



PROFITABILITY RATIO AND CORPORATE DECISIONS AT LARSEN AND TOUBRO LIMITED

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ABSTRACT: The goal of this inquiry is to look at Larsen & Toubro Limited's (L&T) profitability ratio analysis and how it affects business decisions. Profitability ratios, which include return on equity, return on assets, net profit ratio, and gross profit ratio, are significant indicators of a company's financial performance, operational efficiency, and overall sustainability. The analysis identifies trends in income production, spending management, and investment returns by examining past years' financial records for L&T. The research emphasizes the importance of these ratios in resource allocation, strategic investments, dividend policy, and risk management. The findings imply that L&T may achieve long-term growth while maintaining a good profitability profile, bolstering its competitive advantage, and making sound judgments. This research can be used by stakeholders like investors, management, and financial analysts to evaluate the company's financial health and strategic direction.

Keywords: *Return on Investment (ROI), Return on Equity (ROE), Net Profit Margin, Gross Profit Margin, Operating Profit Ratio, Earnings per Share (EPS)*

1. INTRODUCTION

Profitability ratio analysis is a critical financial tool for assessing a company's profitability in proportion to its sales, assets, equity, and other financial parameters. These ratios, which include return on equity (ROE), return on assets (ROA), gross profit ratio, and net profit ratio, offer a complete picture of a company's financial health and performance. A profitability paper allows stakeholders, such as creditors, investors, and management, to determine if a company is successfully utilizing its resources and sustaining long-term financial growth.

In contrast, corporate strategies are long-term plans and policies developed by a company to achieve its goals and obtain a competitive edge. The success of these

endeavors, which may involve market development, diversification, cost leadership, distinctiveness, or innovation, is frequently a predictor of the company's profitability. Profitability ratios represent strategic decisions, revealing whether firm strategies are delivering financial rewards or need to be adjusted.

By incorporating profitability ratio analysis into corporate activities, management can achieve a balance between long-term sustainability and financial performance. It helps to identify both strong locations that can be used for development and weak areas that need to be addressed. Finally, strategic planning and profitability analysis work together to offer firms with a road map for increasing shareholder value, maintaining



competitiveness, and improving efficiency in a changing business environment.

2. CATEGORIES OF FINANCIAL RATIOS

Each of the five basic categories of financial ratios looks at a different aspect of a corporation.



Profitability Ratios

Profitability ratios demonstrate a company's profitability relative to other companies in the same industry or over time. They illustrate if a company's profitability has increased in comparison to previous years. Profitability ratios can take many different shapes, including:

- Gross Profit Margin
- Operating profit margin
- Margin before taxes
- Net profit margin.

When used together, these multiples can reveal information about the business's cost structure.

Activity Ratios

Activity (efficiency) ratios assess the effectiveness of a corporation's normal operations. This displays the company's capacity to maximize earnings by making effective use of its resources.

These efficacy ratios are among the most important.

- Turnover of Receivables
- Payable turnover
- Working Capital Turnover
- Inventory turnover
- Number of days with no transactions

- Days of Payment
- Inventory days available.
- Cash Conversion Cycle
- Liquidity ratios

Liquidity Ratios

Liquidity ratios examine a company's capacity to use its assets to meet short-term obligations and repay debts. They demonstrate the organization's susceptibility to cash limitations. Some of the essential liquidity financial ratios are listed below:

- Current Ratio
- Rapid ratio.
- Cash to Asset Ratio
- The defensive interval

Solvency Ratios

Financial leverage, often known as solvency, measures a company's ability to meet its long-term obligations. In contrast to equity, assets, and income, they assess a company's debt.

The most crucial financial ratios for solvency are as follows:

- Equity to Debt Ratio
- Debt-to-asset ratio
- Debt/capital ratio
- Interest Area Coverage
- Fixed-cost coverage
- Financial leverage
- Valuation ratios

Valuation Ratios

Valuation (market potential) ratios evaluate the relationship between a company's intrinsic worth or proprietors' equity and a key financial metric. Investors use financial ratio analysis to predict future earnings and performance.

The following are some of the most important valuation ratios:

- Earnings per share (EPS)
- Price to earnings ratio (P/E)
- Dividend Yield



- Retention Rate
- Dividend distribution ratio.

