

# FOUNDATIONS OF FINANCE REPORT

## GROUP MEMBERS :-

RONAK KUMAR (2015080)

AVDESH KUMAR (2015135)

MRIDUL SHARMA (2015149)

## COMPANY DESCRIPTION



## ABOUT :

Larsen and Toubro was originated from a company which was founded in 1938 in London, UK by two Danish Engineers namely Henning Holck-Larsen and Soren Kristian Toubro. The company began as a representative of Danish manufacturers supplying dairy equipment. Together, they converted this company in 1946 into an Engineering and Construction Industry which has metamorphosed into one of India's biggest success stories. Germany's invasion of Denmark in 1940 stopped the supplies of Danish Products and offered L&T an opportunity to repair and refit ships thereby starting a new company named Hilda Ltd. The sudden internment of German Engineers in colonised India gave L&T another chance to enter into the field of installation.



After India's Independence in 1947, L&T has set up its offices in Kolkata, Chennai and New Delhi. In December 1950, L&T became a public company with a paid-up capital of Rs. 2 Million and with a sales turnover of about Rs 10.9 Million. Many prestigious orders were executed by the company during that period which includes Amul Dairy at Anand, Blast Furnaces at Rourkela Steel Plant etc.

**Vision Statement of Larsen & Toubro Ltd :-**

**“L&T shall be a professionally-managed Indian Multinational, committed to total customer satisfaction and enhancing shareholder value. L&T-ites shall be an innovative, entrepreneurial and empowered team constantly creating value and attaining global benchmarks. L&T shall foster a culture of caring, trust and continuous learning while meeting expectations of employees, stakeholders and society”.**

Seven decades of a strong, customer-focused approach and its continuous quest in the world-class quality enabled it to sustain its leadership in all premium businesses. It continues its business growth in China and the UAE.

**SUBSIDIARIES :**

**SUBSIDIARIES AND ASSOCIATED COMPANIES  
OF L&T**

<b>Subsidiary Companies</b>	<b>Associate Companies</b>
<ul style="list-style-type: none"><li>➤ Bhilal Power Supply Company Limited</li><li>➤ L&amp;T Ahmedabad Maliya Tollway Limited</li><li>➤ L&amp;T Bangalore Airport Hotel Limited</li><li>➤ L&amp;T Chennai TADA Tollway Limited</li></ul>	<ul style="list-style-type: none"><li>➤ Gujarat Leather Industries Limited</li><li>➤ Vizag IT Park Limited</li><li>➤ L&amp;T Qatar and HBK Contracting LLC</li></ul>

**Link to detailed list of subsidiaries:**

<http://investors.larsentoubro.com/upload/SubAnnualRep/FY2017SubAnnualRepL&T%20Subsidiary%202016-17.pdf>

**PRODUCTS & SERVICES :**



L&T is not just confined to a specific industry, it leads in almost every domain it operates in ranging from construction, mining, Electric automation to Ship-Building, rubber processing, hydraulics, power and even IT consulting.

L&T is a team of more than 50000 professionals spread across the globe currently.

## **BOARD OF DIRECTORS**

The Board of Directors for Larsen and Toubro Ltd. include 12 Members :-

<b>Serial Number</b>	<b>Name of the Director</b>	<b>Designation</b>
1.	<b>Mr. K. Venkataramanan</b>	Chief Executive Officer & Managing Director
2.	<b>Mr. M.V. Kotwal</b>	Whole-Time Director
3.	<b>Mr. Swapan Dasgupta</b>	Nominee Director
4.	<b>Mr. Subramanian Sharma</b>	Non-Executive Director
5.	<b>Mr. S.N. Subrahmanyam</b>	Deputy Managing Director & President
6.	<b>Mr. M.V. Satish</b>	Whole-Time Director
7.	<b>Ms. Naina Lal Kidwai</b>	Independent Director
8.	<b>Mr. Sanjeev Aga</b>	Independent Director
9.	<b>Mr. Narayanan Kumar</b>	Independent Director
10.	<b>Ms. Sunita Sharma</b>	Director
11.	<b>Mr. R. Shankar Sharma</b>	Whole-Time Director
12.	<b>Mr. Shailendra Roy</b>	Whole-Time Director

