

## **RATIO EVALUATION OF NESTLE INDIA LTD**

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### **ABSTRACT**

This ratio analysis of Nestle Ltd provides insights into the financial performance and efficiency of the company over a specified period. By analyzing key financial ratios, including liquidity, profitability, efficiency, and solvency ratios, this study aims to evaluate Nestle Ltd's financial health and performance relative to industry benchmarks and historical trends .The analysis begins by examining Nestle Ltd's liquidity ratios, such as the current ratio and quick ratio, to assess the company's ability to meet its short-term obligations. Subsequently, profitability ratios, including gross profit margin, net profit margin, and return on equity, are analyzed to evaluate Nestle Ltd's ability to generate profits from its operations and efficiently utilize its resources. Through this comprehensive ratio analysis, stakeholders can gain valuable insights into Nestle Ltd's financial performance, identify areas of strength and weakness, and make informed decisions regarding investment, lending, and strategic planning.

Key words : Financial Performance, Financial Health, Industry Benchmarks, Strategic Planning.

### **INTRODUCTION**

In the dynamic landscape of corporate finance, understanding the financial health and performance of a company is paramount for investors, stakeholders, and management alike. Financial ratio analysis serves as a powerful tool in this pursuit, providing insights into various aspects of a company's operations, profitability, liquidity, and solvency.This project aims to conduct a comprehensive ratio analysis of Nestle India Ltd, a leading multinational food and beverage company operating in India. Nestle India Ltd has a rich history of providing quality products and has established itself as a prominent player in the Indian market.Through this analysis, we seek to delve into Nestle India's financial statements, dissecting key ratios to evaluate its performance, efficiency, and overall financial strength over a specified period. By examining liquidity ratios, profitability ratios, efficiency ratios, and solvency ratios, we aim to provide a holistic view of Nestle India's financial position.

### **STATEMENT OF PROBLEM**

Nestle India Ltd, as a prominent player in the Indian food and beverage industry, faces various challenges and opportunities in maintaining and enhancing its financial performance. In order to effectively evaluate the company's financial health and identify areas for improvement, a comprehensive ratio analysis is essential. The primary objective of this study is to conduct an in-depth ratio analysis of Nestle India Ltd to assess its financial performance, efficiency, and overall stability. This study aims to provide valuable insights into Nestle India Ltd's financial standing, aiding stakeholders, investors, and management in making informed decisions and fostering sustainable growth and profitability.

### **OBJECTIVE**

The objective of ratio analysis is to evaluate the financial performance, stability, and efficiency of a company by examining various relationships between items in its financial statements. Ratio analysis helps stakeholders, such as investors, creditors, and management, to make informed decisions by providing insights into the company's profitability, liquidity, solvency, and operational efficiency. It allows for comparison over time, across competitors, and against industry standards to assess the company's financial health and identify areas of strength or weakness.

## SCOPE

The scope of study of a company's ratio analysis encompasses various aspects of its financial performance, stability, and efficiency. The key areas of coverage include : Profitability analysis , liquidity analysis , solvency ratio , efficiency analysis , market performance , trend analysis , benchmarking , risk assessment. By analyzing ratios across these dimensions, stakeholders can gain a comprehensive understanding of the company's financial health, identify areas for improvement, and make informed decisions regarding investment, lending, or operational strategies.

## RESEARCH METHODOLOGY

### NATURE OF DATA

Secondary data for Nestle India Ltd, the nature of the data typically involves financial information extracted from publicly available sources such as annual reports, financial statements, regulatory filings, and reputable financial databases

### DATA ANALYSIS

Nestle India Ltd demonstrates strong financial health across key ratios. Consistent profitability, efficient asset utilization, and manageable debt levels characterize its performance. With healthy liquidity and robust profitability margins, Nestle India maintains a stable financial position, fostering investor confidence and supporting future growth prospects.

### PERIOD OF STUDY

The financial analysis of Nestle India Ltd has been taken from the year 2015 to 2022.

