A Case Study on Financial Stability of Nestle India Ltd.

Rooplata. P [1], Dr. R. Sathya[2]

PSG College of Arts and Science,Coimbatore

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, activity 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 2011 to 2015 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: Liquidity, solvency, activity, profitability, external factors

1. Introduction

India is the world's second largest producer of food next to China, and has the potential of being the biggest with the food and agricultural sector. The total food production in India is likely to double in the next ten years and there is an opportunity for large investments in food and food processing technologies, skills and equipment, especially in areas of Canning, Dairy and Food Processing, Specialty Processing, Packaging, Frozen Food/Refrigeration and Thermo Processing. Fruits & Vegetables, Fisheries, Milk & Milk Products, Meat & Poultry, Packaged/Convenience Foods, Alcoholic Beverages & Soft Drinks and Grains are important sub-sectors of the food processing industry. Health food and health food supplements is another rapidly rising segment of this industry which is gaining vast popularity amongst the health conscious.

Nestle India Ltd. one of the old and strong built company in Indian food and processing market. in June 2015, the Food Safety and Standards Authority of India (FSSAI) banned the sale of Maggi noodles saying it was “unsafe and hazardous” for human consumption after finding lead beyond permissible limit and presence of taste enhancer monosodium glutamate (MSG). It is also important to note that the ‘prepared dishes and cooking aids (PDCA)’ segment (that mostly comprise Maggi) that contributes close to 30 per cent of the revenue for Nestle India has been the only volume driver for the company.

Nestle India, which follows a January-December financial year, reported a decline of 17.2% in its net sales for the year ended December 2015 on account of the Maggi setback. Net profit for the year 2015 fell to Rs 563 crore, from Rs 1,185 crore in the previous year.

After clearing saftey test ban has removed and maggi is back in the market.

2. Profile of Nestle India Ltd.

Nestle India is one of the oldest company in India. It is a subsidiary of Nestle SA of Switzerland. Nestle was founded in 1867 in Geneva, Switzerland by Henri Nestle. Nestle's first product was "Farine Lactee Nestle", an infant cereal. In 1905, Nestle acquired the Anglo-Swiss Condensed Milk Company. Nestle's relationship with India started 1912, when it began trading as The Nestle Anglo-Swiss Condensed Milk Company (Export) Limited, importing and selling finished products in the Indian market.

The company has its headquarter at Gurgaon, NCR, Delhi and seven factories spread all over India.

Nestlé India, one the biggest players in FMCG segment, has a presence in milk & nutrition, beverages, prepared dishes & cooking aids & chocolate & confectionery segments. Nestlé India manufactures products of truly international quality under internationally famous brand names such as NESCAFÉ, MAGGI, MILKYBAR, KIT KAT, BAR-ONE, MILKMAID and NESTEA and in recent years the Company has also introduced products of daily consumption and use such as NESTLÉ Milk, NESTLÉ SLIM Milk, NESTLÉ Dahi and NESTLÉ Jeera Raita.

Nestle has created brands like **Nestlé Milkmaid**, **Nestlé Everyday, Maggi Noodles, Maggi Soups, Polo, Kit Kat, Nescafe** & many more.

As per the market-wise position Nestlé India stands first in instant noodles & ketchups, second in healthy soups, No.1 in instant coffee, & No.2 in overall chocolate category.

The company innovates new product & renovates existing one providing high quality, safe food products at affordable prices.

Achievement by Nestle India Ltd.

- CNBC Awaaz Consumer Awards has honoured **Nescafe** as the most preferred coffee brand.
- Business India has rated Nestlé India as No.1 on Return On Capital Employed amongst Super 100 companies.
- In 2006-2007 Nestlé India was awarded the ‘Best Exporter of Instant Coffee’, ‘Highest Exporter to Russia and CIS”, ‘Highest Exporter to Far East Countries’.
- In 2009 Nestle India Board approved Proposal To acquire Healthcare Nutrition Business of Speciality

Foods
In 2010 Nestlé Inaugurates New Culinary Plant at Nanjangud.

- 2010-12 CNBC Awaaz Consumer Awards Business India has rated Nestle India as No.1 on Return On Capital Employed amongst Super 100 companies.

3. Review of literature

Rathore G.S. and Pinki Roi (2007) in their study entitled "financial performance of Air India" have analyzed pointed out capital structure, working capital, profitability position, operating performance and over all financial performance. It is concluded that Air India shows better performance of capitalstructure and improves the capital structure in the study period.

