A Study on Financial Performance Analysis with Reference to ITC Limited, Chennai.

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Abstract - To study about the financial performance of an institution becomes significant since money is considered as the means of support of a business organization. Hence the researcher has preferred this issue to examine the financial statements. Since in the present materialistic economy, money is one of the fundamental practicalities of all kinds of fiscal behavior. It offers access to all the sources that are being engaged in industrialized and merchandising behavior and is the master solution. The key intention of this study is to scrutinize the financial statements and to understand the results thereof by means of ratios covering a phase of four years. Two concepts Management and Accounting form the term Management accounting. Managerial aspects of accounting are studied and it is the device in the hands of executives to implement decision making. The prominence of management accounting is to revamp accounting in a style which is supportive to the organization. Financial statements are prepared for the reason of depicting a periodical appraisal or statement on the growth by the management and it includes the position of funds in the business with the outcome attained through the phase under analysis.

Keywords: ***Finance, Financial Performance, Liquidity, Profitability, Solvency, Inventory Position***

I. INTRODUCTION

Money is considered as the means of support of a business organization. Since in the present materialistic economy, money is one of the fundamental practicalities of all kinds of fiscal behavior. It offers access to all the sources that are being engaged in industrialized and merchandising behavior and is the master solution.

Financial statements are official and original statements prepared by a business concern to reveal its monetary data. AICPA says that financial statements are prepared for the reason of depicting a periodical appraisal or statement on the growth by the management and includes the position of funds in the business with the outcome attained through the phase under analysis.

Objectives of the Study

Prime Objective:

The chief intention of the study is to determine monetary performance for the earlier period financial statement. An effort is made to study the monetary performance with the aid of Analysis of Comparative Statement, Analysis of Common Size Statement and Analysis of Ratios.

Derived Objectives:

- To evaluate the financial situation of the company.
- To learn the liquidity position of the company.
- To identify the profitability position of the company.
- To find the debtors position.
- To spot the creditors position.
- To unearth the solvency position of the company.
- To assess the inventory position of the company.

Need for the Study:

Management of finance is more important in an organization because without which the organization cannot prosper. It depicts the share holder's wealth. Improper management of finance will affect the overall performance of the organization, even if others departments function properly. It is essential to look at financial aspects with its own figures during the previous year and compare them to analyze for survey. So this research is an effort to evaluate the financial performance of the company.

II. METHODOLOGY

Primary as well as secondary data form the basis for this study. By directly contacting the staff of the finance section the primary data were collected. The annual report and manuals for financial performance form the basis for secondary data collection.

The compilation, edition and tabulation of the data collected were done for the purpose of examination. The finance analytical tools like Analysis of Ratios, Analysis of Comparative Statement and Analysis of Common Size Statement were used for analysis. On the basis of the

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analysis and findings, the data has been interpreted, and recommendations have been offered.

Sources of Data Collection

Primary Data

By directly contacting the staff of the finance section and interacting with department head in the particular area first hand data is acquired.

Secondary Data

Annual Reports of the company, Financial Statements of the company, Company Profile, Company records relating to financial performance analysis form the secondary data for analysis.

III. Tools & Techniques of the Study

The Financial performance investigation can be prepared with the aid of the following methods.

- Analysis of Comparative Statement
  - Comparative Income Statement
  - Comparative Balance Sheet
- Analysis of Common Size Income Statement
  - Common Size Income Statement
  - Common Size Balance Sheet
- Analysis of Ratio
- Graphical Analysis
  - Bar Diagrams

Scope of the Study

In the study ITC company is being chosen to carry out a widespread examination of financial performance with the aid of analysis of financial statement such as Analysis of Ratios with regard to liquidity, profitability, leverage and capital structure, Analysis of Comparative Statement and Analysis of Common Size Statement.

The study has been taken on certain objectives giving importance to the exclusive attributes, purposes, functioning and also the legal system governing the company.

Period of the Study

Data of four years is wrapped in the study. The years 2013-2014 to 2016-2017 is taken as the period for the study.

Figure 1 : Types of Financial Statements:

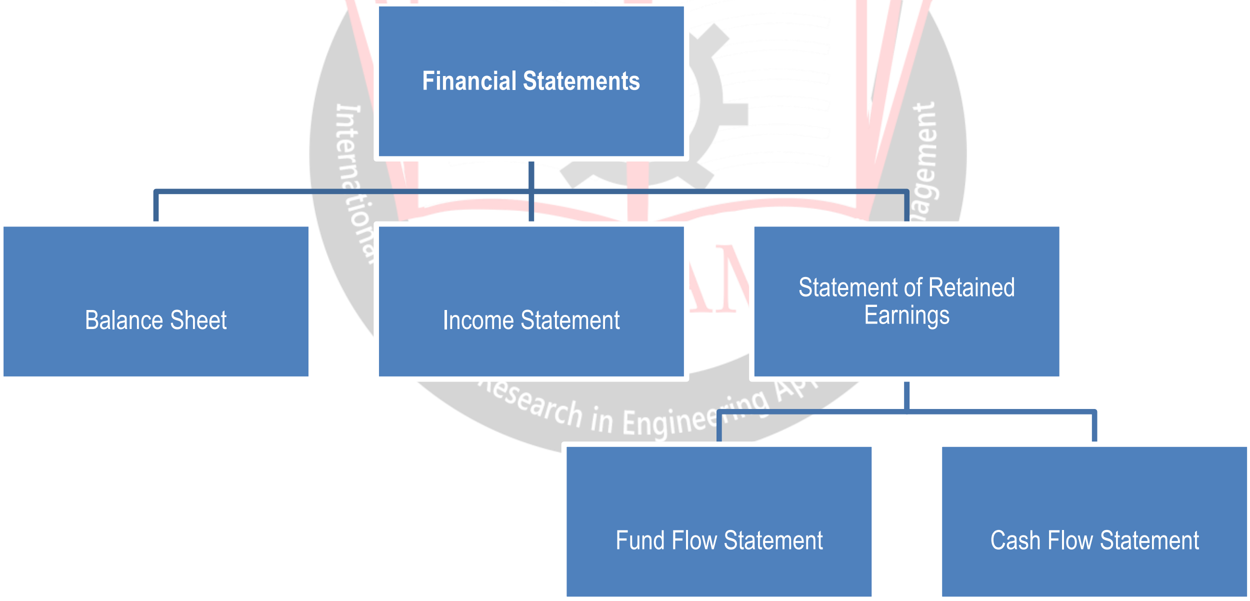

Figure 2 : Techniques for Analysis of Financial Performance:

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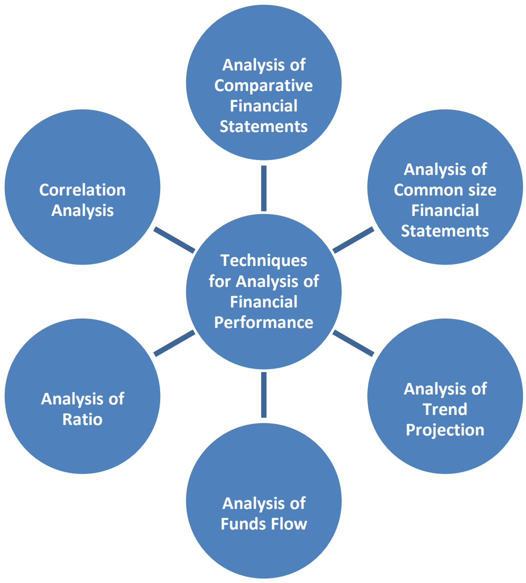

IV. REVIEW APPLIED

Somanadevi Thiagarajan (2011) examined empirically public and private sector banks in India with regard to the determinants of profitability. The contribution of select bank specific variables towards profitability which was calculated by using Return on Assets (RoA) were estimated with the use of a blend of statistical tools such as the correlation analysis, multiple regression analysis and factor analysis. The study exposed that the cost of borrowing and NPA has a significant negative correlation with profitability for public sector banks. Return on investments, return on advances and operating profit had a significant positive correlation with profitability for public and private sector banks alike. Multiple regression analysis brought to light that the return on investments and return on advances has a noteworthy impact on the profitability of private sector banks. The factor analysis has also shown that the NPA has a strong negative influence on the profitability for public and private sector banks alike.

T. Venketesan (2012) established that profitability is the profit earning ability which is a decisive aspect contributing for the continued existence of the firms, in a study on profitability analysis of selected steel companies in India. The profitability intensity ought to be kept at escalating level so as to conquer this difficulty. The data is solely secondary based on profitability situation and is mainly found by that there is a significant different in the direct and indirect expenses and two away ANOVAs of ROI of selected steel company, and the selected steel company is maintaining diverse intensity of returns on their investment in correlation with of SAIL to TATA with respect to Net Profit.

Roger (1995) offered an experimental examination of manufacturing overhead cost drivers. The controversy that overhead costs are determined by transactions that crop up from production intricacy instead of production quantity is scanned through a study of data from 32 manufacturing plants representing the electronics, automobile parts and machinery industries. Outcome explains that manufacturing overhead costs and both manufacturing transactions and production volume are positively and closely related. However, measures of manufacturing transactions instead of volume are used to clarify overhead cost variations.

Thiyagarajan (2010) in the study points out that the company has not been able to sustain the preferred stock level owing to liquidity dilemma, which in turn has its impact on the utilization of machines by the company and as a result on production. The association of liquidity and profitability has been established.

