



A STUDY ON WORKING CAPITAL MANAGEMENT OF ITC (INDIAN TOBACCO COMPANY)

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ABSTRACT :

The Project titled 'A Study On Working Capital Management Of ITC (Indian Tobacco Company)' aims to study with use of financial ratios and various aspects of ITC's (Indian Tobacco Company) working capital management. The objectives are to analyze the effectiveness of ITC's Limited working capital policies, profitability, liquidity and solvency. The study make use of secondary data. The ITC'S reports as well as websites provided the data for the study.

KEYWORDS: Working Capital Management, ITC, Profitability

INTRODUCTION:

Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debts obligations. Working capital is a financial metric which represents operating liquidity available to a business. A well designed and implemented working capital management has a significant contribution for firm's profitability as well as to maintain liquidity powers. Working capital means the amount of funds that a company requires for financing its day-to-day operations.

OBJECTIVE

- To evaluate the financial performance of the ITC Limited.
- To know the Profitability position of ITC Limited.

SCOPE OF STUDY

The study attempts to determine the efficiency and effectiveness of management in each segment of working capital and to analyze the working capital ratio and its impact on profitability.

STATEMENT OF PROBLEM

As a manufacturing firm the profitability of Fast Moving Consumer Goods (FMCG) industry mainly depends on the efficient management of working capital (i.e.,) managing the current assets and current liabilities satisfactorily. The working capital is the most essential issue for maintaining liquidity, continued existence, solvency and profitability of Fast Moving Consumer Goods (FMCG) industry. This study is designed to show the profitability, working capital position and growth rate of ITC Limited correlation between them and whether the profitability is affected by working capital management.

REVIEWS

- **Kalsie and Arora (2015)** in their study investigated the impact of various components of working capital management on the stock prices of panel of FMCG companies of India from 2000-2014. The study found that current ratio, inventory turnover ratio and earning per share significantly impact the stock prices. However, relatively less influence of receivable turnover ratio on stock prices was unearthed. Interestingly, negative relationship were found between current ratio and stock prices whereas Inventory Turnover Ratio and EPS supported a positive association with stock prices.
- **Mahila Vasanthi Thangam (2016)** The study entitle to know the financial position of the company that helps in making sound decision by analyzing the recent trend. In this study, an attempt is made to identify the financial strength and weakness of the firm by properly establishing relationship between the items in a balance sheet and profit and loss account of ITC Ltd., Chennai on the past five years. The study aims to analyze the liquidity, profitability, solvency position of the company. The present study attempted to discuss the financial performance of the company. The data were analyzed using comparative balance sheet. The analysis of the data has provided major conclusion that the company is witnessing a lot of risks in the form of competition, less profitability etc.
- **Pavan Kumar and Kamma Arpitha (2020)** examined past 5 years workin cautious management of Nestle India Ltd i.e., from 2013- 2014 to 2019-2020. Working capital management include some ratios in considering it like working capital turnover ratio, receivables turnover, inventory turnover, cash to current account ratio, quick ratio, and current ratio. They concluded the study on working capital management of Nestle India by finding that the company's financial position was seeing to be sound because the company tries to increase its production and also revenue by maximizing the sales.
- **Mahesh Chand Garg (2023)** evaluate the Working Capital Management (WCM) on firm profitability of selected textile companies in India. The study is based on secondary data collected by CMIE from the companies' annual reports for the years 2011-2020. Regression analysis is used on a sample of 98 companies from India's Bombay Stock Exchange. Various financial ratios related to Working Capital (WC) and profitability and panel data techniques like Fixed Effect Model, Random Effect Model and Hausman test, etc. are also used. The results showed that WCM has a significant impact on a firm's profitability in the textile sector.

COMPANY PROFILE

The company was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Limited. As the Company's ownership progressively indianised, the name of the Company was changed to India Tobacco Company Limited in 1970 and then to I.T.C. Limited in 1974.



ITC is One of the leading private sector firms in India, with a diversified presence in FMCG, hotels, packaging, paperboards, Information technology, agribusiness, and specialty papers.

ITC Limited is a multinational conglomerate headquartered in Kolkata, West Bengal with an gross revenue at 69,481cr and EBITDA at 23,9444cr. It ranks third in pre-tax profit among India's private sector corporations. It employs over 23,0000 people at more than 60 locations across India and is listed on Forbes 2000. ITC Limited has completed 100 years on 24th August, 2010.

LIMITATIONS

- The study is based on 5 years financial report only. It does not consider changes that have been taken place before and after the period.
- The research is completely based on secondary source of data, the direct observation is limited to time factor.