Amalendu Bhunia (2010) has undertaken an analysis of financial performance of pharmaceutical companies to understand how management of finance plays a crucial role in the growth. The present study covers to public sector drug & pharmaceutical enterprises listed on Bombay Stock Exchange (BSE). In order to analysis financial performance in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratios have been used.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found the poor performance of the bank on capital adequacy, liquidity, earning equity and the management efficiency parameters.

Mistry (2011) in his study, "Performance Appraisal of Indian Automotive Industry through Production Trend Analysis". The study showed that the mean value of production is the highest in two-wheeler segment. Coefficient of variation suggested higher fluctuations in commercial vehicle and passenger vehicle segments as compared to two wheelers and three wheelers segments.

Subramanian and Venkatachalam (2014) studied the financial performance of Seshasayee Paper and Board Limited by using ratios like profitability, activity and liquidity ratios and found financial performance analysis is vital for the success of an enterprise. it is an appraisal of the feasibility, solidity and fertility of a business, sub-business or mission.

Renuka and Ganesan (2015) analyse the financial stability of Hitachi Home and Life Solution (India) Ltd. during 2008-09 to 2012-13 and suggested evaluating financial statement by using ratios- profitability, turnover ratios, solvency ratio etc. provide better understanding of the firm's position and performance.

Scope of the study

The study involved the various factors that affect the financial stability of Nestle India Ltd. It helps to find out the operational efficiency of the organization and allocation of funds to improve the financial stability of the company. The five years (2011 to 2015) financial information is taken into account for financial evaluation of the study. This study helps to improve the financial status and funds employed of Nestle India Ltd.

Objectives of the Study

1) To analyze the operational efficiency of Nestle India Ltd.
2) To evaluate the short term and long term liquidity and solvency position of company.
3) To evaluate the financial position and profitability of the company.

Research methodology

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. 2011-2015, publications and websites also referred. Accounting and financial tools like ratios have been used for analysis of data.

Financial ratios analysis

The focus of financial analysis is a key figure in the financial statements and the significant relationship that exists between them. The analysis of financial statements in a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance.

Ratio analysis is a powerful tool of financial analysis. It is used as a device and interprets the financial health of Nestle India Ltd. Analysis of financial statements with aid of ratios helps the management decision-making and control. For the purpose of financial analysis, ratios are classified into liquidity ratios, solvency ratios, activity ratios and profitability ratios.

Liquidity Ratios

Liquidity is a measure of the ability of debtor to pay their debts as and when they fall due. It is usually expressed as a ratio or percentage of current liabilities is the ability to pay short-term obligations. "Liquidity is the case with which assets may be converted into cash without loss". Thus liquidity is the base of continuous business operations. To measure the liquidity position of Nestle India Ltd - current ratio, liquid ratio and absolute liquid ratio have been calculated.

Table 1: Liquidity Ratio (in times)

Year	*Current Ratio*	*Liquid Ratio*	*Absolute Liquid Ratio*
2011	0.55	0.27	0.09
2012	0.54	0.22	0.10
2013	0.65	0.39	0.27
2014	0.53	0.25	0.15
2015	0.50	0.25	0.15

The table 1 shows the liquidity position of Nestle India Ltd for the period of five years from 2011 to 2015.

During the study period current ratio trend shows slightly decrease then suddenly increase in 2013, after that dercreasing. The current ratio of the is High i.e.0.65 in 2013 and low ratio of 0.50 in 2015.

The liquid ratio of the company also fluctuated during the study period showing same trend. The higher ratio of 0.39

times in 2013 and the low ratio 0.22 in 2012, the main reason for the fluctuation is changes in stock.

The absolute liquid ratio is very low in 2011 i.e. 0.09 times, because, the company has not maintained cash and bank balance to meet the current liabilities. But again high in 2013 i.e. 0.27.

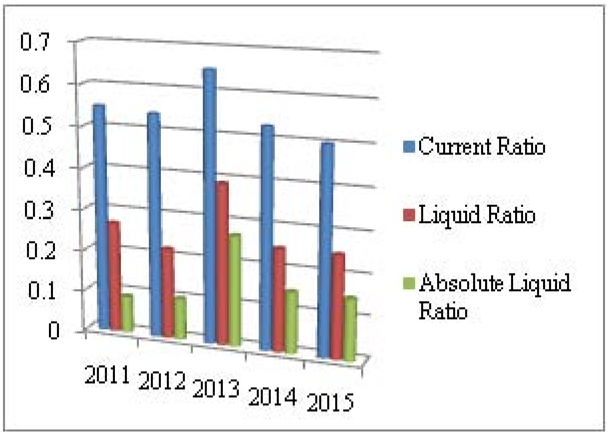

Figure 1: Liquidity ratios of Nestle India Ltd.

