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Efficient Working Capital Management and its Impact on Business Performance: A case study of Larsen & Toubro

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Abstract
A well designed and implemented working capital management is expected to contribute positively to the creation of a firm's value The purpose of this paper is to examine the trends in working capital management and its impact on firms' performance. The trend in working capital needs and profitability of firms are examined to identify the causes for any significant differences between the industries. The dependent variable, return on total assets is used as a measure of profitability and the relation between working capital management and corporate profitability is investigated. The regression results show that high investment in inventories and receivables is associated with lower profitability. The key variables used in the analysis are inventories days, accounts receivables days, accounts payable days and cash conversion cycle. A strong significant relationship between working capital management and profitability has been found in previous empirical work.. The findings also reveal an increasing trend in the short-term component of working capital financing.

1. Introduction

A firm is required to maintain a balance between liquidity and profitability while conducting its day to day operations. Liquidity is a precondition to ensure that firms are able to meet its short-term obligations and its continued flow can be guaranteed from a profitable venture. The importance of cash as an indicator of continuing financial health should not be surprising in view of its crucial role within the business. This requires that business must be run both efficiently and profitably. In the process, an asset-liability mismatch may occur which may increase firm's profitability in the short run but at a risk of its insolvency. On the other hand, too much focus on liquidity will be at the expense of profitability and it is common to find finance textbooks begin their working capital sections with a discussion of the risk and return tradeoffs inherent in alternative working capital policies. Thus, the manager of a business entity is in a dilemma of achieving desired tradeoff between liquidity and profitability in order to maximize the value of a firm.[1]

HISTORY

Larsen & Toubro Limited is the biggest legacy of two Danish Engineers, who built a world-class organization that is professionally managed and a leader in India's engineering and construction industry. It was the business of cement that brought the young Mr. Henning Holck-Larsen and Mr. S.K. Toubro into India. They arrived on Indian shores as representatives of the Danish engineering firm F L Smith & Co in connection with the merger of cement companies that later grouped into the Associated Cement Companies. Together, Mr. Holck-Larsen and Mr. Toubro, founded the partnership firm of L&T in 1938, which was converted into a limited company on February 7, 1946.Today, this has metamorphosed into one of India's biggest success stories. The company has grown from humble origins to a large conglomerate spanning engineering and construction. Engineering Construction and Contracts (ECC) Division (now L&T Construction) was conceived as Engineering Construction Corporation Limited in April 1944 and was incorporated as wholly owned subsidiary of Larsen & Toubro Limited. L&T's founders Mr. Holck - Larsen and Mr. Toubro laid the foundation for L&T Construction, it has today emerged as India's leading construction organization.[2]

COMPANY PROFILE

Larsen & Toubro (L&T) is India's largest technology, engineering, manufacturing and construction organization with a record of over 70 years. L&T is also adjudged India's best managed and most respected company on various attributes of customer delight and shareholder value. L&T Construction is the largest construction organization in the country. It figures among the World's 58th Top International Contractors and ranks 27th in global ranking as per the survey conducted by the reputed international contractors magazine Engineering News Record, USA . L&T Construction has played a prominent role in India's industrial and infrastructure development by executing several projects across length and breadth of the country and abroad. For ease of operations and better project management, in-depth technology and business development as well as to focus attention on domestic and international project execution, entire operations of L&T Construction is structured into four Independent Companies. Many of the country's prized landmarks — its exquisite buildings, tallest structures, largest airports/ industrial projects, longest flyovers, highest viaducts, longest pipelines including many other benchmark projects have been built by L&T Construction. L&T Construction's leading edge capabilities cover every discipline of construction: civil, mechanical, electrical and instrumentation engineering and services extend to all core sector industries and infrastructure projects. L&T Construction is equipped with the requisite expertise and wide-ranging experience to undertake Engineering Procurement and Construction (EPC) projects with single source responsibility. Contracts are executed using state of the art design tools and project management techniques from concept to commissioning. L&T Construction today is organised into four Independent Companies to allow for more in-depth technology and business development as well as to focus attention on domestic and international project execution. Each Independent Company is further split into different Strategic Business Units (SBUs) to take care of the specific needs of various customers.[3]

The ICs are:
- Infrastructure
- Buildings & Factories
- Power Transmission & Distribution Projects
- Metallurgical & Material Handling Projects

