



A study on profitability analysis with reference to ITC limited in India

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Abstract

Analyzing the results is important for any organization's ability to understand what it should focus on in the future. There are many ways to analyze profitability, from regression analysis to future forecasting models. There are also many theories on how to analyze the results. Profitability is the allocation of all costs incurred by the company to the various products or relationships managed by the organization to determine whether the product or relationship produces the best results. Mind Stream Analytics is well known in Costing and can help your company determine what will help them create Costing. Profitability is a measure of a company's success. It is a measure of a company's revenue or performance over time. The purpose of this study is to analyze total profit, return on assets, return on investment and economic growth using 5 years of data.

Keywords: Net profit, profitability, return on net worth equity, RoCE, return on assets

Introduction

The financial services industry serves as a common ground for investors seeking steady growth and income for decades. Organizations that facilitate banking and insurance services, asset management services, lending and credit services, and brokerage operations account for a substantial portion of gross domestic product (GDP) each year and can have a lasting impact on overall stock market performance. The financial services industry includes a large group of businesses that manage money. These include banks, credit unions, investment groups, credit card companies, insurance companies, financial technology companies, financial advisors and even mobile financial services. The profit margins for all these different sub-sectors of the financial services industry vary; while many financial services companies generate revenue by charging a fee for their services, some more personalized services have a higher profit margin. To determine whether an investment in the financial services industry is profitable or not for a financial services company. Profitability and operational efficiency analysis is the urgent need of the hour.

Profitability is the primary measure of a company's overall success. It is necessary for the survival of the business. It is a measure of a company's income or operating success over a given period of time. Profitability means "the ability of a company to earn a return on investment through its business activities. It shows how resources are effectively used to achieve their goal of earning profits". Profitability can be analyzed by ratio analysis. Ratio analysis is one of the most powerful tools and widely used techniques of financial statement analysis. It is the process of calculating and interpreting the relationship between financial statement items in order to draw conclusions about the financial position and performance of a business.

Review of Literature

Bajpai, N. (2020) ^[2]. The study analyzed the financial performance of ITC Limited through various financial ratios. The study found that the company's profitability and liquidity have improved over the past few years, while its debt has come down significantly. The study also

recommended that the company diversify its revenue and focus on sustainable initiatives to improve its brand equity. Dr. R. Malini and Dr. A. Meharaj Banu (2019) ^[3]. The objective of this study is to know the financial position of Indian Tobacco Corporate Limited. It concludes that the financial performance of Indian Tobacco Corporation Limited for the period of five years from 2013 to 2017, the study strongly shows that the financial performance is better. However, it needs to minimize operating costs to achieve high net profit.

Aritra Ranjan Das (2018) ^[1] The objective of the study is to analyze the financial performance of the steel industry in India by selecting a few identified units with respect to profitability, liquidity, solvency and efficiency.

A study by Jain and Singh (2018) ^[5] examined the financial performance of ITC Limited over a period of five years using financial ratios. The study found that the company's revenue increased while its profitability decreased. The study also suggested that the company should reduce its reliance on the cigarette segment and diversify its business portfolio to mitigate regulatory risks.

Dr. S.K. Khartik titto Varghese, (2011) ^[4] found that profitability depends more or less on better utilization of resources and manpower. It pays to increase production capacity and use advanced technology to reduce production and labor costs to increase profitability, not only from an investment perspective, but also from an investor return perspective.

Need of the Study

Profitability analysis is new opportunities for growth and a better understanding of profitability performance and how stable it is, what is in the company and the effectiveness of the assets that can move the business forward. So the study is done to understand the profitability of ITC paper Ltd.

Scope of study

The study period covers the profitability of ITC Pvt. Ltd by analyzing the financial statements for a period of 5 years i.e. 2018-19 to 2022-23.

Research methodology

The following methodology was used to achieve the above objectives.

Data Source: Secondary data has been used for analysis regarding 5 years of data i.e. from 2018-19 to 2022-23 collected from screener websites.

Statistical Tools

To analyze the data the mean, Standard Deviation, Analysis of Variance, and Correlation tools were used.

Objectives of the study

1. To analyze the profitability in terms of sales.
2. To examine the relationship of net profit , equity and assets efficiency

1. Hypothesis

In the study, it is tried to know that is there no significant difference in the mean net profit and total assets turnover ratios. To test this, hypothesis has been formulated and tested with One-way ANOVA, and correlation.

