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

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Keywords: Ratio Analysis, Liquidity Position, Solvency Position.

I. INTRODUCTION:


Meaning Of Ratio:

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

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


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:

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

<table>
<thead>
<tr>
<th>Company</th>
<th>Current Assets (Rs. In Crores)</th>
<th>Current Liabilities (Rs. In Crores)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itc</td>
<td>24537.39</td>
<td>6830.07</td>
<td>3.592</td>
</tr>
<tr>
<td>Hul</td>
<td>10218</td>
<td>7714</td>
<td>1.324</td>
</tr>
</tbody>
</table>

(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:

\[
\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}
\]

<table>
<thead>
<tr>
<th>Company</th>
<th>Liquid Assets (Rs. In Crores)</th>
<th>Current Liabilities (Rs. In Crores)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itc</td>
<td>16673.4</td>
<td>6830.07</td>
<td>2.441</td>
</tr>
<tr>
<td>Hul</td>
<td>7677</td>
<td>7714</td>
<td>0.995</td>
</tr>
</tbody>
</table>

(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: \[
\text{Cash Position Ratio} = \frac{\text{Cash And Bank Balance + Marketable Securities}}{\text{Current Liabilities}}
\]

<table>
<thead>
<tr>
<th>Company</th>
<th>Cash &amp; Marketable Securities (Rs. In Crores)</th>
<th>Current Liabilities (Rs. In Crores)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itc</td>
<td>12847.05</td>
<td>6830.07</td>
<td>1.880</td>
</tr>
<tr>
<td>Hul</td>
<td>5616</td>
<td>7714</td>
<td>0.728</td>
</tr>
</tbody>
</table>

(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: \[
\text{Debt Equity Ratio} = \frac{\text{External Equities}}{\text{Internal Equities}}
\]

<table>
<thead>
<tr>
<th>Company</th>
<th>External Equities (Rs. In Crores)</th>
<th>Internal Equities (Rs. In Crores)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itc</td>
<td>8874.99</td>
<td>45340.96</td>
<td>0.195</td>
</tr>
<tr>
<td>Hul</td>
<td>8940</td>
<td>6766</td>
<td>1.321</td>
</tr>
</tbody>
</table>

(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: \[
\text{Fixed Assets Ratio} = \frac{\text{Fixed Assets}}{\text{Long – Term Funds}}
\]

<table>
<thead>
<tr>
<th>Company</th>
<th>Fixed Assets (Rs. In Crores)</th>
<th>Long Term Funds (Rs. In Crores)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itc</td>
<td>29678.56</td>
<td>2044.92</td>
<td>14.51</td>
</tr>
<tr>
<td>Hul</td>
<td>5488</td>
<td>1226</td>
<td>4.476</td>
</tr>
</tbody>
</table>

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

Profitability Position
Return On Investment
Formula:
\[ \text{R.O.I} = \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100 \]

<table>
<thead>
<tr>
<th>Company</th>
<th>Operating Profit (Rs. In Crores)</th>
<th>Capital Employed (Rs. In Crores)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITC</td>
<td>14578.04</td>
<td>54215.95</td>
<td>26.88%</td>
</tr>
<tr>
<td>HUL</td>
<td>6573</td>
<td>15706</td>
<td>41.85%</td>
</tr>
</tbody>
</table>

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

Inference:

Findings
- 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.
- Return On Investment Is Higher For HUL Limited When Compared With ITC Limited.

Suggestion
- 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.
REFERENCES:


