



## Liquidity and profitability analysis on nestle India limited and Britannia industries limited

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### Abstract

Ratio analysis is a tool to carry out to evaluate and analyze the information in the financial statements of a company. Ratio analysis is used to determine profitability, helpful in evaluating solvency position of the company, and also for better financial analysis and performance analysis. The aim of of this article is comparing the liquidity position and profitability position of Nestle India Limited and Britannia Industries Limited. This study is conducted only using the secondary data which is published in their official websites of the companies. The study covers the period of two years from 2016 to 2018. In this article, it is observed that based on liquidity position Nestle India Limited has shown excel level and the profitability position of Nestle India Limited has shown superior level.

**Keywords:** ratio analysis, financial statement, liquidity ratios, profitability ratios

### 1. Introduction

The food processing Industry has emerged as one of the important segments in terms of its contribution to Indian economy, as it contributes and 14 per cent of GDP. Food Processing Industry, constituting 12.77 per cent of employment generated. The sector makes up for 13 per cent of India's exports and 6 per cent of total industrial investment. The sector contributes towards Indian economy development, GDP growth, employment opportunities, depends on the growth of the sector. The growth of the sector depends on market value and financial position of the company, Ratio analysis and comparative statement can be used as techniques for evaluating the performance, financial position of the company and forecast can the factors affecting the performance of the company. A ratio analysis is a quantitative analysis of information contained in a company's financial statements. Ratio analysis can be used for determining various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. Ratio analysis can provide a warning of a potential improvement or deterioration in a company's financial situation or performance. This study carries out the comparison of Britannia Industry Limited and Nestle India Limited. The aim of the study is choosing the best company in all aspects and identifying the factors affecting the performance level and financial position by comparing the financial elements of the companies using liquidity ratios and profitability ratios.

### 2. Statement of the problem

The food industry is highly diverse. The current challenge for the food industry is to accomplish economic success and market position with a focus to ensure economic and environmental performance and improve energy and resource savings. The food processing is a key contributor to employment formation in India. Food processing is a key sector in encouraging labor movement from agriculture to manufacturing. The growth of Indian economy, market

position and economic success depends on the customer satisfaction, operational level, financial position and market value of food sector companies. Financial management is one of the important components of management of a company and its backbone of any business activity. Efficient financial management of the company will give success for any business activity. In this study we are going to investigate the operational level and financial position of Britannia Industry Limited and Nestle India Limited using various financial tools.

### 3. Objectives of the study

- To interpret the liquidity position of the companies.
- To analyze the profitability ratios of the companies.

### 4. Research Methodology

In this article the tools used for analysis are ratio analysis. Ratio analysis can be used for ascertaining short term weakness. It supports in forecasting, planning and decision-making. By using ratio analysis efficiency of liquidity management can be assessed, and liquidity profitability interconnection can be explored. The operational and financial productivity can be examined and can also identify the unfavorable factors. In the study secondary data was used. The study covers a period of two years from April 2016 to March 2018 of Britannia Industries Limited and from January 2016 to December 2017 for Nestle India Limited. Secondary data were collected from the official website of Britannia Industries Limited ([www.britannia.co.in](http://www.britannia.co.in)) and Nestle India Limited ([www.nestle.in](http://www.nestle.in)).The statement of profit and loss account and balance sheet were used for the study.

### 5. Tools Used

- **Liquidity ratios**
  1. Current ratio
  2. Quick ratio
  3. Absolute liquid ratio
  4. Net working capital

- 5. Basic defense interval
- **Profitability ratios**
  1. Gross profit ratio
  2. Net profit ratio
  3. Operating profit ratio
  4. Return on investment
  5. Return on asset
  6. Return on capital employed (before tax)
  7. Return on capital employed (after tax)
  8. Earnings per share
  9. Dividend per share
  10. Dividend payout ratio
  11. Price earnings ratio
  12. Dividend yield ratio
  13. Earnings yield ratio

**6. Limitations of the study**

- The study is based on secondary data.
- The study is restricted to two years periods i.e. April 2016 to March 2018 for Britannia Industries Limited and January 2016 to December 2017 for Nestle India Limited.