## **BALANCE SHEET**

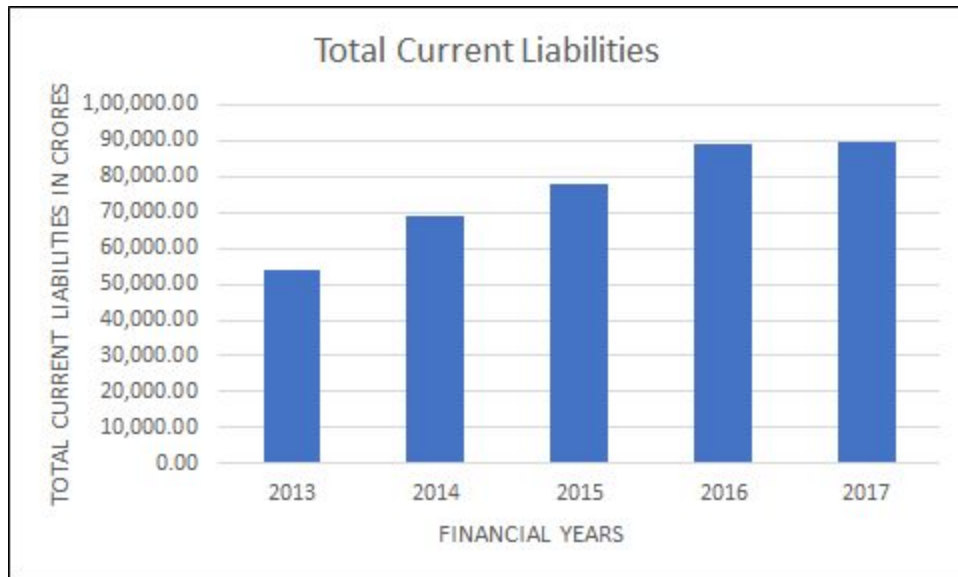
Balance Sheet of Larsen and Toubro Ltd. for the past 5 years is :-

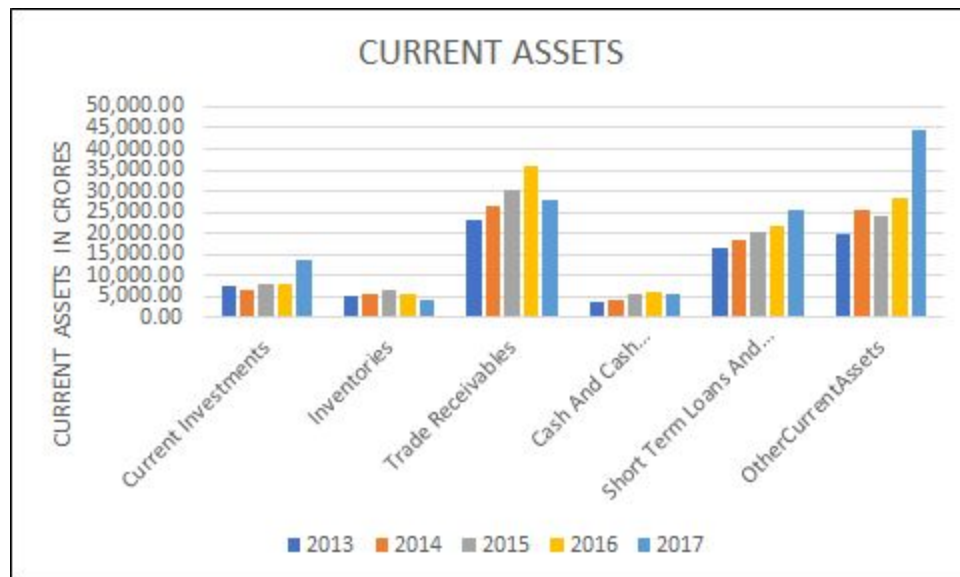
**Link :-**

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## GRAPHS





## ANALYSIS

The Balance sheet gives a brief about how company's activity is mainly financed. It's a snapshot of company's assets, liabilities and ownership equity.

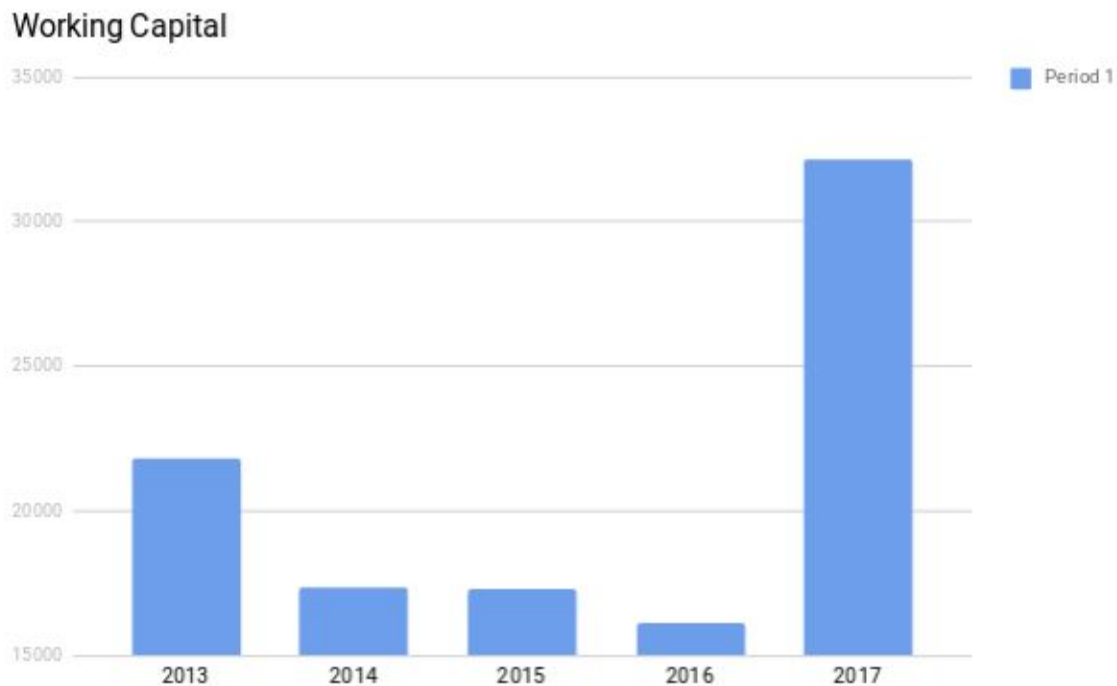
1. Owner's equity - Includes capital stock, retained earnings, reserve, etc.
2. Liabilities - Includes accounts payable, loans, tax payable, etc.
3. Assets - Includes long term loans, advances, capital work-in-progress, etc.

