CAPITAL STRUCTURE ANALYSIS

A CASE STUDY OF INDIAN TOBACCO COMPANY (ITC)

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Abstract

This study established a need to showcase the capital structure performance through EBIT analysis. In this paper an attempt is made to analyze the capital structure of ITC during the period to 2001-13, so as to figure out the determinants that affect the capital structure decisions of the company and to study the impact of capital structure decisions on profitability of the company. Researchers tried to examine the formation of capital structure of ITC and the positive and negative impacts associated with higher and lower amount of debt which has been observed during the period of the study. The financial parameters of ITC reflects that apart from the bladdering capital charges, which took sharp rise in 2008 due recessionary conditions in FMCG industry, the moderate rate of gross margin have been a major player to its profits. The increasing level of debts in the position statement and a diminishing net worth have taken its debt-equity ratio to an unfeasible limits in some years but at an all ITC is a profit making and less levered company in FMCG industry.

Keywords: Capital structure, Leverage, ITC, EPS, Tax Shield.

Introduction

Capital structure or capital mix is an important measure to control the overall cost of capital and to improve the earnings of the company. It is most likely referring to the firm's debt-equity ratio which provides information to the investors how risky a company is. Various financial sector reforms like reduction in interest rates were introduced by government which directly or indirectly influences capital structure of the firms. At present financing capital structure is a crucial financial decision for every company. At the time of promotion companies have to decide about the composition of capital structure, then at the time when funds have to be raised for finance and investment again this complicated decision acted as a hurdle. With an objective to study the capital structure, its determinants and impact of capital structure decisions on performance of ITC, we will start with the shareholding pattern of ITC as on 31st December 2013.

Share holding patterns of ITC on 31st Dec, 2013:

Category	Percentage
Institutional Investors	**53.94**
Non Institutional Shareholdings	**45.8**
GDR	**0.26**

Table 1

Source: http://www.itcportal.com/about-itc/shareholder-value/annual-reports/itc-annual-report-2013/pdf/ITC-Shareholder-Info.pdf

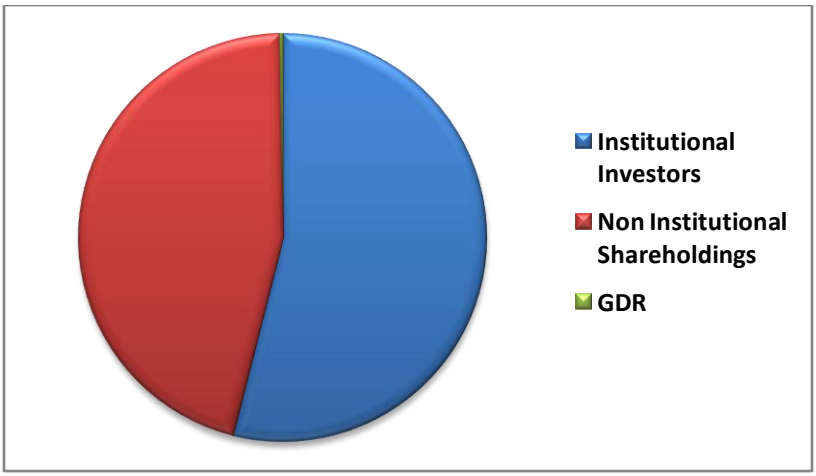

Fig 1

Importance of the study: Many profitable companies fail every year due to mismanaged capital structure. Now a day's corporations have full opportunities to restructure their capital structure so as to get maximum leverage from the debt equity mix by adding value to the shareholders. The present study attempts to find out the impact of debt equity mix for future profitability of the company.

Problem Area: An attempt has been made to evaluate the performance of INDIAN TOBACCO COMPANY (ITC) through Capital Structure Analysis during the period of study from to 2001-13.

The main problem areas of the study are:

1. Calculation of value of firm.
2. Analysis of existing capital structure.
3. Evaluation of Performance through capital structure.

Objectives of the study:

The followings are the objectives of the study of "Capital Structure analysis of "INDIAN TOBACCO COMPANY":-

1) To study the existing capital structure maintained by the company.

2) To study the influence of various determinants on capital structure.

3) To examine the performance of firm with respect to capital structure.

