

Nestle's Profitability Position, Boon or Bane Rakesh E.

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Abstract:- Nestle India Ltd a player in FMCG sector in India. Nestle's profitability performance is analysed to know its position "Boom or Bane" (pre & post covid). For the purpose of the study the data have been collected from the Annual Reports of Nestle India. The Research gap is from 2017 - 2021. Ratio analysis (5 Ratios of DU PONT analysis) has been chosen and analysed to know the profitability performance of this study. The result of the study shows a "Boom" state to the company i.e., the profitability performance had a positive impact in Nestle India Ltd.

Keywords:- Nestle India Ltd, Ratio Analysis, Profitability, Pre Pandemic, Post Pandemic, Covid.

I. INTRODUCTION

Nestle India LTD the one among the top "FMCG – Fast Moving Consumer Goods" producing company in India is the main topic of this study. Nestle's relationship with India dates back to 1912. Post-Independence Nestle's presence in development of Indian economy which paves way for the local production and start of Nestle India ltd in the year 1959. The present Chairman and Managing Director is Mr. Suresh Narayanan. In the latest annual report Nestle India concentrates of 5P's of New Normal i.e., Purpose, Planet, Partnership, People, Performance. Providing nutritious and healthy food to enrich the lives of the consumers, Nestle has created its tag-line "Good Food Good Life".

The ability of the company to earn is decided by the profitability of the company. And moreover, profitability ensures the growth and survival of the company in the future. All the members of the company are interested in knowing the profitability of the firm, for instance the shareholders to know their dividends, creditors to know the debt coverage.

Profits are the residues of the sales of goods and services to customers and the cost incurred for the sale. This is the general measure of the profitability of a company and it is indicated by Return on Investment (ROI). But this only shows the overall profitability and ignores the origin of the profit earning capacity. For this the other Financial Ratios have to be found, to know the clear picture of profitability. This overall process is followed in this study to know the profitability & its elements of Nestle India Ltd.

A. NEED FOR THE STUDY

- Analyzing the Financial Ratios of Nestle India Ltd.
- To check the performance Pre and Post pandemic.
- Strategies implemented by Nestle India Ltd during the pandemic period.
- To know the future prospect of Nestle India Ltd.

B. OBJECTIVE OF THE STUDY

- To check Nestle India Ltd profitability position.
- To check the growth of Nestle India Ltd.
- To know the effects of its profitability.

II. REVIEW OF LITERATURE

Rosy Dhingra, Kapil Dev & Maduri Gupta (2018) in the study on "Performance Analysis of FMCG Sector in India" tries to explain the significant impact of ratio analysis in the performance of FMCG companies listed in Bombay Stock Exchange (BSE). They have collected their secondary data from CMIE PROWESS database financial information from PROWESS. Wilks Lambda & multiple discriminant function analysis modes have been used and show's 60.6% of the case is correctly examined i.e., Ratio analysis helps to analyses the performance of the organization in the stock exchanges.

Bhaskar Bagchi, Jayarta Chakrabati, & Piyal Basu Roy (2012) made a study on "Influence of Working Capital Management on Profitability: A Study on Indian FMCG Companies". The research data was collected from PROWESS database of CMIE for 10 years. It has used polled OLS model & fixed effect LSDV model in the study and arrived at the result that there is a negative relationship between Working Capital variables and the Profitability of the company.

Rahul Barsal (2014) engaged in the research on "A Comparative Financial Study: Evidence from Selected Indian Retail Companies". This study is based on the annual reports of the companies. It concluded from the analysis of financial ratios of the companies that how shareholders can invest in FMCG companies by considering the time gap (Short term /Long term) and returns.

Dr. Somanth Das (2021) analysed the profitability in "Analysis of profitability of the selected Multinational Companies in India ". Ratio analysis is the method used to analyse the profitability of these companies and it has concluded that ITC & Goderej are profitable sectors in India.

Ritu Gargil & Navita Nathani (2018) conducted a study on “Determinants of Dividend Policy” A study of FMCG sector in India”. The secondary data of top 15 companies listed in the indices NSE100 are gathered. This research made between the period 2007 &2016 and it concluded that growth opportunities and profitability were the determinants of dividend policy in a company.

Made a choice of the particular field & company for study to be made and gathered the data that required, which helps in the analysis part of the study for a prospective conclusion of the study. For the proper this study on the profitability “DUPONT” analysis is followed in the research.

