



A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF INDIAN TOBACCO CORPORATION LIMITED

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ABSTRACT

Finance is considered to be the life blood of every business organization. Finance is a branch of economics considered with providing funds to individuals, business governments. Business enterprises in developing economics are conceived as instruments of economic progress and social change and are expected to reach the commanding heights of economy. Ratio analysis is widely used tools of financial analysis. It means expressing one item in relation to another in numerical term. To have a better understanding and details about the financial statement, the analysis has used ratio analysis. Every business under taking needs finance for its smooth working. It has to raise funds from the cheapest and risky source to utilize this in most effective manner. So every company will be interested in knowing its financial performance. This study "Financial Performance Analysis of Indian Tobacco Company Limited" is vital because just earning profit is not enough, a business should earn sufficient profit to cover its cost of capital and create surplus to grow. This study aims to analyze the liquidity, profitability, solvency position of the firm and efficiency which it converts its resources into service. The required data were collected from the secondary sources. The study covers a period of five years i.e. from 1st April 2013 to 31st March 2017. The study strongly reveals that the financial performance is better. However, it needs to minimize the operating expenses to get high net profit. Sales turnover can be improved further by checking expenses that influences the sales. The equity position has to be improved. The company should take steps to maximum utilization of resources and inventory.

KEYWORDS : Finance, Performance, Ratio Analysis, Liquidity, Profitability, Turnover, Solvency, Inventory, Efficiency and Resources.

INTRODUCTION

Finance is considered to be the life blood of every business organization. No business enterprise can exist without finance. The owners always eager to know the financial position of the financial statement i.e. profit and loss account and balance sheet. Finance is one of the most important aspects of business management and includes decision related to the use and acquisition of funds for the enterprise. Finance is a branch of economics considered with providing funds to individuals, business governments. Business enterprises in developing economics are conceived as instruments of economic progress and social change and are expected to reach the commanding heights of economy.

RATIO ANALYSIS

"Ratio" refers to relationship between the two numerical variables in quantitative term. It simply means expressing one item in relation to another in numerical term. It is yardsticks which measures and compares the relationship between two or more items including accounting ratio conclusion or form judgment. To have a better understanding and details about the financial statement, the analysis has used ratio analysis. Ratio analysis is widely used tools of financial analysis. With help ratio analysis, the analyzed can know the strengths weakness of a firm, as well as its historical performance and current financial conditions. Ratio analysis is a reliable tool for an effective assessment of liquidity, solvency, profitability and activity of a company.

STATEMENT OF THE PROBLEM

India is a capital scarce country, the available resource have alternative uses and opportunities for better investments. The resources available in the country are therefore properly utilized. It is in this context that study of financial performance assumes special significance in this area therefore, efficient financial management and control is a matter of significance to all concerned in the industry the management, the employee and the society.

This study titled "A Study on Financial Performance Analysis of Indian Tobacco Corporation Limited". The information that are mainly derived from profit and loss account and balance sheet and it refers to a treatment of the information contained in the ratio analysis as to afford diagnosis of the profitability and financial soundness of the company. A number of methods or derives are used to study the relationship between different statement.

SCOPE OF THE STUDY

Financial statement analysis are prepared primary for decision - making. They play a dominant role in setting the frame work and managerial conclusion and can be drawn from these statements is of immense use in decision- making through analysis and interpretation of financial statements. Every business under taking needs finance for its smooth working. It has to raise funds from the cheapest and risky source to utilize this in most effective manner. So every company will be interested in knowing its financial performance.

This study "Financial Performance Analysis of Indian Tobacco Company Limited" is vital because just earning profit is not enough, a business should earn sufficient profit to cover its cost of capital and create surplus to grow. So finding the surplus profit is made essential. This study aims to analyze the liquidity, profitability, solvency position of the firm and efficiency which it converts its resources into service. The analysis of financial statements helped to judge the financial strength of the firm.