Meaning of capital structure

Capital structure of a firm represents the mix of securities that a firm has to sell in order to finance its assets (generally fixed assets). It is a significant financial decision as it affects the shareholders risk and return, consequently the market value of shares. A firm has various options regarding the combination of various sources to finance its investment activities. The firm may opt for all-equity firm (having no borrowed funds) or equity-preference firm (having no borrowed funds), any of the numerous possibilities of combination of equity, preference shares and borrowed funds. Theoretically speaking, a judicious use of debt and equity in capital structure can maximize the value of the firm. But how this ideal debt equity mix is determined? The issue has been examined by several scholars and several theories and various approaches have been suggested to analyze the capital structure and its determinants.

The study by Modigliani and Miller (1958), Modigliani and Miller (1963) are generally perceived as milestones among capital structure studies. They construct the role of taxes, market value of firm and cost of capital in capital structure decisions. Likewise, Jensen and Meckling (1976) and Myers (1977) introduced bankruptcy and financial distress costs and agency costs, respectively. These concepts are considered as the basics of trade-off theory. According to this theory, any increase in debt level causes an increase in bankruptcy, financial distress and agency costs, and hence decreases the firm value. Thus an optimal capital structure may be acquired by establishing equilibrium between tax advantage and financial distress and bankruptcy costs of debt. In order to establish this equilibrium, firms should seek debt levels at which the costs of possible financial distress offset the tax advantages of additional debt.

Determinants of capital structure:

Profitability

The static trade-off hypothesis pleads for the low level of debt capital of risky firms (Myers,1984). The higher profitability of the firms implies higher debt capacity and less risky to debt holders. So, according to this theory profitability and leverage/capital structure have negative relation. On the other hand, Pecking order theory suggests that a profitable firm is more likely to finance through internal sources rather than external sources. A negative relation between profitability and leverage was found by Bevan and Danbolt (1999), Panday (2001), Rao (2003), Deesomsak et al. (2004), Song (2005), Huang and Song (2006), Kim and Berger (2008) and Awan et al. (2011). However, according to trade off theory some people found positive relationship between profitability and capital structure. Following Titman and Wessels (1988), Rajan and zingales (1995), and Supanvanij (2006). Only few studies show the evidence in favor of static trade-off theory.

Firm Size

Firm size is found to be a positive determinant of capital structure as indicated in Bevan and Danbolt (1999). The large firms are more diversified and can easily access capital markets (Baral 2004). They are also expected to incur lower direct costs in issuing debt or equity. Thus larger firms are expected to employ higher amount of debt than smaller firms. It is argued that smaller firms would have less long-term debt and more short term debt because of shareholders-lenders conflict (Panday 2001). But the empirical evidence is mixed. A large number of researchers find a significant positive relationship between firm size and debt ratio. (Panday 2001; Frank and Goyal, 2003; Rao, 2003; Kurshev and Strebulaev ,2005; Song, 2005; Huang and Song ,2006; Karadeniz et al., 2009.) But results of some empirical studies do not corroborate with this theoretical relation. The size of a firm can affect the leverage of the firm negatively. Rajan and Zingales (1995) stated that the effect of size on equilibrium leverage is more ambiguous. Larger firms tend to be more diversified and fail less often. Size (computed as the logarithm of net sales) may be an inverse proxy for the probability of bankruptcy (Awan et al., 2011).

Risk

According to Agency and bankruptcy cost theories, higher risk increases the probability of financial distress. It predicts a negative relationship between capital structure and risk. However, it is to be considered that for a negative relationship between risk and capital structure, bankruptcy costs should be quite large. Further, Pandey (2001) argued that correlation of risk is positive with long term debt ratio and negative with short term debt-ratio, Rao (2003) found that risk component was not given importance due to protected markets during pre-liberalization period but estimated coefficients of risk are negative during post-liberalization period. However, Hsia (1981), based on the contingent claims nature of equities, combines the Option Pricing Model (OPM) the CAPM (Capital Asset Pricing Model) and the Modigliani – Miller theorems to show that as the variance of the value of the firm's assets increases, the systematic risk of equity decreases. So the business risk is expected to be positively related with leverage. The companies with high leverage in China tend to make riskier investment (Huang and Song, 2006).