Working capital management (WCM) is of particular importance to the business. With limited access to the long-term capital markets, business tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory [4]. Studies have shown that weak financial management - particularly poor working capital management and inadequate long-term financing - is a primary cause of failure among businesses [5]. The success factors or impediments that contribute to success or failure are categorized as internal and external factors. The factors categorized as external include financing (such as the availability of attractive financing), economic conditions, competition, government regulations, technology and environmental factors. While the internal factors are managerial skills, workforce, accounting systems and financial management practices. Some research studies have been undertaken on the working capital management practices of both large and small firms in India, UK, US and Belgium using either a survey based approach (Burns and Walker, 1991; Peel and Wilson, 1996) to identify the push factors for firms to adopt good working capital practices or econometric analysis to investigate the association between WCM and profitability [6]. Specific research studies exclusively on the impact of working capital management on corporate profitability of the manufacturing companies are scanty. The financial management of firms in developing countries and in particular, India a developing country is altogether an ignored area of research. Keeping this in view and the wider recognition of the proper management of working capital to the economy of developing countries, our study is a modest attempt to measure and analyze the trend of working capital investment.. This study, therefore, attempts to assess the impact of WCM on profitability of a sample company and its results are expected to contribute to the existing literature on working capital.[7]
The study objectives are to examine the working capital management of the sample firms, and in particular to:

a) Analyze the Working Capital of the Company and also analyze its various determinants in the Company.
b) Measure the size of Working Capital in a Power Generating Company, Larsen and Toubro.
c) Determine the efficiency of Working Capital and measure the Operational Efficiency of the Company.

The rest of the paper is organized as follows: *Section 2* looks briefly at the theoretical underpinnings and the relevant literature which attempts to explain the link between poor performance and working capital management. The methodological part and the explanatory variables used for the analysis part are dealt at

Section 3. The data analysis and the empirical findings are discussed in *Section 4* and *Section* 5 concludes on the results.

2. Literature Review

Theoretical underpinnings

Nature and importance of working capital

The working capital meets the short-term financial requirements of a business enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested in it changes form and substance during the normal course of business operations. The need for maintaining an adequate working capital can hardly be questioned. Just as circulation of blood is very necessary in the human body to maintain life, the flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive. Working capital starvation is generally credited as a major cause if not the major cause of small business failure in many developed and developing countries (Refuse, 1996). The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursements. The cash flow problems of many small businesses are exacerbated by poor financial management and in particular the lack of planning cash requirements.[8]

The Management of Working Capital

Working Capital Analysis: Adequate amount of working capital is very much essential for the smooth running of any business. It directly affects the liquidity positions of the firm. Hence it is necessary to evaluate the efficiency with which the working capital is employed in the business. This can be achieved by carrying out the Working Capital Analysis.

The analysis of working capital can be conducted through a number of devices such as:

1. Ratio Analysis
2. Funds Flow Analysis
3. Budgeting

Ratio Analysis: A ratio is a simple arithmetical expression one number to another. The technique of ratio analysis can be employed for measuring short-term liquidity or working capital position of a firm. The following ratios can be calculated for the purpose of (a) Liquidity Ratios and (b) Current Assets movements Ratios.

Fund Flow Analysis: Fund flow analysis is a technical device designated to study the sources from which additional funds were derived and the use to which these sources were put. The fund flow analysis consists of (a) Preparing schedule of changes of working capital and (b) Statement of sources and application of funds. It is an effective management tool to study the changes in financial position (working capital) business enterprise between beginning and ending of the financial dates.

Working Capital Budget: A budget is a financial or quantitative expression of business plans and policies to be pursued in the future time period. Working Capital budget as a part of the total budgeting process of a business is prepared estimating future long term and short term working capital needs and sources to finance them, and then comparing the budgeted figures with actual performance for calculating the variances, if any, so that corrective actions may be taken in future. The objective of working capital budget is to ensure availability of funds as and when needed, and to ensure effective utilization of these resources[9].

