



POSITION STATEMENT ANALYSIS - A CASE STUDY OF ITC LTD.

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ABSTRACT

The position statement or balance sheet reflects the resources and obligations of an organisation. As per various acts & enactments the position statement needs to be prepared by all types of organisation. 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 we 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.

KEYWORDS : Debt, Equity, Solvency position

OBJECTIVES OF STUDY

The study fulfils the following objectives:

- (I) To check the utilization of the fixed assets and total assets of ITC Ltd
- (ii) To judge and assess solvency position and the financial viability of ITC Ltd

HYPOTHESIS

The following null hypothesis is framed for testing:

Ho: There is no significant difference in the solvency position of ITC Ltd during the period of study.

LIMITATIONS

- Only monetary information is considered.
- There is no primary data collection as the data is collected from the annual reports of the organization..
- The conclusion drawn are on the basis of fixed assets turnover ratio, total assets turnover ratio, solvency ratio and debt equity ratio etc.
- There are no fixed standards for all these ratios hence the conclusions may vary according to person to person.

Research Design

The research design is needed for the smooth conduction of various research operations so that the collected data could be used efficiently and effectively to carry out the research. For this study the research design includes assessing the solvency position of ITC Ltd which is based on various solvency ratios. The figures are taken from the organization's Annual report which contains Annual Balance Sheet, Profit & Loss Account. The collected data has been processed by preparing the tables and the ratio analysis is applied. We have tried to avoid personal bias while interpreting the ratios. We have taken various statistical tools such as mean, standard deviation, co-efficient of variation, correlation & t-test so that the calculated information is in accordance with predefined standard of accuracy. In this study the following ratios have been used which includes the fixed assets turnover ratios, total assets turnover ratio, debt equity ratio, solvency ratio etc.

POSITION STATEMENT ANALYSIS OF ITC LTD

FIXED ASSETS TURNOVER RATIO

The fixed assets turnover ratio helps in judging the utilization of fixed assets by the organization and through this ratio the efficiency with which the fixed assets are utilized can be assessed. It is generally stated that the higher the ratio, higher would be the efficiency of the fixed assets and visa

verse. The formula for calculating fixed assets turnover ratio is:

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

TABLE NO. 1: Statement Showing fixed assets turnover ratio (Rs. In crores)

Year	Net sales	Fixed Assets	fixed assets turnover ratio
2014-15	49964.82	20241	2.468495628
2015-16	51944.57	27098	1.91691527
2016-17	55448.46	29679	1.868272516
2017-18	44329.77	37878	1.170330271
2018-19	45784.39	40228	1.138122452
Mean	49494.402	31024.8	
SD	4530.812171	8142.274234	
CV	9.154191157	26.24440523	

Source: Compiled from Annual report of the ITC Limited

Interpretation

As per the first table the fixed assets turnover ratio is showing decreasing trend during the study period. Initially it was at 2.46 times and it got decreased to 1.86 times by 2016-17. There was a further decrease in this ratio in the next year as it got down to 1.17 times by 2017-18. In the last year of the study period it was at the lowest at 1.13 times. The co-efficient of variance of net sales were at 9.15 & fixed assets were at 26.24.

TOTAL ASSETS TURNOVER RATIO

The total assets turnover ratio helps in knowing the utilization of the total assets by the organization as well as it helps in knowing the efficiency with which the total assets is utilized. If this ratio is low it indicates inefficiency of utilization of total assets and visa-versa.

The Total Assets turnover ratio is calculated by the following formula.

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

TABLE NO. 2: Statement Showing Total assets turnover ratio (Rs. In crores)

Year	Net sales	Total assets	Total assets turnover ratio
2014-15	49964.82	44196	1.130528102
2015-16	51944.57	50031	1.038247686
2016-17	55448.46	54216	1.022732404
2017-18	44329.77	62381	0.710629358
2018-19	45784.39	69798	0.655955615
Mean	49494.402	56124.4	

SD	4530.812171	10113.98316	
CV	9.154191157	18.02065262	

Source: Compiled from Annual report of the ITC Limited

INTERPRETATION

As per the second table the total assets turnover ratio is showing decreasing trend. Initially it was at 1.13 times and it got decreased to 1.03 times by 2015-16. There was further decrease in this ratio in the next year and it reached to 1.02 times. Last two years reflected decrease in this ratio at 0.71 times & 0.65 times respectively. The co-efficient of variance of net sales were at 9.15 & total assets were at 18.02

DEBT –EQUITY RATIO

The Debt –Equity ratio is calculated to measure the relative claims of outsiders and the owners against the firm's assets. The relationship between the external equities and the internal equities is found through this ratio. This ratio helps in measuring the extent to which debt financing has been used in a business enterprise.

