Minor Project report

On

"A STUDY ON FINANCIAL PERFORMANCE ANALYSIS AT ITC LIMITED"

Submitted in Partial Fulfillment of the requirement for the Award of the Degree of

MBA

Submitted By:

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Batch – 2022-24

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DECLARATION

I, Sharvan Mishra bearing Enrollment No. 00318003922 do hereby declare that the project entitled " A Study on Financial Performance Analysis At ITC limited " Submitted in requirement of fulfilment of MBA degree is an authentic record of my own work , under the guidance of Mr. Aman Garg (Assistant professor) MBA department , Dr. Alkhilesh Das Gupta Institute of Technology And Management, FC-26 Shastri Park, New Delhi. This is to further declare that I have not submitted this research project to any other institute for the award of any other degree.

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CERTIFICATE

This is to certify that Mr. Sharvan MBA (Batch 2022-24) a student of Dr. Akhilesh Das Gupta Institute Of Technology And Management , FC-26 Shastri Park, New Delhi has undertaken the project on "A Study on Financial Performance Analysis at ITC Limited". To the best of my knowledge, the survey, data collection, & analysis work for preparing the project has been carried out by the student in partial fulfillment of the requirements for the award of MBA, under my guidance and supervision.

I am satisfied with the work of. Mr. S Sharvan kumar .

(Signature) :

Faculty Mentor’s Name: Mr. Aman Garg (Assistant Professor)

Date:

ACKNOWLEDGEMENT

The successful completion of the project would be incomplete without the mention of the people who made it possible.

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MBA II Semester, Batch 2022-2024

Executive Summary

Financial statements are generally insufficient to provide information to investors on their own; the numbers contained in those documents need to be put into context so that investors can better understand different aspects of the company’s operations. Ratio analysis is one of three methods an investor can use to gain that understanding.

Ratio analysis is a foundation for evaluating and pricing credit risk and for doing fundamental company valuation. A financial ratio, or accounting ratio, is derived from a company’s financial statements and is a calculation showing the relative magnitude of selected numerical values taken from those financial statements.

There are various types of financial ratios, grouped by their relevance to different aspects of a company’s business as well as to their interest to different audiences. Financial ratios may be used internally by managers within a firm, by current and potential shareholders and creditors of a firm, and other audiences interested in understanding the strengths and weaknesses of a company, especially compared to the company over time or compared to other companies.

Types of Ratios

1. Profitability ratios measure the firm's use of its assets and control of its expenses to generate an acceptable rate of return.
2. Liquidity ratios measure the availability of cash to pay debt.
3. Activity ratios, also called efficiency ratios, measure the effectiveness of a firm's use of resources, or assets.
4. Debt, or leverage, ratios measure the firm's ability to repay long-term debt.
5. Market ratios are concerned with shareholder audiences. They measure the cost of issuing stock and the relationship between return and the value of an investment in company's shares.

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Chapter 1: Introduction

Introduction

Ratio Analysis is the foundation of the financial statement that is prepared to provide information about the financial position and cash flows of an organization. The accounts and financial statements of a business are created with careful accuracy that presents the true picture of the working of the business.

After the preparation of the financial statements, they need to be analyzed for which various tools are used. One such tool is Ratio Analysis, which is a quantitative tool used to assess the financial position of the business.

It is done for the stakeholders to get to understand the financial position of the firm.

1.1 Ratio Analysis: Overview

Ratio analysis is a method of knowledge about the company's liquidity, operational efficiency, and profitability by studying its financial statements. Ratio analysis is a cornerstone of fundamental equity analysis. Ratio analysis consists of calculating financial performance using five basic types of ratios: profitability, liquidity, activity, debt, and market.

They use various types of ratios to assess and analyze the company. Ratio Analysis is the comparison of the various items in the financial accounts of the business.

Ratio Analysis is used for various purposes:

1. It is used to evaluate the liquidity, efficiency, and profitability of the business. It also helps the management to analyze the efficient use of financial resources.
2. Ratio analysis can be used to compare the performance of the company to other firms in the industry. It helps the management to compare and improve the position of the company by taking appropriate decisions.
3. Ratios are also used to identify any trend in the financial position of the company. These trends can be studied to predict future performance and decide the course of direction.

1.2 Ratio Analysis Meaning

Ratio Analysis is the process of determining and interpreting the various aspects of financial statements. It is a statistical measure to define the relationship between two figures.

It is a mathematical method where the ratios calculated from the information in the financial statements are done to gain an insight into the company's financial performance.

- Ratio analysis helps to evaluate the performance of the firm in terms of profitability, efficiency, and risk.
- Ratios provide meaningful comparisons of the various values in the financial statements.
- These ratios can be expressed as a percentage or a quotient.

1.3 Ratio Analysis Objectives

Analysis and Interpretation of the ratios require intelligence and skill as well as appropriate data to calculate the ratios. Ratio analysis is useful to various parties depending upon their needs and requirements.

Ratio analysis serves various purposes for the management of the business and its stakeholders:

- It indicates the strengths and weaknesses of the business.
- It helps in evaluating the liquidity, solvency, profitability as well as the level of efficiency of the business.
- It aims to provide reporting transparency to the stakeholders so that they measure the operative efficiency of the business.
- It also helps in budget preparation, proper utilization of assets and inter and intra company comparisons.
- It helps in predicting the future course of action of the business.
- It also helps in reviewing the past trends of the management.

1.4 Uses of Ratio Analysis

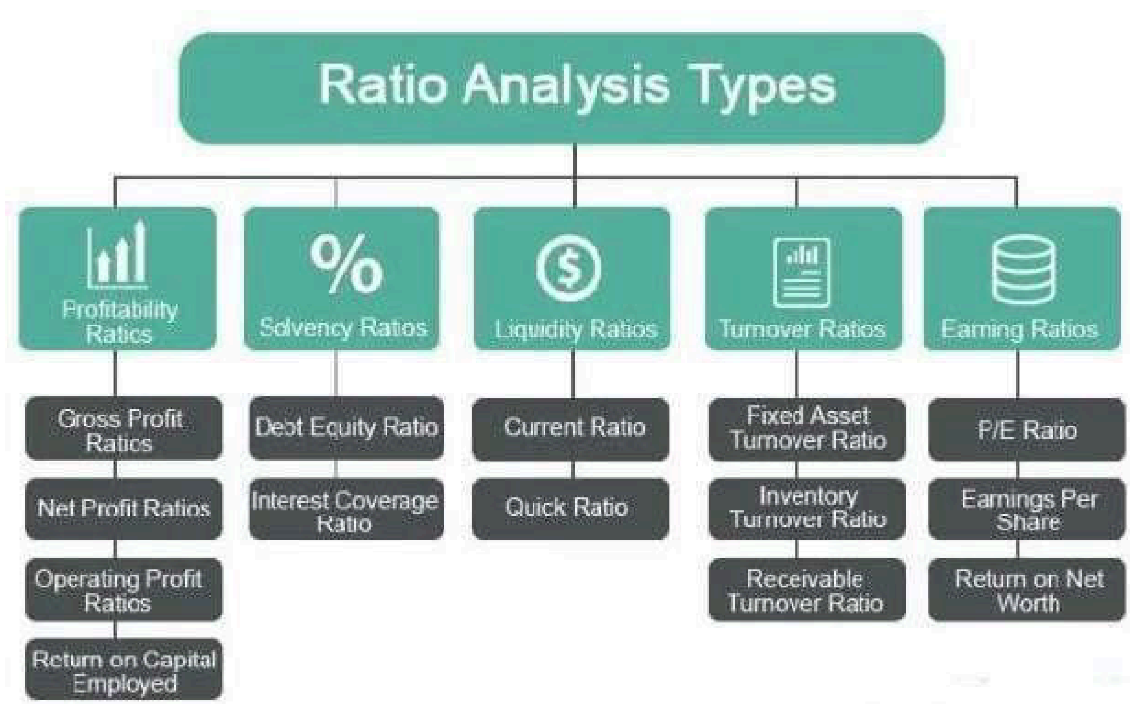
Ratios calculated from the information in financial statements help investors in three ways:

- They simplify financial statements: Ratio analysis simply information given in companies' financial statements. Investors can easily obtain data from a few ratios instead of trying to understand entire statements.

- They help detect a problematic trend: Each type of ratio analysed over a long period can point to a defect in the functioning of a business. The analysis can also predict the future performance of a company in a particular aspect of business.
- They facilitate comparisons: Ratios not only help analyse the performance of one company but also facilitate a comparison of the performances of two or more companies within an industry or a sector.

1.5 Ratio Analysis Types

In terms of financial statement analysis, financial ratios are divided into broad categories, depending upon the objective of the analysis. An analyst needs to have complete knowledge of what each type of financial ratio means and what aspect of the business it highlights.



<u>1 – Profitability Ratios</u>

This type of ratio analysis suggests the returns generated from the Business with the Capital Invested.

- Gross Profit Ratio - It represents the company's operating profit after adjusting the cost of the goods that are sold. The higher the gross profit ratio, the lower the cost of goods sold, and the greater satisfaction for the management.
- Net Profit Ratio - It represents the company's overall profitability after deducting all the cash & no cash expenses: the higher the net profit ratio, the higher the net worth, and the stronger the balance sheet.
- Operating Profit Ratio - It represents the soundness of the company and the ability to pay off its debt obligations.
- Return on Capital Employed - ROCE represents the company's profitability with the capital invested in the business.

2 – Solvency Ratios

These ratio analysis types suggest whether the company is solvent & can pay off the lenders' debts or not.

- Debt-Equity Ratio - This ratio represents the leverage of the company. A low d/e ratio means that the company has a lesser amount of debt on its books and is more equity diluted. A 2:1 is an ideal debt-equity ratio to be maintained by any company.
- Interest Coverage Ratio - It represents how many times the company's profits can cover its interest expense. It also signifies the company's solvency shortly since the higher the ratio, the more comfort to the shareholders & lenders regarding servicing of the debt obligations and smooth functioning of the business operations of the company.

3 – Liquidity Ratios

These ratios represent whether the company has enough liquidity to meet its short-term obligations or not. Higher liquidity ratios are more cash-rich for the company.

- Current Ratio - It represents the company's liquidity to meet its obligations in the next 12 months. Higher the current ratio,the stronger the company to pay its current liabilities. However, a very high current ratio signifies that a lot of money is stuck in receivables that might not be realized in the future.

- Quick Ratio - It represents how cash-rich the company is to pay off its immediate liabilities in the short term.

<u>4 – Turnover Ratios</u>

These ratios signify how efficiently the assets and liabilities of the company are used to generate revenue.

- Fixed Assets Turnover Ratio - Fixed asset turnover represents the efficiency of the company to generate revenue from its assets. In simple terms, it is a return on the investment in fixed assets.
- Inventory Turnover Ratio - The Inventory Turnover Ratio represents how fast the company can convert its inventory into sales. It is calculated in days signifying the time required to sell the stock on an average. The average inventory is considered in this formula since the company's inventory keeps on fluctuating throughout the year.
- Receivable Turnover Ratio - Receivables Turnover Ratio reflects the efficiency of the company to collect its receivables. It signifies how many times the receivables are converted to cash. A higher receivable turnover ratio also indicates that the company is collecting money in cash.