Growth Opportunities:

Agency cost theory and pecking order theory explain that growth opportunities are negatively related with capital structure i.e. both have contradictory relationship because firms with high intangible growth opportunities do not want to commit themselves to debt servicing as their revenues may not be available when needed. Hence growth opportunities are negatively related with long-term debt level (Jenson and Meckling, 1976). This theoretical result is backed by the empirical studies carried out by Huang and Song, (2006). But some empirical studies show that growth opportunities have positive relation with capital structure due to higher demand for funds. (Bevan and Danbolt, 1999; Panday, 2001; Rao, 2003; Baral,2004; and Awan et al.,2011

Tangibility of Assets

Tangibility of assets is the relationship between fixed assets and total assets. According to agency cost theory, the conflict between lenders and shareholders create incentives for shareholders to invest in the suboptimal way, ultimately lenders take actions to protect themselves by requiring tangible assets as collateral. Firms with tangible assets that can be used as collateral are expected to issue high level of debt because they can borrow on favorable terms, suggesting a positive relationship between tangibility and capital structure. This was found in

Bevan and Danbolt (1999) based upon book value of gearing; Panday (2001); Rao (2003); Song (2005) (based on total debt ratio and long term debt ratio), Huang and Song 2006 (long term debt ratio) and Awan et al. (2011). However if tangible assets lower information asymmetries, equity issue will be relatively less costly, lowering leverage ratios. Hence, there is a negative relation between tangibility and leverage. This line of analysis was conducted by some prominent scholars (Bevan and Danbolt 1999) on the basis of market-to-book ratio and level of profitability(Panday, 2001; Song ,2005) ;on the basis of short term debt ratio (Huang and Sung, 2006) and the reason may be non-debt part of total liability.

Non debt tax shields

The tax deduction for depreciation and investment tax credits is called Non-debt tax shields (NDTS). All the tax based theories suggest that the major benefit of using debt financing is corporate tax deduction. According to Modigilani and Miller (1958), interest tax shields create strong incentives for firms to increase leverage. But also the size of non debt related corporate tax shields like tax deductions for depreciation and investment tax credits may affect leverage. Indeed De Angelo and Masulis (1980) argued that firms can use other non-interest item such as depreciation, tax credit and Pension funds to reduce corporate tax payments. Therefore firms that have higher non debt tax shields are likely to use less debt. In fact, the empirical evidence is mixed. For example Sheony and Koch (1996) find negative relationship between leverage and non debt tax shield, Drobetz and Fix (2003) also have the same opinion, Rao and Jijo (2003) and Huang and Song (2006) also argue that leverage and Non debt tax shields (NDTS) are negatively correlated. While Gardner and Trcunka (1992) find a positive one, and Song (2005) said that non debt tax shield has a positive effect on short term debt ratio, while it is negatively correlated with long term debt ratio.

Dividend payout ratio

Dividend policy of a firm and capital structure continue to be the topics of great interest in the academic literature. The bankruptcy cost theory pleads for adverse relation between the dividend payout ratio and debt level in capital structure. The low dividend payout ratio means increase in the equity for debt capital and low probability of going into liquidation but the pecking order theory shows the positive relation between debt level and dividend payout ratio, because

management prefers the internal financing to external one. A link between dividend policy and capital structure has not been investigated upon adequately in many countries except in Greece and US, where Eriotis and Vasiliou (2003) investigated the association between dividend policy and debt ratio in Greece. The study found a significant relation between dividend policy and capital structure. On the other hand in US, Frank and Goyal (2003) found that dividends are a more significant factor for mature firms than they are for younger firms. De Angelo et al. (2004) observed significant correlation between dividend payment decision and the capital structure. But the negative impact of capital structure on dividend payment is supported by Higgins (1972) and Mccabe (1979) who find that the companies who have a past of higher leverage normally pay lower dividend to avoid the higher cost of rising external capital for the company. Rozeff (1982) also supported them and hypothesized that if a firm has higher operating and financial leverage, other things remaining same, the firm will choose lower dividend payout policy to lower its costs of external financing.

Capital Structure and Value of Firm:

Earnings of the firm depict its value and the earnings of the firm directly depend upon its investment decision. Value of the firm is dependent on two important factors i.e. the operating profits of the firm and its cost of capital. The operating profit of the firm i.e. the EBIT is divided among three stakeholders

(i) The debenture holders who receive their share in the form of interest.
(ii) The government, who receive its share in the form of taxes.
(iii) The shareholders who receive the residual.

