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A STUDY ON FINANCIAL PERFORMANCE OF ITC LTD

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ABSTRACT

This study primarily analysed the financial performance of ITC ltd for the period of 5 years from the financial year of 2018 to 2023.The data for this research has been collected from the official websites of ITC ltd and from the other journals. The collected data are analysed through the ratio analysis method. The profitability and liquidity performance of ITC ltd has been examined through the certain selected ratios like Net profit ratio, return on capital employed ratio, Asset turnover ratio, Current ratio, Quick ratio, Absolute quick ratio, Debt to equity ratio, total debt to total asset ratio. Although the information obtained for the study is not sufficient to analyse complete financial performance and its strategies. This study identified significant changes in financial performance strategies from year to year based on selected study data. This study helps in both short term and long term forecasting as well as growth can be identified through financial performance analysis.

Keywords: ITC LTD, financial performance, ratios.

INTRODUCTION OF THE STUDY

Financial performance refers to the evaluation of a company's fiscal health and operational efficiency through various financial tools. The key indicators are revenue, profit margins, return on investment, and cash flow. In the present materialistic economy, money is one of the fundamental practicalities of all kinds of fiscal behaviour. Finance is so indispensable today that it is rightly said to be Life blood of an Enterprise. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by establishing the connection between the statement of record and profit and loss account. So, finance is indispensable for the smooth functioning of the business. For a comprehensive understanding, one should delve into financial statements. besides that, industry benchmarks and economic conditions should also be considered to interpret financial performance accurately.

My study is to focus on past and present financial performance of ITC ltd to analyse the trends. Over the years, ITC Limited, a well-known Indian corporation, has always shown strong financial performance. ITC operates in a number of different industry sectors, including as agribusiness, paperboards, hotels, fast-moving consumer goods (FMCG), and packaging. With well-known brands like Aashirvaad, Sunfeast, and Bingo, the company has a significant position in the FMCG industry, which contributes to its consistent revenue growth and stable financial performance. It's crucial to remember that a company's financial performance might change over time as a result of business plans, industry trends, and economic situations.

STATEMENT OF THE PROBLEM

An essential instrument for assessing the company's financial performance is financial statement analysis. These days, reviewing the performance of the companies involves routinely analysing and interpreting their financial accounts. These days, risk in any firm is rising daily, and more money is needed to keep the operation running. Therefore, in order to gain a foothold in the market, every firm must assess its performance annually. Ratios have shown to be a very valuable and powerful analytical tool for assessing an organization's success. Thus, using the financial statements from the previous five years, this study examines ITC Limited's performance

OBJECTIVES OF THE STUDY

- To evaluate the profitability and to determine how efficiently the capital have been employed in the company.
- To analyse the liquidity position of the company and to determine how effectively the company leverages its assets to generate revenue.
- To evaluate a company's ability to meet its short-term and long-term debt obligations.

LIMITATIONS OF THE STUDY

- The information provided by the company was limited.
- The financial data are collected only for the period of last 5 years.
- In this study, only the selected ratios are used.
- The study has been made only by secondary data.

REVIEWS OF LITERATURE

- **Ms. Harshini (2023),** conducted a study on financial performance of ITC ltd. This study deals with the financial health of the company. The objective of the study is to measure the company's overall profitability and to determine its short term debt obligations by using profitability, solvency, liquidity, efficiency ratios. The analysis of the financial statements' trends and patterns also sheds light on the company's strengths and shortcomings in terms of its finances. Secondary data were used in the analysis. Data was collected for a five-year period between 2017 and 2021. The study's findings offer a thorough insight of ITC Ltd.'s financial performance and point out that there has been a consistent growth for past 10 years and have positive cash flow and it suggests to implement proper management to minimise the cost. The company's financial performance was impressive and the company is well-positioned for future growth.

- **T. Preetha (2022),** performed an analysis on Financial Performance of Tata Marco polo Motors Ltd. This article studies about the liquidity, profitability and financial position of the company. To achieve this, tool like ratio analysis have been used. The ratios used were activity ratio, liquidity ratio and solvency ratio. Secondary data have been used for the analysis. Those data were collected from the annual report & balance sheet and statement of profit & loss account of Tata Marco polo Motors Ltd. The study revealed that the company hasn't effectively and efficiently utilized fund. This shows that the company is financially weaker. The company should focus on raising funds by borrowing and increase its production and to generate profit by making strategies.

