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# Financial Ratio Analysis ofITC Limited

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**Abstract**
*Ratio Analysis is the primary tool for performing a quantitative analysis of any company. It highlights the financial health of any organization. This research paper aims at analyzing the financial position of ITC using ratio analysis. The period of 10 years is selected for the study from year 2006 to 2015. The ratios are hence displayed in the bar form and the calculated ratio is then compared with the ideal ratio.*

***Key words: analysis, ratio, FMCG, ITC***

**Introduction:**
Over the years investors have developed various tools for comparing financial health of various companies and also, in understanding the relative strengths and weaknesses of various companies. One of the primary tools to perform such an analysis is ratio analysis. Ratio analysis helps to link various financial statements together and helps in the relative comparison of various companies across various industries and various sectors. Ratios, for the purpose of analysis, cam be broadly classified into 4 categories; Liquidity Ratios, Turnover Ratios, Profitability Ratios and Leverage & Valuation Ratios. Hence ratio analysis provides overall financial position of companies to various investors, regulators, stakeholders, etc who are directly or indirectly related to the company. For the purpose of calculation

**Research Objective:**
The main objective of this study is to investigate the financial health of ITC over 10 years. The research paper aims at measuring the financial soundness of ITC using Ratio analysis.

**Nature of data and source of data**
Secondary data collected from annual reports of the ITC ,magazines ,website of the company.

**Sample selection**
ITC Ltd. 2006 to 2015 for the study

**Methodology:**
Descriptive analysis

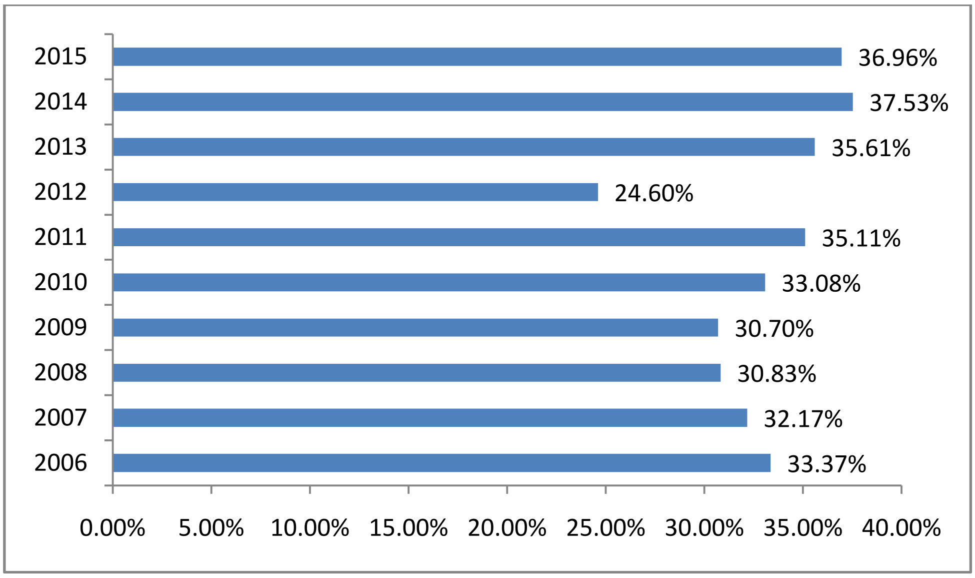
**Literature Review:**The detailed literature review is done and the same is discussed in the table mentioned below:

| S.No. | Author | Year | Objective | Research Methodology | Findings |
|---|---|---|---|---|---|
| 1 | Florenz C. Tugas | 2012 | To analyze the financial statement of three firms for three year period (2009-2011) | The researcher calculated liquidity ratios, activity ratios, leverage ratios, profitability ratios, and market value ratios to perform the financial ratio analysis | The researcher ranked three firms for each of the ratios calculated |
| 2 | Henry W. Collier, Timothy Grai,SteveHaslitt and Carl B. McGowan | 2004 | To construct a financial and industry analysis for motorolla corporation | Segment analysis, Industry analysis and Financial Ratio Analysis | It demonstrates that that financial ratio analysis is complicated for companies that it does not so easily fall into a single industry. |
| 3 | DoronNissim, Stephen H. Penman | 2001 | To study the practical implication of Ratio Analysis and Equity Valuation for the period 1969-1999 | Calculation of various ratios | It forecasted the time series behavior of many ratios and their typical “long-run, steady-state” levels were documented. |
| 4 | Prof. Vijay S Patel, Prof Chandresh B Mehta | 2012 | This paper attempts to study the profitability ratio of KrishakBharati Co-operative Ltd. For 2000-2009 | Calculation of various profitability ratios | Its study reveals that the income of the company is based on the subsidy provided by the government, therefore the Company should try to minimize the operating expenses so as to maintain profit and it should not back too much on the subsidy. |
| 5 | Omar Durrah, Abdul Aziz Abdul Rahman, Syed Ahsan Jamil, NourAldeenGhafeer | 2016 | To examine the relationship between liquidity ratios and indicators of financial performance (profitability ratios) in the food industrial companies listed in Amman Bursa during the period (2012-2014) | Calculation of variuos ratios | The study pointed the existence of a positive relationship between (quick ratios, defensive interval ratio) and operating cash flow margin. There is a positive relationship between liquidity ratios (current ratio, quick ratio, cash ratio) and return on assets |
| 6 | Marques, João Pedro da Costa Andrade | 2012 | To study the Return on Equity of Portuguese and Brazilian companies, through the DuPont method | DuPont Method | Brazilian companies which pay higher interests. Also Portuguese companies take more advantage from the financing decisions and Brazilian on the investing decisions. |
| 7 | Rohit Bansal | 2014 | To measure the financial and accounting performance of Indian leading IT companies for the period of 2009 to 2013. | Calculation of various ratios | A graphical representation is done to compare financial ratios such as profitability, liquidity, solvency, assets turnover and market based ratios. |
| 8 | Haile MelkamuBiru | 2014 | To analyze the financial performance of Dashen bank of Ethiopia | Trend ratio analysis | Dashen bank of Ethiopia results reflected that it was becoming a prominent and financially strong bank and had been attractive to investors to invest in, but still, it reflected the need for improvement in loan default and efficiency to generate revenue from earning assets. |

