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A DATA-DRIVEN FINANCIAL PERFORMANCE EVALUATION OF ITC LTD USING RATIO ANALYSIS

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Abstract

This project presents a Brief financial analysis of ITC Limited, which is one of India's largest diversified conglomerates with a presence in FMCG, paperboards & packaging, agribusiness, and related sectors. Through an in-depth examination of financial statements, performance indicators, and recent market developments, the study evaluates ITC's profitability, liquidity, operational efficiency, and solvency profile over recent 5 financial years from 2020-2025. The analysis showcases ITC's strong revenue base and a deep sustained profitability and operational strength. ITC's liquidity position remains strong, supported by a minimal debt and significant cash reserves, enabling financial flexibility and resilience against industry headwinds. However, the project also discusses various challenges including regulatory pressures in the tobacco segment, competitive dynamics in FMCG, and the impacts of tax policy changes on earnings volatility. Additionally, the company's asset base, balance sheet trends, and strategic initiatives in sustainability and diversification are examined to assess long-term financial stability and growth prospects. This financial analysis provides stakeholders with actionable insights into ITC's fiscal health, competitive positioning, and future outlook in an evolving economic environment.

KEYWORDS: ITC ltd, Ratio Analysis, Comparative Statement, company's performance

Introduction

Financial analysis is a systematic process of Analysing a company's financial performance and position by examining various financial statements and related data. At its base, financial analysis helps shareholders that is investors, creditors, managers, and analysts to understand how well a business is performing, how efficiently it's using its resources, and how financially stable it is over time. This evaluation typically involves reviewing of balance sheet**,** income statement**,** and cash flow statement to identify trends in revenue, expenses, assets, liabilities, and cash flows. The primary goal of financial analysis is to provide meaningful insights that inform decision-making in areas such as investment, lending, operational planning, and strategic growth. One of the most powerful techniques within financial analysis is ratio analysis, a method that expresses relationships between different financial statement items. Ratio analysis simplifies complex financial data into manageable and comparable indicators by dividing one financial figure by another. These ratios serve as benchmarks to evaluate key aspects of performance, such as profitability, liquidity, solvency, and operational efficiency. By comparing these ratios across multiple time periods or against industry averages, analysts can detect strengths, weaknesses, and emerging trends in a business's financial health. Financial ratios fall into distinct categories, each offering unique insights. Profitability ratios**,** such as return on equity or net profit margin, assess a company's ability to generate earnings relative to sales, assets, or equity. Liquidity ratios, like the current ratio, measure the capacity to meet short-term obligations without distress. Solvency or leverage ratios which evaluate long-term financial stability by examining how much of the company is financed through debt versus equity. Instead of relying on raw financial figures alone, ratio analysis contextualizes data, revealing patterns and comparative insights that are essential for strategic financial planning. Therefore, it is also important to acknowledge that ratios should be used alongside other analytical tools and qualitative information to

form a comprehensive understanding of financial health.

Company profile

ITC Limited was originally named "Imperial Tobacco Company of India Limited", succeeding Imperial Brands and W.D. & H.O. Wills on 24 August 1910 is an Indian conglomerate, headquartered in Kolkata. It has a presence across six business segments,
namely FMCG, agribusiness, information technology, paper products, and packaging. It generates a plurality of its revenue from tobacco products. In terms of market capitalization, ITC is the second-largest FMCG company in India and the third-largest tobacco company in the world. It employs 36,500 people at more than 60 locations across India.

COMPANY TYPE	Public Company
ISIN	INE154A01025
INDUSTRY	Conglomerate
FOUNDED	24 August 1910
HEADQUATERS	Kolkata
AREAS SERVED	Indian Subcontinent, Gulf Countries
BRANDS	Classmate, Aashirvaad, Vivel

Statement of the problem

In an increasingly competitive business environment, large companies like ITC Limited face several financial and operational barriers that directly impact their profitability, growth prospects, and shareholder value. While ITC has historically showed stable financial performance through its strong presence in multiple sectors, recent financial results indicate growing concerns related to margin pressures, fluctuating revenues across various segments, regulatory impacts, and rising input costs. One major issue affecting ITC's financial health is the compression of profit margins across key business units such as FMCG and paperboards, driven by elevated raw material costs and weak pricing power across certain categories. In addition, regulatory changes, especially in the tobacco industry, including higher taxes and stricter compliance norms, pose significant long-term risks to the company's once steady revenue stream from its core cigarette business. Meanwhile, segments like agri-business and FMCG have shown irregular revenue performance, highlighting inconsistencies in growth patterns that require closer financial scrutiny.