Figure no. 1 shows the graphical presentation of Liquidity ratios of the company.

Table 2: Statistical Description of Liquidity Position of Nestle India Ltd.

Statistics	*N*	*Range*	*Min.*	*Max.*	*Mean*	*Std. dev.*	*Variance*	*Skewness*	*Kurtosis*
CR	5	0.15	0.50	0.65	0.55	0.05	0.003	1.61	3.23
LR	5	0.17	0.22	0.39	0.27	0.15	0.025	0.002	3.70
ALR	5	0.18	0.09	0.27	0.15	0.18	0.033	0.38	-0.03

The above table shows the statistical description of liquidity ratios of the company. Average current ratio is 0.55 times and liquid ratio is 0.27 during the study period. From the analysis, it is evident that the current ratio of Nestle India Ltd is not equal to the standard norm (CR=2:1, LR=1:1) which indicates that it cannot meet its short term obligations within time and does not have a sufficient amount of working capital for the smooth running of the business activities.

The skewness and kurtosis of current ratio, liquid ratio and absolute liquid ratio are shown in above table which represents that the observed data is perfectly normally distributed. The skewness value of current ratio, liquid ratio and absolute liquid ratio are indicating the positively skewed. Kurtosis value of absolute liquid ratio is flatter than the normal curve so that they are platykurtic.

Solvency Ratios

A key metric used to measure a company's ability to meet its debt and survive for longer period.. These ratios are very important for stockholders and creditors. The lower company's solvency ratio, the greater the probability that it will default on its debt obligations. Debt-Equity, Proprietary and Fixed assets to Equity ratios have been calculated to analyse the long-term solvency position of Nestle India Ltd.

Table 3: Solvency Ratio (in times)

Year	*Debt-Equity ratio*	*Proprietary ratio*	*Fixed Assets to Equity ratio*
2011	0.76	0.81	1.24
2012	0.58	0.56	1.78
2013	0.50	0.70	1.42
2014	0.01	0.89	1.12
2015	0.01	0.97	1.03

Table 3 shows the solvency position of the company.

Debt- equity ratio showing the gradually decreasing trend but there is drastic decrease after 2013, from 0.50 to 0.01 in 2014 and 2015. It shows company using a very low portion of debt as compared to equity.

Proprietary ratio of the company showing increasing trend from 2012. The higher ratio is 0.97 times in 2015 and the lowest being 0.56 times in 2012. The company's average ratio of proprietary was 0.78 times, it indicates the greater share holders' funds and lesser the borrowed funds, therefore the company's solvency position in safe as amount payable to outsiders will be less.

Fixed assets to equity ratio shows contribution of stock holders in the fixed assets of the company. Here this ratio is more than 1 that means stockholders' equity is less than the fixed assets and the company is using debts to finance a portion of fixed assets. Moreover the ratio is decreasing year by year.

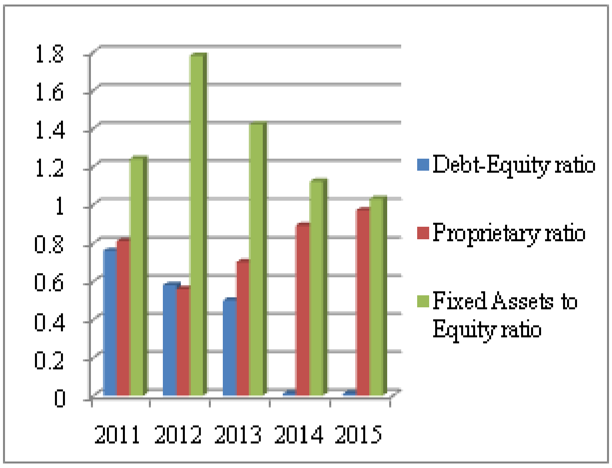

Figure 2: Solvency ratios of Nestle India Ltd.

Figure no. 2 depicts the graphical presentation of the solvency ratios of the company.

Table 4: Statistical description of solvency position of Nestle India Ltd.

