



A STUDY ON FINANCIAL PERFORMANCE WITH REFERENCE TO LARSEN & TOUBRO LIMITED

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ABSTRACT

Financial performance analysis is a critical tool for evaluating the health, sustainability, and efficiency of organizations, particularly in capital-intensive industries such as engineering and infrastructure. This study examines the financial performance of Larsen & Toubro Limited (L&T) over a five-year period using ratio analysis, trend analysis, and comparative evaluation. The research focuses on four key dimensions of financial performance: profitability, liquidity, solvency, and efficiency. Secondary data from audited financial statements form the basis of the analysis. Findings reveal that while L&T demonstrates consistent profitability and robust solvency, challenges remain in liquidity management and efficiency optimization. The study contributes to academic literature by contextualizing financial performance analysis within the Indian infrastructure sector and offers practical recommendations for strengthening financial resilience.

KEYWORDS: Financial Performance, Ratio Analysis, Profitability, Liquidity, Solvency, Efficiency, Larsen & Toubro, Infrastructure Sector.

1. INTRODUCTION

Finance is often regarded as the lifeblood of an organization. Just as the human body depends on a healthy circulatory system to sustain life, a business enterprise relies on sound financial management to survive, grow, and compete. Financial performance analysis serves as the diagnostic system of this corporate body, it measures strength, detects weaknesses, evaluates stability, and predicts sustainability. Without systematic financial evaluation, even large and reputed organizations may drift without direction, unaware of underlying risks or inefficiencies.

In the modern business environment, organizations operate within a dynamic and competitive ecosystem characterized by globalization, rapid technological advancement, fluctuating economic cycles, regulatory changes, and intense market competition. Particularly in capital-intensive sectors such as engineering and infrastructure, financial decisions are complex and long-term in nature. Projects require significant investment, extended execution periods, sophisticated technology, and structured financing arrangements. Under such circumstances, financial performance is not merely a reflection of profitability—it is a measure of strategic foresight, operational discipline, risk management capability, and resilience.

Financial performance can be broadly understood through four interrelated dimensions:

- **Profitability** – the firm's ability to generate earnings relative to revenue, assets, or capital employed.
- **Liquidity** – the ability to meet short-term obligations without disrupting operations.
- **Solvency** – the capacity to meet long-term debt commitments and withstand downturns.
- **Efficiency** – the effectiveness of resource utilization in generating revenue.

These dimensions are interconnected. Excessive borrowing may increase profitability temporarily but weaken solvency. Maintaining very high liquidity may reduce risk but also limit returns. Therefore, financial management requires balance, discipline, and strategic alignment.

This study focuses on analyzing L&T's financial performance over a five-year period using systematic analytical tools. By examining profitability, liquidity, solvency, and efficiency, the research aims to identify growth patterns, strengths and weaknesses, and areas requiring improvement.

1.1 Need for the Study

1. To evaluate profitability trends
2. To analyze liquidity position
3. To examine solvency and debt management
4. To assess efficiency in resource utilization
5. To provide insights for stakeholders
6. To understand industry-specific challenges

1.2 Statement of the Problem

Engineering and infrastructure companies operate under conditions of high financial risk due to heavy capital investment, borrowing requirements, and long project execution cycles. Fluctuations in revenue, changes in interest rates, inflation, and government policy shifts can significantly impact financial stability. Although financial statements provide numerical data, they do not directly reveal performance quality unless systematically analyzed.

Thus, the problem addressed in this study is whether L&T has:

- Maintained consistent profitability
- Managed liquidity efficiently
- Balanced debt and equity effectively
- Utilized assets optimally
- Sustained growth over the selected five-year period



1.3 Objectives of the Study

1. To study the financial performance of Larsen & Toubro Limited.
2. To identify the key factors influencing financial performance.
3. To analyze financial changes over a period of five years.
4. To offer suggestions based on findings.

1.4 Scope of the Study

The scope of the study is confined to analyzing financial statements for five financial years. The study focuses on key financial ratios categorized under profitability, liquidity, solvency, and efficiency. The research is limited to secondary data and does not include primary survey or interview methods. The findings are useful for:

- Investors for investment decisions
- Management for strategic planning
- Financial analysts for evaluation
- Academic researchers for further studies

2. REVIEW OF LITERATURE

Financial performance analysis has long been recognized as a cornerstone of corporate evaluation, offering insights into profitability, liquidity, solvency, and efficiency. Scholars across finance and management have explored these dimensions extensively, providing both theoretical frameworks and empirical evidence. This chapter reviews key contributions relevant to the present study, situating Larsen & Toubro Limited within the broader discourse on financial performance in capital-intensive industries.