3. BACKGROUND WORK

Thị Mai, N. (2025). This paper looks into the changing role of financial ratio analysis in a range of industrial sectors. It emphasizes the significance of financial ratios in cross-industry benchmarking to evaluate performance and competitiveness. The paper looks into businesses such as finance, aviation, telecommunications, and accounting. It identifies sector-specific improvements to ratio analysis that solve financial and operational challenges. The paper underlines the importance of dynamic and real-time evaluation methodologies instead than static benchmarking. It demonstrates that financial ratios continue to be critical tools for strategic planning, investment analysis, and decision making. The essay also explores the most effective ways to apply ratio analysis in a range of scenarios. It emphasizes the possibilities of benchmarking to increase profitability and productivity. The paper's findings can help managers improve their performance assessment frameworks.

Ghaemi-Zadeh, N. (2024). This paper looks into the relationship between financial success and business tactics, with a focus on profitability ratios. It studies how strategic decisions affect net profit margins, return on equity, and return on assets. Several businesses provided data, which was then examined using complex statistical techniques. The paper emphasizes the impact of various tactics on corporate performance and investor behavior. The findings suggest that certain approaches regularly improve financial ratios more than others. The paper allows

managers to choose tactics that maximize profitability. It emphasizes the need of integrating financial performance goals with corporate plans. The findings imply that using ratio analysis improves strategic planning and decision-making. The paper helps to our understanding of the strategic elements that influence profitability in a range of businesses.

Huda, M. N., & Sabur, M. A. (2025). This paper looks into the impact of financial parameters on the profitability of natural gas distribution companies in Bangladesh. Purposive sampling was used to choose five businesses, and financial data from the previous ten years was examined. Profitability ratios are the dependent variables in this paper, with liquidity, solvency, and efficiency ratios serving as the independent variables. Statistical tools were used to investigate relationships between financial measures and performance. The data show that profitability is heavily driven by liquidity and efficiency. Managers can use the research findings to better their financial decisions and performance monitoring. It focuses on the practical use of ratio analysis in the energy sector. The research can be used by investors to assess the organization's financial health and performance.

Saputra, A. J. (2024). This analysis uses profitability and solvency ratios to evaluate Madani National Capital's financial position. The quantitative descriptive analysis approach is used to assess financial data and establish the company's financial performance. Two crucial ratios are examined: debt-to-equity and return on assets. The findings give stakeholders crucial information on the company's financial stability and



profitability. The paper adds to our understanding of how financial ratios are used to assess the financial health of organizations. It emphasizes the importance of ratio analysis in financial decision-making. The paper's methodology and findings are relevant to similar examinations carried out by other organizations. The paper emphasizes the importance of financial ratio analysis as a strategy for analyzing corporate success.

Akbar, M., & Nugraha, R. (2025). This paper looks into the significance of social issues in shaping economic outcomes, with a special focus on the relationship between financial success and sociological trends. It investigates many social indices and their relationships with economic aspects. Statistical approaches are used to examine data gathered from a range of sources for the paper. The findings show strong links between social dynamics and economic indices. The findings add to our understanding of how social characteristics affect economic performance. It offers insights to scholars and politicians interested in the socioeconomic nexus. The publication discusses the significance of these discoveries for future paper and applications. This demonstrates the need of incorporating social issues into economic analysis.

Seretidou, D., & Papadopoulos, A. (2025). This paper presents a systematic examination of business performance that contrasts traditional financial measurements with cash flow-based ratios. The analysis focuses on the merits and cons of both approaches. It covers how standard ratios like debt-to-equity and return on assets are commonly used in financial research. The paper also looks into the growing importance of cash flow

ratios for offering dynamic insights into financial health and liquidity. The findings show that combining the two types of ratios yields a more complete assessment of a company's financial position. The investigation adds to the current discussion about improving financial analysis procedures. It advises practitioners on the most effective ways to apply these ratios. The paper emphasizes the ongoing evolution of financial analysis equipment. Kang, H., & Na, H. J. (2024). This paper looks into the impact of a company's management methods on its growth, stability, and profitability, with a focus on the information security industry. The paper uses a two-stage empirical model to evaluate the effect of strategy changes on financial indicators. According to the data, businesses that focus financial strategies tend to be more lucrative. Furthermore, the paper emphasizes the manner in which strategic alignment promotes organizational stability and growth. The paper emphasizes the necessity of strategic planning in meeting financial objectives. It sheds light on how managerial actions affect financial consequences. The inquiry helps to the growth of strategic management expertise in the information security industry.



