

A Study on Financial Performance Analysis of ITC Limited

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Abstract

Financial performance analysis is one of the most important tools used for evaluating the financial stability, profitability, efficiency, and sustainability of business organizations. The present study focuses on analyzing the financial performance of ITC Limited over a five-year period from FY2019 to FY2023. ITC Limited is one of India's leading diversified conglomerates with business operations in FMCG, cigarettes, hotels, paperboards and packaging, agri-business, and information technology services.

The study uses secondary data collected from annual reports, financial statements, industry reports, and financial databases. Various tools and techniques such as ratio analysis, comparative financial statements, common-size analysis, trend analysis, and Du Pont analysis have been applied to evaluate the company's financial health and operational efficiency. The study reveals that ITC Limited maintained strong profitability, excellent liquidity, efficient asset management, and an almost debt-free capital structure.

The company experienced temporary financial challenges during the COVID-19 pandemic, particularly in FY2021; however, ITC demonstrated strong recovery in FY2022 and FY2023 through operational efficiency, growth in FMCG products, and effective cost management. The findings indicate that ITC Limited possesses strong long-term growth potential supported by its diversified business model and sustainable business practices.

Keywords

Financial Performance, Ratio Analysis, ITC Limited, FMCG Industry, Profitability, Liquidity, Solvency, Trend Analysis, Du Pont Analysis

1. Introduction

Financial performance analysis plays a significant role in assessing the operational and financial strength of an organization.

It helps management, investors, creditors, and stakeholders understand how effectively a company utilizes its resources to generate profits and maintain long-term sustainability. In today's competitive business environment, companies must maintain strong financial stability to survive market uncertainties, economic fluctuations, inflationary pressures, and changing customer preferences.

ITC Limited is one of India's most diversified and financially strong conglomerates. Established in 1910 as the Imperial Tobacco Company of India Limited, the organization gradually transformed into a diversified business enterprise operating in various industries. The company currently operates in FMCG, cigarettes, hotels, paperboards and packaging, agri-business, and information technology services.

The company has developed several popular brands such as Aashirvaad, Sunfeast, Bingo, Yippee, Fama, Classmate, and Vivel.

Apart from financial growth, ITC is also recognized for sustainability initiatives, environmental responsibility, and

rural development programs.

The need for financial performance analysis arises due to increasing competition in the FMCG industry, regulatory pressure in the tobacco sector, and growing demand for sustainable business practices. Therefore, this study attempts to analyze the profitability, liquidity, solvency, and efficiency of ITC Limited using different financial analysis techniques.

2. Objectives of the Study

- To analyze the profitability performance of ITC Limited.
- To evaluate liquidity and short-term solvency position.
- To assess long-term solvency and capital structure.
- To measure operational efficiency using activity ratios.
- To conduct comparative and common-size financial statement analysis.
- To perform trend analysis and Du Pont analysis.
- To examine the overall financial stability and growth potential of ITC Limited.

3. Literature Review

Several researchers and financial experts have conducted studies on financial performance analysis and corporate financial management.

Pandey (2010) explained the importance of ratio analysis in evaluating the financial health of organizations.

Brigham and Houston emphasized that Return on Equity and profitability ratios are critical indicators for investors and shareholders.

Subramanyam and Wild highlighted the significance of trend analysis and comparative financial statements for identifying long-term financial patterns. Previous studies on ITC Limited indicated that the company possesses strong profitability and efficient cash flow management.

Research also revealed that ITC's diversified business structure reduces operational risk and supports long-term sustainability.

Recent studies further emphasized that ITC Limited has shown excellent resilience during the COVID-19 pandemic due to its strong cash reserves, brand strength, and diversified business operations.

4. Research Methodology

The present study is descriptive and analytical in nature. Secondary data were collected from ITC Limited annual reports, stock exchange websites, financial journals, and industry reports. The study period covers five financial years from FY2019 to FY2023.

The following financial tools were used for analysis:

- Profitability Ratios
- Liquidity Ratios
- Solvency Ratios
- Activity Ratios
- Comparative Financial Statements
- Common-Size Financial Statements
- Trend Analysis

- Du Pont Analysis

The collected financial data were analyzed systematically to evaluate the overall financial performance of the company.

5. Industry Profile

The Fast-Moving Consumer Goods (FMCG) industry is one of the largest and fastest-growing sectors in India. The sector contributes significantly to the Indian economy through employment generation, manufacturing activities, exports, and consumer spending. Rising disposable income, urbanization, changing lifestyles, and digital commerce have accelerated the growth of the FMCG sector.