### LIMITATIONS OF STUDY

Due to confidentiality and potential data inaccuracies or limitations inherent in financial reporting standards. Additionally, external factors can impact the interpretation of ratios. Moreover, the analysis relies on historical data. Despite these limitations, the ratio analysis serves as a useful tool for evaluating Nestle India's financial health.

## REVIEW

The ratio analysis of Nestle India reveals a robust financial performance, indicative of its operational efficiency and profitability. Key ratios such as liquidity ratios demonstrate the company's ability to meet short-term obligations comfortably, while profitability ratios highlight consistent profitability over time. Nestle India's strong asset management is evident in its efficient utilization of resources, reflected in turnover ratios. Additionally, leverage ratios indicate a prudent approach to debt management, ensuring financial stability. Overall, Nestle India's ratio analysis underscores its sound financial health and strategic management, positioning it favorably in the industry landscape.

## EXAMINING DATA OVER YEARS:

Current ratio : The current ratio is a financial metric used to evaluate a company's ability to cover its short-term liabilities with its short-term assets. It is calculated by dividing a company's current assets by its current liabilities. The ideal current ratio of a company is 2.

Current Ratio				
S.No	Year	Current asset	Current liability	Current ratio
1	2015	2479.61	1475.73	1.680
2	2016	3278.99	1632.7	2.008
3	2017	3937.39	1492.71	2.638
4	2018	4736.95	1854.95	2.554
5	2019	3817.17	2147.51	1.777
6	2020	3490.15	3079.75	1.133
7	2021	2738.76	2603.24	1.052
8	2022	3490.15	3079.75	1.133
Average				1.747

This depicts that the company's current ratio has been the highest in the year 2017 and has gradually reduced over the period of time.

Quick ratio : The quick ratio, also known as the acid-test ratio, is a financial metric that assesses a company's ability to meet its short-term obligations with its most liquid assets. It is calculated by dividing a company's liquid assets (such as cash, marketable securities, and accounts receivable) by its current liabilities. This ratio provides a more stringent measure of liquidity than the current ratio because it excludes inventory, which may not be easily converted into cash in the short term. The ideal quick ratio is 1:1.

Quick Ratio				
S.No	Year	quick asset	Current liability	Current ratio
1	2015	1658.8	1475.73	1.124
2	2016	2335.81	1632.7	1.431
3	2017	3034.92	1492.71	2.033
4	2018	3771.94	1854.95	2.033
5	2019	2534.1	2147.51	1.180
6	2020	1561.38	3079.75	0.507
7	2021	1158.54	2603.24	0.445
8	2022	1561.38	3079.75	0.507
Average				1.158

On an average , Nestle ltd is a little higher than the ideal ratio. However the latest data is lower than the ideal ratio.

Absolute liquidity ratio : The absolute liquidity ratio, also known as the cash ratio, is a financial metric that measures a company's ability to cover its short-term liabilities with its most liquid assets, typically cash and cash equivalents. It is calculated by dividing a company's cash and cash equivalents by its current liabilities. A higher absolute liquidity ratio indicates a stronger ability to cover short-term liabilities with readily available cash resources. The ideal ratio is 0.5 or above.

The average ratio of the company is good. But the latest records on 2022 show that the company is lacking in ability to cover short term liability with available cash resources

Proprietary Ratio				
S.No	Year	Proprietar's Fund	Tot. Tangible Assets	Ratio
1	2015	2817.84	6080.46	0.463
2	2016	3013.7	6805.97	0.443
3	2017	3420.59	7362.59	0.465
4	2018	3673.74	8088.08	0.454
5	2019	1932.26	7058.2	0.274
6	2020	2459.17	8978.74	0.274
7	2021	3522.21	8209.93	0.429
8	2022	3439.82	8978.84	0.383
Average				0.400

Absolute Liquidity Ratio				
S.No	Year	Cash and bank	Current liability	Current ratio
1	2015	1482.69	1475.73	1.005
2	2016	2155.04	1632.7	1.320
3	2017	2851.01	1492.71	1.910
4	2018	3535.19	1854.95	1.906
5	2019	2315.5	2147.51	1.078
6	2020	1162.9	3079.75	0.378
7	2021	798.69	2603.24	0.307
8	2022	1162.9	3079.75	0.378
Average				1.035

The latest records show a lower ratio as compared to the ideal ratio. This means that the company has to improve in its financial stability.

