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# A Study on Financial Statement Analysis of Nestle India Limited

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**ABSTRACT:**
Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. Nestle India Ltd financial data has been analysed by using liquidity ratios, solvency ratios and profitability ratios. The study is primarily based on the secondary data taken from the CMIE, Annual Reports and other relevant publications. A period of five years from 2017 to 2021 is adopted to draw the meaningful inferences. Financial position of Nestle India Ltd. is satisfactory, but decreasing due to certain external factors so there is a need to strengthen them and make such policies which again improve the financial position of the company.

**Keywords**: Current ratio, Profitability, Financial Analysis

## I. INTRODUCTION:

Nestle India limited was established in 1956. In 1961, the business opened its first production unit in Moga, Punjab. They opened their second factory in 1967 as a trial plant in Choladi, Tamilnadu to process the tea growing in the area into soluble tea. They established a facility in Nanjangud, Karnataka in 1989.

Nestle India ltd is a key player in the Fast-MovingConsumer Goods (FMCG) market, with operations in milk and nutrition, drinks, prepared foods and cooking aids, and chocolate and confectionery. The firm is in the food business industry. The food industry includes product categories such as milk products and nutrition beverages, prepared dishes and cooking aids, chocolates and confectionery. Nescafe, Maggi, Milky bar, Milo, Kit Kat, Bar-one, Milkmaid, and Nestea are among the brands manufactured by Nestle India. With eight manufacturing sites and four branch offices located across India, the company has a strong presence in the country. The country's four branch offices aid in the sale and marketing of the company's products. They're in Delhi, Mumbai, Chennai, and Kolkata, among other cities. The headquarters of the company are in Gurgaon, Haryana.

In order to provide taste, Nutrition, Health and Wellness through its product offerings, the company is constantly focusing its efforts to better understand India's changing lifestyles and anticipate consumer needs. It assists the company in creating long-term value by providing consumers with a wide range of high-quality, safe food items at reasonable rates.

Nescafe was named the most desired coffee brand at the CNBC Awaaz Consumer Awards. Nestle India has been ranked No.1 among super 100 firms in terms of return on capital employed by business India.

Nestle India was named Best Exporter of Instant Coffee, Highest Exporter to Russia and CIS, and Highest Exporter to Far East Countries.

## II. REVIEW OF THE LITERATURE:

**Sneha Lata & Dr. Robin Anand** (2017) From 2007 to 2017, they studied the financial performance of Mahindra & Mahindra ltd before and after the merger with the kerean corporation. Ratio analysis, arithmetic mean, standard deviation, and the t-test were among the methods they utilised. After the merger, the profit margin of the company was reduced from 18 percent to 13 percent. The merger done for profit has decreased the value of Mahindra & Mahindra ltd business, and the rationale given is that previous mergers that have occurred in recent years could be the reason for the reduction.

**Anupa Jayawardhana (2016)** She researched adidas financial performance from 2010 to 2014. Horizontal analysis, trend analysis, vertical analysis ratio, and key ratio are among the tools she employs. He came to the conclusion that they should cut their running costs and spend their resources in producing assets.

**Dr.M Ravichandran & M Venkat Subramanian (2016)** From 2010 until 2015 Studied force motors, formerly known as Bajaj tempo. They employed ratio analysis and financial statement comparisons. The company's financial performance is excellent, with increased reserves and surpluses and lower borrowings. They propose that it can improve even more by focusing on its operating, administrative, and sales expenses and cutting costs.

**Krishnaveni M & Vidya (2015)** The author chose 87 companies from a total of 242 in the capital line database to discuss how the standard current ratio of the vehicle industry is matched with tractor and four sectors with standard norms engine parts, lamps, gears, and ancillaries. The study says that the automobile industry's current and liquidity ratios are comparable to those of the tractor and the other four sectors, but that other industries must enhance their repaying ability in order to boost their financial features.

## III. STATEMENT OF THE PROBLEM:

The goal is to assess the stability of Nestle India Limited. The success of an organisation should be evaluated using a variety of critical methodologies, such as analysing financial statements prepared on various monetary bases. Organizational performance may be harmed as a result of reduced profitability and efficiency. Return on equity is an important financial instrument that helps to detect all of the above-mentioned factors that affect an organizations financial success. To resolve financial difficulties and financial problems, appropriate actions could be adopted. It can be improved, which is why the study was conducted.

