

A Study on Corporate Financial Strategies and Ratio Analysis Of L&T Finance

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Abstract—The "Corporate Financial Strategies of L&T" report delves deeply into the complicated financial strategies that underpin Larsen & Toubro's (L&T) market performance. This research investigates the company's strategy for navigating market turbulence, promoting innovation, and ensuring long-term viability by examining crucial areas such as capital allocation, risk management, and strategic investments. The study stresses how important L&T's financial procedures, such as capital budgeting and structure optimization, have been to the company's ability to complete large-scale projects and boost shareholder value. This study uses a combination of quantitative and qualitative techniques to provide an informed analysis of L&T's financial health and strategic trajectory, based on financial reports, industry evaluations, and regulatory filings. The findings underscore the importance of proactive risk management, continual technical innovation, and strategic flexibility in preserving a competitive advantage in the rapidly changing global market.

Index Terms—Capital Allocation, Risk Management, Global Market, Shareholder Value, Strategic Investment, Quantitative Techniques.

I. INTRODUCTION

Corporate financial strategies refer to the tactics used by a firm to manage its finances. These strategies are crucial to a company's success because they enable it to make the best use of its resources, manage risk, and achieve long-term objectives. These methods can encompass a wide range of operations, including budgeting, capital allocation, risk management, and performance measurement. Implementing successful corporate financial strategy enables businesses to navigate volatility, grab opportunities, and drive innovation.

Capital budgeting is a key component of company financial planning. Capital budgeting is the process of assessing potential investment opportunities and

deciding which are worth pursuing. Companies can analyze investment prospects using a range of metrics, including net present value (NPV), internal rate of return (IRR), and payback duration. Once a corporation decides to pursue an investment opportunity, it must dedicate funds to the project. This includes deciding how much to invest and how to fund the project.

II. PROBLEM STATEMENT

1. Long-Term Sustainability Future research could assess the sustainability of L&T's financial strategies over the long run, focusing on its growing dependence on debt and the possible effects on its future growth and stability.
2. Technological Innovations: Investigating the role of technological advancements and digital transformation in shaping L&T's financial strategies and enhancing operational efficiency could be a significant area of study.
3. Risk Management Practices: A deeper analysis of L&T's risk management strategies and their effectiveness in addressing financial risks would provide valuable insights.

OBJECTIVES

Following are the objectives of the study:

- To evaluate the financial performance of company.
- To Analyze the Financial ratio's of the company.
- To evaluate the risk and cost management strategies of the company.

III. LITERATURE REVIEW

1. "Corporate Finance" by Jonathan Berk and Peter DeMarzo (2020)

Description: This well-known textbook covers all of the major themes in corporate finance, including valuation, capital budgeting, and risk management. It ties theoretical frameworks to real-world applications, making it a great resource for learning the financial foundations of business operations. The book is particularly relevant since it explores how financial theories are applied in real-world settings, providing critical insights for analyzing and optimizing firm financial strategy in a wide range of market conditions.

2. "Valuation: Measuring and Managing the Value of Companies" by McKinsey & Company Inc. (2020)

Description: This book provides comprehensive frameworks for business valuation, an important component of strategic financial planning. It explores various valuation methodologies and emphasizes their applicability in strategic decision making. It focuses on how to analyze and manage business value, providing insights on optimal financial approaches to maximize shareholder value. The content is critical for understanding how strategic financial decisions influence a company's overall valuation and market perception.

3. "The Theory of Corporate Finance" by Jean Tirole (2006)

Description: As a foundational classic in corporate finance theory, this book delves into critical topics such as agency theory, corporate governance, and capital structure. It demonstrates how theoretical aspects are used in real-world scenarios, providing readers with a greater understanding of the ideas that underpin corporate financial decisions. The book explains the theoretical foundation of financial strategies as well as their practical applications in corporate management.

4. "Corporate Financial Strategy" by Ruth Bender and Keith Ward (2016)

Description: This book focuses on integrating financial tactics to larger corporate goals. It provides case studies and practical examples to explain how to efficiently manage your funds. It highlights how financial strategies may be integrated with larger business objectives, offering valuable insights into creating cohesive and effective financial plans. The practical examples and case studies make it an

invaluable resource for understanding how to employ financial strategies to achieve business objectives.

5. "Principles of Corporate Finance" by Richard A. Brealey and Stewart C. Myers (2020)

Description: This well-known textbook teaches the principles of corporate finance, with an emphasis on risk-return tradeoffs, capital markets, and financial instruments. It provides a complete overview of the key concepts needed to understand corporate finance. The book's focus on risk-return trade-offs, as well as its examination of capital markets, make it an important resource for learning the principles of financial strategy.