**Discussion:**

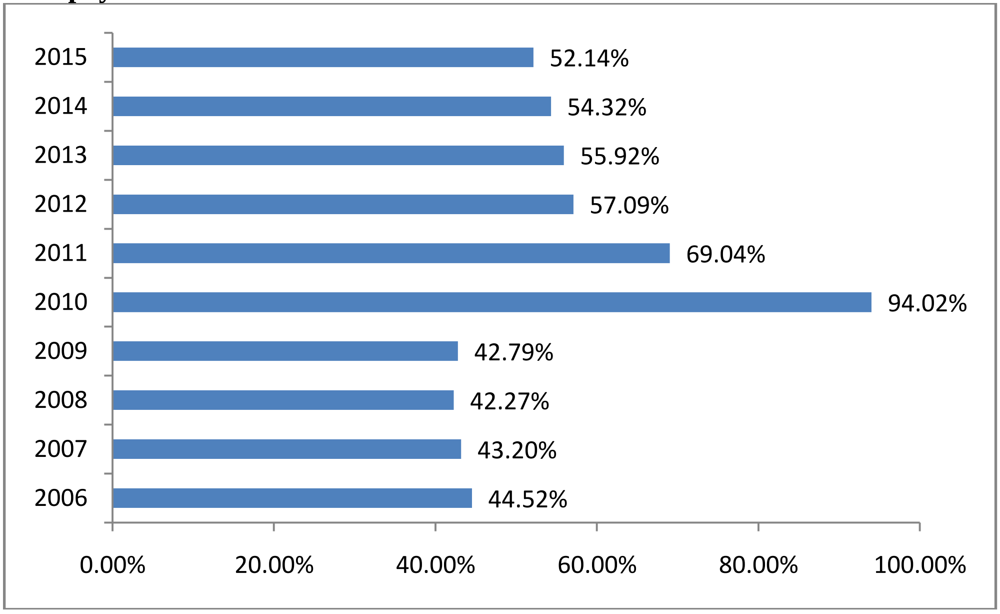
Data Analysis

**1. Operating profit Margin**



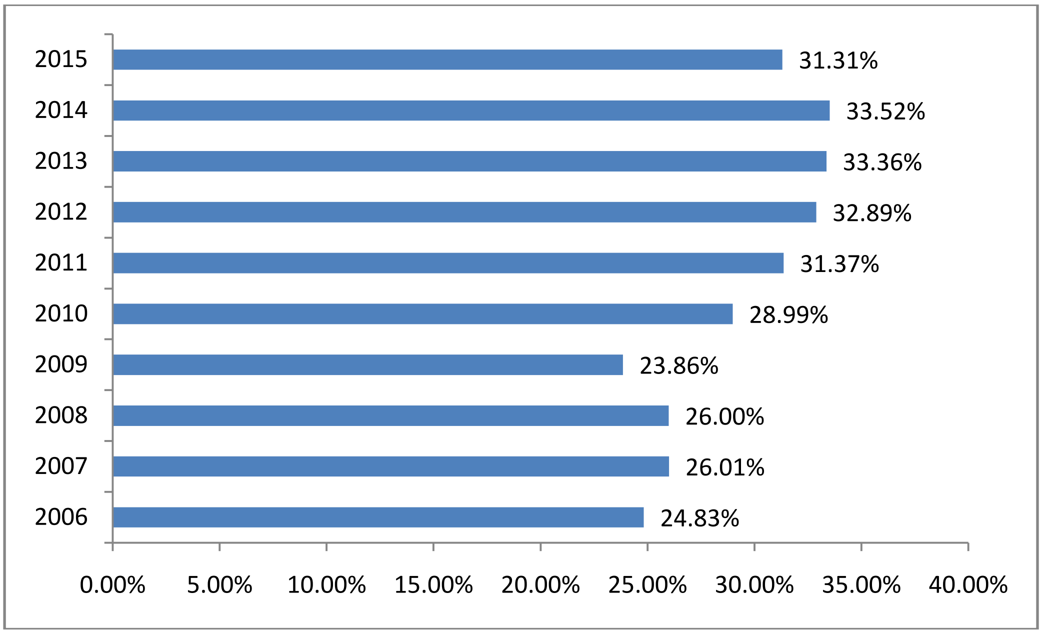

Operating profit margin indicates the company's pricing strategy and its operational efficiency. It indicates the residual revenue after paying various variable costs like wages, raw materials etc. Ideal Profit margin for FMCG is said to be 25%. ITC here is falling in the bracket of Ideal range. Hence its pricing strategy is very good over the selected period of last ten years.

