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A STUDY ON THE FINANCIAL PERFORMANCE OF NESTLE INDIA LTD

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ABSTRACT:

The financial analysis procedure identifies the firm’s strengths and weaknesses. The aim of analyzing the accounts shall be to evaluate past performance and present state of finances, as well as to make predictions concerning the company's prospects going forward. Using ratios is the aim of this study in assessing the financial position of Nestle India Ltd. It is based on secondary data which is annually published in journals, books, and websites. This study is based on tools such as the liquidity, net profit margin, total turnover of assets, and some other ratios. During COVID PANDEMIC company financial position was affected for two years, but now the company is recovering the past position for future financial period. The testing tools used for this study are: mean, standard deviation, correlation and T test. The following keywords are used: Current ratios, Net income, Profitability.

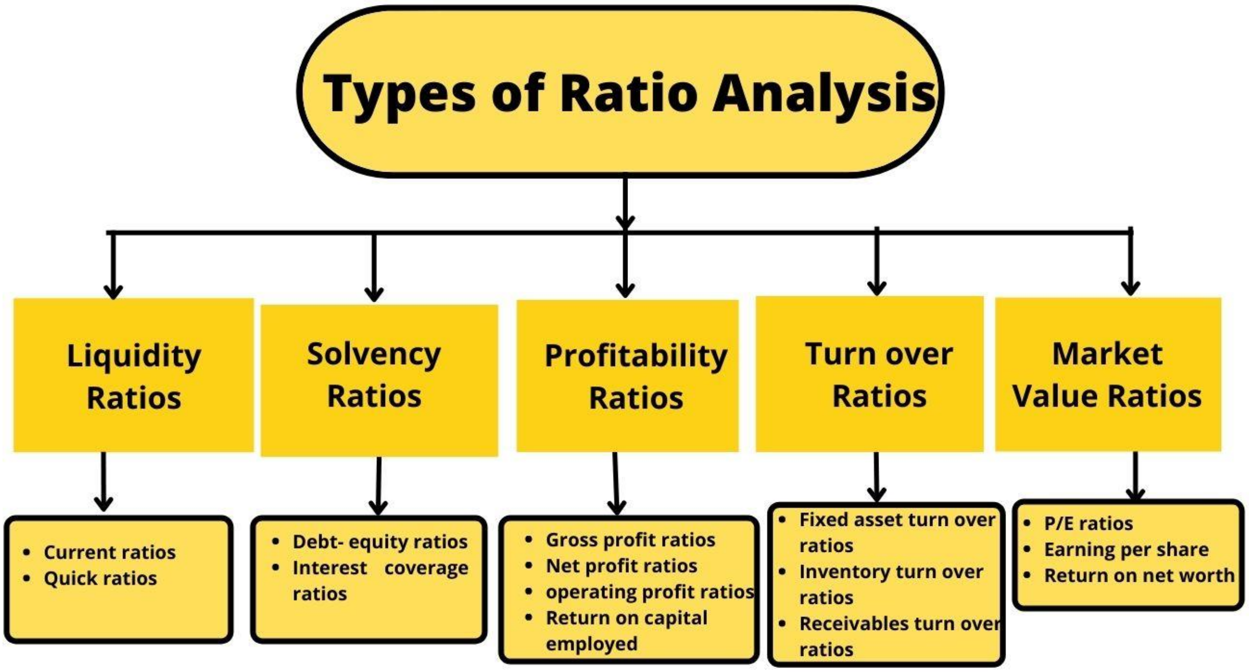
1. INTRODUCTION :

It plays a significant part in the management of finances because finance plays a central role in every managerial job activity. The objective is to understand the financial situation. The purpose of the statements is to assess past performance and present financial position. It is the process of identifying a firm's finances and weaknesses. It can be Establishing relationships between the items to do so the financial statements, including the balance sheet and profit and loss account.

Mainly we use ratio analysis for this research study. **Ratio analysis** is a quantitative interpretation of a company's financial performance. It is a critical tool that every company uses to assess financial liquidity, debt burden, profitability, and market performance in comparison to competitors.

Types of ratio analysis:

The many forms of financial ratios can be broadly categorized into the following five groups based on the data sets provide.



(**SOURCE:** https://invyce.com/ratio-analysis/)

DESCIPTION:-

- **Liquidity Ratios**

  Liquidity ratios show how well a corporation can pay its short-term obligations. The higher this ratio, the better the company’s position is to repay its short-term loans. The two forms of liquidity ratios are the current ratio and the quick ratio.