DATA ANALYSIS AND INTERPRETATION

DEBT EQUITY RATIO

Debt equity ratio is calculated to assess the long-term solvency position of a business concern. Debt equity ratio expresses the relationship between long term debt and shareholders' funds.

$$\text{Debt equity ratio} = \text{Long term debt} / \text{Shareholder's fund}$$

TABLE

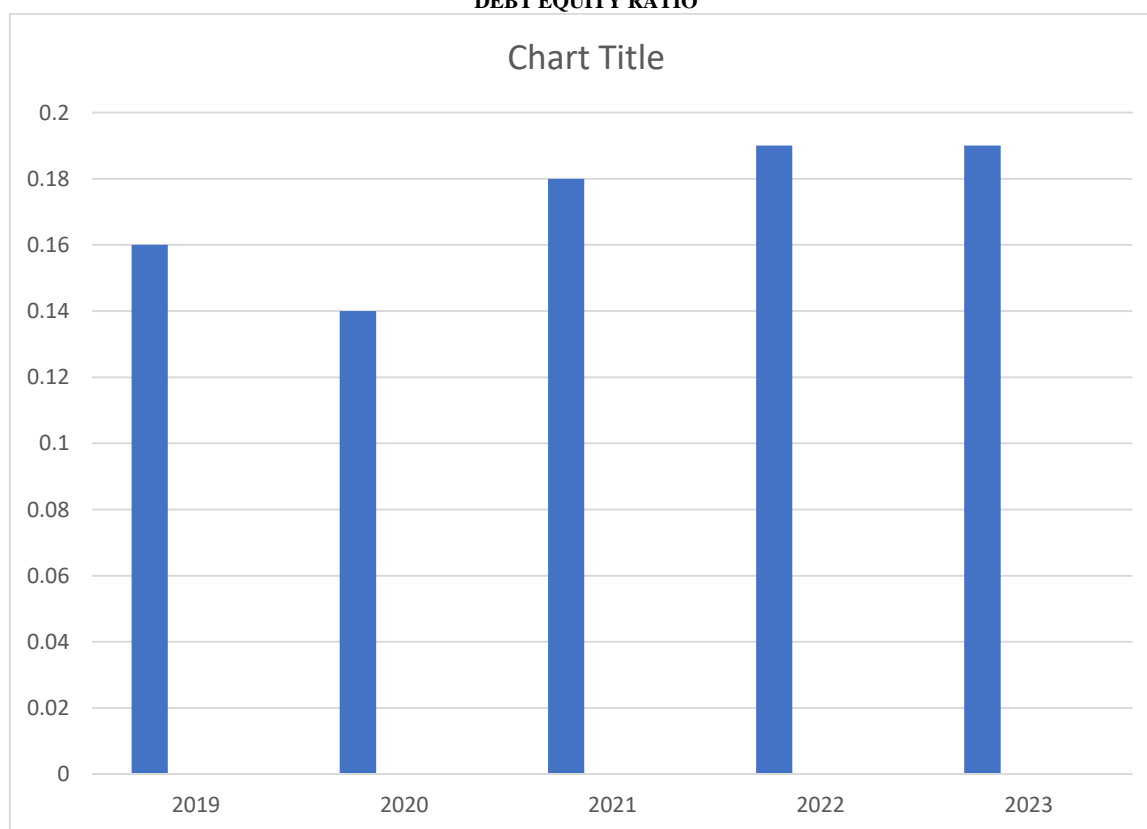
DEBT EQUITY RATIO

Year	Long term debts	Shareholders fund	Debt equity ratio
2019	9,803.99	57949.79	0.16
2020	9,588.55	64,029.16	0.14
2021	10,848.01	59,004.62	0.18
2022	12,025.79	61,399.57	0.19
2023	13,046.81	67,593.80	0.19

INTERPRETATION

The debt equity ratio of ITC Ltd was 0.16 in the year 2019, in the year 2020 it decreased to 0.14 and in the year 2021 it increased to 0.18 and the debt equity ratio for the company remained stable at 0.19 for the year 2022-2023, which states a consistent financial strategy in terms of financing operations.

CHART
DEBT EQUITY RATIO



NET WORKING CAPITAL

Working Capital, also known as net working capital (NWC), is the difference between a company's current assets and its current liabilities. It's a commonly used measurement to gauge the short-term health of the organization.