So, the EBIT is a collection, which is to be divided among the three petitioners. The investment decisions of the firm measure the size of the EBIT collection while the capital structure determines the way it is to be shaved. Value of the firm is the summation of its value to the debenture holders and to its shareholders and is determined by the amount of EBIT going to be divided in them respectively. The value of the firm can be increased by increasing the amount of EBIT through a prudent investment decision and the value can be decreased when capital structure mix was in risk. Hence the earnings available for the stakeholders in the form of EBIT can directly be influenced by capital structure of the firm. On the other hand an optimal capital structure can raise

the volume of EPS for a given level of EBIT. EPS have the direct connection with the market value of the share and hence can affect value of the firm. WACC depends upon the proportion of different sources of funds in capital structure and it can be changed by changing the proportion of financing mix. So a firm can easily change its WACC by changing the capital mix and thus affect the value of the firm. Finally it can be said that value of the firm and cost of capital have negative relation with each other. If cost of capital is within control limits at a given level of earnings, the value of the firm can be increased.

Research Methodology:

Period and Area of Study: Capital structure of **INDIAN TOBACCO COMPANY (ITC)** for the past thirteen financial years from 2001-02 to 2012-13 has been analyzed. The area of the study is as follows:

- **Analysis of determinants of capital structure:**

Cost of capital

Tax advantage

Debt service capacity of the firm

Leverage effect

Trading on equity

Stability of earnings

Cost of Capital and Value of Firm Analysis

Sample Design:

In this study, the sample of 13 financial years from 2001-2013 is taken from Annual accounts of ITC. Secondary data has been used in this research study, which are balance sheets and their related schedules of the past financial years from 2001 to 2013 of ITC. For last year data has been analyzes up to 31st December 2013.

Tools of Analysis:

To assess the significance of "Capital structure analysis" of Indian Tobacco Company **(ITC)** during the study period of 2001 to 2013, the following tools of analysis have been used :-

I. Ratio analysis.

II. Bar Chart.

III. Pie Chart.

Limitations of the study:

The study is limited to thirteen financial years from 2001-13 performance of ITC.

Analysis & Interpretation:

ITC has used only two avenues to finance its assets and working capital, which are equity share capital and debt capital.

a) Equity Share Capital: ITC is authorized to issue equity shares of Rs. 1000 crores but the company has an issued and paid up equity capital of Rs. 801.55 crores. The equity share capital of the company in the year 2001-02 was Rs. 300 crores. The company issued further equity shares in the year 2006-07 and reached the equity capital balance of Rs.500 crores after which the company has not issued any more share till the year 2009-10. The net worth of the company is increasing over the years. This is because of the profits earned by the company from the year by year. The net worth of the company is calculated and represented by the following diagram:

NET WORTH= Equity share capital + Reserves and surpluses – (Deferred Revenue expenditure + Debit balance of P/L Account + Miscellaneous expenditures not written off, if any)

Years	Net worth(crores)
2001	3471.06
2002	4351.48
2003	5303.99
2004	6349.22
2005	7835.71
2006	9002.31
2007	10380
2006	12001.55
2009	13679.99
2010	14009.99
2011	15899.93
2012	18738.84
2013	22235.1

Table 2

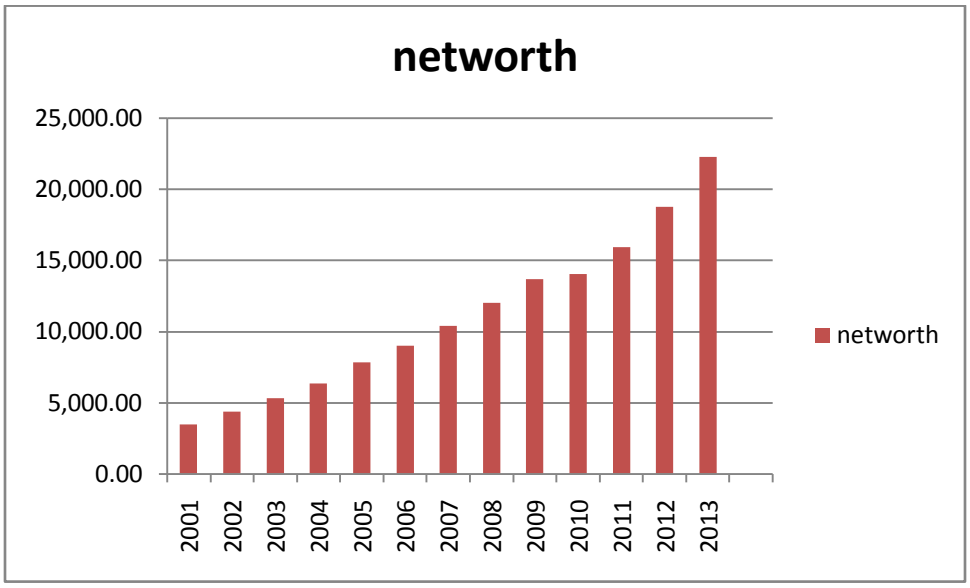

Fig 2

The net worth of ITC is increasing from 2001-13. This is a good sign for the company. This is because of the profits made by the company and all the debit balances of P&L Account are written off.