The higher the owner's equity in comparison to the liabilities, the more the company is financially stable. Similarly, if the liabilities are high then the growth of the company depends upon them, so in order to achieve profit and growth, the suppliers and banks credit lines are to be maintained.



Working Capital - It's a measure of company's short-term financial health. It depends on current assets and current liabilities. If working capital is weak, it's financed by the liabilities also known as negative treasury.

Working capital should be large enough to cover the Working Capital Requirement (WCR) which represents the need to finance the operation.



So we can infer that the company took risk each year from 2013-2016 and increased liabilities gradually every year to increase revenue and expand growth and finally in the last financial year 2017, we can see that the company is financially autonomous and more solvent.

## **INCOME STATEMENT**

Income Statement of Larsen and Toubro Ltd. for the past 5 years :

**Link :-**

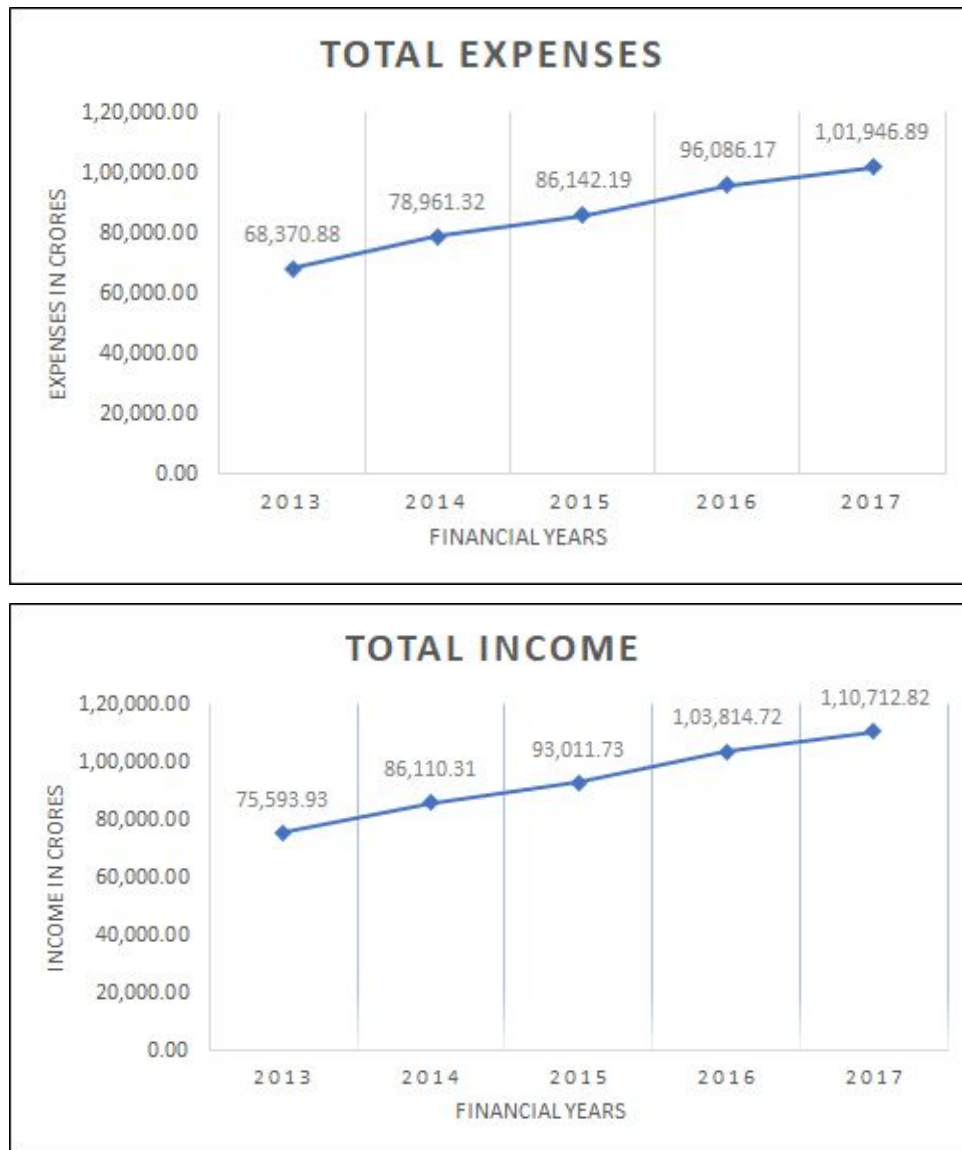
[https://docs.google.com/spreadsheets/d/1tmQ\\_OyDw1VTdoK7xJCFIzfdQdb18TI\\_uz5GBo\\_IA/edit?usp=sharing](https://docs.google.com/spreadsheets/d/1tmQ_OyDw1VTdoK7xJCFIzfdQdb18TI_uz5GBo_IA/edit?usp=sharing)