<u>5 – Earnings Ratios</u>

This ratio analysis type speaks about the company's returns for its shareholders or investors.

- P/E Ratio - PE Ratio represents the company's earnings multiple and the market value of the shares based on the pe multiple. A high P/E Ratio is a positive sign for the company since it gets a high valuation in the market for mergers & acquisitions opportunities.
- Earnings Per Share - Earnings Per Share represents the monetary value of the earnings of each shareholder. It is one of the major components looked at by the analyst while investing in equity markets.
- Return on Net worth - It represents how much profit the company generated with the invested capital from equity & preference shareholders both.

- 1.6 Ratio Analysis Limitations

Although Ratio analysis has various advantages as it is the most commonly used tool for analyzing financial statements and interpreting various accounting equations.

Despite its usefulness and advantages, it has its own set of limitations:

- Inadequate or historical data can lead to misinterpretation of ratio analysis.
- Future predictions depending upon past trends may not always be correct and dependable.
- Ratio analysis is only useful if the analyst is skilled and has complete knowledge of the process.
- Ratio analysis may not always present a realistic picture of the business as the data is based on historical data.
- Ratio Analysis cannot be used to compare the performance of companies from different sectors as they may have different accounting practices and work in a different environment.

1.7 Financial Ratio Analysis

Financial Ratios are the quantitative, mathematical comparisons of the various aspects of a financial statement that helps the investors, management, creditors to understand how well or not the company is performing.

Financial ratios allow big and small companies to evaluate and improve their financial position and market standing.

Financial Ratio Analysis is an aspect of the long-term trend analysis:

- Financial Ratios are widely used tools of analysis used by the companies to evaluate their performance.

- Since ratios are fairly easy to understand and compute, any company can use it as a tool of analysis as it does not take into account the size of the company.
- Financial Ratio Analysis is only useful if the accounts of the company are consistent and the information provided does not vary from one period to another.

Chapter 2

Company Profile

Company Profile

2.1 Overview of ITC Limited

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

Established in 1910 as the Imperial Tobacco Company of India Limited, the company was renamed as the India Tobacco Company Limited in 1970 and later to I.T.C. Limited in 1974. The company now stands renamed to ITC Limited, where "ITC" today is no longer an acronym. As of 2019–20, ITC had an annual turnover of US$10.74 billion and a market capitalization of US$35 billion. It employs 36,500 people at more than 60 locations across India.

2.2 Tobacco business and early years

ITC Limited" was originally named "Imperial Tobacco Company of India Limited", succeeding W.D. & H.O. Wills on 24 August 1910 as a British-owned company registered in Kolkata. Since the company was largely based on agricultural resource, it ventured into partnerships in 1911 with farmers from the southern part of India to source leaf tobacco. Under the company's umbrella, the "Indian Leaf Tobacco Development Company Limited" was formed in Guntur district of Andhra Pradesh in 1912. The first cigarette factory of the company was set up in 1913 at Bangalore.

In 1928, construction began for the company's headquarters, the 'Virginia House' at Calcutta. ITC acquired Carreras Tobacco Company's factory at Kidder pore in 1935 to further strengthen its presence. ITC helped to set up indigenous cigarette tissue-paper-making plant in 1946 to significantly reduce the import costs and a factory for printing and packaging was set up at Madras in 1949. The company acquired the manufacturing business of Tobacco Manufacturers (India)

Limited and the complementary lithographic printing business of Printers (India) Limited in 1953.

2.3 Towards Indianization and Business Diversification

The company was converted into a Public Limited Company on 27 October 1954. The first step towards Indianization was taken in the same year with 6% of the Indian shareholding of the company. ITC also became the first Indian company to foray into consumer research during this time. During the 1960s, technology was given more focus on setting up cigarette machinery and filter-rod manufacturing facilities aimed at achieving self-sufficiency in cigarette-making.

Ajit Narain Haskar became the company's first Indian chairman in 1969 and this was crucial in building up the Indian management for the company. As the company's ownership was progressively Indianized, under Haskar's leadership, the name of the company was changed from "Imperial Tobacco Company of India Limited" to "India Tobacco Company Limited" in 1970. ITC also became the first company in India to start from the 1971 Scissor's Cup. Innovative market campaigns and electronic data processing were started in the 1970s.

In 1973, ITC set up its integrated research center in Bangalore, aimed at diversification and venturing into newer businesses with research and development. With the unfolding diversification plans, the name of the company was changed to 'I.T.C. Limited' in 1974. The Indian shareholding grew further to 40% during this time. ITC entered into the hospitality sector with hotel business in 1975 with the acquisition renaming of ITC Welcome Group Hotel Chola in Madras. ITC chose the hospitality sector for its potential to earn high levels of foreign exchange, create tourism infrastructure and generate large-scale direct and indirect employment.

The shareholding went over 60% in 1976 and more hotels were started by the company in the following years. ITC Sangeet Research Academy was set up at Calcutta in 1977. In 1979, ITC entered the paperboards business by promoting ITC Bhadrachalam Paperboards Limited. J N Sapru took over as the company's chairman in 1983 and the international expansion started with the acquisition of Surya Nepal Private Limited in 1985. The year 1986 saw vigorous moves from the company with the opening of an Indian restaurant in the city of New York, acquisition and renaming of Vishvarama Hotels to ITC Hotels Limited, setting up of two new ventures – the ITC Classic Finance Limited and ITC Agro Tech Limited under its umbrella. ITC also entered into the edible oils industry with the launch of the Sundrop brand of cooking oils in 1988. Tribeni Tissues Limited was acquired in 1990. K L Chugh assumed the role of chairman in 1991 and ITC Global Holding Private limited was started as an international trading company in Singapore in 1992. In 1994, all the hotels under the company were transferred into the listed subsidiary company ITC Hotels Limited. ITC, through the brand Wills, sponsored the 1996 Cricket World Cup.

Y.C. Deveshwar took over as the company's chairman in 1996 and the corporate governance structure was re-crafted to support the effective management of multiple businesses. ITC exited from edible oils business and financial services; sold the ITC Classic Finance Limited to ICICI

Limited and handled the Sundrop business to ConAgra Foods Limited in 1998. In the year 2000, an innovative initiative for farmers called "e-Choupal" was started in Madhya Pradesh 2000. The same year witnessed the launch of ITC's Wills Sport range of casual wear with its first retail outlet in New Delhi and ITC's entry into stationery products and gifting business introducing the 'Expressions' range of greeting cards and Classmate notebooks. A wholly owned information technology subsidiary, ITC Infotech India Limited was also started in 2000 and the ITC Bhadrachalam Paperboards Limited was merged into ITC Limited. The name of the company was changed to "ITC Limited" omitting the dots and adapting the strategy "No stops for ITC" in 2001. An employee stock option scheme was introduced for the first time and a web portal for the company was launched. Subsidiaries for ITC InfoTech were set up in the United Kingdom and the USA.

As per the Annual report of the company, it had 26000+ employees as on 31 March 2023. It spent ₹4,463.33 crores on Employee benefits during the FY 2022–23.

ITC's Chairman Yogesh Chandra Deveshwar (d. 2019) won renowned awards and recognition including Padma Bhushan from Govt. of India 2005–09, by Boston Consulting Group and seventhbest-performing CEO in the world by Harvard Business Review.

Meera Shankar, Indian ambassador to the USA between 2009 and 2011, joined the board of ITC Limited in 2012 as the first woman director in its history. She is an additional non-executive director of the company.

2.4 ITC’s Vision

Sustain ITC's position as one of India's most valuable corporations through world class performance, creating growing value for the Indian economy and the Company's stakeholders.

2.5 ITC’s Mission

‘To enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable stakeholder value’

2.6 Business Segments

ITC is involved in developing and manufacturing different products in an innovative way into its all major segments i.e. FMCG, Agri-Business, Hotels, Paperboards and Specialty Boards, Packaging, and Information Technology.

FMCG

ITC is a leading marketer in the FMCG business in India. The product portfolio of the FMCG segment of ITC includes Foods, Personal care, Education and Stationery, Safety Matches, Cigarettes, Lifestyle retailing, and Agarbattis.

The product innovation can be seen in its different brands that have created a market standing between customers such as Sun feast, Candy man, Aashirvaad, Bingo!, etc. in the segment of branded packaged foods; Vivel, Fiama, Wills, and Superia in the segment of personal care products; WLS in the business segment of Lifestyle Apparel; Papercraft and Classmate in the product category of Education & Stationery; Aim in matches and Mangal deep in Agar battis.

Hotels

ITC is also into the business segment of luxury hotel chains in India. ITC hotel's activities are centered on delivering the best possible luxury by following world-class green practices. ITC has over 100 hotels in more than 70 destinations and ITC Hotels have defined standards of excellence in the hotel segment in different facilities such as Cuisine, Accommodation, Guest Safety, and Environment. There are 4 brands of accommodation developed by ITC i.e. Towers, ITC One, Executive Club, and Eva.

Agri-Business

ITC operates in the Agriculture sector as well and the brand has acquired a strong position as a leading corporate in India in the agricultural industry due to its participation in transforming and revolutionizing the rural agricultural area. ITC is indulged in the activities like exports and domestic trading of different agricultural products and is India's one of the largest exporters in these products. It sources (exports and domestic trading) a couple of products of Food Grains, Feed Ingredients, Marine Products, Coffee, and Processed Fruits.

Paperboards and Specialty Papers Manufacturing

This division of ITC is considered the largest paper and paperboards business in India which is the most eco-friendly and uses advanced technology in the production process. This business segment of ITC has acquired leadership in terms of volume, market research, product range, and environmental performance. Paperboards and Specialty papers business includes different activities related to packaging, communication, printing, graphic, writing, etc.

The business is into producing different products such as Packaging Boards that include Recycled Boards, Graphic Boards, Virgin Boards, Barrier Coated Boards, etc., and Specialty Papers like Décor, Communication, Wrapping paper.

Information Technology (IT) Services

ITC also provides IT services through its IT business vertical ITC Infotech. This segment offers business-friendly solutions to support clients in their success by adding both digital expertise and deep domain expertise from group businesses of ITC. The main activities of ITC Infotech are to provide technology-based solutions and services to different enterprises of different industries like Healthcare, Consumer Goods, Banking and Financial Services, Travel and Hospitality, Manufacturing.

Packaging & Printing

The Packaging and Printing business of ITC is South Asia's largest value-added converter in terms of packaging paperboard. This business segment includes activities of converting 70,000 tonnes plus paper, laminates, and paperboard every year into different value-added solutions of packaging for different industries such as personal products, consumer goods, liquor, cigarette, and food & beverage.

The clients of the packaging and printing business of ITC include UB Group, Tata Tea, Colgate Palmolive, Nokia, Reckitt Benckiser, Tata Tea, and many more.

