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A Study on Comparative Analysis of Financial Ratios for Evaluating the Financial Performance with Reference to L&T Construction Company

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ABSTRACT: This study presents a comprehensive financial analysis of L&T Construction Company over a five-year period, focusing on liquidity, profitability, and solvency metrics. Key findings reveal mixed performance trends across these areas. The Current Ratio demonstrates strong liquidity initially, stabilizing over the period. Profitability indicators such as Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE) show varied performance with declines observed towards the latter years. Solvency, as measured by the Debt-to-Equity Ratio, indicates fluctuating debt levels. Recommendations for L&T include maintaining liquidity stability, optimizing cost controls, diversifying revenue sources, and reducing debt to manage financial risks and foster sustained growth and shareholder value in a competitive market.

KEYWORDS: Financial Analysis, Liquidity, Profitability, Solvency, L&T Construction, Financial Performance

I. INTRODUCTION

In today's competitive business landscape, understanding a company's financial health is crucial for various stakeholders. Investors need to assess the potential return on their investments, creditors need to evaluate the company's ability to repay debts, and management require insights to make informed decisions regarding future strategies. Financial analysis serves as a powerful tool to address these needs, providing a comprehensive picture of a company's financial standing.

Ratio analysis is a financial analysis tool used to evaluate the performance and financial health of a company by examining relationships between various financial statement charts. Key ratios, such as liquidity, profitability, efficiency, and solvency ratios, offer insights into aspects like a company's ability to meet short-term obligations, generate profits, efficiently use assets, and sustain long-term operations. By comparing these ratios over time or against industry benchmarks, analysts can identify trends, strengths, and weaknesses, aiding in decision-making for investors, management, and stakeholders. Ratio analysis simplifies complex financial data into actionable insights for strategic planning and assessment.

II. REVIEW OF LITERATURE

Kundu et al. (2023) evaluate the "Application of Financial Ratio Analysis in Assessing Financial Health": This study investigates the application of financial ratio analysis in assessing a company's financial health. The focus is on key areas like profitability, liquidity, solvency, efficiency, and asset utilization. The findings suggest that financial ratio analysis is a valuable tool for stakeholders to gain insights into a company's financial performance.

Desai et al. (2022) evaluates "Ratio-Based Financial Performance Analysis": This study conducts a ratio-based financial performance analysis of select companies. Through this examination, the study aims to provide insights into the financial health and operational efficiency of these companies, contributing to the understanding of financial analysis methodologies.

Umarani et al. (2022) evaluate "An Analysis of the Financial Performance of Larsen & Toubro Limited": This study critically evaluates the financial performance of Larsen & Toubro Limited. Through a comprehensive analysis of various financial ratios, the study aims to provide insights into the company's financial health and operational efficiency. By scrutinizing key metrics such as profitability, liquidity, and solvency, the research contributes to a deeper understanding of Larsen & Toubro's performance in the market.

Seaba Teresa James (2021) evaluates "A Study on the Financial Performance of the Construction Industry in India During COVID-19": This study examines the financial performance of leading Indian construction companies during the COVID-19 pandemic. Utilizing ratio analysis and charts, the study compares half-yearly financial results from 2018-2020, revealing the industry's challenges such as labour shortages, supply chain disruptions, and financial constraints. This research sheds light on the impact of the pandemic on the construction sector, providing valuable insights for stakeholders and policymakers.

Basnet (2020) studies "Financial Performance Analysis of the Indian Construction Industry": This study analyzes the financial performance of the Indian construction industry between 2003 and 2012 using DuPont analysis and financial ratios. The study reveals low sales revenue, high retained earnings indicating low reinvestment, and declining Return on Equity (ROE) and Sustainable Growth Rate. This suggests a struggling industry despite the Indian economy's resilience during the global financial crisis.

III. RESEARCH METHODOLOGY

RESEARCH DESIGN:

DESCRIPTIVE RESEARCH DESIGN:

Descriptive research design is a methodology employed to characterize a situation, phenomenon, or group. It prioritizes providing a detailed account, and finds frequent application in fields like sociology, psychology, marketing, and education.

DATA COLLECTION:

SECONDARY DATA:

Secondary data refers to pre-existing information collected by others, accessible through sources like academic publications, government reports, and industry studies. While saving time and resources, this approach may have limitations in specificity or currency. Secondary data analysis provides context, supports arguments, and offers comparative insights. Researchers must critically evaluate its reliability, relevance, and potential biases. Access may be regulated by copyright and privacy laws.

