



## Comparative analysis of financial performance of nestle and Britannia by using financial ratios

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### Abstract

Keeping track of financial performance is a key in portfolio management. Every investor continuously tracks that how company is performing in terms of Profitability, Liquidity, and Solvency etc. Ratio analysis is one of the tools in financial analysis and proved the best tool by past researchers. In this research paper I tried to compare the financial performance of Nestle and Britannia by Using Financial Ratios from year 2011 to year 2015.

**Keywords:** ratio analysis, solvency ratio, liquidity ratio, profitability ratio

### 1. Introduction

Articulation of monetary examination (or money related investigation) is the technique for analyzing and to isolate an organization's budgetary explanations to attempt great conservative choices. The money related explanations incorporate the salary articulation, monetary record, proclamation of income, and an announcement of changes in value. Money related explanation investigation is a way or arrangement including particular strategies for deciding dangers, execution, back condition, and future plausibility of an association

It has been utilized by shareholders, creditor and value financial specialists, the administration, the general population, and choices making association. These partners have unmistakable significance and apply differences of various procedures to meet their needs. For instance, value speculators are highly inspired by the long term monetary capability of an association and practically the manageability and extension of installments to profit. Loan bosses intend to guaranteeing to paid the intrigue and standard on the organization commitment securities (e.g., bonds) when it remarkable.

The acknowledged approach of monetary proclamation examination incorporates principal investigation, DuPont investigation, flat and vertical investigation with the assistance of money related proportions. Accurate data associated with a succession of suspicions and conformity to the money related information might be utilized to execution of future venture. The expert of monetary sanctioned assignment is accessible for expert money related investigators.

The enormous measure of numbers in an organization's monetary articulations can confound and threatening to numerous financial specialists. Then again, in the event that you know how to investigate them, the budgetary articulations are a gold mine of data. Financial statements are the medium by which an organization unveils data concerning its money related execution. Supporters of major examination utilize the quantitative data gathered from financial statements to settle

on venture choices. Before we bounce into the specifics of the three most critical budgetary explanations - wage articulations, asset reports and income proclamations - we will quickly present each monetary proclamation's particular capacity, alongside where they can be found.

#### 1.1 Users of Financial Statement Analysis

1. Management: The supervisors of the organization utilize their money related explanation investigation to settle on insightful choices about their execution. Case in point, they gage per cost circulation channel, or how much money they have cleared out, from their bookkeeping records and settle on choices from these examination comes about.
2. Proprietors: Small business people require fiscal information from their operations to make sense of if the business is profitable. It helps in settling on decisions like whether to continue working the business, whether to upgrade business frameworks or whether to forsake the business totally
3. Investors: Individuals who have obtained stock or partake in an organization require monetary data to break down the way the organization is performing. They utilize budgetary articulation examination to figure out what to do with their interests in the organization. So relying upon how the organization is getting along, they will either clutch their stock, offer it or purchase more.
4. Lenders: Banks are keen on knowing whether an organization will have the capacity to respect its installments as they get to be expected. They utilize income investigation of the organization's bookkeeping records to gauge the organization's liquidity, or its capacity to make fleeting installments.
5. Government: Overseeing and controlling collections of the state take a gander at money related articulation investigation to decide how the economy is performing when all is said in done so they can arrange their monetary and modern strategies. Charge powers additionally break

- down an organization's announcements to figure the taxation rate that the organization needs to pay.
6. **Workers:** Representatives require to understand whether their livelihood is secure and if there is a possibility of a salary increase. They need to be side by side of their organization's gainfulness and dependability. Representatives may likewise be keen on knowing the organization's budgetary state to see whether there might be arrangements for extension and henceforth, profession prospects for them.
  7. **Clients:** Customers require to consider the limit of the association to organization its clients into what's to come. The need to consider the association's strength of operations is elevated if the customer (i.e. a distributor or procurer of particular things) is dependent totally on the association for its provisions.
  8. **General Public:** Anybody in the overall population, similar to understudies, examiners and specialists, might be occupied with utilizing an organization's monetary articulation investigation. They may want to assess the impacts of the organisation on the earth, or the economy or even the nearby group. For example, if the organization is running corporate social obligation programs for enhancing the group, the general population might need to know about the future operations of the organization.

## 1.2 Ratio analysis

Fundamental analysis has an exceptionally wide extension. One perspective resembles a general (qualitative) factor of the organization. The opposite side considers unmistakable and quantifiable components (quantitative). This implies crunching and analyzing numbers from the budgetary proclamation. In the event that utilized as a part of conjunction with other methods, quantitative examination can deliver phenomenal results.

Proportion investigation isn't simply comparing distinctive numbers from balance sheet, wage proclamation and income explanation. Its contrasting the numbers against earlier years, different organizations, the industry or even the economy in general. Ratio take a gander at the connections between personal qualities relate them to how an organization performed before, and may be later on.

### Meaning of the ratios

A proportion is one figure express as far as another figure. It is a mathematical measuring stick that measures the relationship of two figures, which are identified with each other and commonly free. Proportion is express by partitioning one figure by the other related figure. accordingly a proportion is an expression relating one number to another. its essentially the remainder of two numbers. It can be communicated as a division or as a decimal or as an immaculate proportion or in supreme figures as such a variety of times.

### Meaning of ratio analysis

Proportion examination is the way toward deciding and deciphering numerical connections in light of budgetary proclamations. A proportion is a factual measuring stick that gives a measure of the relationship between two factors or figures. This relationship can be communicated as a percent or

as a remainder. Proportions are easy to compute and straightforward. The people intrigued by the investigation of budgetary proclamations can be gathered under three heads,

1. Proprietors or financial specialists
2. Creditors and
3. Budgetary administrators

## 2. Review of Literature

Gopinathan (2009) <sup>[10]</sup> has displayed that the money related proportions investigation can spot better venture alternatives for speculators as the proportion examination measures different parts of the execution and breaks down essentials of an organization or an establishment

Ho and Zhu (2004) <sup>[9]</sup> have reported that the assessment of an organization's execution has been centering the operational adequacy and productivity, which may impact the organization's survival straightforwardly.

Dansby *et al.* (2000) <sup>[2]</sup> defined ratio as "fractional relationship of one number to another". On the other hand, Needles *et al.* (1996) <sup>[14]</sup> defined ratio analysis as "a technique of financial analysis in which meaningful relationship is shown between the components of financial statements". Ratio analysis is often expressed proportionately to show the relationship between figures in the financial statements. Ratios are guides or shortcuts that are useful in evaluating a company's financial position and operations and making comparisons with results in previous years or with other companies. The primary purpose of ratio is to point out areas needing further investigation. They should be used in connection with a general understanding of the company and its environment. (Needles *et al.*, 1996) <sup>[14]</sup>.

Thus, Lasher (1997) <sup>[13]</sup> noted are most meaningful when used in comparison. For that reason, it is difficult to make a generalization about with a good or acceptable value is for any particular figure. One measure alone does not tell the whole story about a company and one measure should never be the sole basis for a financial decision".

Hermanson *et al.* (1992) <sup>[11]</sup> added: "standing alone, a single financial ratio may not be informative. Greater insight can be obtained by computing and analyzing several related ratios for a company".

According to Dansby *et al.* (2000) <sup>[2]</sup> "Liquidity is the ability of a business to meet its financial obligations as they fall due". One the other hand, Needles *et al.* (1996) <sup>[14]</sup> defines liquidity, as "a company's ability to pay bills when they are due and to meet unexpected needs of cash".

Liquidity ratios can be divided into two – short-term liquidity (solvency) ratios. However, for the purpose of this study, liquidity Ratios refers to short-term liquidity ratios while Debt management Ratios refer to long-term liquidity ratios.

Liquidity ratios (short-terms solvency ratios) are of particular concern to short-term lenders and suppliers who provide products and services to the firm on credit. They want to be sure the company has the ability to pay its debts. (Lasher, 1997) <sup>[13]</sup>. Liquidity Ratios include Current Ratio and Quick or Acid Test Ratio

Profitability and solvency are the two primary objectives of any business. Profitability is the ability of a business to earn profit, and solvency is the ability of a business to pay back their debts as they come due. (Hermanson *et al.*, 1992) <sup>[11]</sup>.

According to Igben (1999) <sup>[12]</sup>, “Accounting {or financial} ratio is a proportion or fraction or percentage expressing the relationship between one item in a set financial statements and another item in the financial statements. Accounting ratios are the most powerful of all tools used in analyzed and interpreting financial statements”. Therefore, ratio analysis involves taking stats of number (or items) out of financial statements and forming ratios with them, to enhance informed judgments and decisions (Lasher, 1997) <sup>[13]</sup>.

