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A Study of Financial Performance Using Ratio Analysis at ITC

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ABSTRACT: This study examines the financial performance of ITC Limited, a leading diversified conglomerate in India's Fast-Moving Consumer Goods (FMCG) sector, through comprehensive ratio analysis over the five-year period from FY 2020-21 to FY 2024-25. Grounded in established financial theories such as resource-based view, agency theory, and capital structure principles, the research evaluates key dimensions of liquidity, profitability, solvency, and operational efficiency using secondary data sourced from the company's audited annual reports. Employing a descriptive-analytical research design, the study calculates standard financial ratios, conducts trend analysis, and applies inferential statistics including multiple linear regression and Pearson correlation to test hypothesized relationships among variables. Findings reveal ITC's consistently superior liquidity position (Current Ratio averaging above 2.7 and Quick Ratio above 1.8), robust profitability (Gross Margin around 55% and core Net Margin 27-29%), exceptional solvency (Interest Coverage exceeding 500 times on average), and improving efficiency (Asset Turnover rising from 0.63 to 0.82). While regression analysis indicated a strong collective explanatory power ($R^2 = 0.639$) between selected ratios and revenue, individual predictors were statistically insignificant due to the small sample size. Pearson correlation confirmed a significant positive association between ROE and Current Assets. Overall, the study concludes that ITC maintains a sound and resilient financial structure, well-supported by strategic diversification, sustainability initiatives, and prudent management, positioning the company for sustained leadership in the competitive FMCG landscape. The research underscores the enduring utility of ratio analysis as a diagnostic tool for corporate performance evaluation.

KEYWORDS: Financial Performance, Ratio Analysis, ITC Limited, Liquidity Ratios, Profitability Ratios, Solvency Ratios, Efficiency Ratios, FMCG Sector, Regression Analysis, Correlation Analysis

I. INTRODUCTION

The study of financial performance using ratio analysis represents a cornerstone in contemporary financial research, providing a systematic approach to evaluating the operational efficiency, profitability, and overall health of an organization. This introduction delves into the foundational aspects of such analyses, emphasizing the theoretical and conceptual underpinnings that guide scholarly inquiries in this domain. By focusing on ratio analysis as a tool for dissecting financial statements, researchers can uncover patterns and trends that inform strategic decision-making. The background of the study sets the stage by exploring the evolution of financial performance metrics in economic literature, highlighting their role in bridging accounting data with managerial insights. Key concepts such as liquidity, solvency, and profitability are examined through a research lens, drawing on established theories to elucidate their significance. This section avoids specific organizational profiles, instead concentrating on broader theoretical frameworks that underpin ratio-based evaluations. Theoretical underpinnings are integrated into paragraphs of approximately 10 lines each, ensuring a balanced exposition of ideas. The discourse progresses logically, building from general background to detailed keyword explanations, fostering a comprehensive understanding of the topic. Ultimately, this introduction aims to equip readers with a robust conceptual foundation for appreciating the intricacies of financial performance studies.

II. STATEMENT OF THE PROBLEM

In the dynamic landscape of the Indian FMCG sector, companies like ITC face ongoing challenges in maintaining robust financial health amid fluctuating market conditions, regulatory changes, and competitive pressures. The problem

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arises from the need to systematically evaluate ITC's financial performance to identify strengths and weaknesses that could impact long-term sustainability and stakeholder value. Ratio analysis serves as a critical tool for dissecting financial statements, yet there is a gap in comprehensive assessments that link these ratios to broader economic indicators and internal efficiencies. This study addresses the issue of potential inefficiencies in resource allocation, profitability margins, and liquidity management at ITC, which could lead to suboptimal decision-making if not analyzed thoroughly. The problem is compounded by external factors such as inflation, supply chain disruptions, and shifting consumer preferences, which may distort key financial metrics over time. Furthermore, without a detailed ratio-based evaluation, it becomes difficult to benchmark ITC's performance against industry peers, potentially overlooking opportunities for improvement. The core concern is whether ITC's financial strategies are aligned with its diversified operations, and if ratios reveal any vulnerabilities in solvency or operational effectiveness. This analysis is essential to uncover trends that could inform strategic adjustments, ensuring resilience in a volatile business environment. Ultimately, the problem statement underscores the imperative for a research-driven approach to financial scrutiny, highlighting areas where ITC might enhance its fiscal prudence. By focusing on ratio analysis, the study aims to illuminate these challenges, providing insights into the financial intricacies that define ITC's operational success.

III. OBJECTIVES OF THE STUDY**Primary Objective:**

- To analyze the overall financial performance of ITC using ratio analysis over a specified period.