- **Solvency ratios**

  Solvency ratios are also known as leverage ratios. These sorts of ratio analyses indicate whether the company is solvent and capable of repaying its lenders’ debts or not. The two forms of solvency ratios are debt-equity ratios and interest coverage ratios

- **Profitability Ratios**

  The profitability ratio indicates the Returns on Capital Invested generated by the business. Higher ratios are often more favorable, but when compared to similar companies' results and the company's own historical performance, these ratios provide much more information.

- **Turnover ratios.**

  A turnover ratio is the amount of assets or liabilities that a company substitutes for its sales. The turnover ratios indicate how effective and efficient a company's management is. A higher asset turnover ratio is generally regarded as positive because it indicates that receivables are recovered quickly, fixed assets are used intensively, and excess inventory is kept to a minimum.

- **Market valuation ratios**

  Market value ratios are financial measures used to assess the value of publicly traded corporations' stocks. These ratios can help determine whether a stock is overvalued, undervalued, or priced in line with the market. These ratios help with investment decisions in company stocks.

ORGANIZATION PROFILE
Nestlé India

Nestlé India Limited is the Indian affiliate of Nestlé, a Swiss global conglomerate. The firm is headquartered in Gurgaon, Haryana. The company's product offerings include food, drinks, chocolate, and confectionery. Nestle Holdings Ltd., a subsidiary of Nestlé Alimentana S.A., established the corporation on March 28, 1959.Nestlé India is 62.76% controlled by its parent firm Nestlé as of 2020. The firm has nine production units in various places across India. Nestlé India is a major participant in India's fast-moving consumer goods market, with a lengthy history there.

- Nestlé India Limited was founded on March 28, 1959, in New Delhi. It was marketed by Nestle Alimentana S.A. through a fully owned subsidiary, Nestle Holdings Ltd., in Nassau, Bahamas.
- In 1961, the business opened its first production plant in Moga, Punjab, India. Nestlé established its second factory in Choladi, Tamil Nadu, to process locally sourced tea.

- In 1989, the business constructed a facility in Nanjangud, Karnataka.Nestlé Premium Chocolate was introduced in 1990, marking the company's entry into the confectionery market.
- Nestlé began producing soya-based goods in 1991 in a joint venture with the BM Khaitan company. They later developed two facilities in Goa, Ponda and Bicholim, in 1995 and 1997, respectively.
- In April 2000, they joined the liquid milk and iced tea sector. In 2006, the business established its seventh facility in Pantnagar, Uttarakhand.
- In 2011, the business added another factory in Karnataka, increasing the total number of units in India to eight.
  In October 2020, Nestle India announced a Rs. 2,600 crore investment for a new facility in Sanand , Gujarat. The initial phase of manufacturing began on October 1, 2021.
- As of December 2022, Nestlé India Limited's market capitalization was Rs. 1,93,666.87 crore.

2. REVIEW OF LITERATURE:

- **MR. DAVID and, MS. T. DHARANI (2021),** the purpose of this study was to assess nestle India ltd's financial performance analysis for throughout a five-year span. The primary goal of the research is to examine the firm's financial status by utilizing financial statements and ratio analysis, with an emphasis on the last five years' worth of financial statements from the business.
- **LARA FADEL ALKADMANI and HAITHAM NOBANEE's (2020) ,**study evaluates the financial performance of NESTLE. Soundness is essential for any business. The data comes from the company's financial statements over four years. Nestle has strong liquidity and profitability. The company has improved its financial management by reducing debtor collection periods and managing total assets for sales.
- **DR. M.YASODHA, P. PRIYADHARSHINI (2019)** a company's financial performance can be compared to the industry averages. This report assesses Nestle India Ltd's efficiency and solvency, as well as its ability to pay long-term debts. The study used secondary data over a two-year period. Nestle India Ltd must either reduce external liabilities or raise share capital. The company's capital structure is unsatisfactory due to the high ratio of external liabilities to share capital.
- **MS. KOMAL KAKADE and, DR. SWARNALATA PHILIP (2018)**, fundamental analysis is a crucial instrument that investors use to make their choices about what to buy or sell are made after a thorough examination of the company's financial accounts. The operating analysis profit margin, net profit margin, earnings per share, dividend per share, and intrinsic values were all addressed by NESTLE India's fundamental analysis. The data used in

the analysis came from the company's annual reports. Five years to implement to derive the relevant conclusions. The company's advantages and disadvantages are highlighted in the analysis.

3. OBJECTIVES OF THE STUDY :

- To study about the liquidity position of nestle.ltd.
- To examine Nestle Limited's financial position by using its profitability and activities ratios.
- To assess the financing position of the company.

4. RESEARCH METHODOLOGY :

Source of Data	Secondary Data
Research Design	Descriptive
Period of Study	2017-2018 To 2021-2022
Framework Analysis	Annual report published by the company.
Tools and Techniques	Profitability Ratios, Liquidity Ratios, and Activity Ratios, solvency ratios
Tools for hypothesis testing	Mean , Standard deviation, Correlation and T test.

