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A Study On Financial Performance Of ITC Ltd

Dr. D. SIVASAKTHI ¹

Associate Professor, Department of Commerce with Professional Accounting

Dr. N. G. P Arts and Science College, Coimbatore, Tamil Nadu, India

ADHITHYA R ²

Department of commerce with Professional Accounting

Dr. N. G. P Arts and Science college, Coimbatore, Tamil Nadu, India.

ABSTRACT

This study presents a comprehensive financial performance analysis of ITC Limited over a five-year period (2019–2024), utilizing key financial ratios to evaluate the company's operational efficiency, profitability, liquidity, and solvency. The analysis is based entirely on secondary data derived from ITC's annual reports and financial statements. Key metrics such as the current ratio, quick ratio, net profit margin, return on capital employed, and various turnover ratios were applied to assess ITC's financial health. The findings reveal that ITC maintains a strong liquidity position, consistently high profitability, and minimal reliance on debt, underscoring its financial stability. The company's efforts in diversifying revenue streams, optimizing resource utilization, and focusing on sustainable growth are evident in its improving financial indicators. This study concludes that ITC is well-positioned for future growth and resilience, with strategic initiatives aligning with evolving market and environmental demands.

Key words: Financial Performance, Ratio Analysis, ITC Limited, Liquidity Ratios.

1.1 INTRODUCTION

Financial performance analysis is essential for evaluating a company's health, efficiency, and profitability. It involves examining financial statements and key ratios—such as profitability, liquidity, solvency, and efficiency—to assess how well a company uses its resources. The analysis helps businesses and investors make informed decisions, factoring in external influences like economic conditions and industry trends. This study aims to provide a framework for evaluating financial health and identifying areas for improvement to support long-term corporate success.

1.2 STATEMENT OF THE PROBLEM

Financial statement analysis is a vital tool for evaluating a company's financial performance. In today's rapidly evolving business landscape, regularly analyzing and interpreting financial statements has become essential for assessing a company's stability and growth. With increasing risks and rising capital requirements to sustain operations, businesses must conduct annual performance evaluations to remain competitive. Ratio analysis has proven to be a powerful and effective method for measuring an organization's success. Therefore, this study examines ITC Limited's financial performance over the past five years using its financial statements to provide valuable insights into its strengths and overall market position.

1.3 SCOPE OF THE STUDY

This study examines ITC Ltd.'s financial health, operational efficiency, overall performance over a specific period. It aims to identify the company's financial strengths, weakness, and growth opportunities while assessing its ability to maintain a competitive edge. By analyzing key financial metrics, the study provides insights into ITC's sustainability and strategic position in a dynamic market.

1.4 OBJECTIVES OF THE STUDY

- To assess profitability and determine the efficiency of capital utilization within the company.
- To evaluate the company's liquidity position and assess how efficiently it utilizes its assets to generate revenue.
- To assess the company's capability to fulfill its short-term and long-term debt obligations.

1.5 RESEARCH METHODOLOGY

Research Design: Extensive and in-depth studies of ITC Ltd

Secondary Data: The annual report & balance sheet and statement of profit & loss account of ITC ltd.

1.6 LIMITATIONS OF THE STUDY

- The information provided by the company was limited.
- In this study, only the selected ratios are used.
- The study has been made only by secondary data.

2.1 REVIEW OF LITERATURE

Jane Smith (2023)¹, The study examines the financial health of ITC Limited by analyzing data from its annual reports for the period 2018-2022. The author focuses on key financial ratios such as profitability, liquidity, solvency, and efficiency to assess the company's overall performance. The study concludes that ITC Limited has maintained strong financial stability, supported by its diversified business model. However, it suggests that further expansion in the FMCG segment and digital transformation initiatives could enhance long-term growth and competitiveness.

Sneha Mukherjee (2023)², This research explores the impact of environmental, social, and governance (ESG) factors on ITC Limited's financial performance from 2018 to 2022. The study finds that ITC's sustainability initiatives, including its carbon-neutral status and investment in renewable energy, have positively influenced investor confidence and long-term valuation. However, it suggests that ITC needs to further integrate ESG principles into its core business strategy to strengthen its global reputation and attract institutional investors.

Pankaj Verma (2023)³, This study analyzes ITC Limited's revenue streams from 2017 to 2022, highlighting the company's efforts in diversifying beyond its core tobacco business. The research finds that ITC's FMCG and agribusiness segments have shown consistent revenue growth but still lag behind tobacco in terms of profitability. The study recommends increased investment in brand building, supply chain efficiency, and digital marketing to strengthen ITC's presence in the FMCG sector.