## **ANALYSIS**

Income statement is also referred as profit and loss statement (P&L), as it shows the profitability of a company during a specific period of time. We can observe a clear trend in the Revenues and Expenses



both increasing gradually with time which is quite expected from an established company.

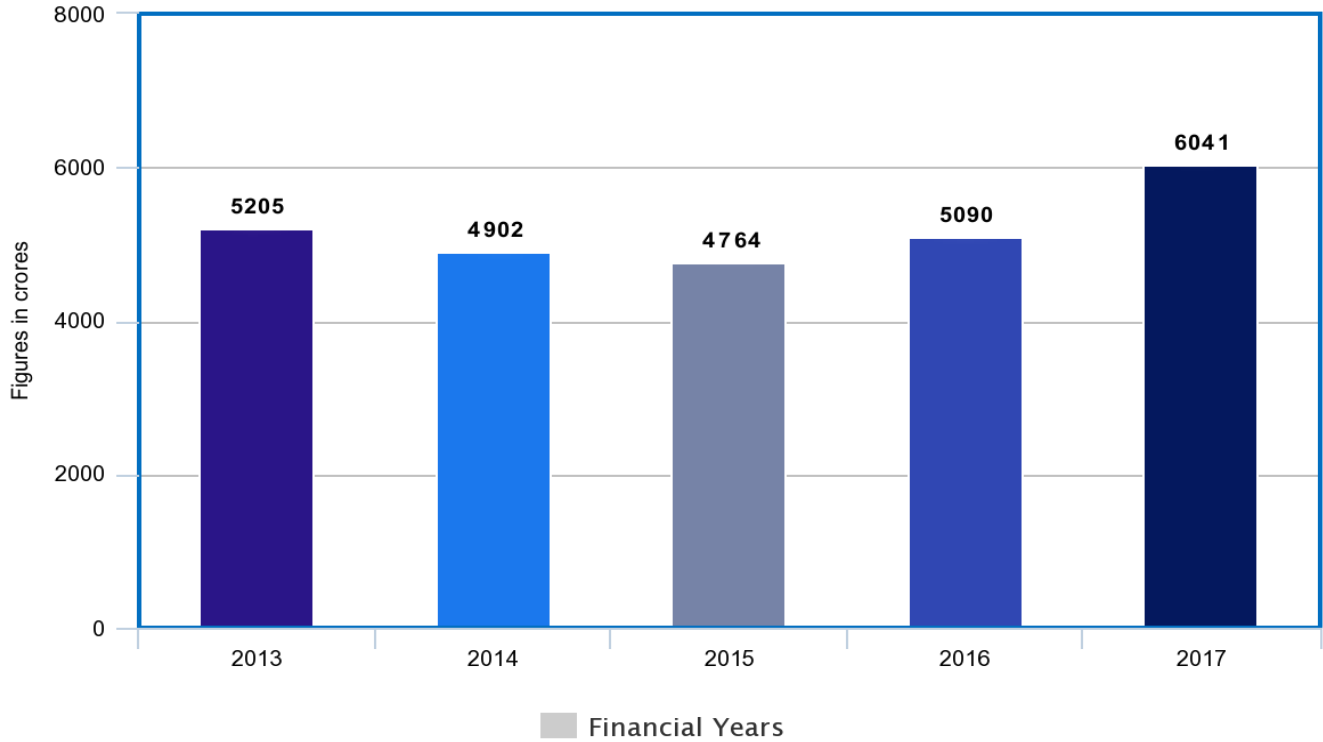


### Profit :

The profit is simply the difference of income and revenues. Although they both increased rapidly over the time, profit showed a different scenario. It decreased for the first two years and then increased at its all time high for the last year, reason being a significant decrease in finance cost and increase in operating revenues.