- **Mr. Srinath. N (2023),** TVS engines' entire performance is examined in the study and is compared to the financial accounts. They employed ratio analysis to evaluate their performance. The company's primary goal is to improve TVS engines' overall performance by examining different parts.

- **Dr. Rajeev Kumar Gupta (2022),** conducted a Study on Financial Performance and Analysis of ITC Limited. This article aimed to analyse the short term and long term financial soundness of the company and to analyse the present and future trends of the company. Ratio analysis, liquidity, solvency and profitability ratios, trend analysis are the tools which have been used in the process. Secondary data which have already been passed through the statistical process has been collected through company published documents and reports and records. Some like magazine, books, articles, journals etc. The study concludes that company increase their market share in FMCG sector year on year. So it is quite clear that company have a strong potential to grow their business in future.

- **Dr. G. Bhavani (2018),** performed a comparison of financial performance based on ratio analysis (with special reference to ITC limited and HUL limited). This study aims to know the financial position ITC ltd and HUL ltd comparatively and to find out the efficiency and risk of the operation. Ratios like liquidity, debt-equity, cash position ratios and comparative analysis have been used in the analysis. The study is based on past data, collected from the documents published by the companies. The study revealed that the financial performance of ITC limited and HUL limited was found to be satisfactory in the study. It is understood that HUL limited has better profitability and turnover ratios while ITC limited has better liquidity position.

RESEARCH METHODOLOGY

The research involved is both extensive and intensive studies of ITC ltd. In this project the report is based on the analysis of financial performance of the company.

DATA COLLECTION

The data used in this study is secondary data. The data has been collected from the annual report & balance sheet and statement of profit & loss account of ITC ltd.

PERIOD OF STUDY

The study has been undergone for the period of 5 years (2018 – 2023)

TOOLS FOR ANALYSIS

The financial and statistical tool are used in the study on ratio analysis due to the time. The ratios are,

- Profitability ratios: Net Profit Ratio & Return On Capital Employed
- Activity ratio: Assets Turnover Ratio
- Liquidity ratio: Current Ratios, Quick Ratio & Absolute Liquid Ratio
- Solvency ratio: Debt-Equity Ratio & Total Debt to Total Asset Ratio

ANALYSIS AND INTERPRETATION

1. NET PROFIT RATIO

It measures the relationship between net profit and sales of the business. According to this concept, it can be calculated as:

- Net profit ratio = Net profit ÷ sales * 100 (or) Earnings after taxes÷ sales *100

TABLE:1

NET PROFIT RATIO

YEAR	NET PROFIT	NET REVENUE FROM OPERATIONS	NET PROFIT RATIO
2018-19	12,824.20	48,352.68	26.52
2019-20	15,584.56	49,404.05	31.54
2020-21	13,389.80	49,272.78	27.17
2021-22	15,485.65	60,668.09	25.52
2022-23	19,427.68	70,936.85	27.38

INTERPRETATION

From the above, it is understood that the net profit was higher in the year 2019-20 with 31.54 as net profit ratio and the lowest was in the year 2021-22 with 25.52 as net profit ratio.

2. RETURN ON CAPITAL EMPLOYED

Return on Capital Employed or ROCE shows how a firm efficiently generates profit from the capital employed. It is one of the profitability ratios that determines how efficiently a company utilises its capital to generate profits. ROCE includes equity and debt capital but doesn't evaluate short-term debt.

- ROCE = Profit before tax and interest (EBIT) ÷ capital employed *100

TABLE:2

RETURN ON CAPITAL EMPLOYED

YEAR	PROFIT BEFORE TAX AND INTEREST	CAPITAL EMPLOYED	RETURN ON CAPITAL EMPLOYED
2018-19	19,138.12	61,786.42	30.97
2019-20	20,158.46	67,807.27	29.72
2020-21	17,945.09	63,129.62	28.42
2021-22	20,722.99	65,095.84	31.83
2022-23	25,866.08	72,143.57	35.85

INTERPRETATION

From the above calculation, it is interpreted that the return on capital employed was high in the year 2022-23 with 35.85 as ROCE and it is in its lowest in 2020-21 with 28.42 as ROCE.

3. ASSETS TURNOVER RATIO

The asset turnover ratio measures the value of a company's revenue with reference to the value of its assets. It can be used to indicate the efficiency with which a company is using its assets to generate revenue.