Objectives

1. To study and analyze the financial performance of ITC Ltd.
2. To measure the profitability, solvency and financial soundness by evaluating financial statements.
3. To compare the financial performance and to analyze the financial changes during the study period.
4. To give suggestions to improve the financial performance of the company.

Scope of the study

The study entitled "A DATA-DRIVEN FINANCIAL PERFORMANCE EVALUATION OF ITC LTD USING RATIO ANALYSIS" is to analyze the financial performance of ITC Ltd for the last 5 years ranging from 2020- 2025. The study is based on the financial position of the firm by using Ratio analysis, and Comparative statements. Financial statements help the management to analyze profit, solvency, liquidity and efficiency etc. this analysis will give the exact picture of the company. These studies will also help the management to take managerial decisions to understand the new possibilities. The study helps us to conduct researches in financial areas and it also helps us for taking financial Decisions in Personal Life.

Limitations

1. The study is based only on secondary data.
2. This study considers only the monetary aspects. Non-monetary aspects are not considered.
3. The analysis taken only for past 5 years due to time constraint.

Review of Literature

Abha Gupta & Pratibha Kumari (2025)[1] "Evaluating Retail Chain Profitability: Insights from ITC." This study explores the profitability and financial efficiency of ITC Ltd using financial ratios such as debt-to-equity, current ratio, working capital, and return on equity, situating itself within the broader literature that uses ratio analysis to benchmark corporate performance in large diversified firms. Existing research shows that profitability and liquidity ratios provide vital insights into how effectively businesses manage resources and navigate competitive environments. Applying these established tools to ITC over recent years, the authors highlight that ITC's financial performance reflects strategic cost control, efficient working capital management, and robust equity returns even amid market fluctuations. This framework helps bridge the understanding between internal operational strategies and observed financial outcomes, reinforcing prior findings that strong ratio profiles are associated with sustainable profitability and competitive advantage in diversified conglomerates like ITC.

Dr. D. Sivasakthi & Adhithya R. (2025)[2] "A Study on Financial Performance of ITC Ltd" This paper analyzes ITC's financial performance over a five-year span (2019–2024), incorporating financial data that includes the 2023 and 2024 outcomes, and implicitly connects to trends carrying into 2025. Using key ratios (liquidity ratios, profitability margins, and turnover metrics), the research finds consistent profitability, strong liquidity positions, and low reliance on external debt, signaling robust financial stability. The analysis reveals that ITC's diversification, cost management, and operational efficiency helped sustain profitability through 2023 and 2024, positioning the company well for continued performance in 2025

Sharma, Kaneria, Pathak & Grover (2024)[3] "Impact of Working Capital Management on Profitability in FMCG Companies: A Case Study of ITC Ltd." The research situates itself within the literature that examines how working capital management influences profitability, particularly in fast-moving consumer goods (FMCG) sectors where efficient management of receivables, inventories, and payables is linked to financial performance. Prior studies emphasize that proactive working capital strategies are associated with improved profitability and liquidity across large corporates. Using ITC Ltd as a case study, the authors apply these established analytical frameworks to show how ITC's working capital practices contribute to its profitability metrics, reinforcing the view that efficient operational liquidity management supports stronger financial outcomes. By focusing on working capital alongside traditional profitability analyses, this study adds depth to the literature on short-term financial management's role in influencing long-term corporate performance for diversified FMCG players such as ITC.

Research methodology

Research Design

The study adopts a descriptive and analytical research design. Descriptive research helps in understanding the financial position of the company, while analytical research is used to interpret financial data through various financial tools and ratios.

Nature of the Study

The study is quantitative in nature, as it relies on numerical financial data extracted from published financial statements to evaluate performance, profitability, liquidity, and solvency.

Source of Data

The study is based entirely on secondary data collected from reliable and authenticated sources such as:

- Annual Reports of the company
- Audited Financial Statements
- Stock exchange websites (BSE / NSE)

Period of the Study

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

Tools and Techniques of Analysis

The following financial and statistical tools are used for analysis and interpretation:

- Ratio Analysis (Liquidity, Profitability and Solvency ratios)
- Comparative Financial Statements

Data Analysis and Interpretation

Ratio analysis

Table no: 01

Liquidity Ratios

S. No	Financial Year	Current Ratio	Quick Ratio
01	2020-21	3.13	2.20
02	2021-22	2.70	1.82
03	2022-23	2.84	1.98
04	2023-24	2.91	1.89
05	2024-25	3.03	1.88

(Source: Secondary data)

The increasing current ratio from 3.13 in 2020-21 to 3.03 in 2024-25 which indicates that ITC Ltd's has showcased the ability to meet its short-term obligations which has stable over the years. It reflects a strong liquidity position and sound working capital management, though very high values may indicate excess idle current assets. The dip in the quick ratio from 2.20 in 2020-21 to 1.88 in 2024-25 showcases that ITC Ltd has a fragile ability to meet immediate liabilities without relying on its inventory. This indicates a stable short-term financial strength and low liquidity risk.