V. ITC LIMITED - PROFILE

A market capitalization of US $ 50 billion and a turnover of US $ 8 billion places ITC as one of India's leading multi-business enterprise. ITC is rated in the midst of the World's Best Big Companies, Asia's 'Fab 50' and the World's Most Reputable Companies by Forbes magazine and as 'India's Most Admired Company' in a analysis conducted by Fortune India magazine and Hay Group. ITC also attributes as one of world's chief prolonged value initiator in the consumer goods industry in a study by the Boston Consulting Group. ITC finds its place in the list along with India's Most Valuable Companies by Business Today magazine. The Company is amid India's '10 Most Valuable (Company) Brands', according to a study carried out by Brand Finance and in print by the Economic Times. ITC also positions in Asia's 50 top performing companies gathered by Business Week.

VI. RESULTS AND DISCUSSION

TABLE 1 CURRENT RATIO

Year	Current Assets	Current Liabilities	Current Ratio
2013-14	20928.73	11504.32	1.8
2014-15	22775.12	5653.3	4
2015-16	23233.92	6354.27	3.7
2016-17	24537.39	6830.07	3.6

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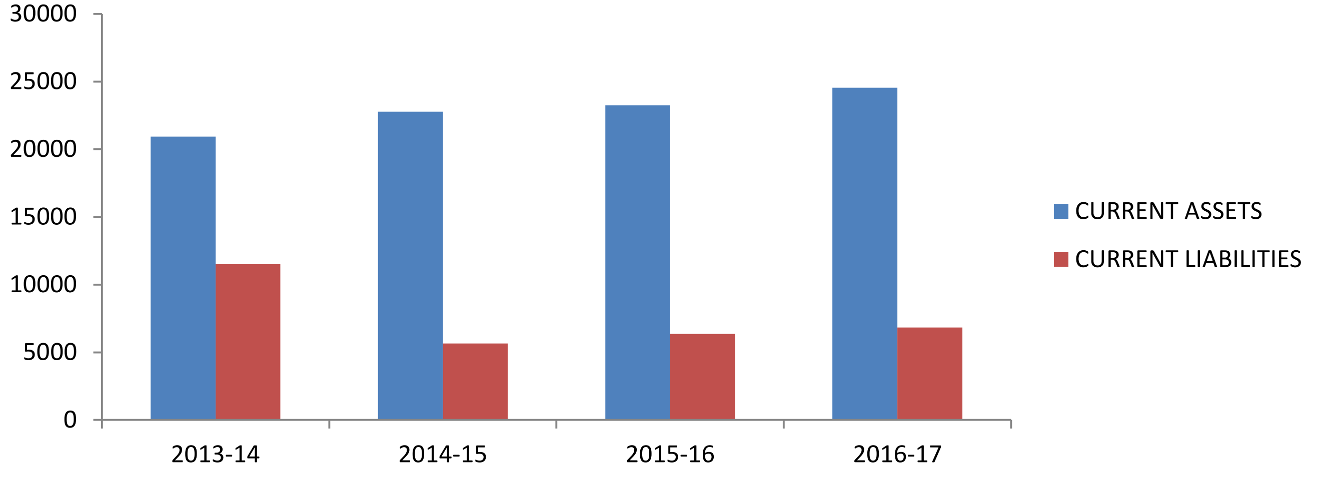
GRAPH 1
CURRENT ASSETS TO CURRENT LIABILITIES



Observation

The availability of funds in the structure of current assets for payment of current liabilities is signified by the current ratio. A higher ratio points out that there were adequate assets existing with the organization which can be transformed into cash without any decline in the value. Since the ideal current ratio is 2:1, when the current ratio of the firm is more than 2:1, it shows that there is needless investment in the current assets in the form of debtor and cash balance. It is obvious that the company sustains more than the ideal ratio except during the year 2013-14 from the above Table 1. Hence the current ratio of ITC Ltd is satisfactory.

TABLE 2 DEBTORS TURNOVER RATIO

Year	Net Sales	Average Debtors	DTR
2013-14	32882.56	2165.36	15.18572
2014-15	36083.21	1722.4	20.94938
2015-16	40889.82	1686.35	24.24753
2016-17	43682.9	2207.5	19.7884

Observation

From Table 2 on the receivable turnover ratio it was observed that receivables turned around the sales more than 5 times. The actual collection period was less than normal collection period allowed to customers. It wraps up that greater investment in the debtors will not impact the requirement of the working capital finance and cost of the respective finance.