Profit over the years



## CASH FLOW STATEMENT

Cash Flow Statement of Larsen and Toubro Ltd. for the past 5 years is :-

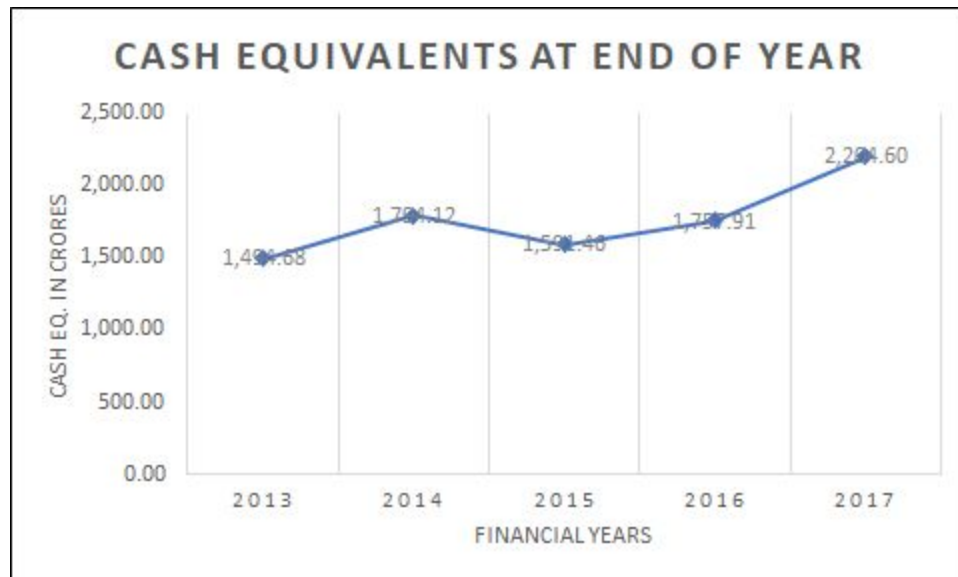
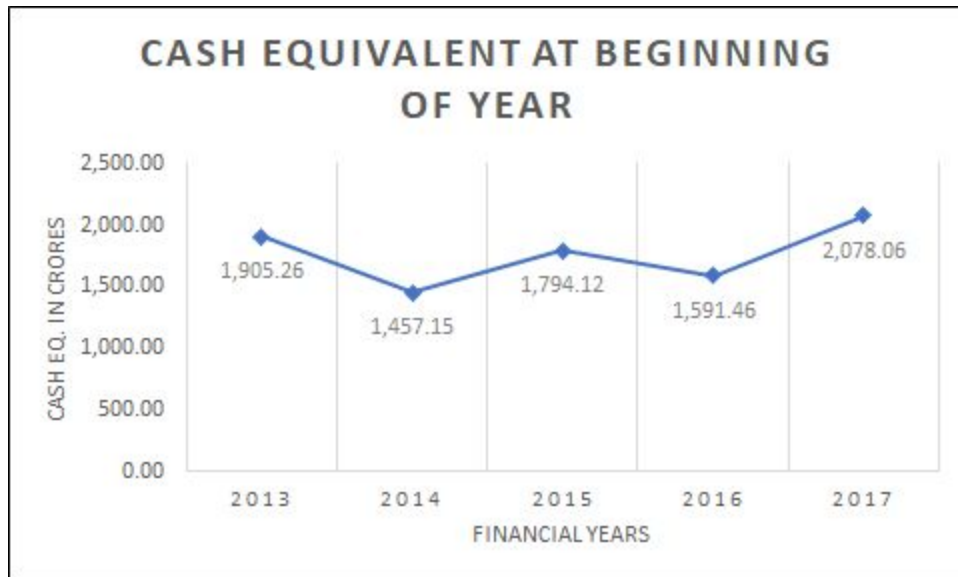
**Link :-**

[https://docs.google.com/spreadsheets/d/1Jw5klCqaW0jUI-JtVj9HJabiJq6nZwDSUr6WLGw-t\\_k/edit?usp=sharing](https://docs.google.com/spreadsheets/d/1Jw5klCqaW0jUI-JtVj9HJabiJq6nZwDSUr6WLGw-t_k/edit?usp=sharing)