Decision-making calls information. Bittel *et al.* (1984) <sup>[8]</sup> observed: “Managers want information because they need to make decisions. The proper use of information is an important part of decision-making.” Remarkably, one of the effective ways of providing information needed for decision-making is ratio analysis.

### 3. Research Methodology

#### Data Collection

We have collected the data (Balance Sheets and Income Statements) of Nestle and Britannia for 5 Years from 2011 to 2015.

#### Data Analysis

We have analyzed the downloaded data by using financial ratio analysis.

In Financial ratio analysis the ratios may be classified into the four categories as follows;

1. Liquidity Ratios: "Liquidity" is the capacity of the firm to meet its present liabilities. The "liquidity ratio", consequently, are additionally called 'short term Solvency Ratios.' These ratios are utilized to survey the short-term money related position of the company. They show the company's capacity to meet its present commitments out of current assets.

Liquidity ratios include two ratios: -

a. Current Ratio: The ratio is utilized to survey the company's capacity to meet its short-term liabilities on time. It is by and large trust that 2:1 ratios demonstrate a comfortable to liquidity position.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilites}}$$

b. Quick Ratio: Quick or Acid Test indicates whether the firm is in a position to pay its current liabilities within a month or immediately. An ideal acid test ratio is said to be 1:1.

$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Liquid Liabilites}}$$

2. Profitability Ratios: The principle question of all the business concerns is to earn profit. Prof it is the estimation of the productivity of the business. Value investors of the organization are essentially keen on the profitability of the organization. Profitability ratios include the following: a. Gross Profit Margin Ratio: This proportion measures the edge of benefit accessible on deals. The higher the gross benefit proportion, the better it is. No perfect standard is settled for this proportion; however the gross benefit proportion ought to be sufficiently satisfactory to cover the working costs as well as to accommodate devaluation, Interest on credits, profits and

production of stores.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

b. Operating Profit Margin Ratio: This proportion measures the extent of an enterprise's. Cost of offers and working costs in contrast with its deals". Working Ratio is an estimation of the proficiency and productivity of the business endeavor.

$$\text{Operating Ratio} = \frac{\text{EBIT}}{\text{Net Sales}}$$

c. Net Profit Margin Ratio: This proportion measures the rate of net benefit earned on deals. It helps in deciding the general productivity of the business operation. An expansion in the proportion over the earlier year demonstrates change in the general effectiveness of the business.

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

3. Activity Ratios: These proportions are figured on the premise of 'cost of offers' or 'deals'; hence, these proportions are likewise called as 'Turnover Ratios'. Turnover shows the speed or number of times the capital utilized has been pivoted during the time spent working together. Turnover proportions incorporate the accompanying

a. Inventory Turnover Ratio: It is computed by dividing the cost of goods sold by average inventory. It measures the relationship between the cost of goods sold and the inventory level.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

b. Debtors Turnover Ratio: This ratio indicates the relationship between credit sales and average debtors during the year.

$$\text{Debtor Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Debtors}}$$

4. Solvency Ratios: These proportions are figured to evaluate the capacity of the organizations to meet its long haul liabilities as and when they end up noticeably due. Long haul lenders including debenture holders are fundamentally intrigued to know whether the organization has capacity to pay frequently enthusiasm because of them and to reimburse the vital sum when it ends up noticeably due. Dissolvability proportions incorporate the accompanying proportions:

a. Debt-Equity Ratio: This, proportion sets up connection between the outside long haul liabilities and proprietors' assets. It demonstrates the extent of long haul External Equities and Internal Equities i.e. extent of assets gave by long haul loan bosses and that gave by investors or proprietors

$$\text{Debt to Equity Ratio} = \frac{\text{Long Term Liabilities} + \text{Current Liabilities}}{\text{Shareholders funds(Networth)}}$$

b. Debt Ratio: is a monetary proportion that demonstrates the

level of an organization's advantages that are given by means of obligation. It is the proportion of aggregate obligation (the whole of current liabilities and long haul liabilities) and aggregate resources (the entirety of current resources, settled resources, and different resources, for example, "Goodwill").

