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A study on financial performance of Larsen & Toubro Limited: With special reference to L & T construction

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Abstract
The level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Ratio analysis is one of the techniques of financial analysis where ratios are used as a yardstick for evaluating the financial condition and performance of a firm. It is also a quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. The study aims to find out the overall financial performance of the company and suggest some suitable measures to improve the performance of the company.

Keywords: financial statement analysis, current ratio, net profit ratio, liquidity position and profitability

Introduction
Financial performance refers to the act of performing financial activity. In broader sense, it refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. A statement of financial performance is an accounting summary that details a business organization's revenues, expenses and net income.

Ratio analysis
Ratio analysis is an age old technique of financial analysis. It is a form of financial statement analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. While developing a meaningful relationship between the individual items or group of items of balance sheets and income statements, it highlights the key performance indicators, such as, liquidity, solvency and profitability of a business entity. Ratio Analysis as a tool possesses several important features. The data, which are provided by financial statements, are readily available. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages. In addition, ratios can be used in a form of trend analysis to identify areas where performance has improved or deteriorated over time.

Review of Literature
Venkataramana and Ramakrishnan (2012) [4] evaluate the profitability and financial position of selected cement companies in India through various financial ratio and applied correlation, mean, standard deviation and variance. The study uses liquidity and profitability ratios for assessment of impact of liquidity ratios on profitability performance of selected cement companies.

Moses Joshuva Daniel (2013) [3] in his study "A Study on Financial Status of TATA Motors Ltd" stated the main objectives to analyzing the overall financial status of the TATA Motors Ltd by using various financial tools. In order to analyze financial status in terms of Profitability, Solvency, Activity and Financial stability various accounting ratios have been used. It is cleared from the study that 37 company's financial performance is satisfactory. The company has stable growth and it shows a greater status in all the areas it works. The company has been suggested to reduce the expenditure as it increases every year. Decrease in expenses will increase the profitability.

Gudata (2015) [1] who measures the financial performance of five commercial banks for the period 2007-2011 using ratio analysis was found that Commercial Bank of Ethiopia stands first in assets management whereas Awash International Bank took the first rank in terms of profitability performance. The Cooperative Bank pertains to stand last in terms of liquidity management and United Bank stood at the first rank in terms of solvency and risk management among all sample banks under study.

Objectives of the study
1. To find out and analyze the financial performance of the company.
2. To suggest suitable measures to improve financial performance of L&T Construction.

Methodology
Research Design
The study is conducted using both analytical and descriptive type of research design. The study primarily depends on secondary data.

Data Collection Method
Secondary data
The secondary data has been collected from the Annual Reports of LARSEN & TOUBRO LIMITED, Internet, Websites, Journals, and Articles.

Period of the Study
The study covers the time period of 5 years from the financial year 2012-13 to 2016-17.

Tools Used For Analysis of Data
Ratio analysis as a tool used for analyzing the financial performance of the company.

Data analysis and interpretation
Current ratio
The current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities.
Current Ratio = Current Assets / Current Liabilities

Table 1: Table showing Current Ratio of L&T Construction

Year	Current assets	Current liabilities	Ratio
2012-13	49003.04	34730.29	1.41
2013-14	51114.61	38361.51	1.33
2014-15	58400.85	40477.52	1.44
2015-16	66283.56	47285.98	1.40
2016-17	70092.88	48486.69	1.44

***Source*:** Secondary data.

On the basis of the above table it is found that the current ratio for the year 2012-13 is 1.41, similarly the year 2014-15 is 1.44. The current ratio for the year 2016-17 is 1.44. It shows that the company is maintaining a good current ratio of over 1 and below 2 which shows that it's in a profitable position.

Quick ratio
The quick ratio is a liquidity ratio that is more stringent than the current ratio. This ratio compares the cash, short-term marketable securities and accounts receivable to current liabilities. The thought behind the quick ratio is that certain line items, such as prepaid expenses, have already been paid out for future use and cannot be quickly and easily converted back to cash for liquidity purposes.
Quick Ratio = Quick Assets / Current Liabilities

Table 2: showing Quick Ratio of L&T Construction

Year	Quick assets	Current liabilities	Ratio
2012-13	46938.86	34730.29	1.35
2013-14	49132.08	38361.51	1.28
2014-15	56193.06	40477.52	1.38
2015-16	64395.56	47285.56	1.36
2016-17	66275.39	48486.69	1.40

***Source*:** Secondary data.

From the above table it is observed that 2012 – 13 the quick ratio is 1.35, it decreased in the year 2013 – 14 to 1.28 due to decrease in quick asset. But in the year 2016-17 it has increased to 1.40. The quick ratio must be higher than 1. It is identified that L&T construction has maintained the financial position in a right way.