Secondary Objectives:

- To evaluate the liquidity position of ITC through relevant ratios.
- To assess the profitability trends of ITC based on key financial metrics.
- To examine the solvency and leverage aspects of ITC's financial structure.

IV. RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design with a quantitative orientation. The research relies exclusively on secondary data, which is quantitative in nature. This includes numerical financial metrics extracted from balance sheets, profit and loss accounts, and supporting schedules, expressed in Indian Rupees in Crores for the purpose of ratio calculations and statistical analysis. Purposive (judgmental) sampling technique was employed, focusing on ITC Limited as the sole unit of study. The study covers a period of five consecutive financial years from FY 2020-21 to FY 2024-25 (ending March 31, 2025). Data analysis was performed using ratio analysis as the primary technique, supplemented by statistical methods in Microsoft Excel and SPSS.

V. REVIEW OF LITERATURE

Kumar (2025), "Cross-Sector Performance Benchmarking: The Evolving Role of Financial Ratio Analysis Across Industries" The study investigated the application of financial ratio analysis as a benchmarking tool across diverse industrial sectors between 2015 and 2024. Researchers utilized panel data from listed firms and applied multivariate regression to test the relevance of liquidity, profitability, and efficiency ratios. Results demonstrated that asset turnover and return on capital employed maintained high predictive power even during economic shocks. The analysis emphasized the need for sector-adjusted benchmarks to improve comparability. Findings revealed declining relevance of traditional leverage ratios in technology-intensive industries. Scholars concluded that hybrid models combining ratios with non-financial indicators enhanced diagnostic accuracy. The work highlighted limitations in using static ratios amid rapid digitalization. Overall, the research reinforced ratio analysis as a foundational yet evolving performance evaluation method.

Gazilas (2024), "Integrative Financial Ratio Analysis for Crisis Resilience in Service Firms" This research examined how financial ratios signaled resilience during the post-pandemic recovery phase from 2020 to 2023. The author analyzed longitudinal data from service-oriented companies using time-series regression and correlation analysis. Liquidity and coverage ratios proved most effective in identifying firms that recovered faster. Profitability ratios showed delayed recovery patterns linked to cost structure rigidity. The study found that efficiency ratios improved significantly with supply chain digitization. Results underscored the importance of combining solvency ratios

with cash flow metrics. The author recommended dynamic threshold models over fixed industry averages. The paper contributed to understanding ratio behavior under prolonged uncertainty.

Ferreira et al. (2025), "Financial Ratio Analysis in Aviation Firms During Economic Rebound" Researchers assessed the utility of key financial ratios in evaluating recovery trajectories of aviation-related businesses from 2019 to 2024. They applied trend analysis and comparative ratio benchmarking on quarterly financial data. Liquidity ratios exhibited extreme volatility but served as early warning indicators. Profitability and activity ratios recovered unevenly across firm sizes. The study concluded that interest coverage ratios were critical predictors of debt servicing ability. Findings suggested incorporating industry-specific volatility adjustments. The analysis revealed gaps in using historical ratios for forward-looking forecasts. The work advanced ratio analysis in capital-intensive sectors.

Data Analysis And Interpretations

Table No. 1- Current Ratio

| Year | Current Ratio |
|------|---------------|
| FY25 | 3.03 |
| FY24 | 2.91 |
| FY23 | 2.84 |
| FY22 | 2.70 |
| FY21 | 3.13 |

Interpretation: ITC maintains a strong current ratio consistently above 2.7 across all five years, indicating excellent short-term liquidity and ability to meet current obligations comfortably. The ratio dipped slightly to 2.70 in FY22 before recovering, reflecting prudent working capital management. In FY25, the ratio improved to 3.03 due to higher current assets, particularly inventories and investments. This conservative liquidity position provides a strong buffer against economic uncertainties.

Table No. 2- Quick Ratio

| Year | Quick Ratio |
|------|-------------|
| FY25 | 1.88 |
| FY24 | 1.89 |
| FY23 | 1.98 |
| FY22 | 1.82 |
| FY21 | 2.20 |

Interpretation: The quick ratio (acid-test) hovers comfortably around 1.8–2.2, showing ITC can meet short-term liabilities even without selling inventory. A minor decline in FY22 was followed by steady improvement, reflecting efficient management of receivables and cash equivalents. In FY25, the ratio at 1.88 remains healthy despite higher inventory levels. This indicates low dependence on inventory liquidation for liquidity. ITC's strong quick ratio highlights superior working capital efficiency compared to industry peers in consumer goods. The consistent performance above 1.8 demonstrates resilience and conservative financial policies that protect against sudden cash flow disruptions.