III. RESEARCH METHODOLOGY

A. Period of Study:

This study on Nestle’s Financial Position Boon or Bane (Pre and Post pandemic) is a time specific study, which is done for a particular period dating from 1st Jan 2017 till 31st December 2021, Nestle India Ltd follows calendar year for preparing their Annual Report, so the 1-year time between preparation of the Annual report is January to December and 5 such years are taken for comparison.

C. Data Collection:

Secondary data was the primary data which this study depends on. The financial information was collected from the BSE India website. The other supplementary information’s are collected from Nestle India Ltd published and Audited Annual Report.

D. Tools Used:

Financial ratios are the primary tools used in the study. Excluding that, various auxiliary technical tools like MS Excel, MS Word, PDF Readers & Grammar check tools have been used.

B. Research Design:

IV. ANALYSIS AND INTERPRETATION

A. RETURN ON INVESTEMENT (ROI)

$$ROI = \frac{EBIT \text{ (EARNINGS BEFORE INTEREST AND TAX)}}{TOTAL \text{ CAPITAL EMPLOYED}}$$

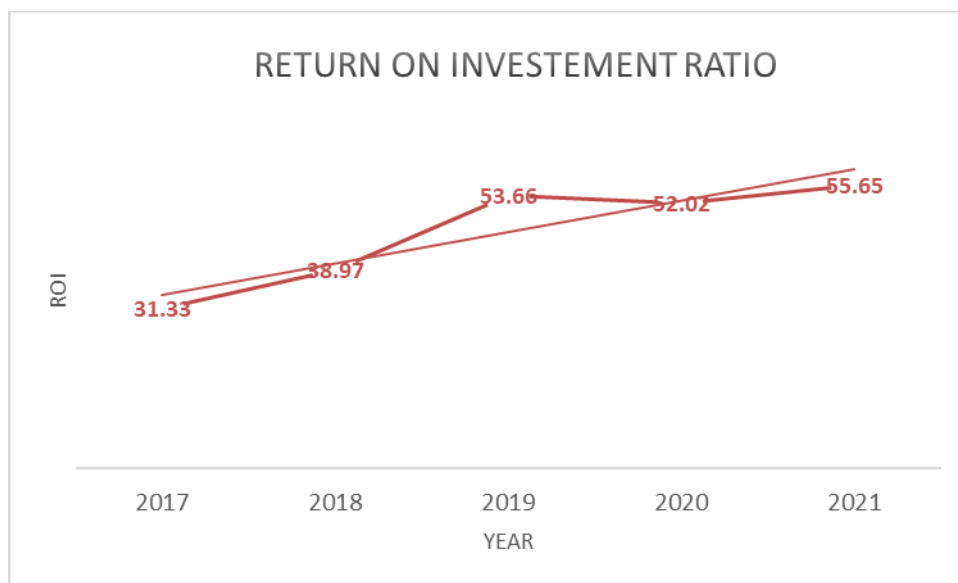
YEAR	2017	2018	2019	2020	2021
EBIT (In Crores)	1,839.30	2,428.95	2,673.49	2,812.79	3,120.27
Total Capital Employed (In Crores)	5,869.98	6,233.13	4,982.39	5,407.18	5,606.69

Table 1

• Interpretation:

Efficient use of capital for generating profits is analyzed through the return of investment. (Generally, the ideal ratio for FMCG industry). It is the overall profitability ratio of the organization. Nestle’s India has reduced its capital after in the post pandemic period (2020) but it has again raised in the next year (2021) to 5606.69 million.

Even though there is fluctuation in their capital employed after the post pandemic period their profits did not decrease neither in the pre-pandemic or been continuously raising every year. And in 2021 it is 3120.27 million which was the highest in the 5-year analysis period. This shows the efficiency of nestle 9in the overall profitability of the firm.