**OBJECTIVES OF THE STUDY:**

* To analyze the solvency and liquidity position of Nestle India during 2016-17 to 2020-2021
*To comprehend the company's profitability.
* To assess the company's financial performance across the study period.

**RESEARCHMETHODOLOGY:**

The study based on secondary information. It includes collecting information from CMIE, books, journals, magazines and annual accounting reports of Nestle India Ltd for the past five years i.e., 2017-2021, publications and websites also referred. Accounting and financial tools like ratios have been used for analysis of data.

**NATURE OF DATA:**

The study is mainly based on secondary data.

**SOURCES OF DATA:**

Major sources of secondary data include companies published financial statement such as profit & loss account and balance sheet. In addition, data are obtained from companies' website, books, journal and internet.

**TOOLS FOR ANALYSIS:**

The main tools used for analysis of collected data are:

- Ratio Analysis

**LIMITATIONS OF THE STUDY**:

The ratios are calculated using historical data, thus the analysis is time-limited. This report's financial and operating results do not guarantee future results.

## IV. DATA ANALYSIS AND INTERPRETATION:

**1.Liquidity Ratio**

**1.1 Current Ratio:**

Entire current assets divided by total current liabilities is known as the current ratio. Current assets are divided by current liabilities to arrive at this figure. The present ratio of 2:1 is generally regarded as excellent or optimum.

**Current ratio=current assets/current liabilities**

| Year | Current Assets (Rs. in cr) | Current Liabilities (Rs.in cr) | Ratio |
|---|---|---|---|
| 2016-2017 | 3937.39 | 1492.71 | 2.63 |
| 2017-2018 | 4736.95 | 1854.95 | 2.55 |
| 2018- | 3817.17 | 2147.51 | 1.77 |

| | | | |
|---|---|---|---|
| 2019 | | | |
| 2019-2020 | 4185.08 | 2492.55 | 1.67 |
| 2020-2021 | 2738.76 | 2603.24 | 1.05 |

**Interpretation:**

A present ratio of 2:1 is deemed satisfactory by conventional wisdom. The assets must be at least double the current obligation to achieve this optimal ratio. The organisation has failed to achieve the appropriate ratio for the past three years (2018-19,2019-20,2020-21)

**1.2 Quick Ratio:**

The ratio of liquid assets to current liabilities is known as the liquid asset to current liability ratio. It is measurement of a company's immediate debt paying ability. Its also called the fast ratio, the acid test ratio or the near money ratio.1:1 is the ideal ratio.

**Quick Ratio = Liquid assets/current liabilities**

| Year | Liquid assets (Rs.in cr) | Current Liabilities (Rs.in cr) | Ratio |
|---|---|---|---|
| 2016-2017 | 1457.42 | 1492.71 | 0.97 |
| 2017-2018 | 1610.06 | 1854.95 | 0.86 |
| 2018-2019 | 1308.05 | 2147.51 | 0.60 |
| 2019-2020 | 1769.87 | 2492.55 | 0.71 |
| 2020-2021 | 735.41 | 2603.24 | 0.28 |

**Interpretation:**

A liquid ratio of 1:1 is generally considered appropriate. This means that liquid assets and current liabilities are exactly the same. When compared to the satisfactory ratio, the last five years demonstrate a less than liquid ratio for this company. It also signifies that the corporation is unable to meet its current obligations.

**2. Solvency Ratio**

**2.1 Debt Equity Ratio:**

It depicts the long-term debt to equity relationship. Long term debt refers to funds invested by third parties. Debentures, mortgages, and all long-term loans are included.

**Debt equity ratio = long term debt/shareholder's fund**

| Year | Long Term Debt (Rs.in cr) | Shareholders Fund (Rs.in cr) | Ratio |
|---|---|---|---|
| 2016-2017 | 35.14 | 3420.59 | 0.01 |
| 2017-2018 | 35.14 | 3673.74 | 0.01 |
| 2018-2019 | 53.14 | 1918.87 | 0.02 |
| 2019-2020 | 31.72 | 2019.34 | 0.01 |
| 2020-2021 | 27.47 | 2084.48 | 0.01 |

**Interpretation:**

The normal debt to equity ratio is 1:1. The corporation has a lower ratio in this case. It implies that it is preferable to the creditors. However lower ratio is unsatisfactory to shareholders since it suggests that the company has not been able to control its earnings using outside funds.

**2.2 Proprietary Ratio:**

It establishes a link between the shareholders or proprietors fund and the overall assets. It demonstrates how much money has been contributed by shareholders to the company's overall assets.