Net Profit ratio
The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized.
Net Profit ratio = Net Profit /Net sales*100

Table 3: showing Net Profit ratio of L&T Construction

Year	Net profit	Net sales	Ratio
2012-13	4910.65	60873.26	8.06
2013-14	5493.13	56598.92	9.70
2014-15	5056.18	57017.41	8.86
2015-16	5311.46	59779.61	8.88
2016-17	5453.74	66301.35	8.22

***Source*:** Secondary data.

From the above table it is found that the net profit ratio in the year 2012-2013 is 8.06. It has decreased to 8.22 in the year 2016-2017. On the basis of the above table it is identified that L&T has a high net profit ratio which means good operational efficiency but also has been decreasing in the recent years compared to previous which may have a negative impact.

Operating Profit ratio
Operating profit is a measure of income that tells investors how much of revenue will eventually become profit for a company. It is the ratio of profit made from operating sources to the sales. It shows the operational efficiency of the firm and is a measure of the management's efficiency in running the routine operations of the firm.
Operating Profit ratio = Operating Profit /Net sales*100

Table 4: Table showing Operating Profit ratio of L&T Construction

Year	Operating profit	Net sales	Ratio
2012-13	7082.75	6642.59	11.64
2013-14	7849.07	56598.92	13.86
2014-15	7554.34	57017.41	13.24
2015-16	7624.83	59779.61	12.75
2016-17	6642.59	66301.35	10.01

***Source*:** Secondary data.

From the above table it is identified that the operating profit ratio has been decreased from 13.86 in the year 2013 – 14 to 12.75 in the year 2015-2016. Further it has been decreased to 10.01 in the year 2016 -17. It is observed from the above table that L&T has lack in the efficiency of management to run the operational business.

Working Capital Turnover ratio
The working **c**apital turnover ratio is also referred to as net sales to working capital. It indicates a company's effectiveness in using its working capital.
Working Capital = Sales/Net Working Capital

Table 5: Table showing Working Capital Turnover ratio of L&T Construction

Year	Sales	Net working capital	Ratio
2012-13	60873.26	14272.75	4.26
2013-14	56598.92	12753.10	4.43
2014-15	57017.41	17923.33	3.81
2015-16	59779.61	18997.58	3.14
2016-17	66301.35	21606.19	3.06

***Source*:** Secondary data.

It is found from the analysis that the year 2012-13 the working Capital turnover ratio for the company is 4.26 and during the year 2013-14 it increased to 4.43. It decreased to 3.06 in the year 2016 – 17. It can be observed that L&T has lesser working capital to meet out the day to day expenditure.

Fixed Assets Turnover ratio

The fixed asset turnover ratio that measures a company's return on their investment in property, plant, and equipment by comparing net sales with fixed assets.

Fixed Assets Turnover ratio = Sales/Net Fixed Assets

Table 7: showing Fixed Assets Turnover ratio of L&T Construction

Year	Sales	Net fixed assets	Ratio
2012-13	60873.26	8901.98	6.83
2013-14	56598.92	8237.21	6.87
2014-15	57017.41	7981.40	7.14
2015-16	59779.61	7668.59	7.79
2016-17	66301.35	7548.37	8.78

***Source*:** Secondary data.

The table 4.6 shows that the fixed asset turnover ratio was 6.83 in the year 2012-13 and then further increased to 6.87 in the year 2013-14. It has increased to 8.78 in the year 2016-17**.** The table indicates that L&T has effective utilization of the fixed asset over the years.

Suggestions

- The company needs to improve the net profit as it has been decreasing over the years. Hence a company has to reduce its operating expenses in order to increase the net profit.
- The authorities are recommended to take necessary efforts for the operational efficiency of the company to run effectively in the competitive world. For this the company has to take necessary steps to avoid unnecessary operating expenses.
- The working capital of the company needs to be improved in order to meet its short term financial needs. For this the company has to make necessary changes in working capital requirement.

Conclusion

The ultimate aim of analyzing the financial statements of the company is to forecast the enterprise's liquidity, profitability and solvency position. The ratio analysis is one of the most powerful tools of analyzing financial performance. The analysis of financial statements has helped to identify the strengths and weakness of the company. In general the company has achieved tremendous progress over the recent years. The company's performance is satisfactory. The study gives a clear idea of the financial performance of the company over the last five years. The study reveals that the company is in profitable position and has been maintaining a good financial performance.

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