

A STUDY ON FINANCIAL PERFORMANCE OF ITC

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Abstract

The study focuses on analysing the financial performance of ITC Limited, one of India's leading conglomerates, over a five-year. The research aims to evaluate the company's financial health and determine its profitability, liquidity, solvency, and efficiency. The study employs various financial ratios and metrics such as Return on Equity (ROE), Return on Assets (ROA), Debt to Equity Ratio (D/E), Current Ratio, and Inventory Turnover Ratio, among others. The findings of the study suggest that ITC has maintained a stable financial position during the period under review, with consistent profitability and liquidity. The company's solvency position has also improved over the years, while its efficiency has remained relatively stable. The study concludes that ITC's financial performance is satisfactory, and the company is well-positioned to continue its growth trajectory in the future.

1. Introduction

ITC is one of India's foremost private sector companies with a market capitalization of over US \$ 33 billion and a turnover of US \$ 7 billion. ITC is rated among the World's Best Big Companies, Asia's Fab 50 and the World's Most Reputable Companies by Forbes magazine, among India's Most Respected Companies by Business World and among India's Most Valuable Companies by Business Today. ITC ltd is a conglomerate company - i.e., a combination of multiple business entities operating in entirely different industries under one corporate group, usually involving a parent company and many subsidiaries. Conglomerates are often large and multinational.

2. Statement of the Problem

Financial statement analysis is an important tool for measuring the financial performance of the company. These days analysis and interpretation of financial statements is a regular exercise to review the performance of the companies. Nowadays risk in every company is increasing day to day and the requirement of finance is more to run the business. Hence there is a need for every organization to evaluate their performance each year in order to capture a place in the market. Ratios have proven to be an effective and a very powerful analytical tool useful for measuring performance of an organization. Thus this study investigates the performance for LTC limited with the last five years financial statement.

3. Objectives of the Study

To measure the financial standing of the business

To evaluate the earning capacity of a company / firm

To find out the paying ability of interest and dividend

4. Scope of the Study

The study is based on the financial position of the firm by using ratio analysis. Financial statements help the management to analyze the profit, solvency, liquidity and efficiency etc. This analysis will give an exact picture of the company. This study will also help the management to make managerial decisions. It applies ratio analysis based on the last 5 years annual financial reports of LTC limited.

5. Research Methodology

Research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a topic.

Source of Data

Secondary data were used in the study. The data required for the study was gathered from the annual reports of the company through their website. Data is collected from the secondary sources, which include Annual Reports, Data company websites, Journals.

Period of the study

The study covers a period from 2017-2018 to 2021-2022.

Tools for Analysis

Accounting and financial tools like ratios have been used for analysis of data.

Liquidity ratios

Solvency ratios

Profitability ratios

6. Review of Literature

Dr. Rajeev Kumar Gupta (2022)

A Study of Financial Performance and Analysis of ITC Limited. The company should increase their capital by way of issuing Bonus shares. The company also pay higher dividend to shareholders. The company utilize their potential to more diversify their business. ITC Ltd. Is one of the leading FMCG company in India having a diversified business model and growing their business very rapidly in FMCG sector. Company also increase their market share in FMCG sector year on year. So it is quite clear that company have a strong potential to grow t their business in future.

Neha Rawat (2020)

Financial Statement Analysis of ITC Limited Financial statements can say a lot about a company' s financial health and earning potential. These statements are analyzed and reviewed for decision making purposes, this process is known as financial analysis. Financial analysis help the stakeholders to assess the financial performance of an organization which helps them in making good investment decisions. This paper provides a detailed financial analysis of ITC Ltd with an attempt to assess the company' s efficiency and performance. The study has focused on past and present performance of ITC Ltd over the period of 5years for analyzing the trends.

Bhupender Kumar Som, Himanshu Goel, Jasmeet Kaur (2019)

Ratio Analysis: A Study on Financial Performance of Eicher Motors This study reveals that Eicher motors has performed well almost on all parameters explicitly in higher returns on net worth and capital employed. Low debt to equity also gives signal of low risk and less chances of insolvency. The company has managed to earn higher returns for its shareholders and market seems to be favouring the stock of Eicher motors.

Dr.A.Ramya, Dr.S.Kavitha (2017)

A Study on Financial Analysis of Maruthi Suzuki India Limited Company The study focus on overall financial position of particular Maruthi Suzuki company during the specific period based on the selected variables, which may interest not only for the respective companies in the industry but also brings a process of development operational aspects of the entire industry. The study is much important to the management from the point of decision-making purpose, to identify the strength, weakness areas of the company and finally helps to maximize the intrinsic value of the company.