6. "Financial Strategy: Creating Shareholder Value" by Michael C. Jensen (2002)

Description: This article investigates ways to increase shareholder value through effective financial management. It examines performance evaluation and capital allocation, providing insight into how these aspects contribute to greater shareholder value. The book focuses on the strategic components of financial management and their impact on shareholder value development, making it an invaluable resource for corporate finance strategists.

7. "Financial Management: Theory and Practice" by Eugene F. Brigham and Michael C. Ehrhardt (2016)

Description: A comprehensive text on key financial management topics such as capital structure, investment decisions, and financial forecasting. It combines academic material with practical applications, making it an invaluable resource for understanding the complexities of financial management. The book's extensive coverage of financial concerns, as well as its emphasis on theory and practice, provide a comprehensive understanding of financial management.

8. "The Capital Structure Decision" by Robert A. Taggart (1977)

Description: This significant article investigates the factors influencing a company's capital structure decision, with a focus on the trade-offs between debt and equity financing. It provides a historical perspective on the theories that guide capital structure decisions. The paper's attention on the factors that

influence capital structure and the debt-equity balance makes it an important study in corporate finance.

9. "Corporate Finance: Theory and Practice" by Aswath Damodaran (2010)

Description: This book applies theoretical concepts to practical situations, with a focus on valuation, capital structure, and corporate governance. It offers a balanced perspective on theoretical and practical topics, making it appropriate for academic and professional settings. The book's extensive coverage and integration of theory and practice make it an invaluable resource for corporate finance practitioners.

10. "Risk Management and Financial Institutions" by John C. Hull (2018)

Description: This book dives deeply into the risk management approaches used by financial businesses. It focuses on market risk, credit risk, and operational risk, offering insight into how these risks are managed. The book is particularly valuable for understanding the complexities of risk management in the financial sector.

IV. RESEARCH METHODOLOGY

Secondary data collection methods are practical and effective in giving a comprehensive overview of current financial practices across varied organizations, so they were used for this study on corporate financial strategy. A range of pre-existing data that reflects actual performance and strategy choices can be accessed through secondary sources, such as financial reports, industry assessments, regulatory filings, and scholarly publications.

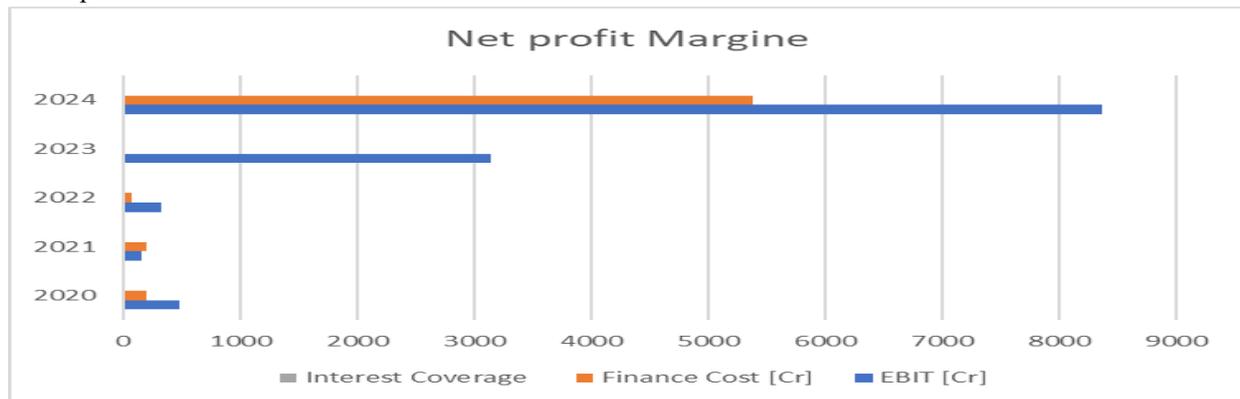
Large datasets can be examined using this method, which offers reliable statistical analysis to find trends, correlations, and best practices without the time and financial limitations of original data acquisition. Furthermore, because secondary data originates from reliable sources that are usually subject to stringent criteria, their usage enhances the study's credibility.

In order to fully understand how financial strategies affect organizational performance under various conditions, this method is particularly helpful for analyzing financial strategies across industries and looking into historical trends. The application of secondary data approaches aligns with research objectives and provides valuable insights into the implementation and performance of a company's financial strategy.

