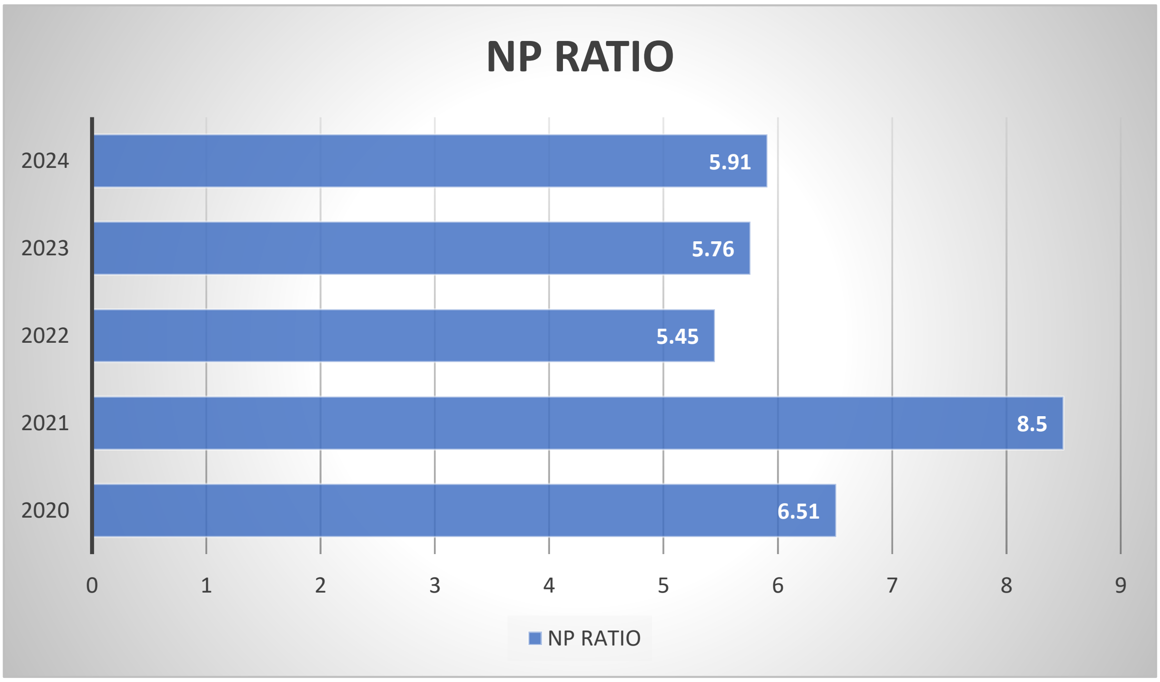
NET PROFIT RATIO = (NET PROFIT/NET SALES)*100

YEAR	NET PROFIT	NET SALES	NET PROFIT RATIO
2020	9477.07	145452.36	6.51
2021	11568.53	135979.03	8.50
2022	8541.14	156521.23	5.45
2023	10564.97	183340.70	5.76
2024	13081.73	221112.91	5.91

SOURCE OF DATA: SECONDARY DATA

INTERPRETATION

The company has shown a strong increase in net profit ratio from 6.51 in 2020 to 8.50 in 2021. However, the next three years have shown a strong decrease in net profit ratio. In 2022 it has fallen down to 5.45 and the next two years have shown a slight increase.



INFERENCE

The net profit ratio is highest in the year 2021, which shows that the net profit is higher in the year and 2022 is the when the net profit ratio is lower.

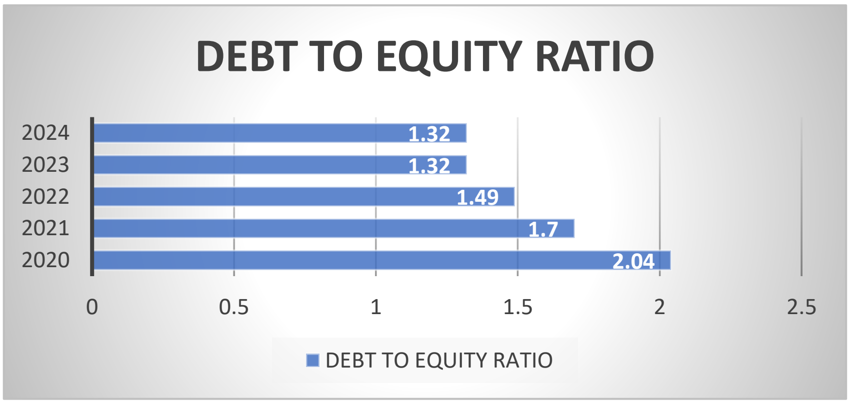
3. DEBT TO EQUITY RATIO

YEAR	TOTAL DEBT	TOTAL EQUITY	DEBT TO EQUITY
2020	139603	68127.25	2.04
2021	131482	76992.19	1.70
2022	123253	82623.31	1.49
2023	118513	89325.95	1.32
2024	114040	86359.24	1.32

SOURCE OF DATA: SECONDARY DATA

INTERPRETATION

The debt to equity ratio of 1 is considered as moderate.it was high in 2020 with 2.04 which shows that the company relies high on debt financing. The risk is greater when the ratio is above 2. However the company has shown decline in debt to equity ratio which is a good sign of decreasing the overall debt of the company.