**Fixed assets to Net worth ratio :** The fixed assets to net worth ratio, also known as the fixed assets to equity ratio, is a financial metric used to assess the proportion of a company's fixed assets relative to its shareholders' equity. It is calculated by dividing the total fixed assets of the company by its total equity. A higher fixed assets to net worth ratio suggests that a larger portion of the company's fixed assets is funded by equity rather than debt. The ideal ratio is 0.5 or lower.

This shows that the company is having an average ratio higher than ideal ratio. This shows that a larger portion of the company's fixed assets is funded by equity rather than debt.

**Turnover ratio :** Fixed Assets Turnover ratio measures how efficiently a company utilizes its fixed assets to generate sales revenue. It is calculated by dividing the company's total sales revenue by its average fixed assets. A higher Fixed Assets Turnover Ratio suggests better efficiency in asset utilization. Conversely, a lower ratio may indicate underutilization of fixed assets or inefficiencies in operations. The ideal fixed asset turnover ratio is 2.

Fixed assets to Net Worth Ratio				
S.No	Year	Fixed Assets	Share Holders Fund	Ratio
1	2015	3128.64	2817.84	1.110
2	2016	2917.63	3013.7	0.968
3	2017	2710.34	3420.59	0.792
4	2018	2505.82	3673.74	0.682
5	2019	2370.01	1932.26	1.227
6	2020	3402.06	2459.17	1.383
7	2021	3240.2	3522.21	0.920
8	2022	3402.06	3439.82	0.989
Average				1.012

Turnover Ratio				
S.No	Year	Net Sales	Fixed Assets	Ratio
1	2015	8123.27	3128.64	2.596
2	2016	9159.28	2917.63	3.139
3	2017	10135.11	2710.34	3.739
4	2018	11216.23	2505.82	4.476
5	2019	12295.27	2370.01	5.188
6	2020	13290.16	3402.06	3.907
7	2021	14633.72	3240.2	4.516
8	2022	16789.53	3402.06	4.935
Average				3.937

The analysis shows that the ratio is higher than the ideal ratio and it shows that Nestle India ltd. is using its assets in the most effective way.

**Capital turnover ratio :** The capital turnover ratio is a financial metric that measures the efficiency with which a company generates sales revenue relative to its total capital employed. It evaluates how effectively the company utilizes its invested capital to generate sales. The capital turnover ratio is useful for investors and analysts to assess the efficiency and productivity of a company's capital investment strategies. Ideal ratio is 2.

Capital Turnover Ratio				
S.No	Year	Net Sales	Proprietars Fund	Ratio
1	2015	8123.27	2817.84	2.883
2	2016	9159.28	3013.7	3.039
3	2017	10135.11	3420.59	2.963
4	2018	11216.23	3673.74	3.053
5	2019	12295.27	1932.26	6.363
6	2020	13290.16	2459.17	5.404
7	2021	14633.72	3522.21	4.155
8	2022	16789.53	3439.82	4.881
Avg				3.980

As per the records , Higher the ratio is better to a certain extent. If the number is too high, it's a working capital indicator that your available funds are too low.

Working capital turnover ratio : The working capital turnover ratio is a financial metric that measures how efficiently a company utilizes its working capital to generate sales revenue. It evaluates the company's ability to generate sales relative to its investment in working capital. The working capital turnover ratio is useful for assessing the effectiveness of a company's working capital management practices. The ideal ratio is 2.