**2. Dividend payout ratio**



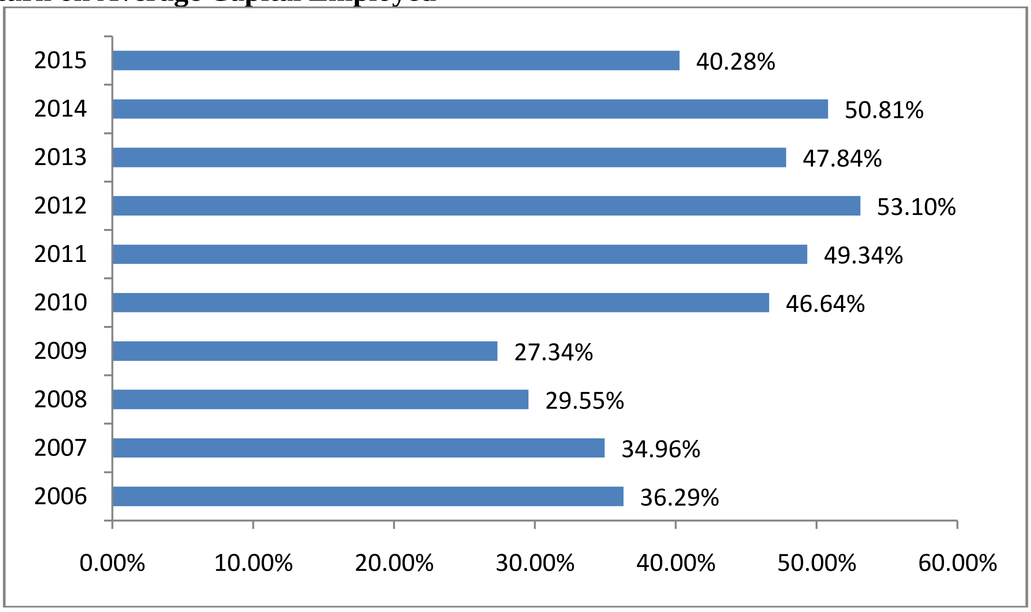

Dividend payout ratio indicates the dividend distributed by the company from the total net income earned in a year. Investors always look for the steady dividend income. Upward trend in the dividends is always a good indicator of financial health of any organization while a downward trend raises an alarming situation in the minds of the investors. ITC is doing very well as its dividend payout ratio is continuously increasing.

### 3. Return on equity employed



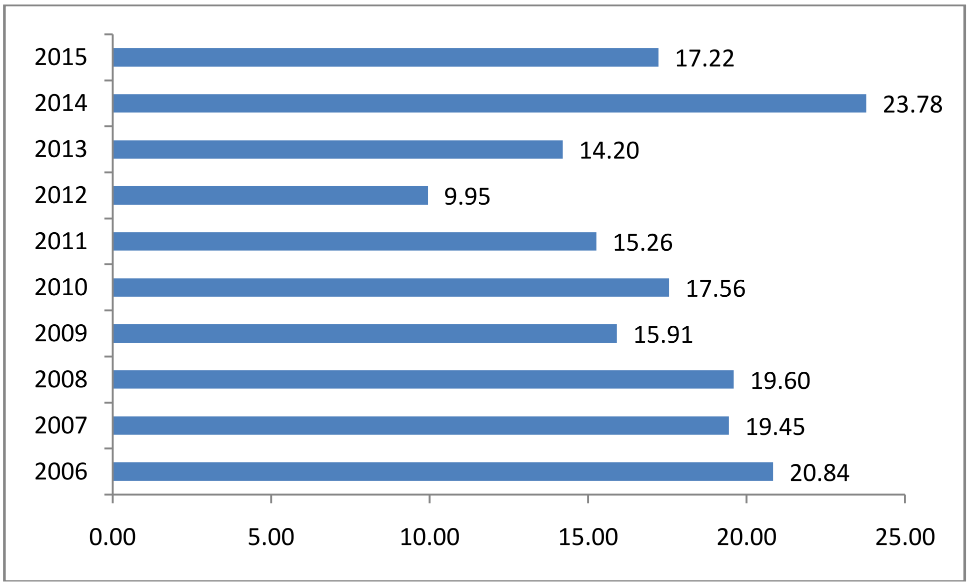

Return on equity employed is a key indicator of how well the shareholder's funds are managed by the company. High ROE indicates better equity valuations for the company. ITC is constantly increasing its ROE but in 2015 it went a little low. But it still falls in the ideal ROE Range. It also indicates the profitability of the company.

### 4. Return on Average Capital Employed




It is a ratio that measures the profitability along with the efficiency with which the capital is employed. It can be calculated by dividing EBIT (Earnings before interest and taxes) with the total capital employed. For in case of ITC the ROCE indicates that the company is not using its capital efficiently as compared to leading players in the industry.

