



A Study of Financial Performance and Analysis of ITC Limited

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INTRODUCTION :

ITC Limited is an Indian conglomerate company headquartered in Kolkata. ITC has a diversified presence across industries such as FMCG, hotels, software, packaging, paperboards, specially paper and agribusiness. The company has 13 businesses in 5 segments. It exports its product in 90 countries. Its products are available in 6 million retail outlets.

ITC Limited was originally named Imperial Tobacco Company Limited succeeding W.D. and H.O. Wills on 24th August, 1910 as a British owned company registered in Kolkata. The company was converted into a Indian public company on 27th October, 1954.

REVIEW OF LITERATURE :

Roopa et al, (2017) in her “study on financial performance of select IT and ITes companies listed in NSE, India.” The objectives of their study is liquidity, solvency, activity and profitability position to evaluate the financial performance. ROI, EPS and dividend paid by biz. companies is more in term of highest average values. The risk and return relationship analysis shows biz companies provide high return to moderate risk, medium companies have low risk and low return but small companies are more uncertain with high risk and moderate return. The study concluded it has been found that biz companies are better performers and medium companies are consistent performers.

Rajesh (2017) in his” study on financial performance of care it solution private limited” The objectives of this study is liquidity, stability and profitability position, common size and financial strength of the company. They gives clear idea of the financial performance of the company over last 5 years. It an be suggested that the company improve their customer services and technology. They will come up with the standard level. The study conclude that findings and recommendations which would be useful for the development and improvement of the company.

Pavithra et al.,(2017) in her “Study on the analysis of financial performance with reference to Jeppiaar Cement Pvt. Ltd.” The study has been carried out for the period of 5 years and it is not sufficient enough to analyze the entire aspect of the company. The objectives of their study are overall profitability position, trend financial analysis of the company. It can be suggested that the company must be made more vigilant to maintain or improve the present situation because if there is any further fall in current ratio. It May be serious problem for the company. The study concluded that company overall financial performance was normal. The Current assets have to properly maintain to bring the current ratio into normal position.

OBJECTIVES OF THE STUDY :

The objectives of the study are as follows:

- To analyze the short term and long term financial soundness of the company.
- To analyze the profitability of the company.
- To analyze the present and future trends of the company

RESEARCH METHODOLOGY :

According to Clifford Woody research comprises defining and redefining problems, formulation of hypothesis or suggested solutions, collecting organizing and evaluating data, making deduction and reaching conclusion and at last carefully testing the care to determine whether they fit the formulating hypothesis.

RESEARCH DESIGN :

A research design is the arrangement of activities for the collection and analysis of the data in a manner that aim to confine relevance to the research purpose with economy in procedure. It is the structure of the investigation to obtain answers to research questions. It

includes the outline of what the investigator will do from writing the hypothesis and their operational implication to final analysis of data.

SOURCES OF DATA :

The secondary data are those which have already been collected by some one else and which have already been passed through the statistical process. Thus the data has been collected through company published documents and reports and records. Some like magazine, books,, articles, journals etc.

TOOLS USED FOR THE STUDY:

The following tools have been applied in the study:

Ratio analysis: Liquidity, solvency and profitability ratios. Trend analysis

LIMITATIONS OF THE STUDY:

1. The study is based on historical data. The study depends on the secondary data obtained from www.moneycontrol.com
2. Accounting techniques used for the study like ratio analysis have its own limitations. It is calculated from past data.
3. Only 6 years performance are analyzed So the results cannot be generalized to all the financial years of the company.

RESULTS AND INTERPRETATION :

To study the financial soundness of the company the following ratios were analyze to find the results of this study current ratio, quick ratio, absolute quick ratio and total assets to liabilities and profitability ratio are calculated.

Current Ratio:

(Amount in crores)

Financial year	Current Assets	Current Liabilities	Current ratio.
2015-2016	24134.74	14587.86	1.65:1
2016-2017	24537.89	6830,07	3.60:1
2017-2018	24502.00	8856.60	2.77:1
2018-2019	29568.96	9621.56	3.07:1
2019-2020	36506.91	9089.41	4.02:1
2020-2021	31815.24	10173.95	3.13:19

It is revealed from the above table that current ratio of 4.02:1 is found highest for the year 2019-2020 and 1.65:1 is found lowest in the year 2015-2016. It is clear from the table in all the years the current ratio is more than the benchmark of 2:1 except financial year 2015-2016. The results clearly indicates the current liquidity position of the company is very strong.