Analysis of Short Term Financial Position of the Firm (Ratio Analysis):

1. Liquidity Ratio: Liquidity refers to the ability of a firm to meet its current obligations as and when these become due. The short-term obligations are met by realizing amount from current, floating or circulating assts. The current assets should either be liquid or near about liquidity. These should be convertible in cash for paying obligations of short-term nature. The sufficiency or insufficiency of current assets should be assessed by comparing them with short-term liabilities. If current assets can pay off the current liabilities then the liquidity position is satisfactory. On the other hand, if the current liabilities cannot be met out of the current assets, then the liquidity position is bad. To measure the liquidity of a firm, the following ratios can be calculated:

a) Current Ratio
b) Quick Ratio
c) Absolute Liquid Ratio

2. Efficiency Ratio or Current Asset Movement Ratio

Funds are invested in various assets in business to make sales and earn profits. The efficiency with which assets are managed directly affects- the volume of sales. The better the management of assets, larger is the amount of sales and profits. Current assets movement ratios measure the efficiency with which a firm manages its resources. These ratios are called turnover ratios because they indicate the speed with which assets are converted or turned over into sales. Depending upon the purpose, a number of turnover ratios can be calculated. Some are -

a) Working capital Turnover Ratio
b) Debtors Turnover Ratio
c) Average Collection Period

Objectives of working capital:

- Every business needs some amount of working capital. It is needed for following purposes-
  For the purchase of raw materials, components and spares.
- To pay wages and salaries.
- To incur day to day expenses and overhead costs such as fuel, power, and office expenses etc.
- To provide credit facilities to customers etc.

Factors that determine working capital:

The working capital requirement of a concern depend upon a large number of factors such as
? Size of business
? Nature of character of business.
? Seasonal variations working capital cycle
? Operating efficiency
? Profit level.
? Other factors.

Sources of working capital:
The working capital requirements should be met both from short term as well as long term sources of funds.
? Financing of working capital through short term sources of funds has the benefits of lower cost and establishing close relationship with banks.
? Financing of working capital through long term sources provides the benefits of reduces risk and increases liquidity[10].

3. Methodology
The study is conducted based on secondary data sources. Secondary sources of data mainly include annual reports of L&T. Statement of changes in working capital for the past 7years (2006 to 2012) is done using the data taken from these financial reports. Similarly time series analysis of operating cycle and calculations of ratios is done. Apart from this, the website of L&T is referred to know the services, services facilities, network etc.

4.Data Analysis
WORKING CAPITAL ANALYSIS NET WORKING CAPITAL of L & T (in million)

Year	Current Assets	Current Liabilities	Net Working Capital (Current Assets – Current Liabilities)
2009	135468	80941	54527
2010	129073	67476	61597
2011	157245	61402	95843
2012	221827	70263	151564
2013	255488	79299	176189
2014	309253	106886	202367
2015	308157	107581	200576

Source: computed using MS excel from the data available on . www.larsentoubro.com

The Working Capital of L&T has increased considerably over the years. The firm has achieved brilliant changes in the Working Capital from the year 2009 to 2015. The graph clearly depicts that from the year 2007, Working Capital has been increasing at a very high rate. Also the current liabilities declined during the year 2009 to 2015. The increase in Net Working Capital can be attributed to

- Increase in inventory such as Components and Spare Parts, Fuel Oil, Stock of Coal, Chemical and Consumables etc.
- Increase in cash and bank balance (which include increase in current account and term deposit account)
- Overall increase in Debtors
- Increase in loan and advances

CURRENT RATIO
Current Ratio is a measure of general liquidity and it is most widely used to make the analysis of short term financial position or liquidity of a firm. I show the ability of a firm to meet its short term obligations. Current

ratio is given by

Current Ratio = Current Assets/Current Liabilities
Current Assets include cash, marketable securities, bill receivables, sundry datas, inventories and work in progress. Current liabilities include outstanding expenses, bills payable, dividend payable etc.
A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time. On the other hand, a low current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time. A Ratio equal or near to the Rule of Thumb of 2:1 that is current assets double the current liabilities is considered to be satisfactory.

NET WORKING CAPITAL OF L & T (IN MILLIONS)

Year	Current Assets	Current Liabilities	Current Ration (Current/ Assets/ Current Liabilities)	Ration
2009	135468	80941	135468 / 80941	1.67
2010	129073	67476	129073 / 67476	1.91
2011	157245	61402	157245 / 61402	2.56
2012	221827	70263	221827 / 70263	3.15
2013	255488	79299	255488 / 79299	3.22
2014	309253	106886	309253 / 106886	2.89
2015	308157	107581	308157 / 107581	2.86

Source: computed using MS excel from the data available on . www.larsentoubro.com

Analysis
The above table shows firm's current ratio is increasing year by year. From this graph, it is clear that L&T has sufficient funds in the form of current assets to meet its short term obligations except in the years 2009 & 2010.
In the year 2009 & 2010, L&T's liquid position was not good because its current assets were not sufficient to meet its current liability. But after 2010, L&T's position got stronger to meet its current obligation. The reason for increase in current ratio is increase in current assets. The current asset is increasing every year at a higher rate after 2010. The reasons are:

1) Increase in Fuel Oil, Spare Parts and Naphtha in inventory.
2) Increase in unsecured debts and other debts in sundry debtors.
3) Increase in Cash balance of Term Deposit account of the firm..
4) Increase the advances and deposits with customer in loan & advances.
5) Increase in creditors both for capital expenditure and for goods & services.
6) Increase in Bond and term loan in current liability.