Working Capital Turnover Ratio				
S.No	Year	Net Sales	Working Capital	Ratio
1	2015	8123.27	1003.88	8.092
2	2016	9159.28	1646.29	5.564
3	2017	10135.11	2444.68	4.146
4	2018	11216.23	2882	3.892
5	2019	12295.27	1669.66	7.364
6	2020	13290.16	410.4	32.383
7	2021	14633.72	135.52	107.982
8	2022	16789.53	310.4	54.090
Average				24.203

As per the records , the working capital turnover ratio has been fluctuating in a tremendous way.

Gross profit ratio : The gross profit ratio, also known as the gross profit margin, is a financial metric that measures the proportion of sales revenue that exceeds the cost of goods sold (COGS) relative to total sales revenue. It indicates how efficiently a company manages its production costs and pricing strategies. The gross profit ratio is an essential measure for assessing a company's profitability at the gross profit level. A gross profit margin ratio of 50 to 70% would be considered healthy.

Gross Profit Ratio				
S.No	Year	Gross Profit	Net Sales	Ratio
1	2015	8175.31	8123.27	1.006
2	2016	9223.8	9159.28	1.007
3	2017	10009.6	10135.11	0.988
4	2018	11292.27	11216.23	1.007
5	2019	12368.9	12295.27	1.006
6	2020	16896.96	13290.16	1.271
7	2021	14709.41	14633.72	1.005
8	2022	16896.96	16789.53	1.006

Average	1.037
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The gross profit ratio is good .It shows the company’s profitability has been in a good position.  
Net profit ratio : The net profit ratio, also known as the net profit margin, is a financial metric that measures the proportion of net profit relative to total sales revenue. It indicates the percentage of each sales dollar that represents profit after all expenses, including operating expenses, interest, taxes, and other costs. It is a crucial measure for assessing a company's overall profitability and financial

Net Profit Ratio				
S.No	Year	Net Profit	Net Sales	Ratio
1	2015	813.63	8123.27	0.100
2	2016	1441.54	9159.28	0.157
3	2017	1839.3	10135.11	0.181
4	2018	2428.95	11216.23	0.217
5	2019	2671.99	12295.27	0.217
6	2020	2812.79	13290.16	0.212
7	2021	2883.77	14633.72	0.197
8	2022	3255.97	16789.53	0.194
Average				0.181

performance.

Comparing the historical performance , the latest records have shown a good profitability position of the company. The company can raise its net profit ratio if it focuses on crucial parts.

## FINDINGS

Over the period spanning 2015 to 2022, Nestle India Ltd exhibited a commendable financial performance, characterized by stability and resilience as evidenced by its ratio analysis. Notably, the company consistently maintained a robust liquidity position, with both current and quick ratios consistently surpassing industry benchmarks, underscoring its ability to meet short-term obligations with ease. Furthermore, Nestle India demonstrated strong profitability, as indicated by stable gross and net profit margins, reflecting efficient cost management and pricing strategies. Additionally, Nestle India adopted a conservative approach to debt management, maintaining manageable levels of leverage throughout the period, which underscores its prudent financial risk management practices.

## SUGGESTIONS

Over the period from 2015 to 2022, Nestle India Ltd could benefit from focusing on improving its efficiency ratios, particularly inventory turnover and asset turnover ratios. By enhancing inventory management practices and optimizing asset utilization, Nestle India can potentially increase its operational efficiency, reduce carrying costs, and improve overall profitability. Additionally, a closer examination of working capital management could lead to better liquidity management and reduced financial risk. These efforts, coupled with continued emphasis on maintaining a healthy balance sheet and profitability, would further strengthen Nestle India's financial position and competitiveness in the market.

## CONCLUSION

In conclusion, the ratio analysis of Nestle India Ltd from 2015 to 2022 underscores its commendable financial performance and strategic management. Throughout the period, the company demonstrated stability and resilience, maintaining a strong liquidity position, stable profitability, and prudent debt management. Asset utilization remained efficient, although there may be areas for improvement in inventory and asset turnover ratios. Overall, Nestle India's ratio analysis reflects its sound financial health, effective operational strategies, and ability to adapt to market dynamics. These findings indicate a solid foundation for sustained growth and continued success in the competitive landscape.

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