

## **A Comparison of Financial Performance Based On Ratio Analysis (With Special Reference to ITC Limited and HUL Limited)**

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**Abstract:** In Our Present-Day Economy, Finance Is Defined As The Provision Of Money At The Time When It Is Required. Every Enterprise, Whether Big, Medium Or Small, Needs Finance To Carry Its Operations And To Achieve Its Targets. In Fact, Finance Is So Indispensable Today That It Is Rightly Said To Be Lifeblood Of An Enterprise. A Ratio Is A Mathematical Relationship Between Two Items Expressed In A Quantitative Form. In This Emprical Paper Highlights The Objective Of The Study, Scope Of The Study, Limitation Of The Study, Review Of Literature, Data Analysis And Interpretation, Finding, Suggestion And Conclusion Regarding Comparative Of Financial Performance Based On Ratio Analysis Of ITC And HUL Ltd.

**Keywords:** Ratio Analysis, Liquidity Position, Solvency Position.

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Date of Submission: 09-04-2018

Date of acceptance: 23-04-2018

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### **I. INTRODUCTION:**

In Our Present-Day Economy, Finance Is Defined As The Provision Of Money At The Time When It Is Required. Every Enterprise, Whether Big, Medium Or Small, Needs Finance To Carry Its Operations And To Achieve Its Targets. In Fact, Finance Is So Indispensable Today That It Is Rightly Said To Be Lifeblood Of An Enterprise. Without Adequate Finance, No Enterprise Can Possibly Accomplish Its Objectives. Every Management Aims To Utilize Its Funds In A Best Possible And Profitable Way. It Is Also A Field That Deals With The Study Of Investments. It Includes The Dynamics Of Assets And Liabilities Over Time Under Condition Of Different Degrees Of Uncertainty And Risk. It Can Also Be Defined As The Science Of Money Management. Market Participants Aims To Price Assets Based On Their Risk Level, Fundamental Value, And Their Expected Rate Of Return. So, Finance Is Very Essential For The Smooth Running Of The Business. It Controls The Policies, Activities And Decision Of Every Business.

#### **Meaning Of Ratio:**

A Ratio Is A Mathematical Relationship Between Two Items Expressed In A Quantitative Form. In Simple 'Ratio' Is An Arithmetical Expression Of Relationship Between Two Interdependent Or Related Items. Ratios, When Calculated On The Basis Of Accounting Information, Are Called Accounting Ratios.

#### **Objectives Of The Study**

- To Know The Financial Position Of The ITC Limited And HUL Limited In General.
- To Find Out The Efficiency And Risk Of The Operations.
- To Analyze The Strength And Weakness Of ITC Limited And HUL Limited.
- To Find Out The Utility Of Financial Ratio In Credit Analysis And Determining The Financial Capability Of Companies.

#### **Scope Of The Study**

The Scope Of The Study Covers The Financial Performance Of ITC Limited And HUL Limited. It Is Limited To Collecting Financial Data Published In The Annual Report Of The Company. It Is Made By Making Comparison Of The Past Year. It Helps To Express The Relationship Between The Companies Financial Performance Through Ratio Analysis. Using The Ratio Analysis, Companies Past, Present And Future Performance Can Be Analysied. The Analysis Is Done To Suggest The Possible Solution.

#### **Limitations Of The Study**

- Ratios Are Calculated Jointly On The Basis Of Past Result Which May Not Be Suited To Implement To The Present Business Policies.

- Results Of The Analysis May Be Interpreted Differently By Different Users.
- The Study Is Based On Past Data, Past Cannot Be The Index Of Future And Cannot Be Cent Basis For Future Forecasting And Estimation.

## II. REVIEW OF LITERATURE

**Maheswari, V. (2015)**, Made An Attempt To Analyze The Financial Soundness Of The Hero Honda Motors Limited Have Identified Three Factors, Namely Liquidity Position, Solvency Position And Profitability Position Based On The Study Of Period 2002 To 2010 Using Ratio Analysis.

