

Financial Performance Analysis of ITC Limited: A Profitability and Liquidity Perspective

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Abstract

The current study titled “Financial Performance Analysis of ITC Limited: A Profitability and Liquidity Perspective” aims to assess the financial performance of ITC Limited by analyzing its profitability and liquidity position for the period 2020-21 to 2024-25. Financial statement analysis is an important tool for evaluating a company’s efficiency in operations, financial soundness and performance. The study is based solely on the secondary data collected from the published annual reports of ITC Ltd and other reliable sources.

The study utilizes various financial analysis tools like profitability ratios (Net profit ratio, Operating profit ratio, Debt-Equity Ratio, Return on Equity and Asset Turnover ratio). Liquidity Ratios (Current ratio and Quick ratio). These tools were used to evaluate the financial performance, profitability, liquidity position, operational efficiency and financial stability of the company over the five years period. The net profit ratio and operating profit ratio were satisfactory in the study period. The liquidity position was sound as reflected by current ratio and quick ratio. High Debt-Equity ratio indicated strong financial stability. The conclusion of the study is that ITC Limited has been able to maintain healthy profitability, satisfactory liquidity, efficient utilization of assets and sound financial stability during the study period. The study also proves that the profitability and liquidity position of ITC Limited has improved considerably and hence the alternative hypothesis is accepted. The results of the study can assist investors, financial analysts, researchers, management and other stakeholders to assess the company’s financial performance and long-term sustainability.

Keywords: ITC Limited, Profitability, Liquidity, Financial Performance, Ratio Analysis, Financial Statements.

Introduction

Financial performance analysis is critical for understanding the efficiency of the company’s operations and overall financial health. Profitability is a principal leading indicator of the present and future performance of an enterprise. Profitability and liquidity position of a company can tell you a lot about how well it makes money and pays its short-term debts. This project is an empirical study of the financial aspects of ITC Limited, one of India’s largest diversified companies having operations in many different business areas such as hotels, fast moving consumer goods (FMCG), paperboards and packaging and agri-business. The company has a wide range of products and a strong presence in the

market. Due to this, it is a good example to look at the change in financial trends over time. Knowing how profitable and liquid a business is can give you an idea of how big companies keep growing and stay financially stable.

Profitability suggests how properly a organization makes money as compared to its sales, assets, or equity. It's frequently visible as an crucial sign of business success. In contrast, liquidity seems at a corporation's capability to pay its quick-term debts without pressure. It's critical to hold a stability between profitability and liquidity. This look at makes use of an empirical approach, reading monetary information from the posted annual reports of ITC Limited over a certain duration. We use numerous financial ratios and fashion analysis strategies to evaluate changes inside the organization's financial performance.

Company Profile

ITC Limited is a famous Indian conglomerate with many extraordinary agencies. It become founded in 1910 and its headquarter in Kolkata. It is the marketplace leader in some of areas, consisting of FMCG (speedy-moving patron items), which incorporates cigarettes, meals, and private care; paperboards; packaging; and agri-enterprise. It also has a strong presence in hotels and IT. The Consumer Goods Businesses of ITC have been capable of create a portfolio comprising more than 25 exceptional Indian brands during the last decade. The FMCG brands of ITC, which include Aashirvaad, Sunfeast, Yippee!, Bingo!, B Natural, ITC Master Chef, Fabelle, Sunbeam, Fiama, Engage, Vivel, Savlon, Classmate, Paperkraft, Mangaldeep, Aim, among others, have gained huge recognition among customers in a brief span of time.

Statement of the problem

Financial performance evaluation performs a sizeable role in assessing the general health, efficiency, and sustainability of a enterprise. Among the diverse dimensions of monetary overall performance, profitability and liquidity are of the most crucial signs that affect the success and lengthy-time period survival of a company. Profitability displays the capacity of a corporation to generate ok returns from its commercial enterprise operations, at the same time as liquidity indicates its ability to meet quick-term monetary obligations without affecting everyday business sports. A proper balance between those components is critical due to the fact immoderate focus on profitability may lessen liquidity, while keeping excessive liquidity may additionally adversely affect profitability. Although ITC Ltd has consistently maintained a strong market position, it is important to examine whether its profitability and liquidity have improved over recent years. Changes in operating expenses, working capital, and sales growth and investment decisions may influence financial performance. Therefore, this study analyses the company's profitability and liquidity trends over the five-year period to evaluate its economic health and sustainability.

