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Analysis of Composition of Assets of ITC Limited

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Abstract

Any thing that has got value is known as asset. Since the inception of the business, assets get created. The establishment of business starts with creation of assets only. The business needs many types of assets to conduct its activities. The assets start building up as soon as the cash is arranged in order to purchase assets. The accumulation of assets starts with land and building. If the business operates in rented premises then the generation of assets starts with purchase of machineries, equipments, fixtures, furniture etc. as per the requirement in business. In the process of utilization of these assets, man power is required and to manufacture goods, raw material is required. The goods manufactured are also the part of assets. Thus, the business organization creates many types of assets which are used by it to conduct its business activities. Assets are the resources owned by the company for their utilization in the business of the company. Usually, the company installs its fixed assets at its premises only. Fixed assets are the assets meant to be in the business for ever. This are now called as noncurrent assets. Assets other than noncurrent assets are categorized as current assets. Unlike noncurrent assets, current assets are supposed to be in the business for a maximum period of one accounting year. Current assets

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are the assets that should have life of one operating cycle and should again enter into the next operating cycle. This way, the current assets keep on rotating from one stage to another and from one operating cycle to the next one. This classification of assets is on the basis of the duration of their engagement in the business. Analysis of composition of assets gains importance from the fact that non-performing assets have been accumulating in the companies, especially in the banking sector. Analysis of composition of assets is helpful in identification of non-performing assets which ultimately helps in achieving the targeted profit of the organization. Further, analysis of composition of assets also helps in evaluating the utilization of different components of assets and thus, in identification of underperforming components. As the larger organizations have substantial assets base, it is imperative to analyze the composition of assets of these organizations.

Keywords: Total assets, fixed assets, current assets.

Introduction

Every business is established with some king of assets and is carried on the basis of certain assets. These assets are the resources owned by the organization and appear in the balance sheet of that organization. The assets are utilized by the organization for the purpose of carrying on business activities. Assets are the items of monetary value that are owned by the organization. The organization has control over the use of assets. Assets can be physical or even be intangible. Physical assets have their own attributes while intangible assets have a different set of characteristics. Assets contain the value of ownership which has the potential of getting generating cash. Asset is either cash or it has power to generate cash. An asset is a resource from which the organization expects economic benefits in future. Asset is created as the outcome of

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some past event or a transaction. Assets are used to manufacture goods and sell them to the consumers or to provide services to the customers. The assets are accessible to the persons belonging to the organization owning the assets. Efficient utilization of the assets is the objective of all organizations as money is blocked in the assets and under utilization of assets would adversely affect the return on investment. Assets can be understood as everything a business organization owns. From the view point of accounting equation, assets of an organization are equal to capital plus liabilities, at any given point of time. This implies that the total assets owned by any organization less the total liabilities it has to discharge, is the capital owned by that organization. This also means that more assets would mean more capital but at the same time, it also implies that the return on investment also needs to be monitored closely as more assets would mean more investment. Asset management would unavoidably involve the analysis of composition of assets. The various components of assets need to be analyzed in depth as the quality of assets affects the performance of the organization. Ideally, all assets of the organization should be performing. But depending upon many factors, the organization can also have nonperforming assets. Nonperforming assets become an unnecessary burden on the organization and also decrease the overall profitability of the organization. Keeping this point in consideration, the composition of assets of any organization should be analyzed.

Assets and their types

As already discussed, asset is any resource owned by the organization. There are many types of assets owned by the organization. The classification of assets can be done on their life span basis as long term assets and short term assets. It is obvious that the assets having life of more than three years would fall into the class of long term assets and the assets having

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maximum life of one year would be called as short term assets. The assets having life of one to three years are tagged as medium term assets. Assets can also be classified on the basis of their existence as tangible assets and intangible assets. The assets which exist physically are known as tangible assets and those assets which do not exist physically are known as intangible assets. Assets can also be classified on the basis of their nature as noncurrent assets and current assets. Noncurrent assets which are also known as fixed assets, are the assets which are going to remain in the business forever while current assets will be in the business for one operating cycle or one accounting year, whichever is greater. Broadly, the assets can be classified as follows:

Intangible assets: Intangible assets are the assets which are not in physical form but help the organization in revenue generation. This is something that a particular organization owns specifically and it is not with other organizations. Intangible assets provide peculiar competitive advantage to the organization possessing it. For example, if an organization has the copy right or patent of something, the organization has exclusive control on the production or manufacturing or providing that particular product or service. Examples of tangible assets are copyright, patent, goodwill, trade name, trade mark etc. The issue with intangible assets is that these are difficult to evaluate. Like goodwill of any organization. It is really difficult to assess the monetary value of the goodwill of any business organization or a brand.