**Mathur, Shivam & Agarwal, Krati (2016)**, Ratio's Are An Excellent And Scientific Way To Analyze The Financial Performance Of Any Firm. The Company Has Received Many Awards And Achievements Due To Its New Innovations And Technological Advancement. These Indicators Help The Investors To Invest The Right Company For Expected Profits. The Study Shows That Maruti Suzuki Limited Is Better Than Tata Motors Limited.

## III. DATA ANALYSIS AND INTERPRETATION:

### Liquidity Position

#### Current Ratio

##### Formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

| Company | Current Assets<br>(Rs. In Crores) | Current Liabilities<br>(Rs. In Crores) | Ratio |
|---------|-----------------------------------|--|-------|
| Itc     | 24537.39                          | 6830.07                                | 3.592 |
| Hul     | 10218                             | 7714                                   | 1.324 |

(Source: Annual Report 2016-2017 – Secondary Data)

#### Inference:

The Above Table Shows That The Current Ratio For Itc Limited Is 3.592 And For Hul Limited Is 1.324. Both The Company Ratio Are Above The Standard Value 1. It Indicates The Ability Of A Concern To Meet Its Current Obligations As And When They Are Due For Payment.

### Quick Ratio (Or) Liquid Ratio

#### Formula:

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

| Company | Liquid Assets<br>(Rs. In Crores) | Current Liabilities<br>(Rs. In Crores) | Ratio |
|---------|----------------------------------|--|-------|
| Itc     | 16673.4                          | 6830.07                                | 2.441 |
| Hul     | 7677                             | 7714                                   | 0.995 |

(Source: Annual Report 2016-2017 – Secondary Data)

#### Inference:

The Above Table Shows That The Quick Ratio For Itc Limited Is 2.441 And For Hul Limited Is 0.995. In The Case Of Itc, The Ratio Is More Than The Standard Value 1 Whereas The Hul Limited Ratio Is Less Than The Standard Value. It Is Clear That Itc Has The Immediate Ability To Meet The Short – Term Obligations Without Relying On The Level Or Sales Of Inventory.

**Cash Position Ratio**

**Formula:**

$$\text{Cash And Bank Balance} + \text{Marketable Securities}$$

**Cash Position Ratio =**

$$\frac{\text{Cash And Bank Balance} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

| Company | Cash & Marketable Securities (Rs. In Crores) | Bank | Current Liabilities (Rs. In Crores) | Ratio |
|---------|--|------|-------------------------------------|-------|
| Itc     | 12847.05                                     |      | 6830.07                             | 1.880 |
| Hul     | 5616   |      | 7714                                | 0.728 |

(Source: Annual Report 2016-2017 – Secondary Data)

**Inference:**

The Cash Position Ratio Of Itc Is 1.880 Which Is More Than The Standard Value 0.75. For Hul Limited It Is 0.728 Which Is Less Than The Standard Value 0.75. The Liquidity Position In Terms Of Cash And Near Cash Equivalents In Cash Position Ratio Is Much Better In Case Of Itc Limited Than Hul.

**Debt Equity Ratio**

**Formula:**

$$\text{External Equities}$$

**Debt Equity Ratio =**

$$\frac{\text{External Equities}}{\text{Internal Equities}}$$

| Company | External Equities (Rs. In Crores) | Internal Equities (Rs. In Crores) | Ratio |
|---------|-----------------------------------|-----------------------------------|-------|
| Itc     | 8874.99                           | 45340.96                          | 0.195 |
| Hul     | 8940                              | 6766                              | 1.321 |

(Source: Annual Report 2016-2017 – Secondary Data)

**Inference:**

The Above Table Shows That The Debt Equity Ratio Of Itc Limited And Hul Limited Is 0.195 And 1.321. The Standard Value Is 1. The Less Than 1 In Itc Indicates That The Portion Of Assets Provided By Stockholders Is Greater Than The Portion Of Assets Provided By Creditors And Greater Than 1 In Hul Indicates That The Portion Of Assets Provided By Creditors Is Greater Than The Portion Of Assets Provided By Stockholders.

**Fixed Assets Ratio**

**Formula:**

$$\text{Fixed Assets}$$

**Fixed Assets Ratio =**

$$\frac{\text{Fixed Assets}}{\text{Long – Term Funds}}$$

| Company | Fixed Assets (Rs. In Crores) | Long Term Funds (Rs. In Crores) | Ratio |
|---------|------------------------------|---------------------------------|-------|
| Itc     | 29678.56                     | 2044.92                         | 14.51 |
| Hul     | 5488                         | 1226                            | 4.476 |

(Source: Annual Report 2016-2017 – Secondary Data)

**Inference:**

The Fixed Asset Ratio Of ITC Limited And HUL Limited Is 14.51 And 4.476. The Fixed Asset Ratio Of Both The Companies Are More Than 1 Which Indicates That The Net Fixed Assets Of The Company Are More Than Its Long-Term Funds Which Demonstrate That The Company Has Bought Some Of Its Fixed Assets With The Help Of Short-Term Funds. This Depicts Operational Inefficiency.

**Profitability Position**

**Return On Investment**

**Formula:**

$$\text{R.O.I} = \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$$

| Company | Operating Profit<br>(Rs. In Crores) | Capital Employed<br>(Rs. In Crores) | Ratio  |
|---------|-------------------------------------|-------------------------------------|--------|
| ITC     | 14578.04                            | 54215.95                            | 26.88% |
| HUL     | 6573                                | 15706                               | 41.85% |

(Source: Annual Report 2016-2017 – Secondary Data)

**Inference:**

The Return On Investment Of ITC Limited Is 26.88% Which Is Less Than The HUL Limited 41.85%. The High ROI Of HUL Indicates That The Investment's Gains Compare Favourably To Its Cost And It's Efficient Use Of The Capital Employed. The Low ROI Of ITC Indicates It's Inefficient Use Of The Capital Employed.

**Findings**

- Current Ratio Of ITC Limited And HUL Limited Are More Than The Standard Norms.
- Quick Ratio Is In Decreasing Trend In HUL Limited And Increasing Trend In ITC Limited.
- Cash Position Ratio Of ITC Limited Is Better Than The HUL Limited.
- Debt Equity Ratio Of ITC Limited Is Lesser Than The HUL Limited.
- Fixed Assets Ratio Of ITC Limited And HUL Limited Are Above The Standard Value.
- Return On Investment Is Higher For HUL Limited When Compared With ITC Limited.

**Suggestion**

- The Quick Ratio Of HUL Limited Is Less Than The Standard Value 1. So It Has To Concentrate On Its Liquid Assets.
- The Cash Position Ratio Of HUL Limited Is Less Than The Standard Value 0.75. So It Can Be Increased By Increasing The Marketable Securities.
- The Debt Equity Ratio Of ITC Limited Is Less Than The Standard Value 1. So It Can Be Increased By Increasing The External Equities Like Creditors.
- The Return On Investment Of ITC Limited Can Be Increased By Increasing The Operation Profit In The Business.

**IV. CONCLUSION**

Ratio Analysis Is One Of The Techniques Of Financial Analysis Where Ratios Are Used As A Yardstick For Evaluating The Sound Financial Condition And Performance Of A Firm. Accounting Ratios Measure And Indicate Efficiency Of An Enterprise In All Aspects.

From The Study Of Ratio Analysis, It Is Found That Maintaining Ideal Ratios In Such A Big Organization Is A Very Big Task. There Are Various Factors Affecting Ratio Analysis While Managing Like Credit Policy, Inventory Management System Etc. The Analysis On Different Financial Data Collected From The Company Is Financially Well At Present. And It Could Be Recommended That, The Important Of Ratio Analysis Depends On The Stakeholder's Specific Need And The Situational Requirements.

The Financial Performance Of ITC Limited And HUL Limited Was Found To Be Satisfactory In The Study. It Is Concluded That HUL Limited Has Better Profitability And Turnover Ratios And ITC Limited Has Better Liquidity Position.

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Dr. G.Bhavani" .A Comparison of Financial Performance Based On Ratio Analysis". IOSR Journal Of Humanities And Social Science (IOSR-JHSS). vol. 23 no. 04, 2018, pp. 59-63.