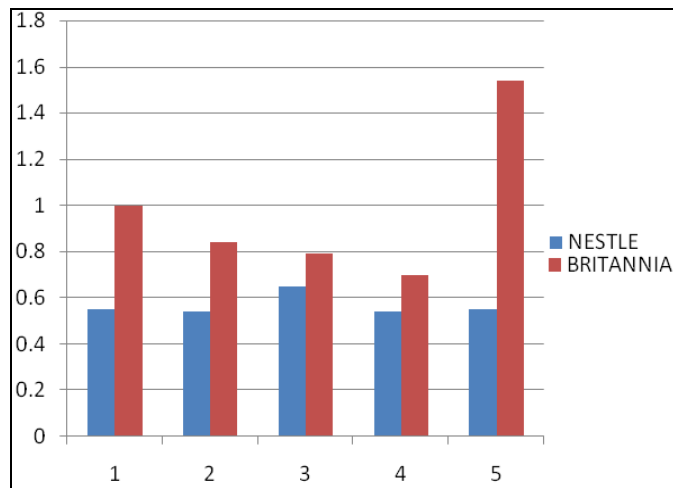
$$\text{Debt Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

#### 4. Data Analysis and Interpretation

**Table 1:** Current ratios of Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	0.55	1.00
2014	0.54	0.84
2013	0.65	0.79
2012	0.54	0.70
2011	0.55	1.54

Source: Researcher's database



Source: Researcher's database

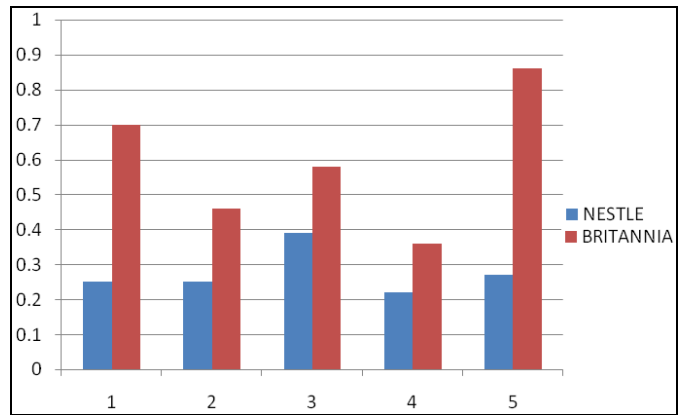
**Fig 1:** Current ratios of Nestle and Britannia for 2011-2015

From the above analysis, we can see that in 2011 the present proportions were 0.55 times in nestle India ltd. It was diminishing the following year. Then again, Britannia ltd Company in 2011 was 1.54. It was additionally diminishing one year from now. So we comprehend that both sustenance area organizations are not performing great in regard of current proportion as perfect current proportion is 2:1 and deviation from the perfect proportion is more for both the organizations.

**Table 2:** Quick ratios of Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	0.25	0.70
2014	0.25	0.46
2013	0.39	0.58
2012	0.22	0.36
2011	0.27	0.86

Source: Researcher's database



Source: Researcher's database

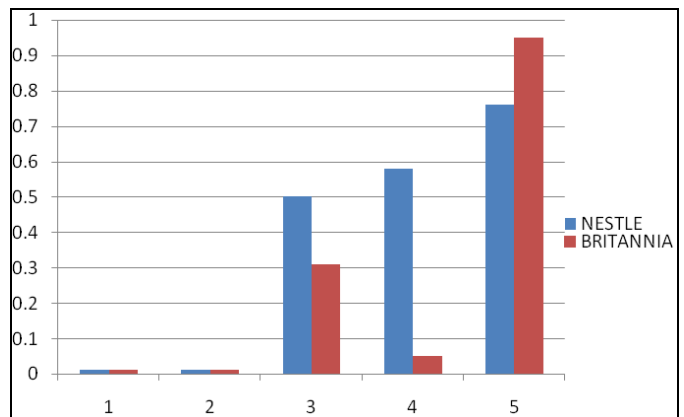
**Fig 2:** Quick ratios of Nestle and Britannia for 2011-2015

From the above analysis, we can view that in 2011 the quick ratio were 0.27 times in nestle India ltd. It was fluctuating year to year on the other hand Britannia ltd company in 2011 is 0.86 its also fluctuating its year to year. Both companies are showing fluctuating results for quick ratio because these figures also showing these situation.