QUICK RATIO
Quick Ratio is a more rigorous test of liquidity than current ratio. Quick Ratio may be defined as the relationship between Quick/Liquid assets and Current or Liquid liabilities. An asset is set to be liquid, if it can be converted into cash within a short period without loss of value. It measures the firm's capacity to pay off the current

obligations immediately.

Quick Ratio = Quick Assets/Current Liabilities
Quick Assets includes marketable securities, cash in hand, cash in bank and debtors. As a Rule of Thumb, ratio 1:1 is considered satisfactory. It is generally thought that if quick assets are equal to current liabilities, then the concern may be able to meet its short term obligations. However, a firm having high quick ratio may not have a satisfactory liquidity position, if it has slow paying debtors.

Quick ratio of L&T (in millions)

Year	Current Assets	Current Liabilities	Current Ration (Current/ Assets/ Current Liabilities)	Ration
2009	118088	80941	118088 / 80941	1.45
2010	111296	67476	111296 / 67476	1.64
2011	133840	61402	133840 / 61402	2.17
2012	196725	70263	196725 / 70263	2.79
2013	228731	79299	228731 / 79299	2.88
2014	276819	106886	276819 / 106886	2.59
2015	274680	107581	274680 / 107581	2.55

Source: computed using MS excel from the data available on . www.larsentoubro.com

Analysis
From this table, it is seen that the firm's quick ratio is very sound. From the beginning i.e. 2009 to 2015, L&T has a good liquidity position. In the year 2011 and 2012, it is very high which is 2.8 and 2.88, but after that it has decreased, the reason for which are:

- Increase in Cash & Bank balance of L&T
- Increase in Loan & Advances
- Overall there is increase in debtors
- Overall there is increase in current liabilities

ABSOLUTE LIQUIDITY RATIO
Although receivables, debtors and bills receivables are generally more liquid than inventories, yet there may be doubts regarding the realization into cash immediately or in time. So, absolute liquid ratio should be calculated together with current ratio and acid test ratio so as to exclude even receivables from the current assets and find out the absolute liquid tests.
Absolute Liquid Ratio = Absolute Liquid Asset/Current Liabilities Absolute Liquid Assets = Cash & Bank balance + Marketable Securities.

Absolute Liquid Ratio (in millions):

	Absolute Liquid Assets	**Current Liabilities**	**Absolute liquid Ration (Absolute Liquid Assets/ Current Liabilities)**	**Ration**
2009	6091	80941	6091 / 80941	0.07
2010	60783	67476	60783 / 67476	0.90
2011	84714	61402	84714 / 61402	1.37
2012	133146	70263	133146 / 70263	1.89
2013	149332	79299	149332 / 79299	1.88
2014	162716	106886	162716 / 106886	1.52
2015	144595	107581	144595 / 107581	1.34

Source: computed using MS excel from the data available on . www.larsentoubro.com

Analysis

From this table, it is seen that the firm has sufficient cash balance to meet its current obligations except in the year 2009. In the year 2009, the firm's ratio was 0.07 which was very low. In 2010 & 2011, after that the firm has achieved a very strong cash balance to meet its obligations but we can see that the ratio decreased in 2014& 2015. The main reason for this decrease can be attributed to increase in cash & bank balance at a very high rate with a subsequent increase in current liabilities.

CURRENT WORKING CAPITAL TURN-OVER RATIO

Working Capital Turn-Over ratio indicates the pace of utilization of Net Working Capital. This ratio measures the efficiency with which the Working capital is used by the firm. A high ratio indicates efficient utilization of working capital and a low ratio indicates otherwise. But a very high WCTR is not good situation for any firm.

WCTR = Net Sales/Net Working Capital

DEBTOR TURN-OVER RATIO

Debtor turnover ratio indicates the pace of debt collection of firm. A high debtor turnover ratio indicates the efficient management of debtor or more liquidity is the debtor. Similarly low debtor's turnover ratio implies inefficient management of debtor and less liquidity debtor. There is no rule of thumb for an ideal debtor turnover ratio. It varies from firm to firm.