**Proprietary ratio = shareholders fund/total asset**

| Year | Shareholders Fund (Rs.in cr) | Total Asset (Rs.in cr) | Ratio |
|---|---|---|---|
| 2016-2017 | 3420.59 | 7362.59 | 0.46 |
| 2017-2018 | 3673.74 | 8088.08 | 0.45 |
| 2018-2019 | 1918.87 | 7172.94 | 0.26 |
| 2019-2020 | 2019.34 | 7899.73 | 0.25 |
| 2020-2021 | 2084.48 | 8209.93 | 0.25 |

**Interpretation:**

0.5:1 is the optimal proprietary ratio. The firm is unable to achieve the desired ratio in this situation. This indicates that the company's financial situation is precarious.

**3. Profitability Ratio**

**3.1 Net Profit Ratio:**

Net profit ratio its also referred to as net margin. This metric evaluates the link between a company's net earnings and sales.

**Net Profit Ratio = Net profit / Net sales *100**

| Year | Net Profit (Rs.in cr) | Net Sales (Rs.in cr) | Ratio |
|---|---|---|---|
| 2016-2017 | 1225.19 | 10186.52 | 12.02 |
| 2017-2018 | 1606.93 | 11551.19 | 13.91 |
| 2018-2019 | 1968.44 | 12615.78 | 15.61 |
| 2019-2020 | 2082.43 | 13495.88 | 15.43 |
| 2020-2021 | 2144.86 | 14829.52 | 14.46 |

**Interpretation:**

The net profit ratio demonstrates how well management implements cost control methods. In 2017, the net profit was 12.02, with increases of 13.91, and 15.61 in the next two years. However, the gross profit trended downwards in the next two years, to 15.43 and 14.46 in 2020 & 2021.

**4. Activity Ratio**

**4.1 Total Asset Turnover Ratio:**

The total asset turnover ratio is a metric that assesses a company's capacity to produce sales efficiently and is used to assess its operation.

**Total asset turnover ratio =sales/total asset**

| Year | Sales (Rs.in cr) | Total Asset (Rs.in cr) | Ratio |
|---|---|---|---|
| 2016-2017 | 10135.11 | 7362.59 | 1.37 |
| 2017-2018 | 11216.23 | 8088.08 | 1.38 |
| 2018-2019 | 12295.27 | 7172.94 | 1.71 |
| 2019-2020 | 13290.16 | 7899.73 | 1.68 |
| 2020-2021 | 14633.72 | 8209.93 | 1.78 |

**Interpretation:**

The total asset turnover ratio measures how effectively a company utilises its assets to produce revenue. The ratios are higher than the industry average, indicating that the company is more efficient in generating revenue from its assets.

## V. FINDINGS, SUGGESTIONS AND CONCLUSION

**FINDINGS:**

- In the last two years, 2020 (1.67%) and 2021 (1.05%), the current ratio has been below the desired ratio of 2.1.
- The liquid ratio of the company is less than the industry standard of 1:1, indicating that the company Is unable to pay down its current liabilities.
- The debt equity of the corporation is less than the standard of 1:1 in the solvency ratio. This indicates that the business is capable of managing its external profits.
- The company's solvency is strong, as it has enough total assets to cover its debt.
- In the last five years, the net profit ratio has been shifting. In the years 2016-2017, the lowest ratio was achieved.

- The corporation is more efficient in generating revenue from its assets, according to the total asset turnover ratio.

**SUGGESTIONS:**

- The company's profitability position can be used for a better or more effective purpose.
- It is recommended that further efforts be made to improve the company's overall efficiency.
- Fluctuations in the ratio indicate that there are management or production issues at Nestle ltd., and the top management should take the required efforts to assemble the management and workers in the best way possible.
- The company must value its product, which should be user friendly. Pricing plans should be designed in such a way that all types of clients may afford them.
- The company should make an effort to boost the value of its goodwill.

**CONCLUSION:**

Nestle ltd. Is one of the worlds fastest growing private companies. Over time, the company's financial status has shown a shifting trend. A continuous increase is not visible, but it never reaches a loss-making condition. The fluctuations could be due to managerial concerns or the pandemic year. The company is working to resolve these issues, but it is not yet complete. More effort should be put into ensuring the company's seamless operation. It can be stated that the company's liquidity and solvency positions are adequate, but the company's profitability needs to be improved.

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