**Table 3:** Debt to equity ratio Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	0.01	0.01
2014	0.01	0.01
2013	0.50	0.31
2012	0.58	0.05
2011	0.76	0.95

Source: Researcher's database



Source: Researcher's database

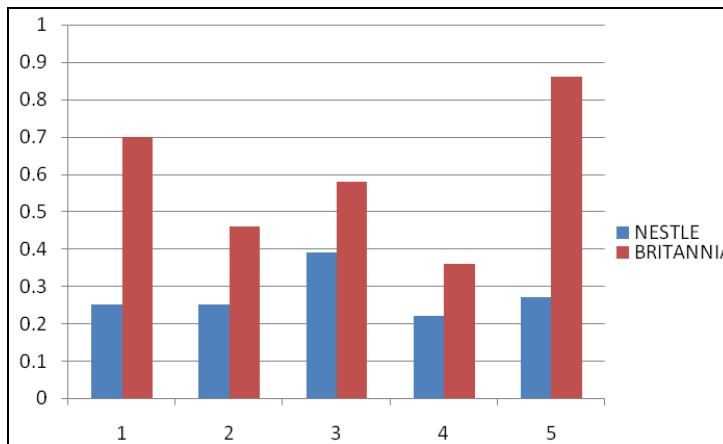
**Fig 3:** Debt to Equity Ratios of Nestle and Britannia for 2011-2015

Ideal ratio for debt equity ratio is 2:1. For nestle in year 2011 is 0.76 and it is continuously decreasing till 2015. For Britannia in year 2011 is 0.95 and it is fluctuating for the rest of the years till 2015. The overall situation for both the companies is not good as there is great deviation from the ideal ratio.

**Table 4:** Total assets to debt ratio Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	0.25	0.70
2014	0.25	0.46
2013	0.39	0.58
2012	0.22	0.36
2011	0.27	0.86

Source: Researcher’s database



Source: Researcher’s database

**Fig 4:** Total assets to debt ratio Nestle and Britannia for 2011-2015

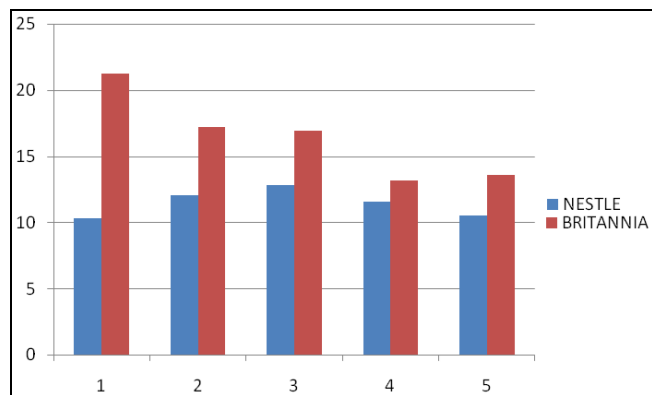
There is no ideal ratio but higher the ratio, better for the company. Ratio for Nestle in the year 2011 is 0.27 and it is fluctuating for the rest of the years till 2015. And for Britannia in the year 2011 is 0.86 and same fluctuating for the rest of the years till 2015. The overall situation for the company is not good. When comparing both the companies Britannia is in better position as compared to Nestle.

From the above analysis we can observe that in 2011 ratio is 10.49 for nestle and it is fluctuating between 10 to 13 for rest of the years till 2015. For Britannia it is continuously increasing from 2011 till 2015. This ratio should not be so high or so low it should be just an average number. The overall situation for both the companies is OK.

**Table 5:** Stock / Inventory Turnover Ratio of Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	10.33	21.24
2014	12.06	17.19
2013	12.80	16.94
2012	11.55	13.17
2011	10.49	13.57

Source: Researcher’s database



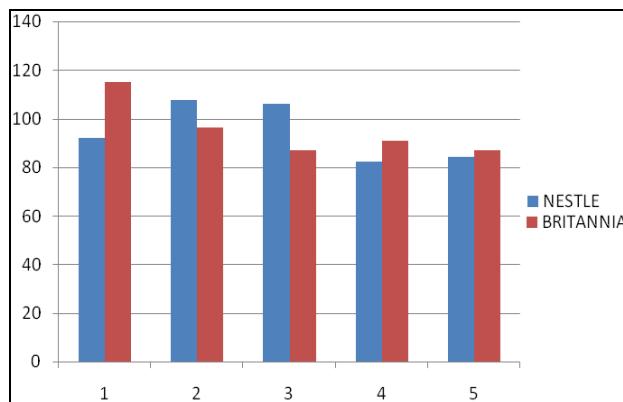
Source: Researcher’s database

**Fig 5:** Stock / Inventory Turnover Ratio of Nestle and Britannia for 2011-2015

**Table 6:** Debtor / Receivable Turnover Ratio Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	92.11	115.12
2014	107.49	96.44
2013	105.92	86.89
2012	82.12	90.94
2011	84.10	87.13