- Asset Turnover Ratio = Revenue from operations ÷ Average total assets.
- Average total assets = Total assets for current year + Total assets for previous year ÷ 2

TABLE:3

ASSETS TURNOVER RATIO

YEAR	REVENUE FROM OPERATIONS	AVERAGE TOTAL ASSETS	ASSET TURNOVER RATIO
2018-19	48,352.68	68,043.64	0.71
2019-20	49,404.05	74,582.73	0.66
2020-21	49,272.78	75,593.17	0.65
2021-22	60,668.09	75,539.43	0.80
2022-23	70,936.85	81,571.27	0.87

INTERPRETATION

From the above calculation it is known that the assets turnover ratio is high in 2022-23 with 0.87 as assets turnover ratio and the lowest was 0.65 in 2020-21. The company had efficiently used its assets to generate more revenue in 2022-23. The company had failed to use its assets efficiently in 2019-20, 2020-21.

4. CURRENT RATIO

It is the most common measure to find short-term liquidity. Current ratio measures whether a firm has enough resources to meet its current debt obligations. It is measured as follows:

- Current Ratio = Current asset ÷ Current liabilities

TABLE:4

CURRENT RATIO

YEAR	CURRENT ASSET	CURRENT LIABILITY	CURRENT RATIO
2018-19	31,747.27	10,011.99	3.17
2019-20	39,505.35	9,559.77	4.13
2020-21	34,991.99	10,689.68	3.27
2021-22	34,232.45	12,163.71	2.81
2022-23	39,670.89	13,739.41	2.89

INTERPRETATION

From the calculation, it is understood that the current ratios were 3.17; 4.13; 3.27; 2.81; 2.89 in the years 2019; 2020; 2021; 2022; 2023 respectively. When the current ratio is lower than 1, it means the company is unable to pay off their liabilities. But in this case, since the ratios are greater than 1 it is clearly understood that the company can pay off their liabilities.

5. QUICK RATIO OR ACID TEST RATIO

It is one of the best measures of liquidity. The quick ratio is a much more conservative measure to determine short-term liquidity than the current ratio.

- Quick ratio = quick assets ÷ current liabilities
- Quick assets = current assets – inventories – prepaid expenses

TABLE:5

QUICK RATIO OR ACID TEST RATIO

YEAR	LIQUID ASSET	CURRENT LIABILITY	QUICK RATIO
2018-19	23,803.3	10,011.99	2.38
2019-20	30,539.82	9,559.77	3.19
2020-21	24,484.77	10,689.68	2.29
2021-22	23,258.86	12,163.71	1.91
2022-23	27,756.76	13,739.41	2.02

INTERPRETATION

From the calculation, it is interpreted that the quick ratios were 2.38; 3.19; 2.29; 1.91; 2.02 in the years 2019; 2020; 2021; 2022; 2023 respectively. Same as current ratio, if the quick ratios were less than 1, the company can't pay off the liabilities; but in this case the quick ratios were above 1 so the company is in the position to pay off the liabilities.

6. **ABSOLUTE LIQUID RATIO**

Absolute liquid ratio is similar to quick ratio but it eliminates accounts receivable. Even though the receivables are more liquid when compared to inventory but still there may be doubts because of their time and amount of realization. Therefore, absolute liquidity ratio relates cash, bank and marketable securities to the current liabilities.

- Absolute liquid ratio = Absolute Liquid Assets (Cash + Bank + marketable securities) / Current liabilities

TABLE:6

ABSOLUTE LIQUID RATIO

YEAR	ABSOLUTE LIQUID ASSET	CURRENT LIABILITY	QUICK RATIO
2018-19	17,499.53	10,011.99	1.75
2019-20	25,225.67	9,559.77	2.64
2020-21	19,505.35	10,689.68	1.82
2021-22	16,918.7	12,163.71	1.39
2022-23	22,113.05	13,739.41	1.61

INTERPRETATION

From the calculation, it is interpreted that the absolute quick ratios were 1.75; 2.64; 1.82; 1.39; 1.61 in the years 2019; 2020; 2021; 2022; 2023 respectively. In general, if absolute quick ratio is 0.5 or above, then it can pay off the liabilities. In this case the absolute quick ratios were above 0.5 so the company is in the position to pay off the liabilities.

7. **DEBT- EQUITY RATIO**

Debt - Equity ratio measures the relationship between long term debt and equity. This ratio is often used for making capital structure decisions such as issue of shares and debentures. Debt equity ratio is the indicator of firm's financial leverage.