b) Debt Capital: The debt capital of the ITC consist both secured and unsecured loans. The amounts of loans taken from secured sources were much more than unsecured ones till the year 2002. This was because the company went a huge modification program in the year 2001-02 and required a huge capital. Availing unsecured loans for the company was not possible till 2002. But after 2002 the amounts of unsecured loans were more than double the amount of secured loan. This was a good sign for the company. The sources of debt for the company are mentioned below:

- Term loan from banks/ Financial Institutions
- Working capital borrowings from banks
- Public deposits (also includes loans from retired employees)
- Foreign Loans
- Government of India

DEBT CAPITAL

Years	Debt capital(crores)
2001	**858.94**
2002	**284.54**
2003	**116.98**
2004	**120.85**
2005	**245.36**
2006	**119.73**
2007	**200.88**
2006	**214.43**
2009	**177.55**
2010	**107.71**
2011	**88.52**
2012	**79.09**
2013	**66.4**

Table 3

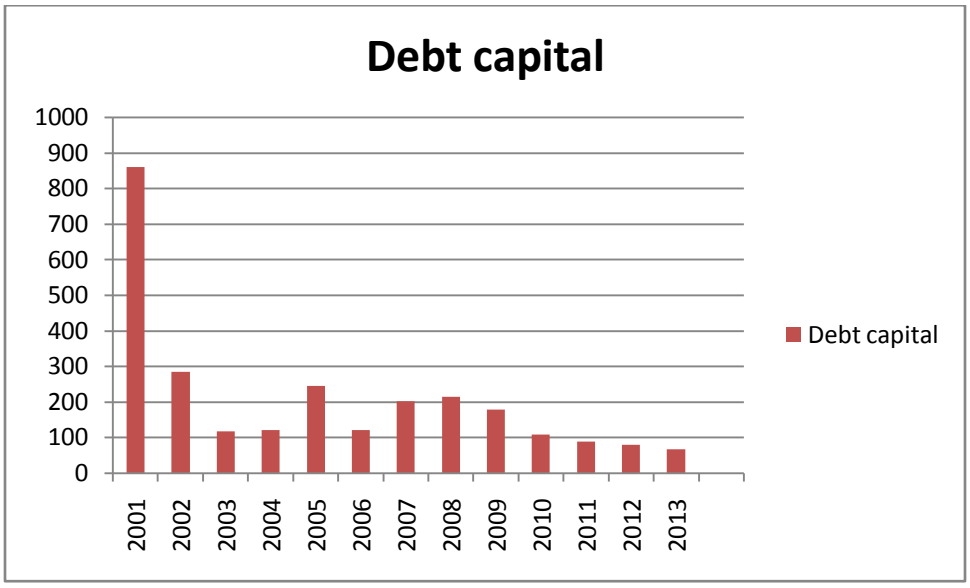

Fig 3

The above table and figure represents that the debt capital of the ITC is at decreasing trend. The company was is more dependent upon internal financing as compared to external financing. So the debt capital of the company has decreased subsequently from 2001 to 2013.

Table-4: Impact of various factors on choice of capital structure:

year	Equity(E)	Debt(D)	Interest(I)	Net worth(crores)	PAT(crores)	Cost of debt (Kd%)	Cost of equity (Ke%)	WACC(Ko%)
2001	245.41	858.94	101.37	3471.06	1,006.26	0.11801756	0.289899915	0.156213
2002	245.41	284.54	77.71	4351.48	1,189.72	0.27310747	0.27340583	0.273246
2003	247.51	116.98	40.25	5303.99	1,371.35	0.34407591	0.258550638	0.285999
2004	247.68	120.85	34.18	6349.22	1,592.85	0.28282995	0.250873336	0.261353
2005	248.22	245.36	50.8	7835.71	2,191.40	0.20704271	0.279668339	0.243566
2006	375.52	119.73	21.1	9002.31	2,235.35	0.17622985	0.24830849	0.230883
2007	376.22	200.88	16.04	10380	2,699.97	0.07984867	0.260112717	0.197365
2006	376.86	214.43	24.61	12001.55	3,120.10	0.11476939	0.259974753	0.207316
2009	377.44	177.55	47.65	13679.99	3,263.59	0.26837511	0.238566695	0.248103
2010	381.82	107.71	90.28	14009.99	4,061.00	0.83817659	0.289864589	0.410508
2011	773.81	88.52	68.38	15899.93	4,987.61	0.7724808	0.313687545	0.360784
2012	781.84	79.09	77.92	18738.84	6,162.37	0.98520673	0.328855468	0.389152
2013	790.18	66.4	86.47	22235.1	7,418.39	1.30225904	0.333634209	0.40872