5. DATA ANALYSIS AND INTERPRETATION :

TABLE- 01

YEAR	CURRENT RATIO	LIQUID RATIO	GROSS PROFIT MARGIN (%)	NET PROFIT MARGIN (%)	INVENTORY TURNOVER RATIO (%)	TOTAL ASSET TURNOVER RATIO (%)	DEBT TO EQUITY RATIO	TOTAL ASSETS TO EQUITY	RETURN ON ASSETS (ROA)	RETURN ON EQUITY (ROE)
2017-2018	2.55	2.03	23.2	14.2	4.67	1.46	0.01	2.20	21.3	43.7
2018-2019	1.74	1.16	23.6	15.9	4.58	1.62	0.03	3.71	29.2	102.6
2019-2020	1.68	1.11	23.9	15.6	4.11	1.77	0.02	3.90	28.5	103.1
2020-2021	1.05	0.44	22.6	14.4	4.11	1.83	0.02	3.94	28.3	108.8
2021-2022	1.13	0.50	21.9	14.1	4.36	1.97	0.01	3.64	28.4	97.1

6. STATISTICAL ANALYSIS :

TABLE- 02

AVERAGE	**1.63**	**1.04**	**23.04**	**14.84**	**4.36**	**1.73**	**0.018**	**3.47**	**27.14**	**91.6**
GROWTH	**(55.6)**	**(75.3)**	**(5.6)**	**(0.7)**	**(6.6)**	**(34.9)**	**0**	**(0.65)**	**(33.3)**	**(1.2)**

7. HYPOTHESIS TESTING :

Hypothesis 1 :

H01 : There is no significant relationship between Net Profit and Owner's Equity.
H11 : There is significant relationship between Net Profit and Owner's Equity.

TABLE- 03

YEAR	NET PROFIT	OWNER'S EQUITY
2017-2018	16,069	36,737
2018-2019	19,684	19,322
2019-2020	20,824	20,193
2020-2021	21,184	20,844
2021-2022	23,905	24,591

KARL PEARSON COEFFICIENT OF CORRELATION	RESULTS
Pearson correlation coefficient (r)	(0.6546)

- Refer to the correlation results between NET PROFIT and OWNER'S EQUITY. The Karl Pearson coefficient of correlation was used to test the hypotheses at the 0.05 significant level between net profit and owners equity with r= 0.6546, which shows a moderate degree of negative correlation.

  D.O.F. - (n-2)= 5-2= 3
  N= 5
  Table value for "t" test = 3.182.
  The calculated value of "t" test = 1.4996. The calculated value for the t-test is 1.4996, which is less than the table value. So, null hypotheses (H01) are accepted, while alternate hypotheses (H11) are rejected. Thus, there is no significant relationship between Net Profit and Owner's Equity.

Hypothesis 2 :

H02 : There is no significance relationship between Net profit and Total assets.
H12 : There is a significance relationship between Net profit and Total assets.

TABLE- 04

YEAR	NET PROFIT	TOTAL ASSETS
2017-2018	16,069	80,881
2018-2019	19,684	71,729
2019-2020	20,824	78,798
2020-2021	21,184	82,083
2021-2022	23,905	89,531

KARL PEARSON COEFFICIENT OF CORRELATION	RESULTS
Pearson correlation coefficient (r)	0.506

- Refer to the correlation results between net profit and total assets. The Karl Pearson coefficient of correlation was used to test the hypotheses at the 0.05 significant level between net profit and owners equity with r = 0.506 which shows a moderate degree of positive correlation.
  D.O.F. - (n-2) = 5-2= 3
  N= 5
  Table value for "t" test = 3.182.
  The calculated value of "t" test = 1.016
  The calculated value for the t-test is 1.016, which is less than the table value. So, null hypotheses (H02) are accepted, while alternate hypotheses (H12) are rejected. Thus, there is no significant relationship between Net Profit and total assets.

Hypothesis 3 :

H03: There is no significance relationship between Net Sales and Total Assets.

H13: There is a significance relationship between Net Sales and Total Assets.

TABLE- 05

YEAR	NET SALES	TOTAL ASSETS
2017-2018	112,923	80,881
2018-2019	123,689	71,729
2019-2020	133,500	78,798
2020-2021	147,406	82,083
2021-2022	168,970	89,531

KARL PEARSON COEFFICIENT OF CORRELATION	RESULTS
Pearson correlation coefficient (r)	0.7501

- Refer to the correlation results between net sales and total assets. The Karl Pearson coefficient of correlation was used to test the hypotheses at the 0.05 significant level between net profit and owners equity with r = 0.7501 which shows a high degree of negative correlation.
  D.O.F. - (n-2) = 5-2= 3
  N=5
  Table value for "t" test = 3.182.
  The calculated value of "t" test = 1.9644
  The calculated value for the t-test is 1.9644, which is less than the table value. So, null hypotheses (H03) are accepted, while alternate hypotheses (H13) are rejected. Thus, there is no significant relationship between net sales and total assets.