Dr. (Mrs) G. Lakshmi , Afrin Banu K. , Afrin F. and Divya C (2021)

a study on the financial analysis of reliance industries limited Reliance Industries Limited is India's largest company with all major parameters. RIL has the capability of acquiring weaker firms by throwing them out of competition. This study is done to analyses the financial performance of the company using comparative balance sheet, and to determine the liquidity, profitability and turnover rate of the company using ratio analysis for the period 2015-2016 to 2019-2020. The analysis is based on the sources of secondary data. This analysis will give the exact picture of the company.

7. Data analysis and interpretation

Ratio analysis

Ratio analysis is an accounting method that uses financial statements, like balance sheets and income statements, to gain insights into a company's financial health. Ratio analysis refers to the analysis and interpretation of the figures appearing in the financial statements (i.e., Profit and Loss Account, Balance Sheet and Fund Flow statement etc). It is a process of comparison of one figure against another. It enables the users like shareholders, investors, creditors, Government, and analysts etc. to get better understanding of financial statements.

LIQUIDITY RATIO

Current Ratio = Current Assets / Current Liabilities

Quick Ratio (also known as Acid-Test Ratio) = (Current Assets - Inventory) / Current Liabilities

Cash Ratio = Cash and Cash Equivalents / Current Liabilities

SOLVENCY RATIO

Debt to Equity Ratio = Total Liabilities / Shareholders' Equity

Debt to Asset Ratio = Total Liabilities / Total assets → Proprietary ratio = Shareholder' s fund / Total assets

PROFITABILITY RATIOS

Net Profit Ratio = Net Income / Revenue

Return on Assets (ROA) = Net Income / Average Total Assets

Return on Equity (ROE) = Net Income / Average Shareholders' Equity ➤ Operating Profit
Ratio = Operating Income / Revenue

TABLE NO.01
TABLE SHOWING THE CURRENT RATIO

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2017-2018	26,393.62	9,250.14	2.85
2018-2019	31,747.27	10,011.99	3.17
2019-2020	39,505.35	9,559.77	4.13
2020-2021	34,991.99	10,689.68	3.27
2021-2022	34,232.45	12,163.71	2.81

INTERPRETATION

The above table shows that the current ratio in the year 2017-2018 as 2.85 and then increased to 3.17 in the year 2018-19, and again increased to 4.13 in the year 2019-20, and then decreased to 3.27 in the year 2020-21 and again decreased to 2.81 in the year 2021-2022.