Notes: (WACC (Ko) is calculated as (D/(D+E))Kd + (E/(D+E))Ke)

The above table shows that Kd is increasing till the year 2002-03 but was decreased subsequently from the year 2003 to 2006. This is because of the debt swapping and debt repayments in the year 2003. The company has been able to decrease its interest expense there by reducing the cost of debt. The Ke of ITC was very high in the year 2001 as the company was making profits and the net worth was increasing but subsequently cost of equity reduced and is 0.23 in all the years from 2009 because the company had suffered from losses in these years and no profits were available for equity shareholders. The company had made a profit of Rs. 4,987.61 crores in the year 2011 writing off all its previous losses and debit balance of profit and loss account. The WACC of the company is fluctuating over years. It is very high in the years from 2010 because of huge losses. This led to an increase in debt capital and analysis of the Table-4 reveals that cost of debt for the company is higher than the cost of equity. The introduction of more debt capital is increasing the WACC because of the high cost of debt. The WACC of the company is decreasing from the year 2013 because the company is towards way of profitability.

The cost of debt (Kd*)*, cost of equity (Ke*)* and WACC *(*Ko*)* is represented in the following figure:

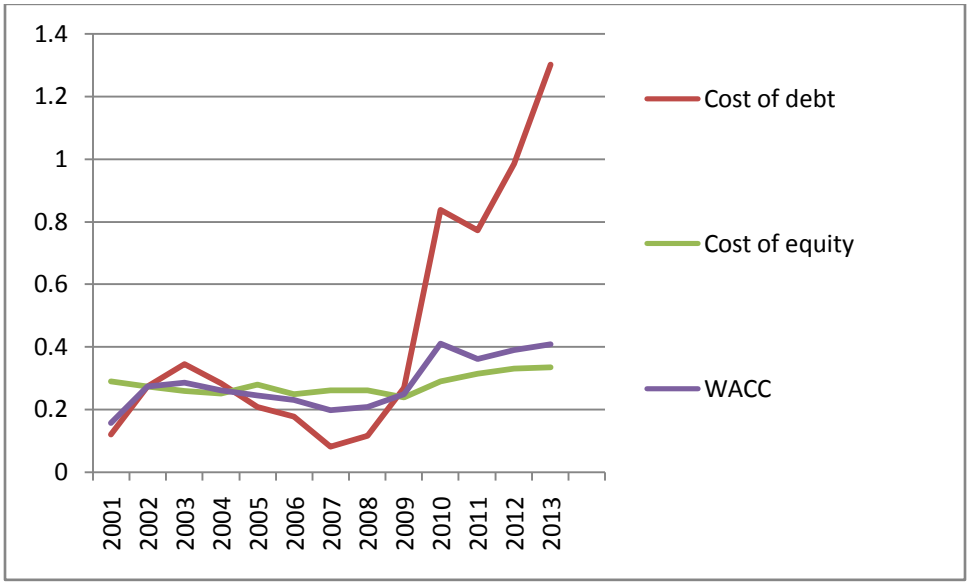

Fig 4

After analyzing the debt ratio of ITC, it has been concluded that debt forms more than 70% of the total capital employed by the firm. It has also reached to 90% in the year 2013 which indicated that the firm has used more debt capital in their capital structure. Analysis of the debt equity ratio revealed that the debt component is very high as compared to equity. The ratio is always more than 2 and sometimes it is also more than 5. It means company is highly leveraged. No doubt company gained many economies but side by side company have to bear more risky. High profitability due to high leverage is a sign of risk.