The major source of secondary data is:

- Balance sheet of the company for the last 5 years
- Profit and loss account of the company for the last 5 year
- Website of the company

RATIO ANALYSIS USED FOR THIS STUDY

1. Current ratio
2. Net profit margin
3. Return on assets
4. Return on equity
5. Debt equity ratio

IV. DISCUSSION

- The Current Ratio peaked at 1.43 in 2020-2021, indicating strong liquidity, then slightly declined to 1.39 in 2021-2022 and 1.36 in 2022-2023, showing stability.
- The Net Profit Margin showed a peak of 13.02% in 2020-2021, declining to 6.85% in 2022-2023, indicating reduced profitability after deducting all expenses.
- Return on Assets (ROA) peaked at 7.38% in 2020-2021, declining to 4.55% in 2022-2023, suggesting less effective asset utilization for earnings.

- Return on Equity (ROE) showed its highest efficiency at 19.11% in 2020-2021, declining to 10.97% in 2022-2023, indicating decreasing profitability from equity.
- The Debt-to-Equity Ratio ranged from 0.24 in 2018-2019 to 0.49 in 2019-2020, showing fluctuations in debt levels.

FIGURE 1. CURRENT RATIO

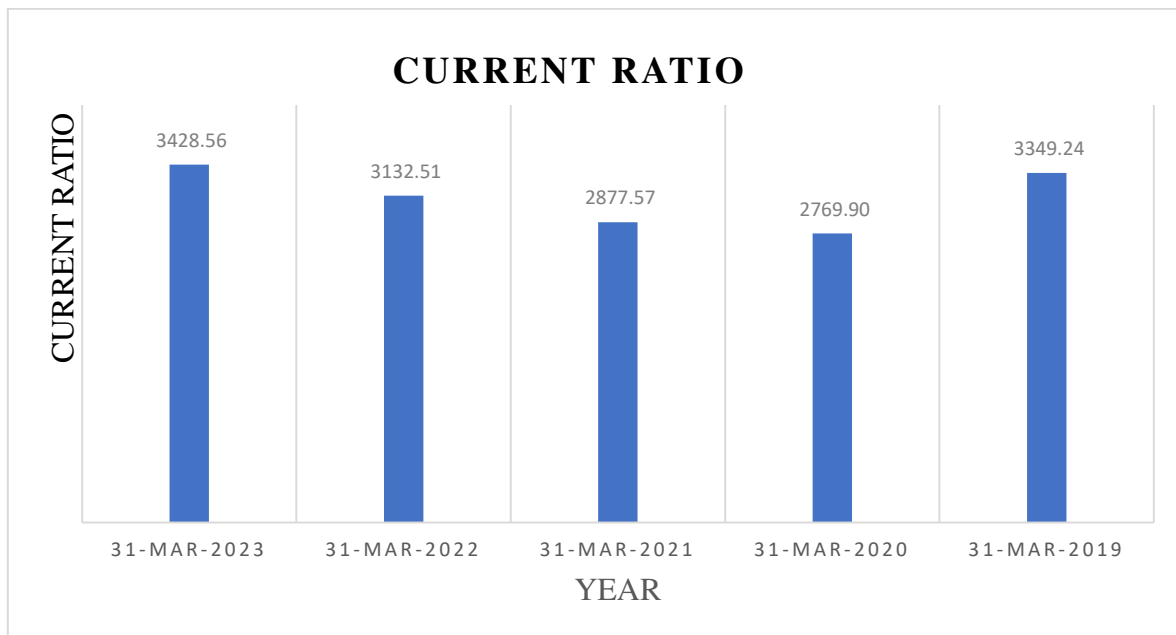


FIGURE 2. NET PROFIT MARGIN

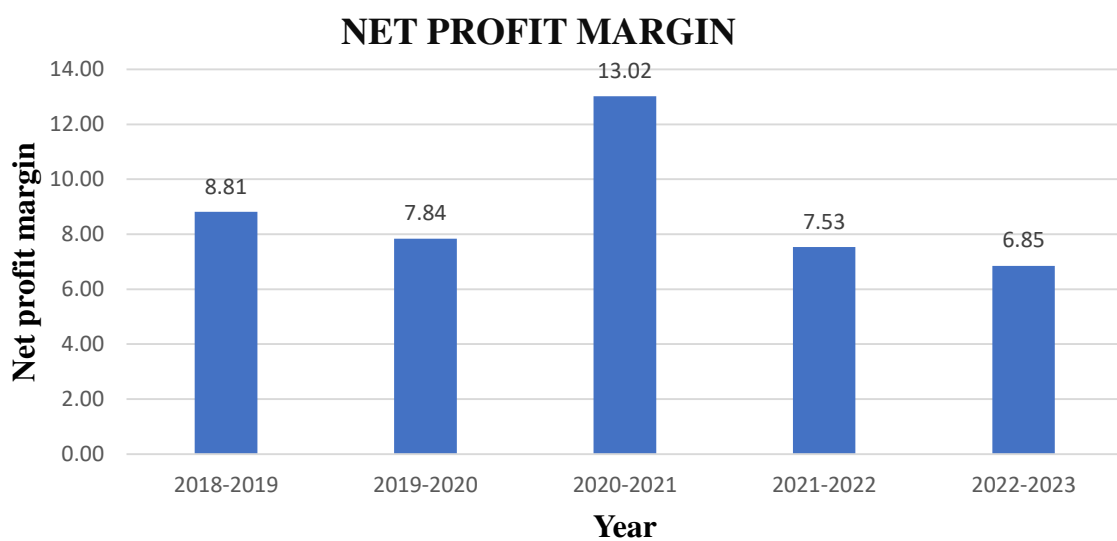


FIGURE 3. RETURN ON ASSETS

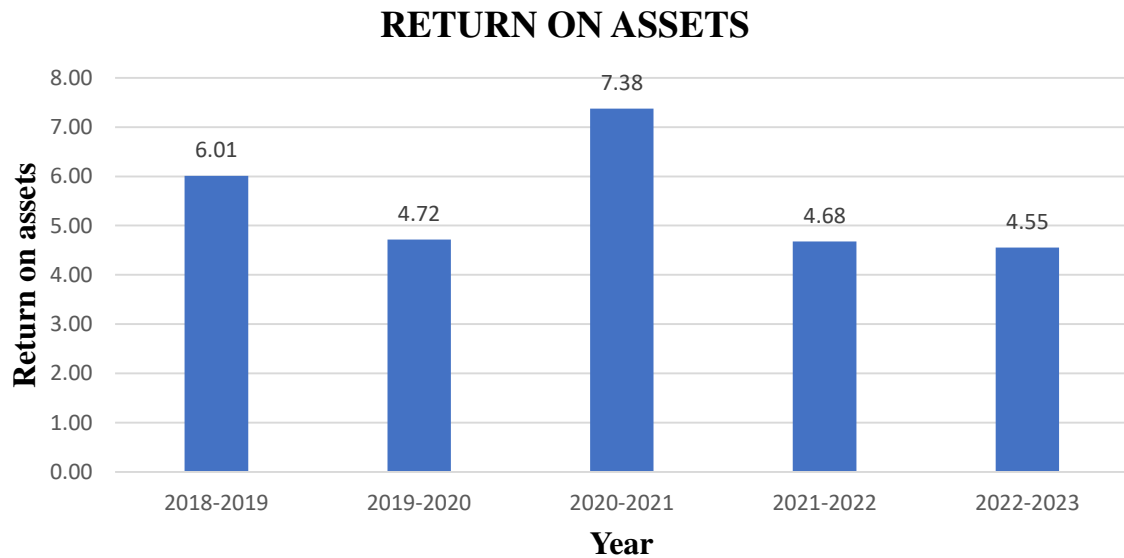
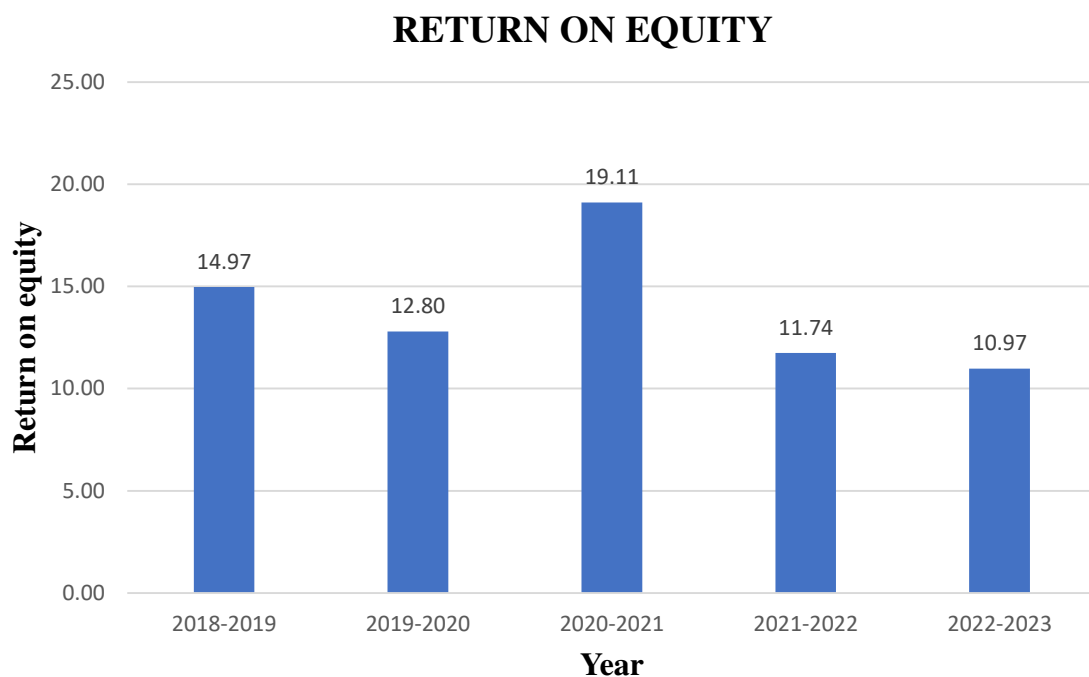