CHART SHOWING THE CURRENT RATIO

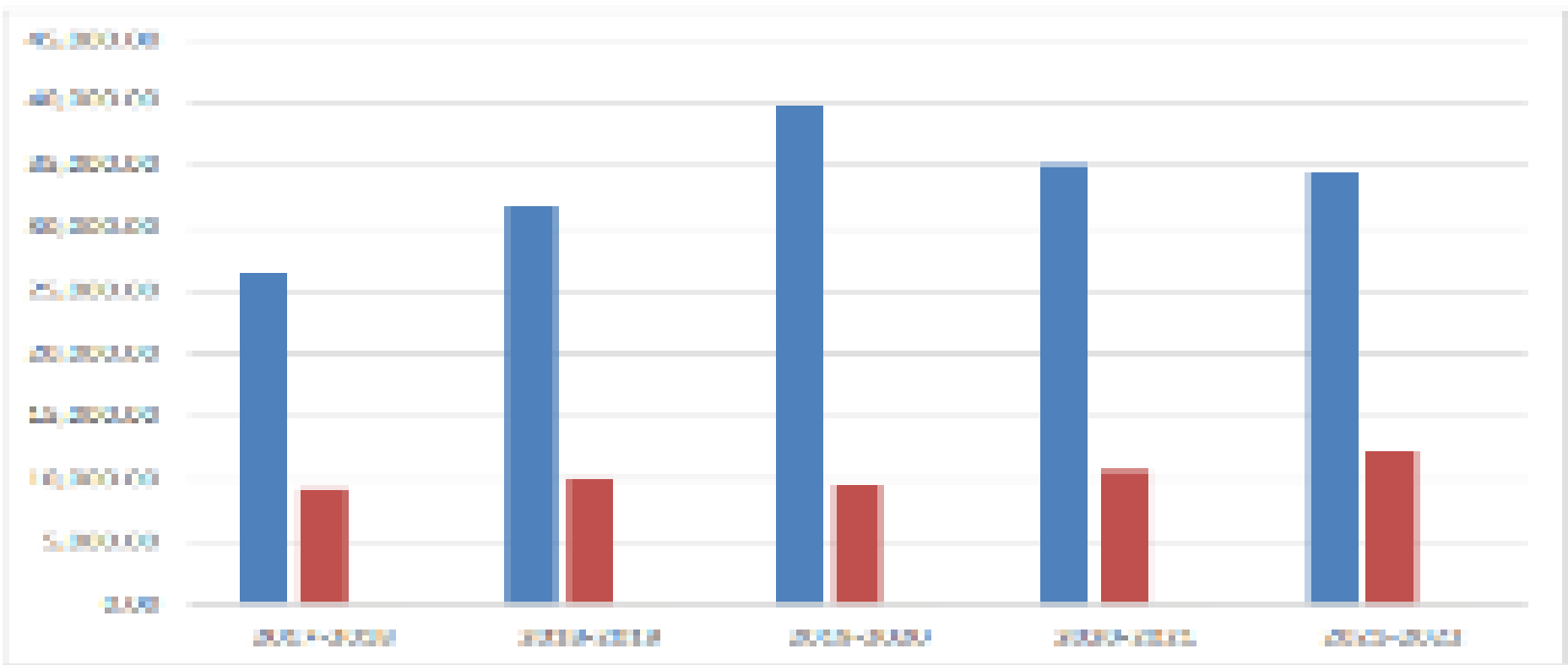


TABLE NO.02
TABLE SHOWING THE QUICK RATIO

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT INVENTORY	RATIO
2017-2018	26,393.62	9,250.14	7,584.53	2.03
2018-2019	31,747.27	10,011.99	7,943.97	2.38

2019-2020	39,505.35	9,559.77	8,965.53	3.19
2020-2021	34,991.99	10,689.68	10,507.22	2.29
2021-2022	34,232.45	12,163.71	10,973.59	1.91

INTERPRETATION

The above table shows the quick ratio in the year 2017-2018 as 2.03 and then increased to 2.38 in the year 2018-19, and again increased to 3.19 in the year 2019-20, and then decreased to 2.29 in the year 2020-21 and again decreased to 1.91 in the year 2021-2022

CHART SHOWING THE QUICK RATIO



PROFITABILITY RATIO

LOS:

TABLE NO.03
TABLE SHOWING THE NET PROFIT RATIO

YEAR	NET PROFIT	NET SALES	RATIO
2017-2018	11,263.62	43,448.94	25.92
2018-2019	12,580.63	48,352.68	26.02

2019-2020	15,298.01	49,404.05	30.97
2020-2021	13,168.11	49,272.78	26.72
2021-2022	15,225.18	60,668.09	25.10

INTERPRETATION

The above table shows the net profit ratio in the year 2017-2018 as 25.92 and then increased to 26.02 in the year 2018-19, and again increased to 30.97 in the year 2019-20, and then decreased to 26.72 in the year 2020-21 and again decreased to 25.10 in the year 2021-2022.