Years	Interest	PAT	Int. Tax Shield ((1-Tax)Interest)
2001	**101.37**	**1,006.26**	**65.8905**
2002	**77.71**	**1,189.72**	**50.5115**
2003	**40.25**	**1,371.35**	**26.1625**
2004	**34.18**	**1,592.85**	**22.217**
2005	**50.8**	**2,191.40**	**33.02**
2006	**21.1**	**2,235.35**	**13.715**
2007	**16.04**	**2,699.97**	**10.426**
2006	**24.61**	**3,120.10**	**15.9965**
2009	**47.65**	**3,263.59**	**30.9725**
2010	**90.28**	**4,061.00**	**58.682**
2011	**68.38**	**4,987.61**	**44.447**
2012	**77.92**	**6,162.37**	**50.648**
2013	**86.47**	**7,418.39**	**56.2055**

Table 5

(Corporate tax for ITC is taken as 35%)

The above table shows that company was paying tax on regular basis from year after year. But we can easily analyze that in the year 2006 to 2008 company was paying less tax due to less profitability and in year 2013 the amount of tax was lesser than all the previous year's which meant that company could save some profits in these years.

Debt capacity of the firm: The debt capacity or debt servicing capacity of the company can be determined by calculating the interest coverage ratio.

$$\textit{Interest coverage ratio (ICR)} = \frac{\text{Operating Profit (EBIT)}}{\text{Interest Expenses}}$$

Years	EBIT	INTEREST	ICR (EBIT/INTEREST)
2001	1,677.21	101.37	16.54543
2002	1,850.12	77.71	23.808
2003	2,086.41	40.25	51.83627
2004	2,357.49	34.18	68.97279
2005	3,073.89	50.8	60.50965
2006	3,259.23	21.1	154.4659
2007	3,936.21	16.04	245.3996
2006	4,527.19	24.61	183.9573
2009	4,798.82	47.65	100.7098
2010	6,068.66	90.28	67.22043
2011	7,336.54	68.38	107.2907
2012	8,975.45	77.92	115.188
2013	10,770.65	86.47	124.5594

Table 6

The interest coverage ratio of ITC is more than satisfactory in all the years from 2001 to 2013. The ratio should be at least 3 times for comfortable service of debt but here the ratio is much more than the rule of thumb in all the years. This is because of the company is very efficient in managing debt and have enough profits for the payment of debenture interest.

Trading on equity

Trading on equity is a situation in which the company used an adequate amount of debt along with equity and preference share capital which will result in enhancing earnings available for equity shareholders. Return on investment (ROI) should be greater than the cost of debt to harvest the benefit of trading on equity.

ROI = PAT/Total Assets

TOTAL ASSETS= TOATL FIXED ASEETS + TOATL CURRENT ASSETS

Years	PAT	TOTAL ASSETS	ROI	COST OF DEBT
2001	1,006.26	4,330.00	0.232393	0.118017557
2002	1,189.72	4,636.02	0.256625	0.273107472
2003	1,371.35	5,420.97	0.252971	0.34407591
2004	1,592.85	6,470.07	0.246187	0.282829954
2005	2,191.40	8,081.07	0.271177	0.207042713

2006	**2,235.35**	**9,122.04**	**0.245049**	**0.17622985**
2007	**2,699.97**	**10,580.88**	**0.255174**	**0.079848666**
2006	**3,120.10**	**12,215.98**	**0.255411**	**0.114769389**
2009	**3,263.59**	**13,857.54**	**0.23551**	**0.268375106**
2010	**4,061.00**	**14,117.70**	**0.287653**	**0.838176585**
2011	**4,987.61**	**15,988.45**	**0.311951**	**0.772480795**
2012	**6,162.37**	**18,817.93**	**0.327473**	**0.985206727**
2013	**7,418.39**	**22,301.50**	**0.332641**	**1.302259036**

Table 7

While comparing return on investment and cost of debt, it is observed that in the year 2001, 2005-2008 and in 2013 ROI is more than cost of debt it means high sales realization and better productivity write off accumulated losses. But in 2002-04 and 2009-13 ROI does not support trading on equity because cost of debt is more than returns on investment due to this equity shareholder are at loss.