Source: Researcher’s database



Source: Researcher’s database

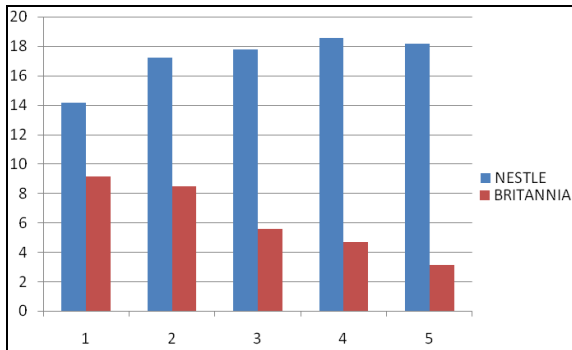
**Fig 6:** Debtor / Receivable Turnover Ratio Nestle and Britannia for 2011-2015

The above ratio depicts how rapidly credit sales are converted into cash. The higher ratio is better for the company. For Nestle and Britannia both ratio is fluctuating between 80 to120. Overall situation for both the companies is good.

**Table 7:** Gross Profit Ratio Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	14.17	9.11
2014	17.19	8.45
2013	17.77	5.59
2012	18.57	4.66
2011	18.17	3.14

Source: Researcher's database



Source: Researcher's database

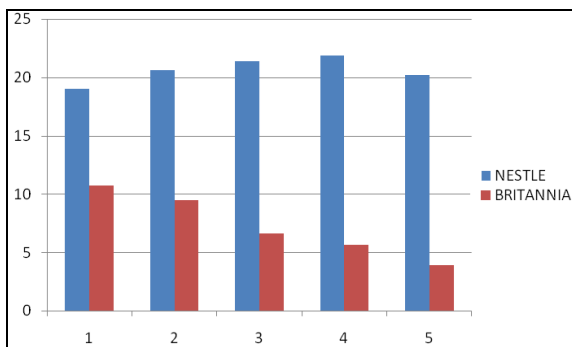
**Fig 7:** Gross Profit Ratio Nestle and Britannia for 2011-2015

There is no ideal ratio but higher the ratio better it is. For Nestle in the year 2011 is 18.17 and from then it is continuously decreasing till 2015 on the other hand for Britannia it is continuously increasing till 2015. For nestle the situation is not in favor but for Britannia the situation is good. When comparing both the companies Nestle is in better position as compared to Britannia.

**Table 8:** Operating Profit Ratio Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	19.01	10.75
2014	20.61	9.45
2013	21.39	6.61
2012	21.90	5.61
2011	20.21	3.87

Source: Researcher's database



Source: Researcher's database

**Fig 8:** Operating Profit Ratios of Nestle and Britannia for 2011-2015

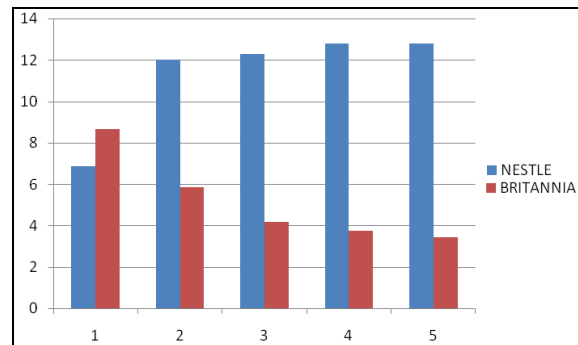
There is no ideal ratio but higher the ratio better it is. For

Nestle in the year 2011 is 3.87 and from then it is continuously fluctuating till 2015 on the other hand for Britannia it is continuously increasing till 2015. For nestle the situation is not in favor as it is decreasing but for Britannia the situation is good as graph is increasing but if we compare both the companies Nestle is better than Britannia.

