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PROFITABILITY RATIOS AND CORPORATE DECISIONS AT LARSEN & TOUBRO LIMITED

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ABSTRACT: The intent of this research is to investigate the significance of profitability ratio analysis in the decision-making process of Larsen & Toubro Limited (L&T). By examining a company's profitability metrics, such as ROE, ROA, net profit, and gross profit, one can gain a wealth of information regarding its efficacy, profitability, and overall health. The study identifies trends in revenue generation, cost management, and investment returns by examining L&T's financial records from previous years. The research emphasizes the manner in which these ratios influence the decisions made by businesses with respect to resource allocation, risk management, dividend policy, and strategic initiatives. The results indicate that L&T is capable of bolstering its competitive advantage, making informed decisions, and ensuring long-term growth with a high profitability profile. The strategic trajectory and financial well-being of the organization could be evaluated by a diverse range of stakeholders, such as investors, managers, and analysts, through the application of this research.

Keywords: *Profitability Ratio Analysis, Financial Performance, Operational Efficiency, Larsen & Toubro Limited, Gross Profit Ratio, Net Profit Ratio, Return on Assets (ROA),*

1. INTRODUCTION

Profitability ratio analysis is a critical financial tool for assessing a company's profitability in relation to its sales, assets, equity, and other financial metrics. The efficacy and well-being of a business are elucidated by four critical ratios: gross profit, net profit, return on equity (ROE), and return on assets (ROA). By examining a company's profitability, creditors, investors, and management can gain a comprehensive understanding of its resourcefulness and ability to sustain long-term growth.

Conversely, corporate strategies are the comprehensive plans and policies that an organization establishes to accomplish its objectives and acquire a competitive edge. These endeavors frequently evaluate the organization's performance in the following areas: diversifying revenue streams, expanding into new markets, becoming the industry leader in terms of cost, distinguishing themselves from competitors, and developing new products and services. Analysis of profitability ratios serves as a reflection for strategic decisions by revealing whether company strategies are yielding financial benefits or require realignment.

Management can achieve a balance between long-term sustainability and financial performance by incorporating profitability ratio research into company activities. It aids in

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the identification of both opportunity areas that can be further developed and problem areas that require attention.

2. REVIEW OF LITERATURE

Ramdhan, A. N., Yulianti, N. A., & Parlina, N. D. (2025): This study employs profitability ratios to assess the financial health of the food and beverage industry from 2020 to 2023. The primary focus of the analysis is on key ratios, such as ROE, net profit margin, and ROA. Purposive sampling was employed to select nine companies listed on the Indonesia Stock Exchange as part of a descriptive quantitative technique. Financial information was obtained through the use of annual reports and firm financial statements.

Zhang, Y. (2025): This essay offers a thorough examination of the literature on financial ratio analysis, focusing on its history and current applications. Ratios are examined as a method of evaluating the operational efficacy, liquidity, solvency, and profitability of companies. The review focuses on recent studies that demonstrate the advantages and disadvantages of ratio analysis.

Huda, M. N., & Sabur, M. A. (2025): This investigation concentrates on the impact of financial parameters on the profitability of natural gas distribution companies in Bangladesh. Five organizations were selected for the purpose of analyzing financial data that spanned a decade using purposive sampling. The dependent variable in this analysis is profitability ratios, while the independent variables are liquidity, solvency, and efficiency ratios. In order to identify correlations between financial metrics and performance, we implemented statistical methodologies. The results underscore the substantial influence that liquidity and efficiency have on profitability.

Ghaemi-Zadeh, N. (2024): The objective of this investigation is to evaluate profitability ratios as a proxy for the relationship between financial performance and company strategy. It examines the impact of strategic decisions on ROA, ROE, and net profit margins. We employed sophisticated statistical techniques to analyze data from a variety of enterprises. The results demonstrate the impact of different methodologies on the profitability of businesses and the behavior of investors.

Saputra, A. J. (2024): Profitability and solvency ratios are implemented in this investigation to evaluate Madani National Capital's financial stability. The quantitative descriptive analysis method is employed in the research to evaluate the financial performance of the organization. Two critical metrics are examined: the debt-to-equity ratio and the return on assets. The findings provide stakeholders with essential information regarding the company's financial health and profitability. This study has provided researchers with a greater understanding of the application of financial statistics to assess the financial health of companies. It underscores the significance of ratio analysis in the formulation of sensible financial decisions.