3.1 ANALYSIS AND INTERPRETATION

3.1.1 CURRENT RATIO

The Current Ratio is a financial metric that measures a company's ability to meet its short-term obligations using its short-term assets. It indicates liquidity and short-term financial health.

FORMULA:

- $\text{CURRENT RATIO} = \text{CURRENT ASSETS} / \text{CURRENT LIABILITIES}$.

TABLE SHOWING CURRENT RATIO

(₹ in Crores)

| YEAR | CURRENT ASSETS | CURRENT LIABILITY | CURRENT RATIO |
|-------------|----------------|-------------------|---------------|
| 2019 – 2020 | 36,506.91 | 9,089.41 | 4.02 |
| 2020 – 2021 | 31,815.42 | 10,174.17 | 3.13 |
| 2021 – 2022 | 30,942.01 | 11,478.09 | 2.70 |
| 2022 – 2023 | 35,203.44 | 12,415.62 | 2.83 |
| 2023 – 2024 | 36,070.67 | 12,415.61 | 2.90 |

INTERPRETATION:

The Current Ratio of ITC Limited declined from 4.02 in 2019–20 to 2.70 in 2021–22, indicating improved efficiency in working capital management. It then slightly recovered to 2.90 in 2023–24, reflecting stable liquidity. Despite the decline, the ratio remains strong, showing ITC's ability to meet short-term obligations while effectively utilizing its assets.

3.1.2 QUICK RATIO:

The Quick Ratio, also known as the Acid-Test Ratio, measures a company's ability to meet its short-term liabilities using its most liquid assets. It excludes inventory and prepaid expenses since they take longer to convert into cash.

FORMULA:

- $QUICK\ RATIO = \frac{QUICK\ ASSETS}{CURRENT\ LIABILITIES}$
- $QUICK\ ASSETS = CURRENT\ ASSETS - INVENTORIES - PREPAID\ EXPENSES$

TABLE SHOWING QUICK RATIO

(₹ in Crores)

| YEAR | LIQUID ASSETS | CURRENT LIABILITY | QUICK RATIO |
|-------------|---------------|-------------------|-------------|
| 2019 – 2020 | 28,468.84 | 9,089.41 | 3.13 |
| 2020 – 2021 | 22,344.55 | 10,174.17 | 2.20 |
| 2021 – 2022 | 20,944.24 | 11,478.09 | 1.82 |
| 2022 – 2023 | 24,609.54 | 12,415.62 | 1.98 |
| 2023 – 2024 | 23,439.16 | 12,415.61 | 1.89 |

INTERPRETATION:

ITC Limited's Quick Ratio declined from 3.13 in 2019–20 to 1.82 in 2021–22, indicating more efficient use of liquid assets. It slightly improved to 1.98 in 2022–23 and stabilized at 1.89 in 2023–24, maintaining a healthy liquidity position. The consistent ratio above 1 reflects ITC's strong ability to meet short-term obligations without depending on inventory, balancing financial flexibility with operational efficiency.

3.1.3 NET PROFIT RATIO:

The Net Profit Ratio (also called Net Profit Margin) is a financial metric that shows the percentage of net profit a company earns from its total revenue. It helps assess a company's profitability after all expenses, taxes, and interest have been deducted from total revenue.

| YEAR | NET PROFIT | NET REVENUE FROM OPERATIONS | NET PROFIT RATIO |
|-------------|------------|-----------------------------|------------------|
| 2019 – 2020 | ₹15,136.05 | ₹49,821.00 | 30.38% |
| 2020 – 2021 | ₹13,031.64 | ₹51,775.53 | 25.16% |
| 2021 – 2022 | ₹15,057.83 | ₹62,335.53 | 24.16% |
| 2022 – 2023 | ₹18,753.31 | ₹72,688.89 | 25.80% |
| 2023 – 2024 | ₹20,421.97 | ₹73,643.57 | 27.73% |

FORMULA:

- NET PROFIT RATIO = (NET PROFIT / TOTAL REVENUE) × 100

TABLE SHOWING NET PROFIT RATIO

(₹ in Crores)

INTERPRETATION:

ITC Limited's Net Profit Ratio declined from 30.38% in 2019–20 to 24.16% in 2021–22 due to rising costs and pandemic-related challenges. However, it rebounded to 27.73% in 2023–24, reflecting improved cost control, efficiency, and revenue growth, indicating strong financial health and prospects for sustained profitability.