CHART SHOWING THE NET PROFIT RATIO

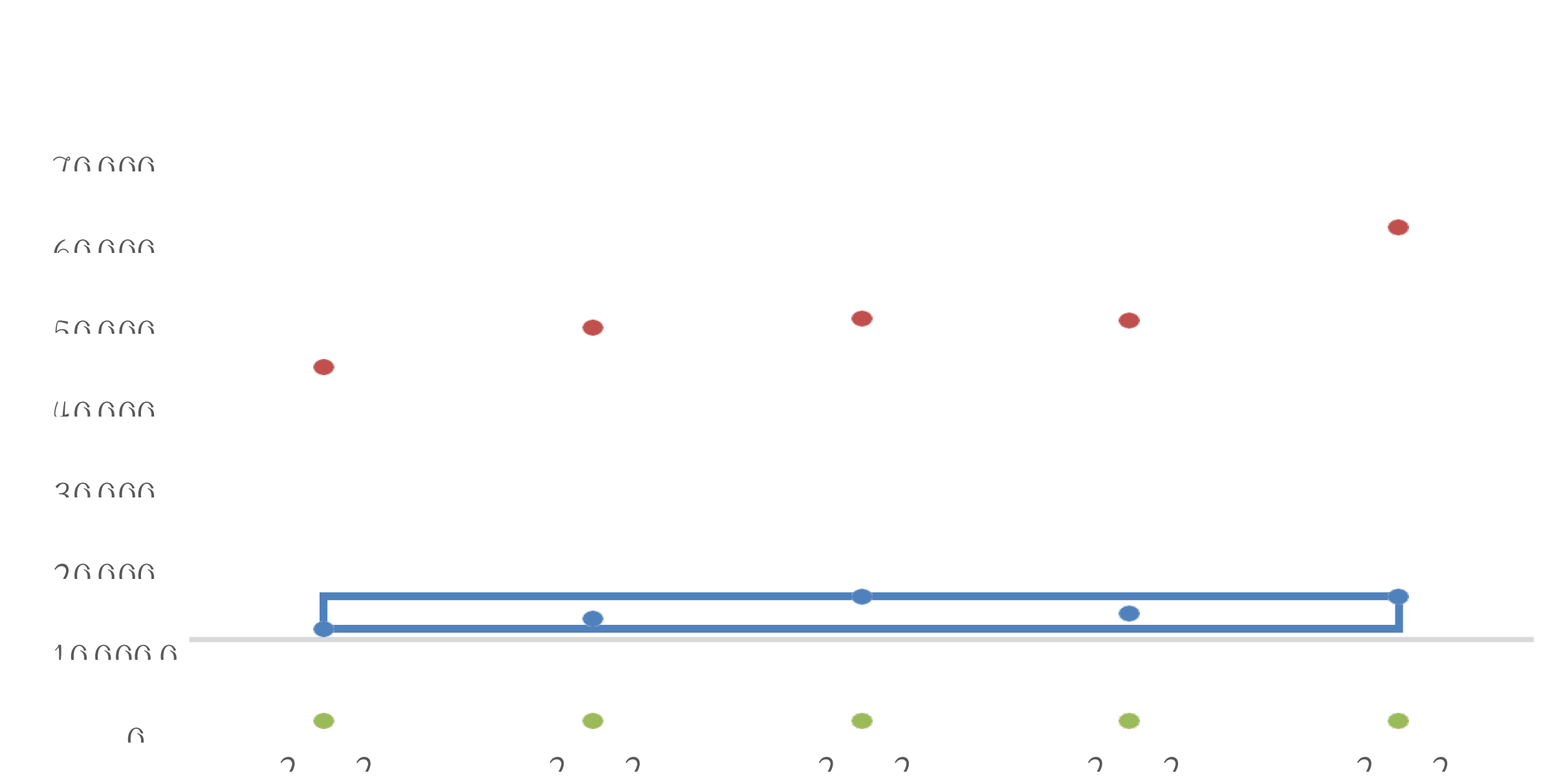


TABLE NO.04
TABLE SHOWING THE OPERATING PROFIT RATIO

YEAR	OPERATING PROFIT	NET SALES	RATIO
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2017-2018	16482.96	43,448.94	37.94
2018-2019	18,406.36	48,352.68	38.07
2019-2020	19,260.16	49,404.05	38.98
2020-2021	17,002.70	49,272.78	34.51
2021-2022	20,658.41	60,668.09	34.05

INTERPRETATION

The above table shows the operating profit ratio in the year 2017-2018 as 37.94 and then increased to 38.07 in the year 2018-19, and again increased to 38.98 in the year 2019-20, and then decreased to 34.51 in the year 2020-21 and again decreased to 34.05 in the year 2021-2022.