Mittal, A., Kushwaha, D., Sharma, S., Gupta, A., & Mishra, S. (2024): Tata Consultancy Services (TCS) Limited's financial performance over the course of a decade is examined in this comprehensive study through the use of a variety of metrics. The research investigates

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financial health and growth ratios that pertain to liquidity, leverage, activity, and profitability. The results illustrate the efficient management of assets and consistent profitability. The research underscores the extent to which TCS's strategic financial management strategies have been instrumental in its sustained success. It provides an in-depth analysis of TCS's financial wellbeing and operations.

Kang, H., & Na, H. J. (2024): This study concentrates on the information security industry, analyzing the impact of management strategies on profitability, stability, and growth. Utilizing a two-stage empirical model, the investigation investigates the influence of strategy modifications on financial metrics. According to the findings, organizations that prioritize financial strategies demonstrate superior financial performance. The report also underscores the ways in which strategic alignment enables organizations to maintain stability and expand.

3. COMPONENTS OF A PROFITABILITY ANALYSIS

The most prevalent method of conducting profitability analyses is the combination of qualitative data with a variety of ratios. There are numerous techniques available for this purpose. The most frequently encountered components of a profitability analysis for small and medium-sized enterprises (SMEs) include:

Break-even analysis

A break-even analysis can assist in determining the point at which your business will begin to generate revenue. In particular, it determines the precise moment at which revenue from sales equals expenditures (including rent, wages, and utilities) and there is no longer any profit or loss (including labor and materials).

This analysis will enable you to determine the minimum amount of sales required to cover all expenses and generate a profit. A break-even analysis can also be conducted on an individual consumer to determine the minimum number of units that must be sold in order to generate a profit.

Profitability ratios

Profit analysis can be conducted using a variety of profitability ratios. These ratios indicate the profitability of your organization in terms of revenue, operational expenses, assets, and invested capital.

Two categories of profitability ratios are typically employed in profitability research: return ratios and margin ratios. Margin ratios are used to evaluate the profitability of sales, while return ratios are used to determine the amount of money that a company can return to its shareholders.

Customer profitability analysis

Another critical aspect of your business to evaluate is the revenue generated by particular customers. A customer profitability study enables you to compare the cost of selling to a

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customer with their earnings. It displays which clients are generating the most or least revenue, enabling you to concentrate on them.

Qualitative analysis

Many businesses rely on qualitative data obtained from sources such as market studies, consumer surveys, SWOT analyses, and focus groups to conduct profitability evaluations. This data offers valuable context for comprehending market trends and consumer preferences that may affect profitability.

4. IMPACT OF CORPORATE STRATEGIES ON PROFITABILITY

Cost Optimization Strategies

Corporate initiatives that are designed to decrease operational costs frequently emphasize resource management, supply chain optimization, and efficiency enhancements. Profit margins are automatically increased by reducing expenses, even when the quality of products or services remains unaltered. Businesses can increase their overall profitability by optimizing processes to produce greater returns without raising prices.

Market Expansion and Diversification

Businesses may augment their revenue by diversifying their product offerings or entering new markets. Businesses that intend to enter new markets are less inclined to depend on a single source of revenue. Increased profits are a result of the expansion into new markets, which also results in increased sales and the distribution of financial risk.

Pricing Strategies and Value Proposition

A competitive advantage is ensured by strategic pricing that is in accordance with market demand and perceived value. Effective pricing strategies have two objectives: customer retention and profit maximization. Businesses can enhance their profit margins and achieve sustainable profitability growth by identifying the optimal balance between pricing and quality.

Innovation and Product Development

By investing in the research and development of new products, a company can maintain a competitive edge. Goods and services that are in high demand can result from corporate policies that prioritize research and innovation. This differentiation enables the establishment of premium pricing, increased profitability, and increased sales.

Customer Retention and Relationship Management

Methods that enhance consumer satisfaction and loyalty result in reduced acquisition costs and increased repeat business. Establishing enduring relationships with consumers is essential for maintaining a consistent revenue stream. Profits are increased by customer-centric business strategies that enhance lifetime customer value.

Operational Efficiency and Process Improvement

Waste and operational constraints are mitigated through the optimization of processes and the enhancement of productivity. Efficiency improvements result in a reduction in costs and an increase in output, without the necessity for additional resources. The outcome will be a more consistent rate of business growth and increased profit margins.

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Strategic Alliances and Partnerships

Alliances, collaborative ventures, or partnerships can be established to capitalize on complementary attributes. In the business world, strategies that foster collaboration can help disseminate risk and create new opportunities. A company's revenue and profitability can be significantly improved by acquiring access to new markets or technology.