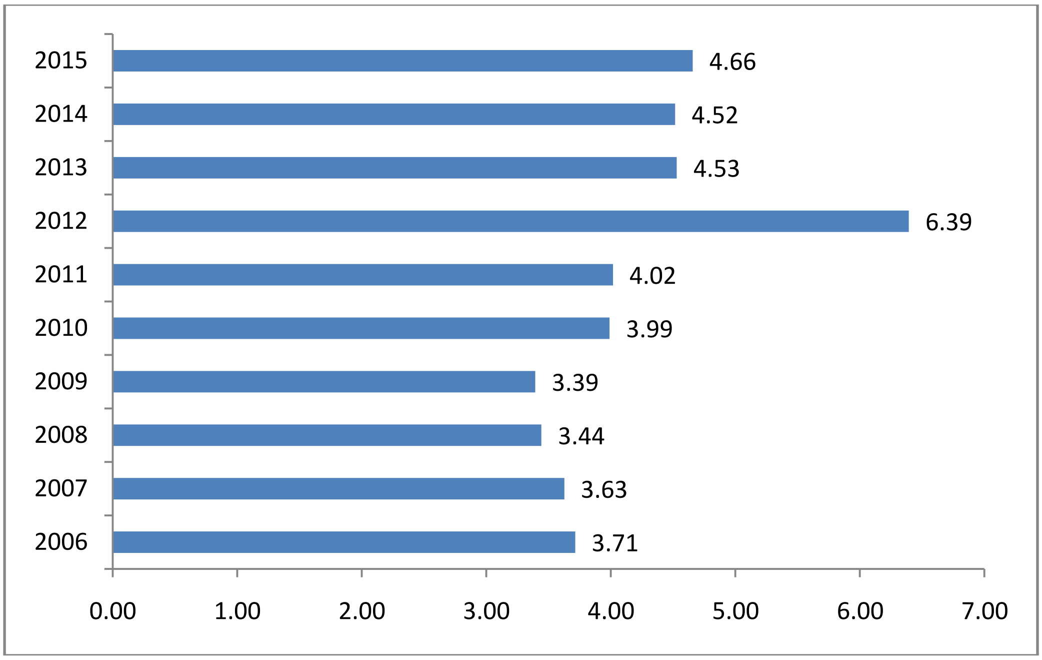
5. **Debtors turnover ratio**




6.

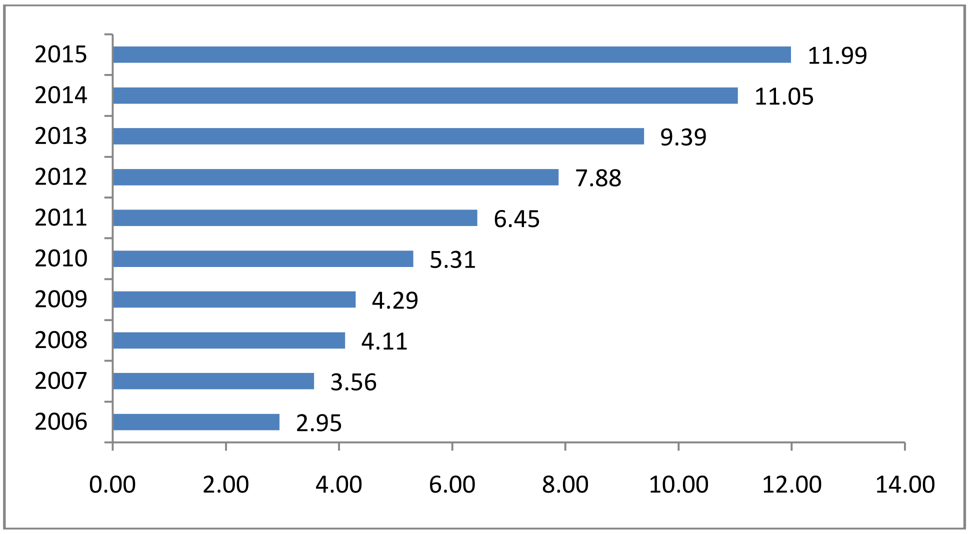
It indicates the turnover times of collecting period. It measures how efficiently a firm uses its assets.It calculates the efficiency of the firm collecting sales on credit in a financial year. From the above analysis it reflects that it marked its lowest in the year 2012 and highest in the year 2014. It also indicates that in case the ratio goes up either their collection strategies are improving or sales is increasing or receivables are being reduced.