**7. Review of literature**

1. Vijay S Patel & Chandresh B Mehta (2012) <sup>[9]</sup> examined the financial ratio analysis of Krishak Bharati Cooperative Limited and identified that for the year 2003-2004 gross profit was high and for the year 2008-2009 earnings per share was six times more than the original value.
2. Manish Roy Tirkey & Naveen Sabah (2014) <sup>[10]</sup> in their article it is observed that the financial position of ONGC Limited had performed well in 2010 while comparing the study period.
3. Pavitra Yadav (2014) <sup>[11]</sup> investigated the liquidity analysis of pharmaceutical companies and it is founded that concerned to liquidity ratio Cipla Limited is performing better. For increasing the performances other companies have to improve their liquidity position.
4. Dr. P. Kannan & S. Salai Jeeva Gayathri (2016) <sup>[12]</sup> signified that the companies do not have good liquidity position by conducting Motaal’s comprehensive test.
5. Mrs. Jamuna (2017) <sup>[13]</sup> declared that the performances of Ambuja cement was more acceptable and there is no significant relationship between liquidity and profitability ratios of the company.

**8. Analysis and interpretation**

**8.1 Liquidity Ratios**

**Table 1**

Liquidity Ratios (Rs. in crores)				
Particulars	Nestle India Limited		Britannia Industries Limited	
	Dec-16	Dec-17	Mar-17	Mar-18
	Current Ratio	2.008	2.638	1.841
Quick Ratio	1.431	2.033	1.287	1.591
Absolute Liquidity Ratio	0.574	0.996	0.776	0.672
Basic defensive interval	88.058	137.017	129.755	144.623
Net working capital	1646.29	2444.68	915.46	1401.49

**8.1.1 Current Ratio**

A simple measure which estimates whether the business can pay short term debts. Ideal Ratio is 2:1. By considering both

the companies for the year 2016-2017 Nestle India Limited and for the year 2017-18 Nestle India Limited signifies the highest ratio. This indicates that the operational performances level of Nestle India Limited is better as compared to Britannia Industries Limited.

**8.1.2 Quick Ratio**

It measures the ability to meet current debt immediately. Ideal Ratio is 1:1. By considering both the companies for the year 2016-2017 Nestle India Limited and for the year 2017-18 Nestle India Limited signifies the highest ratio. This indicates that the Liquidity level of Nestle India Limited is better as compared to Britannia Industries Limited.

**8.1.3 Absolute Liquid Ratio**

It measures absolute liquidity of the business. Ideal Ratio is 1:2. While correlating both the companies for the year 2016-2017 Britannia Industries Limited and for the year 2017-18 Nestle India Limited signifies the highest ratio. This depicts that the Liquidity level of Nestle India Limited is better as compared to Britannia Industries Limited.

**8.1.4 Basic Defense Interval Ratio**

It measures the ability of the business to meet regular cash expenditures. While comparing both the companies for the year 2016-2017 Britannia Industries Limited and for the year 2017-18 Britannia Industries Limited manifest the highest ratio. This designates that the Liquidity level of Nestle India Limited is better as compared to Britannia Industries Limited.

**8.1.5 Net Working Capital**

It is a measure of cash flow to determine the ability of business to survive financial crisis. While contrasting both the companies for the year 2016-2017 Nestle India Limited and for the year 2017-18 Nestle India Limited manifest the highest ratio. This signifies that the liquidity level of Nestle India Limited is better as compared to Britannia Industries Limited.

**8.2 Profitability Ratios**

**Table 2:** Rs. in crores

Particulars	Profitability Ratio (Rs. in crores)			
	Nestle India Limited		Britannia Industries Limited	
	Dec-16	Dec-17	Mar-17	Mar-18
Gross profit ratio	14.72	17.52	13.16	13.87
Net profit ratio	10.045	12.24	10.027	10.188
Operating profit ratio	18.031	20.686	14.039	15.205
Return on investment	30.74	35.81	32.62	29.29
Return on asset	14.38	17.29	24.95	22.78
Return on capital employed (before tax)	29	31.33	47.99	44.31
Return on capital employed (after tax)	17.91	20.87	32.37	29.07
Earnings per share	96.098	127.074	70.307	78.952
Dividend per share	607.42	829.18	239.95	264.13
Dividend payout ratio	81.17	55.87	31.29	31.47
Price earning ratio	62.73	61.94	23.99	31.47
Dividend yield ratio	1.293	0.902	1.304	1.005
Earnings yield ratio	1.593	1.614	4.167	3.167

**8.2.1 Gross Profit Ratio**

This ratio help us to determine something about the business’s ability consistently to control its production costs

or to manage the margins it makes on products it buys and sells. By comparing both the companies for the year 2016-2017 Nestle India Limited and for the year 2017-18 Nestle India Limited manifest the highest ratio. This indicates that the operational performances level of Nestle India Limited is better as compared to Britannia Industries Limited.