Statistics	*N*	*Range*	*Min.*	*Max.*	*Mean*	*Std. dev.*	*Variance*	*Skewness*	*Kurtosis*
D-E R	5	0.75	0.01	0.76	0.37	0.34	0.11	-0.26	-2.69
PR	5	0.41	0.56	0.97	0.78	0.16	0.02	-0.48	-0.69
FA-E R	5	0.75	1.03	1.78	1.31	0.29	0.08	1.07	0.73

Table 4 shows the statistical description of solvency position of the company.
Here it is clear that company's average debt- equity ratio is 0.37, which is not even near to standard norm (1:1). Fixed assets to equity ratio shows positive skewness and normaly distributed curve as kurtosis is also positive. Whereas debt-equity ratio and proprietary ratio both are negatively skewed and kurtosis value is flatter than the normal curve so that they are platykurtic.

Activity ratios

Activity ratios measure how effectively a firm is using its assets. These ratios help us gauge how effectively the company is at putting its investment to work. Activity ratios are critical in evaluating a company's fundamentals because, in addition to expressing how well the company generating revenue, activity ratios also indicate how well the company is being managed8. These ratios are calculated to judge the effectiveness of asset utilization by Nestle India Ltd.- Inventory turnover ratio, debtors turnover ratio, fixed assets turnover ratio and working cpital turnover ratio.

Table 5: Activity Ratio (in times)

Year	*Inventory Turnover ratio*	*Debtors Turnover Ratio*	*Fixed assets Turnover ratio*	*Working Capital Turnover Ratio*
2011	10.49	84.10	3.01	-6.60
2012	11.55	82.12	1.91	-7.82
2013	12.37	105.92	1.88	-9.51
2014	11.67	107.49	1.99	-7.15
2015	10.33	92.11	1.62	-5.05

Table 5 shows the turnover ratios for the period of study.

Inventory turnover ratio fluctuate between 10.33 and 12.37 times. The highest i.e. 12.37 times in 2013 and lowest i.e. 10.33 in 2015. Similarly debtor turnover ratio also registered the fluctuation from 82.12 to 107.49 times. It is high as compared to other ratios, it can be clearly seen in the figure below. The company has higher ratio in 2013 and 2014 due to it has collection of debts with short period.

Fixed assets turnover ratio measures the efficiency of a firm in managing and utilizing its long term assets. Higher the ratio, more efficient is the firm in utilizing its assets. As per results show the assets turnover ratio is low it may be stated company is using the long term assets in very low quantity.

Working capital turnover ratio is maintained by the company. It is ngative in all the year showing current liabilities are more than current assets. Working capital turnover is negative merely because of current assets is less than current liabilities not because of sales as sales cannot be negative.

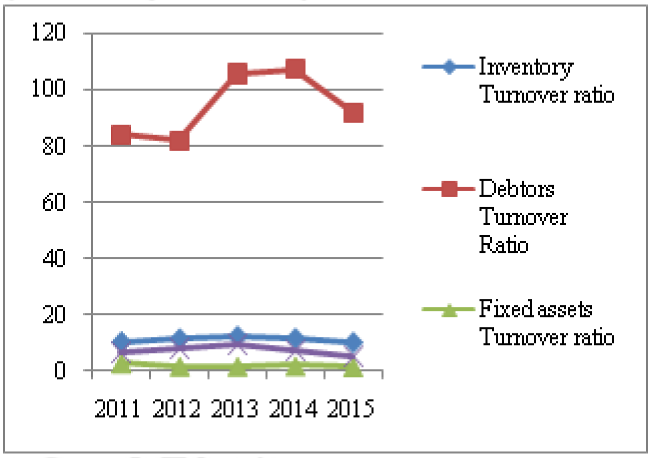

Figure 3: Activity ratios of Nestle India Ltd.

Figure no. 3 shows the graphical presentation of activity ratios of the company.

Table 6: Statistical description of the Activity ratios of Nestle India ltd.

Statistics	*N*	*Range*	*Min.*	*Max.*	*Mean*	*Std. dev.*	*Variance*	*Skewness*	*Kurtosis*
ITR	5	2.04	10.33	12.37	11.28	0.85	0.73	0.003	-1.88
DTR	5	25.37	82.12	107.49	94.34	11.89	141.54	0.22	-2.93
FATR	5	1.39	1.62	3.01	2.08	0.53	0.28	1.84	3.87
WCTR	5	4.46	5.05	9.51	7.22	1.63	2.67	0.14	0.71

Table 6 depicts the statistical description of the activity ratios of the company.