Graph 1

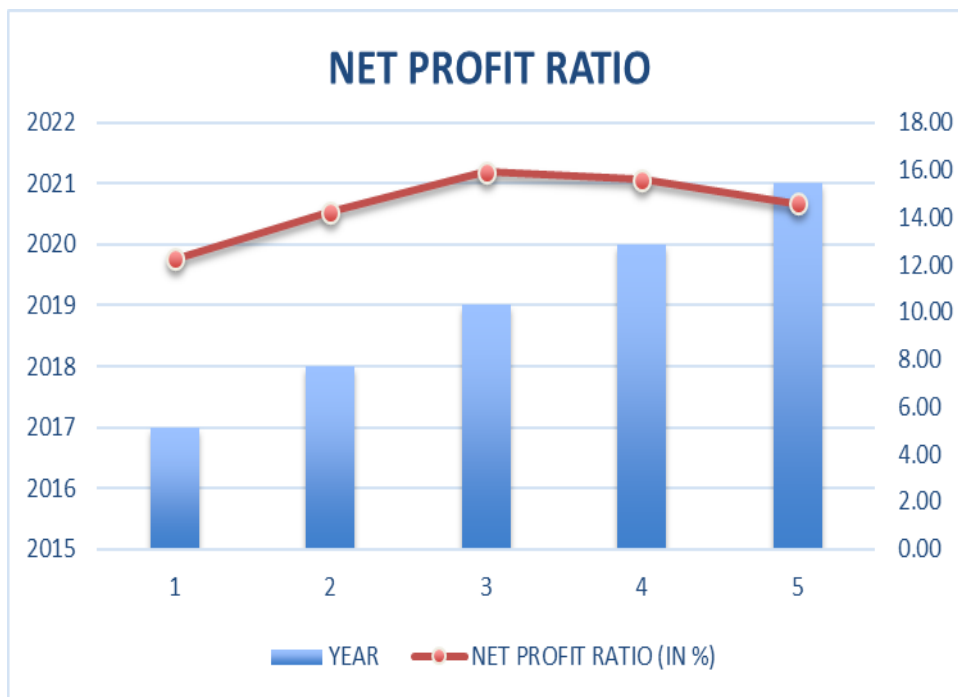
B. NET PROFIT RATIO

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

• Interpretation:

The both variable Sales and Net Profit shows an increasing trend. Even though in the times of pandemic it has earned profits more than the previous years and the sales were doubled in the post pandemic period. But the ratios do not

have much difference. Net profit ratio is maximum in 2019 (15.94%), and there after a slight decrease in 2020 and increase in 2021. It depicts that the profits of Nestle India Ltd has not been affected in greater proposition in and after pandemic.



Graph 2

C. ASSET TURNOVER RATIO

$$\text{Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Avg. Total Assets}}$$

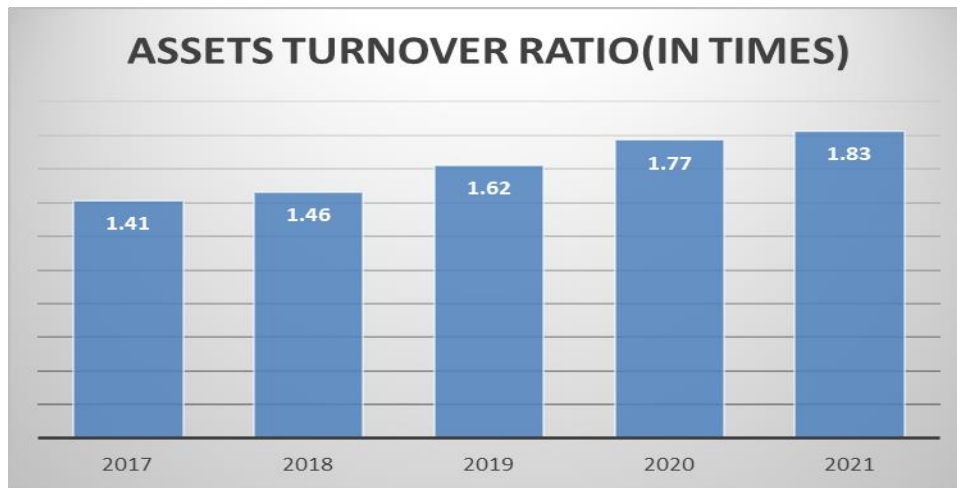
YEAR	2017	2018	2019	2020	2021
Net Sales (In Crores)	10,009.60	11,292.27	12,368.90	13,350.03	14,709.41
Average Total Assets (In Crores)	7,084.28	7,725.34	7,630.51	7,536.34	8,054.83
Assets Turnover Ratio (In Crores)	1.41	1.46	1.62	1.77	1.83

Table 2

• Interpretation:

It is a financial tool to analyze the efficient use of organization's assets to its turnover. Higher the ratio it is favorable for organization. Net sales is compared with the Total assets to arrive the ratio. Here Nestle in spite of the covid conditions prevailing in the World, its sales have not

even shaken to a bit it is always in an increasing trend. This has a positive impact in the Asset turnover ratio Nestle. It was absolutely highest in the year 2021 with 1.83 times and absolute lowest in the year 2017 in 1.41 times.