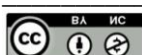
4. DATA ANALYSIS AND RESULTS

Key Financial Ratios of Larsen & Toubro

Key Financial Ratios	2025-24	2024-23	2023-22	2022-21	2021-20
Investment Valuation Ratios					
Face Value	2	2	2	2	2
Dividend Per Share	34	34	24	22	36
Operating Profit Per Share (Rs)	84.27	70.45	66.13	64.45	51.73
Net Operating Profit Per Share (Rs)	1,036.28	918.3	786.21	718.85	521.98
Free Reserves Per Share (Rs)	0	0	0	0	0
Bonus in Equity Capital	89.05	89.09	87.13	87.16	87.19
Profitability Ratios					
Operating Profit Margin(%)	8.13	7.67	8.41	8.96	9.91
Profit Before Interest And Tax Margin(%)	6.49	6.02	6.91	7.53	8.13
Gross Profit Margin(%)	6.75	6.28	7.17	7.8	8.51
Cash Profit Margin(%)	8.34	8.06	8.05	8.39	8.5
Adjusted Cash Margin(%)	8.34	8.06	8.05	8.39	8.5
Net Profit Margin(%)	7.62	7.37	7.1	7.8	15.46
Adjusted Net Profit Margin(%)	7.33	7.07	6.85	7.53	14.77
Return On Capital Employed(%)	16.3	15.26	13.33	13.15	11.48
Return On Net Worth(%)	15.12	14.47	10.98	11.75	18.79
Adjusted Return on Net Worth(%)	14.45	13.77	10.98	11.35	9.12
Return on Assets Excluding Revaluations	522.81	467.68	508.39	477.03	429.5
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Return on Long Term Funds(%)	18.83	17.41	14.79	14.37	12.69
Liquidity And Solvency Ratios					
Current Ratio	0.99	1.05	1.13	1.18	1.16
Quick Ratio	1.2	1.25	1.31	1.34	1.4
Debt Equity Ratio	0.31	0.35	0.25	0.3	0.39
Long Term Debt Equity Ratio	0.13	0.19	0.13	0.19	0.26
Debt Coverage Ratios					
Interest Cover	6.97	5.52	5.63	6.55	4
Total Debt to Owners Fund	0.31	0.35	0.25	0.3	0.39
Financial Charges Coverage Ratio	7.86	6.25	6.27	7.22	4.42
Financial Charges Coverage Ratio Post Tax	6.85	5.6	5.34	6.16	6.11
Management Efficiency Ratios					
Inventory Turnover Ratio	41.93	35.85	32.23	32.24	25.65
Debtors Turnover Ratio	3.79	3.6	3.18	3.05	2.53
Investments Turnover Ratio	1.52	1.45	1.23	1.16	0.87
Fixed Assets Turnover Ratio	6.67	6.46	6.46	6.54	5.47
Total Assets Turnover Ratio	1.52	1.46	1.23	1.16	0.87
Asset Turnover Ratio	1.58	1.43	1.25	1.18	0.9
Number of Days In Working Capital	-115.63	-	-	-	-
		122.68	125.89	111.22	120.27
Profit & Loss Account Ratios					
Material Cost Composition	13.81	12.92	16.74	16.21	11.37
Imported Composition of Raw Materials Consumed	0	0	0	0	0
Selling Distribution Cost Composition	0.07	0.06	0.06	0.05	0.04
Expenses as Composition of Total Sales	20.75	12.77	14.84	11.68	7.44
Cash Flow Indicator Ratios					
Dividend Payout Ratio Net Profit	0	9.06	39.38	32.08	22.29
Dividend Payout Ratio Cash Profit	0	7.62	33.52	27.93	20.44
Earning Retention Ratio	100	90.48	60.62	66.79	54.09
Cash Earning Retention Ratio	100	92.05	66.48	71.22	61.3
Adjusted Cash Flow Times	1.77	2.12	1.97	2.31	3.65
Earnings Per Share	79.05	67.68	55.85	56.08	80.72
Book Value	522.81	467.68	508.39	477.03	429.5

5. CONCLUSION

In conclusion, profitability ratio analysis is an important tool for evaluating a company's financial health and operational efficiency. It provides useful insights into trends in overall performance, cost control, and revenue generating. Organizations can recognize their strengths and weaknesses and make well-informed, long-term strategic decisions by constantly monitoring crucial ratios such as net profit margin, return on equity, and return on assets. When combined with business decision-making, these assessments ensure that each action positively impacts shareholder value and long-term growth by driving pricing tactics, dividend policies, investment decisions, and resource allocation. Furthermore, by benchmarking against industry norms, reviewing historical trends, and identifying primary profitability drivers, management is able to implement cost-cutting measures, maximize operational efficiency, and pursue opportunities for development or diversification while minimizing risk. Businesses create a framework that not only improves financial results but also promotes accountability, inventiveness, and resilience in a competitive market by integrating performance metrics to strategic planning and incentives. Finally, careful business decision-making and extensive profitability analysis form the foundation of good financial management. This method allows organizations to maintain profitability, increase competitiveness, and assure long-term organizational success.





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