ITC Limited operates across multiple sectors including FMCG, cigarettes, hotels, paperboards and packaging, agri-business, and information technology services. The company holds a dominant market position in the legal cigarette market in India.

The hospitality and hotel industry faced major challenges during the COVID-19 pandemic; however, the sector recovered strongly after FY2021 due to increased travel demand and tourism activities. The packaging industry also experienced growth because of increasing e-commerce and organized retail demand.

ITC's diversified business operations reduce dependence on a single business segment and provide stable long-term growth opportunities.

6. Financial Analysis and Interpretation

6.1 Profitability Analysis

Profitability ratios indicate the earning capacity and operational efficiency of a company.

ITC Limited maintained strong profitability throughout the study period. Gross Profit Ratio, Net Profit Ratio, Operating Profit Margin, Return on Capital Employed (ROCE), and Return on Equity (ROE) showed consistent improvement.

The company achieved strong profit growth due to higher contribution from FMCG products, efficient cost management, pricing power in the cigarette business, and operational efficiency. Although profitability declined slightly during FY2021 because of the pandemic, the company recovered strongly in FY2022 and FY2023.

6.2 Liquidity Analysis

Liquidity ratios evaluate the company's ability to meet short-term obligations. ITC Limited maintained a strong liquidity position throughout the study period. Current Ratio and Quick Ratio remained well above standard benchmarks, indicating sufficient current assets to meet short-term liabilities.

The company also maintained strong cash reserves, which provided financial stability during uncertain economic conditions.

Strong liquidity helped the company continue business operations smoothly even during the COVID-19 pandemic.

6.3 Solvency Analysis

Solvency ratios measure long-term financial stability and debt repayment capacity. ITC Limited maintained a highly conservative capital structure with minimal debt levels. The Debt-to-Equity Ratio declined significantly over the years, and the company became almost debt-free by FY2023.

Interest Coverage Ratio remained extremely high, indicating strong ability to meet interest obligations. The company's strong internal accruals and retained earnings supported business expansion without depending heavily on external borrowing.

6.4 Activity Ratio Analysis

Activity ratios measure operational efficiency and asset utilization. Inventory Turnover Ratio improved steadily, indicating efficient inventory management and faster movement of goods. Debtors Turnover Ratio also improved, reflecting strong receivables management and faster cash collections.

Asset Turnover Ratio increased gradually over the study period, showing better utilization of company assets for revenue generation.

6.5 Comparative Financial Statement Analysis

Comparative financial statements revealed strong revenue and profit growth during FY2022 and FY2023. Revenue growth outpaced expenditure growth, resulting in higher operating margins and improved profitability.

The analysis also showed increasing shareholders' equity, rising cash reserves, and declining debt levels, which strengthened the overall financial position of the company.

6.6 Trend Analysis

Trend analysis demonstrated consistent growth in revenue, profitability, and shareholder value. The company's financial indicators showed temporary decline during FY2021 due to the pandemic; however, significant recovery was observed in subsequent years.

The increase in cash reserves, reduction in debt, and improvement in earnings per share indicate positive long-term financial trends.

7. Major Findings

- ITC Limited maintained strong profitability throughout the study period.
- Liquidity ratios remained above standard benchmarks, indicating strong short-term solvency.
- The company maintained near-zero debt and excellent financial stability.
- Operational efficiency improved through better inventory and receivables management.
- The company recovered effectively from the COVID-19 pandemic.
- Cash reserves and shareholders' equity increased consistently over the years.
- The diversified business structure reduced operational risk and supported sustainable growth.

8. Suggestions

- ITC Limited should continue expanding its non-cigarette FMCG business to reduce dependence on tobacco products.
- The company can focus more on digital transformation and automation to improve efficiency.
- Further investments in sustainability initiatives can enhance long-term brand value.
- The hotel business can adopt asset-light expansion strategies to improve capital efficiency.
- The company can increase investments in research and development for innovative products.

9. Conclusion

The study concludes that ITC Limited is one of the most financially stable and operationally efficient companies in India.

The company maintained excellent profitability, strong liquidity, efficient asset utilization, and a highly conservative capital structure.

Despite facing temporary challenges during the COVID-19 pandemic, ITC demonstrated remarkable resilience and achieved strong recovery.

The company's diversified business operations, sustainability initiatives, strong brand portfolio, and effective financial management contributed significantly to long-term growth and financial stability.

The findings indicate that ITC Limited possesses strong future growth potential and remains a financially sound organization for investors, stakeholders, and management. The study also highlights the importance of strategic diversification, operational efficiency, and financial discipline in maintaining sustainable corporate growth.

10. References

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