## GRAPHS



## RATIO ANALYSIS

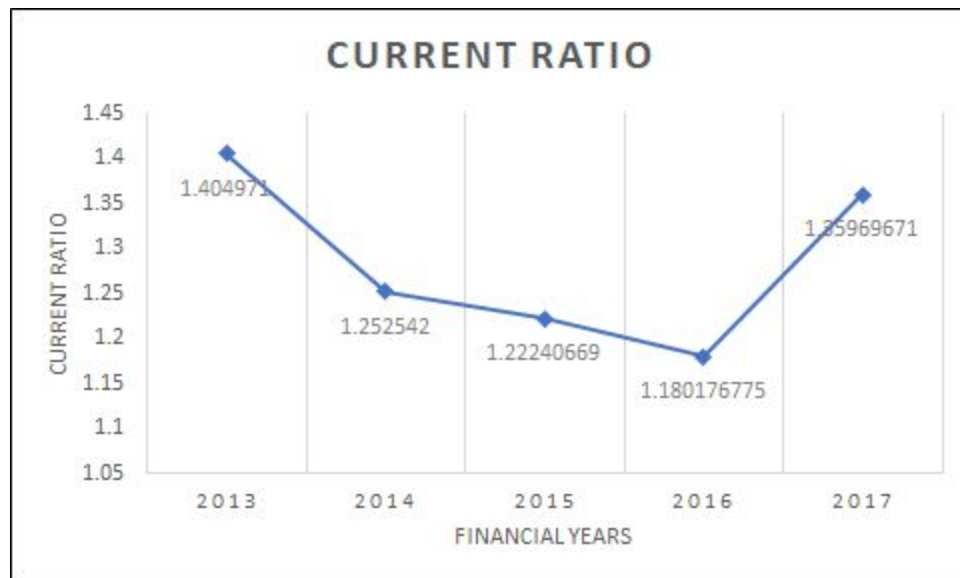
**Link :-**

<https://docs.google.com/spreadsheets/d/1jqjqfPEWYNwCXnDMRirMDg3gqNt45tHJhWYmFSBe9yg/edit?usp=sharing>

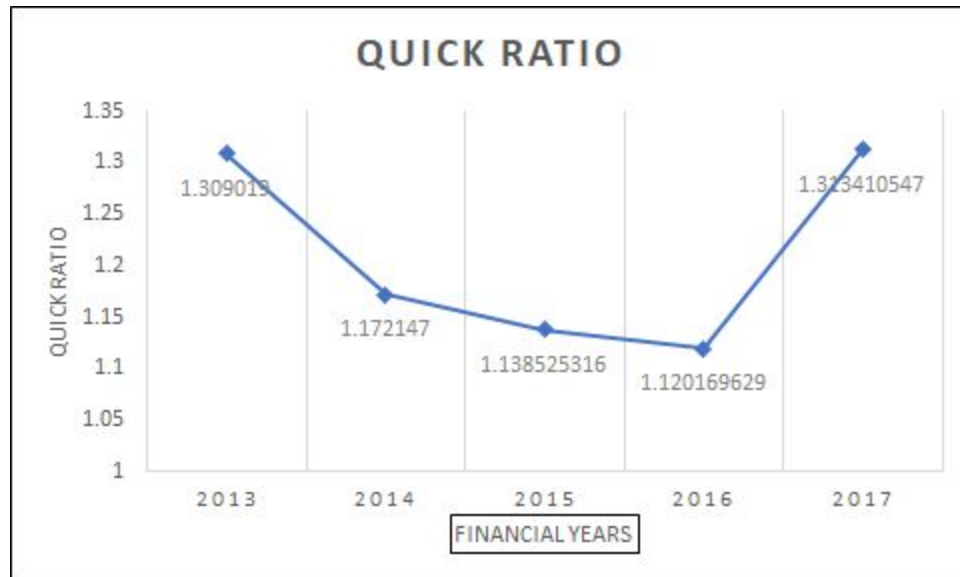
**CURRENT RATIO :-** Current Ratio is defined as the net current assets belonging to the company divided by the net current liabilities of the company. It is managed by both internal managers for analyzing the financial position of the company in the stock market. For, the banks



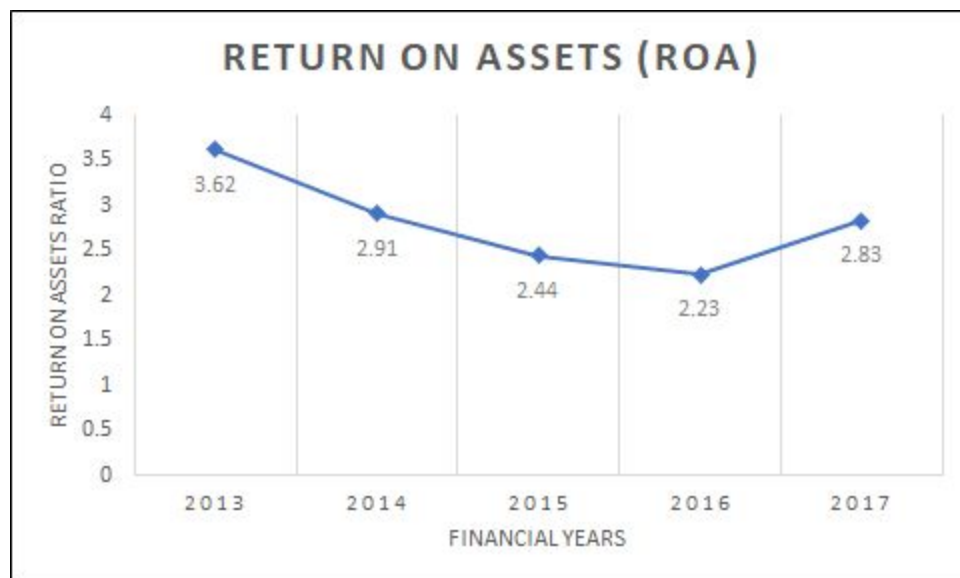
and other financial institutions, it is regarded as the method for deciding the health of the company for giving away loans. The Ideal Current Ratio for companies like Larsen & Toubro would be about 1.5. The company started with the current ratio of about 1.4 in 2013 which is considered good. This means that in 2013, the company started off well expanding its business and subsidiaries. Also, due to interest rate cuts, price cool of commodity and stocks, and reform by central government, the company's business flourished. But from 2014, till 2016, the current ratio constantly dropped from 1.4 to 1.18 which is considered a bit low than normal. This may be due to a drop in the current assets of the company. However, the company restored its current ratio back to 1.35 due to company putting more focus towards cost-reduction, working capital reduction etc.



