

Impact of Capital Structure on Profitability of ITC Limited

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Abstract- Capital structure plays a vital role in determining a company's financial stability and long-term profitability. The mix of debt and equity used to finance business operations directly influences risk, return, and shareholder value. This study examines the impact of capital structure on the profitability of ITC Ltd., one of India's leading diversified conglomerates with a strong presence in FMCG, hotels, paperboards, packaging, and agri-business. The primary objective of this research is to analyse how variations in debt-equity composition affect key profitability indicators such as Return on Equity (ROE), Return on Assets (ROA), Net Profit Margin, and Earnings per Share (EPS). The study is based on secondary data collected from the annual reports of ITC Ltd., financial statements, and relevant financial databases over a selected period. The findings indicate that ITC Ltd. has traditionally maintained a conservative capital structure with minimal reliance on external debt. This low leverage strategy has contributed to financial stability and consistent profitability, while reducing financial risk. However, the study also explores whether optimal utilization of debt could potentially enhance shareholder returns without significantly increasing financial distress. The case of ITC Ltd. highlights how strategic financial management supports long-term value creation while preserving financial flexibility.

Keywords- Capital Structure, Profitability, Financial Leverage and ITC Ltd.

I. INTRODUCTION

Financial Management is one of the most important functions of any business organization, as it acts as a bridge between capital providers and investment opportunities. The primary objective of financial management is not only to procure funds but also to understand organizational needs, create value, and ensure stakeholder satisfaction. In the contemporary business environment, finance has evolved from a traditional accounting-oriented approach to a strategic value-maximization approach. Organizations now focus on identifying optimal funding sources and designing strategies that influence market valuation and build long-term sustainability with the growth of global financial markets,

capital management activities have become more interactive, sophisticated, and data-driven, enabling firms to manage their resources more effectively. Capital structure is a central concept in finance because it determines how investors interpret a firm's risk profile and evaluate its future profitability ITC Ltd., as a leading diversified conglomerate in India, has adopted innovative financial strategies to maintain its market dominance and profitability. The company positions itself as a robust and diversified entity, managing a vast portfolio ranging from FMCG to Hotels and Agribusiness. ITC uses its internal accruals and strategic debt management to influence market perception and create a strong brand image in the financial community. However, the profitability of ITC is not based solely on its operational success. It is largely influenced by its actual capital structure performance, including its debt-to-equity ratios, interest coverage, and dividend policies. Analysts evaluate ITC by comparing their expectations of financial stability with the company's real-time performance. If the chosen capital structure meets or exceeds market expectations, it results in investor trust and higher valuations. On the other hand, any inconsistency in capital allocation or excessive leverage can negatively impact the company's profitability. Hence, understanding the relationship between capital structure and profitability is essential for assessing ITC's effectiveness in meeting long-term financial goals. This study highlights the importance of financing decisions in the success of diversified giants, with special reference to ITC Ltd. It aims to analyse how capital structure strategies influence profitability and how these factors affect shareholder wealth. The study provides valuable insights for improving financial practices and strengthening corporate stability in the competitive Indian marketplace.

II. STATEMENT OF PROBLEM

Capital structure is one of the most important financial decisions taken by a company, as it determines the proportion of debt and equity used to finance its operations. The choice between debt and equity not only affects the cost of capital but also influences profitability, financial risk, and shareholder returns. While financial theories suggest that an optimal capital structure can maximize firm value, identifying this

optimal mix remains a challenge in practical situations. Companies must balance the benefits of debt, such as tax advantages, with the risks associated with financial leverage. ITC Ltd., a leading diversified Indian conglomerate, has consistently maintained a relatively conservative capital structure with limited reliance on external debt. Although the company has reported stable profits over the years, it is necessary to examine whether its financing pattern significantly impacts its profitability indicators such as Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin. There is a need to analyse whether the existing capital structure contributes effectively to maximizing profitability or whether alternative financing strategies could enhance financial performance. Therefore, this study aims to examine the relationship between capital structure and profitability in ITC Ltd. and assess its impact on overall financial performance.