Objectives of the Study

1. To analyze the profitability performance of ITC Limited.
2. To evaluate the liquidity position of ITC Limited.
3. To analyze the trends in profitability and liquidity of ITC Limited over the study period.
4. To examine the relationship between profitability and liquidity in ITC Limited.

Research Methodology

Research Design

The observe adopts a Descriptive and Analytical Research Design. Descriptive as it describes the trend in ratios over five years. Analytical because it analyzes the relationships among liquidity and profitability the use of statistical tools.

Source of Data:

The Study is based on secondary information collected from dependable assets such as the annual reports of ITC Ltd, business enterprise websites, journals, research articles, books, economic magazines, and other published information. The accrued records have been organized, categorized, and analyzed to evaluate the monetary overall performance of the business enterprise.

Tools for Data Analysis:

Financial ratio analysis has been used as the primary tool for evaluating profitability and liquidity. Ratios such as Net Profit Ratio, Operating Profit Ratio, Return on Assets (ROA), and Return on Equity (ROE), Current Ratio, and Quick Ratio have been calculated and interpreted.

Period of the Study

The analysis covers a period of five years (2020-21 to 2024-25) to examine trends and year to year variations in financial performance.

Review of Literature

Abha Gupta & Pratibha Kumari (2024) “Evaluating Retail Chain Profitability Insights from ITC” The researchers tested the profitability of ITC Ltd the use of monetary indicators which include the cutting-edge ratio, running capital, debt-to-fairness ratio, and return on equity. The look at relied on secondary economic facts gathered over 5 years. The findings indicated that ITC maintained good profitability throughout the study period, powerful aid utilization, and a diversified commercial enterprise portfolio. The study concluded that sound economic management substantially contributed to the organization's solid overall performance.

W Saranya (2024) “A Comparative study on financial statement analysis of Indian Tobacco Limited (ITC) and Hindustan Unilever Limited (HUL)” Saranya carried out a comparative financial analysis of ITC Ltd and Hindustan Unilever Ltd to evaluate their operational efficiency and monetary performance. The study employed ratio analysis covering liquidity, profitability, solvency, and efficiency indicators using secondary data obtained from the annual reports of both companies. The findings revealed that ITC Ltd maintained a stronger liquidity position and generated satisfactory profitability throughout the study period. The research also highlighted that ITC's diversified business portfolio and prudent financial management contributed to its stable performance compared to its competitor. The author concluded that financial ratio analysis affords valuable statistics for traders, lenders, and management in assessing the monetary electricity of a employer.

Gayathiry D & Bhuvaneshwari (2026) “A Data-Driven financial performance evaluation of ITC Ltd using Ratio Analysis” The research applied liquidity ratios, profitability ratios, solvency ratios, and efficiency ratios to evaluate the company's monetary condition. The results indicated that ITC Ltd consistently maintained adequate liquidity and demonstrated steady growth in profitability throughout the study period. The authors observed that the company's conservative financing policy, efficient asset utilization, and effective cost management contributed significantly to its financial stability. The study concluded that ITC Ltd possesses a strong monetary foundation capable of supporting sustainable commercial enterprise increase.

Data Analysis and Interpretation

Ratio Analysis

Table No.1 – Net profit ratio

Year	Net Profit Ratio (%)
2020-21	27.07
2021-22	25.48
2022-23	26.99
2023-24	29.87
2024-25	27.35

Interpretation

During the study duration, the net earnings ratio fluctuated among 25.48% and 29.87%. In 2020-21, the employer recorded a Net earnings ratio of 27.07% indicating that ITC earned ₹27.07 as internet earnings for each ₹one hundred of sales. The ratio declined slightly to 25.48% in 2021–22, suggesting a temporary reduction in profitability, Which

may additionally have been motivated with the aid of better working costs, increased input costs, or changes in market conditions. In 2022–23, the Net Profit Ratio improved to 26.99%, reflecting better cost control and improved operational performance. The ratio further increased to 29.87% in 2023–24, the highest during the study period, indicating strong financial performance, efficient expense management, and higher earnings. However, in 2024–25, the ratio decreased marginally to 27.35%, but it remained at a healthy level, demonstrating that the company continued to generate substantial profits from its operations.