QUICK RATIO

(Amount in crores)

Financial year	Quick Assets	Current liabilities	Quick ratio
2015-2016	15614.92	14587.86	1.07:1
2016-2017	16673.90	6830.07	2.44:1
2017-2018	17265.85	8856.60	1.95:1
2018-2019	21981.72	9621.56	2.28:1
2019-2020	28468.87	9089.41	3.13:1
2020-2021	22344.37	10173.95	2.20:1

From the above table it is clear that quick ratio 1.07:1 is lowest in the year 2015-2016 and 3.13:1 is highest in the year 2019-2020. It is also found that none of the above mentioned financial year quick ratio is below the benchmark i.e. 1:1. So it is clear that the liquidity position of a company in immediate terms is very strong in each of the above mentioned financial year.

ABSOLUTE LIQUIDITY RATIO

(Rs. in crores)

Financial year	Cash and equivalent to cash	Current liabilities	Absolute liquidity ratio
2015-2016	6563.95	14587.86	0.45:1
2016-2017	2747.27	6830.07	0.40:1
2017-2018	2594.88	8856.60	0.29:1
2018-2019	3768.73	9621.56	0.39:1
2019-2020	6843.27	9089.41	0.75:1
2020-2021	4001.53	10173.95	0.39:1

It is clear from the above table that absolute liquidity ratio is 0.75:1 is highest in the year 2019-2020 and 0.29:1 is lowest in the year 2017-2018 and it is also clear that none of the year the absolute liquidity ratio is below the benchmark standard. So it indicates the absolute liquidity position of the company is very strong in each of the above financial year.

TOTAL EQUITY TO TOTAL ASSETS RATIO

(Rs. in crores)

Financial year	Total equity	Total Assets	Total equity to total assets ratio
2015-2016	804.72	49518.43	0.016:1
2016-2017	1214.74	54215.95	0.020:1
2017-2018	1220.43	62381.31	0.020:1
2018-2019	1225.86	69797.92	0.018:1
2019-2020	1229.22	75235.36	0.016:1
2020-2021	1230.88	71580.36	0.017:1

From the above data it is clear that total equity is 0.016 to 0.02 of the total assets of the company. It indicates the company's performance is very good in each of the above mentioned period because its total equity is very less in comparisons to total assets. It is also indicates that company utilized their capital very efficiently to grow their business.

INTEREST COVERAGE RATIO

(Rs. in corers)

Financial year	EBIT	Interest expenses	Interest coverage ratio
2015-2016	14984.34	22.95	652.78
2016-2017	15552.09	49.13	316.55
2017-2018	16525.45	86.65	191.82
2018-2019	18478.95	34.19	540.47
2019-2020	19354.64	55.72	347.36
2020-2021	17211.66	47.47	362.58

From the above data it is clear that highest interest coverage ratio is 652.78 in the financial year 2015-2016 and 191.82 is the lowest interest coverage ratio in the year 2017-2018. It is also clear that the interest coverage ratio trend is very uneven but it indicates the EBIT is very higher in comparison to interest expenses. So it concludes that the company solvency position is very secure and sound.

RETURN ON SHAREHOLDERS FUNDS

(Rs. in corers)

Financial year	Profit after tax	Shareholders fund	Return on shareholders' fund
2015-2016	9844.71	32929.00	0.30:1
2016-2017	10200.90	45350.96	0.22:1
2017-2018	11223.25	51400.07	0.22:1
2018-2019	12464.32	57949.79	0.22:1
2019-2020	15136.05	64029.16	0.24:1
2020-2021	13031.08	59004.62	0.22:1

From the above data it is clear that the return on shareholders' funds are 0.30:1 is highest in the financial year 2015-2016 and in other financial year it is in the range of 0.22:1 to 0.24:1 that indicates the consistency in the profitability of the company.

FINDINGS:

The highest current ratio is 4.02:1 is found for the year 2019-2020 and lowest current ratio 1.65:1 in the year 2015-2016.

The highest Quick ratio 3.13:1 in the year 2019-2020 and lowest 1.07:1 in the year 2015-2016,

The highest Absolute liquidity ratio is 0.75:1 in the year 2019-2020 and lowest 0.29:1 in the year 2017-2018.

The highest equity to total assets ratio is 0.02:1 in the year 2016-2017 and 2017-2018 and lowest 0.016:1 in the year 2019-2020.

Interest coverage ratio is highest 652.78 in the year 2015-2016 and lowest 191.82 in the year 2017-2018.

The highest Return on shareholder funds 0.30:1 in the year 2015-2016.

SUGGESTIONS:

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.

CONCLUSION :

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 their business in future.

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