III. REVIEW OF LITERATURE

Sekar, Gowri and Ramya et al. (2014) have made a study on “Capital structure and leverage of Tata Motors Ltd: Its role and future prospectus”. The study is based on secondary data. This study examines the influence of capital structure on the performance of the company. It is measured using EBIT-EPS analysis. The value of the company is increased due to investment decision and balanced capital structure. Analysis is done with an objective to study the capital structure, its determinants, and nexus with the value of the firm and moreover the capital structure decision on the performance of the Tata Motors Limited. Net worth of the company started increasing throughout the study period. Since it has an optimal capital structure it will have positive effect in its future business.

Zahoor Hussain Javed and Huma et al. (2015) have made a study on “Effect of Financial Leverage on performance of the firms: Empirical evidence from Pakistan”. The study is based on secondary data. The data has been obtained from various publication of SB of Pakistan. The study highlighted that to find the impact of leverage on the efficiency of textile sector. The panel data methodology is used for estimation. It has been suggested that the total debt and long term debt are negatively related to return on asset and return on equity. The pecking order theory suggests that firms get minimum amount of borrow and earn maximum. The firm tend to borrow less because firms maintain the sufficient amount of funds internally.

Vinod Bhatnagar (2016) conducted a study on “Effect of change in capital structure on Profitability of FMCG Sector Companies”. The study was based on secondary source of

data. Data was calculated from moneycontrol.com, radiffmoney.com and also applied linear regression to find out the effect of change in capital structure on profitability. The main objective was to find out the impact of capital structure on profitability. The study was empirical in nature. This study is a useful contribution to understand the capital structure and can be used by different researches for further research. It has been done by taking only sample of FMCG companies it is suggest to take other sector. Analysis is done by considering Net profit only one can also use profit before tax and profit before depreciation & tax. Hence he concluded that there was significant relationship between capital structure and profitability.

Navaneetha, Nithya Lakshmi and Manjushree (2018) in their analysis of capital structure highlighted that the company's operating performance is in efficient manner and the sales during the study period shows increasing trend and it is expected sales can increase in forthcoming years. The study reveals that the financial performance of ITC Ltd is in satisfactory position. The study concluded that ITC Ltd.'s capital structure shows that maximum finance is raised through its owner's capital and the contribution of debt is reduced over the years. It is suggested that it can increase its debt finance in capital structure to take the advantage of financial leverage.

OBJECTIVES OF THE STUDY

1. To examine the capital structure of ITC Ltd. over the selected study period.
2. To analyse the impact of debt–equity composition on the profitability of ITC Ltd.
3. To determine whether an optimal capital structure exists for improving the company's financial performance.

LIMITATIONS OF THE STUDY

1. The study is based entirely on secondary data collected from the annual reports and published financial statements of ITC Ltd., which may limit the scope for primary insights.
2. The study focuses only on selected financial ratios to measure profitability, which may not capture all external factors such as market conditions, economic fluctuations, and industry competition influencing profitability.

IV. RESEARCH METHODOLOGY

SOURCE OF DATA

The data help in the analysis of impact of capital structure on profitability of the top conglomerate brand (ITC ltd) in India. In this study has been done using the secondary data. The secondary data are more reliable as the data are taken from the money control with the additional data taken from the finance articles, journals.

TOOLS USED

FOR CAPITAL STRUCTURE ANALYSIS

1. Debt–Equity Ratio

FOR PROFITABILITY ANALYSIS

1. Return on Equity (ROE)
2. Return on Capital Employed (ROCE)
3. Net Profit Margin
4. Operating Profit Margin
5. Earnings Per Share (EPS)

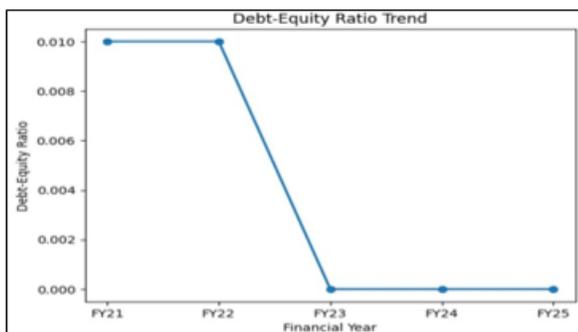
TREND ANALYSIS

Financial Ratio Trends (FY21 to FY25)

1. Capital Structure (Debt–Equity)

Across the last five years, ITC has maintained very low leverage, with almost negligible long-term debt:

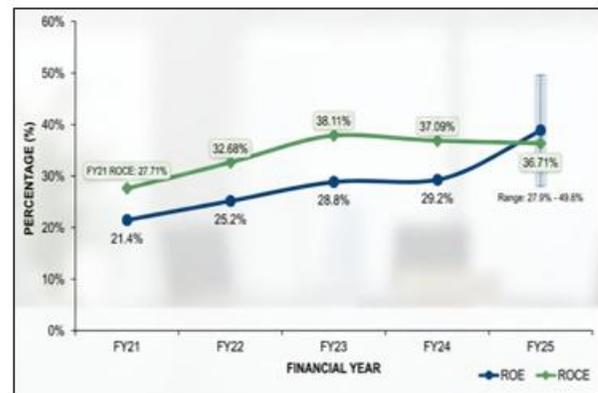
Year	Debt–Equity Ratio
FY21	0.01
FY22	0.01
FY23	0.00
FY24	0.00
FY25	0.00



This indicates that ITC relies primarily on equity financing and has minimal debt in its capital structure which reduces financial risk and interest cost.

2. Profitability Ratios (ROE & ROCE)

Year	Return on Equity (ROE)	Return on Capital Employed (ROCE)
FY21	~21.18–21.70%*	~27.71%
FY22	~25.01–25.3%*	~32.68%
FY23	~29.08–28.5%*	~38.11%
FY24	~29.21–29.22%*	~37.09%
FY25	~27.91–49.59%*	~36.71%



*Note: Two sources show slightly different ROE figures (Value Broking vs. Capital Market), but trends remain consistent.

- ROE shows an upward trend from ~21–22% in FY21 to high levels in later years, reflecting improved profitability and efficient use of equity.
- ROCE has also shown growth, indicating better returns from total capital employed.

3. Profit Margins

Year	Net Profit Margin (%)	Operating Profit Margin (%)
FY21	~29.5%	~37.5%
FY22	~27.6%	~36.8%
FY23	~29.8%	~39.5%
FY24	~32.0%	~40.4%
FY25	~31.2%	~37.9%



Profit margins have generally remained strong, with **net profit margins around ~27–32%** and operating margins around **~37–40%**, indicating consistent earning strength.

4. Earnings Per Share

Financial Year	Earnings Per Share (₹)	Year-on-Year Growth (%)
FY21	10.70	—
FY22	12.37	15.61%
FY23	15.46	24.98%
FY24	16.38	5.95%
FY25	27.75	69.41%



- EPS shows a consistent upward trend from FY21 to FY25.
- Significant growth is observed in FY23 and FY25, indicating improved profitability.
- Since ITC maintains a very low debt–equity ratio, the rise in EPS suggests that profitability growth is primarily supported by operational performance rather than financial leverage.
- The strong EPS growth in FY25 indicates enhanced shareholder returns.

FINDINGS OF THE STUDY

ITC Ltd. maintained a very low Debt–Equity ratio throughout the study period, indicating a conservative capital structure with minimal dependence on external borrowings.

The company showed consistently strong profitability, with stable and increasing trends in ROE, ROA, and ROCE over the five years.

The absence of significant debt reduced the interest burden, positively contributing to higher net profit margins and improved return ratios.

Profitability ratios demonstrated an upward trend particularly after FY21, suggesting improved operational efficiency and better utilization of shareholders’ funds.

The relationship between capital structure and profitability indicates that ITC’s low-leverage strategy has supported financial stability and sustainable profit growth.

The findings suggest that ITC’s equity-dominant capital structure has helped maximize shareholder returns without exposing the company to high financial risk.

SUGGESTIONS

ITC Ltd. may consider moderate use of low-cost debt to benefit from tax advantages and enhance shareholder returns.

The company should maintain a balanced capital structure by periodically reviewing its debt–equity mix.

Any additional borrowing should be used only for high-return projects to improve profitability without increasing financial risk.

V. CONCLUSION

The study concludes that ITC Ltd. has maintained a highly conservative capital structure with minimal reliance on debt during the selected period. The analysis shows that the company has achieved strong and stable profitability despite having very low leverage. This indicates that ITC's equity-dominant financing strategy has contributed to financial stability, reduced risk, and consistent shareholder returns. The findings suggest that while capital structure significantly influences profitability, ITC has effectively utilized its internal funds to generate higher returns without depending on external borrowings. Overall, the company's prudent financial management has supported sustainable growth and long-term value creation.

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