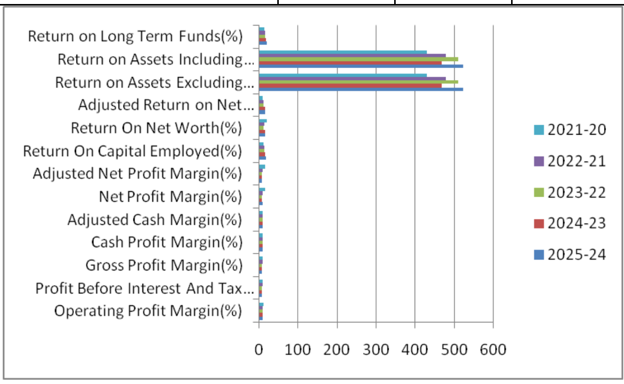
Financial Management and Investment Strategies

Investing in profitable companies, managing debt, and optimizing available funds are all examples of effective business strategies. The objective of sensible financial planning is to allocate funds to the areas that will generate the highest returns. The company's long-term profitability is enhanced by this methodical approach.

5. DATA ANALYSIS AND INTERPRETATION

PROFITABILITY RATIOS

Profitability Ratios	2025-24	2024-23	2023-22	2022-21	2021-20
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
Return on Assets Including Revaluations	522.81	467.68	508.39	477.03	429.5
Return on Long Term Funds(%)	18.83	17.41	14.79	14.37	12.69



INTERPRETATION: Larsen & Toubro's profitability ratios indicate a consistent downward trend in operating and profit margins over the past five years. This suggests that profitability

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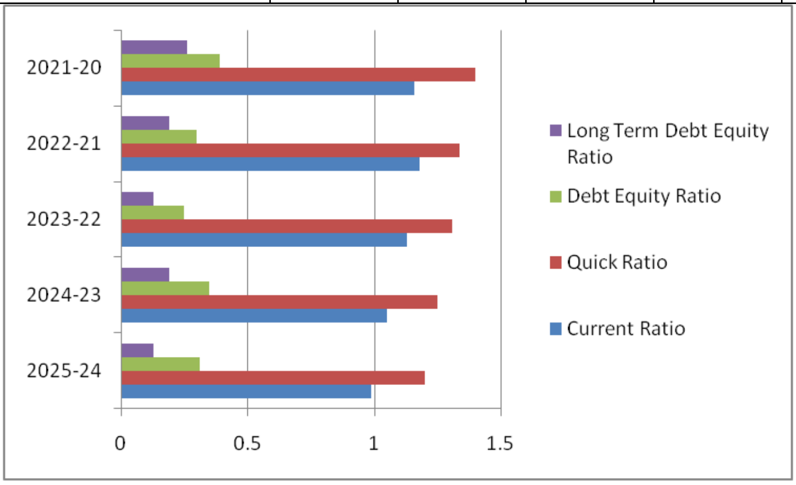
is slightly under pressure, while operational efficiency remains constant. In the same vein, the adjusted net profit margin exhibits fluctuations, ranging from 15.46% in 2021–2020 to 7.62% in 2025–2024. This suggests that the variations are the result of adjustments or special items. The return on net worth and the return on capital used have both increased gradually over time, indicating that shareholders are receiving higher returns and that capital is being more effectively utilized. Strong asset productivity is indicated by exceptionally high returns on assets, regardless of whether they have been revalued. The effective utilization of resources over a long period to generate profits is illustrated by the increasing trend of return on long-term funding. Despite the possibility of minor fluctuations in margins, the organization consistently sustains strong profitability.

LIQUIDITY AND SOLVENCY RATIOS

Liquidity And Solvency Ratios	**2025-24**	**2024-23**	**2023-22**	**2022-21**	**2021-20**
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



INTERPRETATION: A stable financial status is indicated by Larsen & Toubro's solvency and liquidity ratios. This indicates that there is sufficient short-term liquidity to satisfy obligations, as the current and fast ratios are either equal to or greater than 1. The debt-equity and long-term debt-equity ratios demonstrate the conservative capital structure, which is characterized by a limited reliance on debt financing and firm solvency. The company has demonstrated a balanced approach to managing financial risk and liquidity over the past five years.