OBJECTIVES OF THE STUDY

- 1) To know the financial position of the Indian Tobacco Corporation Limited;
- 2) To assess the overall financial performance;
- 3) To find out the efficiency of financial operations;
- 4) To analyse the profitability position; and
- 5) To give suggestions for improve the financial performance of the ITC company.

METHODOLOGY OF THE STUDY

The required data for the study were collected from the secondary sources. The data relating to Profit and Loss Account and Balance Sheet of Indian Tobacco Company Limited were collected from website i.e. www.itc.com. The study covers a period of five years i.e. from 1st April 2013 to 31st March 2017. The collected data have been processed and tabulated by using Ms-Excel software. Ratio analysis like Current ratio, Liquid ratio, Absolute ratio, Debt equity ratio, Gross profit ratio, Net profit ratio, Operating ratio, Cost of goods sold ratio, Return on total assets, Total assets turnover ratio, Inventory turnover ratio and Total expenses ratio were used in the study.

TABLE – 1 ANALYSIS OF ITC LIMITED DURING THE YEAR 2013

PARTICULARS	COMPONENTS	VALUES	RATIO
Current Ratio	Current Assets	11378.54	1.78
	Current Liabilities	6404.43	
Liquid Ratio	Liquid Assets	4778.34	0.75
	Liquid Liabilities	6404.43	
Absolute Liquid Ratio	Cash, Bank, Securities	3615.00	0.56
	Current Liabilities	6404.43	
Debt Equity Ratio	Outsider's Fund	66.40	0.08
	Proprietor's Fund	790.18	
Proprietary Ratio	Proprietor's Fund	790.18	0.07
	Total Assets	11156.59	
Gross Profit Ratio	Gross Profit	10627.51	25.24
	Net Sales	42105.51	
Net Profit Ratio	Net Profit	7418.39	17.62
	Net Sales	42105.51	
Operating Ratio	Operating Cost	24769.47	58.83
	Net Sales	42105.51	
Operating Profit Ratio	Operating Profit	10627.51	25.24
	Net Sales	42105.51	
Cost of Goods Sold Ratio	Cost of Goods Sold	24769.47	58.83
	Net Sales	42105.51	
Total Expenses Ratio	Total Expenses	19520.11	46.36
	Net Sales	42105.51	
Fixed Assets Turnover Ratio	Sales	29901.27	2.68
	Fixed Assets	11156.59	
Total Assets Turnover Ratio	Net Sales	42105.51	1.89
	Total Assets	22301.50	
Inventory Turnover Ratio	Cost of Goods Sold	24769.47	4.05
	Average Inventory	6119.02	
Return on Total Assets	Net Profit	7418.39	33.26
	Total Assets	22301.50	

Source: Secondary Data

TABLE – 2 ANALYSIS OF ITC LIMITED DURING THE YEAR 2014

PARTICULARS	COMPONENTS	VALUES	RATIO
Current Ratio	Current Assets	12814.27	1.85
	Current Liabilities	6921.52	
Liquid Ratio	Liquid Assets	5454.73	0.79
	Liquid Liabilities	6921.52	
Absolute Liquid Ratio	Cash, Bank, Securities	3289.37	0.48
	Current Liabilities	6921.52	
Debt Equity Ratio	Outsider's Fund	51.14	0.06
	Proprietor's Fund	795.32	
Proprietary Ratio	Proprietor's Fund	795.32	0.07
	Total Assets	11960.3	
Gross Profit Ratio	Gross Profit	12454.8	26.46
	Net Sales	47068.7	
Net Profit Ratio	Net Profit	8785.21	18.66
	Net Sales	47068.7	
Operating Ratio	Operating Cost	27481.8	58.39
	Net Sales	47068.7	
Operating Profit Ratio	Operating Profit	12454.8	26.46
	Net Sales	47068.7	