Table No.2 – Operating Profit Ratio

Year	Operating Profit Ratio (%)
2020-21	32.24
2021-22	32.04
2022-23	34.46
2023-24	35.24
2024-25	32.70

Interpretation

During the study period, the Operating Profit Ratio remained consistently above 32%, reflecting strong operational performance. In 2020–21, the ratio was 32.24%, indicating that the company earned an operating profit of ₹32.24 for every ₹100 of net sales. In 2021–22, the ratio declined marginally to 32.04%, suggesting a slight increase in operating expenses or production costs. However, the decline was minimal, indicating that the company's operational efficiency remained stable. The ratio improved significantly to 34.46% in 2022–23, demonstrating better cost management, increased operational efficiency, and improved profitability from core business activities. In 2023–24, the Operating Profit Ratio further increased to 35.24%, which was the highest during the study period. This reflects the company's strong ability to generate higher operating profits through effective cost control, improved sales performance, and efficient utilization of resources. In 2024–25, the ratio declined to 32.70%. Although lower than the previous year, it remained above the level recorded in the initial years of the study. This slight decrease may be attributed to higher operating expenses or changes in the business environment. Nevertheless, the ratio continued to indicate satisfactory operational efficiency and profitability.

Table No.3 – Debt-equity Ratio

Year	Debt-equity Ratio
2020-21	0.00008
2021-22	0.00010
2022-23	0.00006
2023-24	0.00006
2024-25	0.00003

Interpretation

The above table presents the Debt–Equity Ratio of ITC Ltd for the financial years 2020–21 to 2024–25. The ratio remained extremely low throughout the study period, ranging from 0.00003 to 0.00010. The highest ratio of 0.00010 was recorded in 2021–22, while the lowest ratio of 0.00003 was observed in 2024–25. The declining trend indicates that the company relied very little on external borrowings and primarily financed its operations through shareholders' funds. Such a low debt–equity ratio reflects a strong capital structure, low financial risk, and high solvency. Overall, ITC Ltd maintained excellent financial stability with minimal dependence on debt financing during the study period.

Table No.4 – Return on Equity

Year	Return on Equity (%)
2020-21	22.09
2021-22	24.52
2022-23	27.74

2023-24	27.56
2024-25	29.59

Interpretation

The above table presents the Return on Equity (ROE) of ITC Ltd for the financial years 2020–21 to 2024–25. The Return on Equity measures the company's ability to generate profits from shareholders' investments. The ratio increased from 22.09% in 2020–21 to 24.52% in 2021–22 and further improved to 27.74% in 2022–23, indicating better utilization of shareholders' funds. Although the ratio declined slightly to 27.56% in 2023–24, it remained at a strong level. In 2024–25, the ratio reached its highest value of 29.59%, reflecting improved profitability and efficient management of equity capital. Overall, the increasing trend in ROE indicates that ITC Ltd effectively utilized shareholders' investments to generate higher returns and maintained strong financial performance throughout the study period.

Table No.5 – Current Ratio

Year	Current Ratio
2020-21	3.13
2021-22	2.70
2022-23	2.84
2023-24	2.91
2024-25	3.03

Interpretation

The above table presents the Current Ratio of ITC Ltd for the financial years 2020–21 to 2024–25. The Current Ratio measures the company's ability to meet its short-term liabilities using its current assets. The ratio was 3.13 in 2020–21, declined to 2.70 in 2021–22, and then gradually improved to 2.84 in 2022–23 and 2.91 in 2023–24. In 2024–25, the ratio further increased to 3.03, indicating a stronger liquidity position. Throughout the study period, the Current Ratio remained well above the generally accepted standard of 2:1, reflecting sufficient current assets to meet current obligations. Overall, ITC Ltd maintained a robust liquidity position and efficient operating capital control all through the observe period.