DTK = Turnover Ratio/Debtors Debtor

Turnover Ratio (in millions)

Year	Total Sales	Debtors	Debtor Turnover Ratio (Total Sales / Debtors)	Ration
2009	190081	18986	190081 / 18986	10.00
2010	227076	22107	227076 / 22107	10.27
2011	262910	17041	262910 / 17041	15.42
2012	372808	20884	372808 / 20884	17.85
2013	372615	29827	372615 / 29827	12.49
2014	421454	35842	421454 / 35842	11.76
2015	465685	66514	465685 / 66514	7.00

Source: computed using MS excel from the data available on . www.larsentoubro.com

Analysis

It is seen from the table that the debtor turnover ratio of the firm has grown in the period from 2009 to 2012. It shows the firms efficient management of debts. The reasons for increase in debtor turnover ratio is-

1) Increase in Sales activity
2) Liberal Credit Policy by the firm

But after that firm's debtor turnover ratio has declined. The reasons for the same could be -

1) Increase in sales at a lower rate
2) Restricted Credit Policy by the firm

AVERAGE COLLECTION PERIOD

Average collection period represents the average number of days, the firm has to wait before its receivable are converted in to cash. It measures the quality of debtor. Generally shorter the average collection period the better is quality of debtor. Similarly the higher collection period implies inefficient collection performance which in turn adversely affects the liquidity or short term paying capacity of the firms out of its current liability.

Also, longer the average collection period, there are more chances of bad debt. Though there is no rule of thumb for the average collection period, it is generally given 2 to 3 months. It also varies from firm to firm.

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Average Collection Period of L&T (in millions)

Year	**No. of days in a year**	**Debtor turnover ration**	**Average collection period (No. of working days in a year/ debtor turnover ratio)**	**Day**
2009	365	10.00	365 / 10.00	37
2010	365	10.27	365 / 10.27	36
2011	365	15.42	365 / 15.42	24
2012	365	17.85	365 / 17.85	20
2013	365	12.49	365 / 12.49	29.49
2014	365	11.76	365 / 11.76	31.04
2015	365	7.00	365 / 7.00	52.14

Source: computed using MS excel from the data available on . www.larsentoubro.com

Analysis
As it is seen that the firm has restricted the credit policy, by which its average collection period has declined from the year 2009 to 2012. But after that it has increased due to liberal credit policy. L&T is focusing 100% payment and also giving incentive to debtor in form of 2% discount on the billing. It is allowing 2 months credit to its debtor.

RECEIVABLES MANAGEMENT
Receivables constitute a significant part of current asset of the firm. Receivable represent amount owed to the firm as a result of sale of goods or service in the ordinary course of business. These are the claim of the firm against its customer. This receivable is known as trade credit or trade receivable. It is an investment because it blocks some portion of firm's funds. The purpose of maintaining or investing in receivables is to meet competition and to increase the sales and profit. Receivable management is the process of making decision relating to investment in trade debtors.

Factors Influencing Receivable:
1. **Credit Policy:** A firm with aggressive credit policy will have a low size of receivable while a firm has liberal credit policy will higher size receivable.
2. **Term of Credit:** If the term of credit period is allowed more, then the receivable will be more. While credit period is short, then the size of receivable will be less.
3. **Expansion Plan:** When firm enter into a new market for expansion of its business, it gives credit facility to attract its customer by which receivables get increased.

Tools of Receivable Management
Receivable management consists of various factors such as -
1. Forming Credit Policy
2. Executing Credit Policy
3. Formulating & Executing Collection Policy

Forming Credit Policy

A suitable credit policy is essential for efficient management of receivables. A optimum credit policy is the one which maximizes value of the firm. A credit policy is related to decisions such as credit standard, length of standard, length of credit period, cash discount and discount period etc.

(a) Credit Standards

Credit standards are the criteria which a firm follows in selecting customer for the purpose of credit extension. By liberalizing credit policy the volume of sales will get increased which result into increase the profit. It also increases the volume of sales which enhance the risk of bad debts and delayed receipt. On the other hand, a tight credit policy will decrease the volume of sales which result in decrease in the chances of bad debt loses.

