A CASE STUDY ANALYSIS ON FINANCIAL POSITION OF ITC LTD

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Abstract:

The balance sheet reflects an organization's resources and obligations. As per the various acts and enactments, the financial statement must be prepared by all types of organizations. The financial statement reflects the classification and value of all assets and liabilities as well as the information on whether or not a business organization has enough assets to pay off external liabilities. It also shows whether the company is economically viable and whether its stability is strong enough to deal with the financial crisis. In this research paper, we used the solvency ratio, the fixed assets turnover ratio of the debt equity ratio and the total assets turnover ratio to determine and evaluate the efficiency with which the total assets and fixed assets are used, to find a correlation between the total assets and total external liabilities and to measure the extent to which the interest-bearing financing or debt financing is used by ITC.

Key words: *Debt, Equity, Solvency position*

Objectives of the Study:

The study meets the following objectives:

a. To check the use of ITC Ltd's fixed assets and total assets
b. To Judge and assess the solvency position and 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 of the Study:

1. Only monetary information shall be considered.
2. There is no primary data collection as the data is collected from the organization's annual reports.
3. The conclusion drawn is based on the turnover ratio of fixed assets, the total turnover ratio of assets, the solvency ratio and the debt capital ratio, etc.
4. There are no fixed standards for all these ratios, so the conclusions may vary from person

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to person.

Research Design:

Research design is needed to ensure that the various research operations are conducted smoothly so that the data collected can be used efficiently and effectively to carry out the research. For this study, the research design includes the assessment of the solvency position of ITC Ltd, which is based on the different solvency ratios. The figures are taken from the annual report of the organization, which contains the annual balance sheet, the profit and loss account. The data collected was processed by the preparation of the tables and the analysis of the ratio was applied. We tried to avoid personal bias while interpreting the ratios. Various statistical tools, such as mean, standard deviation, coefficient of variation, correlation and t-test, have been used to ensure that the calculated information complies with the predefined accuracy standard. In this study, the following ratios were used: fixed asset turnover ratios, total asset turnover ratios, debt equity ratios, solvency ratios, etc.

Financial Statement Analysis of ITC Ltd

Fixed Assets Turnover Ratio:

The turnover ratio of fixed assets helps to assess the organization's use of fixed assets and, through this ratio; the efficiency with which fixed assets are used can be assessed. Generally speaking, higher the ratio then higher the efficiency of the fixed assets and the visa versus. The formula for calculating the turnover ratio of fixed assets is as follows:

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 Nestle India Limited

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Interpretation:

As shown in the first table, the turnover ratio of fixed assets shows a declining trend during the study period. It was initially 2.46 times and decreased to 1.86 times by 2016-17. This ratio was further reduced in the coming year as it fell to 1.17 times by 2017-18. In the last year of the study period, it was 1.13 times the lowest. The net sales variance was co-efficient at 9.15 and the fixed assets were at 26.24.

Total Assets Turnover Ratio:

The total asset turnover ratio helps the organization to know how the total assets are used, as well as helps to know the efficiency with which the total assets are used. If this ratio is low, it indicates inefficiency in the utilization of total assets and visa-versa.

The total asset turnover ratio is calculated using the following formula:

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 Nestle India Limited

Interpretation:

As shown in the second table, the total asset turnover ratio shows a declining trend. It was initially 1.13 times and decreased to 1.03 times by 2015-16. This ratio was further reduced in the following year and reached 1.02 times. The last two years reflected a 0.71-fold and 0.65-fold decrease in this ratio. The coefficient of variance of net sales was 9.15 and the total assets were 18.02.

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Debt –Equity Ratio:

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

Debt equity ratio = Debt /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 Nestle India Limited

Interpretation:

According to the third table, the debt-equity ratio of this organization appears to be declining. It was initially at 0.057:1 and decreased to 0.0484:1 by 2015-16. The ratio decreased again as it was at 0.0413:1 by 2017-18. In the last year this amounted to 0.0384:1, the co-efficiency of the debt variance was 8.14 and the equity was 22.63.

Solvency Ratio:

The solvency ratio determines the interrelationship between the total assets and the total liabilities of the outsiders. If this ratio is high , this means that the solvency position of the organization is more satisfactory and, in the case of a lower ratio, indicates less stability of the organization's long-term solvency position.

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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 Nestle India Limited

Interpretation:

As in the fourth table, the solvency ratio of this organization shows a fluctuating trend. It was initially at 3.28:1 and increased to 5.97:1 by 2015-16. This ratio was further increased as it was at 6.10:1 by 2016-17. However, it decreased to 5.89: 1 in the last year. The co-efficiency of the variance of the total assets was 18.02 and the equity was 19.67.

Testing Of Hypothesis:

In this study, the hypothesis was analyzed by t-test, as the significance of the data can be analyzed by means of statistical tools. Correlation & t-test was therefore used in this study.

Null hypothesis H_{01} 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, we therefore accept the null hypothesis, which means that there is no significant difference in the solvency position of ITC LTD during the 2014-15 to 2018-19 study periods.

Suggestions:

1. The composition of capital should include more debt financing, since the equity is very high compared to the debt.
2. The organization's fixed assets were not properly utilized as the ratio decreased during the

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study period, so the organization should try to make more efficient use of its fixed assets.

3. The organization should try to make effective use of its total assets as the overall turnover ratios of the assets reflect a declining trend during the study period.

4. The organization should improve the composition of non-current liabilities, as the shareholder fund is much more than non-current liabilities.

5. The solvency position of the organization is very sound, as it has enough assets to pay off its external liabilities.

6. The organization should try to improve its debt-equity position as it was much less than 1:1 during the study period.

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