DEBT COVERAGE RATIOS

Debt Coverage Ratios	**2025-24**	**2024-23**	**2023-22**	**2022-21**	**2021-20**
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

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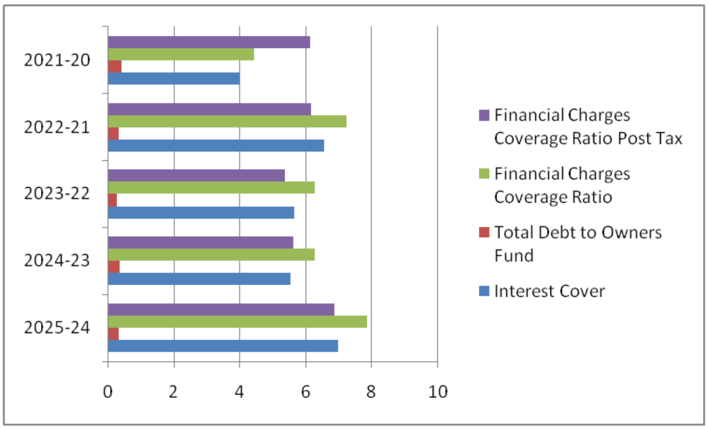
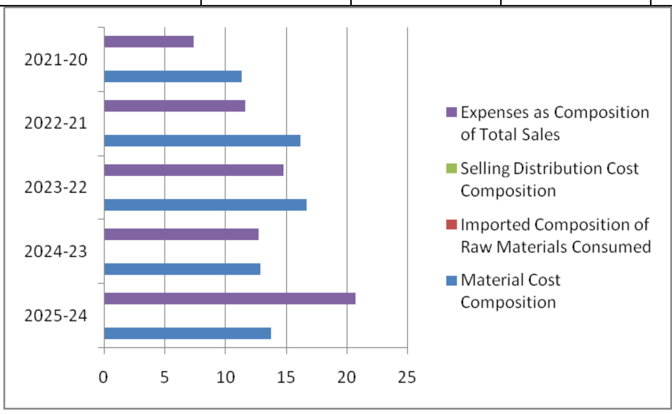
Financial Charges Coverage Ratio	7.86	6.25	6.27	7.22	4.42
Financial Charges Coverage Ratio Post Tax	6.85	5.6	5.34	6.16	6.11



INTERPRETATION: The progressive enhancement of interest cover from 4 in 2021–2022, to 6.97 in 2025–2024, which suggests a reduction in financial risk, is indicative of Larsen & Toubro's strong ability to repay debt. The proprietors' fund's low aggregate debt indicates a conservative leverage stance. The financial charges coverage ratio is high in both the pre- and post-tax versions, which implies that the company has an adequate revenue stream to cover its interest and other expenses. In general, these statistics suggest that debt is being effectively managed and that there is minimal danger of financial difficulties.

PROFIT & LOSS ACCOUNT RATIOS

Profit & Loss Account Ratios	2025-24	2024-23	2023-22	2022-21	2021-20
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



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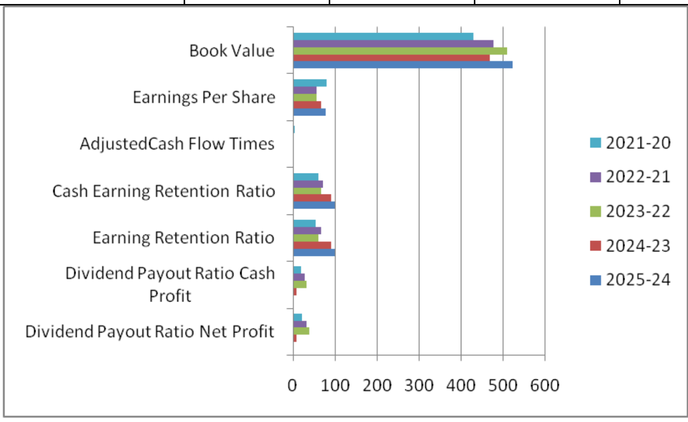
INTERPRETATION: Larsen & Toubro's profit and loss account ratios, which range from 11.37% to 16.74%, demonstrate their consistent ability to manage expenses. The absence of raw material imports indicates that indigenous sourcing is being used. Despite the fact that the overall expenses as a percentage of sales have increased over time, sales and distribution expenses have remained comparatively low. This suggests that operational costs have been increasing in relation to income.

CASH FLOW INDICATOR RATIOS

Cash Flow Indicator Ratios	2025-24	2024-23	2023-22	2022-21	2021-20
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
AdjustedCash 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



INTERPRETATION: In 2025-2024, Larsen & Toubro's cash flow indicator ratios indicated that the emphasis was on investing rather than dividend payouts, as both the earning retention ratio and cash earning retention ratio reached 100%. This has resulted in a dividend payout ratio of zero, which suggests that no cash dividends were distributed over the past year. The modest trend in the adjusted cash flow timings indicates that liquidity is being managed consistently. Indicating robust wealth generation for shareholders, both earnings per share and book value experience substantial increases over the course of five years.

Earnings before Interest and Tax (EBIT) Margin

Fiscal Year	EBIT Margin (%)
FY 2021	15.25
FY 2022	15.36
FY 2023	14.65
FY 2024	13.72
FY 2025	13.24

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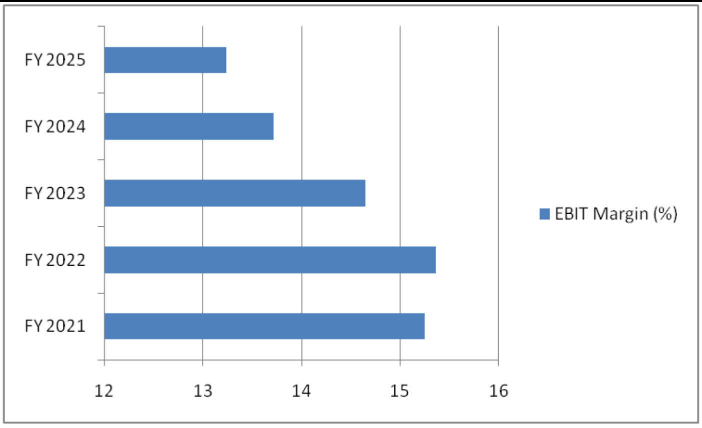
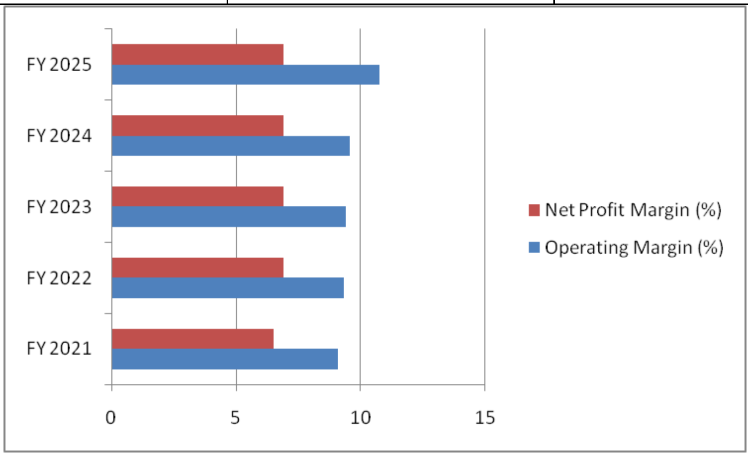


INTERPRETATION: Larsen & Toubro's EBIT margin experienced a decline over the subsequent five years, culminating in a low of 13.24% in FY 2025, following a high of 15.25% in FY 2021. Despite the consistent growth of sales, there seems to be some constraint on operational profitability. This could be the result of rising operational expenses or pricing pressures. The company is still performing well, but the declining trend underscores the necessity of maintaining strict control over costs and efficiency.

Operating Margin and Net Profit Margin

Fiscal Year	Operating Margin (%)	Net Profit Margin (%)
FY 2021	9.1	6.51
FY 2022	9.31	6.92
FY 2023	9.42	6.92
FY 2024	9.57	6.92
FY 2025	10.77	6.92



INTERPRETATION: Larsen & Toubro's operating margin increased steadily from 9.1% in FY 2021 to 10.77% in FY 2025, indicating enhanced operational efficiency and cost management. Despite the fact that operations are becoming more efficient, net profitability remains at approximately 6.92% in FY 2022 due to other factors, including taxes, interest, and non-operating expenses. The company has maintained consistent profitability and boasts exceptional operational management.

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6. CONCLUSION

In summary, profitability ratio analysis is an essential tool for evaluating a company's financial well-being and operational efficacy, as it offers valuable insights into revenue generation, cost control, and overall performance trends. Organizations can make strategic decisions that advance long-term objectives by systematically monitoring three critical ratios: net profit margin, return on equity, and return on assets. These ratios assist organizations in identifying their strengths and areas for development. By incorporating these evaluations into business decision-making, it is guaranteed that all decisions are beneficial to shareholder value and long-term development. This is achieved by guiding pricing strategies, dividend policies, investment decisions, and resource allocation. Management is also permitted to optimize operational efficiency, manage costs, and investigate low-risk opportunities for growth or diversification by examining historical trends, comparing current results to industry standards, and determining the factors that influence profitability the most.

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