TABLE 3 COMPARATIVE INCOME STATEMENT 2016 – 2017

Particulars	**2016**	**2017**	**INC/DEC Rs.**	**INC/DEC %**
Sales	51944.57	55448.46	3503.89	6.75
Less: Cost of goods sold				
Cost of material consumed	11054.75	11765.56	710.81	6.43
Purchase of stock	2591.8	3566.57	974.77	37.6
Change in Inventories	-196.55	644.17	840.72	-428
Gross Profit	**38494.57**	**39472.16**	**977.59**	**2.54**
Less: Operating Expenses				
Excise Duty paid	15361.9	15359.78	-2.12	-0.01
Employee expenses	2331.59	2444.31	112.72	4.83
Other expenses	7086.46	7090.03	3.57	0.05
Add: Operating Income				

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Other Incomes	1769.26	1985.91	216.65	12.2
Operating Profit	**15483.88**	**16563.95**	**1080.07**	**6.98**
Less: Non operating expenses				
Finance costs	49.13	22.95	-26.18	-53.3
Depreciation	1000.68	1038.04	37.36	3.73
Net Profit (PBT)	**14434.07**	**15502.96**	**1068.89**	**7.41**
Less: Tax Provision				
Current Tax	4896.06	5285.65	389.59	7.96
Deferred Tax	209.64	16.41	-193.23	-92.2
Profit After Tax (PAT)	**9328.37**	**10200.9**	**872.53**	**9.35**

Observation

It is inferred from Table 3 on the above comparative income statement that, there is a steady boost in all the aspects. Recent year's profit after tax improved when matched up with the base year. Hence the company should continue its operating level efficiently.

TABLE 4
COMMON SIZE INCOME STATEMENT 2016 – 2017

	Amount (Rs.)	%	Amount (Rs.)	%
Sales	51944.57	100	55448.46	100
Less: Cost of goods sold				
Cost of material consumed	11054.75	21.28	11765.56	21.2
Purchase of stock	2591.8	4.99	3566.57	6.43
Change in Inventories	-196.55	-0.38	644.17	1.16
Gross Profit	**38494.57**	74.11	**39472.16**	71.2
Less: Operating Expenses				
Excise Duty paid	15361.9	29.57	15359.78	27.7
Employee expenses	2331.59	4.489	2444.31	4.41
Other expenses	7086.46	13.64	7090.03	12.8
Add: Operating Income				
Other Incomes	1769.26	3.406	1985.91	3.58
Operating Profit	**15483.88**	29.81	**16563.95**	29.9
Less: Non operating expenses				
Finance costs	49.13	0.095	22.95	0.04
Depreciation	1000.68	1.926	1038.04	1.87
Net Profit (PBT)	**14434.07**	27.79	**15502.96**	28
Less: Tax Provision				
Current Tax	4896.06	9.426	5285.65	9.53
Deferred Tax	209.64	0.404	16.41	0.03
Profit After Tax (PAT)	**9328.37**	17.96	**10200.9**	18.4

Observation:

It is apparent that the different amounts contributing to sales are in a satisfactory position as compared to both the years it is more or less alike or stable, from the above Table 4. In respect of sales and other expenses and incomes the company is maintaining its position in a satisfactory way.

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VII. FINDINGS

- The current ratio is in satisfactory position except during the year 2013-14 and the company sustains more than the ideal ratio.
- The company is having sufficient working capital though the working capital position of the company has been fluctuating year by year.
- While comparing working capital with net sales it is in rising trend representing the effectual use of the net working capital.
- Current liabilities improved every year but in 2014-15 it declined.
- The recommended current ratio is 2:1. In the case of this company the current ratio is more than 1 and it is adequate to meet the current liability.
- Inventories are escalating year by year.
- The Quick Ratio > 1 which shows that the short-term solvency is sound.
- The debtor's turnover ratio shows the healthier trade credit management as the debtor's turnover ratio is elevated.
- Creditor's collection period shows the enhanced trade debt management as the creditor's collection period is reduced.

VIII. SUGGESTIONS

- The manpower needs to be evaluated in relation to production and sales.
- The management should have cordial relations with the workers.
- The company has to take necessary steps to solve the financial issues.
- The marketing department should be restructured on profit center and product line basis.
- To attain the development of the confidence of foreign buyers, the policy of expansion of new market for certain products should be continuous.

IX. CONCLUSION

The Competent And Even Performance of all the activities of the company depends upon sufficient working capital. Keeping up the working capital at the most favorable level by making best use of the profitability without harming the liquidity of the concern is the responsibility of the finance manager.

The company is performing remarkably sound owing to intensifying in the global market followed by the domestic market. It is believed that with superior and novel ideas in improving all the areas of its functioning escalation is a forthcoming one. The company has a excellent liquidity position and does not delay its obligation in case of its creditors and debtors. The company generally reliant on the working capital facilities, it is upholding exceptionally good association with their banks and their working capital management is well balanced.

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