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Table No. 3- Gross Profit Margin

| Year | Gross Profit Margin (%) |
|------|-------------------------|
| FY25 | 53.71 |
| FY24 | 58.35 |
| FY23 | 55.75 |
| FY22 | 52.90 |
| FY21 | 55.72 |

Interpretation: ITC sustains a healthy gross margin in the 53–58% range, typical of its diversified portfolio including cigarettes, FMCG, and agri-business. The margin peaked in FY24 at 58.35% due to better cost control and favourable input prices. A slight moderation in FY25 to 53.71% may reflect higher material costs or mix changes post-demerger activities. The consistent performance above 52% showcases strong pricing power and operational efficiency. ITC effectively manages supply chain and raw material costs despite inflationary pressures. This robust gross profitability provides a solid foundation for covering operating expenses and delivering shareholder value over the long term.

Table No. 4- Net Profit Margin

| Year | Net Profit Margin (%) |
|------|-----------------------|
| FY25 | 48.36 |
| FY24 | 29.61 |
| FY23 | 27.38 |
| FY22 | 25.55 |
| FY21 | 26.74 |

Interpretation: Reported net margin shows a sharp jump to 48.36% in FY25 primarily due to a one-time gain from discontinued operations. Excluding this exceptional item, the continuing margin remains stable around 27–29%, indicating consistent core profitability. The steady improvement from 25.55% in FY22 to 29.61% in FY24 reflects better operational performance and cost discipline. ITC demonstrates strong bottom-line conversion even in a competitive environment. The underlying profitability (excluding one-offs) highlights efficient expense management across diverse business segments. Overall, ITC maintains superior margins compared to most FMCG peers, supporting sustained dividend payouts and reinvestment.

VI. FINDINGS

- ITC maintained exceptionally strong liquidity throughout FY21–FY25, with Current Ratio averaging **2.92** (consistently above **2.7**), reflecting **192%** coverage of current liabilities against the ideal minimum of 1.5 and providing a robust buffer against market volatility.
- Quick Ratio stood at an average of **1.87** (never below **1.82**), confirming the company’s ability to meet short-term obligations **87%** above the standard threshold of 1 without liquidating inventory.
- Gross Profit Margin averaged **55.29%** over the period, with a peak of **58.35%** in FY24, demonstrating superior pricing power and cost efficiency in a competitive FMCG environment.
- Net Profit Margin averaged **31.53%** (including one-time gain in FY25), while core continuing operations delivered a stable **27–29%** margin, showcasing consistent bottom-line strength and operational discipline.

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- Expand the data collection period beyond five years by incorporating at least ten to fifteen financial periods to increase sample size, thereby enhancing statistical power and reducing the risk of non-significant results arising from limited observations in regression and correlation analyses.
- Introduce additional independent variables such as operating expenses, debt-equity ratio, and capital expenditure into future regression models to capture a broader range of influences on revenue and overcome the current insignificant predictor outcomes.
- Adopt panel data analysis or cross-sectional comparisons with peer companies to mitigate overfitting issues and generate more reliable insights where hypotheses were not supported due to small sample constraints.
- Implement regular sensitivity testing and bootstrap resampling techniques in statistical models to validate weak or non-significant relationships, providing a practical way to strengthen the robustness of findings on liquidity and profitability drivers.

VIII. CONCLUSION

The present study on financial performance of ITC Limited using ratio analysis offers a holistic assessment of the company's financial health, drawing upon theoretical foundations of financial economics, accounting principles, and strategic management. Conducted within the vibrant and competitive FMCG industry in India, the research examined key dimensions of liquidity, profitability, solvency, and efficiency over a five-year period. ITC has consistently exhibited strong liquidity, enabling seamless fulfilment of short-term obligations and providing a solid cushion against market uncertainties. Profitability indicators remained healthy, reflecting efficient cost control, superior pricing power, and effective management of a diversified product portfolio. Solvency metrics were exceptionally robust, characterised by negligible debt dependence and high interest coverage, which enhanced the company's financial flexibility and creditworthiness. Efficiency ratios demonstrated steady improvement in asset and inventory utilisation, supporting sustained revenue generation and operational excellence across business segments. Statistical analyses, including multiple regression and Pearson correlation, established meaningful linkages between liquidity and shareholder returns, though limited sample size necessitated cautious interpretation. ITC's strategic diversification, combined with its unwavering focus on sustainability and innovation, has reinforced its position as a resilient and forward-looking enterprise. The overall findings affirm that ITC maintains a sound and superior financial structure, well-aligned with industry benchmarks and stakeholder expectations. This study reinforces the enduring value of ratio analysis as a strategic tool for performance evaluation and underscores ITC's potential for continued leadership in the Indian corporate landscape.

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