V. DATA ANALYSIS AND INTERPRETATION

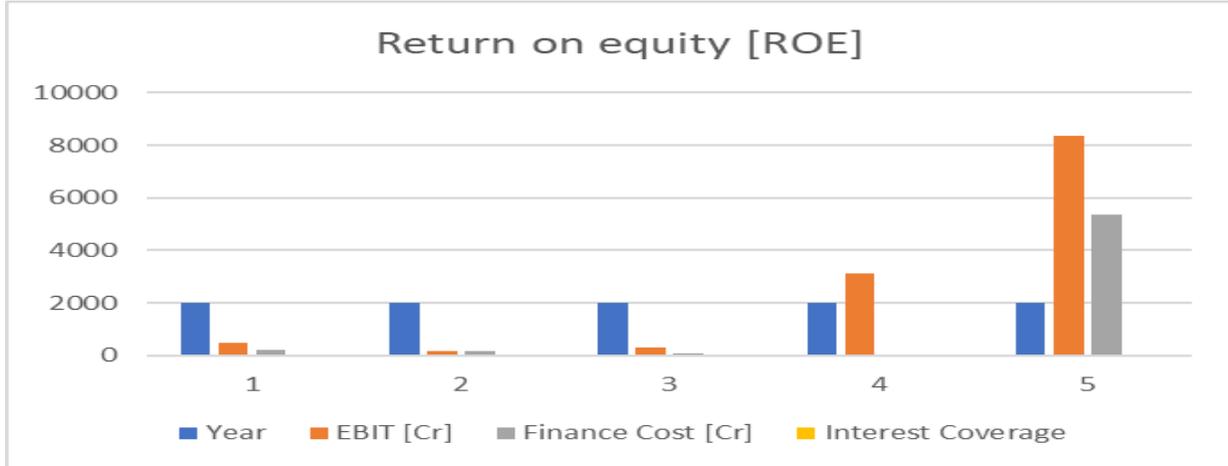
1. Net profit margin: $(\text{Net Profit} \div \text{Revenue}) \times 100$

This formula calculates the percentage of revenue that remains as profit after all expenses (such as costs, taxes, interest, and other deductions) have been subtracted. It shows how effectively a company is turning its revenue into actual profit.



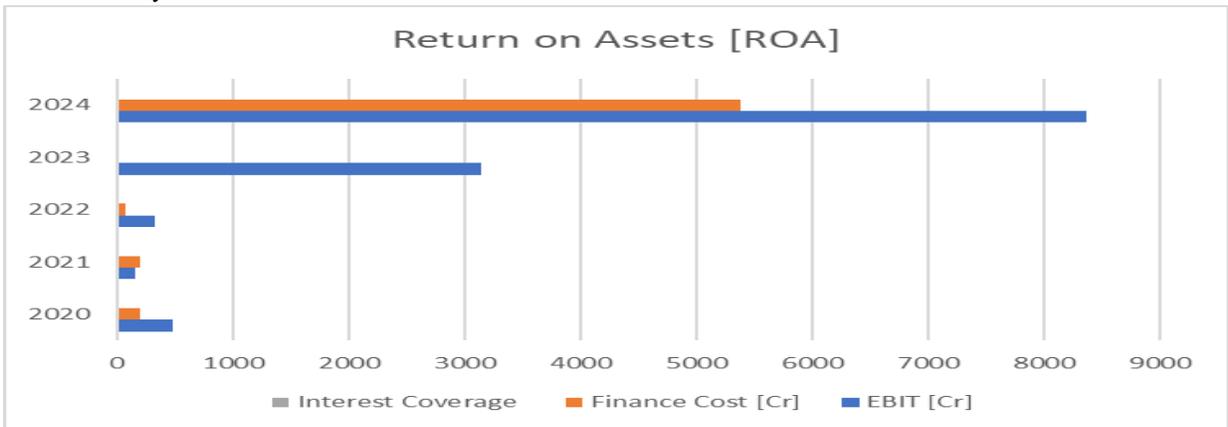
2. Return on Equity [ROE]: $(\text{Net Income} \div \text{Shareholder's Equity}) \times 100$

This formula measures how efficiently a company generates profit from its shareholders' investments, indicating the rate of return on the equity held by the company's owners.