### 8.2.2 Net Profit Ratio

It measures the relationship between net profits and sales of the business. While contrasting both the companies for the year 2016-2017 Nestle India Limited and for the year 2017-18 Nestle India Limited manifest the highest ratio. This designates that the operational performances level of Nestle India Limited is better as compared to Britannia Industries Limited.

### 8.2.3 Operating Profit Ratio

It measures the operating performance of business. While correlating both the companies for the year 2016-2017 Nestle India Limited and for the year 2017-18 Nestle India Limited manifest the highest ratio. This indicates that the operational performances level of Nestle India Limited is better as compared to Britannia Industries Limited.

### 8.2.4 Return on Investment

It measures overall return of the business on investment /equity funds/capital employed/assets. As collating both the companies for the year 2016-17 Britannia Industries Limited and for the year 2017-18 Nestle India Limited reveals the highest ratio. This shows that Nestle India Limited earns highest return on investment

### 8.2.5 Return on Assets

It measures net profit per rupee of average total assets/average tangible assets/average fixed assets. As studying both the companies for the year 2016-2017 Britannia Industries Limited and for the year 2017-18 Britannia Industries Limited manifest the highest ratio. This presents that Britannia Industries Limited earns more return for one rupee of its average total assets

### 8.2.6 Return on Capital Employed Ratio

It measures overall earnings (either pre-tax or post- tax) on total capital employed. It indicates earnings available to equity shareholders in comparison to equity shareholder's net worth. Before tax, while correlating both the companies for the year 2016-17 Britannia Industries Limited and for the year 2017-18 Britannia Industries Limited reveals the highest ratio. This manifest that Britannia Industries Limited has higher earnings on its capital employed. After tax, As considering both the companies for the year 2016-2017 Britannia Industries Limited and for the year 2017-2018 Britannia Industries Limited specify the highest ratio. This stipulates that the Britannia Industries Limited has high return capacity to its equity share holders.

### 8.2.7 Earnings per Share

EPS is used to find the overall profit generated for each share in existence over a particular period. While studying both the companies for the year 2016-17 Nestle India Limited and for the year 2017-18 Nestle India Limited indicates the highest ratio. This shows that the Nestle India Limited generated high profit for each share in existences for a particular period of time.

### 8.2.8 Dividend per Share

Proportion of profit distributed per equity share. By considering both the companies for the year 2016-2017 Nestle India Limited and for the year 2017-18 Nestle India Limited designated the highest ratio. This results that Nestle India Limited has distributed high proportion of profits distributed per equity share.

### 8.2.9 Dividend Payout Ratio

It shows percentage of earnings per share paid as dividend and retained earnings. While contrasting both the companies for the year 2016-2017 Nestle India Limited and for the year 2017-2018 Nestle India Limited manifest the highest ratio. This depicts that Nestle India Limited has high capacity of dividend payout ratio.

### 8.2.10 Price Earnings Ratio

At any time, the profit earnings ratio is an indication of how highly the market "rates" or "values" a business. A profit earnings ratio is best viewed in the context of a sector or market average to get a feel for relative value and stock market pricing. By considering both the companies for the year 2016-17, Nestle India Limited and for the year 2017-18, Nestle India Limited shows the highest ratio This designates that Nestle India Limited has high market rates and values

### 8.2.11 Dividend Yield Ratio

It measures dividend paid based on market price of shares. This indicates that Britannia Industries Limited has paid high dividend based on market price of shares. By studying both the companies for the year 2016-17 Britannia Industries Limited and for the year 2017-18 Britannia Industries Limited has highest ratio. This indicates that Britannia Industries Limited has paid high dividend based on market price of shares

### 8.2.12 Earnings Yield Ratio

It is the relationship of earning per share and market value of shares. This proves that Britannia Industries Limited has the high earnings as related to the market price of the share. As correlating both the companies for the year 2016-17 Britannia Industries Limited and for the year 2017-18 Britannia Industries Limited specify the highest ratio. This proves that Britannia Industries Limited has the high earnings as related to the market price of the share.

## 9. Conclusion

From the above study, we conclude that the Liquidity position of Nestle India Limited has the leading position and as considering the profitability position Nestle India Limited has the uppermost position as comparing with Britannia Industries Limited. We also suggest that Britannia Industries Limited has to expand their assets, so that they can attain a good liquidity and profitability position.

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