Cost of Goods Sold Ratio	Cost of Goods Sold	27481.8	58.39
	Net Sales	47068.7	
Total Expenses Ratio	Total Expenses	20912.2	44.43
	Net Sales	47068.7	
Fixed Assets Turnover Ratio	Sales	33238.6	2.78
	Fixed Assets	11960.3	
Total Assets Turnover Ratio	Net Sales	47068.7	1.79
	Total Assets	26260.8	
Inventory Turnover Ratio	Cost of Goods Sold	27481.8	3.94
	Average Inventory	6979.87	
Return on Total Assets	Net Profit	8785.21	33.45
	Total Assets	26260.8	

Source: Secondary Data

TABLE – 3 ANALYSIS OF ITC LIMITED DURING THE YEAR 2015

PARTICULARS	COMPONENTS	VALUES	RATIO
Current Ratio	Current Assets	17147.77	2.38
	Current Liabilities	7214.45	
Liquid Ratio	Liquid Assets	9311.01	1.29
	Liquid Liabilities	7214.45	
Absolute Liquid Ratio	Cash, Bank, Securities	7588.61	1.05
	Current Liabilities	7214.45	
Debt Equity Ratio	Outsider's Fund	38.71	0.05
	Proprietor's Fund	801.55	
Proprietary Ratio	Proprietor's Fund	801.55	0.06
	Total Assets	14126.1	
Gross Profit Ratio	Gross Profit	13473.6	26.74
	Net Sales	50389	
Net Profit Ratio	Net Profit	9607.73	19.07
	Net Sales	50389	
Operating Ratio	Operating Cost	30314.1	60.16
	Net Sales	50389	
Operating Profit Ratio	Operating Profit	13473.6	26.74
	Net Sales	50389	
Cost of Goods Sold Ratio	Cost of Goods Sold	30314.1	60.16
	Net Sales	50389	
Total Expenses Ratio	Total Expenses	23248.4	46.14
	Net Sales	50389	
Fixed Assets Turnover Ratio	Sales	36507.4	2.58
	Fixed Assets	14126.1	
Total Assets Turnover Ratio	Net Sales	50389	1.64
	Total Assets	30722	
Inventory Turnover Ratio	Cost of Goods Sold	30314.1	3.99
	Average Inventory	7598.15	
Return on Total Assets	Net Profit	9607.73	31.27
	Total Assets	30722	

Source: Secondary Data

TABLE – 4 ANALYSIS OF ITC LIMITED DURING THE YEAR 2016

PARTICULARS	COMPONENTS	VALUES	RATIO
Current Ratio	Current Assets	16770.12	2.06
	Current Liabilities	8129.22	
Liquid Ratio	Liquid Assets	8250.3	1.01
	Liquid Liabilities	8129.22	

Absolute Liquid Ratio	Cash, Bank, Securities	6563.95	0.81
	Current Liabilities	8129.22	
Debt Equity Ratio	Outsider's Fund	29.43	0.04
	Proprietor's Fund	804.72	
Proprietary Ratio	Proprietor's Fund	804.72	0.06
	Total Assets	14152.1	
Gross Profit Ratio	Gross Profit	14238.2	27.41
	Net Sales	51944.6	
Net Profit Ratio	Net Profit	9844.71	18.95
	Net Sales	51944.6	
Operating Ratio	Operating Cost	30249.9	58.23
	Net Sales	51944.6	
Operating Profit Ratio	Operating Profit	14238.2	27.41
	Net Sales	51944.6	
Cost of Goods Sold Ratio	Cost of Goods Sold	30249.9	58.23
	Net Sales	51944.6	
Total Expenses Ratio	Total Expenses	22541	43.39
	Net Sales	51944.6	
Fixed Assets Turnover Ratio	Sales	36837.4	2.6
	Fixed Assets	14152.1	
Total Assets Turnover Ratio	Net Sales	51944.6	1.71
	Total Assets	30405.2	
Inventory Turnover Ratio	Cost of Goods Sold	30249.9	3.7
	Average Inventory	8178.29	
Return on Total Assets	Net Profit	9844.71	32.38
	Total Assets	30405.2	