Tangible assets: All assets having physical existence fall into this category. These assets are used in manufacturing of goods or delivering services. Since these assets have physical existence, these need to be replaced at the end of their economic life. Tangible assets are further divided into noncurrent assets and current assets.

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Noncurrent assets: These are the long term physical assets of the organization. These assets are going to remain in the business for ever. These are the assets which need to be replaced at the end of their economic life. For the purpose of replacing the asset at the end of its economic life, depreciation is charged to the noncurrent assets. The depreciation amount is collected and used to replace that particular noncurrent asset. These assets are also known as fixed assets or capital assets. These assets are also called as PPE assets i.e. Property, Plant and Equipment. Examples of these assets are land, building, fixtures, furniture, equipments, machineries etc.

Current assets: All assets other than noncurrent assets are known as current assets. Current assets are either cash or meant to be converted into cash, during the course of business. These assets have maximum life of either one operating cycle or one accounting year, whichever is higher. Current assets are employed in the business to take advantage of noncurrent assets. To find out if an asset is current asset or not, the questions need to be asked is that whether the asset is cash and if it is not cash will it be converted into cash as the outcome of business activities during the operating cycle or an accounting year. If the answer to any one of these two questions is yes than the asset is in the class of current asset. These assets have the attribute of getting converted into cash even at short notice of time. Further, these assets are meant for conversion into cash, unlike noncurrent assets. No depreciation is charged to these assets. It is imperative that these assets complete their life cycle and at the end of the operating cycle, get converted into cash, to enter into next operating cycle. Current assets are also known as working capital. Two concepts of current assets are worth considering. The first one is the total of all current assets which is known as gross current assets or gross working capital and second one is the concept of net current assets or net working capital, arrived at by deducting total current liabilities from the

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total current assets. Examples of current assets are cash, cash equivalents, raw material inventory, finished goods of the organization, bills receivables, debtors, short term investments, prepaid expenses etc.

Analysis of composition of assets of ITC Limited

ITC Limited is an Indian multinational conglomerate which is headquartered in Kotkata. It was established in the year 1910 in the name of Imperial Tobacco Company of India Limited. Its name changed to Indian Tobbaco Company Limited in 1970 and again changed to ITC Limited in 1974. Today, ITC Limited has diversified presence in FMCG, hotels, paper boards and specialty papers, packaging, agri business and information technology. ITC Limited has US $ 50 billion market cap, with US $ 10.8 billion of gross sales. ITC Limited has engaged more than 200 manufacturers for its long range of products. ITC Limited also has more than 100 hotels across 70 locations. The company is at top position in paper and paper board industry. ITC Limited owns around 25 brands in FMCG sector. ITC has around 34,000 employees. It is ranked at number 3 globally in food industry for ESG (Environmental, Social and Governance) performance. It is also commendable to note that ITC is carbon positive since last 14 years and water positive since last 17 years. Another noticeable thing about ITC Limited is that 41% of the total energy used by ITC is renewable energy.