Focus on Expanding FMCG Business

For Q1 FY2022, the Company's FMCG revenue was up 10% YoY to Rs. 3,726 Cr. on a comparable basis. Staples, Convenience Foods and Health & Hygiene products, representing around 75% of the portfolio (in base period excl. ESPB), recorded robust growth in the quarter. Taking the advantage of the favorable market, the Company came up with 100+ launches post lockdown. ITC, in its packaged food portfolio, has successfully created strong brands like Aashirvaad, Sunfeast and Bingo. With improving consumption dynamics, ITC can scale its existing portfolio (a 13x opportunity) through several brand extensions and enter new categories.

Focus on Acquisition

ITC has a history of highly rewarding acquisitions. The Company bought Savlon - an antiseptic liquid and soap brand and prickly-heat powder Shower to Shower from US-based multinational Johnson & Johnson in 2015 for an estimated sum of Rs 250-300 Cr. It had picked up the juice brand B Natural for Rs 100 Cr. in 2014. In 2020, it entered the home care market, acquiring the Nimyle brand of floor cleaners for an undisclosed sum. ITC also acquired spices manufacturer Sunrise Foods for Rs. 2,150 Cr. Sunrise also adds to ITC's presence in spices through the Aashirvaad and Master Chef brands. Strong cash position gives the Company a further headroom for inorganic growth.

Focus on Expanding Personal Care Segment

ITC has also developed strong brands in the non-packaged food business (personal care, apparels, education & stationary, agar batti), which contributes the remaining 25%. The personal care business continues to enhance market standing in the Fragrance and liquids (hand wash & body wash) categories. Personal care portfolio growth is driven by several innovative launches. Engage pocket deo now contributes more than a third of the deo portfolio; it has 11% market share in the deo segment. Fiama has become stronger in the shower gel business and is at number 2 with 18% market share. The shower gel business is ~10% of the soaps business.

2.7 Board of Directors:

Chairman and MD: Sanjiv Puri ☔ Executive Directors:

1. Nakul Anand
2. Sumant Bhargavan
3. Rajiv Tandon

☔ Independent and Non-Executive Directors:

1. Shilabhadra Banerjee
2. Hemant Bhargava
3. Navneet Doda
4. Arun Duggal
5. Mukesh Gupta
6. Shyamal Mukherjee
7. Anand Nayak
8. Sunil Panray
9. Nirupama Rao
10. Ajit Kumar Seth
11. Meera Shankar
12. David Robert Simpsom

Chief Financial Officer: Supratim Dutta

Executive Vice President & Company Secretary: Rajendra Kumar Singhi

General Counsel: Angamuthu Shanmuga Sundaram

Investor Service Centre

37 Jawaharlal Nehru Road, Kolkata 700 071, India

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Chartered Accountants, Mumbai

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ITC Corporate Website: www.itcportal.com

2.8 Brands Owned by ITC Limited

ITC has more than 30 Brands which include Aashirvaad, Sun feast, Bingo, Kitchens of India Yippee, B-Natural, mint-o, Candy man, Gum On, Fabelle, Sun bean, Sun feast, Wonder-z Milk,

ITC Master Chef, Farmland, Sunrise, Essenza, Di Wills, Dermafique, Fiama, Vivel, Engage, Superia, Nimyle, Nim easy, Nim wash, Savlon, Shower to Shower, Charmis, Classmate, Paper Kraft, AIM, Mangal Deep, Home lites.

2.9 Competitors

Below are the top 7 competitors of ITC Limited:

1. Marico

2. L'Oréal

3. Nirma Ltd

4. HUL (Hindustan Unilever)
5. Colgate-Palmolive
6. Procter and Gamble
7. Dabur

Chapter 3

Literature Review

Literature Review

DR. ARICKAL and JAIN (2023) in their research titled as Position Statement Analysis - A Case Study of ITC Limited have discussed that the position statement or balance sheet reflects the resources and obligations of an organization. As per various acts & enactments the position statement needs to be prepared by all types of organization. The position statement reflects the classification and the value of all the assets and liabilities as well as it provides the information whether the business organization has enough assets to pay off the External liabilities or not. It also depicts whether the business enterprise is economically viable and the stability position of the organization is strong enough to tackle the financial crisis. In this research paper they have used solvency ratio, fixed assets turnover ratio debt equity ratio & total assets turnover ratio, for knowing and assessing the efficiency with which the total assets & fixed assets are utilized, finding the correlation between the total assets & total outsiders liabilities & measuring the extent to which the interest bearing finance or debt financing is used by ITC Ltd from 2014-15 to 2018-19.

Keerthi and Eswari (2021) in their research titled a study on financial performance using ratio analysis of Kumbakonam Central Co-Operative Bank have analyzed the overall financial position of the bank using ratio analysis. It shows whether the firm is improving or worsening in past years. The secondary data is used for the entire study i.e. the last five years annual reports of KCCB. Ratio analysis provides a basis for both intra-firm as well as inter-firm comparisons. The pictorial representations are used for better understanding. Ratios are useful tool for various stakeholders like management, financiers, shareholders and creditors etc. Various types of ratios include liquidity ratios, profitability ratios, solvency ratios are analyzed in this study. This paper tells that not only about the financial position of the firm but also helps to identify the problems and offer suggestions to improve its performance.

SUTHAR (2018) in his study titled Financial Ratio Analysis: A Theoretical Study has studied that financial ratio is most important tool for accounting analysis. In this paper, researcher has done study on ratio analysis, its usefulness, its effectiveness with using various past published papers and articles. This paper is based on review of literature. There are so many ratios which are used by different user as research tool. The ratio analysis has long history in its own field.

Day by day ratios are developed by its user. As account researcher, knowledge of ratio is very useful for financial management. This paper contain theoretical concept of ratio analysis.

Dr. Khatik & Mr. Varghese (2015) in their article titled as Impact of Working Capital Management on Firm Profitability: An Empirical Study of ITC Ltd has analyzed that it can be seen that even though the profitability position was strong, the liquidity position of ITC is not up to the ideal level. The short term solvency position of the firm must be strengthened so that it is able to meet its obligations timely. These things facilitate the maximization of the wealth of the firm. From this study it can be concluded that there is a significant difference in the profitability & liquidity position of the company because it has been seen that the profitability position was strong were as the liquidity position was not satisfactory. The risk factor of the firm is high as compared to profitability. The total risk of the firm is also high as compared to the ROCE, which was not worthwhile for the future prospects of the firm.

Bargale and Jain (2014) in their study titled Investment Decision On The Basis Of Intrinsic Value of Shares through Fundamental Analysis: A Case Study of ITC Limited analyzed that Fundamental analysis is the foundation of solid investing. It helps to determine the underlying health of a company by examining the business's core numbers. From these - fundamental investors evaluate if a stock is under- or overvalued. If the intrinsic/real value of the stock is above the current market price, the investor would purchase the stock because he knows the stock price would rise and moves towards its intrinsic value. If the intrinsic/real value of the stock is below the current market price, the investor would sell the stock because he knows the stock price is going to fall and come closer to its intrinsic value. To present the study in this direction, it focuses on the various aspects, like Earning Per Share, Price to Earnings Ratio, Project Earning Growth, Price to Sales, Price to Book Value Ratio, Dividend Payout Ratio, Dividend Yield, Book Value, Return on Equity, Intrinsic Value of the Share and Value Anchor etc. This paper includes Earning & Dividend Level, Growth Performance, Risk Exposure, Valuation Multiples and Estimation of Intrinsic Value.

PROF. TITUS, DR. SENGUPTA, and Ms. GARG (2013) in their case titled Leveraging Distribution Networks for Competitive Advantage: A Case of FMCG Channel Management at ITC LTD. based research work was carried to get know-how of the distribution process of ITC and also that of its competitors. The distribution process, although being quite similar, differs in the schemes and offers provided to the retail outlets. The tough competition by peers in the FMCG sector makes it necessary to constantly revise the policies as per the market conditions.

Understanding the taste and preference of the consumers provide the useful insight into the market conditions and helps companies revise their policies accordingly.

Salmi & Martikainen (1994) in their research titled A Review of the Theoretical and Empirical Basis of Financial Ratio Analysis have discussed that this paper provides a critical review of the theoretical and empirical basis of four central areas of financial ratio analysis. The research areas reviewed are the functional form of the financial ratios, distributional characteristics of financial ratios, classification of financial ratios, and the estimation of the internal rate of return from financial statements. It is observed that it is typical of financial ratio analysis research that there are several unexpectedly distinct lines with research traditions of their own. A common feature of all the areas of financial ratio analysis research seems to be that while significant regularities can be observed, they are not necessarily stable across the different ratios, industries, and time periods. This leaves much space for the development of a more robust theoretical basis and for further empirical research.

Chapter 4

Research Methodology

Research Methodology

4.1 Introduction to Research

Research in common parlance refers to a search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation. The Advanced Learner's Dictionary of Current English lays down the meaning of research as 'a careful investigation or inquiry especially through search for new facts in any branch of knowledge.

Redman and Mory define research as a systematized effort to gain new knowledge.

Some people consider research as a movement, a movement from the known to the unknown. It is actually a voyage of discovery. We all possess the vital instinct of inquisitiveness for, when the unknown confronts us, we wonder and our inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which man employs for obtaining the knowledge of whatever the unknown, can be termed as research.

Research is an academic activity and as such the term should be used in a technical sense. According to Clifford Woody research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis. D. Slesinger and M. Stephenson in the Encyclopedia of Social Sciences define research as "the manipulation of things, concepts or symbols for the purpose of generalizing to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/techniques but also the methodology.

A simple example of Data analysis is whenever we take any decision in our day-to-day life is by thinking about what happened last time or what will happen by choosing that particular decision. This is nothing but analyzing our past or future and making decisions based on it. For that, we gather memories of our past or dreams of our future. So that is nothing but data analysis. Now same thing analyst does for business purposes, is called Data Analysis.

4.2 Objectives of the study:

1. To study and analyze the financial position of the Company through ratio analysis.

2. To analyze the asset turnover ratio.

3. To suggest measures for effective and efficient usage of inventory.

4.3 Research Design: Research design is the framework of research methods and techniques chosen by a researcher. The design allows researchers to hone in on research methods that are suitable for the subject matter and set up their studies up for success. The design of a research topic explains the type of research (experimental, survey research, co-relational, semi-experimental, review) and also its sub-type (experimental design, research problem, and descriptive case-study).

Research Design used in the study is Descriptive Research Design.

4.4 Data Collection: Data collection is defined as the procedure of collecting, measuring and analyzing accurate insights for research using standard validated techniques. A researcher can evaluate their hypothesis on the basis of collected data. In most cases, data collection is the primary and most important step for research, irrespective of the field of research. The approach of data collection is different for different fields of study, depending on the required information.

In the study, Secondary data is collected from the official website of ITC Limited, Academia etc.

4.5 Analytical tools:

Microsoft Excel: Microsoft Excel is a spreadsheet program used to record and analyze numerical and statistical data. Microsoft Excel provides multiple features to perform various operations like calculations, pivot tables, graph tools, macro programming, etc. It is compatible with multiple OS like Windows, Mac OS, Android and IOS.

An Excel spreadsheet can be understood as a collection of columns and rows that form a table. Alphabetical letters are usually assigned to columns, and numbers are usually assigned to rows. The point where a column and a row meet is called a cell. The address of a cell is given by the letter representing the column and the number representing a row.