CHART SHOWING THE OPERATING PROFIT RATIO

TABLE NO.05

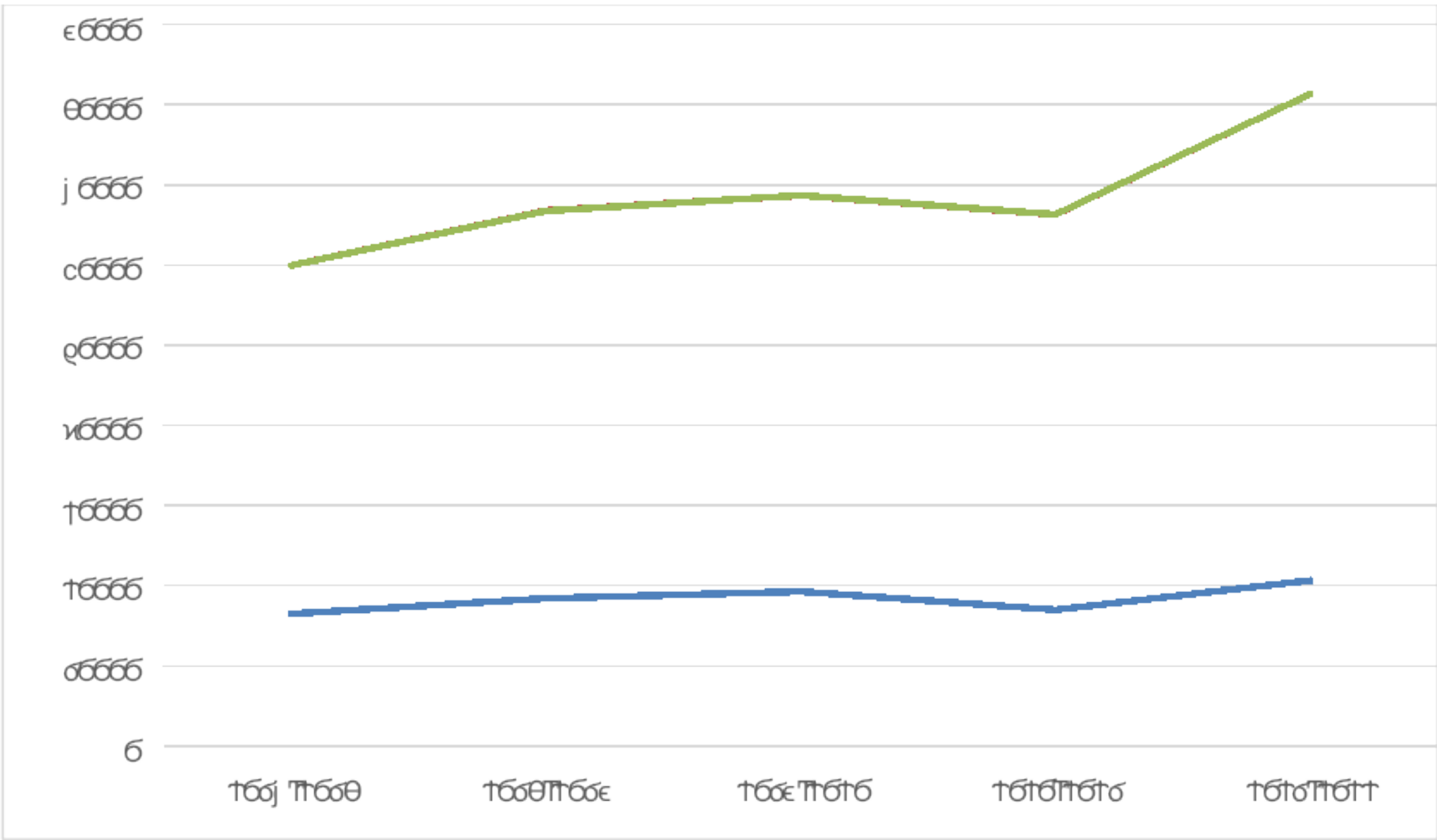


TABLE SHOWING THE RETURN ON ASSETS (ROA)

YEAR	NET INCOME	AVERAGE TOTAL ASSETS	RATIO
2017-2018	11,263.62	64,288.86	0.18
2018-2019	12,580.63	71,798.41	0.18
2019-2020	15,298.01	77,367.04	0.20
2020-2021	13,168.11	73,819.30	0.18
2021-2022	15,225.18	77,259.55	0.20