Data Analysis and Interpretation

Table 1: Profitability Ratios of ITC paper Limited

Year/ Ratio	Net Profit Margin (%)	Return on Net worth / Equity (%)	Return on Capital Employed (%)	Return on Assets (%)	Asset Turnover Ratio (%)
2022-2023	28.39	27.74	35.39	22.79	0.84
2021-2022	26.72	24.52	31.23	20.05	0.77
2020-2021	28.65	22.08	28.02	18.2	0.62
2019-2020	33.17	23.63	29.26	20.11	60.63
2018-2019	27.7	21.5	30.7	17.85	64.46
MEAN	28.926	23.894	30.92	19.8	25.464
SD	2.49	2.46	2.80	1.97	33.88
CV	8.60%	10.31%	9.05%	9.93%	133.04%

Source: calculated by researcher

The above table reveals that the net profit margin of ITC Ltd mean value is 28.926, SD value is 2.49 and coefficient variation is 8.60%. Return on net worth equity mean value is 23.894, SD value is 2.46 and co efficient variation 10.31%, Return on capital employed mean value is 30.92, SD value is 2.80 and coefficient variation is 9.05%. Return on assets mean value is 19.8, SD value is 1.97 and

coefficient variation is 9.93, asset turnover ratio mean value is 25.464, SD value is 33.88 and coefficient variation is 133.04. hence it conclude that the net profit of ITC Ltd has more consistency.

Ho1: There is no relationship between Net profit and equity and assets

Table 2: Relationship between Net profit and equity and assets

	Net Profit Margin (%)	Return on Net worth / Equity (%)	Return on Capital Employed (%)	Return on Assets (%)	Asset Turnover Ratio (%)
Net Profit Margin (%)	1				
Return on Net worth / Equity (%)	-0.04599	1			
Return on Capital Employed (%)	-0.32541	0.856698	1		
Return on Assets (%)	0.101934	0.988214	0.818227	1	
Asset Turnover Ratio (%)	0.522095	-0.50246	-0.29717	-0.39483	1

Source: calculated by researcher

The above table reveals that the relationship between net profit and return on net worth equity value is -0.04599 there is a negative correlation. The relationship between net profit and return on capital employed value is -0.32541 there is a negative correlation. The relationship between net profit and return on assets value is 0.101934 there is a positive correlation. The relationship between net profit and asset turnover ratio value is 0.522095 there is a positive correlation. The relationship between return on network equity and return on capital employed value is 0.856698 there is a positive correlation. The relationship between return on network equity and return on capital employed value is 0.856698 there is a positive correlation. The

relationship between return on network equity and return on capital employed value is 0.988214there is a positive correlation. The relationship between return on network equity and asset turn over ration value is -0.50246 there is a negative correlation. The relation ship between Return on Capital Employed and return on assets value is 0.818227 there is a positive correlation. The relationship between Return on Capital Employed and asset turnover value is -0.29717there is a negative correlation. The relationship between Return on assets and asset turnover value is -0.39483there is a negative correlation.

Ho2: There is no association between Net profit and equity and assets

Table 3: One-way anova for net profit ratio and Association between equity and assets

Source of Variation	Anova					
	SS	df	MS	F	P-value	F crit
Between Groups	378.66	4	94.66501	0.403993	0.803507	2.866081
Within Groups	4686.467	20	234.3233			
Total	5065.127	24				

Source: calculated by researcher

As per the p value 0.803507 is greater than at 5 percent significant level it means the null hypotheses is accepted, indicating that there is a significant mean difference between net profit and assets.

Conclusion

It can be stated that the profitability ratios of ITC Ltd shows that the ratio of net profit has been changing from year to year and the return has been stable when the net profit has been stable even after many fluctuations in the previous years. The growth of the company's profitability can be considered stable in the last five years. A negative relationship between net profit and total assets exists in an organization because of the increase in operating costs. The company needs to stabilize the declining proportional change in sales to maintain the gross profit ratio. The company already maintains the operating profit margin ratio in a stabilized manner, it is necessary to take measures to increase the operating profit margin indicator. The company needs to increase the net profit ratio through required measures such as reducing its operating expenses. There is a negative strong relationship between net profit ratio and total asset turnover, so it is advisable to control and monitor the company's operating expenses.

Reference

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