In Microsoft Excel, a chart is often called a graph. It is a visual representation of data from a worksheet that can bring more understanding to the data than just looking at the numbers.

A chart is a powerful tool that allows you to visually display data in a variety of different chart formats such as Bar, Column, Pie, Line, Area, Doughnut, Scatter, Surface, or Radar charts.

Chapter 5

Data Analysis & Interpretation

5.1 Liquidity Ratio's

A liquidity ratio is a type of financial ratio used to determine a company's ability to pay its short- term debt obligations. The metric helps determine if a company can use its current, or liquid, assets to cover its current liabilities.

5.1.1 Current Ratio

The ratio between all current assets and all current liabilities or another way of expressing liquidity. It is a measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for every one rupee of current liability. A ratio of greater than one means that the firm has more current assets than current claims against them.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

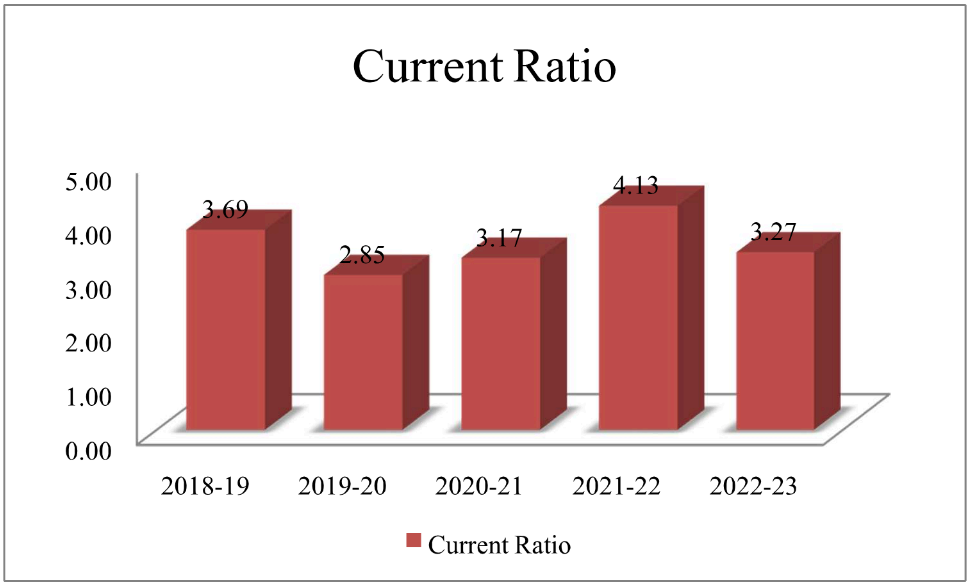
Table 5.1

ITC's Current Assets & Current Liabilities

Year	Current Assets	Current Liabilities	Current Ratio
2018-19	26269.1	7121.01	3.688957
2019-20	26393.62	9250.15	2.853318
2020-21	31747.27	10011.99	3.170925
2021-22	39505.35	9559.77	4.132458

2022-23	34991.99	10689.68	3.273437

Figure 5.1: Current Ratio



Interpretation: The standard norm for current ratio is 2:1. During the year 2018, the ratio is 3.69 and it has decreased to 2.85 during the year 2019and increased to 3.17 in 2020 and 4.13 in 2021 and decreased to 3.27 in the year 2022.

5.1.2 Quick Ratio

Quick ratio establishes a relationship between quick, or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value.

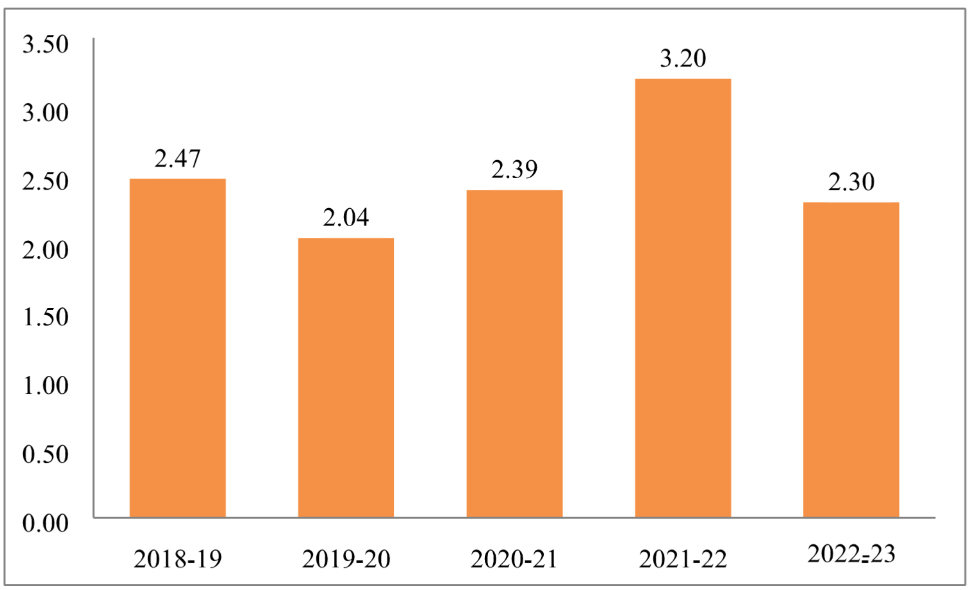
$$\text{Quick Ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

Table 5.2

ITC's Quick Assets & Current Liabilities

Year	Quick Assets	Current Liabilities	Quick Ratio
2018-19	17598	7121.01	2.47
2019-20	18898.53	9250.15	2.04
2020-21	23887.71	10011.99	2.39
2021-22	30626.02	9559.77	3.20
2022-23	24594.83	10689.68	2.30

Figure 5.2: Quick Ratio



Interpretation: The standard norm for quick ratio is 1:1. Quick Ratio is during the year 2018 is 2.47 and it has decreased to 2.04 during the year 2019 and increased to 2.39 in 2020 and 3.20 in 2021 and decreased to 2.30 in the year 2022.

5.1.3 Cash Ratio

The cash ratio is one of three common methods to evaluate a company's liquidity—its ability to pay off its short-term debt.

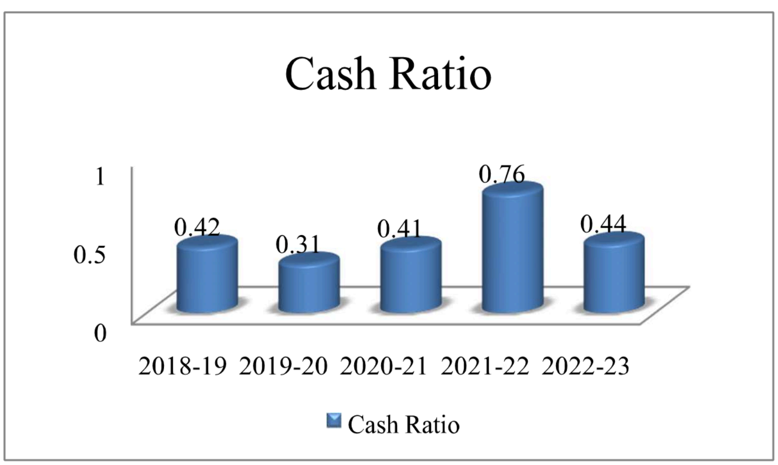
$$\text{Cash Ratio} = \frac{\text{Cash \& Bank balances}}{\text{Current liabilities}}$$

Table 5.3

ITC's Cash & Bank Balances and Current Liabilities

Year	Cash & Bank Balances	Current Liabilities	Cash Ratio
2018-19	2967.4	7121.01	0.42
2019-20	2899.6	9250.15	0.31
2020-21	4152.03	10011.99	0.41
2021-22	7277.34	9559.77	0.76
2022-23	4659.02	10689.68	0.44

Figure 5.3: Cash Ratio



Interpretation: The standard norm for cash ratio is if the company's cash ratio is more than one, than, the company's liquidity is very sound but in the above figure, it can be seen that over the years, the cash ratio is less than 1 which results that the company's liquidity is very low.

5.1.4 Net Working Capital Ratio

The net working capital ratio is the net amount of all elements of working capital. It is intended to reveal whether a business has a sufficient amount of net funds available in the short term to stay in operation.

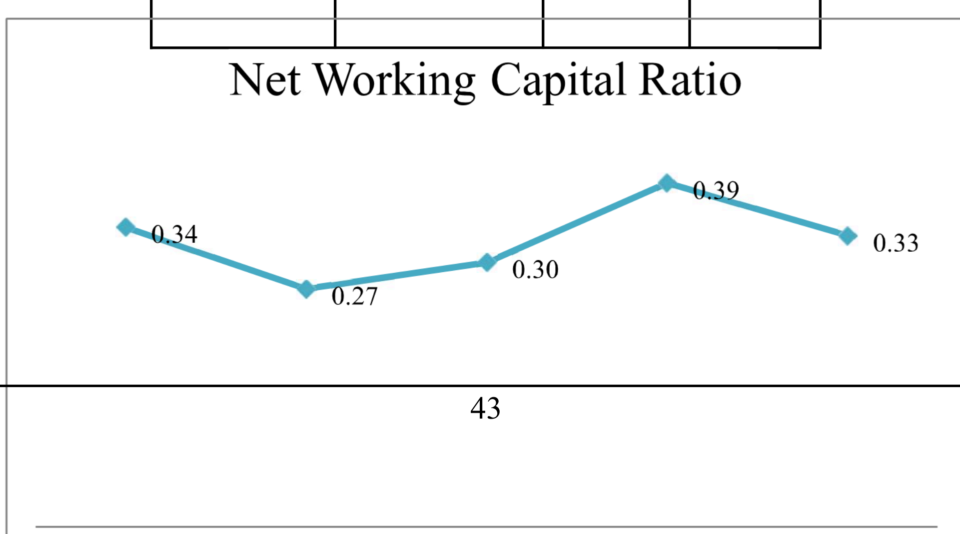
(Current assets - Current liabilities) ÷ Total assets

Table 5.4

ITC's Net Working Capital & Total Assets

Year	Net Working Capital	Total Assets	Cash Ratio
2018-19	19148.09	55943.27	0.34
2019-20	17143.47	64288.86	0.27
2020-21	21735.28	71798.41	0.30
2021-22	29945.58	77367.04	0.39
2022-23	[illegible]	[illegible]	0.33

Figure 5.4: Net Working Capital Ratio



Interpretation: Net working capital ratio is 0.34 in the year 2018 but decreased to 0.27 in the year 2019 and increased to 0.30 in the year 2020 and again increased to 0.39 in year 2021 but fall down in year 2022.

5.2 Leverage Ratios

A leverage ratio is any one of several financial measurements that assesses the ability of a company to meet its financial obligations. A leverage ratio may also be used to measure a company's mix of operating expenses to get an idea of how changes in output will affect operating income.

5.2.1 Debt Ratio

A company's debt ratio is a measure of the extent of its financial leverage. This ratio varies widely across industries.

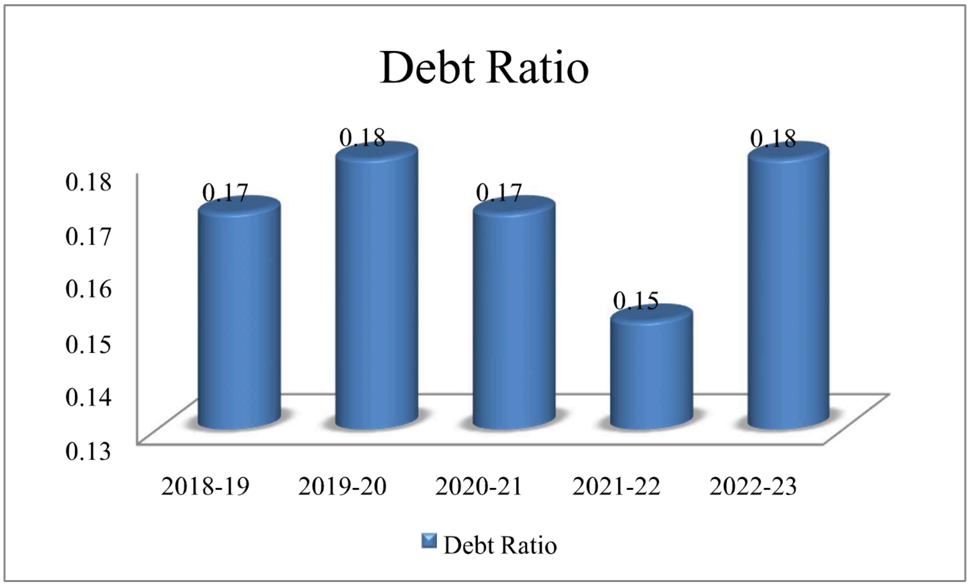
$$\textbf{Debt Ratio} = \frac{\textbf{Total Liabilities}}{\textbf{Total asset}}$$

Table 5.5

ITC’s Total Liabilities & Total Assets

Year	Total Liabilities	Total Assets	Debt Ratio
2018-19	9235.6	55943.27	0.17
2019-20	11444.28	64288.86	0.18
2020-21	12314.07	71798.41	0.17
2021-22	11716.31	77367.04	0.15
2022-23	13125.15	73819.3	0.18

Figure 5.5: Debt Ratio



Interpretation: This ratio gives results relating to the capital structure of a firm. Debt ratio is 0.17 in the year 2018; it increased to 0.18 in the corresponding year 2019 and decreased in the year 2020 to 0.17 and again falls to 0.15 in the year 2021 and increased in the year 2022 to 0.18. From this, we can see a rise in the dependency of the company on debts is rising.

5.2.2 Debt – Equity Ratio

Debt to equity ratio is a capital structure ratio that evaluates the long-term financial stability of a business using balance sheet data. We can also express it in terms of long-term debt and equity.

$$\text{Debt}/\text{Equity} = \frac{\text{Total Liabilities}}{\text{Total Shareholders' Equity}}$$

Table 5.6

ITC's Total Liabilities & Total Shareholder's Equity

Year	Total Liabilities	Total Shareholder's Equity	Debt/Equity

			Ratio
2018-19	9235.6	46707.67	0.20
2019-20	11444.28	52844.58	0.22
2020-21	12314.07	59484.34	0.21
2021-22	11716.31	65650.73	0.18
2022-23	13125.15	60694.15	0.22

Figure 5.6: Debt/Equity Ratio

Interpretation: Debt-Equity Ratio is 0.20 in the year 2018 and increased to 0.22 in the year 2019 and then fall to 0.21 in year 2020 and 0.18 in years 2021 and increased in the year 2022.

5.2.3 Interest Coverage Ratio

The interest coverage ratio is used to measure how well a firm can pay the interest due on outstanding debt.

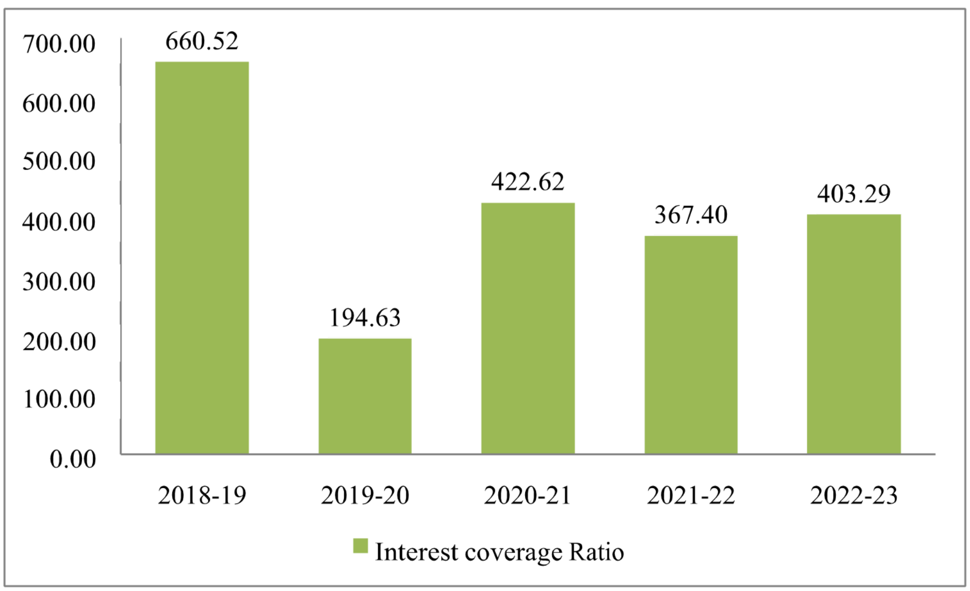
$$\textbf{Interest Coverage Ratio} = \frac{\textbf{Earnings before Interest and Taxes (EBIT)}}{\textbf{Interest Expense}}$$

Table 5.7

ITC's EBIT & Interest

Year	EBIT	Interest	Interest coverage Ratio
2018-19	16050.62	24.3	660.52
2019-20	17499.02	89.91	194.63
2020-21	19195.24	45.42	422.62
2021-22	20089.25	54.68	367.40
2022-23	17982.76	44.59	403.29

Figure 5.7: Interest Coverage Ratio



Interpretation: Interest coverage ratio is 660.52 for the year 2018. It is decreased to 194.63 in the year 2019 but increased to 422.62 in the year 2020 and decreased to 367.40 in the year 2021 and rise again in the year 2022 to 403.29. In this position, investors are less interested to invest their money in the company.

5.3 Activity Ratios

Activity ratios are used to determine the efficiency of the organization in utilizing its assets for generating cash and revenue. It is used to check the level of investment made on an asset and the revenue that it is generating.

5.3.1 Inventory Turnover Ratio

It indicates the efficiency of the firm in producing and selling its product. It is calculated by dividing the cost of goods sold by the average inventory.

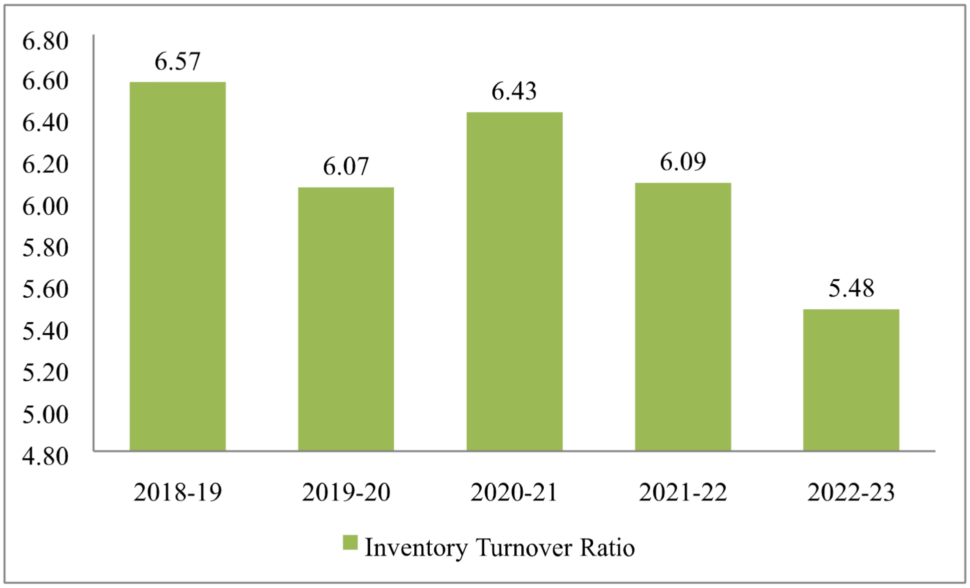
$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Table 5.8

ITC’s COGS & Average Inventory

Year	COGS	Average Inventory	Inventory Turnover Ratio
2018-19	58287.95	8866.60	6.57
2019-20	47362.51	7805.59	6.07
2020-21	49348.43	7677.33	6.43
2021-22	50968.50	8369.45	6.09
2022-23	52835.15	9638.25	5.48

Figure 5.8: Inventory Turnover Ratio



Interpretation: Inventory turnover ratio is 6.57 times in the year 2018, but it declined to 6.07 in the year 2019 and then it increases to 6.43 in the year 2020 and then declined to 6.09 for the year 2021 and 5.48 for the year 2022.

5.3.2 Debtors Turnover Ratio

The Debtors Turnover Ratio also called as Receivables Turnover Ratio shows how quickly the credit sales are converted into the cash. This ratio measures the efficiency of a firm in managing and collecting the credit issued to the customers.

Accounts Receivable Turnover Ratio = Sales / Average Debtors

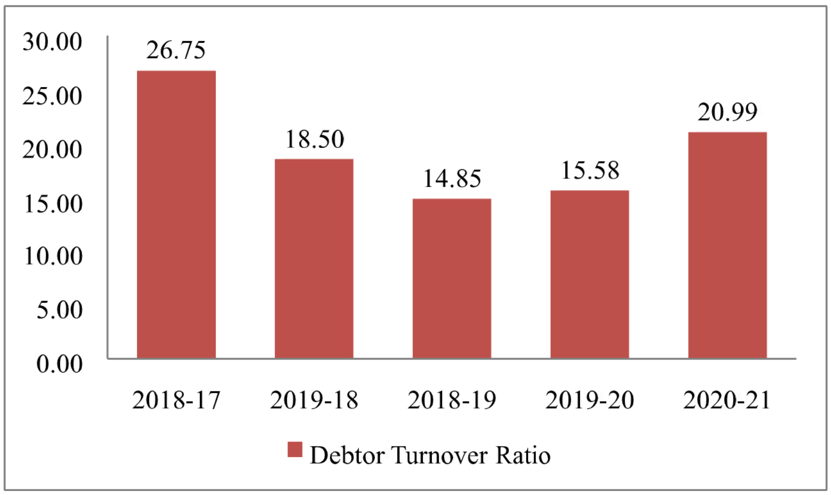
Table 5.9

ITC’s Sales & Average Debtors

Year	Sales	Average Debtors	Debtor Turnover Ratio
2018-19	58731.52	2195.74	26.75
2019-20	47688.55	2578.29	18.50

2020-21	49862.11	3358.79	14.85
2021-22	51393.47	3298.88	15.58
2022-23	53155.12	2532.09	20.99

Figure 5.9: Debtor Turnover Ratio



Interpretation: Debtor Turnover Ratio is 26.75 in the year 2020 and decreased to 18.50 for the year 2019 and again decreased to 14.85 for the year 2020 and then increased to 15.58 and again increased to 20.99 in the year 2020.