Hypothesis 4:

H04: There is no significance relationship between Total Assets and Owner's equity.
H14: There is a significance relationship between Total Assets and Owner's equity.

TABLE- 05

YEAR	OWNER'S EQUITY	TOTAL ASSETS
2017-2018	36,737	80,881
2018-2019	19,322	71,729
2019-2020	20,193	78,798
2020-2021	20,844	82,083
2021-2022	24,591	89,531

KARL PEARSON COEFFICIENT OF CORRELATION	RESULTS
Pearson correlation coefficient (r)	0.2842

- Refer to the correlation results between Owners 's equity and total assets. The Karl Pearson coefficient of correlation was used to test the hypotheses at the 0.05 significant level between net profit and owners equity with r = 0.2842 which shows a low degree of negative correlation.
  D.O.F. - (n-2) = 5-2= 3
  N=5
  Table value for "t" test = 3.182.
  The calculated value of "t" test = 0.5134

The calculated value for the t-test is 0.5134, which is less than the table value. So, null hypotheses (H04) are accepted, while alternate hypotheses (H14) are rejected. Thus, there is no significant relationship between owners's equity and total assets.

8. Observations & Findings:

- The firm's current ratio reached 2.55 in 2017–2018, with the lowest ratio recorded in 2020–2021 at 1.05. The existing ratio is not pleased even though it somewhat increased the next year and still does not match the ideal ratio, or 2:1.

- The company's quick ratio was at its best in 2019–2020; however, in 2020–2021, it fell short of expectations. Additionally, it increased somewhat, but not to the quick ideal ratio of 1:1.

- From 2017 to 2018, the gross profit margin ratio has been declining. A drop in the gross margin could be a sign of inefficiencies.

- The net profit margin ratio increased from 2018 to 2020 and then declined in subsequent years.
- A low net profit margin indicates that a business has either inefficient pricing policies or an inefficient cost structure. As a result, a low ratio may be caused by ineffective administration.
- Inventory turnover ratio Four to six times is a healthy range. In order to meet customer demand and preserve cash flow, it demonstrates effective inventory management. By the end of 2022, the ratio is 4.36, which is acceptable.

- When the asset turnover ratio is greater than 1, it indicates that the business is making full use of its owned resources in order to produce sales revenue. Better still, the ratio should be higher. Given that the ratio has increased steadily over the past five years, this is positive for the business.

9. SUGGESTIONS

- The company can maintain sufficient current assets and liquid assets to cover its short-term obligations and maintain a healthy level of liquidity throughout the year because the current ratio is below the ideal ratio. It has greater capacity to support current assets.
- One way is to increase the level of current assets. This can be done by either increasing inventory levels or by investing in more liquid assets such as cash or marketable securities.
- Another way to improve the quick ratio is to decrease levels of current liabilities. This can be accomplished by paying off outstanding debts or by negotiating longer terms with suppliers.
- A higher gross profit margin will result from a lower cost of goods sold. Using labor-saving technology, outsourcing, locating less expensive suppliers, and utilizing cheaper raw materials are some strategies to reduce the cost of goods sold.
- Either boosting sales revenue or cutting back on business expenses and production costs will raise net profit margin.
- An inventory turnover ratio ***between 4 and 6*** is usually a good indicator that restock rates and sales are balanced one of the best ways to improve your inventory turnover ratio is to use inventory management software to automate your inventory management process. This can assist you in tracking and managing inventory levels in real time, as well as reducing excess inventory and optimizing operations, resulting in cost savings and increased profits.
- A good asset turnover ratio is one that is greater than 1, indicating that the company is fully utilizing its owned resources to generate sales revenue. To boost your asset turnover ratio, look for ways to increase your net sales.

10. CONCLUSION:

The financial performance analysis is used to determine the financial performance of a company. This study is being conducted to evaluate the financial performance of NESTLE INDIA LTD over a five-year period using ratio analysis. The company's turnover and profit were shown to have been significantly impacted by COVID-19, despite the fact that the company was still working to make up for the losses incurred during the study period. The liquidity ratios, specifically the current and quick ratios, indicate that NESTLE INDIA LTD's short-term financial position falls short of expectations. The study's activity ratios, namely inventory turnover ratio and assets turnover ratio, depict the company's efficiency; by calculating them, it is possible to conclude that the company could do better.

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