Debt equity ratio = Debt /Equity.

$$\text{Debt – Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

TABLE NO. 3: Statement Showing Debt-Equity Ratio (Rs. In crores)

Year	Debt	Equity	Debt equity ratio
2014-15	1779	30736	0.05788001
2015-16	2020	41656	0.048492414
2016-17	2045	45341	0.045102666
2017-18	2124	51400	0.041322957
2018-19	2226	57950	0.038412425
Mean	2038.8	45416.6	
SD	165.9749981	10278.07175	
CV	8.140818036	22.63064991	

Source: Compiled from Annual report of the ITC Limited

INTERPRETATION

As per the third table the debt equity ratio of this organization seems to be decreasing. Initially it was at 0.057:1 and it got decreased to 0.0484:1 by 2015-16. There was again a decrease in this ratio as it was at 0.0413:1 by 2017-18. In the last year this stood at 0.0384:1 The co-efficient of variance of debt were at 8.14 & equity were at 22.63.

SOLVENCY RATIO

The solvency ratio determines the interrelationship between the total assets & total outsiders liabilities. If this ratio is high this means more satisfactory is the solvency position of the organization and in case of lower ratio it indicates less stability of long term solvency position of the organization.

$$\text{Solvency Ratio} = \frac{\text{Total Assets}}{\text{Total Outsider's Liabilities}}$$

TABLE NO. 4: Statement Showing Solvency Ratio (Rs. In crores)

Year	Total Assets	Total outsiders liabilities	Solvency Ratio
2014-15	44196	13460	3.283506686
2015-16	50031	8375	5.973850746
2016-17	54216	8875	6.10884507
2017-18	62381	10981	5.680812312
2018-19	69798	11848	5.891120864
Mean	56124.4	10707.8	
SD	10113.98316	2106.56182	
CV	18.02065262	19.67315247	

Source: Compiled from Annual report of the ITC Limited

INTERPRETATION

As per the fourth table the solvency ratio of this organization is

showing fluctuating trend. Initially it was at 3.28 :1 and it got increased to 5.97 : 1 by 2015-16. There was a further increase in this ratio as it was at 6.10 : 1 by 2016-17. However in the last year it got decreased to 5.89: 1. The co-efficient of variance of total assets were at 18.02 & equity were at 19.67.

TESTING OF HYPOTHESIS

In this study the hypothesis has been analyzed by t-test as the significance of data can be analyzed by means of statistical tools. Hence correlation & t-test have been applied in this study.

Null hypothesis H₀ There is no significant difference in the solvency position of ITC Ltd for the years 2014-15 to 2018-19
Interpretation of t-test

$$t = 0.051, t_{0.05} = 2.132$$

$$t < t_{0.05}$$

Interpretation

Since the calculated value is less than the table value hence we accept the null hypothesis which means that there is no significant difference in the solvency position of ITC LTD. during the study period 2014-15 to 2018-19

Suggestions

- The composition of capital should include more Debt financing as the equity is very high compared to debt.
- The fixed assets of the organisation were not properly utilized as the ratio was decreasing during the study period hence organisation should try to utilize its fixed assets more efficiently.
- The organisation should try to effectively utilize its total assets as the total assets turnover ratios it is reflecting decreasing trend during the study period.
- The organisation should improve the composition of the noncurrent liabilities as the shareholders fund is much more than the noncurrent liabilities.
- The solvency position of the organisation is very sound as it has enough assets to pay off the outsiders liabilities.
- The organisation should try to improve its debt equity position of the organization as it was far less than 1: 1 during the study period.

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