5.3.3 Fixed Asset Turnover Ratio

The ratio is supposed to measure the efficiency with which fixed assets are employed a high ratio indicates a high degree of efficiency in asset utilization and a low ratio reflects inefficient use of assets. However, in interpreting this ratio, one caution should be borne in mind. When the fixed assets of the firm are old and substantially depreciated, the fixed assets turnover ratio tends to be high because the denominator of the ratio is very low.

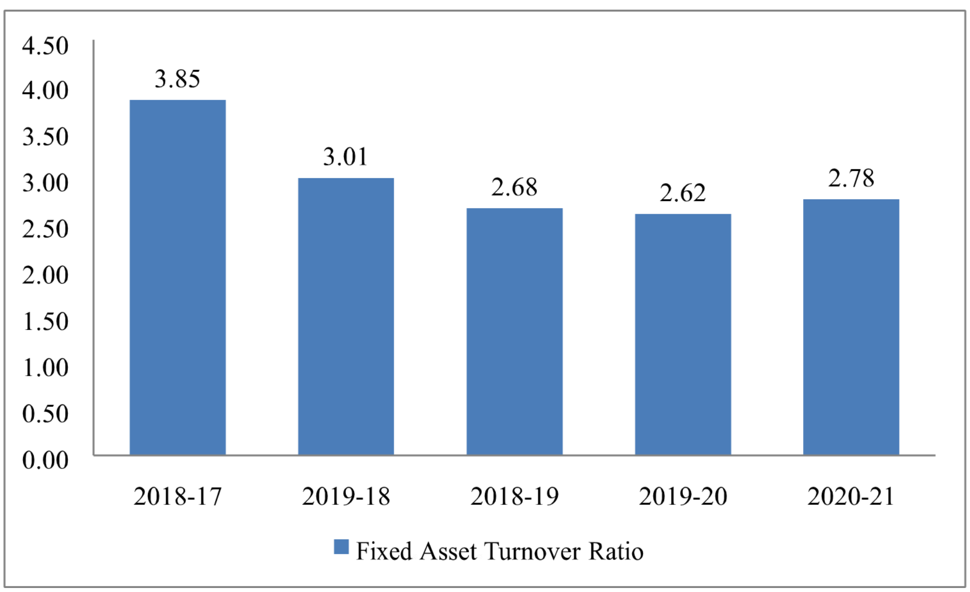
$$\text{Fixed Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Fixed Asset}}$$

Table 5.10

ITC's Sales & Net Fixed Assets

Year	Sales	Net Fixed Asset	Fixed Asset Turnover Ratio
2018-17	58731.52	15262.27	3.85
2019-18	47688.55	15863.68	3.01
2020-19	49862.11	18625.74	2.68
2019-20	51393.47	19632.92	2.62
2020-21	53155.12	19153.94	2.78

Figure 5.10: Fixed Asset Turnover Ratio



Interpretation: Fixed Assets Turnover ratio is 3.85 in the year 2020 and decreased to 3.01 in the year 2019 and again decreased to 2.68 in the year 2018 and 2.62 in the year 2019 and increased to

2.78 in the year 2020.

5.3.4 Current Asset turnover Ratio

Current Assets Turnover Ratio indicates that the current assets are turned over in the form of sales more number of times. A high current assets turnover ratio indicates the capability of the organization to achieve maximum sales with the minimum investment in current assets. Higher the current ratio better will be the situation.

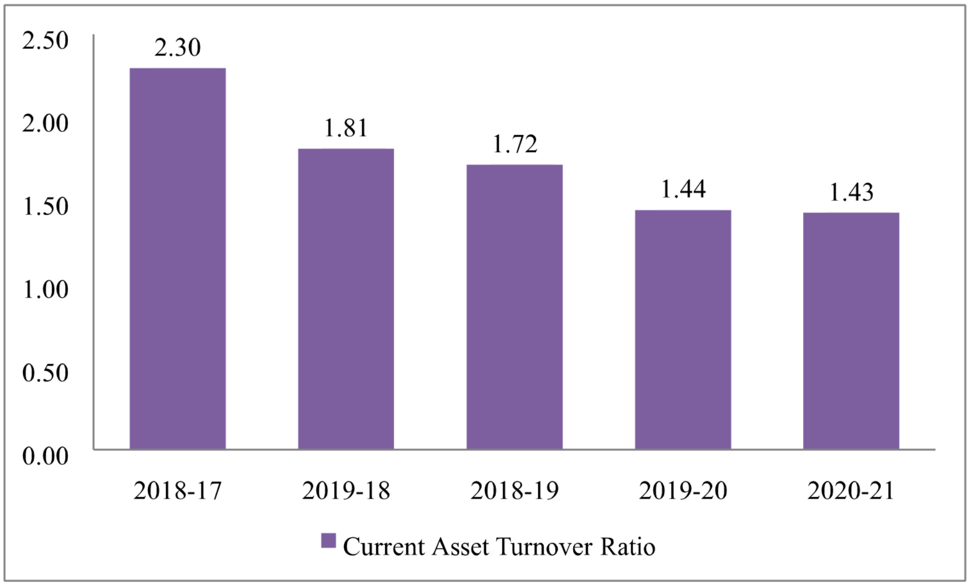
$$\text{Current Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Average Current Assets}}$$

Table 5.11

ITC's Sales & Average Current Assets

Year	Sales	Average Current Assets	Current Asset Turnover Ratio
2018-17	58731.52	25562.80	2.30
2019-18	47688.55	26331.36	1.81
2018-19	49862.11	29070.45	1.72
2019-20	51393.47	35626.31	1.44
2020-21	53155.12	37248.67	1.43

Figure 5.11: Current Asset Turnover Ratio



Interpretation: Current Asset Turnover ratio is 2.30 in the year 2020, 1.81 in the year 2019, 1.72 in the year 2018, 1.44 in the year 2019 and 1.43 in the year 2020. From this, we can see a downward trend in Current Asset Turnover ratio.

5.3.5 Total Asset Turnover Ratio

The total asset turnover ratio compares the sales of a company to its asset base. The ratio measures the ability of an organization to efficiently produce sales, and is typically used by third parties to evaluate the operations of a business.

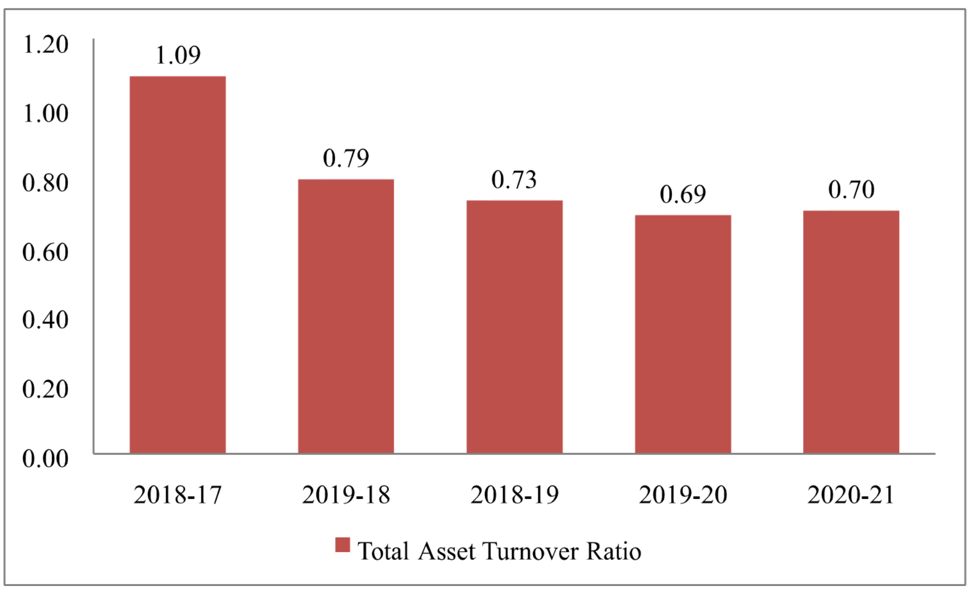
$$\text{Total Asset Turnover} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

Table 5.12

ITC’s Sales & Average Total Assets

Year	Sales	Average Total Assets	Total Asset Turnover Ratio
2018-17	58731.52	53817.58	1.09
2019-18	47688.55	60116.07	0.79
2018-19	49862.11	68043.64	0.73
2019-20	51393.47	74582.73	0.69
2020-21	53155.12	75593.17	0.70

Figure 5.12: Total Asset Turnover Ratio



Interpretation: In the year 2020, total asset turnover ratio is 1.09 and it falls to 0.79 in the year 2019, 0.73 in the year 2018 and 0.69 in the year 2019 and slightly shifted upwards to 0.70 in the year 2020. It means total assets are decreasing in every year.

5.3.6 Working Capital Turnover Ratio

Working capital turnover ratio is a formula that calculates how efficiently a company uses working capital to generate sales. In this formula, working capital refers to the operating capital that a company uses in day-to-day operations. This ratio demonstrates a company's ability to use its working capital to generate income.

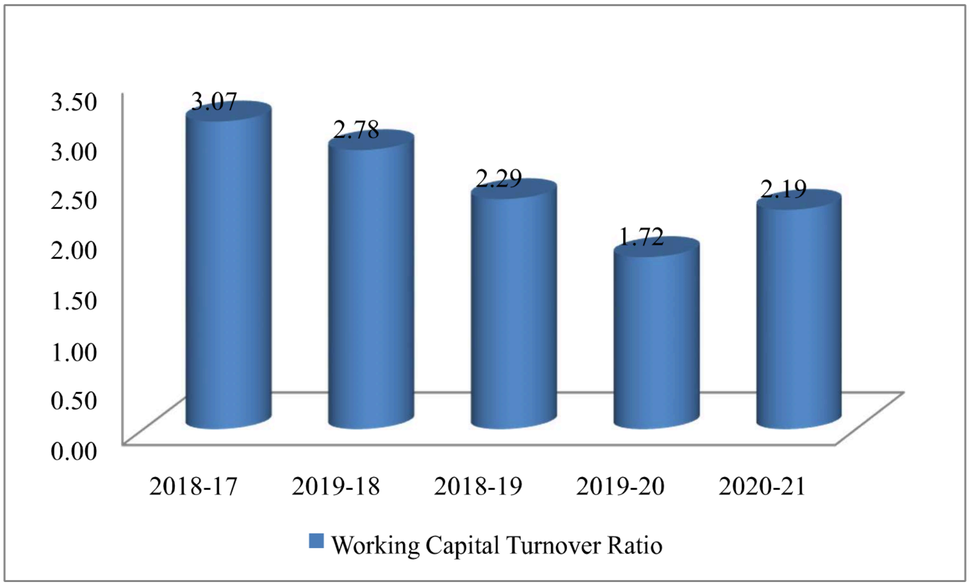
$$\text{Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Working Capital}}$$

Table 5.13

ITC's Sales & Working Capital

Year	Sales	Working Capital	Working Capital Turnover Ratio
2018-17	58731.52	19148.09	3.07
2019-18	47688.55	17143.47	2.78
2018-19	49862.11	21735.28	2.29
2019-20	51393.47	29945.58	1.72
2020-21	53155.12	24302.31	2.19

Figure 5.13: Working Capital Turnover Ratio



Interpretation: Working Capital Turnover ratio is falling as it is 3.07 in the year 2020, 2.78 in the year 2019, 2.29 in the year 2018 and 1.72 in the year 2019 but it is increased to 2.19 in the year 2020.