INFERENCE

The graph has shown decline in debt to equity ratio form 2.04 in 2020 to 1.32 in 2024 which is a great sign of decreasing debt of the company.

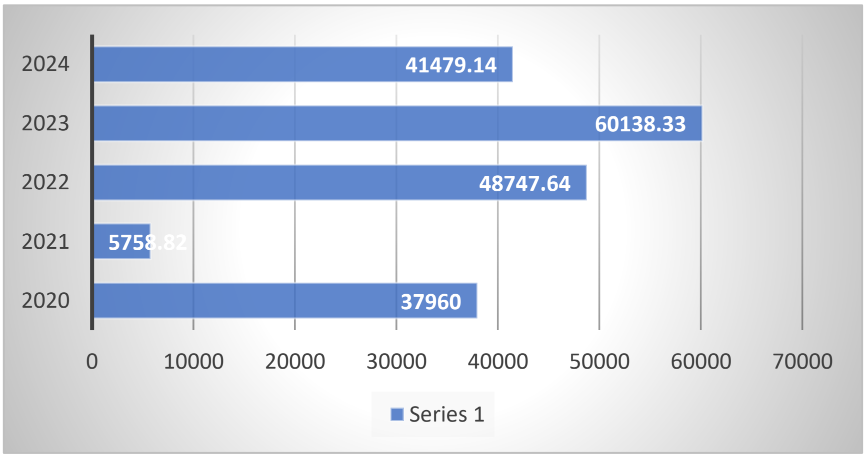
4. WORKING CAPITAL

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	WORKING CAPITAL
2020	182689.89	144729.21	37960.68
2021	194966.83	137408.01	57558.82
2022	208181.17	159433.53	48747.64
2023	222204.32	162065.99	60138.33
2024	218079.87	176600.73	41479.14

SOURCE OF DATA: SECONDARY DATA

INTERPRETATION

The working capital was high in the year 2023 with a figure of 60138.33. it was the lowest in the year 2020 with a figure of 37960.68. A higher working capital shows that the company is able to meet its short term financial obligations.



INFERENCE

The working capital is higher in 2023

5. **SALES TREND ANALYSIS**

Trend analysis= current year/ base year * 100

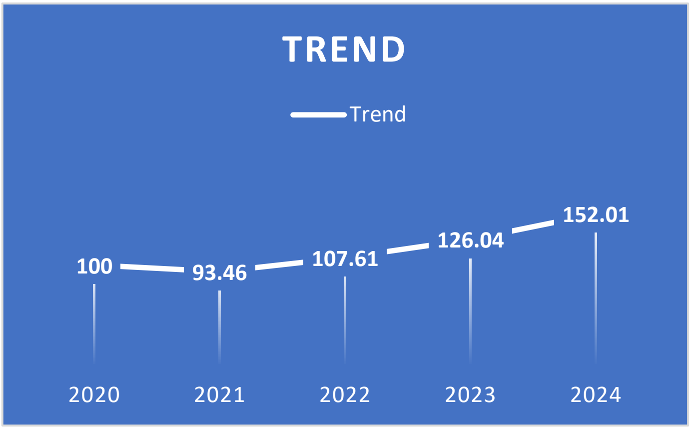
Let the base year be 2020.

YEAR	SALES	TREND
2020	145452.36	100
2021	135979.03	93.46
2022	156521.23	107.61
2023	183340.70	126.04
2024	221112.91	152.01

SOURCE OF DATA: SECONDARY DATA

INTERPRETATION

The sales of the company has been increasing overtime. The trend shows a huge increase in 107.61 in 2022 to 152.01 in 2024.



INFERENCE

The graph shows a clear uptrend from 2022 to 2024. There is a small dip in 2021.

FINDINGS AND SUGGESTIONS

FINDINGS

- The current ratio has remained relatively stable over the years, with a slight deviation. This indicates that L&T has managed to maintain a consistent balance between its current assets and current liabilities.
- A current ratio greater than 1 indicates that the company possesses more current assets than current liabilities, reflecting strong short-term liquidity. This suggests that L&T is well-positioned to meet its short-term obligations.
- L&T has exhibited a fairly consistent gross profit margin in recent years, experiencing only small variations. This indicates that the company has successfully managed its direct costs in relation to its sales revenue.

SUGGESTIONS

- To reverse the downward trend in gross profit margin, L&T should focus on controlling its cost of goods sold (COGS) and reducing operational inefficiencies.
- . The organization should find a way to investigate methods to enhance its gross profit by utilizing innovative technologies to boost efficiency and reduce expenses.
- . The company should focus on identifying cost inefficiencies and controlling expenditures.
- L&T could improve its profit margins by embracing new technologies and digital solutions that can reduce operational costs and improve project delivery times.

CONCLUSION

L&T has shown impressive revenue growth from 2020 to 2024, with increasing sales that reflect effective business strategies and strong demand for its offerings. However, its working capital has varied, showing a notable improvement in 2021, followed by a decrease in 2024, indicating possible liquidity challenges. Although current assets have consistently risen, the growth in current liabilities has outstripped that of assets, underscoring the need for enhanced working capital management. To achieve sustainable growth, L&T should prioritize optimizing inventory, speeding up receivables collection, and investigating long-term financing options to lessen dependence on short-term debt. Building cash reserves and refining financial strategies will aid in maintaining liquidity and supporting ongoing profitability as the company grows.

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