**Table 9:** Net Profit Ratios of Nestle and Britannia for 2011-2015

Year	Nestle	Britannia
2015	6.88	8.67
2014	12.02	5.86
2013	12.27	4.16
2012	12.81	3.75
2011	12.79	3.44

Source: Researcher's database



Source: Researcher's database

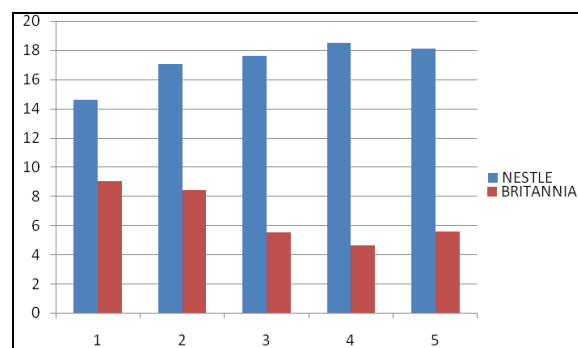
**Fig 9:** Net Profit Ratios of Nestle and Britannia for 2011-2015

There is no ideal ratio but higher the ratios better it is. For Nestle in the year 2011 is 12.79 and from then it is decreasing continuously till 2015 on the other hand for Britannia it is continuously increasing till 2015. For nestle the situation is not in favor but for Britannia the situation is good. When comparing both the companies Nestle is in better position as compared to Britannia

**Table 10:** Returns on Investment Ratio of Nestle and Britannia

Year	Nestle	Britannia
2015	14.57	9.00
2014	17.04	8.40
2013	17.61	5.54
2012	18.50	4.60
2011	18.11	5.58

Source: Researcher's database



Source: Researcher's database

**Fig 10**

In this analysis we can observe that in 2011 ratio is 18.11 for nestle and it is decreasing for rest of the years till 2015. For Britannia it is fluctuating from 2011 till 2015. This ratio depicts the return on capital employed the higher the ratio the better is the position. The overall situation for Nestle is not Ok on the other hand for Britannia it is OK.

## 5. Future prospects/Conclusion

### Key future prospects

Grocery store deals will extend at a much higher rate than other retail arrangements. This is on account of more prominent number of higher pay Indians will like to shop at general stores in light of accommodation, higher gauges of cleanliness, and alluring feel.

1. It is normal that natural product utilization will increment at a CAGR of 4.33% for the period spreading over from 2007-2011, most astounding among all the sustenance items taken in this report.
2. The handled sustenance market is the primary center for remote organizations as this section is immature and presents colossal potential for development. The development of present day, sorted out retailing — as opposed to the stands and little shops from which Indians have been buying nourishment generally — will likewise build the interest for esteem included sustenances.
3. Rising family wages, expanding urbanization, changing ways of life and the quick development of the private-part and dairy-handling industry ought to prompt more noteworthy interest for esteem included, drain based items, for example, prepared cheddar, table spread and frozen yogurt.
4. Rising livelihoods will make angle more reasonable for a bigger portion of the populace. It is normal that the utilization per head will increment at a CAGR of 3.45% for the estimated period.
5. The development rate of soda pop deals will decelerate amid the determined period because of pesticide tainting issues and developing notoriety of natural product juice drinks and filtered water.
6. Coffee utilization is probably going to extend at a quick rate amid the estimated period. It is normal that it will increment at a CAGR of 10.05% for the period spreading over from 2007-2011.

## 6. Conclusion

In this we do the extent examination of two packaged sustenance division associations Nestle and Britannia they are both awesome performer associations. By extent examination we identify the genuine position of an association. We can understand what the point of confinement of an association to pay its long too a transient duties and the benefit status of an association.

In liquidity extent we understand that the liquidity position of an association is terrible at all its extent are decreasing in both associations and they are not in immaculate extent

In solvency extent we understand that the utmost of the relationship to pay its long term duties is terrible as its exhibit its fluctuating results in both the associations.

In real life/turnover extent its exhibit that Britannia has incessantly growing in thier extents where as settle is terrible

in performing awesome according to their extents. so Britannia has growing awesome turnover however settle not extraordinary in extending its turnover.

In advantage extent the position of Britannia is awesome its continually growing in its benefit of an association however as settle shows OK execution in its examination So, both associations demonstrates their execution by their extents examination and we know the genuine position of both the associations.

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