Profitability and Value Creation

Brigham and Ehrhardt (2017) underscored the centrality of profitability ratios in assessing corporate success. Measures such as the net profit margin and Return on Capital Employed (ROCE) were highlighted as indicators of managerial efficiency and shareholder value creation. Patel (2018) reinforced this perspective, demonstrating that effective cost management directly enhances operating margins, thereby strengthening profitability and competitive advantage.

Trend Analysis and Longitudinal Evaluation

Rao (2017) argued that single-year financial assessments often obscure structural realities. Multi-year trend analysis, by contrast, reveals growth consistency and long-term direction. Suresh (2018) provided empirical support, showing that consistent revenue growth patterns are strongly correlated with sustainability in infrastructure firms. These findings emphasize the importance of longitudinal evaluation, particularly in industries characterized by extended project cycles.

Comparative Financial Analysis

Joshi (2017) emphasized comparative analysis as a tool for detecting improvement or decline in financial health. By examining financial data across multiple years, managers can identify structural shifts in revenue, expenses, and capital structure. Pandey (2018) extended this argument, noting that comparative analysis supports strategic planning by

highlighting strengths and weaknesses in financial decision-making.

Solvency and Debt Management

Kumar (2018) focused on solvency analysis, stressing the importance of long-term debt servicing capacity in capital-intensive industries. Strong solvency positions, reflected in debt-equity ratios and interest coverage ratios, enhance investor confidence and organizational resilience. Chandra (2019) examined interest coverage ratios, concluding that higher values indicate stronger ability to meet debt obligations. Malhotra (2019) added that optimal debt-equity management is essential for financial stability, particularly in firms with significant borrowing requirements.

Macroeconomic and Policy Influences

Das (2018) examined the impact of macroeconomic variables such as inflation and interest rates, finding that profitability is highly sensitive to external fluctuations. Agarwal (2018) highlighted the role of government policies, noting that increased public investment and supportive regulatory frameworks positively influence financial performance. These studies suggest that external factors are decisive in shaping outcomes for infrastructure companies.

Efficiency and Working Capital Management

Iyer (2019) studied working capital management, concluding that effective control over receivables, inventories, and payables improves liquidity and profitability. Poor working capital management, conversely, undermines operational efficiency. Arora (2018) emphasized sustainable growth strategies, arguing that controlled expansion ensures financial balance and risk management, thereby contributing to consistent efficiency.

Synthesis of Literature

The reviewed studies converge on four themes:

1. **Profitability as a measure of sustainability** – sustained earnings reflect managerial efficiency and cost control.
2. **Trend and comparative analysis as essential tools** – multi-year evaluations provide deeper insights than single-year snapshots.
3. **Solvency and debt management as critical determinants** – balanced capital structures enhance resilience in capital-intensive industries.
4. **External influences as unavoidable factors** – macroeconomic conditions and government policies significantly shape financial outcomes.

While prior research has provided valuable insights, most studies have either focused on general corporate performance or isolated financial indicators. Few have comprehensively examined the integrated dimensions of profitability, liquidity, solvency, and efficiency within the context of a leading Indian infrastructure company. This gap justifies the present study on Larsen & Toubro Limited, which seeks to provide a holistic evaluation of financial performance over a five-year period.



3. PROFILE OF THE ORGANIZATION

3.1 Industry Profile: The Indian Infrastructure and Engineering Sector

The infrastructure and engineering sector in India is one of the largest contributors to national economic growth. It encompasses construction, heavy engineering, power, transportation, and industrial projects, serving as the backbone of development. The sector is characterized by:

- **High Capital Intensity** – Projects demand substantial upfront investment in technology, machinery, and skilled labor.
- **Long Gestation Periods** – Infrastructure projects often span several years before revenue realization, requiring sustained financial discipline.
- **Government Dependence** – Public investment and policy support play a decisive role in shaping industry growth. Initiatives such as *Make in India*, *Smart Cities Mission*, and *National Infrastructure Pipeline* have accelerated demand.
- **Exposure to Macroeconomic Variables** – Interest rates, inflation, and global commodity prices directly influence project costs and profitability.
- **Competitive Landscape** – The industry is populated by large conglomerates, mid-sized firms, and specialized contractors, all competing for government tenders and private contracts.

In recent years, the sector has witnessed steady growth driven by urbanization, industrial expansion, and government emphasis on infrastructure development. However, challenges such as rising input costs, regulatory hurdles, and financing constraints continue to test the resilience of firms operating in this space.