(b) Credit Period

Credit period refers to the time period allowed to the customer for making the payment. There is no binding on fixing the terms of credit. It varies from firm to firm depending on its objective. A firm lengthens its credit period will block more money which ultimately involves more debt collection cost and more bad debt losses. The firm may tighten its credit period; if its customers are defaulting too frequently and bad debt losses are building up.

(c) Discount period

The collection of receivables is influenced by the period allowed for availing discount. It is the additional period allowed for the customer- to avail discount and make payment.

(d) Cash Discount

It is a reduction of payment offered to customers to induce them to repay credit obligations within a specific period of time which will be less than normal credit period. It is given to speed up the collection of receivables.

Executing Credit Policy:

(a) Collecting Credit Information

It refers to the collection of information about customers regarding their financial position for giving credit. This information helps in improving the quality of receivable which ultimately reduces the chances of bad debt losses. This information can be collected from financial statement, credit rating agencies, backs etc.

(b) Credit Analysis

Credit analysis is the determination of the degree of risk associated with the account, the capacity of the customer to borrow and its ability and willingness to pay the credit amount. At the time of credit analysis the manager keeps in various factors like Character, Capacity, Capital, Condition and Collateral.

c) Credit Decision

Credit decision is taken by the manager by matching the creditworthiness of the customer with the credit standard of the firm.

Collect Policy

Collection refers to obtaining payment of past due account. A good collection policy accelerates the collection from slow payer and reduces the bad debt losses. It keeps the debtor alert and urges them to pay their dues promptly. The collection policy is either strict or lenient. A strict collection policy enables early collection and reduces bad debt losses but it reduces the volume of sales and increases the collection cost. A lenient policy increases the bad debt losses and increase debt collection period. The credit manager makes or frames some collection effort for collecting the credit amount from customers. Some are –

a) Sending a letter informing the customer regarding the past due status that are overdue.
b) Making a telephone call to the customer.
c) Employing a collection agency
d) Taking a legal action against the customer

The firms need to continuously monitor and control its receivable to ensure the success of collection efforts. There are two methods for evaluating the management of receivable. Such are -

(a) Average Collection Period:

It represents the average number of days for which a firm has to wait before its receivable is converted into cash. It measures the quality of debtor. Generally the shortage of average collection period the better is the quality of debtor.

Average Collection Period (Debtors × No. of working days in a year/ Annual Credit Sales)

(b) Aging Schedule:

It represents the debtors according to the age or length of time of the outstanding debtor.

Receivables Analysis of L&T (in millions)

Year	Operating Activity
2009	4699
2010	13747
2011	8678
2012	12523
2013	29827
2014	33842
2015	66514

Source: computed using MS excel from the data available on . www.larsentoubro.com

Analysis

The table above shows that the receivables were low in the period from 2009 to 2012. It shows that the firm had followed a strict credit policy in the given period. After that it liberalized its credit policy in subsequent years resulting in increase in debtors as compared to previous years.

5.Findings of the study

Close scrutiny of present rise in inflation in cost of various raw materials should be done, and without compromising on the quality, cheapest materials should be acquired and thus try to reduce the cost of production. The creativity of employees should be increased by motivation and involving them in extracurricular activities and making them understand how creativity plays a role in success of any organization.

Proper planning of the investment should be made and financial managers should be employed to take proper decisions and thus increase the profitability and liquidity of the organization.

RECOMMENDATIONS:

1. L&T should institutionalize a continuous improvement program for operational as well as managerial efficiencies. As a matter of subject we will focus on managerial efficiency which is an inherent problem for any public sector unit. To some extent this problem can be solved by reducing the shareholding of Government can go for regular well-structured disinvestment programs and sell its holding to the public. This will create an automotive pressure on the management and will force the management to strive for improved efficiency in order to maintain the faith goodwill of the company.
2. Firms should try to maintain its quick ratio which is presently higher than the normal ration i.e. 1:1. Also the absolute liquid ratio is very high.

CONCLUSION

From the ratios observed in the study it can be concluded that L&T is maintaining a good Working Capital Management base India’s number one power major is financially well equipped to raise the fund required for its planned Capacity Addition Programmed. The internal accruals of the Company would be sufficient to finance the equity component for the new projects. Given its low gearing and strong credit ratings, the company is well positioned to raise the required borrowings without going for any other following Public Offering. Therefore in conclusion we can say that L&T Ltd. is financially capable enough to carry out its planned Capacity Addition programme and would continue to enjoy the topmost position in the power sector for a long time in the future.

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