Debtor turnover ratio's standard deviation is very high as compared to other ratios taken into consideration for study. Skewness of all the ratios are positive. Fixed assets turnover ratio and working capital turnover ratio kurtosis value shows normal distributed curve whereas Inventory turnover ratio and debtor turnover ratio show is flatter than the normal curve so that they are platykurtic.

Profitability ratios

Profitability ratios measure the efficiency of management in the employment of business resources to earn profits. These ratios indicate the success or failure of a business enterprise for a particular period of time. A strong profitability position ensures common stockholders a higher dividend income and appreciation in the value of the common stock in future. Creditors, financial institutions and preferred stockholders expect a prompt payment of interest and fixed dividend income if the business has good profitability position.

Management needs higher profits to pay dividends and reinvest a portion in the business to increase the production capacity and strengthen the overall financial position of the company.

To analyse the profitability position of the company, these ratois are calulated- Net profit margin, Return on investment or capital employed, Earning per share and Dividend payout ratio

Table 7: Profitability Ratio (in %)

Year	*Net Profit Margin*	*Return on Investment*	**Earning per Share**	**Dividend payout Ratio**
2011	12.79	64.60	99.73	48.63
2012	12.81	56.58	110.76	43.78
2013	12.27	47.79	115.87	41.85
2014	12.02	62.66	122.87	51.27
2015	6.88	46.47	58.42	83.01

Table 7 identifies the profitability position of Nestle India Ltd during 2011 to 2015.

Net profit margin shows the gradual decreasing trend till 2014 but a drastic decrease in 2015 i.e. 6.88% which is very low as compared to rest of the year. The reason is the low sales due to ban on its some products.

The performance of return on capital employed of the company is satisfactory during the study period, because the company has utilised the fund in proper way and also it maintains the operating efficiently.

Earning per share is high in 2014 and low in 2015 i.e. 58.42, it is because the company has less profit in the same year.

Dividend payout ratio discloses what portion of the current earnings the company is paying to its stockholders in the form of dividend and what portion the company is ploughing back in the business for growth in future. Nestle India Ltd. is maintaing consistent dividend payout ratio till 2014 but suddenly increase in 2015 i.e. 83.01.

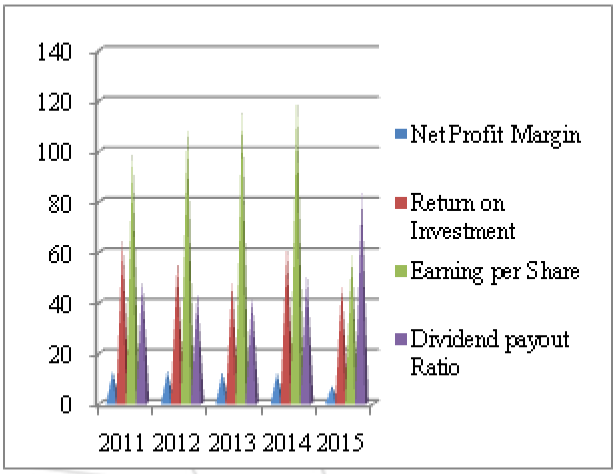

Figure 4: Profitability ratios of Nestle India Ltd

Figure 4 Depicts the profitability ratios of the company.

Table 8: Statistical description of profitability ratios of Nestle India Ltd.

Statistics	*N*	*Range*	*Min.*	*Max.*	*Mean*	*Std. dev.*	*Variance*	*Skewness*	*Kurtosis*
NPM	5	5.93	6.88	12.81	11.35	2.52	6.37	-2.13	4.63
ROI	5	18.13	46.47	64.60	55.62	8.30	69.03	-0.12	-2.82
EPS	5	64.45	58.42	122.87	101.53	25.53	651.98	-1.66	2.91
DPR	5	41.16	41.85	83.01	53.70	16.80	282.37	1.96	4.02

Table 8 depicts the statistical description of the profitability position of the company.

It has average Net profit margin 11.35%. Earning per share is high in almost all the year. Dividend payout ratio is quite satisfactory in terms of average. It is positively skewed and normally distributed curve. Whereas net profit margin, return on investment and earning per share are negatively skewed. The kurtosis value of net profit margin and earning per share are normally distributed but in case of return on investment it is flatter than the normal curve, so it is platykurtic.

4. Major findinds of the study

Liquidity position of nestle india Ltd.

- The company is not maintaining current ratio at 2:1, it is below than standard ratio.
- Quick ratio is also below than the ideal ratio of 1:1.
- Absolute liquid ratio is also very low during the study period.