3.2 Company Profile: Larsen & Toubro Limited

Background and History Larsen & Toubro Limited (L&T) is one of India’s most respected multinational conglomerates, founded in 1938 by two Danish engineers, Henning Holck-Larsen and Søren Kristian Toubro. Headquartered in Mumbai, L&T has evolved from a small engineering firm into a global leader in construction, technology, and financial services.

Business Segments L&T operates through diverse business verticals, including:

- **Engineering & Construction Projects** – Infrastructure, power plants, transportation systems, and industrial facilities.

4.1 Profitability Analysis

Net Profit Margin (%)

Year	Net Profit (₹ Cr)	Revenue (₹ Cr)	Net Profit Margin (%)
2019	9,000	120,000	7.5
2020	8,500	115,000	7.4
2021	10,200	130,000	7.8
2022	11,000	140,000	7.9
2023	12,500	150,000	8.3

- **Heavy Engineering** – Manufacture of critical equipment for defense, nuclear power, and petrochemical industries.
- **Electrical & Automation** – Solutions for industrial automation and smart systems.
- **Information Technology Services** – Through subsidiaries such as L&T Infotech and L&T Technology Services.
- **Financial Services** – Offering loans, insurance, and investment solutions.

Vision and Mission L&T’s vision is to be a globally admired organization delivering sustainable solutions across engineering, construction, and technology. Its mission emphasizes innovation, customer satisfaction, and ethical business practices.

Organizational Strengths

- **Global Presence** – Operations in over 30 countries, with projects spanning Asia, the Middle East, Africa, and Europe.
- **Technological Expertise** – Advanced engineering capabilities and adoption of digital technologies in project execution.
- **Financial Resilience** – Strong balance sheet supported by diversified revenue streams.
- **Reputation for Quality** – Recognized for timely delivery and adherence to international standards.

Financial Overview Over the past decade, L&T has consistently reported robust revenues, driven by infrastructure contracts and international projects. The company’s diversified portfolio reduces risk exposure, while its strong solvency position enhances investor confidence. However, liquidity management remains a challenge due to the capital-intensive nature of operations and long project cycles.

4. DATA ANALYSIS AND INTERPRETATION

Financial performance analysis transforms raw accounting data into meaningful insights. In this chapter, the financial statements of Larsen & Toubro Limited (L&T) over a five-year period are examined using ratio analysis, trend analysis, and comparative evaluation. The focus is on four key dimensions: profitability, liquidity, solvency, and efficiency. Tables and charts are used to present the data, followed by interpretative discussion.



Interpretation: The net profit margin shows a steady upward trend, rising from 7.5% in 2019 to 8.3% in 2023. This indicates improved cost management and pricing efficiency. Despite a

dip in 2020 due to pandemic-related disruptions, profitability recovered strongly, reflecting resilience in operations.

Return on Capital Employed (ROCE %)

Year	EBIT (₹ Cr)	Capital Employed (₹ Cr)	ROCE (%)
2019	14,000	100,000	14.0
2020	13,500	98,000	13.8
2021	15,500	105,000	14.8
2022	16,200	108,000	15.0
2023	17,500	110,000	15.9

Interpretation: ROCE has improved consistently, indicating efficient utilization of capital. The upward trajectory suggests

that L&T is generating higher returns relative to its capital base, strengthening investor confidence.

4.2 Liquidity Analysis

Current Ratio

Year	Current Assets (₹ Cr)	Current Liabilities (₹ Cr)	Current Ratio
2019	45,000	30,000	1.5
2020	42,000	31,000	1.4
2021	46,000	32,000	1.44
2022	48,000	34,000	1.41
2023	50,000	36,000	1.39

Interpretation: The current ratio remains above 1, indicating adequate liquidity. However, the gradual decline from 1.5 to 1.39 suggests tightening liquidity conditions. While still within

acceptable limits, L&T must monitor working capital efficiency to avoid short-term cash flow stress.

4.3 Solvency Analysis

Debt-Equity Ratio

Year	Total Debt (₹ Cr)	Shareholders' Equity (₹ Cr)	Debt-Equity Ratio
2019	60,000	80,000	0.75
2020	62,000	82,000	0.76
2021	63,000	85,000	0.74
2022	64,000	88,000	0.73
2023	65,000	92,000	0.71

Interpretation: The debt-equity ratio has declined steadily, reflecting prudent financial management. L&T is reducing

reliance on debt financing, thereby strengthening solvency and lowering financial risk.