$$\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

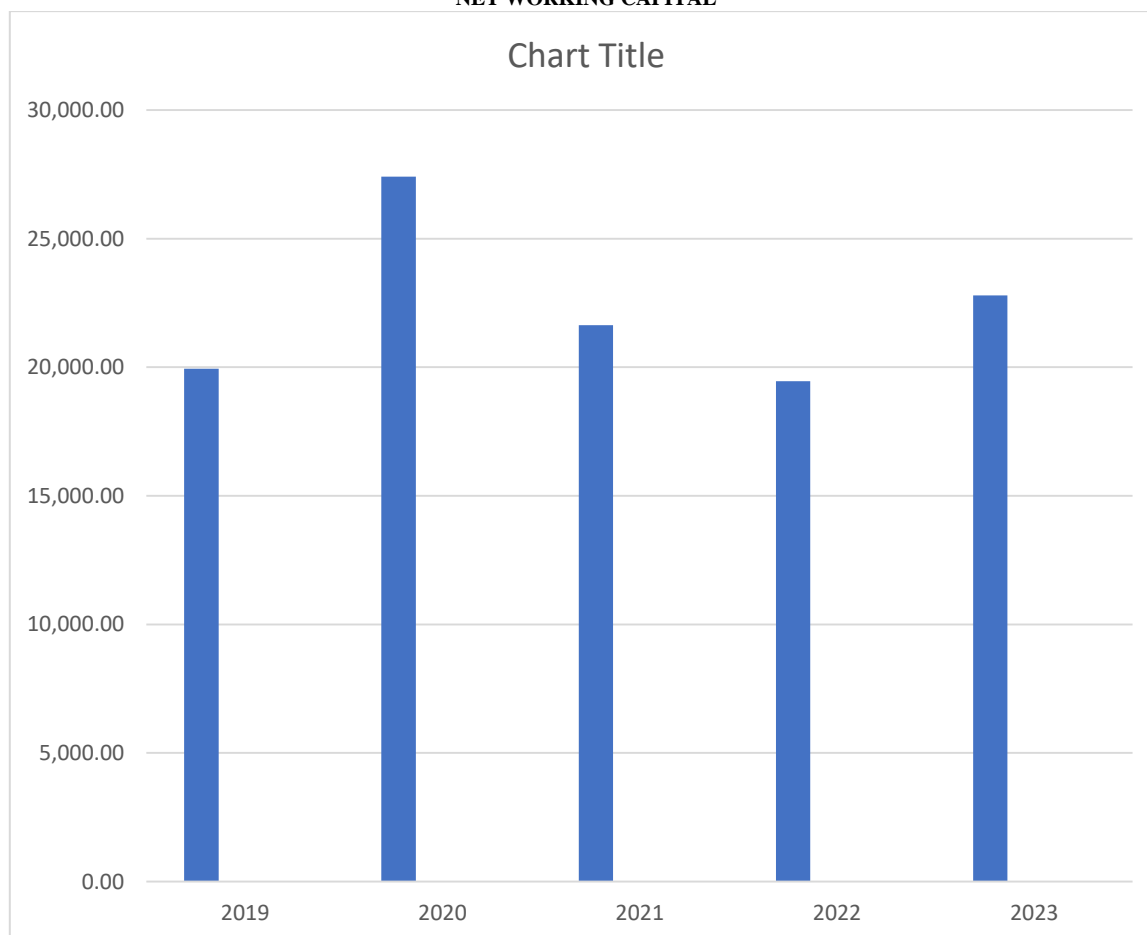
TABLE NET WORKING CAPITAL

Year	Current Assets	Current Liabilities	Net Working Capital
2019	29,568.96	9,621.56	19,947.4
2020	36,506.91	9,089.41	27,417.5
2021	31,815.24	10,173.95	21,641.29
2022	30,942.01	11,478.09	19,463.92
2023	35,203.44	12,415.62	22,787.82

INTERPRETATION

The above table represent the Net Working Capital of ITC Ltd from 2019-2023. In the year 2019 it was 19,947.4 and it increased to 27,417.5 In the year 2021 then it decreased to 21,641.29. In the next year it again decreased to 19,463.92 then it gradually increased to 22,787.82.

TABLE
NET WORKING CAPITAL

**FINDINGS**

- The debt equity ratio of ITC Ltd was 0.16 in the year 2019, in the year 2020 it decreased to 0.14 and in the year 2021 it increased to 0.18 and the debt equity ratio for the company remained stable at 0.19 for the year 2022-2023, which states a consistent financial strategy in terms of financing operations.
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SUGGESTIONS

- Overall the current ratio trend for ITC over the past five years indicates that the company has maintained a healthy liquidity, with sufficient current assets to meet its short-term liabilities. However, it is important to note that a high current ratio may also indicate that the company is not effectively using its current assets to generate higher returns or that it has too many idle assets.
- This suggests that the company's liquidity position has been relatively stable, So company has to maintain the same in future also.

CONCLUSION

This study was conducted to analyze the working capital management and its impact on profitability of ITC Limited. By analyzing the working capital management, the performance of ITC Limited shows a positive impact on business. Further the company has to focus on working capital

management to obtain future benefits. The working capital management of the company is in improving position. But still ITC Limited overall performance is satisfactory.

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