Solvency position of nestle india Ltd.

- Debt-equity ratio is not maintained at 1:1, it is low in all the year, whereas very low in 2014 and 2015.
- Proprietary ratios show greater stockholders' fund than borrowed fund so company is in safe position.
- Fixed assets to equity ratio shows stockholders' equity is less than the fixed assets and the company is using debts to finance a portion of fixed assets.

Turnover position of nestle india Ltd.

- Inventory turnover ratio is maintained.
- Debtors turnover ratio is high means company have collection of debt with short period, which is good.
- Fixed assets turnover ratio is not satisfactory, it is low.
- Working capital ratio is negative due to its current assets is less than the current liabilities. But it is maintained.

Profitability position of nestle india Ltd.

- Net profit suddenly decreased due to low sales in 2015.
- Return on investment is satisfactory.
- Earning per share is maintained but low in 2015 due to less profit in the year.
- Dividend payout ratio is consistent.

5. Suggestions

On the basis of the above observation relating to the study the following measures are suggested to improve the overall financial stability position of Nestle India Ltd.

- The company may take necessary steps to strengthen the liquidity position by improving current assets.
- The company borrow the short-term funds from outsiders, to maintain the standard ratio of debt-equalization ratio is 1:1.
- The company may take necessary steps to strengthen the fixed assets by the modernization.
- The company should improve its operational efficiency by taking appropriate measures to utilize the funds in proper way.
- If the company may improve its operational efficiency in future, it will earn a huge profit in future.
- The different functions of inventory management should be encompassed to minimize administrative lead time and proper inventory control techniques are to be adopted fo the optimum investment in inventory.
- The company has to come up with appropriate marketing and other strategies to revive in the market.

6. Conclusion

In the study of financial stability of Nestle India Ltd., it is clear that the company's financial performance is satisfactory but gradually decreasing. It is due some external factors like ban on its product like maggi, soups which affect their sales badly. The reputation also spoiled in the Indian as well as in global market.

Nestle India Ltd. has good and strong position in the Indian market. It is not easy for the company to continue in same way. It could take three years for Nestle to completely recover its India revenues following impact of the Maggi issue.

Nestle India is now looking to double efforts to launch new variants and re-introduce those that were pulled out of shop shelves due to recall and ban.

References

[1] Amalendu Bhunia (2007), "Financial Performance of Indian Pharmaceutical Industry – A case study". *Asian Journal of Management Research Online Open Access Publishing Platform for Management Research*.

[2] Chander Ramesh and Chandel Jai Krishna (2010), "Financial Viability of an Apex Cooperative Credit Institution – A Case Study of the HARCO Bank", *Asia-Pacific Business Review,6*(2), pp 61-70.

[3] Gopinathan T (2009), "Financial Ratio Analysis for Performance Check: Financial Statement Analysis with Ratios Can Reveal Problem Areas", *Journal of financial ratio analysis for performance evaluation*.

[4] Dr. Gupta. S.P, (33 rd Revised Edition 2004), "Statistical Methods", New Delhi,Sultan&Sons. Khan&Jain, Financial Management, Tata McGraw-Hill

[5] Kothari,C,"Research Methodology" , New Delhi, Wishswa Prakashan.

[6] Mistry, D. S. (2011), "Performance Appraisal of Indian Automotive Industry through Production Trend Analysis". *Invertis Journal of Management, 3*(1), pp. 33-46.

[7] Rathore G.S. and Pinki Roi (2007), **"**Financial Performance of Air India". *Yojana,42*(11), pp. 36-42.

[8] I.M. Pandey, Financial Management, Vikas Publishing House Pvt ltd.(2009).

[9] Singh, P. K (2003), "Financial Appraisal of IDBI Bank Ltd. Through Financial Indicators", *The Management Accountant, 38*(6), pp. 425-433.

[10] Venkataramana, M. N., and Ramakrishnaiah, K (2012), "Profitability and Financial Performance: A Study on Selected Cement Companies in India", *International Journal of Business and Management Tomorrow", 2*(5).

[11] Subramanian, G. and Venkatachalam, K. (2014), "Financial performance analysis- A case study", *Star Research Journal, 2*, issue 7(2), pp. 10-18.

[12] Renuka, R. and Ganesan, M. (2015), "Financial stability of Hitachi Home and Life Solution (India) Ltd.". *Paripex-Indian Journal of Research, 4*(7), pp. 231-235.