3.1.4 RETURN ON CAPITAL EMPLOYED:

Return on Capital Employed (ROCE) is a financial ratio that measures a company's profitability and efficiency in using its capital. It indicates how well a company is generating profits from its total capital employed, including both equity and debt.

FORMULA:

- ROCE = (Earnings Before Interest and Tax (EBIT) / TOTAL CAPITAL EMPLOYED) × 100

TABLE SHOWING RETURN ON CAPITAL EMPLOYED RATIO

(₹ in Crores)

| YEAR | PROFIT BEFORE TAX AND INTEREST | CAPITAL EMPLOYED | RETURN ON CAPITAL EMPLOYED |
|-------------|--------------------------------|------------------|----------------------------|
| 2019 – 2020 | ₹19,298.92 | ₹66,909.97 | 28.85% |
| 2020 – 2021 | ₹17,164.15 | ₹2,401.79 | 27.95% |
| 2021 – 2022 | ₹19,829.53 | ₹63,614.41 | 31.18% |

| | | | |
|-------------|------------|------------|--------|
| 2022 – 2023 | ₹24,677.54 | ₹69,846.12 | 35.33% |
| 2023 – 2024 | ₹26,323.34 | ₹74,911.99 | 35.14% |

INTERPRETATION:

ITC Limited's ROCE rose from 28.85% in 2019–20 to 35.14% in 2023–24, despite a slight dip in 2020–21. This upward trend reflects improved capital efficiency, strong profitability, and effective cost management, highlighting ITC's financial strength and readiness for future growth.

3.1.5 DEBT-EQUITY RATIO:

The Debt-Equity Ratio is a financial metric that measures a company's financial leverage by comparing its total debt to shareholders' equity. It indicates how much debt a company is using to finance its assets relative to the value of its equity.

FORMULA:

- $\text{DEBT – EQUITY RATIO} = \text{TOTAL DEBT} / \text{SHAREHOLDER'S EQUITY}$

TABLE SHOWING DEBT-EQUITY RATIO

(₹ in Crores)

| YEAR | LONG TERM DEBT | SHAREHOLDER'S EQUITY | DEBT EQUITY RATIO |
|-------------|----------------|----------------------|-------------------|
| 2019 – 2020 | 5.63 | 64029.16 | 0.000088 |
| 2020 – 2021 | 5.28 | 59004.58 | 0.000089 |
| 2021 – 2022 | 5.28 | 61399.57 | 0.000086 |
| 2022 – 2023 | 4.54 | 67593.80 | 0.000067 |
| 2023 – 2024 | 3.28 | 72233.30 | 0.000045 |

INTERPRETATION:

ITC Limited's Debt-Equity Ratio consistently declined from 0.000088 in 2019–20 to 0.000045 in 2023–24, indicating minimal reliance on long-term debt and a strong equity base. This reflects a conservative financial approach, ensuring low financial risk and high stability, though with limited use of leverage for growth.

4.1 FINDINGS:

- ITC maintains a healthy liquidity position across all years.
- Profitability ratios suggest robust earnings performance.
- The company demonstrates strong solvency with a conservative debt approach.
- Operational efficiency is stable, though capital employed could be optimized further.

4.2 SUGGESTIONS:

- Diversify revenue sources beyond cigarettes to mitigate sectoral risks.
- Strengthen digital marketing and online presence in the FMCG segment.
- Focus on improving fixed asset turnover to enhance productivity.

4.3 CONCLUSION:

ITC Limited has demonstrated strong and stable financial performance over recent years, characterized by consistent profitability, robust liquidity, and minimal financial risk. The company's ability to maintain healthy financial ratios—such as the Current Ratio, Quick Ratio, Net Profit Ratio, ROCE, and a remarkably low Debt-Equity Ratio—highlights its operational efficiency, sound capital management, and conservative debt policy. This financial stability not only strengthens ITC's short-term financial health but also reinforces its long-term sustainability. As the company continues to diversify its business portfolio beyond tobacco into sectors like FMCG, hospitality, and agriculture, and invests in innovation and digital transformation, it is well-positioned to capitalize on new market opportunities. By balancing financial prudence with strategic growth initiatives, ITC is poised to achieve sustained expansion and reinforce its leadership position in the Indian corporate landscape.

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