7. **Inventory turnover ratio**



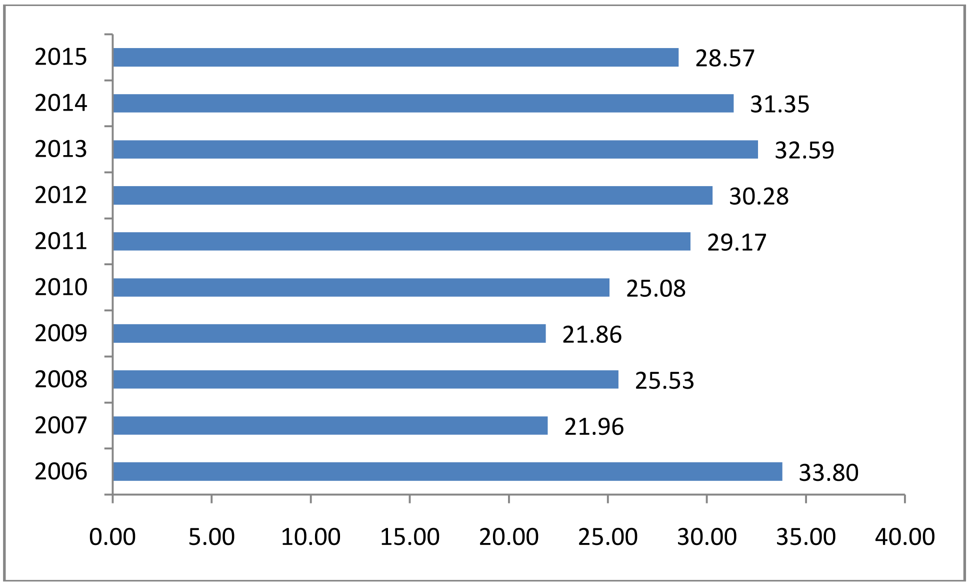
This ratio indicates how many times a company's inventory is sold and new is introduced and is the key indicator of how efficiently the inventory is managed by the company. In 2012 this ratio was the highest as ITC marked its highest sale in the given period.

## 8. EPS




EPS indicates the net profit available for its equity shareholders. It's a profitability ratio that indicates the per share earning capacity of a firm. As per the above analysis, ITC is continuously improving its profitability from 10 years. Thus it comes out as a promising investment for its shareholders.

## 9. P/E Ratio




It compares the market price of the share to the earning price of the share. It indicates how much the market is ready to pay over the earnings per share. It's an indicator of how much the prospective investors are putting in their trust and are keen to invest in a particular stock. For in case of ITC the willingness to invest is continuously increasing.

**Conclusion:**ITC was ranked as the most admired company in India in the year 2014 by Fortune hay group survey. It demonstrates sustained value creation, high operating profits and high in terms of cash profits. From the above analysis ITC hasseen the compounded increase in gross turnover of approximately 12.2 % and PAT as 19.9 %. The Return on Capital Employed has improved substantially from 36.29% to 40.29% during this period. Total Shareholder Returns have grown at a compound rate of approximately 23% per annum during this period demonstrating the efficiency of servicing financial capital in best possible ways. ITC has come across as the leading FMCG marketer in India.

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