Source: Secondary Data

TABLE – 5 ANALYSIS OF ITC LIMITED DURING THE YEAR 2017

PARTICULARS	COMPONENTS	VALUES	RATIO
Current Ratio	Current Assets	12818.76	1.49
	Current Liabilities	8582.71	
Liquid Ratio	Liquid Assets	4954.77	0.58
	Liquid Liabilities	8582.71	
Absolute Liquid Ratio	Cash, Bank, Securities	2747.27	0.32
	Current Liabilities	8582.71	
Debt Equity Ratio	Outsider's Fund	18	0.01
	Proprietor's Fund	1214.74	
Proprietary Ratio	Proprietor's Fund	1214.74	0.08
	Total Assets	14880.2	
Gross Profit Ratio	Gross Profit	14578	26.29
	Net Sales	55448.5	
Net Profit Ratio	Net Profit	10200.9	18.4
	Net Sales	55448.5	
Operating Ratio	Operating Cost	31978.2	57.67
	Net Sales	55448.5	
Operating Profit Ratio	Operating Profit	14578	26.29
	Net Sales	55448.5	
Cost of Goods Sold Ratio	Cost of Goods Sold	31978.2	57.67
	Net Sales	55448.5	
Total Expenses Ratio	Total Expenses	24866.5	44.85
	Net Sales	55448.5	
Fixed Assets Turnover Ratio	Sales	40088.7	2.69
	Fixed Assets	14880.2	

Total Assets Turnover Ratio	Net Sales	55448.5	1.33
	Total Assets	41821.9	
Inventory Turnover Ratio	Cost of Goods Sold	31978.2	3.9
	Average Inventory	8191.91	
Return on Total Assets	Net Profit	10200.9	24.39
	Total Assets	41821.9	

Source: Secondary Data

FINDINGS

- The normal current ratio is 2:1. The current ratio of ITC is less than 2% in all the years. This shows that the company is not enjoying credit worthiness.
- All the years the Acid Test ratios are higher than the normal ratio (i.e.) 1:1. Hence the ITC is in a required liquidity position to meet its short term obligations.
- The absolute liquid ratio of ITC is better as compared to rule of thumb standard which is 0.50.
- In all the years the debt equity is less, when compared with borrowings. Hence the company is not maintaining its debt position.
- In all the years the owner's contribution to the total assets was not appropriate and they do not maintain their share in the company's assets.
- The gross profit ratios for all the study periods are very high. So, ITC has sufficient income to cover all expenses and provide for profit. Generally a higher gross profit ratio is considered better.
- The sales have been increasing hence the net profit increasing hence the management has been taking care of the quality and market situations which bring good profits to the organization.
- The operating ratios of the company are very high hence it indicates the higher operating expenditure has been incurred.
- The operating profit ratios of the company are fluctuating and are low. Though the ratios are in fluctuating trend it has been increasing year by year.
- The company is inefficiently utilizing its inventory because there are no poor sales or excess inventory.

SUGGESTIONS

- The company is in a required liquidity position to meet its short term obligations.
- The shareholders fund against the outsiders fund should be increased.
- The owners' contribution to the total assets is not appropriate hence it should be increased.
- The company's profit over the years has been increasing when compared to previous years.
- Operating expenses of the company is high. So the management should take necessary steps to reduce the non-operating expenses. The management should take steps to reduce the borrowed capital.
- Net fixed asset of the company has increased and even though they are not utilizing the enhanced technology to increase sales. So the management should take initiative steps for the proper utilization of the resources.
- The low inventory turnover ratio indicates the company's inefficiency in inventory management.

CONCLUSION

On studying the financial performance of Indian Tobacco Corporation Limited for a period of five years from 2013 to 2017, the study strongly

reveals that the financial performance is better. However, it needs to minimize the operating expenses to get high net profit. Sales turnover can be improved further by checking expenses that influences the sales. The equity position has to be improved. The company should take steps to maximum utilization of resources and inventory.

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