5.3.7 Net Asset Turnover Ratio

A measurement of the ability of management to use a firm's net assets to generate sales revenue, calculated as sales revenue divided by capital employed. Too high a number may indicate too little investment while too low a ratio (relative to comparable firms) suggests inefficient management.

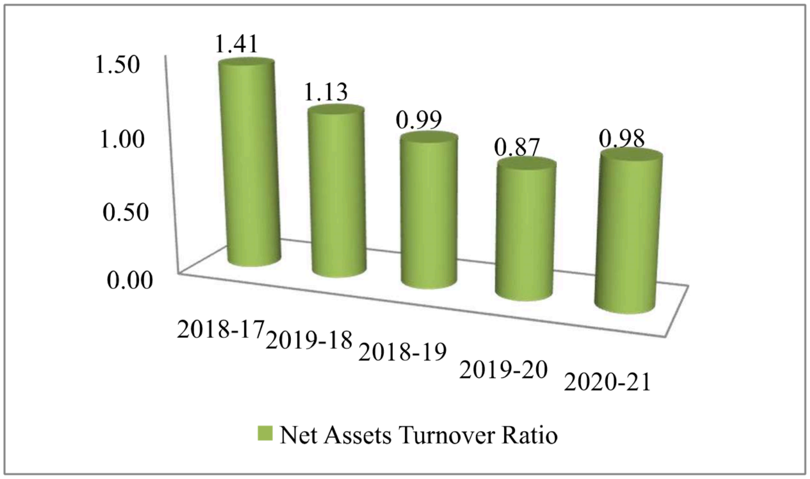
Table 5.14

ITC's Sales & Net Assets

Year	Sales	Net Assets	Net Assets Turnover Ratio
2018-17	58731.52	41531.37	1.41
2019-18	47688.55	42257.30	1.13

2018-19	49862.11	50373.01	0.99
2019-20	51393.47	59138.27	0.87
2020-21	53155.12	54145.93	0.98

Figure 5.14: Net Assets Turnover Ratio



Interpretation: Net Asset Turnover ratio is 1.41 in the year 2020 and it decreased to 1.13 in the year 2019, 0.99 in the year 2018, 0.87 in the year 2019 and it increased to 0.98 in the year 2020.

5.3.8 Capital Turnover Ratio

Capital turnover (also called equity turnover) is a measure that calculates how efficiently the company is managing the capital invested by the shareholders in the company to generate revenues. If the ratio is high, it shows that the company efficiently utilizes the amount of capital invested. In contrast, if the ratio is low, it indicates that the company is not managing its capital investment efficiently to generate the required revenue, i.e., the company has to invest the funds appropriately to achieve the sales target by utilizing the owner's funds company.

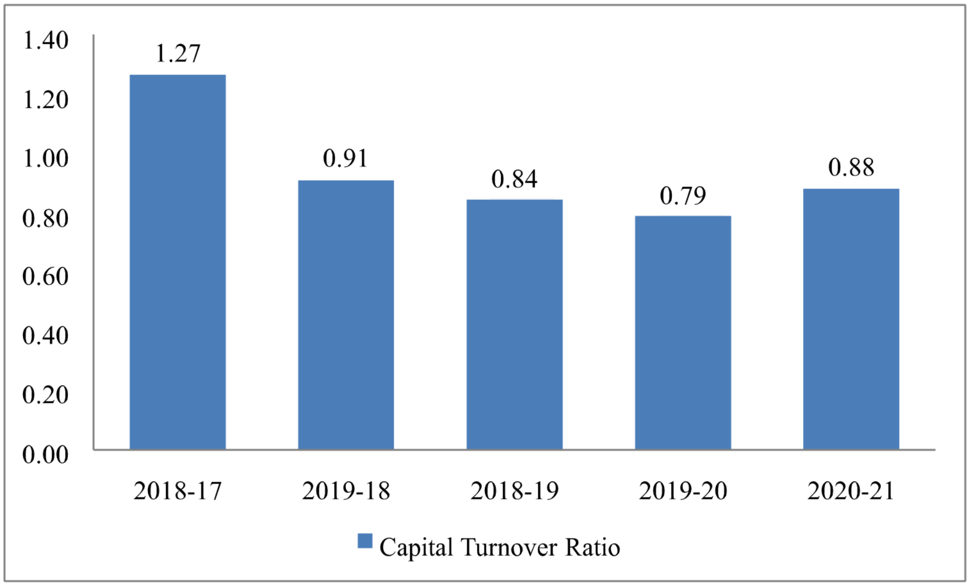
Capital Turnover Formula = Total Sales / Shareholder's Equity

Table 5.15

ITC's Sales & Shareholder's Equity

Year	Sales	Shareholder's Equity	Capital Turnover Ratio
2018-17	58731.52	46412.93	1.27
2019-18	47688.55	52510.11	0.91
2018-19	49862.11	59140.87	0.84
2019-20	51393.47	65273.26	0.79
2020-21	53155.12	60347.34	0.88

Figure 5.15: Capital Turnover Ratio



Interpretation: Capital Turnover Ratio is decreasing for the 4 years which is 1.27 in the year 2018, 0.91 in the year 2019, 0.84 in the year 2020 and 0.79 in the year 2019 but it increased to 0.88 in the year 2020.

5.3.9 Creditors Turnover Ratio

Creditor's turnover ratio is also known as Payables Turnover Ratio, Creditor's Velocity and Trade Payables Ratio. It is an activity ratio that finds out the relationship between net credit purchases and average trade payables of a business. It finds out how efficiently the assets are employed by a firm and indicates the average speed with which the payments are made to the trade creditors.

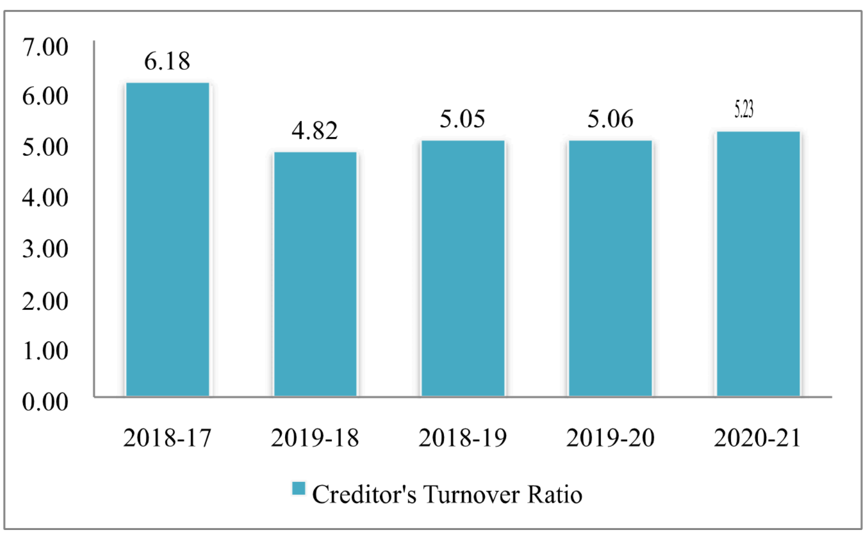
$$\text{Creditor's Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Trade Payables}}$$

Table 5.16

ITC's Net Credit Purchases & Average Trade Payables

Year	Net Credit Purchases	Average Trade Payables	Creditor's Turnover Ratio
2018 - 17	15456.59	2499.31	6.18
2019 - 18	14827.72	3077.76	4.82
2018 - 19	17623.52	3487.73	5.05
2019 - 20	18048.60	3569.71	5.06
2020 - 21	20776.71	3974.28	5.23

Figure 5.16: Creditors Turnover Ratio



Interpretation: Creditor’s Turnover Ratio is 6.18 in the year 2020 and it decreased to 4.82 in the year 2019, then it increased to 5.05 & 5.06 in the year 2018 & 2019 and increased to 5.23 in the year 2020.

5.4 Profitability Ratios

Profitability ratios are financial metrics used by analysts and investors to measure and evaluate the ability of a company to generate income (profit) relative to revenue, balance sheet assets, operating costs, and shareholders’ equity during a specific period of time. They show how well a company utilizes its assets to produce profit and value to shareholders.

5.4.1 Gross Profit Ratio

Gross profit margin compares gross profit to sales revenue. This shows how much a business is earning, taking into account the needed costs to produce its goods and services.

$$\text{Gross Margin} = \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}}$$

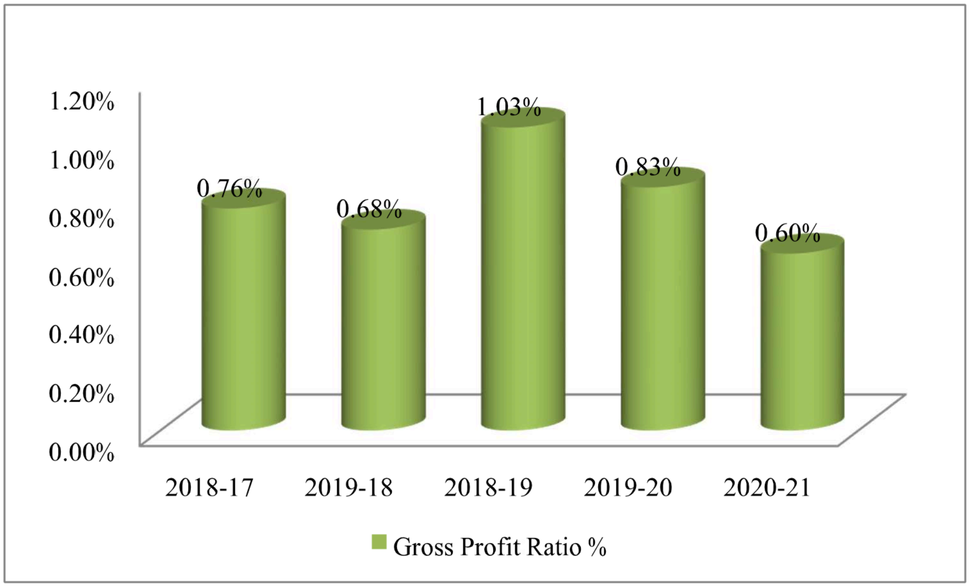
Table 5.17

ITC’s Gross Profit & Sales

Year	Gross Profit	Sales	Gross Profit Ratio %
2018-17	443.57	58731.52	0.76%
2019-18	326.04	47688.55	0.68%
2018-19	513.68	49862.11	1.03%

2019-20	424.97	51393.47	0.83%
2020-21	319.97	53155.12	0.60%

Figure 5.17: Gross Profit Ratio %



Interpretation: From the above, we can say that gross profit ratio is 0.76% in the year 2020, and it decreased to 0.68% but increased to 1.03% in the year 2018 and then decreased to 0.83% in the year 2019 and decreased to 0.60 in the year 2020.