INTERPRETATION

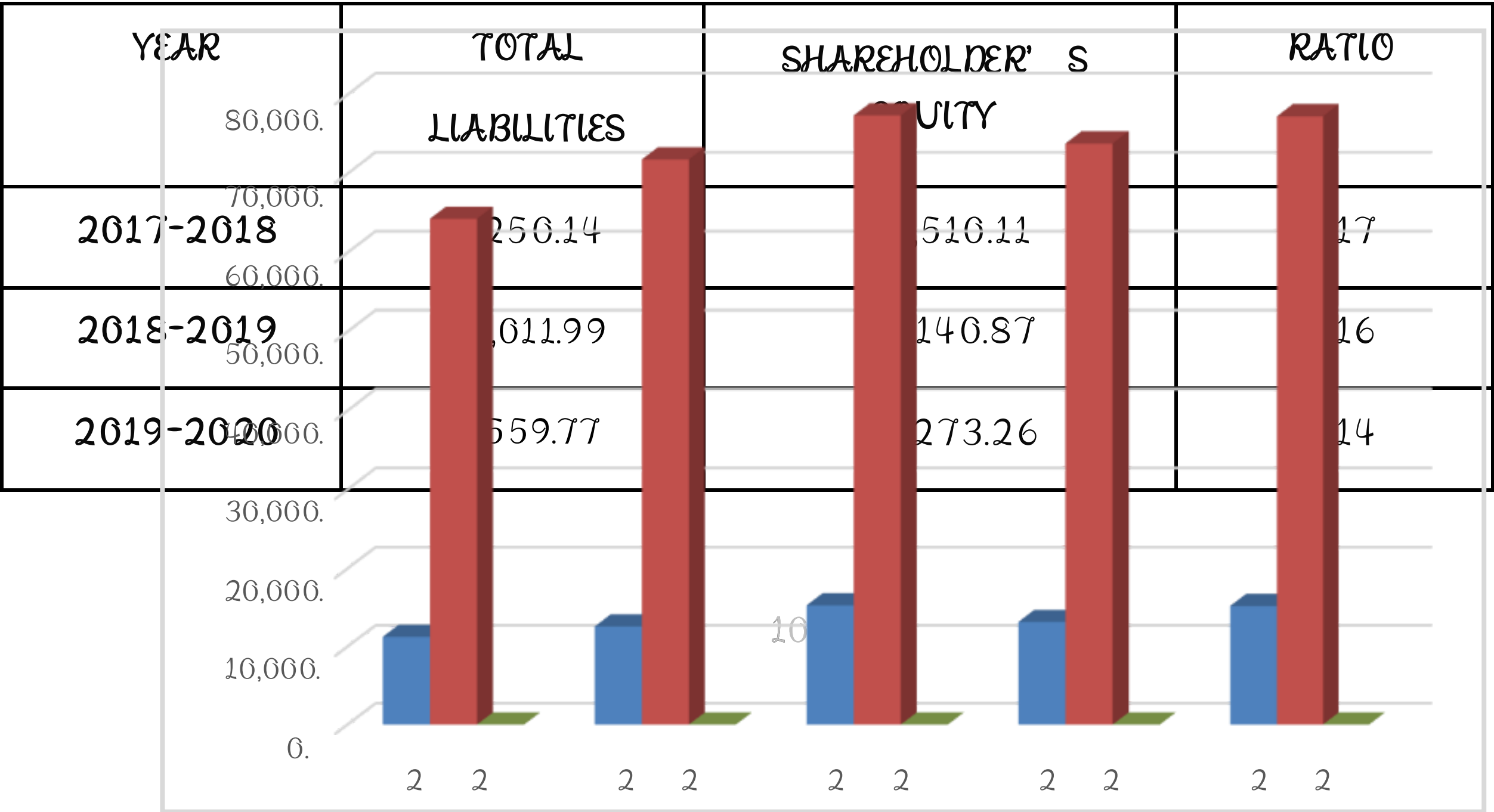
The above table shows the return on assets (ROA) in the year 2017-2018 as 0.18 and remained same in the year 2018-19, and then increased to 0.20 in the year 2019-20, and then decreased to 0.18 in the year 2020-21 and then increased to 0.20 in the year 2021-2022

CHART SHOWING THE RETURN ON ASSETS (ROA)

SOLVENCY RATIO:

TABLE NO.06

TABLE SHOWING THE DEBT-TO-EQUITY RATIO



2020-2021	10,689.68	60,347.34	0.17
2021-2022	12,163.71	62,455.57	0.19

INTERPRETATION

The above table shows the debt-to-equity ratio in the year 2017-2018 as 0.17 and then decreased to 0.16 in the year 2018-19, and again decreased to 0.14 in the year 2019-20, and then increased to 0.17 in the year 2020-21 and again increased to 0.19 in the year 2021-2022.