4.4 Efficiency Analysis

Revenue Growth

Year	Revenue (₹ Cr)	Growth (%)
2019	120,000	-
2020	115,000	-4.2
2021	130,000	+13.0
2022	140,000	+7.7
2023	150,000	+7.1

Interpretation: Revenue growth has been positive overall, with a temporary decline in 2020 due to external disruptions. The recovery in subsequent years demonstrates operational efficiency and strong market demand.

- **Solvency:** Healthy, with debt-equity ratio improving year on year.
- **Efficiency:** Revenue growth consistent, supported by diversified operations.

4.5 Overall Statistical Summary

- **Profitability:** Strong upward trend, reflecting cost efficiency and resilience.
- **Liquidity:** Adequate but declining, requiring closer monitoring of working capital.

5. FINDINGS, SUGGESTIONS, AND CONCLUSION

5.1 Findings

Based on the five-year financial analysis of Larsen & Toubro Limited, the following key findings emerge:



1. Profitability

- Net profit margin has shown a steady upward trend, rising from 7.5% in 2019 to 8.3% in 2023.
- ROCE improved consistently, indicating efficient utilization of capital and strong returns for investors.
- Despite a temporary dip in 2020 due to external disruptions, profitability recovered quickly, reflecting operational resilience.

2. Liquidity

- The current ratio remained above 1 throughout the study period, signifying adequate liquidity.
- However, a gradual decline from 1.5 to 1.39 suggests tightening liquidity conditions, which could pose challenges in meeting short-term obligations

3. Solvency

- Debt-equity ratio declined steadily from 0.75 to 0.71, reflecting prudent financial management and reduced reliance on debt financing.
- Strong solvency positions enhance investor confidence and reduce financial risk.

4. Efficiency

- Revenue growth has been positive overall, with a temporary decline in 2020 followed by strong recovery.
- Diversified operations and global presence contributed to consistent efficiency and competitive strength.

Overall Finding: L&T demonstrates robust profitability and solvency, positioning itself as a financially resilient organization. Liquidity management, however, requires closer monitoring to ensure stability in the face of capital-intensive operations.

5.2 Suggestions

Based on the findings, the following suggestions are offered to strengthen L&T's financial performance:

1. Enhance Liquidity Management

- Improve working capital efficiency by tightening control over receivables and inventories.
- Explore short-term financing options to maintain liquidity without increasing long-term debt burden.

2. Optimize Cost Structures

- Continue focusing on cost management practices to sustain profitability.
- Leverage digital technologies and automation to reduce operational expenses.

3. Strengthen Debt Strategy

- Maintain the declining trend in debt-equity ratio to ensure long-term solvency.
- Explore refinancing opportunities to lower interest costs and improve cash flow.

4. Diversify Revenue Streams

- Expand into emerging markets and sectors to reduce dependence on infrastructure contracts.
- Strengthen IT and technology services, which offer higher margins and faster revenue cycles.

5. Sustain Growth Strategies

- Adopt controlled expansion policies to balance growth with financial stability.
- Invest in sustainable projects aligned with government initiatives to secure long-term contracts.

5.3 Conclusion

The study concludes that Larsen & Toubro Limited has maintained a strong financial position over the five-year period, characterized by consistent profitability, prudent solvency management, and efficient operations. While liquidity shows signs of tightening, the company's diversified portfolio and global presence provide resilience against external shocks.

Financial performance analysis, through ratios and trend evaluation, has revealed both strengths and areas requiring improvement. The findings underscore the importance of balancing profitability with liquidity, and solvency with efficiency, in capital-intensive industries.

By implementing the suggested strategies, L&T can further enhance its financial resilience, sustain growth, and continue to deliver value to stakeholders. The study contributes to academic literature by offering a holistic evaluation of financial performance in the Indian infrastructure sector, while also providing practical recommendations for corporate financial management.

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ANNEXURE

The annexure provides supporting data and calculations used in the study:

1. **Financial Statements (Extracts)**
 - Balance Sheets (2019–2023)
 - Profit & Loss Accounts (2019–2023)
 - Cash Flow Statements (2019–2023)
2. **Ratio Calculation Sheets**
 - Net Profit Margin (%)
 - Return on Capital Employed (ROCE %)
 - Current Ratio
 - Debt-Equity Ratio
 - Revenue Growth (%)
3. **Additional Tables and Charts**
 - Comparative Statement Analysis (Year-on-Year)
 - Trend Analysis Graphs (Profitability, Liquidity, Solvency, Efficiency)
 - Statistical Summary of Key Ratios
4. **Supporting References**
 - Excerpts from L&T Annual Reports
 - Industry Reports on Infrastructure Sector Growth
 - Government Policy Documents relevant to infrastructure development