3. Return On assets [ROA]: $(\text{Net Income} \div \text{Total Assets}) \times 100$

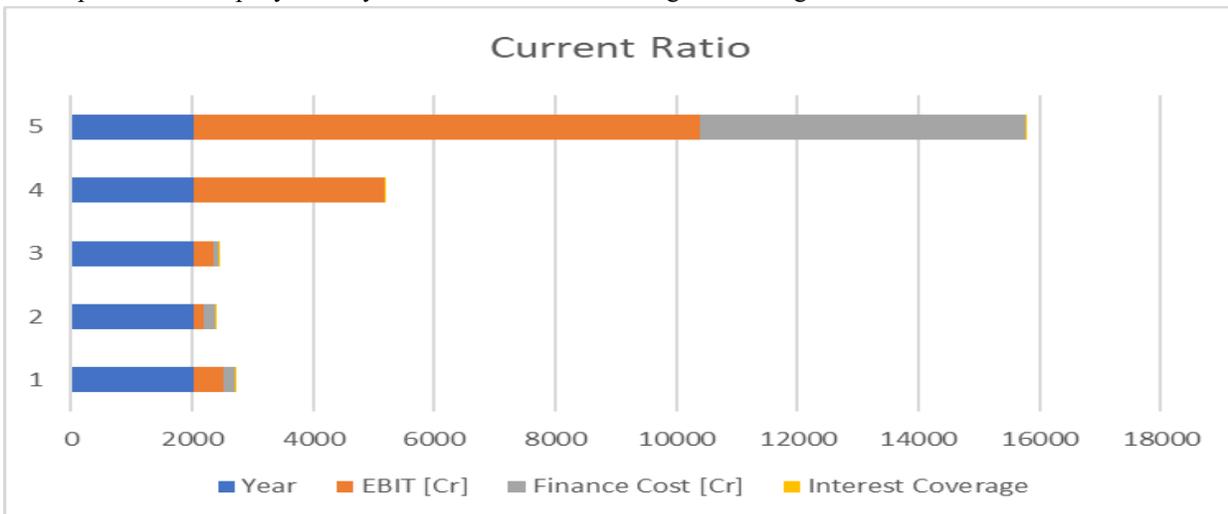
This formula evaluates how effectively a company uses its assets to generate profit, showing the percentage of profit made for every dollar of assets owned.



Liquidity Ratio

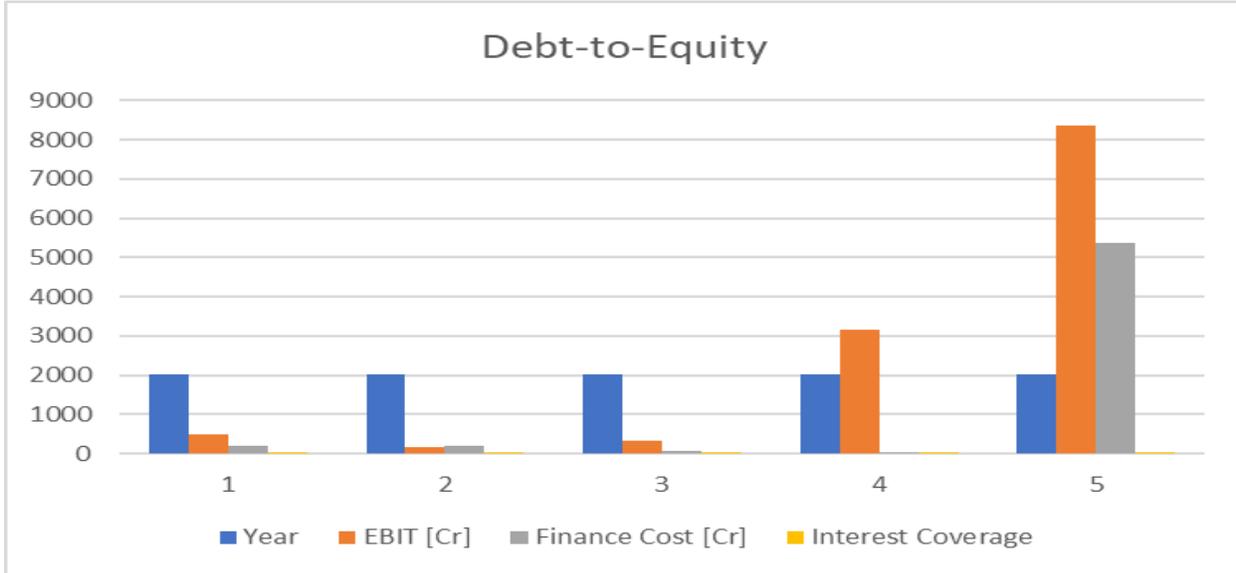
4. Current Ratio: $\text{Total Current Assets} \div \text{Total Current Liabilities}$

This represents a company's ability to cover its short-term obligations using its short-term assets.