CHART SHOWING THE DEBT-TO-EQUITY RATIO

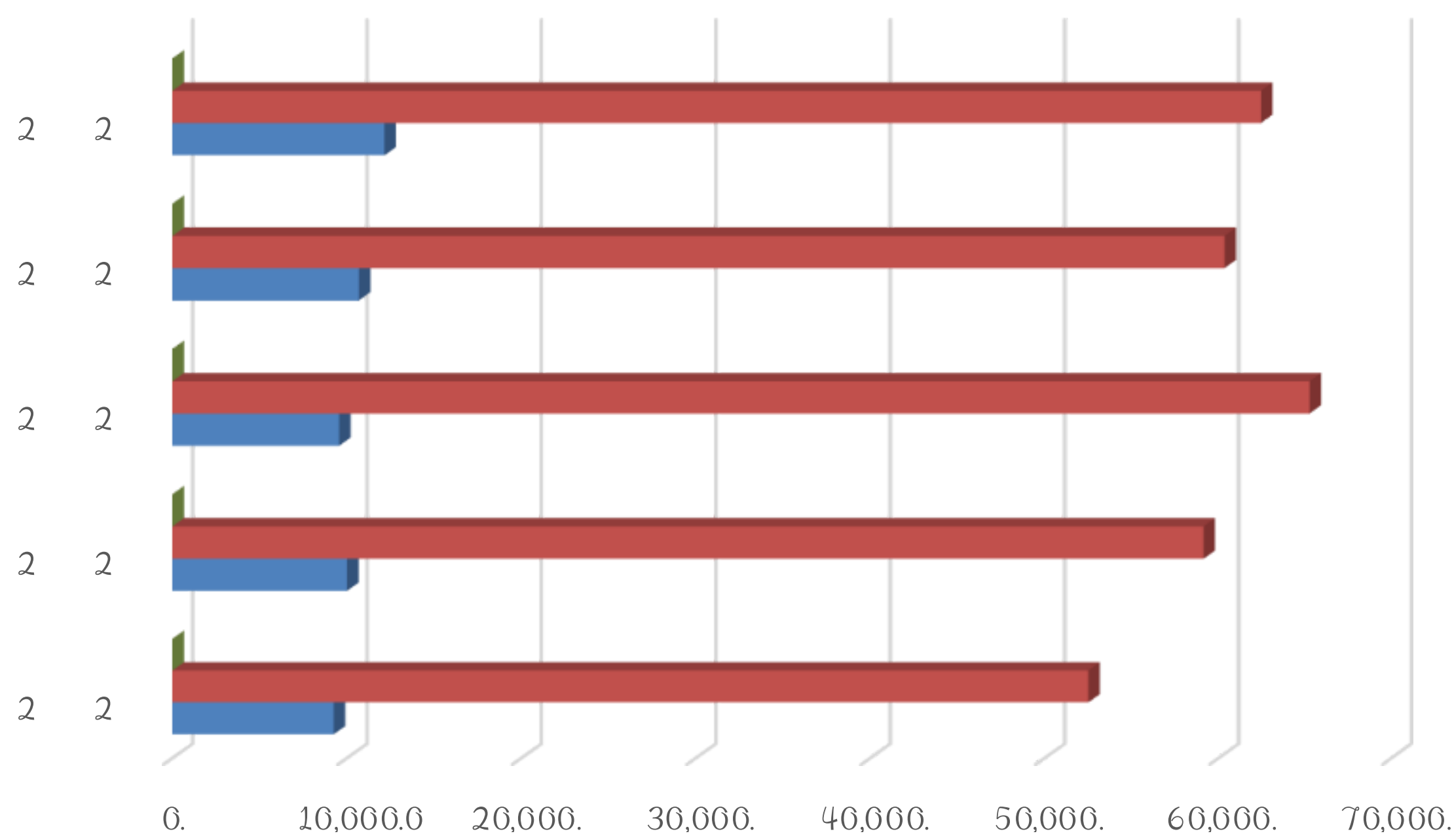


TABLE NO.07
TABLE SHOWING THE DEBT TO ASSET RATIO

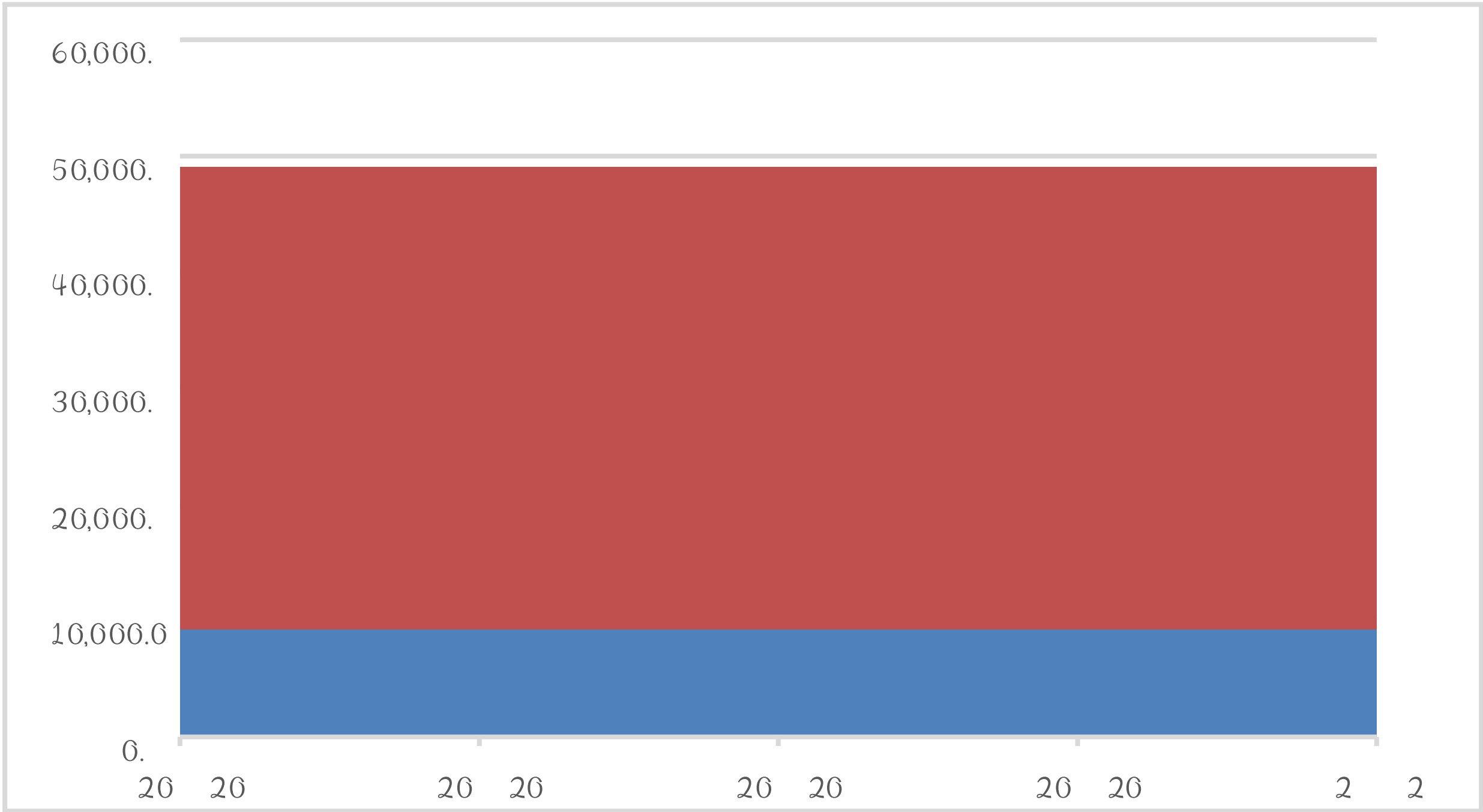
YEAR	TOTAL LIABILITIES	TOTAL ASSETS	RATIO
2017-2018	9,250.14	26,393.62	0.35
2018-2019	10,011.99	31,747.27	0.28
2019-2020	9,559.77	39,505.35	0.24

2020-2021	10,689.68	34,991.99	0.30
2021-2022	12,163.71	34,232.45	0.35

INTERPRETATION

The above table shows the debt to asset ratio in the year 2017-2018 as 0.35 and then decreased to 0.28 in the year 2018-19, and again decreased to 0.24 in the year 2019-20, and then increased to 0.30 in the year 2020-21 and then decreased to 0.35 in the year 2021-2022.

CHART SHOWING THE DEBT TO ASSET RATIO



9. Findings

The company's liquidity position has been fluctuating over the years. The return on assets (ROA) has been improving, with an increase in 2019-2020 and 2021-2022, indicating that the company has become more efficient in using its assets to generate profits. Although the company's net profit ratio and operating profit ratio have shown a decreasing trend in the last two years, it is still above

25%, which is considered a healthy level of profitability. A current ratio higher than the industry average indicates that the management may not be using its assets efficiently. The company has enough liquid assets to cover its short-term obligations. The company has been relying more on equity financing in recent years.

10. Suggestions

The company's profitability has been fluctuating over the years, indicating a need for management to implement effective cost control measures. The company could consider strategies such as improving its sales and marketing efforts or optimizing its asset utilization. The company could consider reducing its operating costs to improve its profitability. The company could consider to make policy changes and improve the incentives for employee which may help the company to improve its operational activities. The company could improve its efficiency in using its assets to generate more revenue.

11. Conclusion

In this study, the company has shown consistent growth over the years. The financial statements reveal that the company has been able to generate significant revenue, maintain healthy profitability, and generate positive cash flows. The company has been able to fund its growth through its well-articulated management, which is a positive sign for investors. Overall, the financial performance of LTC is impressive, and the company is well-positioned for future growth. However, it is important to note that the company operates in a highly competitive industry, and there are various risks associated with its business operations. Therefore, investors should conduct a thorough analysis of the company's financial performance and future growth prospects before making any investment decisions

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