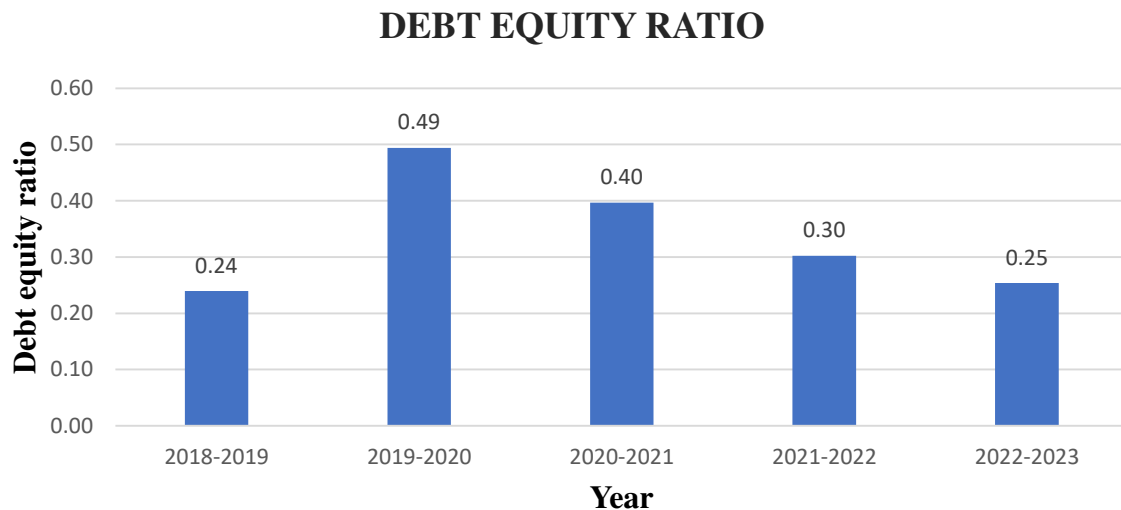
FIGURE 4. RETURN ON EQUITY



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FIGURE 5. DEBT EQUITY RATIO



V. CONCLUSION

In conclusion, the financial analysis reveals a mixed performance for the company over the analysed period. While maintaining generally stable liquidity with slight declines in key ratios like the Current Ratio and Quick Ratio, the company showcased resilience amid fluctuating profitability metrics. The solvency analysis highlighted a positive trend with decreasing Debt Equity Ratio and Debt Ratio, suggesting improved financial stability through reduced reliance on debt. However, Return on Assets (ROA) and Return on Equity (ROE) showed a declining trend, signalling challenges in optimizing asset and equity utilization for profitability.

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