Table No: 02

Solvency Ratios

S.No	Financial Year	Debt Equity Ratio	Proprietary Ratio
01	2020-21	0.01	0.82
02	2021-22	0.01	0.81
03	2022-23	0.0	0.83
04	2023-24	0.0	0.85
05	2024-25	0.0	0.83

(Source: Secondary data)

Data interpretation

The debt–equity ratio has declined to 0.01 in 2020–21 to 0.01 in 2024–25**,** indicating that ITC Ltd relies without any external debt which is a very good sign. This shows a high conservative capital structure with low financial risk, and strong long-term solvency. The proprietary ratio has increased from 0.82 in 2020 to 0.83 in 2025, showing that a major portion of the company's assets is held in the form owners' funds. This indicates strong financial stability, creditor confidence, and long-term solvency of ITC Ltd.

Table No: 03

Profitability Ratios

S. No	Financial Year	Return on Equity(ROE)	Operating Profit ratio	Net profit ratio
01	2020-21	22.1%	37.5%	29.5%
02	2021-22	24.5%	36.8%	27.6%
03	2022-23	27.7%	39.5%	29.8%
04	2023-24	28.3%	40.4%	32.0%
05	2024-25	27.9%	37.9%	31.2%

(Source: Secondary data)

Data Interpretation

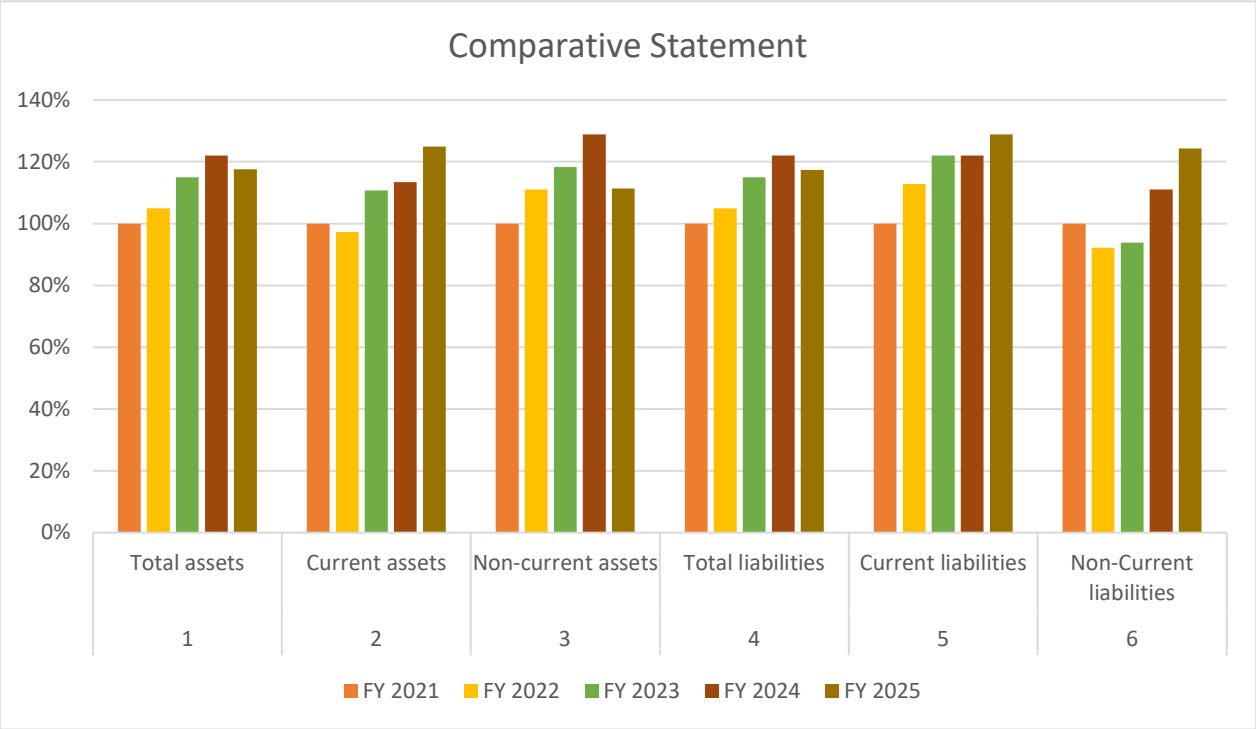
The ROE has improved from 22.1 in 2020–21 to 27.9% in 2024–25**,** indicating a strong investor sentiment as there is a steady increase in the ROE, meanwhile the operating profit ratio has increased from 37.5% in 2020–21 to 37**.**9% in 2024–25**,** showing a basic proper operational efficiency and effective control over operating expenses. This indicates a stable core business performance, and also the net profit ratio rose from 29.5% in 2020–21 to 31.2% in 2024–25**,** reflecting higher overall profitability due to improved operating performance, better cost management, and efficient financial control.