Leverage Effects:

The leverage effect of the company can be pinpointed by calculating following two ratios:

Debt Ratio	**Debt/ (Debt + Net worth)**
Debt Equity Ratio	**Debt/ Net Worth**

LEVERAGE EFFECTS

Years	DEBT	NETWORTH	DEBT+NW	DEBT RATIO	DEBT EQUITY RATIO
2001	858.94	3471.06	4330	0.19837	0.247458
2002	284.54	4351.48	4636.02	0.061376	0.065389
2003	116.98	5303.99	5420.97	0.021579	0.022055
2004	120.85	6349.22	6470.07	0.018678	0.019034
2005	245.36	7835.71	8081.07	0.030362	0.031313
2006	119.73	9002.31	9122.04	0.013125	0.0133
2007	200.88	10380	10580.88	0.018985	0.019353
2006	214.43	12001.55	12215.98	0.017553	0.017867
2009	177.55	13679.99	13857.54	0.012813	0.012979
2010	107.71	14009.99	14117.7	0.007629	0.007688
2011	88.52	15899.93	15988.45	0.005536	0.005567
2012	79.09	18738.84	18817.93	0.004203	0.004221
2013	66.4	22235.1	22301.5	0.002977	0.002986

Table 8

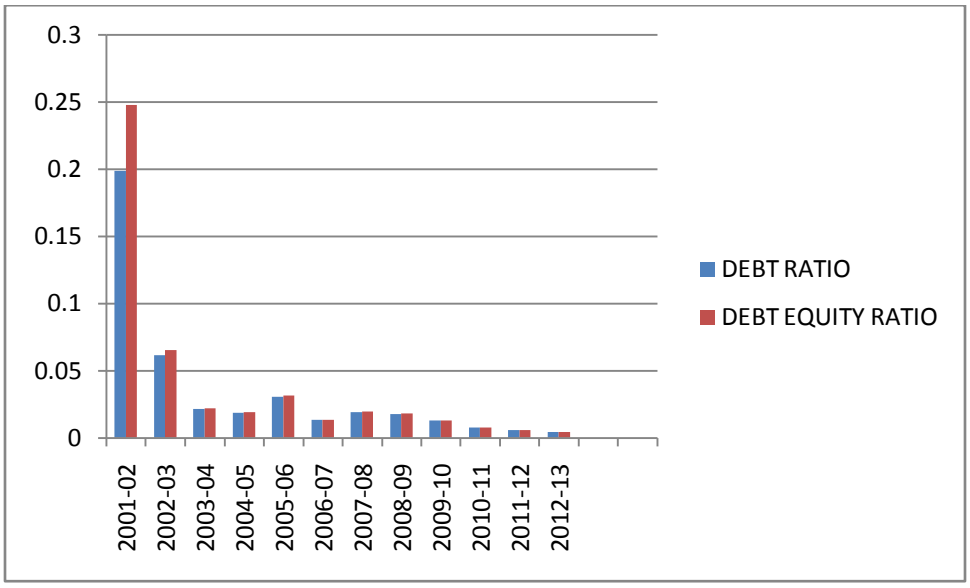

Fig 5

After analyzing the debt ratio of ITC, it is picture clear debt ratio is more in 2001-02 it means company have more preference for debt in 2001-02 as compared to other years. With the passage of time company is more dependent upon equity as compared to debt that means company is less levered and playing at its safe side. Due to this many of the investors in India and outside India likes to invest in ITC because this company is shareholders friendly. As far as debt equity ratio is concerned the above analysis have same viewpoint. The rule of thumb for debt equity ratio is 2:1 but in every year it is less than 1. This shows debt component is far less than equity in capital structure.

Findings and conclusion

Financial statements analysis of Indian Tobacco Company (ITC) concluded that company has enough profits to bear the burden of cost of debt. No doubt in some years company was more dependent upon debt as compared to equity but as a whole ITC is a very profitable company. Another observation from the above analysis is that in the years 2002-2004 and 2009-2013 ROI does not support trading on equity because cost of debt is more than returns on investment due to this equity shareholder have to suffer loss. This is not a good sign of investors. The net worth of ITC is increasing from 2001-13. This is a good sign for the company. This is because of the profits made by the company and all the debit balances of P/L Account are written off.

Debt capital of the ITC is at decreasing trend. The company was is more dependent upon internal financing as compared to external financing. So the debt capital of the company has decreased subsequently from 2001 to 2013. The WACC of the company is fluctuating over years. It is very high in the years from 2010 because of huge losses. This led to an increase in debt capital and it's an indication of trading on equity. The rule of thumb for debt equity ratio is 2:1 but in every year it is less than 1. This shows debt component is far less than equity in capital structure. Ultimately we can say that ITC less levered company from the point of view of debt. The value of the company increased over years because of the fruitful investment decisions of the company that are reflected from the increasing trend of EBIT.

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