**QUICK RATIO :-** Quick Ratio is defined as a measure of how business is solvent and is considered as a better version of current ratio. The quick ratio of 1:1 is considered to be the best as the assets taken into consideration in calculating the quick ratio can be easily converted to cash without any shrinkage in their respective value. This ratio is utmost importance to the creditors rather than any to any investment company as higher the quick ratio, the most probable is the company to repay the borrowed loans or any debentures. Since, the quick ratio of Larsen and Toubro is constantly decreasing from 2013 to 2016, this means that Larsen and Toubro liquid assets are constantly decreasing. Also, the current liabilities of the company are increasing at a high rate and the company may be in crisis. However, in 2017, the company's quick ratio shot to about 1.31 which is even greater than in 2013, due to reduction in their expenses and productivity enhancements. However quick ratio has a dual side as it can indicate the problems in collecting their accounts receivable.



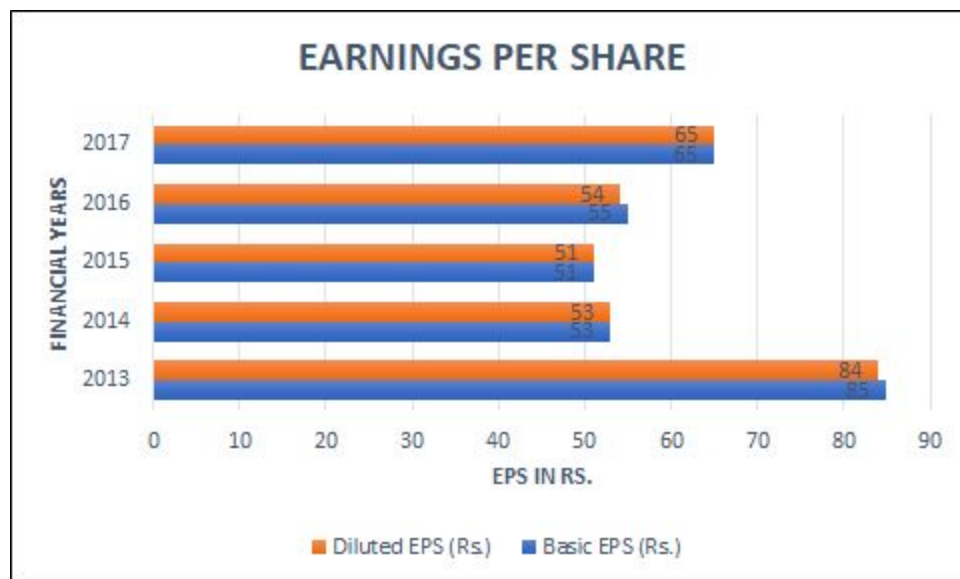
**RETURN ON ASSETS RATIO (ROA) :-** Return on Assets is defined as the net income of the company divided by its the total assets it possess. It is an indication of how profitable a company is in terms of the total assets it has. It is helpful for investors as it gives an insight how the firm is converting its investment money into its net income. Higher ROA, means the company is getting more money as its output. Here, the ROA of the company started at about 3.6, which is good meaning that the company is making a good amount of profit in year 2013. However, the ROA monotonically decreased till mid 2016 because of the losses, improper use of assets and the reduction in current assets of the company. In 2017, the value got increased to 2.83 due to the change in the working policies of the firm.





**RETURN ON EQUITY RATIO (ROE) :-** Return on Equity is defined as the net income got from the shareholders' money in terms of percentage. For investors, it is usually preferred over ROA, as it involves the equity of shareholders and the ability of the company to transfer into its net income. ROE is calculated by dividing net income by the shareholders equity.

**EARNINGS PER SHARE (EPS) :-** Earnings per share is defined as how much the company is earning per share and is an indication of company's profitability. It is calculated by dividing the net income by shares outstanding. From the figure we can see that EPS of the company was high in 2013 which was about 84, which gradually fell in the consecutive three years and went down to about 52. This indicates that company's share got less profit in these three years, thereby reducing the company's net income. Due to low expenditure and reform in policies, the company's EPS again got increased to 65 in 2017.



## LAST QUESTION

So, I am considering the share price of Larsen & Toubro for the years March-2013 to November-2017. The price of stock is calculated by taking the price of the stock at the closing of the first day at every month. After that, number of shares at that day are calculated by dividing the investment amount with the stock price. Finally, the total number of shares during the above time-period are calculated.