TABLE NO: 04

Comparative Balance Sheet

S.No	Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
01	Total assets	100%	104.9%	115%	122%	117.6%
02	Current assets	100%	97.3%	110.7%	113.4%	124.9%
03	Non-current assets	100%	111%	118.3%	128.9%	111.3%
04	Total liabilities	100%	104.9%	115%	122%	117.4%
05	Current liabilities	100%	112.8%	122%	122%	128.9%
06	Non-Current liabilities	100%	92.2%	93.8%	111%	124.3%

COMPARATIVE STATEMENT CHART



Data Interpretation

A Comparative Balance Sheet is prepared by taking the figures of a base year as 100% and expressing the figures of subsequent years as a percentage of the base year**.**

Comparative Percentage = **(Current Year Amount ÷ Base Year Amount) × 100**

The comparative statement shows a consistent growth in current assets from 100% in FY2020- 21 to 124.9% in FY2024-25, indicating continuous expansion of ITC Ltd's operations. The sharp rise in current assets reflects strong liquidity and increased short-term resources, while moderate growth in non-current assets from 100% in FY2020- 21 to 111.3% in FY2024-25 indicates controlled long-term investments. On the other side that is on the liabilities side, total liabilities have increased in line with assets, maintaining balance sheet stability. Current liabilities have grown at a stronger pace from 100% in FY2020- 21 to 111.3% in FY2024-25, showing depreived short-term solvency. Meanwhile, the continuous incline in non-current liabilities 100% in FY2020- 21 to 124.3% in FY2024-25 reflects high dependence on long-term debt and a weak equity-based capital structure.

Suggestions

- ITC may cautiously use low-cost debt for a neat expansion projects in high-growth FMCG and agri-business sectors to improve return on equity (ROE) without significantly increasing financial risk
- The company should maintain a good dividend policy and should consider share buybacks when required to enhance earnings per share (EPS) and shareholder returns, mainly when internal cash generation exceeds reinvestment needs.
- ITC should timely conduct financial scenario analysis and stress testing to prepare for regulatory changes (e.g., tax hikes) that could impact profit margins and cash flows, enabling strategic adjustments.
- The company should maintain optimal liquidity by investing surplus cash in high-return, low-risk instruments (e.g., liquid mutual funds or short-term deposits) to avoid idle funds while ensuring operational flexibility and improving cash management efficiency (helpful for sustaining strong current and quick ratios).

Conclusion

ITC Ltd has showcased a **consistent financial toughness and growth** over the past 5 years. The company has maintained a **strong revenue plan** supported by its wide business model, with a great performance from its core cigarette segment alongside expanding contributions from **non-tobacco FMCG and agri-business divisions**. The firm's strategic diversification beyond its traditional cigarette business has increasingly paid off, as non-cigarette segments contribute a growing share of revenue and comfortable earnings against sector-specific risks. This conglomerate, coupled with a good cost management and strong cash-generating ability, has showcased ITC's financial strength. ITC's financial performance has also benefited from a visible balance sheet management maintaining a very minimal debt and strong liquidity which improves its ability to invest in growth opportunities and absorb market volatility. Liquidity and profitability ratios indicate healthy financial fundamentals, while a consistent dividend policy underscores its commitment to shareholder returns. Looking ahead, the company faces both opportunities and challenges. On the one side, continued expansion into high-growth FMCG categories, food tech, and value-added agri exports can drive future revenue and margin improvement. On the other side, regulatory pressures on its cigarette business, pricing strategies and ongoing operational efficiency enhancements to sustain profitability. Overall, ITC's solid financial discipline, strategic diversification, and resilient operating performance position it well for long-term value creation. However, ongoing focus on cost rationalization, market expansion, and enhanced value creation through core and emerging businesses will be critical to maintaining competitive advantage and delivering sustainable shareholder returns.

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