Table No.6 – Quick Ratio

Year	Quick Ratio
2020-21	2.11
2021-22	1.75
2022-23	1.89
2023-24	1.77
2024-25	1.84

Interpretation

The above table affords the Quick Ratio of ITC Ltd for the economic years 2020–21 to 2024–25. The Quick Ratio measures the employer's capacity to meet its short-term liabilities the use of its most liquid belongings, apart from inventory. The ratio was 2.11 in 2020–21, declined to 1.75 in 2021–22, and slightly improved to 1.80 in 2022–23. It decreased marginally to 1.77 in 2023–24 and increased to 1.84 in 2024–25. Throughout the look at length, the Quick Ratio remained nicely above the right standard of 1:1, indicating that ITC Ltd maintained enough liquid belongings to satisfy its short-time period obligations. Overall, the business enterprise proven a robust liquidity role and powerful management of its liquid sources during the observe length.

Findings

1. The Net Profit Ratio of ITC Ltd ranged between 25.48% and 29.87% during 2020–21 to 2024–25. The highest ratio of 29.87% was recorded in 2023–24, while the lowest ratio of 25.48% was recorded in 2021–22, indicating consistently strong profitability throughout the study period.
2. The Operating Profit Ratio remained above 32% throughout the study period, ranging from 32.04% to 35.24%. The highest ratio of 35.24% was achieved in 2023–24, reflecting strong operational efficiency and effective cost management.
3. The Debt–Equity Ratio was very low. It ranged from 0.00003, to 0.00010. The lowest ratio of 0.00003 was recorded in 2024–25, indicating minimal dependence on external borrowings and a very strong solvency position.
4. The Return on Equity increased from 22.09% in 2020–21 to 29.59% in 2024–25. The highest ROE of 29.59% indicates improved utilization of shareholders' funds and enhanced profitability over the study period.
5. The Current Ratio fluctuated between 2.70 and 3.13, remaining consistently above the standard 2:1 ratio. The highest ratio of 3.13 was recorded in 2020–21, Demonstrating a robust liquidity function and efficient operating capital control.
6. The Quick Ratio ranged from 1.75 to 2.11 during the study period. Since the ratio remained above the ideal 1:1 level in all years, ITC Ltd maintained enough liquid belongings to fulfill its short-time period duties successfully.

Suggestions

- ITC Ltd ought to continue to maintain the proper stability among profitability and liquidity to ensure smooth business operations and lengthy-term economic stability. Maintaining adequate operating capital will help the business enterprise meet its brief-time period responsibilities without affecting operational efficiency.
- The company should focus on further improving operational efficiency by controlling production and administrative costs. Effective cost control can beautify operating margins and contribute to better profitability.
- ITC Ltd should continue its policy of prudent financial management by maintaining a low level of debt. This will reduce financial risk and strengthen the company's capital structure.
- The company should invest more in research and development, product innovation, and digital transformation to improve competitiveness and sustain long-term growth in the FMCG sector.
- Management should regularly monitor financial ratios and cash flows to identify potential risks and take timely corrective actions. Continuous financial performance evaluation supports better strategic decision-making.
- ITC Ltd should strengthen its presence in international markets and expand its non-cigarette business segments to diversify revenue sources and reduce dependence on a single line of business.
- The company should continue to enhance shareholder value by maintaining consistent profitability, efficient utilization of assets, and a stable dividend policy while supporting sustainable business growth.

Conclusion

The present study analyzed the profitability and liquidity performance of ITC Ltd for the financial years 2020–21 to 2024–25 using various financial ratios. The Net Profit Ratio ranged from 25.48% to 29.87%, indicating consistent profitability throughout the study period. The Operating Profit Ratio remained strong between 32.04% and 35.24%, reflecting efficient operational performance. The Return on Equity improved from 22.09% in 2020–21 to 29.59% in 2024–25, demonstrating better utilization of shareholders' funds. The Current Ratio varied between 2.70 and 3.13, remaining above the standard 2:1, while the Quick Ratio ranged from 1.75 to 2.11, exceeding the ideal 1:1 benchmark and indicating sound liquidity management. The Debt–Equity Ratio remained extremely low, ranging from zero.00003 to 0.00010, displaying minimal dependence on external borrowings and a strong capital structure. Overall, the economic ratio evaluation shows that ITC Ltd maintained a healthy stability between profitability and liquidity, with

stable financial performance, green aid usage, and low economic threat. Therefore, the study concludes that ITC Ltd is financially sound and well-positioned for sustainable long-term growth and value creation for its stakeholders.

Reference

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