5.4.2 Net Profit Ratio

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized.

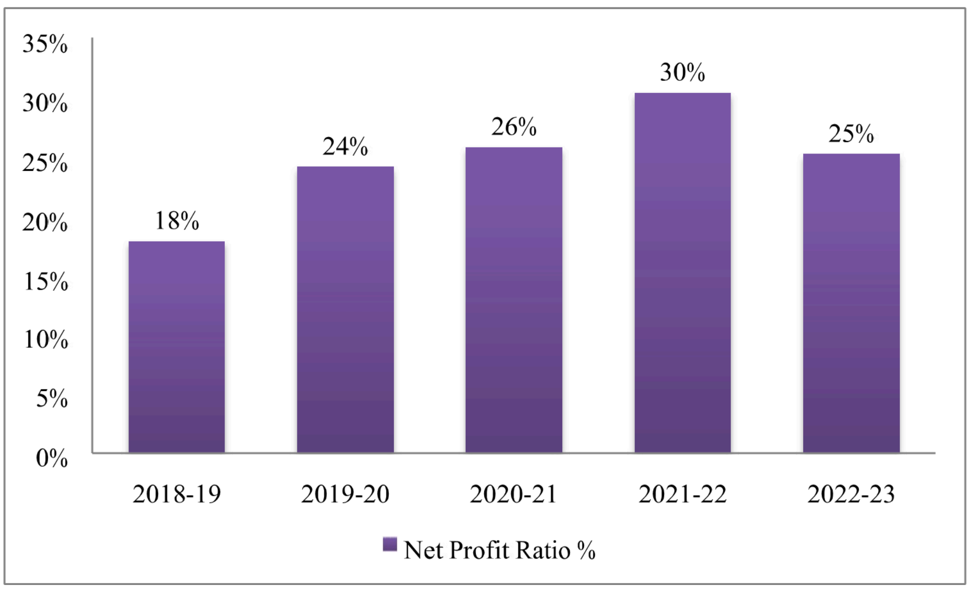
$$\textbf{Net profit ratio} = \frac{\textbf{Net profit}}{\textbf{Net sales}} \textbf{ X 100}$$

Table 5.18

ITC’s Profit after Tax & Sales

Year	Profit After Tax	Sales	Net Profit Ratio %
2018-17	10477.23	58731.52	18%
2019-18	11492.68	47688.55	24%
2018-19	12835.9	49862.11	26%
2019-20	15592.78	51393.47	30%
2020-21	13382.88	53155.12	25%

Figure 5.18: Net Profit Ratio %



Interpretation: During the year 2018, the net profit ratio is 18% and then it increased to 24% in the year 2019 and then it increased to 26% in the year 2020 and then it jumps to 30% in the year 2021 and then fall down to 25% in the year 2022.

5.4.3 Return on Investment

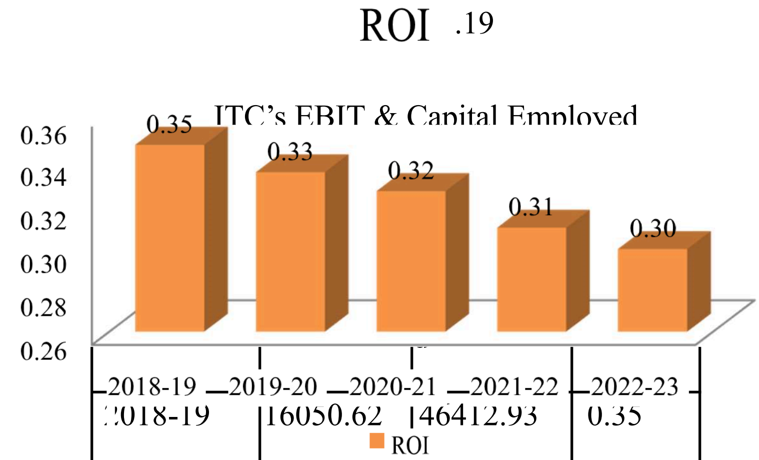
The return on investment ratio (ROI), also known as the return on assets ratio, is a profitability measure that evaluates the performance or potential return from a business or investment. The ROI formula looks at the benefit received from an investment, or its gain, divided by the investment's original cost.

$$\text{Return On Investment (ROI)} = \frac{\text{Earnings before Interest and Taxes (EBIT)}}{\text{Capital Employed}}$$

ITC's EBIT & Capital Employed

2018-19	16050.62	46412.93	0.35
2019-20	17499.02	52510.11	0.33
2020-21	19195.24	59140.87	0.32
2021-22	20089.25	65273.26	0.31
2022-23	17982.76	60347.34	0.30

Figure 5.19: Return on Investment



Interpretation: Return on Investment is falling over the years as it is 0.35 in the year 2018, 0.33 in the year 2019, 0.32 in the year 2020, 0.31 in the year 2021 and 0.30 in the year 2022.

5.4.4 Return on Shareholder's Equity

The return on shareholders' equity ratio shows how much money is returned to the owners as a percentage of the money they have invested or retained in the company. It is one of five calculations used to measure profitability.

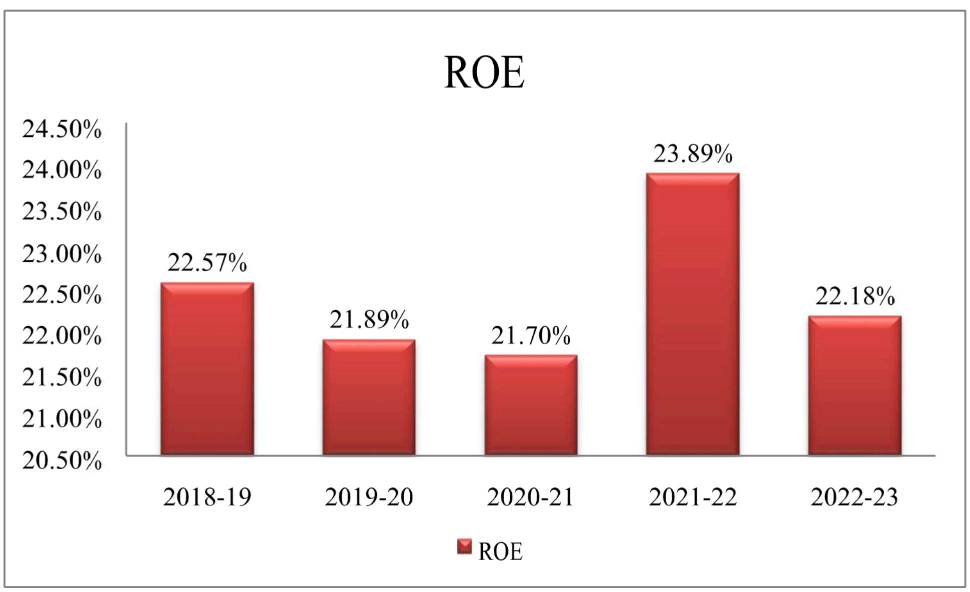
$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Table 5.20

ITC's Profit after Tax & Shareholder's Equity

Year	Profit After Tax	Shareholder's Equity	ROE
2018-19	10477.23	46412.93	22.57 %
2019-20	11492.68	52510.11	21.89 %
2020-21	12835. 9	59140.87	21.70 %
2021-22	15592.78	65273.26	23.89 %
2022-23	13382.88	60347.34	22.18 %

Figure 5.20: Return on Equity



Interpretation: Return on Equity in the year 2018 is 22.57% then it falls down to 21.89% in the year 2019, then it comes to 21.70% in the year 2020, and then it jumps to 23.89% in the year 2021 and then declined to 22.18% in the 2022.

Chapter 6

Findings and Conclusions

6.1 Findings

- The company is maintaining current ratio as more than 2, which indicates the ability of the firm to meet its current obligations is more and it also shows that the company is strong in funds management.
- From the above, we can see a upward trend in the quick ratio which means that the company is good in the collections and cash reserves. Nevertheless, quick ratio above 1 is a healthy liquidity metric.
- From the Cash Ratio, we can see that the company have cash ratio less than 1 which means that liquidity is very less.
- According to the debt-equity ratio, we can find that company's dependency on debt is reducing as the ratio declines for 3 years continuously.
- Net Working Capital Ratio is also in downward trend as they fall for 3 years.
- As per the graph, the inventory turnover ratio is falling as it comes from 6.57 to 5.48 which mean that the company is holding its inventory longer than previously measured times.
- Net asset turnover ratio is decreasing year by year as it comes from 1.41 to 0.98 which indicates that the company is inefficient in managing the net assets.
- Gross Profit % is also declining which means that the company is under stiff competition.
- Net Profit % is rising as it comes from 18% to 25% which means that company is efficiently managing its products prices.

- Decline in the Return on Investment means that company is unable to generate good returns on the investor money.

- Return on Equity is under a range of 20% to 25% which indicates that the company is able to generate low shareholders return.

6.2 Conclusion

- On the basis of the calculation of liquidity ratio, current ratio and quick ratio more than 1 is good & generally speaking creditors and investors will look for an accounting liquidity

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- ratio of around 2 or 3 and ITC Ltd is maintaining both ratios much better throughout the years but it is failing to maintain the cash ratio and net working capital ratio as per expectations of creditors and investors.

On the basis of the leverage ratios calculation, the debt-equity ratio tells that debt in ITC Ltd's capital structure is not quite high but on the other hand it also means that ITC can also lose out on leverage and interest coverage ratio shows that investors are less interested in investing money in ITC Ltd.

On calculating the activity ratio, it is found that all the asset management ratios are showing a downward trend which clearly indicates that ITC Ltd has over-invested in plants, equipments or other fixed assets.

On the basis of profitability ratios, it can be seen that there is a decline in the gross profit which indicates that ITC Ltd has less money left to cover operating expenses, depreciation, taxes and other business costs while Net Profit is increasing which means that ITC Ltd is operating successfully and doing finely managing the costs and prices of goods and services. And the Return on Equity is under a range of 20% to 25% which means company is able to use its investor's fund to generate returns.

Chapter 7

Limitation
s

7.1 Limitations - There are some limitations in this study which are as follows:-

a) Time allotted for the research is limited - The more in-depth the method the more time consuming it is. Also, doing your own primary research tends to take longer than using secondary sources.

b) Limited access to data - Data = Knowledge. Good data provides indisputable evidence, while anecdotal evidence, assumptions, or abstract observation might lead to wasted resources due to taking action based on an incorrect conclusion.

c) The study is based on secondary data analysis and we do not know exactly how the data collection process was done and how well it was done. So that's why the primary data would have been used which would provide some useful insights.

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