- Debt – Equity Ratio= Long Term Debts ÷ Shareholders Funds

TABLE:7

DEBT- EQUITY RATIO

YEAR	LONG TERM DEBTS	SHAREHOLDER'S FUNDS	DEBT-EQUITY RATIO
2018-19	2,302.08	59,140.87	3.89
2019-20	2,156.54	65,273.26	3.30
2020-21	2,435.47	60,347.34	4.04
2021-22	2,273.97	62,455.57	3.64
2022-23	2,604.78	69,155.26	3.77

INTERPRETATION

From the above calculation, it is interpreted that the debt-equity ratio was 3.89 in the year 2018-19. It decreased to 3.30 in the next year and then again increased to 4.04 in the year 2020-21. After its peak, it again started to descend in the next year and increased in the year 2022-23.

8. TOTAL DEBT TO TOTAL ASSET RATIO

The total debt to total assets ratio shows the degree to which a company has used debt to finance its assets. Total debt or total outside liabilities includes short- and long-term borrowings from financial institutions, debentures/bonds, deferred payment arrangements for buying capital equipment, public deposits, bank borrowings and any other interest-bearing loan. It is calculated as

- Total debt to total asset ratio = Total debt ÷ total asset

TABLE:8

TOTAL DEBT TO TOTAL ASSET RATIO

YEAR	TOTAL DEBTS	TOTAL ASSETS	TOTAL DEBT TO TOTAL ASSET RATIO
2018-19	12,314.07	71,798.41	0.17
2019-20	11,716.31	77,367.04	0.15
2020-21	13,125.15	73,819.30	0.18
2021-22	14,437.68	77,259.55	0.19
2022-23	16,344.19	85,882.98	0.19

INTERPRETATION

From the calculation, it is interpreted that the total debt to total asset ratio were 0.17; 0.15; 0.18; 0.19; 0.19 in the years 2019; 2020; 2021; 2022; 2023 respectively. In general, if the total debt to total asset ratio is equal to 1, then all the assets will be considered to pay off all the liability. If the ratio is more than 1, then there will be more liabilities when compared to assets. Not every debtor gets his money in this case. But in this company, the ratio is less than 1, which indicates that there will be more assets than the prevailing liabilities.

FINDINGS OF THE STUDY

- Overall Net profit ratio for the five years are positive and it is maximum in 2021. This shows that the company had good efficient cost structure.
- Return on capital employed is positive for all 5 years. This shows that the company generates increased profit out of its capital.
- Asset turnover ratio is higher (0.87) in the year 2022-23. This shows that the company can efficiently use its assets to generate income.
- Current ratio is more than one in all five years. This shows that the company is very much able to pay off their liabilities.
- Quick ratio is also more than 1 for all five years. This indicates that the company is able to pay off liabilities through readily convertible current asset.
- Absolute liquid ratio is higher (2.64) in the year 2019-20. The ratios of all 5 years are above 0.5 which indicates that the company can pay off the liabilities with only cash and cash equivalence.
- Debt equity ratio is higher (4.04) in the year 2020-21. After 2021 Even though it decreases, it remains positive. This shows that the company is financing more creditors fund than shareholder’s equity.
- Total debt to total asset ratio is less than one for all five years. This shows that the company is able to pay the debt with its asset.

SUGGESTIONS

- The profitability ratio shows that the company is able to efficiently control its cost and / or provide goods /services at a price significantly higher than cost. Therefore, the company should make good decision to sustain their profits and to maintain & increase their ratio as long as they can.
- From the liquidity ratios, current ratio is more than 1 which is desirable. But the ratios are declining as it comes to present situation so the company is required to make necessary managerial decisions to stabilize the ratios so that the company can pay down their debt.
- The debt equity ratio is in a positive state but it is in slightly declining position which may affect the company’s financial leverage. So the company has to take necessary capital structure decisions to increase the ratio.

CONCLUSION

The financial performance of ITC Ltd is done by ratio analysis. Ratio analysis is done by selected ratios based on financial statements of the company. On the study of financial performance of ITC Ltd reveals that the company has effectively and efficiently utilized fund and its assets. The company should focus on raising current assets to be more liquid to survive any uncertainties. Even though the net profits are in a declining state, it is in an overall good position. This shows that the company is financially doing well. So, the company should increase its production to generate increased profit by making strategies. Only by analysing the performance of the company, the investors & stakeholders will invest more fund in the company. After analysing various ratios, it is visible that the company is financially sound.

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