**Link :-**

<https://docs.google.com/spreadsheets/d/1ab8NaJYjtB84Zz698UsOpBdL79vCVJayZtxo6Fo-2ek/edit?usp=sharing>



Total Investment Money	570000
Total Number of Shares	634.6583
Total Price of Stock	53,988.45

For the second part, since the dividend for the stock is compounded annually, therefore from the question, we have investment money as 10000. Let's say we get the number of shares for a particular month in a year as  $x$ . Let  $c$  be the value of the individual share of the company. Therefore, with reference from the moneycontrol website, we have dividend value for years as :-

2013 - Rs. 18.5 Per Share

2014 - Rs. 14.25 Per Share

2015 - Rs. 16.25 Per Share

2016 - Rs. 18.25 Per Share

2017 - Rs. 21 Per Share

So, we have the dividend profit for a particular time as  $x * \text{Dividend Value of the share}$ . Now, for the next investment or buying of shares, our new investment money changes from 10000 to  $10000 + \text{Dividend Profit}$ . Therefore, for computing the next time number of shares, we need to divide the stock price of that time with the new investment money we got from above.



## **A Compiled Overview**

### **World Economy**

- As capital markets are gaining buoyancy, there are signs of recovery in manufacturing and trade, there are optimistic signs of revival of investment climate.
- European countries which are witnessing traction in domestic demand will also pave way for economic growth.
- With strong policy backing, China is expected to show strong growth.
- As oil prices are expected to be range bound (in mid-fifties per barrel), it would bring down the budget deficits in Middle East, allowing the Governments to increase investments (by having additional fiscal space).
- As India gets introduced to the GST, and the rise in demands from the west. India is expected to have a better export and a much more convenient world market trade.
- If protectionist policies by the United States of America persists they may pose threat to the global economic recovery.
- The results of the US Presidential elections and Brexit created uncertainty in the IT sector in India. The development of major hospitals and other institutional buildings have been deferred due to delays in budget allocations.

### **Indian Economy**

- 2016-17 was marked by a few but robust policy developments such as passage of bankruptcy code, constitutional amendments paving way for GST and demonetization of notes in the pursuit of enhancing formalization of various segments of the economy.
- The GDP growth for the year 2016-17 at 7.1% was lower as compared to the previous year on account of weak investment sentiments.
- Demonetization had a temporary adverse impact, as labour-intensive construction sector contracted.
- In the FY18 budget, the government has allocated a record ₹ 3.96 lakh crore to the infrastructure sector which should spur economic activity.





- In the FY18 budget, the government has allocated a record ₹ 3.96 lakh crore to the infrastructure sector which should spur economic activity.
- A majority of this allocation has been earmarked to build Metros, Bridges, Hydro Power Projects and Tunnels, which form the core expertise of the Heavy Civil Infrastructure business.

## **Business Scenario**

The productivity of current year 2017-18 lays reliance on significant pick-up in Government led expenditure on development of rural and urban infrastructure, fast tracking of some defence orders and revival of domestic manufacturing sector.

**A major push from the Government on the roads, railways, and urban infrastructure segments has helped construction companies improve their scenario.**

## **Clientele and Business Opportunities**

The business has executed projects for major private sector customers like Cairn Energy, Reliance Industries (RIL), HPCL Mittal Energy (HMEL) as well as major oil PSUs like BPCL, HPCL, IOCL, ONGC and international customers like Abu Dhabi Company for Onshore Oil Operations (ADCO), Abu Dhabi Oil Refining Company (TAKREER), Abu Dhabi Gas Industries (GASCO), Saudi Aramco, Sadara, Dolphin Energy etc.

The Company's country specific entities render construction support to international onshore projects – Larsen & Toubro Electromech LLC in Oman, Larsen & Toubro ATCO Saudia LLC in Saudi Arabia and, Larsen & Toubro Kuwait Construction General Contracting WLL in Kuwait.

Following the prolonged downturn, the oil & gas industry is showing some signs of revival, with oil prices expected to be range bound in the mid-fifties per barrel in the near future.



## Focus for next FY

- **Strengthening execution and operational efficiency:** The emphasis is on better contract and project management. The endeavor is to lower costs while maintaining quality and managing complexity.
- **Business value unlocking:** The Company is focused on shareholder value creation and enhancing returns through monetization of some of the road concessions and the port assets as a part of its strategic plan.
- **Emphasis on improving Working capital level:** emphasis on speedy customer collections, accelerating invoicing of work completed and reducing inventory levels.
- **Digitalization:** Various digitization initiatives are underway to aid project monitoring and enhancing efficiencies. The Company is threading in various digital strategies into the business model and also simultaneously building relevant capabilities to harness the true power of digital assets.

## REFERENCES

1. <http://www.larsentoubro.com/media/30181/vision-statement.pdf>
2. <http://profit.ndtv.com/stock/larsen-&-toubro-ltd-lt/reports-directors-report>
3. <http://investors.larsentoubro.com/>
4. <http://www.moneycontrol.com/financials/larsentoubro/balance-sheet/LT>
5. [http://www.moneycontrol.com/stocks/company\\_info/print\\_main.php](http://www.moneycontrol.com/stocks/company_info/print_main.php)