For the purpose of analysis of composition of assets, Table 1 will be considered. Looking at the table, it can be observed that the percentage of noncurrent assets is higher in total assets, in comparison to the current assets, except for the year 2015 where both are almost equal. Noncurrent assets are as high as 60.72% of the total assets, in the year 2018 and 57.64% in the year 2019. On the average these assets are 55.16% of the total assets. Thus, on the contrary,

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current assets are less than 50% of the total assets. Current assets are 44.85%, on average during the period of study. It touched 39.28% on the lower side, in the year 2018. Observing the composition of noncurrent assets, property, plant and equipments (PPE) along with financial assets, constitute maximum portion of noncurrent assets. On average, PPE plus financial assets form almost 81% of the total noncurrent assets. PPE are almost 50% of the total fixed assets of ITC Limited. On the higher side, PPE touched higher figure of 61.72% in the year 2015 and 39.92% on the lower side in the year 2018. ITC Limited mostly owns PPE in its fixed assets. Next, ITC Limited is having financial assets as noncurrent assets. In the year 2019, financial assets are 40.91% of the total noncurrent assets and on average; these are 31.79% during the period of study. Capital work in progress is highest at 13.24% in the year 2018 and lowest at 8.43% in the year 2019. ITC is either finishing the capital work really fast or it may not be involved in the capital work at massive level. On average, capital work is almost 10% of the total

Table 1: Composition of Assets of ITC Limited

Rs in Crores

Particulars/Year	**2019**	**2018**	**2017**	**2016**	**2015**	**Average**
Noncurrent assets:						
Property, plant and equipment (i)	17945.65	15120.00	14469.32	13591.96	13572.99	14939.98
% of (i) to (1)	44.61	39.92	48.75	50.72	61.72	49.15
Capital work in progress (ii)	3391.47	5016.85	3491.33	2388.42	2010.47	3259.71
% of (ii) to (1)	8.43	13.24	11.76	8.91	9.14	10.30
Intangible assets (iii)	540.75	445.99	410.92	419.01	401.35	443.60
% of (iii) to (1)	1.34	1.18	1.38	1.56	1.83	1.46
Intangible assets under development (iv)	9.89	8.73	45.69	30.75	28.65	24.74
% of (iv) to (1)	0.02	0.02	0.15	0.11	0.13	0.09
Financial assets (v)	16458.15	15242.45	8591.18	7892.50	4268.59	10490.57
% of (v) to (1)	40.91	40.24	28.95	29.45	19.41	31.79
Income tax assets (net) (vi)	0.00	18.66	0.00	0.00	0.00	
% of (vi) to (1)		0.05				

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Other noncurrent assets (vii)	1883.05	2025.63	2670.12	2474.72	1707.64	2152.23
% of (vii) to (1)	4.68	5.35	9.00	9.23	7.77	7.21
Total noncurrent assets (1) (i+ii+iii+iv+v+vi+vii)	40228.96	37878.31	29678.56	26797.36	21989.69	31314.58
% of (1) to (3)	57.64	60.72	54.74	53.56	49.12	55.16
Current assets:						
Inventories (i)	7587.24	7237.15	7863.99	8519.82	7836.76	7808.99
% of (i) to (2)	25.66	29.54	32.05	36.67	34.41	31.66
Investments (ii)	12506.55	9903.45	10099.78	6471.33	6091.59	9014.54
% of (ii) to (2)	42.30	40.42	41.16	27.85	26.75	35.69
Trade receivables (iii)	3646.22	2357.01	2207.50	1686.35	1722.40	2323.90
% of (iii) to (2)	12.33	9.62	9.00	7.26	7.56	9.15
Cash and cash equivalents (iv)	162.71	96.03	156.15	75.79	36.29	105.32
% of (iv) to (2)	0.55	0.39	0.64	0.33	0.16	0.41
Bank balances (v)	3606.02	2498.85	2591.12	5563.41	6236.52	4099.18
% of (v) to (2)	12.20	10.20	10.56	23.95	27.38	16.86
Loans (vi)	5.02	4.15	3.37	3.85	40.09	11.30
% of (vi) to (2)	0.02	0.02	0.01	0.02	0.18	0.05
Other Financial assets (vii)	1360.29	1147.95	1004.91	407.22	255.58	835.19
% of (vii) to (2)	4.60	4.68	4.10	1.75	1.12	3.25
Other current assets(viii)	694.91	1258.41	610.57	506.15	555.89	725.19
% of (viii) to (2)	2.35	5.14	2.49	2.18	2.44	2.92
Total current assets (2) (i+ii+iii+iv+v+vi+vii+viii)	29568.96	24503.00	24537.39	23233.92	22775.12	24923.68
% of (2) to (3)	42.36	39.28	45.26	46.44	50.88	44.85
Total assets {3}=(1+2)	69797.92	62381.31	54215.95	50031.28	44764.81	56238.25
Taken as	100%	100%	100%	100%	100%	100%