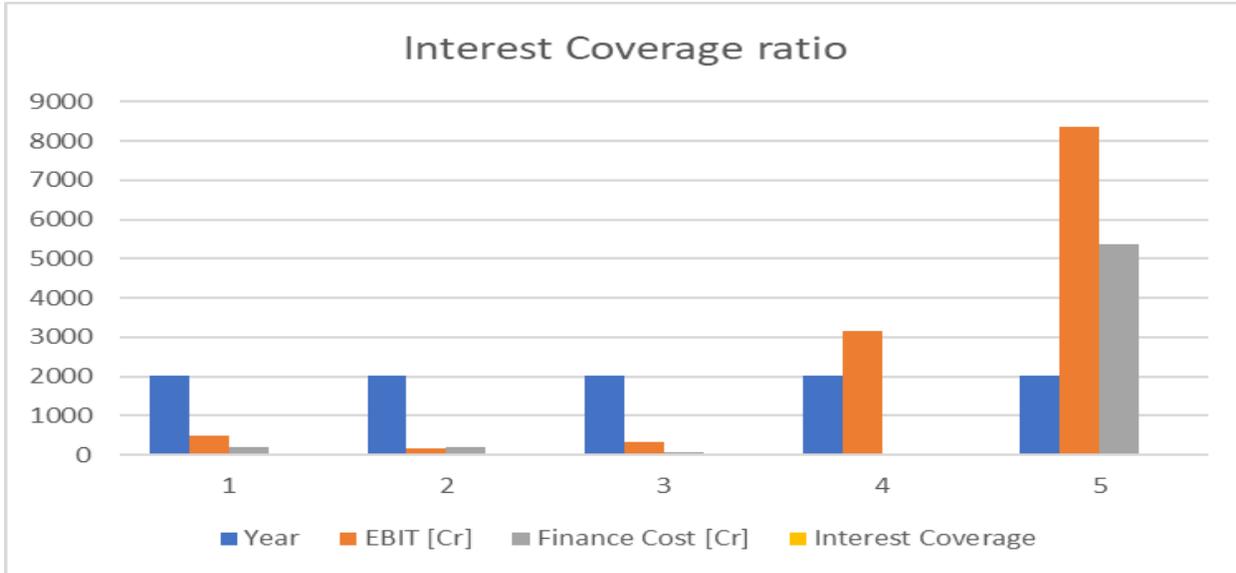
5. Debt-to-Equity Ratio: $\text{Total Liabilities} \div \text{Total Shareholders' Equity}$

This measures a company's financial leverage by comparing its total debt to the owners' equity.



6. Interest Coverage Ratio: $\text{Earnings Before Interest and Taxes (EBIT)} \div \text{Interest Expenses}$

This evaluates a company's ability to meet its interest obligations using its operating earnings.



VI. FINDINGS

1. Stronger Profits: The company's profitability has improved, with better returns on equity and assets, showing efficient earnings growth.
2. Solid Liquidity: L&T has enough short-term assets to comfortably cover its immediate financial obligations.

3. Higher Debt Levels: The company is relying more on borrowed funds, which can fuel growth but also needs to be managed carefully.
4. Improved Financial Stability: With rising earnings and a better ability to cover interest payments, L&T is in a strong financial position. L&T is growing steadily with strong profits and liquidity, but its increasing debt calls for strategic financial planning.

VII. CONCLUSION

The analysis of L&T Finance's corporate financial strategies highlights a well-structured approach to profitability, growth, and risk management. The company exhibits strong financial performance, as reflected in its improved net profit margins, return on equity (ROE), and return on assets (ROA), demonstrating its ability to generate profits efficiently and enhance shareholder value.

Additionally, L&T maintains a healthy liquidity position, ensuring it can meet short-term financial commitments. However, the study also points to an increasing dependence on debt, which, while supporting expansion, requires careful financial management to sustain long-term stability. The company's strong interest coverage ratio further reinforces its financial strength and ability to manage obligations effectively.

In summary, L&T Finance's strategic financial planning supports its long-term growth and stability. While the company continues to expand, prudent debt management and financial oversight will be essential to maintaining profitability and sustaining its competitive edge in the financial sector.

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