Graph 3

D. NET WORKING CAPITAL RATIO

$$\text{Net Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Working Capital}}$$

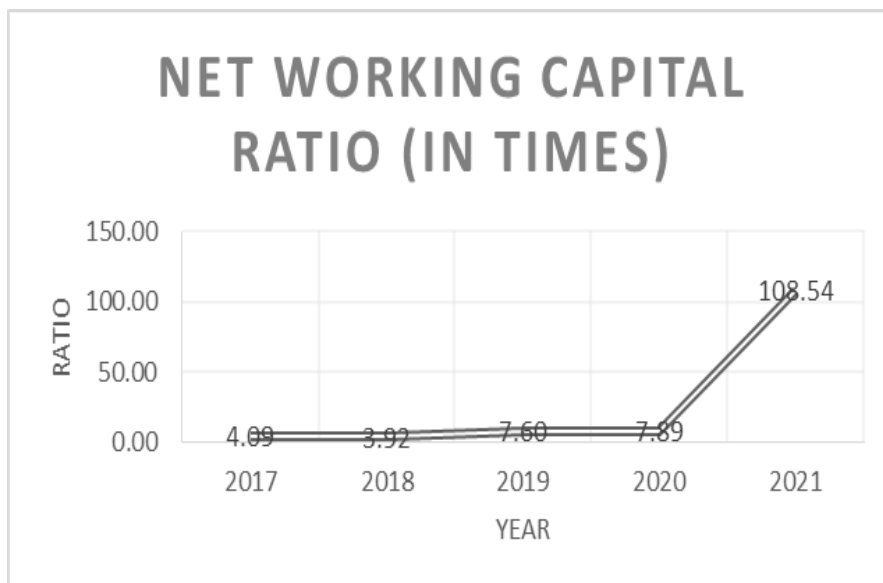
YEAR	2017	2018	2019	2020	2021
Net Sales (In Crores)	10,009.6	11,292.27	12,368.90	13,350.03	14,709.41
Net Working Capital (In Crores)	2,444.68	2,882.00	1,626.53	1,692.53	135.52
Net Working Capital Ratio (In Crores)	4.09	3.92	7.60	7.89	108.54

Table 3

• Interpretation:

Working capital shows the ability of the organization to meet its current assets. But in addition, the net working capital turnover ratio uses the net working capital to know its performance in sales. The purpose to do so is to know the efficient & effective utilization of working capital for sales. Analyzing on Nestle's Net Working Capital Turnover Ratio, the sales have been in its increasing trend

as discussed above. But net working capital have fluctuations in the period of analysis and in 2021 it has drastically reduced to ₹.135.52 Million. This is because of the huge reduction in cash balance of the company. And the ratio depicts that for making sale for ₹.14,709.41 Million it has to employ its working capital 108.54 times in 2021.



Graph 4

E. Fixed Asset Turnover Ratio

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Fixed Assets}}$$

YEAR	2017	2018	2019	2020	2021
Net Sales (In Crores)	10,009.60	11,292.27	12,368.90	13,350.03	14,709.41
Net Fixed Assets (In Crores)	2,710.34	2,505.82	2,484.75	2,817.99	3,240.20
Fixed Asset Turnover Ratio (In Crores)	3.69	4.51	4.98	4.74	4.54

Table 4

• Interpretation:

It is to check the efficient use of fixed assets in gearing the sales of the company, higher the ratio it has a positive impact and vice versa. Here there is a constant increase till 2018 fall in 2019, then it raises in 2020 & 2021. It is higher post covid and its shows a good sign. The ratio when compared to industry's average it is good.

V. CONCLUSION

Considering the DU PONT ratio analysis with 5 ratio shows the profitability performance of Nestle India Ltd in the last 5 year, pre & post covid. To be even more precise Nestle has doubled its sales in pre & post covid without any hardships of the pandemic. This may be due to the E-commerce facility that emerged in the pandemic period.

In spite of the net profit ratio showing a declining trend post covid, even though their profits & sales are higher than the previous years. There is one thing should be noted that post pandemic, particularly in the year 2021 the working capital have been drastically reduced. This may not affect the profitability at present. But this may have a negative impact in the Nestle's future, in case of facing another pandemic.

In nutshell, this study has realized that the profitability of the Nestle India Ltd post pandemic is much better than pre pandemic. Hence it is a boom for the company.

VI. LIMITATION OF THE STUDY

Various constraints that arise due to time & resources, this study may slightly face some limitation, and they are.

Formulas used in the study are widely accepted formulae but that is not the method which is accepted universally.

FMCG industry in name states there is always a want so the variations pre & post covid impact may be less.

The secondary data which may have its own limitations.

VII. SCOPE OF FURTHER RESEARCH

The pandemic is not to its end, so there may be chances for the company to face it which may have impact on it and it leads to further study to analyse & understand it. Also, the emergence of rivals in FMCG industries is an important factor that might shift the results of the study.

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