Source: Balance sheets of ITC Limited from the year 2015 to 2019.

fixed assets of ITC Limited. Intangible assets are even less than 2% during the period of study. ITC Limited is not having much of intangible assets. Intangible assets under development are not even significant, considering the total noncurrent assets of OTC Limited. These are only 0.09%, on average and are only 0.02% in the year 2018 and 2019. Other noncurrent assets are less than 10% of total noncurrent assets. The average percentage is 7.21 due to higher figures in the year 2016 and 2017. In the year 2018, the percentage is 5.35 which further reduced to 4.68 in the year 2019.

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Analyzing the composition of current assets of ITC Limited, it can be observed that inventories and investments form the major part of total current assets. On average, these constitute more than 67% of the total current assets. The average inventories of ITC Limited are 31.66% for the period of study. Inventories never increased above 37% during this period which was in the year 2016 and the lowest level is at 25.66% of the total current assets, in the year 2019. The variation in inventories is around 11%. Looking at the fact that the figures of assets of ITC Limited are in crores of rupees, 11% variation would be treated as substantial and ITC Limited need to control its inventories though inventories of ITC Limited are not at alarming level. Investments in the years 2017, 2018 and 2019 are more than 40% of total current assets. On average, the investments are 35.69% of total current assets. Thus, on average, 67% of current assets are inventories and investments only. It becomes imperative for ITC Limited to evaluate the quality of investments. Otherwise, 67% of its total current assets are non liquid. As per norms, this percentage should be around 50 or it would adversely affect the quick ratio and super quick ratio. Trade receivables are around 9% on average. The highest figure is at 12.33% in the year 2019. It is noticeable here that the trade receivables have shown increase since the year 2016 and the trend continued till 2019. Considering that trade receivables are on increase ITC Limited need to be watchful as more receivables increase the chance of bad debts. Cash and cash equivalents are less than 1% of the total current assets. So cash management is not a major issue at ITC. But bank balances show a zigzag trend. In the year 2017 the decrease is of 13.39% from the year 2016. However, in the same year capital work in progress are also showing an increase but a drop of 13.39% in bank balances need further attention of the management of ITC Limited. Loans as percentage of total current assets are not really significant. Other financial assets are also below 5% during all years of study and other current assets are also below 2.50% except for

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the year 2018, where it is 5.14%. Other current assets have increased by more than double in the year 2018 in comparison to the year 2017. This needs further analysis by ITC Limited.

Findings and conclusion

An in depth analysis of assets of ITC Limited reveals that the major component of noncurrent assets of ITC Limited are property, plant and equipment (PPE) and financial assets. Intangible assets of ITC are not much significant. Capital work in progress needs attention of the management of ITC Limited as in terms of percentage, the figures may not be alarming but looking at amount in crores of rupees, capital work in progress need to be completed as early as possible. The major fixed assets are the property, plant and equipment and financial assets, which need close watch as these forms a large chunk of noncurrent assets. Intangible assets in terms of percentage of total noncurrent assets are not that much significant but in amount; even these have value and need close monitoring. Other components of noncurrent assets are not much significant. Word of caution here is that the quality of financial assets needs to be analyzed as to find out whether these are actually non liquid or liquid assets. In current assets, inventories and investments are crossing the safe boundaries. Both should be watched closely by the management of ITC Limited as these two components are not so liquid ones, out of all other components of current assets. Important thing to note is also that in total assets of ITC Limited, the total noncurrent assets are more, in comparison to the total current assets. As noncurrent assets and current assets have the responsibility of generation of sales revenue by going in hand in hand, their composition is of much importance. More of non liquid assets can easily push any organization into the situation where it faces stringency of cash and thus of working capital. The

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composition of assets should be such that there are more liquid or convertible to cash assets. ITC Limited also need to monitor the composition of its total assets from this point of view.

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